# CBOE HOLDINGS, INC.
## First Quarter 2016 Earnings Call - Prepared Remarks
## April 29, 2016

**Debbie Koopman, VP Investor Relations**

Good morning and thank you for joining us for our first quarter 2016 earnings conference call. On the call today, Ed Tilly, our CEO, will provide an update on our strategic initiatives for 2016. Then, Alan Dean, our Executive Vice President and CFO, will review our first quarter 2016 financial results. Following their comments, we will open the call to Q&A. Also joining us for Q&A are Ed Provost, President and COO, and John Deters, Chief Strategy Officer and Head of Corporate Initiatives.

In addition, I'd like to point out that this presentation will include the use of several slides. We will be showing the slides and providing commentary on each. A downloadable copy of the slide presentation is available on the investor relations portion of our website.

As a preliminary note, you should be aware that this presentation contains forward-looking statements, which represent our current judgment on what the future may hold, and while we believe these judgments are reasonable, these forward-looking statements are not guarantees of future performance and involve certain assumptions, risks and uncertainties. Actual outcomes and results may differ materially from what is expressed or implied in any forward-looking statements. Please refer to our filings with the SEC for a full discussion of the factors that may affect any forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, after this conference call.

Now, I'd like to turn the call over to Ed Tilly.

**Ed Tilly, CEO**

Good morning and thank you for joining us today.

I am pleased to report that CBOE Holdings began 2016 with a record first quarter in diluted earnings per share and increases in revenue and operating margin. Throughout the quarter we expanded our proprietary product offering while extending our global customer reach, laying the foundation for continued growth in 2016 and beyond.

Our solid first quarter financial results were fueled by the ongoing growth of trading in our proprietary index products. It was the third consecutive quarter in which trading in our proprietary products exceeded 40 percent of our overall trading volume. Futures and index options trading rose 17 percent sequentially and 28 percent year-over-year, significantly outpacing the year-over-year increase of three percent for multiply-listed options traded industrywide.

Today I'll update progress made in the four-point growth strategy we laid out for you at the beginning of the year, which is to continue to develop unique products, expand our customer base, leverage strategic alliances, and continue to define and lead the options and volatility space globally. Product innovation, including further developing and expanding our current product line, is the cornerstone of our growth strategy.

CBOE's S&P 500 Index (SPX) options continue to thrive and grow.

After posting a third consecutive year of record growth in 2015, average daily volume in SPX options for the first quarter 2016 rose 15 percent from both the same period last year and the previous quarter. The gains were driven largely by strong Weeklys trading, which continues to attract new customers to our SPX marketplace.

Building on the growing demand for SPX Weeklys trading, we launched "Wednesday Weeklys," on February 23rd. Wednesday-expiring Weeklys, combined with our standard SPX Weeklys, which feature end-of-week expirations, create additional trading opportunities and enable investors to better target specific expirations. Wednesday Weeklys also align with the Wednesday expirations of VIX Weeklys futures and options, creating new trading opportunities and synergies for the growing number of customers who employ both VIX and SPX products.

We are pleased with the initial traction seen thus far. Wednesday Weeklys averaged 63,000 contracts daily in March, the product's first full month of trading, and over 71,000 contracts through April 22nd, with a single-day high of 123,000 contracts. Given the appeal of Wednesday Weeklys, we plan to seek SEC approval to add Monday-expiring Weeklys, which will allow investors to hedge their over-the-weekend risks. We expect trading growth to continue as we roll out marketing and education programs highlighting our new SPX Weeklys products.

This past quarter CBOE created a series of CBOE S&P 500 Buffer Protect Indexes that are designed to track the performance of an investment strategy combining a 10% downside loss "buffer" with upside participation "capped" at a targeted level. Our Buffer Protect Indexes bring a new level of standardization and transparency to popular protection-oriented payoffs, and facilitate the creation of products that allow investors to pre-define their investment outcomes.

CBOE began disseminating daily values for the Buffer Protect Indexes on April 1st. Vest Financial Group Inc., an asset management firm that provides options-based investments through structured protective strategies and innovative technology solutions, is the first to license the new indexes. You will recall that earlier this year CBOE made a majority equity investment in Vest, which now plans to use the Buffer Protect Indexes to create products that are expected to be available through a number of full-service broker-dealer platforms.

