

Cboe Global Markets

4Q23 Earnings – Guidance sets low bar for EPS with new growth drivers emerging

Reiterate Rating: BUY | PO: 200.00 USD | Price: 182.78 USD

Small beat from taxes, rev miss & disappointing guidance

On Friday, Cboe Global Markets (CBOE) reported better than expected adjusted EPS of \$2.06 vs. a consensus/BofA of \$2.03/\$2.05. The small earnings beat was driven by lower non-comp expenses and taxes while revenues missed. On the call, CEO Fred Tomczyk turned the page on his predecessor's strategic vision. He noted that CBOE's buildout of geographic and asset class breadth is largely complete, and instead of adding additional capabilities inorganically, his focus is on harnessing their scale advantage to drive cost efficiencies. Relative to this commentary, CBOE's new expense guide appeared high.

New '24 revenue & expense guide sets low bar

In contrast to management's commentary around operating efficiency, we were disappointed by their unambitious margin guidance. Management guided to 6-8% growth in adjusted operating expenses (5-6% if you exclude the non-recurring \$10M benefit related to executive departures) against just 5-7% growth in revenues, which implies a steep deceleration from 2023's 10% y/y rev growth. We believe the guide is likely to be conservative (on both sides). CBOE has beaten its revenue guide in each of the past three years (Exhibit 1). We are forecasting 6% / 10% y/y growth expenses/revs.

Index option volumes accelerating; HOOD launch delayed

After a couple quarters of decelerating sequential growth, CBOE's index option suite posted a very strong 4Q23 with 12% q/q volume growth. This robust growth materialized in spite of the prevailing multi-year low in volatility with the VIX at just 15. Historically, weak volatility is a drag on volumes. That said, CBOE has given back a modest amount of that growth QTD with index option volumes down 1% QTD vs 4Q23. Additionally, the Robinhood (HOOD) index options launch has been delayed from early 2024 to mid-2024. HOOD is the largest options broker in the United States (Exhibit 2), and we believe the launch will be a significant catalyst for volumes in 2H24.

Maintain Buy: Bullish secular index option thesis

Due to minor revisions around RPC and volume, we revise our EPS for 2024/2025/2026 from \$9.07/\$10.05/\$11.24 to \$8.93/\$10.12/\$11.42, driving our PO to \$200 from \$196. We maintain our Buy rating. The key competitive advantages of index options (taxes, cash settlement, trading hours) and the popularity of ODTF should attract more retail and institutional volumes. Additionally, the onboarding of more brokers (HOOD in mid-24Q4), growth into new geographies, lengthening of trading hours and increasing retail engagement should all provide tailwinds to CBOE's volume trajectory.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.94	7.80	8.93	10.12	11.42
EPS Change (YoY)	15.5%	12.4%	14.5%	13.3%	12.8%
Consensus EPS (Bloomberg)			8.37	8.83	9.40
DPS	1.96	2.10	2.42	2.83	3.20
Valuation (Dec)					
P/E	26.3x	23.4x	20.5x	18.1x	16.0x
Dividend Yield	1.1%	1.1%	1.3%	1.5%	1.7%

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Timestamp: 05 February 2024 09:00AM EST

05 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	197.00	200.00
2024E Rev (m)	2,168.4	2,115.4
2025E Rev (m)	2,327.2	2,321.7
2026E Rev (m)	2,513.1	2,538.0
2024E EPS	9.07	8.93
2025E EPS	10.05	10.12
2026E EPS	11.24	11.42
2024E DPS	2.54	2.42

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Stock Data

Price	182.78 USD
Price Objective	200.00 USD
Date Established	5-Feb-2024
Investment Opinion	B-1-7
52-Week Range	117.31 USD -190.16 USD
Mkt Val / Shares Out (mn)	19,294 USD / 105.6
Free Float	99.6%
Average Daily Value	136.55 USD
BofA Ticker / Exchange	CBOE / BAT
Bloomberg / Reuters	CBOE US / CBOE.Z
ROE (2024E)	22.4%
ESGMeter™	Medium

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iQprofileSM Cboe Global Markets

