

## Cboe Global(CBOE)

**\$94.01** (As of 05/01/20)

Price Target (6-12 Months): **\$99.00**

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:C

Value: D

Growth: B

Momentum: B

## Summary

Cboe Global Markets' earnings of \$1.65 per share beat the Zacks Consensus Estimate by 7.1%. The bottom line increased 48% year over year on increased trading activity, decline in expenses and operational efficiencies. The company eyes strategic acquisitions to gain a competitive edge by diversifying and adding capabilities to its portfolio. The buyout of Bats Global is likely to diversify product portfolio, boost margins and generate expense synergies. It explores new markets like the Middle East, Scandinavia and Asia. Trading volume growth has driven the transaction fee. It has strong liquidity and remains focused on improving its leverage ratio. Its shares have underperformed the industry in a year's time. However, high costs put pressure on margin. CBOE Holdings faces competition that tends to reduce market share and business leverage.

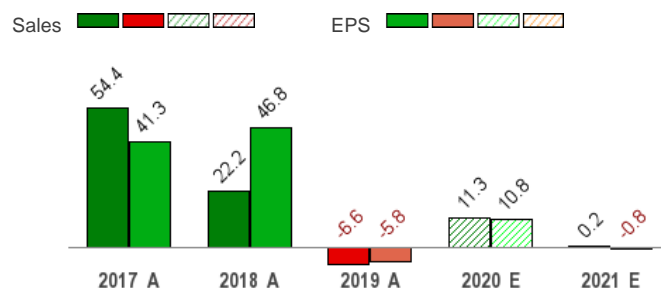
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	<b>\$127.93 - \$72.01</b>
20 Day Average Volume (sh)	<b>1,029,978</b>
Market Cap	<b>\$10.4 B</b>
YTD Price Change	<b>-21.7%</b>
Beta	<b>0.51</b>
Dividend / Div Yld	<b>\$1.44 / 1.4%</b>
Industry	<a href="#">Securities and Exchanges</a>
Zacks Industry Rank	<b>Top 5% (12 out of 253)</b>

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



Last EPS Surprise	<b>7.1%</b>
Last Sales Surprise	<b>1.1%</b>
EPS F1 Est- 4 week change	<b>5.0%</b>
Expected Report Date	<b>NA</b>
Earnings ESP	<b>0.1%</b>
P/E TTM	<b>17.8</b>
P/E F1	<b>17.9</b>
PEG F1	<b>2.0</b>
P/S TTM	<b>3.7</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	316 E	322 E	321 E	318 E	1,268 E
2020	358 A	305 E	307 E	299 E	1,265 E
2019	281 A	283 A	294 A	280 A	1,137 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.32 E	\$1.37 E	\$1.36 E	\$1.34 E	\$5.20 E
2020	\$1.65 A	\$1.23 E	\$1.24 E	\$1.23 E	\$5.24 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 05/01/2020. The reports text is as of 05/04/2020.

## 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 —

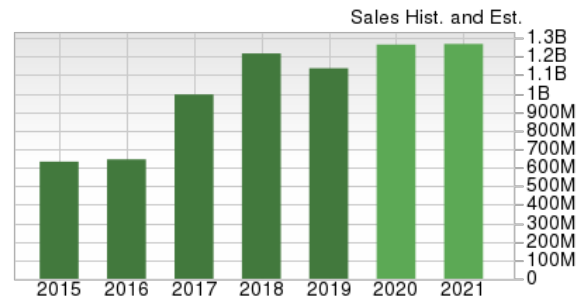
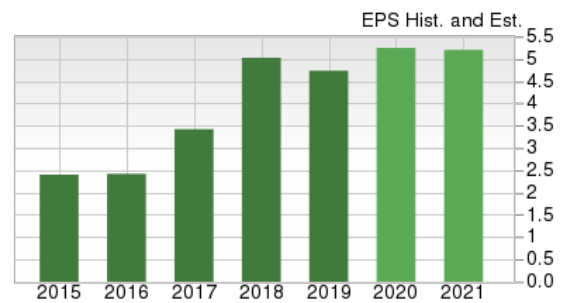
**Options (34.9% of 2019 revenues)** includes options exchange business that lists for trading options on market indexes, including the VIX Index and SPX, non-exclusive multilisted options and options on other ETPs. These options trade on Cboe Options, C2, BZX and EDGX.