We view target-outcome investing as an important step in democratizing the use of options, as it can offer the benefits, but substantially reduces the complexity, of options for retail and high net-worth individuals. We recognize that all investors are not the same; some are attracted to short-dated Weeklys contracts, while others have a time horizon of a year or more and favor buy-and-hold investment solutions. Our expertise in developing options-based strategy performance benchmark indexes, combined with our partnership with Vest, provides CBOE with a unique vantage point from which to define and lead target-outcome investing in the options space.

Turning now to VIX futures and options. Elevated volatility at the start of 2016 drove significant increases in VIX trading in the first quarter. Average daily volume in VIX options trading rose 55 percent over the first quarter 2015 and 20 percent over the prior quarter. Average daily volume in VIX futures trading was up 16 percent year-over-year and 15 percent over the previous quarter. Heightened levels of volatility tapered off throughout the quarter, eventually falling below historic levels by the quarter's end and into April.

In other VIX news, we began overnight dissemination of the VIX Index on April 15. As you know, VIX measures the real-time implied volatility of S&P 500 options. Our implementation of a fully electronic market for SPX options during extended trading hours (from 2 a.m. to 8:15 a.m.

central) not only provides increased access to SPX trading, but also enables us to calculate and disseminate VIX Index values in that same period. We are thrilled to offer market participants the opportunity to view volatility when news breaks overnight through the same lens used in regular U.S. trading hours. We expect that increased access to real-time volatility information, coupled with the ability of overseas investors to reference the VIX Index during their regular trading hours, will drive increased VIX trading in a global marketplace.

Turning now to trading in FTSE Russell index products. You will recall that CBOE became the sole U.S. provider of major FTSE Russell index products in 2015, beginning with Russell 2000 Index (RUT) options in April. In the first quarter of 2016, RUT trading at CBOE was up 5 percent over the first quarter in 2015, when RUT options were still multiply-listed, and up 18 percent from the previous quarter.

On March 29th we listed options on two additional FTSE Russell indexes, the FTSE 100 and FTSE China 50, enabling investors to gain exposure to the largest and most liquid segments of the UK and Chinese equity markets. The new FTSE options add to the growing international dimension of our index options franchise, which began with our launch of MSCI products. I should note that following sustained marketing and educational efforts, we are encouraged to see early trading in our MSCI index products and believe we can build on that growth going forward.

CBOE continues to leverage the marketing and educational efficiencies afforded by a comprehensive suite of CBOE index options and volatility products. We plan in 2016 to further leverage our concentrated index option liquidity pool while expanding our global customer base through joint marketing and educational efforts with our index provider partners.

Last week, we took a major step forward in broadening the global reach of VIX Futures trading by establishing connectivity between CFE and Stellar Trading Systems, a major independent software vendor (ISV) in Europe and Asia, specializing in providing low latency solutions for high-volume traders. Our connectivity with CQG, Trading Technologies or TT, and now Stellar Trading, connects CFE to the world's top futures execution programs, significantly extending our customer reach and bringing new efficiencies to VIX futures trading globally.

We are now planning the fifth annual CBOE Risk Management Conference in Europe (RMC Europe), which will take place September 26th through 28th in County Wicklow, Ireland. And, I'm pleased to say we are preparing to open a CBOE London office, our first business development outpost, in July. In addition, we have engaged a full time CBOE consultant based in Hong Kong in order to have boots on the ground to support our ongoing business development efforts in Asia.

I'll close here by saying we are obviously pleased with our strong first-quarter results and, while overall volume in April dropped from those first quarter highs, we continued to see increased trading in VIX futures and we accomplished several key strategic objectives. Regardless of the macro environment, our team remains focused on developing new products, expanding our customer base, and leveraging strategic alliances. This disciplined approach positions our company to optimally benefit from trading tailwinds and to continue to lay the foundation for future growth when faced with headwinds. So, I'll end here by thanking our team for their ongoing commitment to advancing our strategic plan, regardless of market conditions. It is their focus that enables CBOE to continue to define and lead the options and volatility space globally and thereby best serve our customers and shareholders over the long term.

With that, I will turn it over to Alan Dean.

**Alan Dean, CFO**

Thanks Ed and good morning everyone.

