

Cboe Global(CBOE)

\$123.18 (As of 01/30/20)

Price Target (6-12 Months): **\$130.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/12/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: F

Growth: B

Momentum: D

Summary

Cboe Global Markets' shares have outperformed the industry in a year's time. 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 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. 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.

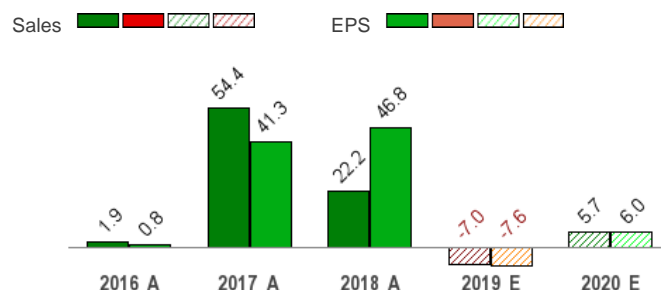
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$124.88 - \$89.53
20 Day Average Volume (sh)	605,340
Market Cap	\$13.6 B
YTD Price Change	2.7%
Beta	0.03
Dividend / Div Yld	\$1.44 / 1.2%
Industry	Securities and Exchanges
Zacks Industry Rank	Bottom 29% (181 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.2%
Last Sales Surprise	1.4%
EPS F1 Est- 4 week change	-1.2%
Expected Report Date	02/07/2020
Earnings ESP	-0.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	294 E	297 E	307 E	298 E	1,197 E
2019	281 A	283 A	294 A	274 E	1,132 E
2018	329 A	284 A	271 A	334 A	1,217 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.20 E	\$1.20 E	\$1.27 E	\$1.24 E	\$4.92 E
2019	\$1.11 A	\$1.13 A	\$1.29 A	\$1.11 E	\$4.64 E
2018	\$1.38 A	\$1.05 A	\$1.06 A	\$1.54 A	\$5.02 A

*Quarterly figures may not add up to annual.

P/E TTM	24.3
P/E F1	25.0
PEG F1	2.8
P/S TTM	5.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/30/2020. The reports text is as of 01/31/2020.

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 —

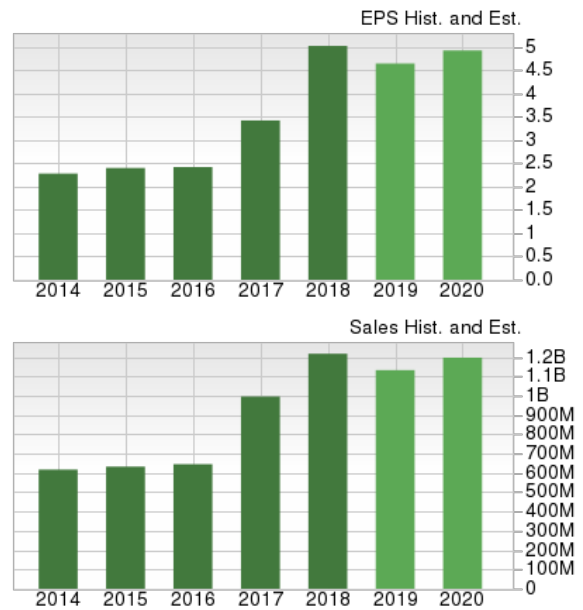
Options (38.2% of 2018 revenues) includes options exchange business that lists for trading options on market indexes, including the VIX Index and SPX, non-exclusive multilisted options and options on other ETPs. These options trade on Cboe Options, C2, BZX and EDGX.

U.S. Equities (49.6%) 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 (4.8%) 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%) 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 outperformed its industry in the past year. The solid fundamentals like diversified product portfolio and strong liquidity position shall enable it to outperform in the future.
- ▲ 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 2019, the company estimates to achieve \$80 million of run rate synergies. Notably, it is on track to achieve run rate expense synergy target of \$85 million in 2020, a year earlier than the initial projection. 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 the first nine months of 2019, the top line declined 6% year over year due to soft segmental trading volumes. 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 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. During the third quarter, the company used \$500 million to pay down its term loan, which reduced its leverage ratio to 1.1 at Sep 30, 2019, down from 1.2 at Jun 30, 2019.

