Cboe Global Markets, Inc.
Second Quarter 2021 Earnings Call - Prepared Remarks
July 30, 2021

Slide 1: Title

Operator: Good morning everyone, and welcome to Cboe Global Markets' second quarter 2021 earnings conference call.

At this time, for opening introductions, I would like to turn the call over to Debbie Koopman, Vice President of Investor Relations.

Slide 2: Agenda- Debbie Koopman

Good morning and thank you for joining us for our second quarter earnings conference call. On the call today, Ed Tilly, our Chairman, President and CEO, will discuss our performance for the quarter and provide an update on our strategic initiatives. Then, Brian Schell, our Executive Vice President, CFO and Treasurer, will provide an overview of our financial results for the quarter as well as an update on our 2021 financial outlook. Following their comments, we will open the call to Q&A. Also joining us for Q&A will be our Chief Operating Officer, Chris Isaacson and our Chief Strategy Officer, John Deters. In addition, I want to welcome Ken Hill, who recently joined Cboe as the VP of Investor Relations. Ken will take the lead on IR effective August 1 as I support him and transition to retirement later this year.

I would like to point out that this presentation will include the use of 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.

Slide 3: Forward-Looking Statements

During our remarks, we will make some 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.

During the call this morning, we will be referring to non-GAAP measures as defined and reconciled in our earnings materials. Now, I'd like to turn the call over to Ed.

Slide 4: Ed Tilly, CEO

Good morning and thank you for joining us today. I hope that you are doing well and remaining safe and healthy.

Our purpose is to operate a trusted, inclusive global marketplace supported by our guiding principles, which include active transparency. It is in this spirit that we issued a press release this morning regarding spot volatility indices and I want to comment on that before I dive into the results for the quarter.

As outlined in the press release, we recently discovered instances where the spot VIX Index calculation differs from the calculation described in the VIX White Paper, which details the formulas used for deriving values related to VIX. Specifically, in certain instances an index level was not produced at the applicable interval resulting in the dissemination of the prior index value.

These instances relate only to the spot VIX Index, which is not a tradeable product. We believe the VIX tradable futures and options, as well as the NAV of products that track the daily closing prices, such as volatility ETP products, were not impacted. In addition, the calculation of the final settlement value for expiring VIX derivatives, which uses an independent process, was not impacted.

We are investigating the degree of impact and the number of instances with respect to which the redissemination occurred, but based on our initial assessment, we believe that in the vast majority of cases, the current VIX index calculation yielded the same result as provided in the VIX White Paper.

Now turning to slide 5…

Slide 5: Achieved Strong Results Through Balanced Growth

I am pleased to report on strong financial results for the second quarter of 2021 at Cboe Global Markets. We continued to deliver on our strategic growth plan, expanding on the foundation we laid over the last year as we build one of the world's largest global derivatives and securities trading networks.

For the quarter, we reported year-over-year increases in both transaction and recurring non-transaction revenues, with net revenue up 18%, to over $350 million and adjusted EPS up 5%.

Our solid results were driven by continued growth in recurring non-transaction revenues, increased trading volumes, and engagement of institutional clients trading our index options and volatility products. We saw strong year-over-year growth in our proprietary products – ADV increased by 40% in VIX futures, 41% in VIX options and 8% in SPX options.

Slide 6: Strategic Momentum – Investing in Long-term Growth

During the second quarter, we made excellent progress executing on the four key incremental growth drivers I outlined at the beginning of this year – the opportunity to grow recurring non-transaction revenue, the upcoming planned launch of Cboe Europe Derivatives, our expansion plans for BIDS Trading, and extending access to our products and services across geographies and market participants. July 1 we also closed our acquisition of Chi-X Asia Pacific. We are very excited to further expand in this new region and I'll share more about our plans later in the call.

First, I'll touch on the solid growth of our recurring non-transaction revenue, powered by our Data and Access Solutions business. Similar to the first quarter, we exceeded our growth targets, achieving 21% growth during the second quarter. This increase included organic growth of 19% year-over-year, which was fueled by an equal contribution from both proprietary market data fees and access and capacity fees. As a result of this continued strong performance, we are increasing our 2021 organic growth target for recurring non-transaction revenue to a range of 12 to 13% from a range of 10 to 11%.

The growth in non-transaction revenue was driven by new subscribers to Cboe's front-end platforms, such as Silexx, LiveVol Pro and TradeAlert, as well as demand for logical ports and market data, as customers look to gain global market access.

