Cboe Global Markets, Inc.
Third Quarter 2023 Earnings Call
November 3, 2023

Slide 2: Agenda- Ken

Good morning and thank you for joining us for our third quarter earnings conference call. On the call today, Fred Tomczyk, our CEO, and Dave Howson, our Global President, will discuss our performance for the quarter and provide an update on our strategic initiatives. Then, Jill Griebenow, our Executive Vice President, Chief Financial Officer and Chief Accounting Officer, will provide an overview of our financial results for the quarter as well as discuss our 2023 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, 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 Fred.

Slide 4: Fredric Tomczyk, CEO

Thanks everyone for joining the call this morning. Having taken the helm at Cboe six weeks ago, I have been impressed with the strength of the Cboe team and their focus on our clients, which has resulted in another strong quarter for the company.

For today's call, I will highlight our overall results and share my priorities as Cboe's new CEO. I will then hand it over to our Global President Dave Howson to walk through the progress we have made against our strategic priorities.

Slide 5: 3Q23: Record Net Revenue and Adjusted Earnings

I am pleased to report record third quarter adjusted earnings for Cboe. During the quarter we grew net revenue 9% year-over-year to $481 million and adjusted EPS by 18% to $2.06. These results were driven by record activity across our Derivatives business, the continued growth of our Data and Access Solutions business, lower third quarter operating expenses, and a lower corporate tax rate.

Our Derivatives franchise delivered another record quarter as total organic net revenue increased 15%. As the uncertain macro and geopolitical environment impacted markets globally, investors and traders relied on our suite of index options and volatility products to help manage risk and generate income in an uncertain environment. We believe our Derivatives business remains incredibly resilient, supported by a growing customer base and an options product that is becoming increasingly recurring in nature as investors shift to shorter duration expirations and more frequently reposition around changing market environments.

During the quarter, organic net revenue in our Data and Access Solutions business increased 9%. Net revenue in our Cash and Spot Market business decreased 6% during the quarter reflecting the muted volumes we saw across global equity markets.

These solid results were made possible by the continued execution of our strategy to build the world's largest derivatives and securities network and position Cboe for a strong finish to the year.

Slide 6: Cboe's Areas of Focus

As a Cboe Board member for the last four years, I have been very close to the business and supported the team as Cboe expanded and evolved into the leading global derivatives and securities network that it is today. The company has a solid foundation, a global ambition and a strong management team that I am honored to lead.

In my new role, I am primarily focused on three key priorities that I believe will further strengthen Cboe and enhance shareholder value:

1.) Sharpening our strategic focus,

2.) Effective allocation of our capital, and

3.) Developing talent and management succession.

While I wholeheartedly support Cboe's strategic direction, I see opportunity to refine this strategy to provide a clearer focus on the core elements of our business that drive revenue and earnings growth. I believe a sharpened strategy will enhance the margin profile of our business and increase shareholder value over the long term.

I will also focus on ensuring our capital allocation plan is delivering the kinds of returns our shareholders expect from Cboe. I am intent on increasing the efficiency of the investments we make across the business to generate durable revenue growth.

Finally, talent development and succession planning, which is always an important component of any CEO's duties and responsibilities, will be a priority for me.

I will now turn the call over to Dave Howson to talk through how we are driving results within our strategy.

Slide 7: Top Strategic Growth Priorities

Thanks, Fred.

As Fred noted, our strategy yielded solid results during the third quarter as we continued to advance our top strategic growth priorities – Derivatives, Data and Access Solutions, and Digital.

Before moving to the record results for our Derivatives and DnA businesses, let me provide an update on our Digital segment. We are working with our customers and the CFTC on final preparations for the planned launch of margin futures in the first quarter of 2024, subject to regulatory approvals. With this launch, Cboe Digital will be the first U.S. regulated crypto native exchange and clearinghouse to offer spot and leveraged derivatives on a single platform. We look forward to bringing this unique product to market.

Turning to Derivatives and Data and Access Solutions, last month we made important leadership changes to further support our global growth strategy. Cathy Clay, who previously led our Data and Access Solutions business, was appointed to Global Head of Derivatives, a new role for the organization as we re-organized the team for the next chapter of global growth. Furthermore, we tapped into our strong bench of talent to promote Adam Inzirillo to Global Head of Data and Access Solutions.

