Cboe Global Markets, Inc.
First Quarter 2022 Earnings Call - Prepared Remarks
April 29, 2022

Slide 2: Agenda

Good morning and thank you for joining us for our first 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 2022 financial outlook. Following their comments, we will open the call to Q&A. Also joining us for Q&A will be Chris Isaacson, our Chief Operating Officer, John Deters, our Chief Strategy Officer, and Dave Howson, President of Cboe Europe and Asia Pacific.

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

Thank you, Ken.

Good morning and thanks for joining us today.

Slide 5: 1Q22: A Quarter of Record Revenue and Earnings

I am pleased to report on strong financial results for the first quarter 2022 at Cboe Global Markets, reflecting the continued strength of our business. During the quarter, year over year, we grew net revenue 14% to a record $418 million, and adjusted diluted EPS grew by 13% to a record $1.73.

Our solid first quarter results were driven by the ongoing expansion and diversification of our business, with strong trading activity in our cash equity businesses, higher volumes in our proprietary index products, and increased demand for our suite of data and access solutions.

Our Options business had an outstanding quarter with a strong contribution from our proprietary index products and solid results from our multi-listed options business. Our proprietary index products resonated well with our customers as volatility continued to remain steadily elevated around the world and market participants engaged with our product suite to manage risk. Average daily volume increased 42% in SPX options year-over-year, with VIX options increasing slightly year-over-year and up 18% over the fourth quarter 2021. Multi-listed options trading ADV increased 2% year-over-year to a new record of 11 million contracts per day.

Additionally, our European Equities segment had a very strong quarter. Net revenue increased 37% as industry average daily notional value traded increased 31%, and market share rose 5 percentage points year-over-year to 21.8%, the highest since the first quarter of 2019. These results were driven by, not just a favorable market backdrop, but by the expansion of our data and analytics services to help clients improve the quality of their executions and enhance their overall trading experience across our lit and dark order books, periodic auctions, and Cboe BIDS Europe. On the U.S. equities side, we were pleased to launch periodic auctions on our BYX exchange earlier this month and hope to replicate the success we've had with our European periodic auctions offering.

Turning to Asia Pacific, Cboe Japan market share increased considerably during the first quarter to 3.8%, up from 2.9% in the fourth quarter 2021, as a result of a new liquidity provider program designed to attract new volume to the market. We are excited to have a growing footprint in Japan, which is the fourth largest equities market in the world by volume traded. In Australia, volumes remained strong across our equities business, and we are also preparing to list Asia Pacific's first crypto ETFs on Cboe Australia in the coming weeks. We're excited to be helping bring these innovative products to market.

Importantly, while achieving strong results we continued to successfully execute on key initiatives to advance our corporate strategy to innovate, integrate and grow our business globally. In February, we completed the migration of MATCHNow, the largest equities alternative trading system in Canada, to Cboe technology creating a unified trading experience for all of our North American customers. Along with this technology migration, we launched Cboe BIDS Canada, bringing a new and enhanced block-trading offering to the Canadian equities market. It's important to note that these enhancements are already benefiting from our platform with the migration of MATCHNow improving latency and institutional activity increasing with over 10 sponsoring brokers signed on as Cboe BIDS Canada sponsors. We look forward to further expanding our footprint in the Canadian equities market with the expected close of our acquisition of NEO later this quarter, subject to regulatory approvals and customary closing conditions.

We also announced plans to migrate Cboe Australia to our world-class technology platform in February 2023, pending regulatory review and approval, and released technical specifications for this migration a month ahead of schedule. We appreciate the early engagement with customers in Australia on this important initiative and we will be working closely with them throughout the year as the make their preparations for the migration.

As we continue to broaden and evolve Cboe, our global network gives us the unmatched ability to efficiently scale and expand our business in new ways, both organically and in-organically. As we architect the business for future growth, I was incredibly excited to announce several leadership changes last month, including the appointment of David Howson to President of Cboe on May 12. Many of you know Dave well as he currently serves as President of our European and Asia Pacific segments and has done a remarkable job working with the team and our customers to successfully grow those businesses. His track record speaks volumes, and he has spearheaded the development and execution of some of Cboe's most innovative products and services. Dave is planning relocate from London to Chicago and will oversee Cboe's business lines globally. Please welcome Dave as he joins us on the call today.

