Cboe Global Markets, Inc.
First Quarter 2024 Earnings Call
May 3, 2024

Good morning and thank you for joining us for our first 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 Chief Financial Officer, will provide an overview of our financial results for the quarter as well as discuss our 2024 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.

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
Good morning and thanks for joining us today.

Slide 5: Record Net Revenue in First Quarter
I'm pleased to report on strong first quarter results for Cboe Global Markets. During the quarter, we grew net revenue 7% year-over-year to a record $502 million and adjusted diluted EPS by 13% to $2.15. These solid results were driven by:

1) strong volumes across our derivatives franchise – specifically our proprietary index option products,
2) continued global expansion of our Data and Access Solutions business, and
3) disciplined expense management.

Our Derivatives business delivered another strong quarter as organic net revenue increased 8% year-over-year. We saw strong volumes across our suite of S&P 500 index options products, with first quarter ADV in the SPX contract increasing 17% year-over-year to 3.2 million contracts. We have also seen solid performance in our volatility product suite during the first quarter, with VIX futures and options volumes further accelerating in April. Given the secular and cyclical tailwinds in place, we are well positioned as investors continue to utilize options in their portfolio and trading strategies.

Our Data and Access Solutions business continued to perform well during the quarter with organic net revenue increasing 8% year-over-year. We continued to see durability in this business as we leveraged our global network and ecosystem of data and access solutions to drive growth. Net revenue in our Cash and Spot Market business was stable during the quarter as volume across global equity markets remained muted.

Overall, it was a strong quarter for both transaction and non-transaction revenue growth to start the year.

Slide 6: CEO's Three Key Priorities
I continue to remain focused on three priorities that I believe will further strengthen Cboe and support our longer-term growth strategy: 1.) Sharpening our strategic focus on areas where we see strategic growth opportunities for Cboe, 2.) Effective allocation of our capital, and 3.) Developing talent and management succession.

As part of our strategic review process, coupled with the lack of regulatory clarity in the digital space, last week we announced plans to refocus our digital asset business to leverage our core strengths in derivatives, technology and product innovation while realizing operating efficiencies for both Cboe and our clients.

We plan to transition and fully integrate our digital asset derivatives, currently offered by Cboe Digital, into our existing Global Derivatives, harnessing the power of our global derivatives franchise and global technology platform to help support and fuel growth of the exchange-traded crypto derivatives market. We plan to migrate our cash-settled bitcoin and ether futures contracts trading on Cboe Digital's exchange to the Cboe Futures Exchange in the first half of 2025, pending regulatory review and certain corporate approvals.

Additionally, we plan to wind down operations of the Cboe Digital Spot Market, our digital asset trading platform, in the third quarter 2024, subject to regulatory review. The lack of clarity on the U.S. regulatory front for the cash spot business, combined with the lack of any timeline to provide that clarity, among other considerations, has given us cause to change our strategic direction in the digital business to focus on where we have regulatory clarity and leverage our core strengths of derivatives, technology, and product innovation. With these changes, we are reallocating resources to focus on what we see as the greatest opportunity for growth and profitability, which is the continued expansion of our global derivatives franchise.

On the Clearing side, we plan to align and unify our clearing operations globally and intend to maintain Cboe Clear Digital, which will continue to clear our bitcoin and ether futures.

We believe these changes provide an opportunity to leverage our global derivatives platform, enhance efficiencies and sharpen our focus. Optimizing our business operations and product development across borders and asset classes enables us to better serve our diverse client base and sharpen our strategic focus.

We continue to develop leadership in all functions across the company and optimize our organizational structure to support our global strategy. This realignment of our digital business into our Derivatives and

Clearing business lines creates continued opportunities for development and growth within our senior leadership team.

Finally, we continue to execute on a disciplined capital allocation strategy. The steps we are taking in our digital business illustrate our intent to allocate our resources and capital to the areas where we see the best returns for our firm. Also, as demonstrated during the first quarter and through April, share repurchases remain an important component of our capital allocation framework, one we plan to continue to use opportunistically in the market. Overall, we remain committed to maintaining a flexible balance sheet while investing in organic growth initiatives, our technology capabilities, and operating efficiencies, thereby driving durable revenue expansion, optimized margins and earnings growth for the firm.