By aligning our organizational structure with the global nature of the business, we anticipate harnessing the full strength of Cboe, increasing efficiency and collaboration across business lines and regions while enabling us to better deliver world-class products and services in a globally consistent manner to our clients.

Slide 8: Expanding the Toolkit

Turning to Derivatives on slide 8, it was another record quarter for the business as traders and investors turned to our flagship S&P 500 and VIX index products to help navigate the uncertain macro environment.

SPX option volumes surged 21% to a record ADV of 2.9 million contracts in the third quarter, while our mini-SPX options contract, XSP, jumped 82% year-over-year. Within SPX, the fastest growing segment continued to be the zero-day-to-expiry options, gaining 33% year-over-year. Investors use these for hedging, income generation, expressing views on market direction, and more – the diversity of use cases is why we expect to continue to see strong and sustained volume in 0DTE options regardless of what the market is doing or where the VIX is trading. These options have opened up a whole new risk premium for investors to capture, namely intraday risk. And as uncertainty increases regarding the longer-term macro picture, interest in capturing shorter-term trends and dislocations have led to a higher share going to 0DTE options, now comprising around 48% of all SPX volumes in the third quarter.

However, it's important to note that while 0DTE options are making up a bigger part of the pie, the pie itself is growing as well. Other expiries are also seeing higher volume, including our standard monthly SPX options contract that expires on the third Friday of every month. We believe that bonds are being used less as a diversifier for equity risk, and investors are increasingly turning to options to help hedge their portfolios.

That hedging demand helps explain why VIX option volumes have been so strong with ADV surging 60% year-over-year, even as overall VIX levels stay muted. Investors use VIX options primarily to protect against potential black swan events, which typically happen when volatility levels are low, or in other words, when least expected. We believe the appeal of buying VIX calls is to potentially capture that convex move if the VIX triples or quadruples, something that is harder to do when the VIX index was in the mid-20s last year vs. mid-teens this year.

With macro and geopolitical risks rising across the world, we're seeing strong global demand for our products, with SPX and VIX options ADV during Global Trading Hours increasing 95% and 10%, respectively, year-over-year.

As markets change, our Derivatives product suite remains well positioned for customers in any market environment. Our VIX and SPX products anchor a remarkable toolkit that allows customers to choose the right product, size and expiry to meet their needs, be it risk management or income generation.

Slide 9: Derivatives Product Innovation Builds on Strong Foundation

Complementing the burgeoning activity posted by our derivatives business, Cboe is continuously working to expand its suite of data products to enhance the overall trading ecosystem. In collaboration with S&P Dow Jones Indices, Cboe's product innovation arm - Cboe Labs - recently launched several new benchmark indices for market participants. We were incredibly excited to bring to market the Cboe S&P 500 Dispersion Index, known by ticker DSPX, as well as four new credit volatility indices. Early market reception has been extremely favorable as each of these indices is designed to provide investors with key information to help them better manage their trading strategies and portfolios, potentially fueling further growth in our tradable products.

On the innovation front in Europe, we are excited about the upcoming launch of single-stock options on the Cboe European Derivatives Exchange beginning next week. The commitments secured from leading market participants ahead of the launch highlight the opportunity to materially advance the European options market for clients. As we plan to introduce liquidity provider and market maker programs in the first quarter of next year, subject to regulatory approvals, we anticipate volumes on the platform to grow. We see the launch of single stock options as a key milestone for our European derivatives initiative and our broader ambitions of creating the leading marketplace to manage risk around the globe.

Slide 10: Data and Access Solutions – Driving Durable Growth

Moving to Slide 10, our Data and Access Solutions business posted record results during the third quarter with net revenue increasing 8.7% on an organic basis. The durable year-over-year growth was fueled by an expanding global customer base and an evolving portfolio of market data solutions.

Through our bundled data offerings and cloud strategy we can package high-quality data from across our markets and deliver it to customers globally in a consistent and cost-effective manner, extending the addressable market for this business.