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Revenue	1,742	1,918	2,115	2,322	2,538
% Change	18.0%	10.1%	10.3%	9.8%	9.3%
Investment Advisory Fees	NA	NA	NA	NA	NA
Compensation & Benefits	(363)	(426)	(466)	(498)	(528)
% Change	25.8%	17.3%	9.4%	7.0%	6.0%
Non-Compensation Expenses	NA	NA	NA	NA	NA
Net Income to Ordinary Shareholders	739	828	939	1,052	1,175
Adjusted Net Income (Operating)	739	828	940	1,053	1,175
% Change	14.8%	12.1%	13.5%	12.0%	11.5%
Adjusted EBITDA (Operating)	1,047	1,126	1,274	1,429	1,598
Cash EPS	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating Margin	NA	NA	NA	NA	NA
Pre-Tax Profit Margin	NA	NA	NA	NA	NA
Net Profit Margin	NA	NA	NA	NA	NA
Comp Expense/Revenue	NA	NA	NA	NA	NA
Non-Comp Expense / Revenue	NA	NA	NA	NA	NA
Net Revenue Growth	18.0%	10.1%	10.3%	9.8%	9.3%
Operating Expense Growth	22.9%	15.1%	6.3%	6.2%	5.5%

Asset Management Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Assets Under Management (\$bn)	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
% Equity	NA	NA	NA	NA	NA
% Fixed Income	NA	NA	NA	NA	NA
% Money Mkt / Other	NA	NA	NA	NA	NA
Net New Flows (\$bn)	NA	NA	NA	NA	NA
Organic Growth	NA	NA	NA	NA	NA
Organic Growth ex-Money Market	NA	NA	NA	NA	NA
Advisory Fees / Avg. AUM	NA	NA	NA	NA	NA

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	6,989	7,877	8,305	8,827	8,827
Total Shareholders' Equity	3,465	3,949	4,425	5,004	5,004
Tangible Shareholders' Equity	NA	NA	NA	NA	NA
BVPS (Stated Equity)	NA	NA	NA	NA	NA
ROE (Stated Equity)	20.9%	22.3%	22.4%	22.3%	23.5%
Cash & Investments	NA	NA	NA	NA	NA
Net Cash & Investments Per Share	NA	NA	NA	NA	NA

Company Sector

Other Financials

Company Description

CBOE was founded in 1973 as the first U.S. options exchange and went public in 2010. Its primary business is trading listed options contracts on equities, indexes (including several exclusively licensed and proprietary products), and ETFs through a hybrid model that combines electronic and open outcry trading. The company also offers listed options on C2 and futures and options on futures products on CFE. The company has grown primarily through organic means over the years.

Investment Rationale

Cboe's VIX and SPX products anchor a toolkit that allow investors to play offense and defense across changing market environments. ADV for ODTE options are about 1/2 of Cboe's total SPX volumes and most attribute recent volumes/success to retail. However, we think this current market narrative on SPX is too narrow and doesn't consider several developments including a fundamental evolution in how investors are using this product and 3 real advantages to the competition.

