

## Cboe Global(CBOE)

**\$89.25** (As of 03/31/20)

Price Target (6-12 Months): **\$94.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 06/12/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: D

## Summary

Cboe Global Markets eyes strategic acquisitions to gain a competitive edge by diversifying and adding capabilities to its portfolio. The buyout of Bats Global is likely to broaden and diversify its product portfolio and boost its margins, besides generating expense synergies. The company is also exploring new markets like the Middle East, Scandinavia and Asia. Trading volume growth has led to an increase in transaction fee. It has strong liquidity and remains focused on improving its leverage ratio. The shares of the company have underperformed the industry in a year's time. However, higher costs and competitions are concerns. Elevated expenses tend to weigh on margin expansion. CBOE Holdings has been facing intense competition due to increased market consolidation that tends to reduce market share and leverage of the business.

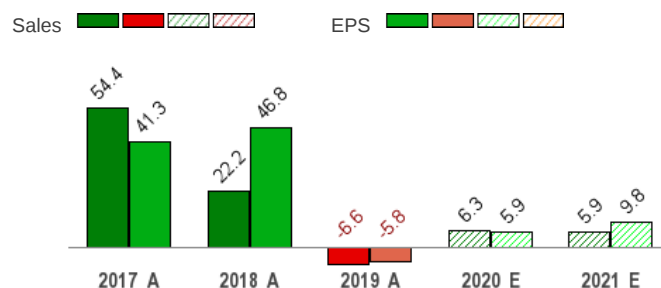
## Price, Consensus & Surprise



## Data Overview

|                            |                                          |
|----------------------------|------------------------------------------|
| 52 Week High-Low           | \$127.93 - \$72.01                       |
| 20 Day Average Volume (sh) | 1,492,940                                |
| Market Cap                 | \$9.9 B                                  |
| YTD Price Change           | -25.6%                                   |
| Beta                       | 0.46                                     |
| Dividend / Div Yld         | \$1.44 / 1.6%                            |
| Industry                   | <a href="#">Securities and Exchanges</a> |
| Zacks Industry Rank        | Top 9% (24 out of 254)                   |

## Sales and EPS Growth Rates (Y/Y %)



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | 9.0%       |
| Last Sales Surprise       | 2.2%       |
| EPS F1 Est- 4 week change | 2.5%       |
| Expected Report Date      | 05/01/2020 |
| Earnings ESP              | 4.9%       |
| P/E TTM                   | 18.8       |
| P/E F1                    | 17.8       |
| PEG F1                    | 2.0        |
| P/S TTM                   | 4.0        |

## Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 316 E | 322 E | 321 E | 318 E | 1,280 E |
| 2020 | 305 E | 300 E | 306 E | 299 E | 1,209 E |
| 2019 | 281 A | 283 A | 294 A | 280 A | 1,137 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$1.33 E | \$1.36 E | \$1.37 E | \$1.34 E | \$5.50 E |
| 2020 | \$1.27 E | \$1.24 E | \$1.27 E | \$1.26 E | \$5.01 E |
| 2019 | \$1.11 A | \$1.13 A | \$1.29 A | \$1.21 A | \$4.73 A |

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/31/2020. The reports text is as of 04/01/2020.

## Overview

Based in Chicago, IL, and founded in 1973, Cboe Global Markets, Inc. (effective Oct 17, 2017, CBOE Holdings, Inc. came to be known as Cboe Global Markets, Inc.) is one of the largest stock exchange operators by volume in the United States and a leading market globally for ETP trading.

Cboe offers trading across a diverse range of products in multiple asset classes and geographies, including options, futures, U.S. and European equities, exchange-traded products (ETPs), global foreign exchange (FX) and multi-asset volatility products based on the VIX Index. Cboe's trading venues include the largest options exchange in the United States and the largest stock exchange by value traded in Europe.

