Cboe Global Markets, Inc. (CBOE)

Updated June 3rd, 2022, by Patrick Neuwirth

Key Metrics

Current Price:	$114	**5 Year CAGR Estimate:**	10.6%	**Market Cap:**	$12 B
Fair Value Price:	$131	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	05/27/22
% Fair Value:	87%	**5 Year Valuation Multiple Estimate:**	2.9%	**Dividend Payment Date:**	06/15/22
Dividend Yield:	1.7%	**5 Year Price Target**	$176	**Years Of Dividend Growth:**	12
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Cboe Global Markets, Inc. is a large exchange holding company. It offers a diverse range of products in multiple asset classes, and operates in five primary business segments: Options, U.S. equities, futures, European equities, and global FX. Transaction & clearing fees (from contracts or shares traded on exchanges) composed 77% of 2021 revenues, and regulatory fees, market data, and connectivity fees are other revenue sources. After operating for most of its history as a non-profit, member-owned exchange company, the company became a for-profit corporation in 2006 and went public in 2010. Cboe Global Markets is a $12 billion company and has about 1,200 employees.

On April 29th, 2022, Cboe Global Markets released its first-quarter 2022 results. For the quarter the company reported a record net revenue of $418 million which represents 14% growth compared with net revenue of $365.5 million in the first quarter of 2021. Earnings per diluted share reported for the same periods were $1.02 and $1.27, a decline of 20% year-over-year. The Q1 2022 growth was driven by strong trading activity in Cboe's cash equity businesses, higher volumes in proprietary index products, and increased demand for data and access solutions. The "Options revenues" increased 21% year over year to $219.2 million due to double-digit increases in net transaction and clearing fees, access and capacity fees, and market data.

Cboe Global Markets' strategy is focused on increasing its addressable market and has three growth pillars, which are organic growth, M&A growth, and recurring revenue growth. The company recently added BIDS Holdings, Chi-X Asia Pacific, and ErisX. It also plans to acquire Aequitas Innovations (NEO) in the coming months. The overall strategy is targeting a medium-term organic total net revenue growth rate of 5-7% annually. The management has recently reaffirmed the organic total net revenue growth target for 2022 and increased the Data and Access Solutions organic net revenue growth target to 8-11%, from 7-10%. Acquisitions held less than a year could contribute between 2% and 3% to total net revenue growth in 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.78	$1.99	$2.21	$2.46	$2.27	$3.69	$3.76	$3.34	$4.27	$4.92	**$5.25**	**$7.03**
DPS	$0.54	$0.66	$0.78	$0.88	$0.96	$1.04	$1.16	$1.34	$1.56	$1.80	**$1.92**	**$3.09**
Shares[1]	87	87	84	82	81	113	112	111	107	107	**106**	**105**

Cboe Global Markets has grown earnings by 12.0% per year over the past nine years and 7.3% over the past five years. We expect earnings to increase by 6% per year for the next five years. This is in line with the company's medium-term growth rate targets.

The company has been able to increase its yearly dividend payout for 12 consecutive years. Over the last five years, the average annual dividend growth rate is 13%. In August 2021, the quarterly dividend increased by 14.3% from $0.42 to $0.48 per share.

[1] In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	15.7	21.7	24.4	25.5	29.2	25.6	28.7	32.4	22.8	23.3	**21.7**	**25.0**
Avg. Yld.	1.9%	1.5%	1.4%	1.4%	1.4%	1.1%	1.1%	1.2%	1.6%	1.6%	**1.7%**	**1.8%**

During the past decade shares of Cboe Global Markets have traded with an average price-to-earnings ratio of about 24.9 times earnings and today, it stands at 21.7. We are using 25 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 1.7% which is above the average yield over the past decade of 1.4%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	30%	33%	35%	36%	42%	28%	31%	40%	37%	37%	**37%**	**44%**