We continued to see solid customer adoption of Cboe Global Cloud, a real-time data streaming service that provides simple, efficient access to Cboe's robust suite of market data. Nearly 80% of customers utilizing this service are located outside of the Americas, reflecting our expanded global footprint. Additionally, through our cross-region sales efforts, many customers are subscribing to multiple data products offered via Cboe Global Cloud given the simple, efficient access to high-quality data this service affords.

Slide 11: Building an Unrivaled Global Derivatives & Securities Network

As we look across our global network on Slide 11, we continued to build on the solid foundation of our global cash equities business, where we have a strong presence in seven of the top ten global equity markets serving a diverse customer base. While overall performance in our Cash and Spot Markets reflected the muted volumes we saw across global equity markets during the quarter, we are upbeat about the long-term potential.

In Asia Pacific, Cboe Australia market share grew to 17.9% in the third quarter, up from 16.7% in the previous year as momentum continued to build post our technology migration. Later this month we expect to complete the technology migration of Cboe Japan to our world-class technology stack and launch Cboe BIDS Japan, subject to regulatory approvals, further extending our unique block-trading network to this important market. We are grateful to our customers for their partnership and look forward to providing them with the best-in-class trading experience that our global customers have come to rely on at Cboe.

In Europe, the Cboe Europe Equities business reported market share of 23.2%, while Cboe BIDS Europe experienced another strong quarter and remained the largest European block trading venue. Cboe Clear Europe market share grew to 33.8% in the third quarter, up from 33.2% in the prior year quarter.

In North America, Canadian equities market share rose to 15.2%, up from 12.2% in the third quarter of 2022. While U.S. equities market share fell to 12.7% compared to 13.3% in the prior year period, Cboe's addressable market share, which excludes closing auctions and off-exchange volume, remained stable.

Lastly, our global FX business had another record quarter. Net revenues were up 6% year-over-year in the third quarter as the business expanded spot market share to a record 20.2%, up from 17.8% a year ago. Our NDF offering, which trades on Cboe SEF, our swap execution facility, continued to see strong results with volumes increasing 19% year-over-year with ADV of $1.1 billion. These record results were driven by new client growth and increased utilization of our platforms by existing clients.

Slide 12: Harvesting Investments Across Seasons to Drive Consistent Growth

In summary, Cboe delivered another outstanding quarter, and we have strong momentum as we head into the final months of the year and into 2024. With our strong foundation of Derivatives, Cash and Spot markets, coupled with our Data and Access Solutions, we will continue to harness the power of our markets to deliver innovative products and services to our customers.

As we sharpen our strategy and focus, we see even more opportunity for Cboe to maximize its global potential and drive further value for our shareholders.

With that, I will turn the call over to Jill.

Slide 14: 3Q23 Financial Summary

Thanks Dave. As Fred and Dave highlighted, Cboe posted a record third quarter with adjusted diluted earnings per share up 18% on a year-over-year basis to $2.06. I want to provide some high-level takeaways from the record quarter before delving into an assessment of the segment results:

Our third quarter net revenue increased 9% to finish at $481 million. The growth was again driven by the strength in our Derivatives Markets category and the solid results from our Data and Access Solutions business. Specifically:

  - Derivatives Markets produced 15% year-over-year organic net revenue growth in the third quarter as traders and investors found increasing utility in our toolkit of proprietary products.
  - Data and Access Solutions net revenues increased 9% on an organic basis during the quarter. We are pleased with the revenue growth acceleration we have seen through 2023 and remain excited by the continued momentum into year-end.
  - Cash and Spot Markets net revenues decreased 6% during the quarter on an organic basis, as the trading environment remained muted across the globe.

- Adjusted operating expenses increased a modest 4% to $180 million, with the y/y growth tempered by a $10 million benefit from executive changes made during the quarter;
- and Adjusted EBITDA of $321 million grew a solid 12% versus the third quarter of 2022.