CBOE reports the results of its operations in five business segments —

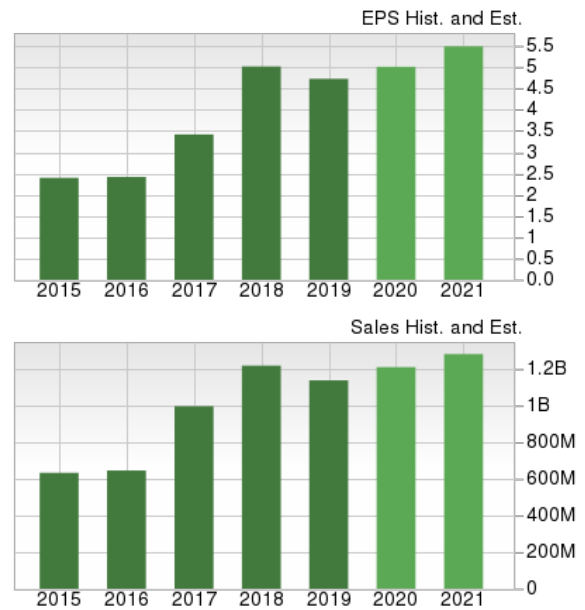
**Options (34.9% of 2019 revenues)** includes options exchange business that lists for trading options on market indexes, including the VIX Index and SPX, non-exclusive multilisted options and options on other ETPs. These options trade on Cboe Options, C2, BZX and EDGX.

**U.S. Equities (48.6%)** includes listed cash equities and ETP transaction services that occur on BZX, BYX, EDGX and EDGA. It also includes ETP listings, market data revenues generated from U.S. tape plans and from the sale of proprietary market data, routing services, connectivity fees and advertising activity from ETF.com.

**Futures (5.4%)** includes the business of futures exchange, CFE, which lists futures on the VIX Index, corporate bond indexes and bitcoin and other futures products. It also includes market data revenues generated from the sale of associated proprietary market data.

**European Equities (4.4%)** includes pan European listed cash equities transaction services, ETPs, exchange-traded commodities, and international depository receipts that occur on the RIE, operated by Cboe Europe Equities. It also includes listed cash equities and ETPs routed transaction services that occurred through Cboe Chi-X Europe, as well as the listings business where ETPs can be listed on Cboe Europe Equities.

**Global FX (2.1%)** includes institutional FX services on the Cboe FX platform. The Global FX segment also includes non-deliverable forward FX transactions executed on Cboe SEF.



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## Reasons To Buy:

- ▲ Shares of Cboe Global Markets have lost 7.5% in a year's time, against the industry's increase of 9.1%. Nevertheless, the solid fundamentals like diversified product portfolio and strong liquidity position should continue drive the stock going forward.
- ▲ Cboe Global Markets boasts a compelling inorganic growth story given its prudent acquisitions. While the acquisition of Bats Global expands and diversifies CBOE Global Markets' product portfolio with the addition of U.S. and European cash equities, Global ETPs and Global FX widens global reach with solid pan-European equities and global FX positions. The acquirer's business mix would also be diversified as the deal will open up non-transactional revenue generating avenues. Thereafter, Cboe Global Markets purchased the assets of Silexx Financial Systems to boost its service portfolio. The company eyes strategic acquisitions to gain a competitive edge by diversifying as well as adding capabilities to its portfolio.
- ▲ Cboe Global Markets anticipates to achieve \$50 million in annualized expense synergies from the Bats Global buyout within three years of the acquisition. In 2020, the company estimates to achieve \$85 million of run rate synergies. The company expects to achieve the synergies through its shift to a single proprietary trading platform and by optimizing the expense structure of the combined entity.
- ▲ Organic growth remained a key strength at Cboe Global Markets, as reflected by its revenue growth story with a CAGR of 35% over the last five years (2014-2018). Increasing transaction fees on the back of trading volume growth aided the improvement. However, in 2019, the top line declined 9.8% year over year due to lower transaction and regulatory fees. Nonetheless, given its strong market position and a global reach with strength in its proprietary products, primarily SPX options, VIX options and VIX futures, the growth momentum should continue.
- ▲ The company is also exploring new markets like the Middle East, Scandinavia and Asia, while pursuing jurisdictional approval in more established markets, including Switzerland and Israel. It has plans to launch CBOE Closing Cross, a new post-close trading service serving across 18 European markets in October 2019 and intends to bring similar product in the U.S. Equities market too.
- ▲ Cboe Global Markets enjoys strong liquidity position despite cash outlays to enhance operating leverage. Strong liquidity not only mitigates balance sheet risks but also paves the way for an accelerated capital deployment. Also, a 16% hike in its dividend (in July 31, 2019) marked the ninth consecutive year of dividend hikes. In October 2019, the company increased its share repurchase authorization by \$250 million. These endeavors testify the company's confidence in its liquidity position and the ongoing focus on its efficient capital deployment strategy.

Diversified product portfolio, compelling inorganic growth, expense synergies, increasing transaction fees driven by trading volume growth and solid liquidity position fuel growth prospects.