Let me start with an overview of our first-quarter results. Strong trading volume in our proprietary products for the quarter drove solid first quarter results. Operating revenue came in at $162.3 million, 14 percent above last year's first quarter. Adjusted operating income was $80.6 million, representing an adjusted operating margin of 49.7 percent, up 100 basis points compared with 48.7 percent in the first quarter of 2015. Adjusted net income allocated to common stockholders was $49.9 million, up 18 percent versus the first quarter of 2015, resulting in adjusted diluted earnings per share of $0.61, a 22 percent increase compared with $0.50 per share for the same period last year.

Before I continue, let me point out that our GAAP results reported for the first quarter of 2016 and 2015 include certain unusual items that impact the comparison of our operating performance. These items are detailed in our non-GAAP information provided in the press release and in the appendix of our slide deck.

Looking at our results further, starting with operating revenue, we reported increases in transaction fees and exchange services and other fees, partially offset by a decrease in other revenue.

Higher transaction fees accounted for most of the revenue growth in the quarter, up $19.3 million, or 20 percent, compared with the first quarter of 2015, resulting from a 19 percent increase in the average revenue per contract (or RPC) versus last year's first quarter. Total trading volume was relatively unchanged from 2015's first quarter.

Looking at volume by product category, you can see that our higher-RPC proprietary products significantly outperformed the lower-RPC multiply-listed options, with trading in our index options up 29 percent and futures up 16 percent over last year's first quarter. These increases were offset by lower volume in equity options and options on exchange-traded products, which decreased 20 percent and 5 percent, respectively.

Our blended RPC, including options and futures, increased to 40.5 cents from 34.0 cents in last year's first quarter. The increase in RPC primarily reflects a favorable shift in the mix of trading volume, with our highest-RPC products, index options and futures contracts, accounting for 42.4% of the trading in the first quarter, up from 33.3% in the same period last year.

The RPC in our options business increased to 34.6 cents compared with 28.4 cents in the first quarter of 2015, largely due to the favorable mix of trading volume. Furthermore, the RPC for equity options and index options increased 10 percent and 1 percent, respectively, primarily a result of lower volume discounts and incentives.

Revenue per contract at CFE, our futures exchange, decreased 4 percent to nearly $1.64 from $1.70 in last year's first quarter, reflecting the impact of higher rebates linked to volume and account type.

Looking at the sequential change in RPC, the blended RPC for the first quarter was down slightly from 40.8 cents in the fourth quarter, primarily reflecting higher volume-related discounts and a shift in the mix of trading volume within index options. In gauging RPC going forward, keep in mind that the RPC varies by index option and changes in the mix of volume by product traded impacts the average RPC for that category.

The revenue contribution from our proprietary products continues to increase as a percentage of total transaction fees. In the first quarter, proprietary products accounted for 85.8 percent of our transaction fees, up from 81.3 percent in the first quarter of 2015 and 83.1 percent in the fourth quarter of 2015.

Looking at some of the other factors influencing operating revenue, exchange services and other fees increased by $1.7 million. This increase was largely due to revenue contributed from CBOE Livevol technology services, which became part of CBOE Holdings on August 7, 2015.

Additionally, other revenue was down by $1.7 million, primarily due to lower revenue from fines. In 2015, revenue from fines was higher than normal, particularly in the first three quarters of the year, which could result in more difficult comparisons in other revenue in future quarters. Revenue from fines is pooled with regulatory revenue and is used towards expenses we incur to support our regulatory functions.

Turning to expenses, this next slide details total adjusted operating expenses of $81.7 million, for the quarter, an increase of $8.4 million or 11 percent, compared with $73.3 million in last year's first quarter. Operating expenses for the quarter reflect higher costs for royalty fees, compensation and benefits, professional fees and outside services and depreciation and amortization.

Core operating expenses were $50.9 million, an increase of $3.0 million or 6 percent, compared with the first quarter of 2015.

This increase primarily reflects higher costs of $1.5 million in compensation and benefits and $1.3 million in professional fees and outside services. The increase in compensation and benefits largely reflects higher incentive-based compensation, which is aligned with our improved financial performance. The variance in professional fees and outside services primarily reflects higher costs for legal and other professional services.