Slide 15: 3Q23 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 our business segments, so I'll provide some highlights for each:

- The options segment, again, provided the highest growth of any segment for the quarter. Net revenues grew a robust 14%, led by a strong contribution from our index business and favorable revenue per contract trends given the mix shift to index options,
    - Total options ADV was up 8% as our higher-priced index options ADV increased 28% over 3Q22 levels,
    - Revenue per contract moved 12% higher given a continued positive contribution of higher-capture index products,
    - And market data and access and capacity fees were up 19% and 5%, respectively, as compared to 3Q22.

- North American equities net revenue was down 2% on a year-over-year basis in the third quarter. While access and capacity fees increased 6% and proprietary market data was up 4%, U.S. industry volumes remained a headwind for the segment. Net transaction fees were down 11% given softer industry volumes and market share in our U.S. businesses. And while our US on-exchange market share has trended lower on an absolute basis, our share remained stable when adjusting for the increase in off-exchange market volume and auction activity during 3Q.
- The Europe and APAC segment reported a 2% year-over-year increase in net revenue as stronger non-transaction revenues and favorable foreign exchange trends were tempered by volume headwinds. Market data, access and capacity and other – which includes the positive impact of interest income during the quarter - were up a combined 18% on a year-over-year basis. This outperformance was tempered by softer industry volumes in Europe, down 13% vs. the third quarter of 2022.
- In the futures segment, third quarter net revenue was up 14% as net transaction fees, access and capacity fees, and market data revenue each produced double-digit year-over-year revenue growth for the quarter. Activity in the complex accelerated as volumes increased 12% on a year-over-year basis. On the non-transaction side, access and capacity fees continued to perform well, up 14% versus the third quarter of last year and market data revenues increased by 16%.
- And finally, net revenue in the FX segment notched another quarterly gain, growing by 6%, making it the tenth consecutive quarter of year-over-year net revenue gains for the segment. Net transaction fees revenue was up 5% as average daily notional value increased by 8% and market share hit another record at 20.2% for the quarter.

Slide 16: Grew Data and Access Solutions
Turning now to Cboe's Data and Access Solutions business, net revenues were up a strong 8.7% on an organic basis. Net revenue growth continued to be driven by additional subscriptions and units, accounting for two-thirds of the organic market data growth and just over half of the organic access and capacity fee growth in the third quarter.

The uptick in pricing for access and capacity fees was driven by the first pricing increase we have passed through in over five years for physical connectivity to our multi-exchange network. Last quarter we spoke to selectively increasing pricing to support innovation and keep pace with the utility we provide the market. We intend to continue to lead with new user and unit growth as we provide exceptional value to our customers but will remain mindful of competitor pricing and our need to support continued innovation for our products.

We are pleased with the overall acceleration in organic net revenue trends for the segment, and believe the momentum positions us well to hit our full year, and medium-term, guidance range of 7-10%. More specifically, we expect to see continued strength from:
- Proprietary data sales, benefiting from the sustained growth across our derivatives complex.
- In Australia, we continued to see a solid uptick in data sales and access since the migration. We expect that momentum to continue.
- And finally, we anticipate a continued focus on our sales effort to distribute our content globally, adding to the enhanced distribution capabilities that Cboe Global Cloud presents.

Slide 17: 3Q23 Adjusted Operating Expenses Up 4%
Turning to expenses, total adjusted operating expenses were approximately $180 million for the quarter, up 4% compared to last year. The modest increase was a product of:

- higher technology support services and professional and outside services fees to support some of our key growth initiatives, and
- an increased travel and promotional spend given higher ongoing corporate marketing expenses.
- These higher year-over-year charges were partially offset by a 6% year-over-year decline in compensation and benefits given a $10mn benefit from executive changes. As we have historically done, we did not adjust for the impact of executive departures, but we would not expect the impact to be a recurring element in the Cboe expense base.

Slide 18: Adjusted Operating Expense Bridge
Moving to our expense guidance, we are lowering our full year 2023 expense guidance range by $12 million to $754 to $762 million from $766 to $774. The three basic components of the full year expense build are outlined on slide 18 of our earnings presentation –expenses from 2022 acquisitions, core expense growth, and growth investments.