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## Reasons To Sell:

- ▼ Elevated expenses remain a major concern for CBOE Holdings. Given the several ongoing investments in systems hardware and software (including CBOE Holdings' systems migration to Bats technology), expenses are likely to trend higher. However, in 2019, total operating expenses decreased 2.9% from the year-ago quarter. For 2020, adjusted operating expenses are projected in the range of \$435 million to \$443 million, up from \$420-\$428 million expected earlier.
- ▼ The company expects capital expenditure for 2020 in the range of \$65 million to \$70 million, up from the previous range of \$35-\$40 million, which includes expenditures associated with the company's Chicago headquarters relocation occurring later this year and its trading floor relocation planned for 2021. This will account for around one-third of the incremental spend. Additionally, the company forecasts depreciation and amortization in the band of \$34-\$38 million.
- ▼ CBOE Holdings has been facing intense competition due to increased market consolidation that tends to reduce market share and leverage of the business. This includes both product and price competition, which are continuously increasing due to the creation of new execution and listing venues in the United States. As a result, CBOE Holdings' market share has witnessed decline over the last few years.

Industry volatility, elevated expenses weighing on margin expansion and sluggish credit quality amid intense competition due to increased market consolidation and challenging regulations are headwinds.

## Last Earnings Report

### Cboe Global Q4 Earnings Beat Estimates, Rise Y/Y

Cboe Global Markets, Inc. fourth-quarter 2019 adjusted earnings of \$1.21 per share beat the Zacks Consensus Estimate by 9%.

Moreover, the bottom line increased 21% year over year on decline in expenses and effect of share buyback.

Total revenues came in at \$280.3 million and beat the Zacks Consensus Estimate by 2.3%. However, the top line decreased 16%, reflecting lower trading volumes across business segments, particularly in options and futures in the company's proprietary index products, including SPX options and VIX options and futures.

Quarter Ending **12/2019**

| Report Date      | Feb 07, 2020 |
|------------------|--------------|
| Sales Surprise   | 2.18%        |
| EPS Surprise     | 9.01%        |
| Quarterly EPS    | 1.21         |
| Annual EPS (TTM) | 4.74         |

### Operational Details

Options revenues decreased 20% year over year to \$139.4 million, primarily due to lower revenues from net transaction fees, offset somewhat by lower royalty fees and higher market data revenues.

Revenues of U.S. Equities decreased 7% year over year to \$75.5 million, primarily due to lower revenues from net transaction fees, offset somewhat by higher revenues from non-transaction fees.

Futures revenues of \$30.9 million were down 24% year over year, primarily due to lower net transaction fees.

European Equities revenues declined 11% year over year to \$21.6 million, reflecting a decline in net transaction fees, offset by an increase in non-transaction revenues.

Global FX revenues declined 6% to \$12.9 million due to lower net transaction fees compared with the fourth quarter of 2018.

Total adjusted operating expenses decreased 14% year over year to \$95.6 million.

Adjusted operating margin in the quarter under review was 65.9%, down 70 basis points (bps).

Adjusted EBITDA margin of 70.2% contracted 160 bps.

### Financial Update (As of Dec 31, 2019)

CBOE Global had cash and cash equivalents of \$229.3 million, down 16.6% year over year. Total assets were \$5.1 billion, down 3.9% year over year.

At the end of the fourth quarter, long-term debt was \$867.6 million, down 5.2% year over year.

Total shareholders' equity was \$3.4 billion at the end of the reported quarter, up 3.5% year over year.

### Share Repurchase and Dividend Update

The company also bought back shares worth \$69.5 million and paid out \$40.1 million in dividends.

### 2020 Guidance

Adjusted operating expenses are now expected between \$435 million and \$443 million, up from the previous estimate of \$420-\$428 million.

Capital expenditures are now projected in the \$65-\$70 million band and include expenditures associated with the company's Chicago headquarters relocation occurring later in 2020 and its trading floor relocation planned for 2021.

Depreciation and amortization expense is estimated between \$34 million and \$38 million.

The effective tax rate on adjusted earnings for 2019 is expected between 26.5% and 28.5%.

## Recent News

### Cboe Global's February Volume Rises Year Over Year – Mar 4, 2020

Cboe Global Markets, Inc. reported average daily volume (ADV) for February 2020. Total ADV of 11.4 million contracts increased 64.6% year over year, driven by solid performance across Options and Futures. Though U.S. Equities and global forex witnessed increase, European Equities declined. ADV increased 20.8% from January 2020.