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. Total operating expenses have been witnessing a CAGR of 18% over the last five years (2012-2017). Given the several ongoing investments in systems hardware and software (including CBOE Holdings' systems migration to Bats technology), expenses are likely to trend higher. For 2019, adjusted operating expenses are projected in the range of \$390 million to \$395 million, down from \$405-\$413 million expected earlier. The company still anticipates \$420-\$428 million in expenses in 2020.
- ▼ The company expects capital expenditure for 2019 in the range of \$35 million to \$40 million, down from the previous range of \$50-\$55 million, indicating its assumption of spending additional capital for the probable relocation and leasing of its Chicago corporate office headquarters. This will account for around one-third of the incremental spend. Additionally, the company forecasts depreciation and amortization in the band of \$35-\$40 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's Q3 Earnings and Revenues Beat Estimates

Cboe Global Markets' third-quarter 2019 adjusted earnings of \$1.29 per share beat the Zacks Consensus Estimate by 11.2%. Moreover, the bottom line increased 22% year over year on higher trading volumes.

Operational Details

Total revenues came in at \$294 million, beating the Zacks Consensus Estimate by 1.4%. Moreover, the top line increased 9% driven by higher trading volume in proprietary products, including SPX options, VIX options and futures, as well as growth in market data revenues.

Options revenues increased 10% driven by higher revenues from net transaction fees. Total options average daily volume (ADV) increased 15% while revenue per contract (RPC) declined 3%.

Revenues of U.S. Equities increased 6% on higher market data revenues from the industry tape plan, which included audit recoveries of \$4.3 million. Futures revenues increased 28% driven by higher net transaction fees.

However, European Equities revenues declined 7%, reflecting a decline in net transaction fees, partially offset by a slight increase in non-transaction revenues.

Global FX revenues declined 4% due to lower net transaction fees.

Total adjusted operating expenses decreased 3% year over year to \$96.5 million. The decline was attributable to a decrease in compensation and benefits as a result of lower incentive-based compensation.

Adjusted operating margin in the quarter under review was 67.2%, up 380 basis points (bps), reflecting higher net revenues and lower expenses.

Adjusted EBITDA margin of 70.9% expanded 380 bps.

Financial Update

As of Sep 30, 2019, CBOE Global had cash and cash equivalents of \$150 million, down 45.5% from the figure at 2018 end. Total assets were \$5.1 billion in the third quarter, down 5.7% from the level at 2018 end.

At the end of the third quarter, long-term debt was \$867.1 million, down 5.3% year over year. The company deployed \$50 million to pay a term loan, lowering the leverage ratio to 1.1 as of Sep 30 from 1.2 as of Jun 30, 2019.

Total shareholders' equity was \$3.3 billion at the end of the reported quarter, up 2.7% from the value on Dec 31, 2018.

Share Repurchase and Dividend Update

The company paid out cash dividends worth \$40.4 million or 36 cents per share in the third quarter.

The company also bought back 0.5 million shares for \$52.4 million. On Oct 30, 2019, the board of directors increased its share repurchase authorization by \$250 million.

2019 Guidance

Adjusted operating expenses are now expected between \$390 and \$395 million, down from the previous estimate of \$405-\$413 million.

Capital expenditures are now projected in the range of \$35-\$40 million, down from the prior band of \$50-\$55 million, indicating a shift in the timing of expenditures associated with the company's Chicago headquarters relocation.

Depreciation and amortization expense is reiterated between \$35 million and \$40 million.

The effective tax rate on adjusted earnings for 2019 is expected between 25.5% and 27.5%, down from the previous range of 27% to 29%.

Quarter Ending **09/2019**

Report Date	Nov 01, 2019
Sales Surprise	1.37%
EPS Surprise	11.21%
Quarterly EPS	1.29
Annual EPS (TTM)	5.07

Recent News

Cboe Global Markets to Acquire EuroCCP – Dec 9, 2019

Cboe Global Markets has entered into a definitive agreement to buy EuroCCP, a leading pan-European equities clearing house.

Cboe Global Markets Reports October 2019 Trading Volume – Nov 5, 2019

The company reported October monthly trading volume. Total ADV of 7.7 million contracts declined 21.4% year over year due to weak solid performance across Option as well as Futures.

Total volumes of U.S. Equities came in at 25.7 billion shares, down 28.6% year over year. European Equities reflected a 38.7% deterioration year over year to €168.9 billion and Global FX fell 13.4% to \$728.4 billion.

Valuation

CBOE Global shares have gained 31.2% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Finance sector are up 27.6% and 8.6%, respectively.

The S&P 500 index are up 20.4% in the past year.

The stock is currently trading at 24.8X forward 12-month earnings, which compares to 27.26X for the Zacks sub-industry, 14.74X for the Zacks sector and 18.83X for the S&P 500 index.