Our Data and Access Solutions business provides a suite of data analytics, market intelligence, and execution services allowing us to interact with and add value for market participants at every step of the trade process. Later this year we plan to launch Cboe Global Data Cloud, which will provide cloud distribution for certain data products, creating a simple, efficient way for customers to access our data. Our goal is to optimize the efficiency and delivery of our data and access solutions to market participants across the globe. We believe the acquisition of Chi-X creates a tremendous opportunity for this business.

Turning now to Europe, I'm pleased to report that we received regulatory approvals this month to launch Cboe Europe Derivatives and we are on track to go live with this new market on September 6th. We have key market participants ready to support the exchange from day one, including banks, clearing firms, market makers and proprietary trading firms, who will help contribute to the provision of liquidity and client order flow.

I am incredibly proud of our team for their dedication over the last 18 months, working remotely from their homes, to develop this new market designed to address the diverse needs of our customers. We believe that market participants will find tremendous benefit in being able to access a truly pan-European, transparent, efficient, and lit derivatives market.

Our overall business in Europe was exceptionally strong in the second quarter and we expect the launch of Cboe Europe Derivatives to build on this momentum. As we've said before, we see a significant opportunity to grow the overall derivatives market in Europe. We are not aiming simply to take market share from incumbent exchanges; we intend to reshape and expand derivatives trading across Europe with a novel market structure designed to attract both new and existing participants. We're excited to get started doing just that in September.

Moving to BIDS Trading, last month we announced plans to launch Cboe LIS powered by BIDS in Canada in February 2022. Based on our highly successful offering in Europe, our Canadian LIS offering, which is subject to regulatory approval, will combine the industry-leading block trading capabilities from MATCHNow, the Canadian alternative trading system Cboe acquired last year, and BIDS to create an enhanced market center for block-sized liquidity. The launch of BIDS in Canada will be coupled with the planned migration of MATCHNow to Cboe technology, further extending our world-class trading platform.

BIDS has established itself as the premier block trading destination in the U.S. and Europe and we are excited about our plans to expand the BIDS network to Canada and Asia Pacific, first into Australia and then Japan, to serve an even broader base of customers.

As we broaden our global footprint by entering new markets and launching new products and services, we further our goal of expanding access to a broader base of customers – both institutional and retail. Last month we announced a November 21st launch for our extended global trading hours for VIX and SPX options, as part of our 24-by-5 initiative, subject to regulatory review. The lengthened global trading hours will complement our entry into Asia Pacific with the Chi-X acquisition and are designed to help meet growing investor demand for the ability to manage risk more efficiently, react to global macroeconomic events as they happen and adjust SPX and VIX options positions around the clock.

We've seen steady growth this year in SPX options trading on retail broker platforms as retail engagement across the market continues. Monthly ADV in SPX options on retail platforms has increased more than 50% since the start of the year. We've also continued to see strong growth in multi-listed options trading with ADV increasing 11% year-over-year in the second quarter.

We see opportunity with the growing retail audience and remain committed to investing in education and product development to meet their unique needs. Product innovation remains a core focus of the Cboe franchise, and we continue to evaluate opportunities to expand our proprietary product offering with smaller contract sizes that appeal to both retail traders and institutional investors.

Enhancing and expanding our education offering from the Options Institute remains a top priority. Last quarter, the Options Institute hosted numerous webcasts and training sessions for market participants and also launched a new learning management system for retail and institutional investors looking to learn more about derivatives.

We are currently demoing this system with clients, and plan to make it available for on-demand online education later this year.

Additionally, we've cultivated an expert team of derivatives specialists to serve as adjunct faculty instructors for the Options Institute and look forward to hosting classes beginning this fall. These distinguished practitioners specialize in derivatives products, operations and risk management, decision theory, and research and we look forward to engaging with and educating investors on the benefits derivatives can provide to their investment portfolios.

Slide 7: Expanding Cboe Ecosystem

And last, we closed our acquisition of Chi-X at the beginning of July, enabling us to establish a significant presence in the Asia Pacific region. This acquisition marks a pivotal moment in our corporate evolution – we are now a truly global market infrastructure provider, operating markets and delivering products and services around the world every day of the week and around the clock.

We plan to migrate Chi-X to Cboe technology over time and the team is busy working through the integration plan and timeline. Offering one, unified technology platform will help provide market participants with greater access to Cboe's diverse product set and more efficiency, resiliency and functionality when trading across Cboe's markets.

