

**Cboe Global Markets, Inc.  
Second Quarter 2022 Earnings Call - Prepared Remarks  
July 29, 2022**

**Slide 1: Title**

**Operator:** Good morning everyone, and welcome to Cboe Global Markets' second quarter 2022 earnings conference call.

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

**Slide 2: Agenda- Ken Hill**

Good morning and thank you for joining us for our second quarter earnings conference call. On the call today, Ed Tilly, our Chairman 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, Dave Howson, our President, and our Chief Strategy Officer, John Deters.

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. Before I begin, I am pleased to officially welcome Dave Howson to the U.S. He relocated to Chicago last week from London and is overseeing Cboe's business lines globally in his new role as President and we are excited to have him here today.

**Slide 5: Strong Revenue and Earnings Generation Continues**

I am pleased to report on another strong quarter at Cboe Global Markets. During the quarter, we achieved record-setting revenue results, growing net revenue 21% year-over-year to a record \$424 million, and adjusted diluted EPS grew by 21% to \$1.67. Our solid second quarter results were driven by the continued diversification of our business as we continue to integrate recent acquisitions, with strong volume in our proprietary index products, increased trading activity in our cash equities businesses, and continued growth across our data and access solutions business.

Our Derivatives business had another excellent quarter, driven by strong performance in our index options franchise, specifically SPX options, as well as a solid increase in our multi-listed options business. Record monthly activity in the SPX complex helped drive a 66% increase in average daily volume for the quarter, while VIX Futures were up 7% and VIX Options remained flat. Multi-listed options trading ADV increased 12% year-over-year.

Our Cash and Spot Markets business performed remarkably well during the second quarter with net revenue increasing 7%, including 3% organic net revenue growth year-over-year. These results were driven by exceptionally strong performance in our European Equities segment, where average daily notional value traded was up 49% year-over-year. Additionally, Cboe European Equities market share increased nearly 6 percentage points year-over-year to 23.2%. Similar to the trends we saw last quarter, these results reflect,

not just a favorable market backdrop, but the implementation of an analytics-driven campaign by our Sales team to help clients achieve better results on Cboe Europe than is achievable on other venues.

Our Data and Access Solutions business remains strong with the integration of our recent acquisitions continuing to fuel the durability of this business. Year-over-year net revenue increased 20%, with 14% organic net revenue growth.

#### **Slide 6: Top Strategic Growth Priorities**

We continue to remain focused on executing on the significant opportunities we see in three core areas of our business: Data and Access Solutions, Derivatives and Cboe Digital. During the quarter, we made solid progress advancing each of these priorities, including closing the acquisition of ErisX on May 2. While the digital asset market environment has changed dramatically since we closed the ErisX transaction, which resulted in the accounting adjustment that Brian will discuss in more detail, our strategy has not changed. We remain excited by the compelling strategic opportunity for Cboe in the digital asset space.

We believe the long-term opportunity within the digital asset space will continue to evolve. Now, more than ever, market participants want a trusted, transparent, regulated market for digital assets, which is fundamental to our strategy for this asset class. We are continuing to work closely with our partner group and expect to announce equity partners soon as we shape and define the future of Cboe Digital and the broader industry.

#### **Slide 7: Global Derivatives – Extending the Market Potential**

Turning now to Derivatives, where our SPX franchise continued to flourish as we expanded access to customers to meet increased demand, both on and off the trading floor. With market uncertainty and heightened volatility continuing across the globe, market participants turn to Cboe's derivatives and volatility products to help manage risk.

Many of our newer initiatives, like the extension of trading hours for SPX and VIX Options to nearly 24 hours-a-day, five days-a-week, and the addition of Tuesday and Thursday expirations for SPX Weekly options, have outperformed our early expectations in 2022, further accelerating the strong growth across our core business.

Since adding Tuesday and Thursday expirations for SPX Weekly options this Spring, our initial estimates indicate we've added on average over 200 thousand incremental SPX contracts per day, reinforcing the trend we have seen of customers embracing shorter duration trading strategies. The expansion of our SPX Weeklys complex to include expiries every trading day has helped meet this customer demand. ADV in SPX

contracts with zero days to expiration increased 120% since the start of 2021 with retail brokerage platforms accounting for over 80% of the volumes. Additionally, during Global Trading Hours, average daily volume in SPX Options increased 189% year-over-year, VIX Options increased 49%, and VIX Futures volumes increased 19%.