I believe the enhancements to our management team showcase our deep bench of talent and position Cboe well to advance our global expansion strategy.

Slide 6: Top Strategic Growth Priorities

As mentioned last quarter, we are focused on executing on the transformational opportunities we see in three core areas of our business: Data and Access Solutions, Derivatives and Cboe Digital.

We continue to fuel these opportunities by executing against our ongoing strategy which remains consistent: leverage our superior technology, further strengthen our core proprietary products, increase recurring revenue, and expand our product line by geography and asset class.

During the first quarter, we made solid progress advancing each of these core areas of our business.

[Data]

Let me begin with Data and Access Solutions, which delivered record results during the quarter with revenues increasing 18%. This growth was driven by continued demand for access to our exchanges, proprietary market data and new subscribers to Cboe's front-end platforms.

Cboe Global Cloud, a cloud-based market data streaming service we launched during the fourth quarter, continues to gain traction with customers. This new service aims to increase access to our unique data set to customers globally. We plan to further expand the data set offered via Cboe Global Cloud this summer with the addition of European equities data, which we believe will further expand the customer base accessing our data via the Cloud.

We continue to believe this business is positioned incredibly well moving forward. Given our confidence, we are increasing our 2022 targeted organic growth rate for Data and Access Solutions to 8 to 11 percent from 7 to 10 percent.

Slide 7: Global Derivatives: Positioned To Drive Growth

Our unique product set, coupled with our geographic and asset class diversification, enables us to meet the needs of customers from London to Tokyo, Chicago to Singapore and everywhere in between. As the world continues to grapple with uncertainty caused by the war in Ukraine, rising inflation and interest rates, and the ongoing challenges with the pandemic, market participants have increasingly turned to derivatives and volatility vehicles to help mitigate risk. We continue to innovate and expand our derivatives business globally to meet this ongoing customer need by growing 24x5 trading in SPX and VIX options; expanding our popular SPX Weeklys options offering to provide expirations every trading day of the week starting in May; and launching Nanos a new smaller-sized product designed for the retail trader.

Earlier I noted our overall strong volumes across our proprietary products franchise, and we continue to see solid momentum in trading SPX and VIX Options since launching 24x5 trading in November 2021. During the first quarter, average daily volume in SPX options during Global Trading Hours increased 164% year-over-year, more than double the volume prior to the launch of 24x5. Additionally, average daily volume in VIX Options during Global Trading Hours increased 14% year-over-year while VIX Futures volumes increased 19%. Although still in its early days, the incremental volume we are seeing as a result of our 24x5 enhancements has already generated an attractive return on our 2021 investment.

Last week, we added Tuesday expirations to our SPX Weeklys complex and plan to add Thursday expirations beginning May 11. These new listings build on the success of our SPX Weeklys, which currently include Monday, Wednesday, and Friday expiries. Since we launched SPX Weeklys in 2005, they have become one of our most actively traded products, accounting for 70% of total SPX options volume, as they allow investors to manage their short-term U.S. equity market exposure and execute trading strategies with even greater frequency, precision and flexibility. We have received very positive feedback from a broad range of market participants, and we are off to a strong start. On Tuesday we saw over 600,000 Tuesday expiry contracts traded.

Last month, we were excited to launch Nanos, a first of its kind options contract designed to make trading more accessible for the retail trader. We have been pleased with initial volumes, which have topped 3,500 contracts on several days, and we plan to continue to expand the network of retail brokers offering this product. We expect this market to continue to flourish over time and we look forward to engaging with this growing retail segment.

Turning now to Europe, our European Derivatives business continues to gain momentum and we are pleased with the progress made since launch last September. Volumes continue to grow and we reported over 6,000 contracts traded in the first quarter, an almost four-fold increase on last quarter's volumes. Earlier this week, we launched futures and options on four additional country indices – Italy, Spain, Sweden and Norway. This second phase of products broadens our equity index product suite to cover additional key European markets providing customers with the tools to efficiently manage their European index exposures via a single marketplace.

The expansion of our global derivatives franchise is laying a strong foundation to build upon throughout the rest of the year as we help clients around the world navigate risk.