As we move forward, we see a significant opportunity to expand our ecosystem of market infrastructure and tradable products into one of the world's largest and most comprehensive global derivatives and securities networks. We have proven ourselves as a nimble and efficient operator of securities markets around the globe. But more importantly, we see securities markets as the foundational element in creating products and services that span the equities and derivatives landscape. Our transactional expertise allows us to create, package and distribute a host of market data, analytics and index products. Having recognized benchmark indices allows us to, in turn, develop additional tradable products and new markets for these products to trade, creating a virtuous circle of transaction and non-transaction product growth at Cboe. You only have to look at the success of Cboe Europe, which started out as a small equity market and is now on the cusp of launching a pan-European Derivatives market, to realize the power and potential of these relationships.

I'm extremely pleased with our performance this quarter and I want to thank all Cboe employees for their hard work and also welcome Chi-X to the Cboe family. We look forward to delivering enhanced value to our customers and our shareholders, as we broaden our global network and access to Cboe's unique products and services.

With that, I'll turn it over to Brian.

Slide 8: Brian Schell Title Slide

Thanks Ed, and good morning everyone. Let me remind everyone that unless specifically noted, my comments relate to 2Q21 as compared to 2Q20 and are based on our non-GAAP adjusted results.

Slide 9: 2Q Financial Summary

As Ed just indicated, we reported strong financial results for the quarter, seeing solid contributions from our proprietary trading products as well as our data and access solutions. Earnings in the second quarter increased on a year-over-year basis as we build a more balanced and diversified company. We remain steadfast in our efforts to become one of the world's largest global derivatives and securities networks, enhancing value to our customers as well as our shareholders. Now, a quick review of the quarter:

- Our net revenue increased 18%, net transaction fees were up 19% and recurring non-transaction revenue was up 21%;
- Adjusted operating expenses increased 34%;
- Adjusted EBITDA of $234 million was up 11%;
- And finally, our adjusted diluted earnings per share was $1.38, up 5% compared to last year's quarterly results.

Slide 10: 2Q21 Net Revenue by Segment and Key Drivers

Turning to the key drivers by segment. Our press release and the appendix of our slide deck includes information detailing the key metrics for each of our business segments, so I'll just provide summary thoughts:

- The revenue increase in our options segment, which accounted for a majority of our total net revenue growth, was driven by higher trading volumes in both our proprietary and multi-listed options:
  - Total options ADV was up 12% as we saw double digit increases in both index and multi-listed options,
  - Revenue per contract (RPC) also moved higher by 5% given positive mix shift to index products and a strong increase in our multi-listed options RPC, up 31%, and
  - We continued to benefit from solid growth in recurring non-transaction revenue, particularly access and capacity fees, in this segment.
- North American equities revenue decreased 2% year-over-year as industry equity volumes in the U.S. declined by 15% and Cboe's market share trended lower, primarily reflecting incremental share going off exchange. While our overall market share has trended lower, our continuous trading market share has held up relatively well and we are optimistic about the many innovations we have introduced, and plan to introduce, to the market – including - retail priority, QDP (Quote Depletion Protection), earlier

trading hours, and periodic auctions. The volume declines in 2Q were partially offset by a $10 million contribution from BIDS and MATCHNow for the quarter. Lastly, recurring non-transaction revenue increased by more than $4 million or 15%, with organic growth of 14%.

- Second quarter revenue increased in Futures by 31% on the back of a 49% increase in ADV.
- The revenue increase in Europe primarily reflects the addition of EuroCCP, which contributed $11.7 million during the quarter and the impact of favorable foreign currency translation. Underlying trends are strong in the business as average daily notional value traded on Cboe European Equities was up 16%, outpacing the broader market's 5% increase. Net capture also rose 7% during the quarter.
- And finally, the 1% net revenue growth in FX was a result of slightly higher trading activity.

Slide 11: 2Q21 Adjusted Operating Expenses Up 34%, Primarily Driven by Acquisitions

Turning to expenses, total adjusted operating expenses were approximately $128 million for the quarter, up 34% compared to last year. Excluding the impact of acquisitions owned less than a year, adjusted operating expenses were up 16% or $16 million for the quarter. Most of the expense variance related to the acquisitions was compensation and benefits.