Over the past five years, the stock has traded as high as 36.5X and as low as 18.18X, with a 5-year median of 24.66X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$130 price target reflects 26.2X 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	24.81	27.26	14.74	18.83
	5-Year High	36.5	27.47	16.21	19.34
	5-Year Low	18.18	18.49	12.01	15.17
	5-Year Median	24.66	21.59	13.98	17.44
P/S F12M	Current	10.83	12.43	6.53	3.57
	5-Year High	14.16	12.94	6.61	3.57
	5-Year Low	6.03	7.27	5.2	2.54
	5-Year Median	8.9	9.62	6.04	3
P/B TTM	Current	3.91	3.33	2.86	4.55
	5-Year High	24.42	3.48	2.89	4.55
	5-Year Low	3.16	1.72	1.83	2.85
	5-Year Median	4.34	2.52	2.51	3.61

As of 01/30/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (181 out of 255)



Top Peers

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

Industry Comparison Industry: Securities And Exchanges				Industry Peers		
	CBOE Neutral	X Industry	S&P 500	CME Neutral	ICE Neutral	NDAQ Neutral
VGM Score	D	-	-	F	F	F
Market Cap	13.65 B	19.10 B	23.94 B	78.40 B	55.78 B	19.10 B
# of Analysts	7	6	13	6	7	7
Dividend Yield	1.17%	1.20%	1.77%	1.37%	1.10%	1.62%
Value Score	F	-	-	F	F	D
Cash/Price	0.01	0.02	0.04	0.02	0.03	0.02
EV/EBITDA	17.64	17.92	14.14	25.43	18.20	15.51
PEG Ratio	2.80	2.81	2.01	4.92	2.81	2.35
Price/Book (P/B)	4.10	4.10	3.25	2.92	3.25	3.39
Price/Cash Flow (P/CF)	17.95	21.03	13.56	30.10	21.42	18.63
P/E (F1)	25.23	24.04	18.90	29.81	24.01	21.31
Price/Sales (P/S)	5.16	8.35	2.64	15.79	8.51	4.48
Earnings Yield	3.99%	4.14%	5.28%	3.35%	4.16%	4.69%
Debt/Equity	0.27	0.21	0.72	0.14	0.39	0.59
Cash Flow (\$/share)	6.86	6.13	6.92	7.27	4.68	6.22
Growth Score	B	-	-	C	C	F
Hist. EPS Growth (3-5 yrs)	22.02%	14.53%	10.68%	16.70%	14.53%	12.29%
Proj. EPS Growth (F1/F0)	6.03%	9.33%	7.59%	7.94%	7.47%	8.86%
Curr. Cash Flow Growth	36.56%	18.29%	10.81%	41.54%	16.44%	0.39%
Hist. Cash Flow Growth (3-5 yrs)	29.42%	17.35%	8.78%	15.56%	27.35%	12.48%
Current Ratio	2.46	1.03	1.22	1.04	1.00	1.01
Debt/Capital	21.55%	17.09%	42.99%	12.62%	28.51%	37.11%
Net Margin	16.08%	29.06%	11.69%	40.93%	31.97%	18.15%
Return on Equity	17.21%	17.21%	17.33%	9.54%	12.79%	15.16%
Sales/Assets	0.51	0.31	0.55	0.07	0.07	0.31
Proj. Sales Growth (F1/F0)	5.70%	6.04%	4.12%	4.80%	6.04%	4.49%
Momentum Score	D	-	-	D	F	A
Daily Price Chg	1.38%	1.27%	0.36%	2.43%	1.27%	0.54%
1 Week Price Chg	2.81%	0.82%	-1.09%	1.15%	0.35%	0.82%
4 Week Price Chg	3.06%	4.26%	-0.22%	8.39%	8.09%	7.55%
12 Week Price Chg	6.74%	9.94%	4.08%	9.94%	10.51%	15.35%
52 Week Price Chg	32.07%	30.50%	16.06%	20.02%	30.50%	31.71%
20 Day Average Volume	605,340	605,340	1,808,632	1,227,716	2,225,451	726,190
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.18%
(F1) EPS Est 4 week change	-1.25%	-0.57%	0.00%	-0.07%	-1.07%	0.36%
(F1) EPS Est 12 week change	-3.88%	-1.91%	-0.09%	-2.00%	-1.81%	0.53%
(Q1) EPS Est Mthly Chg	-0.79%	-0.33%	0.00%	-0.56%	-0.10%	0.86%

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	F
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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