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CME Group Inc., Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions). Our first question will come from Rich Repetto from Sandler O'Neill.

Richard Repetto - Sandler O'Neill

The first question is for Jamie on the expenses; I just wanted to see if you take even your adjusted Q4 run rate 265 and that would get you to $1.06 billion. So, I guess on the lower end, if volume was 11.2, that looks like what you are predicting or right around there. I am just trying to see where the NYMEX synergies and how you phase them in and the CBOT, the data center in Q2; that is what I am not seeing come out of the run rate here.

James E. Parisi

Rich, just to be clear, I am not predicting our volumes will be in terms of the NYMEX synergies. We said that we would get $60 million out of the NYMEX transaction in terms of cost synergies and I believe that we will get somewhere between $30 million to $40 million of that in the coming year, and of course do all we can over time within the year to be very diligent with respect to expenses.

Richard Repetto - Sandler O'Neill

Okay, and maybe just one follow-on to there. If volume was lower than say 11.2, I ran the math; it just looks like there is an incremental margin in there of like 10%, like the expenses only vary by about 10% of the potential revenue impact. So if volume was down below that, is this thing sort of linear on a percentage basis or what?

James E. Parisi

If you just think about it, the things that move the most with the volume are going to be the license fees and the bonus, right? And the bonus drops of at a certain point; once we get down the 20% below our target, the bonus goes down to almost zero. So, you have to keep that in mind. So, it is not quite linear.

Richard Repetto - Sandler O'Neill

Understood. Last question, I guess, Craig and Jamie. When you looked at the buyback and given where the stock price is now, I know the target is to get the EBITDA ratio below 1, but I am just trying to see the way the different factors putting the reduction in debt ahead of what looks like a pretty depressed stock price.

James E. Parisi

We first realized that when we put the authorization in place, that was back in June, and that was a bit of a different world for everybody, right? But the things that we are looking at are bringing the debt to EBITDA level as we said at one time, and then two, our debt as a percentage of our overall capital structure has increased significantly over the last several months because of the decrease in our equity value. Those things weigh on the decision as well. So, it is bringing all those into consideration along with the stock prices as well.