Slide 12: Grew Recurring Non-Transaction Revenue 21% YoY: Raised Targeted Growth Rate

Cboe's recurring non-transaction revenue momentum accelerated in the second quarter with YoY organic growth reaching 19%. Again, this strong growth was largely a product of additional subscriptions and units as opposed to price increases. More specifically we are seeing:

- Both physical and logical port usage has accelerated in our equities and options businesses driven by increased demand for trading capacity.
- On the market data side, we have seen equities also perform well as the strength of Cboe One and top-of-book products have driven market data growth, both domestically and internationally.

We are excited to build on our strong organic growth trends with the addition of Chi-X and its revenue base that is approximately two-thirds recurring in nature.

We are increasing our organic growth outlook by 2% points to 12% to 13%. As we factor in the Chi-X contribution, our total non-transaction revenue growth is now expected to reach 15% to 16% for 2021, up 4% points vs. our prior expectation. Overall, our recurring non-transaction businesses remain a critical component of the Cboe growth story and one that we expect to continue to accelerate and diversify our revenue stream over time.

Slide 13: Adjusted Operating Expense Bridge 2020 to 2021

Expense Guidance

Moving to our expense guidance, we are reaffirming our full year range of $531 to $539 million. Importantly, our unchanged guidance range now includes the full impact of Chi-X, an incremental $13 million, which is expected to be completely offset by:

- expense reductions related to COVID-19 in 2020 that have continued into 2021 longer than we initially expected,
- a reduction in facilities overlap given our ability to expand space in one of our existing locations, and
- lower compensation expenses due to hiring at a slower pace than we initially expected within both our core operating expenses as well as some of our strategic growth initiatives.

Note that we expect the incremental Chi-X expenses to be more than offset by its incremental revenues. We expect our expense spend to increase sequentially in 3Q and 4Q, and we expect to see positive returns from the investments we are making. Specifically, our investments reflect our plan to increase access to our existing products and services, especially growth in our index options and futures by:

1. Developing, listing, and distributing unique products
2. Enhancing our marketing, education, and content, and
3. Increasing our efforts to tap into the growing base of retail investors.

Slide 14: 2021 Full-Year Guidance Updated; Incorporates Acquisition of Chi-X and Higher Growth Rate in Non-Transaction Revenue

Turning now to a summary of full-year guidance on the next slide, we are lowering our guidance for depreciation and amortization to $34 to $38 million from $38 to $42 million. Our cap-ex guidance range moves $5 million lower to $55 to $60 million, and while our effective tax rate for the second quarter was 30.1%, above last year's rate of 26.7% and above our guided range of 27.5% to 29.5%, we are reaffirming the guidance for the full year under the current tax laws. However, we now expect the adjusted effective tax rate for the full year to be at the higher end of the guidance range given where we are in 2021 through June.

Interest Expense

While we are not providing full year guidance on interest expense, we note that we drew an additional $110 million on our term loan credit agreement at the end of the second quarter to fund a portion of the Chi-X deal. Going forward, absent any additional borrowing and significant changes to LIBOR, our interest expense for the third quarter of 2021 is expected to be $11.5 - $12.0 million, slightly below our second quarter expense of $12.3 million, reflecting more favorable rates associated with amendments to our term loan facility and EuroCCP credit facility that were effective late June and early July, respectively.

Slide 15: Focused on Efficient Allocation of Capital to Create Long-Term Shareholder Value

In addition to the investment priorities we outlined earlier in the call, we remain committed to returning excess cash to shareholders through dividends and share repurchases. From a capital return perspective, our strong cash flow generation enabled us to return $79 million to shareholders through dividends and share repurchases in the second quarter. We plan to continue to use our share repurchase capacity opportunistically.

Our leverage ratio increased slightly versus the prior quarter to 1.5x at June 30 as a result of the additional term loan financing used to partially fund the Chi-X acquisition. Overall, our balance sheet remains unencumbered as we look to put incremental capital to use in the most value enhancing way possible for shareholders.

Slide 16: Well Positioned to Continue Growth in 2021 and Beyond

In summary, we are pleased to report solid 2Q results. We are even more excited about the momentum we are carrying into the remainder of this year with:

- An increase in guidance for our non-transaction revenue growth rate – overall and importantly organic, and
- Our unchanged expense guidance range despite the addition of Chi-X expenses.

We believe we have made, and expect to continue to make, investments that are set to deliver growth and increased value to our shareholders.

Now I'd like to turn it back over to Ed for some closing comments before we open it up to Q&A.

Slide 17: ESG Slide

Thanks, Brian. Before we turn to Q&A, I wanted to quickly highlight a couple of important corporate developments. As we accelerate our growth and operations on a global scale, we remain focused on our environmental footprint, social responsibilities, and opportunities to make a difference in the communities in which we live and work.