Total contracts for the month were 216.7 million, having increased nearly 64.4% year over year. Of this, options contracts increased about 64% to 209.5 million while futures surged 88% to 7.2 million. Options ADV was 11 million whereas Futures ADV was 0.4 million.

### Cboe Global Declares Quarterly Dividend — Feb 11, 2020

The board of directors of Cboe Global declared a quarterly dividend of 36 cents per share. The dividend will be paid out on Mar 16 to shareholders of record as of Feb 24. The first-quarter 2020 dividend will be paid out on Mar 13 to shareholders of record as of Mar 02.

## Valuation

CBOE Global shares are down 25.6% in the year-to-date period and 7.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 10.8% and 28.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 9.1% and down 21.5%, respectively.

The S&P 500 index is down 18.5% in the year-to-date period and 8.7% in the past year.

The stock is currently trading at 17.5x forward 12-month earnings, which compares to 21.9x for the Zacks sub-industry, 11.3x for the Zacks sector and 16.1x for the S&P 500 index.

Over the past five years, the stock has traded as high as 36.5x and as low as 14.9x, with a 5-year median of 24.7x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$94 price target reflects 18.4x forward 12-month earnings.

The table below shows summary valuation data for CBOE

| Valuation Multiples - CBOE |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                   | Current       | 17.48 | 21.89        | 11.35  | 16.12   |
|                            | 5-Year High   | 36.5  | 27.47        | 16.21  | 19.34   |
|                            | 5-Year Low    | 14.91 | 18.49        | 11.35  | 15.18   |
|                            | 5-Year Median | 24.68 | 21.81        | 13.97  | 17.44   |
| P/S F12M                   | Current       | 8.03  | 10.52        | 5.99   | 2.85    |
|                            | 5-Year High   | 14.16 | 12.94        | 6.64   | 3.43    |
|                            | 5-Year Low    | 6.03  | 7.27         | 5.38   | 2.54    |
|                            | 5-Year Median | 9.14  | 9.88         | 6.04   | 3       |
| P/B TTM                    | Current       | 2.95  | 2.9          | 2.01   | 3.53    |
|                            | 5-Year High   | 24.42 | 3.54         | 2.89   | 4.55    |
|                            | 5-Year Low    | 2.5   | 1.81         | 1.69   | 2.85    |
|                            | 5-Year Median | 4.15  | 2.57         | 2.52   | 3.63    |

As of 03/31/2020

## Industry Analysis Zacks Industry Rank: Top 9% (24 out of 254)



## Top Peers

|                                      |              |
|--------------------------------------|--------------|
| MarketAxess Holdings Inc. (MKTX)     | Outperform   |
| CME Group Inc. (CME)                 | Neutral      |
| Intercontinental Exchange Inc. (ICE) | Neutral      |
| Moodys Corporation (MCO)             | Neutral      |
| MSCI Inc (MSCI)                      | Neutral      |
| Nasdaq, Inc. (NDAQ)                  | Neutral      |
| OTC Markets Group Inc. (OTCM)        | Neutral      |
| Envestnet, Inc (ENV)                 | Underperform |