We are reaffirming our guidance for core expenses for the year to be in the range of $211 million to $215 million. We do expect core expenses to increase some in the back half of the year. As we noted on our previous earnings call, under our regulatory services agreement with FINRA, we plan to complete our migration to FINRA's regulatory software in July, resulting in an increase in fees for outside services. While this increase is expected to be offset somewhat by lower depreciation and amortization expenses due to the final write off of certain regulatory software, it does shift some expenses into core in the third and fourth quarters that were previously in depreciation and amortization.

In addition, I want to call your attention to the fact that we added accelerated stock-based compensation to our guidance. We expect to recognize accelerated stock-based compensation expense, on a quarterly basis, totaling approximately $1.0 million for the full year. This expense is expected to be reported in compensation and benefits and included in our non-GAAP reconciliation as an adjusted financial measure. The accelerated vesting of certain equity awards is based on plan participants reaching age and service requirements specified under our long-term incentive plan and award agreements.

Looking at volume based-expenses, royalty fees increased by $4.9 million, or 35 percent, reflecting the higher trading volume in licensed products during the quarter.

The royalty rate per licensed contract traded came in at 15.5 cents this quarter, below the 16.1 cents we saw in the fourth quarter, resulting from a slight shift in the mix of products traded.

Looking forward, I would expect the rate per licensed contract to be somewhere within the range we saw in 2015 of 14.6 cents and 16.3 cents, depending on the mix of products traded.

Before I move off the P&L, I want to comment on other income and expenses, which had a favorable variance of $0.9 million on an adjusted basis compared to last year's first quarter. This primarily reflects a $0.7 million increase in investment income, largely resulting from a higher dividend payout by the Options Clearing Corporation (OCC) versus the amount declared in the fourth quarter.

Turning to the balance sheet, we finished the quarter with cash and cash equivalents of $107 million, compared to $102 million at the end of 2015.

CBOE is a strong cash producing business. In the first quarter, we generated net cash flows from operating activities of $97 million versus $78 million in the same period last year, largely driven by the increase in net income.

Through March we used more than $19 million to pay dividends and nearly $47 million to repurchase our stock.

Capital expenditures for the quarter were $9 million. Looking out to the end of the year, we are reaffirming our prior guidance of $47 to $49 million for capital spending.

The majority of our capital spending continues to be systems related, particularly with the ongoing development of our new trading platform, CBOE Vector. As we told you previously, Vector is planned to be up and running for our futures exchange, CFE, towards the end of the third quarter and we look forward to continuing the development of Vector for CBOE and C2.

At March 31, 2016, we had approximately $115.1 million remaining under our existing share repurchase authorizations.

As we've said in the past, first and foremost, we are committed to investing in the growth of our business, then we look to return excess cash to shareholders through sustainable dividends and share repurchases.

In closing, we are pleased with our solid financial performance for the first quarter and are optimistic about the opportunities we see ahead as we continue to focus on deploying cash generated in value-enhancing ways to reward our shareholders.

With that, we thank you for your time and attention this morning and I will turn it back over to Debbie for instructions on the Q&A portion of the call.

**Debbie Koopman**

At this point, we would be happy to take questions.

We appreciate everyone’s participation today and your interest in CBOE. We look forward to speaking with you on our next conference call. I will be available today for any follow-up questions you may have.

*actual results to differ materially from that expressed or implied by the forward-looking statements, including: the loss of our right to exclusively list certain index options and futures products; increasing price competition in our industry; compliance with legal and regulatory obligations and obligations under agreements with regulatory agencies; decreases in the amount of trading volumes or a shift in the mix of products traded on our exchanges; our ability to operate our business, monitor and maintain our systems or program them so that they operate correctly, including in response to increases in trading volume and order transaction traffic; the accuracy of our estimates and expectations; legislative or regulatory changes; increasing competition by foreign and domestic entities; our index providers ability to perform under our agreements; our ability to operate our business without violating the intellectual property rights of others and the costs associated with protecting our intellectual property rights; our ability to maintain access fee revenues; our ability to protect our systems and communication networks from security risks, including cyber-attacks; economic, political and market conditions; our ability to attract and retain skilled management and other personnel; our ability to maintain our growth effectively; our dependence on third party service providers; and the ability of our compliance and risk management methods to effectively monitor and manage our risks.*

*More detailed information about factors that may affect our performance may be found in our filings with the SEC, including in our Annual Report on Form 10-K for the year ended December 31, 2014 and other filings made from time to time with the SEC.*