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

Slide 7: Derivatives Continues to Execute, Well Positioned for Future
Thanks Fred,

Starting with the strong results in the global derivatives category –
Despite the cyclical headwind of low volatility in Q1, with the VIX index averaging just 13.7, the lowest in over 5 years, SPX options volume remained strong. Average daily volume was up a robust 17% year-over-year to 3.2M contracts, finishing just shy of the all-time high set in Q4 last year. In fact, January and February ranked as the 2nd and 3rd. highest SPX options volume months on record through the first quarter. We believe investors took advantage of the low levels of volatility to more cheaply hedge their portfolio, with SPX puts making up a higher share of the total volume. Hedging demand was particularly strong in our VIX options suite, with VIX call volume ADV up 4% quarter-over-quarter to over 500k contracts, as investors took advantage of the low VIX levels to add cheap tail protection.

The resilience of our index options volume in the face of cyclical headwinds speaks to the strength of the secular drivers of our business which we outlined in detail on the last earnings call. We continued to lean into these and see further room for growth. For example, in January, we launched Tu/Th expiries for our Russell 2000 index options – completing the set of daily expiries for small cap stocks. While still early days, Russell 2000 index option volumes hit a 5-year high ADV of 79k contracts in February and the share of 0DTE volume grew from 8.7% in Q4 to now 12%. Within our more established SPX product, volumes increased 17% year-over-year and 0DTE options increased a robust 32% y/y and grew 3% from Q4 levels to a new ADV record of 1.54M contracts. 0DTE options made up 48% of overall SPX activity in Q1, up 2 percentage points from last quarter.

The rise of retail options trading is another secular trend we're excited to build on, with more platforms coming online for index options trading later this year giving retail investors expanded access to our products. To that end, we're thrilled to see our margin relief plan approved by the SEC recently which we believe will make it easier for investors to overwrite index options on ETFs that track the same index. This is expected to benefit not just our SPX/XSP options complex, but also our Russell 2000 and MSCI suite of index options as well. Overwriting funds have grown tremendously in popularity in recent years, with total AUM jumping more than sixfold since the pandemic to now over $130bn. Anecdotally we're also seeing more interest from the retail and RIA community in using options to enhance income in their portfolio. We see this margin relief approval as an additional catalyst for potential wider adoption of options by the retail community.

Even without a turn in the macro environment, we believe we're well positioned for the rest of the year as we continue to execute on our strategic initiatives. However, if we do get a shift in investor sentiment, as was the case in April, we expect to benefit as traders harness the full versatility of our S&P 500 volatility toolkit. For example, with the market sell-off in April, VIX option volumes surged to a 6-year high – with daily volumes exceeding 2.6M contracts on April 12th on the back of escalating Middle East tensions…that's higher volume than we saw during the 2020 covid crisis despite the VIX index hitting a high of just 19 last month vs. 82 in March 2020. VIX options through April are on pace to report its second highest quarter on record at current levels. While Q1 was characterized by a consistent market rally amidst low volatility, Q2 is looking a lot more precarious amidst heightened geopolitical tensions and greater macro uncertainty. As investors grapple with resurgent inflation, rising rates, not to mention a US election later this year, we believe the need to use options to dynamically manage positions, hedge exposures, and generate income, only increases.

And while trading metrics in North America remain strong during US hours, volumes traded in US products during non-US hours continued to increase. During the first quarter SPX Global Trading Hours activity increased 41% as compared to the first quarter of 2023, and in April we saw SPX GTH activity increase 73% vs. Q2 2023 levels, and VIX GTH increase 69% over the same period. With GTH activity accounting for just 3 percent of April's SPX activity, and less than one percent of VIX options activity, we continue to see an attractive path forward for non-US customers to increase access to the US markets.