| Industry Comparison Industry: Securities And Exchanges |              |            |           | Industry Peers |             |              |
|--------------------------------------------------------|--------------|------------|-----------|----------------|-------------|--------------|
|                                                        | CBOE Neutral | X Industry | S&P 500   | CME Neutral    | ICE Neutral | NDAQ Neutral |
| <b>VGM Score</b>                                       | <b>D</b>     | -          | -         | <b>D</b>       | <b>D</b>    | <b>D</b>     |
| Market Cap                                             | 9.86 B       | 15.67 B    | 17.97 B   | 61.97 B        | 44.34 B     | 15.67 B      |
| # of Analysts                                          | 7            | 7          | 13        | 7              | 7           | 7            |
| Dividend Yield                                         | 1.61%        | 1.61%      | 2.37%     | 1.97%          | 1.49%       | 1.98%        |
| <b>Value Score</b>                                     | <b>D</b>     | -          | -         | <b>F</b>       | <b>D</b>    | <b>D</b>     |
| Cash/Price                                             | 0.03         | 0.04       | 0.06      | 0.03           | 0.04        | 0.04         |
| EV/EBITDA                                              | 14.41        | 14.41      | 10.93     | 19.18          | 14.03       | 13.76        |
| PEG Ratio                                              | 1.98         | 2.24       | 1.74      | 2.81           | 1.97        | 1.73         |
| Price/Book (P/B)                                       | 2.95         | 2.95       | 2.39      | 2.36           | 2.60        | 2.77         |
| Price/Cash Flow (P/CF)                                 | 13.77        | 15.74      | 9.48      | 21.26          | 15.74       | 15.26        |
| P/E (F1)                                               | 17.81        | 19.02      | 14.84     | 22.65          | 19.02       | 17.26        |
| Price/Sales (P/S)                                      | 3.95         | 6.77       | 1.91      | 12.73          | 6.77        | 3.68         |
| Earnings Yield                                         | 5.61%        | 5.26%      | 6.65%     | 4.41%          | 5.26%       | 5.79%        |
| Debt/Equity                                            | 0.27         | 0.27       | 0.70      | 0.14           | 0.32        | 0.59         |
| Cash Flow (\$/share)                                   | 6.48         | 6.22       | 7.01      | 8.13           | 5.13        | 6.22         |
| <b>Growth Score</b>                                    | <b>B</b>     | -          | -         | <b>C</b>       | <b>C</b>    | <b>D</b>     |
| Hist. EPS Growth (3-5 yrs)                             | 22.48%       | 13.74%     | 10.89%    | 16.44%         | 13.74%      | 11.74%       |
| Proj. EPS Growth (F1/F0)                               | 5.98%        | 9.39%      | 1.29%     | 12.27%         | 9.43%       | 10.03%       |
| Curr. Cash Flow Growth                                 | -6.75%       | 7.25%      | 6.03%     | 12.13%         | 7.25%       | 0.39%        |
| Hist. Cash Flow Growth (3-5 yrs)                       | 25.08%       | 15.93%     | 8.55%     | 16.24%         | 15.62%      | 10.02%       |
| Current Ratio                                          | 2.16         | 1.03       | 1.24      | 1.03           | 0.99        | 1.01         |
| Debt/Capital                                           | 21.41%       | 21.41%     | 42.36%    | 12.52%         | 24.50%      | 37.11%       |
| Net Margin                                             | 14.99%       | 29.52%     | 11.64%    | 43.48%         | 29.52%      | 18.15%       |
| Return on Equity                                       | 15.96%       | 15.96%     | 16.74%    | 9.22%          | 12.77%      | 15.16%       |
| Sales/Assets                                           | 0.48         | 0.31       | 0.54      | 0.07           | 0.07        | 0.31         |
| Proj. Sales Growth (F1/F0)                             | 6.24%        | 6.79%      | 1.61%     | 8.76%          | 6.95%       | 4.87%        |
| <b>Momentum Score</b>                                  | <b>D</b>     | -          | -         | <b>A</b>       | <b>C</b>    | <b>B</b>     |
| Daily Price Chg                                        | -4.06%       | -3.65%     | -2.05%    | -0.62%         | -3.65%      | -4.52%       |
| 1 Week Price Chg                                       | 14.05%       | 11.32%     | 12.32%    | 8.16%          | 11.32%      | 15.25%       |
| 4 Week Price Chg                                       | -23.86%      | -14.95%    | -18.09%   | -19.98%        | -14.95%     | -13.74%      |
| 12 Week Price Chg                                      | -24.51%      | -14.49%    | -24.90%   | -15.65%        | -14.49%     | -10.78%      |
| 52 Week Price Chg                                      | -7.51%       | 4.37%      | -18.55%   | 2.88%          | 4.37%       | 6.67%        |
| 20 Day Average Volume                                  | 1,492,940    | 1,492,940  | 4,222,189 | 3,533,601      | 5,689,020   | 1,707,663    |
| (F1) EPS Est 1 week change                             | 0.00%        | 0.00%      | -0.18%    | 0.75%          | 0.00%       | 0.10%        |
| (F1) EPS Est 4 week change                             | 2.45%        | 1.36%      | -3.16%    | 4.19%          | 1.36%       | 0.81%        |
| (F1) EPS Est 12 week change                            | 0.56%        | 0.62%      | -4.36%    | 3.94%          | 0.69%       | 1.44%        |
| (Q1) EPS Est Mthly Chg                                 | 6.11%        | 4.17%      | -2.63%    | 13.34%         | 3.04%       | 2.19%        |

## Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

|                |   |
|----------------|---|
| Value Score    | D |
| Growth Score   | B |
| Momentum Score | D |
| VGM Score      | D |

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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