Slide 8: Planned Acquisition of ErisX

Turning now to Cboe Digital and our planned acquisition of ErisX, which remains on track to close very soon, subject to customary closing conditions. ErisX will provide Cboe with spot trading, data, and clearing capabilities for digital assets and derivatives trading, clearing and data through its regulated futures exchange and clearing house.

This is a pivotal moment for Cboe as we re-enter the digital asset market and we couldn't be more excited to apply our blueprint of success – operating trusted, transparent, regulated markets – to digital assets. As we've said before, we believe Cboe can play a guiding role in shaping the trajectory of this revolutionary market. We have been actively engaged with regulators as they shape policy for this emerging asset class. Additionally, the ErisX application for margin futures is currently in review at the CFTC. We look forward to welcoming the ErisX team to Cboe and accomplishing great things together as Cboe Digital.

Slide 9: Harvesting Investments Across Seasons to Drive Consistent Growth

We are focused on driving durable growth here at Cboe, and I believe the targeted investments we are making across the ecosystem today not only help us diversify our product set and strengthen our flywheel, but also allow us to enhance the robustness of our revenue growth. The ability to harvest investments over various periods of time, from near-term contributors like Tuesday / Thursday expiries and 24x5 to longer-term investments in products like Nanos, position Cboe well to grow for years to come.

I will now turn it over to Brian.

Slide 10: Brian Schell Title Slide

Thanks Ed, and good morning, everyone. Let me remind everyone that unless specifically noted, my comments relate to 1Q22 as compared to 1Q21 and are based on our non-GAAP adjusted results.

Slide 11: 1Q22 Financial Summary

As Ed discussed, the year is off to a very strong start, producing the second consecutive record-setting quarter for Cboe. Overall, adjusted diluted earnings per share were up 13% on a year-over-year basis to $1.73 as both the transaction and non-transaction elements of our business performed well. We believe these strong results validate our investment focus as we continue to put capital to work across our ecosystem to help enable us to take full advantage of the favorable market dynamics. Quickly touching on some of the noteworthy takeaways from the first quarter:

- Our net revenue increased 14%, notching another quarterly record at $418 million, led by the strength in our Derivative Markets and Data and Access Solutions categories. I would like to note the change in our income statement to reflect the cash and spot markets, data and access solutions, and derivatives markets categories we laid out at the November investor day. The update reflects how we also think about the business, in addition to our segments, and how we will be reporting our results moving forward. You can find more details in our 10Q. Noting a couple highlights for our updated categories in the first quarter…
    - Derivatives Markets produced 18% year-over-year organic net revenue growth in the first quarter given the strength of our index business
    - Data and Access Solutions net revenues were also up 18%, up 12% on an organic basis, helped by strong new subscription and unit growth, and
    - Cash and Spot Markets produced 5% net revenue growth for the quarter, up 2% on an organic basis, on the back of strong volumes and market share in our European cash equities business
    - Please note that historical quarterly values for these categories covering the 2020 and 2021 timeframes are available on our IR site.
- Adjusted operating expenses increased 17% to $146 million;
- Adjusted EBITDA of $281 million was up 12%;
- And last, our adjusted diluted earnings per share hit a record $1.73, up 13% compared to last year's quarterly results.

Slide 12: 1Q22 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:

- We saw impressive year-over-year growth in many of our segments during the quarter.
- Options delivered exceptional net revenue growth of 21%, driven by higher trading volumes in both our proprietary and multi-listed options, better market share, as well as higher revenue per contract (RPC) in index options:
    - Total options ADV was up 6% as our higher margin index options volumes increased 27% over 1Q21 levels,
    - Revenue per contract (RPC) moved higher by 18% given a continued positive mix shift to index products, and a stronger mix of higher-priced SPX options in our index business and
    - Lastly, we continued to benefit from another quarter of double-digit growth in market data and access and capacity fees, up 26% and 22%, respectively, as compared to the first quarter of 2021.
- North American equities net revenue decreased by 3% year-over-year against some difficult comparisons to the first quarter of 2021. Industry volumes were lower by 12% and market share declined by 70 basis points versus the first quarter of 2021. On a sequential basis, market share improved by a full percentage point and industry ADV was up by nearly 20%. On the non-transaction side, access and capacity fees increased 11% as compared to the first quarter of 2021.
- The Europe and APAC segment again delivered outsized growth for the quarter, with net revenue up 37%. The increase was driven by higher volumes and the inclusion of Cboe Asia Pacific revenues of $8.4 million. Net transaction fee growth of 47% outpaced solid clearing fee growth of 10%. Transaction fees were led higher by Cboe Europe's equity ADV increasing 71%

year-over-year given very strong industry volume growth and a five percentage point increase in market share. Clearing fees benefited from an increase in clearing volumes of 52%.