Global customers want access to tools to manage risk and we continue to focus on expanding upon our core strength and finding new ways to deliver access and meet their needs.

### **Slide 8: DnA – Driving Durable Growth**

We continue to believe strongly in the durability of our Data and Access Solutions business going forward as we continue to integrate our recently acquired businesses and strive to further unlock value and revenue opportunities. Brian will expand on this later in the call, but we are updating our 2022 organic net revenue growth expectations for this business to a range of 10% to 13%, up from our prior guidance range of 8% to 11%.

The record results during the quarter were driven by continued demand for access to our global exchange network, Cboe's front-end platforms, and proprietary market data.

Since the first quarter 2021, we have averaged 19% year-over-year growth and, as we continue to integrate and innovate, we believe there is more total addressable market to capture across trading, data and products, and we are well-positioned to capitalize on these opportunities through our Data and Access Solutions group.

Three important areas of expansion we're excited about include: "distribution as a service", which leverages Cboe's expansive network to provide data streaming services for vendors and partners; bundled data, which allows us to package high quality data from across markets to deliver consistent and cost-effective data solutions to customers; and Cboe's cloud strategy, which further extends Cboe's data to new users and geographies – an important step towards broadening investor access to our proprietary content and market data globally.

### **Slide 9: Building an Unrivaled Global Derivatives and Securities Network**

The last several years have been very exciting as we've evolved our business, broadened our geographic reach and extended access to our unique set of products and services around the globe. Today we are the only truly global market infrastructure provider, operating markets and delivering services around the world and around the clock, every day of the week.

Around the globe, we've continued to see strong performance in all geographies and asset classes.

Starting with our global FX business, we saw strong volumes with average daily notional volume topping \$39.6 billion during the second quarter with market share of 17%. We also saw our Full Amount offering, which provides clients with a solution for larger order risk transference with low market impact, reach a new record of \$11.8 billion ADV in the second quarter. We are also very encouraged by our product diversification strategy, in particular our higher margin NDF offering where we saw a 200 percent year-over-year increase to \$785 million ADV. With continued rising inflation and interest rates, we continue to be bullish on the opportunities that exist for our FX business.

Turning now to Europe, in addition to the strong results I noted earlier for our European equities business, Cboe BIDS Europe became the #1 block trading platform with a record 33% market share of the European block-trading market. Additionally, EuroCCP, our European clearing business, saw steady growth this quarter. We also continued to make progress on our European Derivatives initiative. And while early volume trends have been softer than we expected due to geopolitical events in Europe delaying customer onboarding timetables, we still believe strongly in the long-term strategy and vision for this business.

Moving to Asia Pacific, Cboe Japan market share increased to 3.5%, up from 2.5% one year ago, as the new liquidity provider program introduced earlier this year continued to attract volume. In Australia, market share grew to 17% from 16% year-over-year and we are on track to migrate Cboe Australia to our proprietary technology in February 2023.

Finally, in North America, we completed the acquisition of NEO last month, bolstering our market share in Canada and expanding our listings business globally. Our overall market share in Canada now tops 12.1%, including both NEO and MATCHNow, and we are working on integration plans that will help enable us to maximize the opportunities we see for our global equities and listings businesses.

Our geographic and asset class diversification, coupled with our unique product set, enables us to meet the needs of an increasingly diverse set of customers around the world. Our global scale gives us the unmatched ability to efficiently scale and expand our business in new ways.

#### **Slide 10: Acquisition Progress Since 2020**

With the closing of the acquisitions of ErisX and NEO in the second quarter, the entire Cboe team remains focused on extracting even greater value from the ecosystem we have created, integrating our platforms and positioning Cboe for its next wave of growth in the quarters ahead.

We have acquired nine companies in the last two years, and we remain laser-focused on the various stages of integration for each of these companies. Each of these companies has brought a unique offering to Cboe

and helped us achieve a greater global breadth of services and products, as well as new distribution channels.

As we've stated before, we approach the integration of technology and teams holistically, avoiding siloes while maximizing synergies, both revenue and cost. This approach creates workflow efficiencies for customers, harmonizing technology and access points, creating a better experience for them.

### **Slide 11: Harvesting Investments Across Seasons to Drive Consistent Growth**

As we continue to architect our business for the future, our strategy remains focused on delivering products and services that create short, medium and long-term opportunities, helping to enable a cadence of consistent growth. We are excited to have all announced acquisitions closed and integration efforts well under way, which is creating strong momentum for our flywheel as we head into the second half of the year.