Looking at the details of our three expense categories:

- The incremental 2023 expenses from our 2022 acquisitions remains at $30-31 million following our reduction in expenses earlier in the year.
- The largest change in our overall expense forecast comes in the “core” expense category, now calling for growth of $51-55 million vs. our prior expectation of $59-64 million. The reduction is a product of the strong expense management trends we have seen this year, as highlighted in our third quarter results, and modest growth expectations moving forward. In addition, we have recalibrated our CAT-related costs, given our updated expectations. Overall, we expect core expenses to grow by 8% in 2023.
- Moving on to growth-generating investments, we anticipate that the investments we are making in the business to help drive incremental revenue to our bottom line will be in the range of $21-24 million. Our new range is roughly $3 to 4 million lower than our prior range, but we remain committed to investing in high return areas like DnA expansion, a more aggressive marketing campaign and targeted product and services R&D efforts across our ecosystem.

Slide 19: Updated 2023 Guidance
Looking at our full-year guidance more broadly on the next slide, we are making some positive refinements to our forward outlook across our businesses.

At a high level, we are reaffirming our organic total net revenue growth range of 7 to 9 percent for 2023 and expect to finish at the high end of the range for the year. As a reminder, this remains above our medium-term guidance of 5 to 7 percent introduced at our investor day nearly two years ago, a function of the durable innovation we have seen across the entire ecosystem at Cboe.

As mentioned earlier, we are reaffirming our DnA organic net revenue growth rate of 7 to 10 percent for 2023, in line with our medium-term expectations.

Given the company’s positive marks on its investment in the 7Ridge Fund (which owns Trading Technologies), we are again increasing our expected benefit from the other income line. Our new guidance range of $38 to $44 million is four million above our prior range of $34-40 million.

Our full year guidance on depreciation and amortization remains at $40-$44 million, and we expect the effective tax rate on adjusted earnings (under the current tax laws) to come in at 27.5 to 29.5%, down from our prior guidance of 28.5 to 30.5% in 2023.

Outside of our annual guidance, net interest expense for the third quarter of 2023 was $12 million. For 4Q, we expect net interest expense to be in the range of $11 to 12 million.

Slide 20: Efficient Allocation of Capital to Create Long-Term Shareholder Value
On the capital front, our focus remains maximizing long-term shareholder value through effective capital management. In the third quarter, we returned a total of $58.5 million to shareholders in the form of a $0.55 per share quarterly dividend. In addition, last week, we announced an increase in our share repurchase authorization, adding $250 million to bring our total capacity to $390 million available for share repurchases. We remain well

positioned to invest in our business, support our dividend and opportunistically repurchase shares given our continued strong free cash flow generation.

Turning to our balance sheet, we paid down $90 million on our term loan facility that matures in December of this year during the quarter. Our 3Q leverage ratio declined slightly to 1.3x from 1.4x in the prior quarter as a result of the debt pay down. Since the end of the third quarter, we have paid down the remaining $75 million on our term loan facility. Overall, we remain comfortable with our debt profile, having locked in low medium-to-longer term fixed rates, averaging below 3%, on our outstanding debt.

Moving forward, we will continue to put capital to work in value-enhancing ways across our ecosystem, while looking to strike the right balance between investing in future growth and driving margin efficiency.

Before I turn the call over to Fred for some closing remarks, I want to congratulate Ken Hill who was recently promoted to Treasurer and Vice President, Investor Relations. Since joining Cboe in 2021, Ken has made an incredible impact with our investor relations program, and I'm delighted for him to expand his leadership with the Treasurer role.

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

Closing Remarks

Thanks, Jill.

In summary, I want to thank the entire Cboe team for the warm welcome and the incredible achievements over the last quarter. Cboe's success this year, and over the last 50 years, is testament to the enduring strength and resiliency of the team who continues to rise to any occasion and deliver results.

I am very excited about the future of Cboe Global Markets.

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; 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 impacts of pandemics; the accuracy of our estimates and expectations; litigation risks and other liabilities; and operating a digital asset business and clearinghouse, including the expected benefits of our Cboe Digital acquisition, cybercrime, changes in digital asset regulation, losses due to digital asset custody, and fluctuations in digital asset prices. 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, 2022 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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