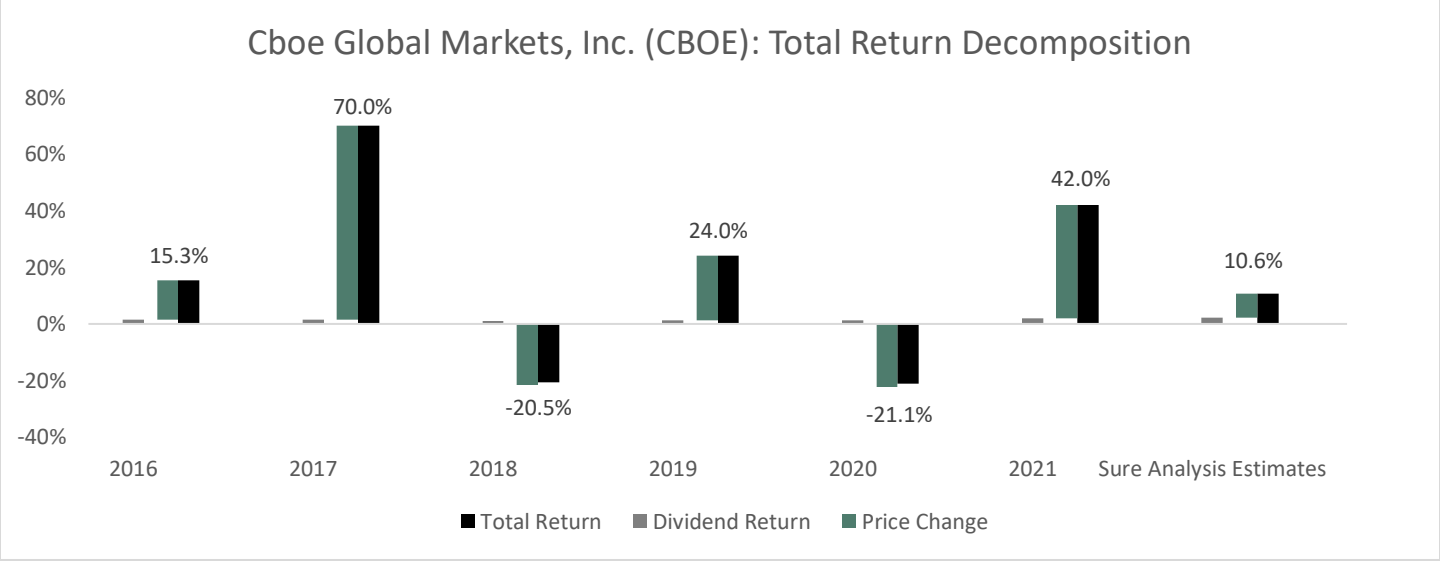
During the past five years, the company's dividend payout ratio has averaged around 35%. Cboe Global Markets' dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at the same pace and keep the payout ratio around the same levels which is safe.

Cboe Global Markets' ambition is to build one of the world's largest global derivatives and securities network. Cboe is well-positioned to execute this ambition by customer-led product & market innovation combined with superior technology. Furthermore, key industry trends such as globalization and the rise of the retail investors are supporting its growth ambition. Importantly, the company will continue to invest heavily in technological improvements and innovation to support its platforms and services. Looking forward, Cboe's ambitions and the medium-term growth rate target of 5-7% annually look realistic.

Final Thoughts & Recommendation

Cboe Global Markets is one of the largest stock exchange operators in the United States and a global market leader for exchange-traded products trading. Cboe is a quality stock with an average dividend yield, solid earnings per share growth for several years, and a sound dividend payout ratio. We estimate total return potential of 10.6% per year for the next five years based on a 6% earnings-per-share growth, a 1.7% yield, and a valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	512	572	617	664	703	2,229	2,769	2,496	3,427	3,495
Gross Profit	466	397	429	456	453	794	988	938	1,029	1,188
Gross Margin	91.0%	69.5%	69.6%	68.7%	64.5%	35.6%	35.7%	37.6%	30.0%	34.0%
SG&A Exp.	114	67	64	80	87	125	129	126	122	160
D&A Exp.	32	35	40	46	44	192	204	177	159	167
Operating Profit	244	286	314	320	312	456	629	586	707	822
Op. Margin	47.6%	50.0%	50.8%	48.2%	44.3%	20.5%	22.7%	23.5%	20.6%	23.5%
Net Profit	157	176	190	205	187	402	427	375	468	529
Net Margin	30.7%	30.8%	30.7%	30.9%	26.6%	18.0%	15.4%	15.0%	13.7%	15.1%
Free Cash Flow	170	196	213	206	185	337	498	598	1,411	546
Income Tax	85	108	120	119	121	(66)	146	131	192	227

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	339	442	384	385	477	5,266	5,321	5,114	6,517	6,815
Cash & Equivalents	136	221	148	102	97	144	275	229	245	342
Acc. Receivable	46	50	58	63	77	217	287	235	337	327
Goodwill & Int.	43	46	56	67	98	4,651	4,446	4,302	4,662	4,733
Total Liabilities	100	157	134	125	159	2,155	2,080	1,758	3,168	3,210
Accounts Payable	1	4	3	2	7	43	13	21	29	20
Long-Term Debt	---	---	---	---	---	1,238	1,215	868	1,204	1,299
Total Equity	239	285	250	260	318	3,111	3,241	3,356	3,349	3,605
LTD/E Ratio	---	---	---	---	---	0.40	0.38	0.26	0.36	0.36

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	47.2%	45.1%	46.0%	53.3%	43.4%	14.0%	8.1%	7.2%	8.1%	7.9%
Return on Equity	66.2%	67.2%	71.0%	80.4%	64.7%	23.4%	13.4%	11.4%	14.0%	15.2%
ROIC	66.2%	67.2%	71.0%	80.4%	64.7%	17.2%	9.7%	8.6%	10.7%	11.2%
Shares Out.	87	87	84	82	81	113	112	111	107	107
Revenue/Share	5.86	6.55	7.23	7.99	8.64	20.74	24.68	22.33	31.36	32.60
FCF/Share	1.95	2.24	2.49	2.48	2.28	3.13	4.44	5.35	12.91	5.09

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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