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

### **Slide 12: Brian Schell Title Slide**

Thanks Ed, and good morning, everyone. Let me remind everyone that unless specifically noted, my comments relate to 2Q22 as compared to 2Q21 and are based on our non-GAAP adjusted results.

### **Slide 13: 2Q Financial Summary**

As Ed discussed, the first half of 2022 was an exceptionally strong one for Cboe. In the second quarter, adjusted diluted earnings per share was up 21% on a year-over-year basis to \$1.67. A combination of continued investment across our businesses and a favorable operating environment continued to propel revenue above last quarter's record levels. Quickly touching on some of the noteworthy takeaways from the second quarter:

- Our net revenue increased 21%, setting yet another quarterly record at \$424 million, led by the strength in our Derivatives Markets and Data and Access Solutions categories. I would like to note that not only did each of our revenue categories (Derivatives, DnA, and Cash) post a year-over-year

gain, but every segment at Cboe from Options to FX posted a year-over-year increase, speaking to the diversity and truly broad-based strength in the second quarter results.

- Derivatives Markets produced 30% year-over-year organic net revenue growth in the second quarter given the continued strength of our index business
  - Data and Access Solutions net revenues were up 20%, up 14% on an organic basis, driven again by strong new subscription and unit growth, and
  - Cash and Spot Markets produced 7% net revenue growth for the quarter, up 3% on an organic basis, on the back of strong volumes and market share in our European cash equities business
- Adjusted operating expenses increased 22% to \$157 million;
  - Adjusted EBITDA of \$274 million was up 17%;
  - And last, our adjusted diluted earnings per share was \$1.67, up 21% compared to last year's quarterly results.

#### **SLIDE 14 – Crypto Mkt timeline**

Before getting into the segment results, I want to spend a moment walking through the accounting adjustment we made this quarter for ErisX. As Ed mentioned, since we closed the ErisX transaction on May 2, the environment has changed dramatically. Given the observable publicly-traded peer valuations, digital asset prices, and intermediary dislocations, we felt it necessary to re-assess our holding value of ErisX.

As a result of our analysis, along with the work of our 3<sup>rd</sup> party auditors and consultants, we booked a goodwill impairment of approximately \$460 million and, effectively writing goodwill in ErisX to zero, and recorded a deferred tax asset of approximately \$116 million. Our book carrying value at June 30, 2022 is \$220 million, reflecting the sum of tangible and intangible assets of approximately \$104 million, and the deferred tax asset. We believe that our adjustment reflects the reality of the digital asset market environment today, but it in no way changes our commitment to the digital asset space or what we set out

to do when we announced this transaction back in October. In fact, recent events only underscore the strong need for a transparent and trusted trading, clearing and data venue for digital assets. And we believe that Cboe, along with the help of our industry partners, is best positioned to provide those solutions.

### **Slide 15: 2Q22 Net Revenue by Segment and Key Drivers**

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

- As mentioned earlier, we saw impressive year-over-year growth in each one of our segments during the quarter.
- Options delivered the strongest growth with net revenue growing by 32%, 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 18% as our higher-priced index options ADV increased 46% over 2Q21 levels,
  - Revenue per contract (RPC) moved 21% higher 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, each up 29%, respectively, as compared to the second quarter of 2021.
- North American equities net revenue increased by 4% year-over-year. Solid industry volumes, up 20% as compared to the second quarter of 2021, helped drive the segment uptick. On the non-transaction side, access and capacity fees increased 15% as compared to the second quarter of 2021 and proprietary market data was up 8%.



- The Europe and APAC segment reported solid growth for the quarter, with net revenue up 20%. The increase was driven by higher volumes in Europe and the inclusion of Cboe Asia Pacific revenues of \$8.2 million. Net transaction fee growth was 18%. During the quarter, FX rates were a headwind for the segment, impacting reported net revenue growth by nearly \$4mn or 7%. Transaction fees were led higher by Cboe Europe's equity ADV increasing 49% year-over-year given very strong industry volume growth and a nearly six percentage point increase in market share. Clearing fees benefited from an increase in clearing volumes of 21%.
- Second quarter net revenue increased 8% in the Futures segment as both transaction and non-transaction revenues posted year-over-year gains for the quarter. Volumes and rate per contract metrics were slightly better on a year-over-year basis. On the non-transaction side, access and capacity fees were up 21% and market data grew 24% as compared to the second quarter of 2021.
- And finally, net revenues in the FX segment were up 20% as compared to the second quarter of 2021. Net transaction and clearing fees benefited from a 22% increase in average daily notional value as well as continued favorable market share trends.