**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.



---

## Reasons To Buy:

- ▲ Shares of Cboe Global Markets have lost 8.8% in a year's time against the industry's increase of 8.7%. Nevertheless, the solid fundamentals like diversified product portfolio and strong liquidity position should continue to 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 in its revenue growth story. Revenues witnessed CAGR of 32% over the last five years (2014-2019). Increasing transaction fees on the back of trading volume growth aided the improvement. In the first quarter of 2020, the top line increased 53% year over year due to higher transaction fees, access and capacity fees, market data fees, regulatory fees plus other revenues. Transaction fees increased 53.7% on the back of higher market volumes in Options, U.S. Equities and Futures. 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. As of Mar 31, 2020, the company had \$179.7 million remaining under its existing share repurchase authorization. These endeavors testify the company's confidence in its liquidity position and the ongoing focus on its efficient capital deployment strategy.
- ▲ The company's debt has been decreasing since 2017. Total debt has increased 0.05% from 2019-end level to \$868.1 million. At the end of the first quarter 2020, debt to capital was 20.8%, down from 21.4% at the end of 2019. Times interest earned, a measure to identify the company ability to service debt, was 18.8% in the first quarter, up from the 2019 level of 15%. Also, times interest earned of 18.7% compares favorably with the industry's measure of 12.5%, implying that its earnings are sufficient to cover interest obligations. Also, the company has \$250 million available under revolver in case of short-term funding requirement.

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

---

## 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 the first quarter of 2020, total operating expenses decreased 1.6% to \$131.9 million from the year-ago quarter, due to a decline in depreciation and amortization, offset by an increase in compensation and benefits expense. For 2020, adjusted operating expenses are projected in the range of \$419 million to \$427 million, down from \$435-\$443 million expected earlier, indicating lower compensation costs and lower expenses for travel and entertainment and marketing events due to the current environment. The company estimates expenses are expected to accelerate the second half of 2020 as it intends to ramp up growth initiatives and complete Chicago headquarters build-out.
- ▼ The company reaffirmed capital expenditure guidance for 2020 in the range of \$65 million to \$70 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 in 2020, which excludes amortization of intangibles of approximately \$120 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 Q1 Earnings & Revenues Top Estimates

Cboe Global Markets, Inc. reported first-quarter 2020 adjusted earnings of \$1.65 per share that beat the Zacks Consensus Estimate by 7.1%. Moreover, the bottom line increased 48% year over year on increased trading activity, decline in expenses and operational efficiencies.

Total revenues came in at \$358.3 million and beat the Zacks Consensus Estimate by 1.1%. The top line increased 28%, reflecting higher trading volumes across each business segment, particularly in options and futures.

Quarter Ending **03/2020**

Report Date	May 01, 2020
Sales Surprise	1.07%
EPS Surprise	7.14%
Quarterly EPS	1.65
Annual EPS (TTM)	5.28

### Operational Details

Options revenues increased 36% year over year to \$188.5 million driven by higher revenues from net transaction fees and market data. However, increase in royalty fees was a partial offset.

Revenues of U.S. Equities increased 14% year over year to \$86.6 million, driven by higher revenue from net transaction fees as well as higher revenues from non-transaction fees.

Futures revenues of \$40.1 million were up 36% year over year, reflecting growth in net transaction fees.

European Equities revenues improved 15% year over year to \$26.2 million, increases in net transaction fees and non-transaction revenues.

Global FX revenues increased 22% to \$16.9 million driven by higher net transaction fees.

Total adjusted operating expenses increased 5% year over year to \$98.6 million attributable to higher compensation and benefits expense.

Adjusted operating income improved 39% year over year to \$259.7 million with margin in the quarter under review expanding 600 basis points (bps) to 72.5%. The improvement was driven by higher net revenues and lower operating expenses.

Adjusted EBITDA margin of 74.2% expanded 770 bps.

### Financial Update

CBOE Global had cash and cash equivalents of \$165.2 million at quarter end, down about 28% from 2019 end. Total assets were \$5.2 billion, up 2.4% from 2019 end.

At the end of the first quarter, long-term debt was \$868.1 million, up 0.1% from 2019 end.

Total shareholders' equity was \$3.3 billion at the end of the reported quarter, up 1.4% from 2019 end.

### Share Repurchase and Dividend Update

The company also bought back shares worth \$119.5 million and paid out \$40 million in dividends. As of Mar 31, 2020, the company had \$179.7 million of availability remaining under its existing share repurchase authorizations.

### 2020 Guidance

Adjusted operating expenses are now expected to be in the range of \$419 to \$427 million, down \$16 million from the previous guidance of \$435 to \$443 million, primarily reflecting near-term cost reductions due to the COVID-19 pandemic.

Capital expenditures are still expected in the \$65-\$70 million band.

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

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

## Recent News

### Cboe Global's March Volume Rises Year Over Year – Apr 03, 2020

Cboe Global reported average daily volume (ADV) for March 2020. Total ADV of 12.3 million contracts increased 67.8% year over year, driven by solid performance across Options and Futures.

### 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.

## Valuation

CBOE Global shares are down 21.7% in the year-to-date period and 8.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 5.7% and 26.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 8.7% and down 22%, respectively.

The S&P 500 index is down 12.1% in the year-to-date period and 3.7% in the past year.

The stock is currently trading at 17.98x forward 12-month earnings, which compares to 22.67x for the Zacks sub-industry, 14.86x for the Zacks sector and 20.18x for the S&P 500 index.