- First quarter revenue increased 2% in the Futures segment as transaction and non-transaction revenues posted slight gains for the quarter. Volumes and rate per contract metrics were relatively flat year-over-year. On the non-transaction side access and capacity fees were up 2% and market data grew 25% as compared to the first quarter of 2021.
- And finally, revenues in the FX segment were up 16% as compared to the first quarter of 2021. Net transaction and clearing fees benefited from a 13% increase in average daily notional value traded and a slight increase in net capture rates.

Slide 13: Grew Data and Access Solutions Revenue 18% YoY, Organic Growth of 12%[1], Exceeded Targeted Growth Rate

As we noted previously, Cboe's Data and Access Solutions revenue growth started the year on strong footing with 18% total growth and 12% organic growth as compared to 1Q21. Again, this strong growth was primarily driven by additional subscriptions and units, accounting for over 90% of the year-over-year revenue increase, as opposed to pricing changes. More specifically we saw:

- Robust physical and logical port usage in our options and equities businesses driven by increased demand for trading capacity.
- And on the market data side, the equities top-of-book and options depth of book products continued to perform well.

As we look to 2022, we see tremendous potential for the Data and Access Solutions business. We are raising our targeted DnA, organic, net revenue growth rate to 8-11% from the 7-10% range, slightly above the medium-term guidance delivered at our November investor day.

Slide 14: 1Q22 Adjusted Operating Expenses Up 17%, Primarily Driven by Acquisitions

Turning to expenses, total adjusted operating expenses were approximately $146 million for the quarter, up 17% compared to last year. Excluding the impact of acquisitions owned less than a year, adjusted operating expenses were up 12% or $15 million for the quarter.

Slide 15: Adjusted Operating Expenses with ErisX and NEO

Expense Guidance

Moving to our expense guidance, we are reaffirming our full year expense guidance range of $617 to $625 million for 2022. As we have previously stated, we expect our expense base to build over the course of this year as we invest behind the many attractive initiatives at Cboe. We expect $23 to 26 million of the 2022 investment spend to directly drive incremental revenue growth. We believe that approximately $10 million is needed for infrastructure enhancements to support and scale our business for greater levels of activity in the future.

In the past we have talked to investments in areas like DnA or our EuroCCP acquisition and integration as producing solid returns for Cboe. I would like to point out that a few of our more-recent 2021 investments are already producing some very attractive returns as well. For instance, 24x5 which went live in November, has translated to year-to-date global trading hour volumes in the SPX options contract more than doubling 2021 levels, averaging over twenty-seven thousand contracts per day in the first quarter. Tuesday expirations went live last week and this Tuesday we saw over 600,000 Tuesday expiry contracts traded, a very strong start.

We recognize that each of the investments we make across our ecosystem is unique, with different return profiles, payback periods and levels of complexity. In each case though, we leverage the same core attributes that make Cboe – Cboe. The ability to leverage our superior technology, an unmatched global footprint, and a cohesive trading experience across asset classes. We invest consistently behind this framework so that we can harvest investments across cycles – from short term initiatives like 24x5 to longer-term endeavors like the EuroCCP acquisition, EU derivatives launch, introduction of BIDS block trading capabilities in new equities markets and other multi-year integration and technology migration activities.

Looking ahead to our pending acquisitions, we expect to close the ErisX transaction very soon, subject to customary closing conditions, and anticipate a midyear closing for NEO, subject to regulatory review and other customary closing conditions. Adjusting our prior expense framework for the updated timings, we expect the acquisitions of ErisX and NEO to add an incremental $30 to $35 million to our 2022 guided range of $617 to $625 million. We continue to anticipate that revenues from ErisX and NEO will offset more than half of the expenses in 2022, with an expectation that the additions are EBITDA positive on a combined basis in year two. The company plans to further refine its guidance for 2022 after the acquisitions close.