Quarterly Earnings Estimates

	2023	2024
Q1	1.90A	2.02E
Q2	1.78A	2.18E
Q3	2.06A	2.33E
Q4	2.06A	2.39E

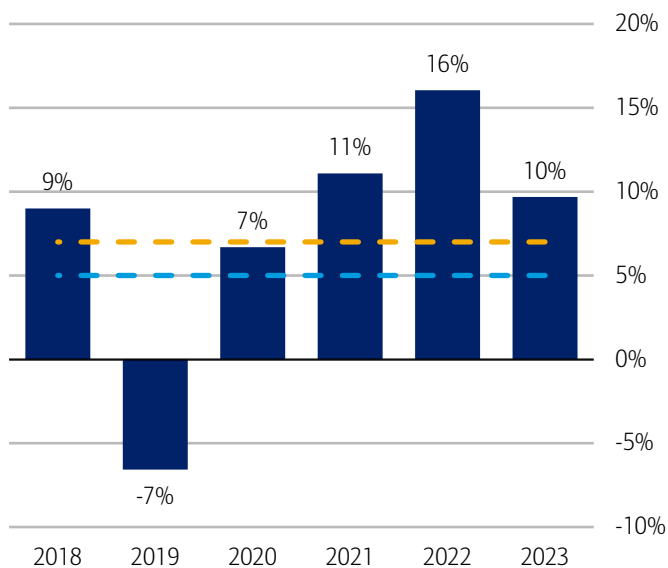
Additional information

Multiple international growth opportunities, namely Europe and Asia

Although equity derivative usage in the United States is likely at least in the middle innings, we believe CBOE is well-positioned to penetrate international markets with very underdeveloped options markets. For instance, in Europe, the options market is just 6% the size of that of the United States. Additionally, although it is growing HDD% annually, Global Trading Hours represented just 3% of SPX volume in 2023. Already, CBOE has taken steps to attack the opportunity. It launched a European derivatives exchange in 2021 along with several new index option contracts. Then last November, it launched single-stock options on 127 tickers representing the largest companies in Europe. It also has plans to begin trading on ~200 additional tickers later this quarter. In APAC, management only recently replatformed CBOE's Japan and Australian stock exchange subsidiaries onto its unified tech stack. Now that the integration is complete, we expect to see derivative launches in these jurisdictions at some point within the next couple years. We note that pockets of APAC (namely India and South Korea) have high retail participation already in other financial products (e.g. futures, crypto) and are likely to be very receptive to CBOE's core offerings.

Exhibit 1: CBOE organic growth vs their 5-7% MT guidance

CBOE has exceeded its organic growth guide in all of the past three years

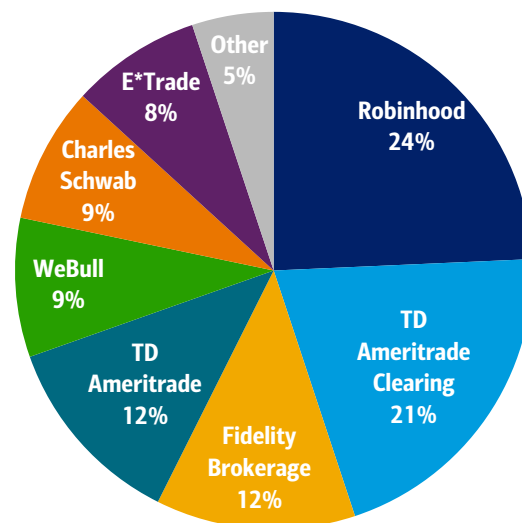


Source: Company reports, BofA Global Research

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Exhibit 2: Largest options clearing brokers in 2023

Robinhood is the largest options brokers in the United States



Source: Company reports, Bloomberg, BofA Global Research

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Glossary

HDD: High Double Digits

MT: Medium term

ODTE: Zero days till expiration

SPX: S&P 500 Index

RPC: Revenue per contract

Price objective basis & risk

Cboe Global Markets (CBOE)

Our primary valuation metric for US Exchanges is price to long-term earnings (2026E). We focus on long-term EPS because we prefer to normalize for any near-term factors, and it also provides credit for an additional two years of growth. We apply a 17.5x multiple on our 2026E EPS to derive our \$200 PO. Our multiple is based on the assumption that CBOE trades in line with its peer group despite its higher growth trajectory.

Downside risks are (1) migration to dark venues and negative growth in cash equities, (2) credit & liquidity risks via its clearinghouse, (3) reliance on third-party index providers (SPX contract with S&P renews in 2032, (4) Intensifying competition in multi-listed options market (including MEMX launch).