Looking at the business more globally, we hit some notable milestones on our European Derivatives platform, CEDX. Total index derivative volumes again hit record levels in March, besting the prior record by 26%. Positioning us for future growth, we broadened the list of single-stock options traded on CEDX to more than 300 companies across 14 European countries at the end of March. And on April 1st we initiated and revamped our Liquidity Provider Programmes in the region (LPP). Client feedback has been promising, and we look forward to providing greater customer efficiencies through our pan-European approach to trading and clearing.

Slide 8: Data and Access Solutions – Driving Durable Growth
DnA net revenues grew 8% as compared to the first quarter of 2023, driven primarily by client expansion and additional unit sales of our expanding portfolio of access and data products.

Speaking to the breadth of the DnA business, during the quarter, each region and every business line, outside of digital, saw net revenues increase. In fact, 43% of the data growth in the first quarter came from outside of the Americas. We saw outsized contributions from Australia where DnA net revenue grew 19% and Europe where net revenue increased a strong 10% on a constant currency basis. We believe future growth will be fueled by strengthening our distribution capabilities through areas like cloud, further expanding our index capabilities, and providing greater access to our markets around the world.

Slide 9: Unlocking Global Growth Potential
Taking a look at cash and spot businesses around the globe, first quarter results were solid. It's worth noting though, our ability to expand our cash and spot reach benefits more than just our transaction

revenues. The continued progress we make in these markets has the potential to open additional revenue streams in tangential areas around the globe.

In North America we saw US on-exchange net capture rates rebound from December lows to finish in line with first quarter 2023 levels. Furthermore, Canadian market share improved by a full percentage point to 15.3% during the quarter, and we remain on track with our final technology integration, the migration of our Canadian market to Cboe technology, in early 2025, subject to regulatory review.

Moving over to Europe,

- During the first quarter, Cboe Europe was the region's largest exchange by value traded, a testament to the strong breadth of our product offering in the region.
- As we look to expand our capabilities into related areas with untapped addressable markets, we remain on track for a third quarter launch of our Securities Financing Transactions Clearing Services, subject to regulatory review. Cboe's SFT business will clear stock lending activities for market participants. With the introduction of stricter capital requirements, we believe now is the right time to leverage our clearing capabilities to bring a solution to the market with the potential to meaningfully reduce risk weighted assets for customers. We have secured the backing of a group of nine key industry participants, spanning banks, clearing firms, asset managers and custodians, and look forward to bringing this service to the market in the months ahead.

And finally, turning to Asia Pacific we saw strong momentum in Australia and Japan.

- In Australia, Cboe continued its market share gains with total market share for the quarter finishing at 20.4%, up nearly two full percentage points from the first quarter of 2023.
- In Japan, not only did market share reach 5.0% in the first quarter, a full percentage point higher than the 2023 average, but volumes grew a robust 72% as compared to year-ago levels. Those trends have continued into the second quarter with Cboe Japan market share hitting a single day high of 6.5% on the 23rd of April.
- With our APAC integrations behind us, we look forward to competing more aggressively in the market to expand both our transaction and non-transaction revenues.

Slide 10: Executing on Growth Priorities

Overall, Cboe remains incredibly well positioned to consistently grow revenues across the firm. This means not only leaning in on more established product areas like our index business, but allowing newer areas to leverage a robust infrastructure already in place. Earlier, Fred spoke to some of the key strategic impacts of our recently announced digital reorganization, I want to provide some additional context on how the move leverages our global derivatives and clearing capabilities.

On the derivatives side, the reorganization reinforces the integrated, global view we take with not only our derivatives franchise but all of our businesses at Cboe. By consolidating Cboe's futures products onto one market – Cboe Futures Exchange (also known as CFE), pending regulatory review and certain corporate approvals – we can leverage the totality of our derivative capabilities to grow our businesses while creating efficiencies for market participants.

Specifically, that means reducing complexity for clients by allowing them to connect to one global platform for all their US futures trading needs. As part of CFE, newer products like digital asset futures can leverage tried and true CFE capabilities to accelerate the go-to-market timeline for products like options on futures and complex orders for digital products, expanding the toolkit of solutions available to clients. In addition, these products will be able to tap into a seasoned and global sales force, a resilient technology infrastructure, and a unified management team under the leadership of Cathy Clay, our executive vice president of global derivatives.