To that end, last month we announced a new community engagement program, Cboe Empowers. This program provides mentorship, scholarships, and guidance to under-resourced students through their educational journey from elementary school to career. Cboe Empowers is our most ambitious philanthropic endeavor to date. We couldn't be more excited to help equip the next generation with opportunity to realize the career choices available to them as they embark on building their future.

Additional information about this exciting program, as well as some of the other important initiatives we are focused on regarding environmental, social and corporate governance, is included in our recently-published ESG report. We are committed to doing our part to help ensure we are tackling the important challenges our global community is facing today and in the future.

I'd also like to take a minute to express my immense gratitude to Debbie Koopman for her service to Cboe as she will be retiring in November. During her 13+ years with us, she has built Cboe's investor relations program from the ground up, played a major role in our transition to a public company through our successful IPO in 2010, and has been pivotal in the execution of our acquisition strategy. She has helped shape and communicate Cboe's vision and mission to the investment community, developing strong relationships with our shareholders, potential investors and research analysts. I have always appreciated her sharp wit, tough questions, friendship and indelible laugh and will miss working with her.

We are thrilled to have Ken Hill succeeding Debbie as Vice President of Investor Relations. He joined us last month and is working closely with Debbie to ensure a smooth transition. His experience and expertise in capital markets make him a perfect fit for this role. We wish Debbie all the best in her retirement.

I'll now pass it back to Debbie for instructions on the Q&A portion of the call.

Slide 18: Q&A

Debbie Koopman

At this point, we would be happy to take questions. We ask that you please limit your questions to one per person to allow time to get to everyone. Feel free to get back in the queue and if time permits, we'll take a second question.

Closing: That completes our call this morning. We appreciate your time and continued interest in our company.

Cautionary Statements Regarding Forward-Looking Information and Trademarks:

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve a number of risks and uncertainties. You can identify these statements by forward-looking words such as "may," "might," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," and the negative of these terms and other comparable terminology. All statements that reflect our expectations, assumptions or projections about the future other than statements of historical fact are forward-looking statements. These forward-looking statements, which are subject to known and unknown risks, uncertainties and assumptions about us, may include projections of our future financial performance based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from those expressed or implied by the forward-looking statements.

We operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible to predict all risks and uncertainties, nor can we assess the impact of all factors on our *business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.*

Some factors that could cause actual results to differ include: the impact of the novel coronavirus ("COVID-19") pandemic, including changes to trading behavior broadly in the market; the loss of our right to exclusively list and trade certain index options and futures products; economic, political and market conditions; compliance with legal and regulatory obligations; price competition and consolidation in our industry; decreases in trading and clearing volumes, market data fees or a shift in the mix of products traded on our exchanges; legislative or regulatory changes; our ability to protect our systems and communication networks from security risks, cybersecurity risks, insider threats and unauthorized disclosure of confidential information; increasing competition by foreign and domestic entities; our dependence on and exposure to risk from third parties; fluctuations to currency exchange rates; our index providers' ability to maintain the quality and integrity of their indexes and 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 attract and retain skilled management and other personnel; our ability to minimize the risks, including our credit and default risks, associated with operating a European clearinghouse; our ability to accommodate trading and clearing volume and transaction traffic, including significant increases, without failure or degradation of performance of our systems; misconduct by those who use our markets or our products or for whom we clear transactions; challenges to our use of open source software code; our ability to meet our compliance obligations, including managing potential conflicts between our regulatory responsibilities and our for-profit status; our ability to maintain BIDS Trading as an independently managed and operated trading venue, separate from and not integrated with our registered national securities exchanges; damage to our reputation; the ability of our compliance and risk management methods to effectively monitor and manage our risks; our ability to manage our growth and strategic acquisitions or alliances effectively; restrictions imposed by our debt obligations and our ability to make payments on or refinance our debt obligations; our ability to maintain an investment grade credit rating; impairment of our goodwill, long-lived assets, investments or intangible assets; and the accuracy of our estimates and expectations. More detailed information about factors that may affect our actual results to differ may be found in our filings with the SEC, including in our Annual Report on Form 10-K for the year ended December 31, 2020, and other filings made from time to time with the SEC.

We do not undertake, and we expressly disclaim, any duty to update any forward-looking statement whether as a result of new information, future events or otherwise, except as required by law. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

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