Over the past five years, the stock has traded as high as 36.5x and as low as 14.91x, with a 5-year median of 24.66x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$99 price target reflects 18.9x 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	17.98	22.67	14.86	20.18
	5-Year High	36.5	27.47	16.18	20.18
	5-Year Low	14.91	18.49	11.24	15.19
	5-Year Median	24.66	21.83	13.94	17.44
P/S F12M	Current	8.2	10.78	4.98	3.19
	5-Year High	14.16	12.94	6.7	3.44
	5-Year Low	6.03	7.27	4.98	2.54
	5-Year Median	9.11	10.11	6.06	3.01
P/B TTM	Current	3.14	3.03	2.08	3.75
	5-Year High	24.42	3.54	2.90	4.55
	5-Year Low	2.5	1.81	1.71	2.84
	5-Year Median	4.07	2.61	2.53	3.64

As of 05/01/2020

## Industry Analysis Zacks Industry Rank: Top 5% (12 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
MarketAxess Holdings Inc. (MKT)	Outperform	1
Nasdaq, Inc. (NDAQ)	Outperform	3
CME Group Inc. (CME)	Neutral	2
Intercontinental Exchange Inc. (ICE)	Neutral	2
Moodys Corporation (MCO)	Neutral	3
MSCI Inc (MSCI)	Neutral	3
OTC Markets Group Inc. (OTCM)	Neutral	4
Investnet, Inc (ENV)	Underperform	4

Industry Comparison Industry: Securities And Exchanges				Industry Peers		
	CBOE	X Industry	S&P 500	CME	ICE	NDAQ
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	2	-	-	2	2	3
VGM Score	C	-	-	B	B	C
Market Cap	10.38 B	18.10 B	20.61 B	62.24 B	48.69 B	17.59 B
# of Analysts	7	6	14	7	7	7
Dividend Yield	1.53%	1.45%	2.11%	1.96%	1.35%	1.76%
Value Score	D	-	-	F	D	C
Cash/Price	0.03	0.04	0.06	0.02	0.04	0.07
EV/EBITDA	15.95	15.95	11.87	19.75	15.42	15.06
PEG Ratio	1.96	2.63	2.47	4.57	2.59	2.18
Price/Book (P/B)	3.10	3.35	2.67	2.37	2.86	3.26
Price/Cash Flow (P/CF)	15.34	17.62	10.66	21.91	17.44	17.62
P/E (F1)	17.68	21.39	19.01	22.41	19.94	19.18
Price/Sales (P/S)	3.69	6.94	2.10	11.94	6.88	3.85
Earnings Yield	5.57%	4.68%	5.05%	4.46%	5.02%	5.21%
Debt/Equity	0.27	0.27	0.72	0.14	0.32	0.61
Cash Flow (\$/share)	6.48	6.22	7.01	8.13	5.13	6.22
Growth Score	B	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	22.48%	13.74%	10.88%	16.44%	13.74%	11.36%
Proj. EPS Growth (F1/F0)	10.84%	12.92%	-7.32%	13.95%	14.62%	11.20%
Curr. Cash Flow Growth	-6.75%	5.26%	5.92%	12.13%	7.25%	0.39%
Hist. Cash Flow Growth (3-5 yrs)	25.08%	18.37%	8.55%	16.24%	15.62%	10.02%
Current Ratio	2.16	1.03	1.23	1.03	0.99	0.97
Debt/Capital	21.41%	21.41%	43.84%	12.52%	24.50%	37.74%
Net Margin	14.99%	29.65%	11.08%	45.79%	29.65%	15.94%
Return on Equity	15.96%	16.08%	16.44%	10.16%	13.80%	16.08%
Sales/Assets	0.48	0.33	0.54	0.07	0.08	0.33
Proj. Sales Growth (F1/F0)	11.15%	10.28%	-1.42%	11.24%	10.28%	6.26%
Momentum Score	B	-	-	A	A	A
Daily Price Chg	0.06%	-0.52%	-2.39%	-1.80%	-1.38%	-1.73%
1 Week Price Chg	-5.37%	-4.64%	-1.74%	-4.64%	-1.64%	-5.04%
4 Week Price Chg	7.59%	10.32%	17.07%	5.72%	10.24%	16.72%
12 Week Price Chg	-22.32%	-7.40%	-18.53%	-16.19%	-0.73%	-5.33%
52 Week Price Chg	-0.52%	12.20%	-9.82%	3.13%	12.20%	18.87%
20 Day Average Volume	1,029,978	867,441	2,641,413	1,897,102	3,077,609	867,441
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.11%	0.00%	0.00%
(F1) EPS Est 4 week change	4.98%	2.28%	-6.62%	2.28%	4.67%	0.54%
(F1) EPS Est 12 week change	6.50%	5.72%	-13.28%	5.72%	5.92%	2.11%
(Q1) EPS Est Mthly Chg	-0.14%	0.60%	-11.97%	-1.13%	2.58%	1.33%

---

## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

---

### 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	<b>D</b>
Growth Score	<b>B</b>
Momentum Score	<b>B</b>
VGM Score	<b>C</b>

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.

---

### Disclosures

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.