Slide 16: Updated Guidance Reaffirms Confidence in Medium-Term Targets

Now turning to a summary of full-year guidance on the next slide, given our early year performance and positive outlooks for the businesses, we are providing incrementally positive updates for many of the elements we spoke to at our investor day back in November. Specifically, and as we have already mentioned, we now anticipate DnA organic net revenue growth will be in the 8 to 11% range, up from our previous guidance of 7 to 10%. Acquisitions held less than a year have performed well, and we are slightly increasing our guidance, calling for acquistions held less than a year to contribute between 2 and 3 percentage points to total net revenue growth in 2022, up from our prior guidance of 1 to 3 percentage points. And our overall organic net revenue growth target remains unchanged after the first quarter at 5 to 7% for 2022 – but we see potential upside to our revenue expectations given the early performance of our growth initiatives and the year-to-date macro trading environment.

Depreciation and amortization is expected to be in the $40 to $44 million range. Our cap-ex guidance range is $47 to $52 million for the full year, and we continue to anticipate our effective tax rate on adjusted earnings to be in the 27.5% to 29.5% range for 2022, under the current tax laws.

Interest Expense

Our interest expense for the first quarter of 2022 was $10.8 million. Given the incremental borrowing costs related to the financing put in place ahead of the planned acquisitions of ErisX and NEO, which includes an expanded and longer tenured revolving credit facility, we expect interest expense to be in the range of $14 - $15 million for 2Q22.

Slide 17: Efficient Allocation of Capital to Create Long-Term Shareholder Value

On the capital front, our focus has been, and remains, maximizing shareholder value through the effective use of our capital. In the first quarter, we returned a total of $121 million to shareholders, comprised of $51 million in dividend payments and $70 million in share repurchases. We remain well positioned to invest in the business, support our dividend, and opportunistically repurchase shares - with $249 million in remaining capacity on our share repurchase authorization.

Our leverage ratio increased versus the prior quarter to 1.6x at March 31 as our debt levels increased with the issuance of a 10-year note in anticipation of our NEO and ErisX transactions. Overall, we remain committed to maintaining a flexible balance sheet and putting capital to work in the most value enhancing way possible for shareholders.

Slide 18: Positioned to Innovate, Integrate and Grow to Create Value

In summary, Cboe kicked off 2022 on very strong footing with a record quarter, and we remain confident in the many attractive initiatives we are investing in across the Cboe ecosystem. We look forward to continuing to deliver strong and sustainable results for investors in the quarters ahead.

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

CLOSING REMARKS

In closing, I would like to thank our team for the incredible progress made throughout the first quarter. 2022 is off to an exceptional start and with the help of our dedicated associates, we are well-positioned to define markets globally, delivering value to our customers and shareholders.

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 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 or clearing volumes, market data fees or a shift in the mix of products traded on our exchanges; legislative or regulatory changes or changes in tax regimes; our ability to protect our systems and communication networks from security risks, cybersecurity risks, insider threats and unauthorized disclosure of confidential information; our ability to attract and retain skilled management and other personnel; increasing competition by foreign and domestic entities; our dependence on and exposure to risk from third parties; fluctuations to currency exchange rates; factors that impact the quality and integrity of our indices; the impact of the novel coronavirus ("COVID-19") pandemic; 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 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; the accuracy of our estimates and expectations; litigation risks and other liabilities; and if the acquisition of ErisX is consummated, operating a digital asset business. 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, 2021 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.

This presentation includes market share, financials and industry data that we obtained from industry publications and surveys, reports of governmental agencies, third-parties and internal company surveys. Industry publications and surveys generally state that the information they contain has been obtained from sources believed to be reliable, but we cannot assure you that this information is accurate or complete. We have not independently verified any of the data and financials from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein. Statements as to our market position are based on the most currently available market data. While we are not aware of any misstatements regarding industry data and financials presented herein, our estimates involve risks and uncertainties and are subject to change based on various factors.

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