#### **Slide 16: Grew Data and Access Solutions Net Revenue 20% YoY**

As Ed noted earlier, Cboe's Data and Access Solutions net revenue growth has continued to accelerate, posting a 20% year-over-year increase, and an attractive 14% growth rate on an organic basis. Again, this strong growth was primarily driven by additional subscriptions and units, accounting for three-quarters 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 out over the remainder of 2022, we anticipate trends will remain healthy in the Data and Access Solutions business. We are raising our targeted 2022 DnA, organic, net revenue growth rate to a range of 10 to 13 percent, up from 8 to 11 percent, and above the 7 to 10 percent medium-term guidance range we outlined at our November investor day.

#### Slide 17: 2Q22 Adjusted Operating Expenses Up 22%, Primarily Driven by Acquisitions

Turning to expenses, total adjusted operating expenses were approximately \$157 million for the quarter, up 22% 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 18: Adjusted Operating Expense Bridge

##### **Expense Guidance**

Moving to our expense guidance, we are increasing our full year 2022 expense guidance range to \$659 to \$667 million, up from our prior guidance of \$647-660 million, when including the acquisitions of ErisX and NEO. The increase is almost exclusively driven by higher incentive compensation as a result of our strong financial performance through the first half of this year, coupled with a positive outlook for the second half of 2022. We have long talked about Cboe's pay for performance culture and our adjustments today reflect the outstanding work our entire associate base has done in driving outsized growth. And while our operating expenses are moving higher with revenues, we continue to expect \$23 to \$26 million of the 2022 investment spend to directly drive incremental revenue growth and that approximately \$10 million is needed for infrastructure enhancements to support and scale our business for greater levels of activity in the future. Overall, our updated 2022 expense guidance reflects our commitment to invest in high conviction growth opportunities as well as to attract and retain best-in-class talent driving our strong results.

#### **Slide 19: Updated 2022**

Now turning to a summary of full-year guidance on the next slide, I want to call out some of the positive updates to our revenue targets that are reflected in our expense updates. As noted previously, we now anticipate DnA organic net revenue growth in 2022 will be in the 10 to 13 percent range, up from our prior guidance of 8 to 11 percent and our medium-term guidance of 7 to 10 percent. We continue to expect acquisitions held less than a year to contribute between 2 and 3 percentage points to total net revenue growth in 2022. Lastly, but certainly not least, our overall organic net revenue growth target is moving higher to 9 to 11 percent, up from our prior guidance of 5 to 7 percent for 2022. We believe our updated revenue guidance reflects not only the strong year-to-date results we have posted, but the confidence we have in the business moving forward. We are seeing a solid contribution from all of our operating segments, strengthening the broader ecosystem here at Cboe.

And our full year guidance on depreciation and amortization, cap-ex, and our effective tax rate on adjusted earnings (under the current tax laws), remain unchanged.

#### Interest Expense

Our interest expense for the second quarter of 2022 was \$14.6 million. Factoring in the incremental borrowing costs related to the financing put in place for ErisX and NEO, we expect interest expense to be in the range of \$16 - \$17 million for 3Q22.

#### **Slide 20: 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 second quarter, we returned a total of \$67 million to shareholders, comprised of \$51 million in dividend payments and \$16 million in share repurchases. We remain well positioned to invest in the business, support our dividend, and opportunistically repurchase shares - with \$233 million in remaining capacity on our share repurchase authorization.

Our leverage ratio increased in the second quarter to 1.9x, up from 1.6x at June 30 as our debt levels increased, related to the funding 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 21: Positioned to Innovate, Integrate and Grow to Create Value**

In summary, Cboe reported an excellent second quarter. Our core business performed exceptionally well, and we are excited about our numerous short-, medium- and long-term investments. We look forward to continuing to deliver durable growth 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**

Before I close, I wanted to highlight our 2022 ESG Report, which was published last month. This report covers the important progress we have made on our environmental, social and governance initiatives, including our commitment to reach net-zero emissions by 2050, an exciting endeavor designed to help ensure Cboe does its part to help combat climate change.

I want to thank the entire Cboe team and our customers for another great quarter. I couldn't be more excited about the progress we continue to make and I believe we are well-positioned to continue to innovate, integrate and grow as we head into the second half of the year.