On the clearing side, we are equally excited about the opportunities presented by unifying our clearing operations on a global basis. Vikesh Patel, currently president of Cboe Clear Europe, will also oversee US clearing. Cboe Clear Europe will continue to operate as a pan-European central clearing counterparty for European equities and derivatives. Adding Cboe Clear Digital under the global clearing umbrella provides a cohesive clearing approach that spans equities and derivatives in Europe to bitcoin and ether futures in the US. The result is Cboe having greater control of its product development destiny – from ideation through to clearing considerations.

Across the firm, we continue to leverage our core strengths and find pockets of growth in our cash, data and derivatives categories. The first quarter of 2024 was very strong, and we look forward to driving further growth in the quarters ahead. With that, I will turn the call over to Jill.

Slide 12: 1Q24 Financial Summary
Thanks Dave. As Fred and Dave highlighted, Cboe posted a strong first quarter with adjusted diluted earnings per share up 13% on a year-over-year basis to a record $2.15. I will provide some high-level takeaways from the quarter before delving into an assessment of the segment results:

Our first quarter net revenue increased 7% to finish at a record $502 million. The growth was again driven by the strength in our Derivatives Markets and Data and Access Solutions businesses, with steady results from our Cash and Spot markets category. Specifically:

    - Derivatives Markets produced 8% year-over-year organic net revenue growth in the first quarter as we saw sustained growth in our propriety product franchise during the quarter.
    - Data and Access Solutions net revenues also increased 8% on an organic basis during the quarter. We are pleased with the revenue trends and are confident in our ability to deliver on our 7-10% targeted net revenue growth in 2024.
    - Cash and Spot Markets net revenues were roughly flat to year ago levels on an organic basis, given stable results across our business segments.
- Adjusted operating expenses increased 4% to $193 million, with the y/y growth driven by higher compensation-related expenses and technology and support services during the quarter;
- and Adjusted EBITDA of $337 million grew a solid 9% versus the first quarter of 2023. Importantly, given our strong revenue generation and diligent expense management, we made material progress in stabilizing our adjusted EBITDA margins during the first quarter. Our first quarter adjusted EBITDA margin expanded by 1.4% on a year-over-year basis and by nearly three percentage points sequentially to an attractive 67.2% percent.

Slide 13: 1Q24 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 delivered another robust quarter as net revenues grew 10%, led by higher index options transaction fees and growth in recurring non-transaction revenue.
    - Total options ADV was up 1%, driven by a 14% increase in index options volume,

- Revenue per contract moved 12% higher with index options representing a higher percentage of total options volume,
- And access and capacity fees were up 7% while proprietary market data fees increased 15% versus 1Q23.

- North American equities net revenue decreased 1% on a year-over-year basis in the first quarter, reflecting lower industry market data and steady net transaction and clearing fees. In net transaction and clearing fees, a decrease in Canadian Equities market volumes and net capture was partially offset by a stronger U.S. off-exchange net capture rate, up 24% versus 1Q23 given positive mix shift seen during the quarter. On the non-transaction side, access and capacity fees increased 5% as compared to the first quarter of 2023.
- The Europe and APAC segment reported a 10% year-over-year increase in net revenue, driven by 20% non-transaction revenue growth across market data fees, access and capacity fees, and other revenue. Transaction revenue in Australia and Japan benefited from another quarter of market share gains.
- The Futures segment net revenue decreased 2% in the quarter, primarily due to lower volumes. On the non-transaction side, access and capacity fees continued to perform well, up 8% versus the first quarter of last year, and market data revenues increased by 10%.
- And finally, net revenue in the FX segment decreased 1%, driven by a slightly lower net capture rate. Market share was 20.3% for the quarter, as compared to 19.0% in 1Q23.

Slide 14: Grew Data and Access Solutions
Turning now to Cboe's Data and Access Solutions business, net revenues were up a solid 8% on an organic basis in the first quarter. Net revenue growth continued to be driven by solid new subscription and unit growth, accounting for 57% of market data and access solutions revenue growth.