Analyst Certification

I, Craig Siegenthaler, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Brokers, Asset Managers, & Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
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	Ameriprise Financial	AMP	AMP US	Craig Siegenthaler, CFA
	Ares Management Corp	ARES	ARES US	Craig Siegenthaler, CFA
	BlackRock, Inc.	BLK	BLK US	Craig Siegenthaler, CFA
	Blackstone	BX	BX US	Craig Siegenthaler, CFA
	Blue Owl Capital	OWL	OWL US	Craig Siegenthaler, CFA
	Cboe Global Markets	CBOE	CBOE US	Craig Siegenthaler, CFA
	Interactive Brokers	IBKR	IBKR US	Craig Siegenthaler, CFA
	Intercontinental Exchange	ICE	ICE US	Craig Siegenthaler, CFA
	KKR & Co. Inc.	KKR	KKR US	Craig Siegenthaler, CFA
	Raymond James Financial	RJF	RJF US	Mark McLaughlin, CFA
	TPG Inc	TPG	TPG US	Craig Siegenthaler, CFA
	Tradeweb Markets Inc.	TW	TW US	Craig Siegenthaler, CFA
	Victory Capital Holdings, Inc.	VCTR	VCTR US	Craig Siegenthaler, CFA
	Virtu Financial	VIRT	VIRT US	Craig Siegenthaler, CFA
NEUTRAL				
	Affiliated Managers Group	AMG	AMG US	Craig Siegenthaler, CFA
	Apollo Global Management	APO	APO US	Craig Siegenthaler, CFA
	Brookfield Asset Management	BAM	BAM US	Craig Siegenthaler, CFA
	CME Group Inc	CME	CME US	Craig Siegenthaler, CFA
	Invesco	IVZ	IVZ US	Craig Siegenthaler, CFA
	Janus Henderson Group	JHG	JHG US	Craig Siegenthaler, CFA
	LPL Financial Holdings	LPLA	LPLA US	Craig Siegenthaler, CFA
	Patria	PAX	PAX US	Craig Siegenthaler, CFA
UNDERPERFORM				
	Charles Schwab Corp.	SCHW	SCHW US	Craig Siegenthaler, CFA
	Franklin Resources	BEN	BEN US	Craig Siegenthaler, CFA
	Nasdaq	NDAQ	NDAQ US	Craig Siegenthaler, CFA
	Robinhood Markets	HOOD	HOOD US	Craig Siegenthaler, CFA
	T. Rowe Price	TROW	TROW US	Craig Siegenthaler, CFA
	The Carlyle Group	CG	CG US	Craig Siegenthaler, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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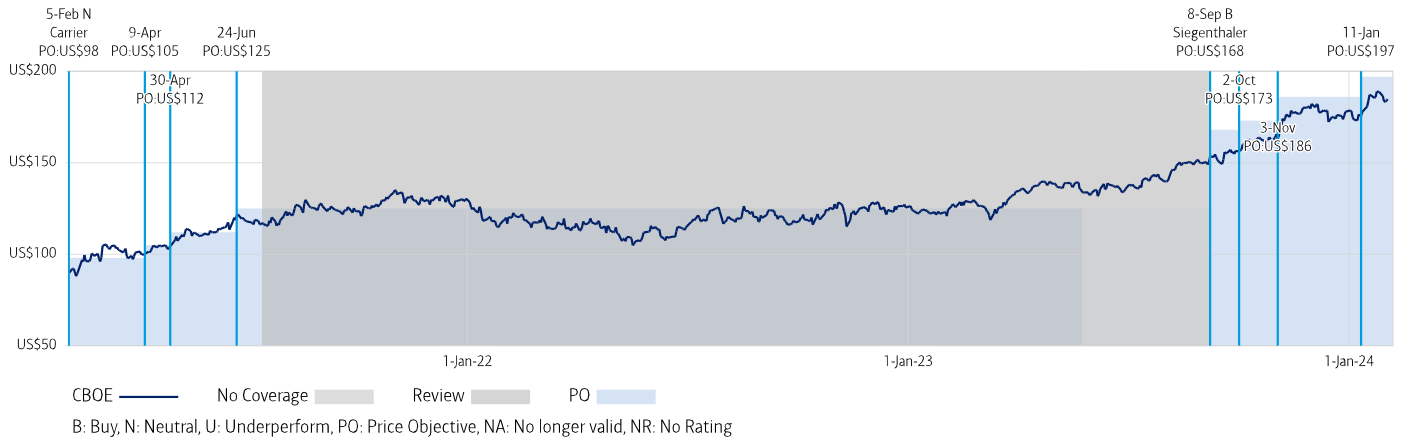
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Cboe Global Mark (CBOE) Price Chart



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Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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