We are pleased with the strong start to the year and believe the momentum across the suite of Cboe businesses positions us well to fuel our full year and medium-term DnA revenue growth guidance of 7-10%. More specifically, we expect to see continued strength from:

- Demand for access across our global markets, particularly as we increase our presence in new geographies
- Proprietary data sales and options analytics, benefiting from the sustained growth across our derivatives complex
- And finally, we anticipate a continued focus on our distribution capabilities – from market data to indices – adding to the enhanced distribution capabilities of Cboe Global Cloud.

Slide 15: 1Q24 Adjusted Operating Expenses
Turning to expenses, total adjusted operating expenses were approximately $193 million for the quarter, up 4% compared to last year. The increase was a product of higher compensation and benefits and technology support services, and partially offset by a decline in professional fees and outside services.

Slide 16: 2024 Guidance
As we look ahead on slide 16 to our 2024 guidance, we are lowering our full year 2024 adjusted expense guidance range to $795 to $805 million from $798 to $808 million. The updated expense guidance reflects our first quarter results, some reduced cost expectations as a result of the digital realignment, as well as a slightly higher bonus accrual moving forward given our expectation to be at the higher end of our total organic net revenue guidance range for the full year.

On digital specifically, I want to walk through a few of the expected one-time and annualized impacts of the announced realignment and revised digital strategy. Cboe expects a one-time estimated pre-tax charge of $39 million to $82 million primarily related to the non-cash impairment of long-lived intangible assets, which is expected to be recorded in the second quarter of 2024. These charges are expected to be considered one-time and excluded from adjusted expenses. We do anticipate roughly $2-$4 million of adjusted expense savings this year as we carefully wind down the spot digital asset trading platform in the third quarter of 2024, subject to regulatory review. Moving forward, we anticipate the closure will generate annualized savings of $11-$15mn on annualized adjusted operating expenses.

Overall, we believe the current expense guidance range gives us flexibility to invest in high return areas of our business.

Looking at our full-year guidance more broadly,

- we are anticipating organic total net revenue growth to finish at the higher end of our 5 to 7 percent expected range for 2024.

- We are also reaffirming our DnA organic net revenue growth rate range of 7 to 10 percent for 2024, in line with our medium-term expectations.

- This quarter we are breaking out our “other income” line into “earnings in investments” and “other income.” Importantly though, the aggregate benefit we expect to realize for non-operating income is unchanged at $37 to $43 million in 2024. We anticipate $33 to $37 million from positive marks on our investments to help our “earnings and investments” line and $4 to $6 million in largely dividend income to flow through our “other income” line.

- Our full year guidance range for CAPEX remains at $51 to $57 million for 2024, and depreciation and amortization is expected to be in the range of $43 to $47 million for the year.

- We continue to expect the effective tax rate on adjusted earnings (under the current tax laws) to come in at 28.5% to 30.5% for 2024.

- And finally, outside of our annual guidance, we expect net interest expense to be in the range of $9 to $10 million for the second quarter of 2024.

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

On the capital front, we continue to maintain a flexible and attractive capital return policy for shareholders. In the first quarter, we returned a total of $58.5 million to shareholders in the form of a $0.55 per share quarterly dividend. In addition, we repurchased $89 million in shares during the first quarter. We have continued our repurchase activity in the month of April, adding an incremental $27 million in repurchases during the month. Moving forward, we will look to opportunistically repurchase shares given our continued healthy free cash flow generation.

Turning to our balance sheet, 1Q leverage ratio declined to 1.1x from 1.2x in the prior quarter as a result of solid EBITDA generation. Overall, we remain comfortable with our debt profile and the balance sheet flexibility it affords, having locked in low medium-to-longer term fixed rates, averaging below 3%, on our outstanding debt.

As always, we aspire to allocate capital and resources in the most value enhancing way, striking the right balance between investing in future revenue growth and optimizing our margins. We look forward to building on the solid YTD trends and delivering durable shareholder returns in 2024.

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

In closing, I would like to thank our team for the continued progress made throughout the first quarter. 2024 is off to a strong start and we believe we are well-positioned for another strong year.

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; 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.