Cboe Global Markets, Inc. (CBOE)

Updated November 11th, 2023, by Patrick Neuwirth

Metrics

Current Price:	$175	**5 Year CAGR Estimate:**	9.6%	**Market Cap:**	$18.6 B
Fair Value Price:	$188	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date[1]:**	11/29/23
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.4%	**Dividend Payment Date[1]:**	12/15/23
Dividend Yield:	1.3%	**5 Year Price Target**	$263	**Years Of Dividend Growth:**	14
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Rating:**	Hold

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 75% of 2022 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 $18.6 billion company and has about 1,200 employees.

On November 3rd, 2023, Cboe Global Markets released its third quarter results for the period ending September 30th, 2023. For the quarter, the company reported a record net revenue of $480.5 million, which represents 9% growth compared with net revenue of $442.4 million in the same quarter last year. Earnings per diluted share reported for the same periods were $2.06 and $1.74 per share.

The third quarter growth was driven by strong trading activity in Cboe's Derivatives Markets businesses and increased demand for data and access solutions. The derivates market revenue increased by 25% year over year, the data and access solutions net revenue grew by 9%, and cash and cash and spot markets net revenue decreased by 6%. Adjusted operating income grew 11% year over year to $300.2 million, and adjusted operating margin came in at 62.5%, which expanded 160 basis points (bps). Adjusted operating expenses were $180.3 million, which increase 4% year over year, primarily due to the acquisitions of Cboe Digital (formerly ErisX) and Cboe Canada (formerly NEO).

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. Management reconfirmed the company's growth targets for 2023, targeting organic total net revenue growth in the range of 7% to 9%, and Data and Access Solutions organic net revenue growth of 7 to 10%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS[2]	$1.99	$2.21	$2.46	$2.27	$3.69	$3.76	$3.34	$4.27	$4.92	$2.19	***$7.50***	***$10.52***
DPS	$0.66	$0.78	$0.88	$0.96	$1.04	$1.16	$1.34	$1.56	$1.80	$1.96	***$2.20***	***$3.09***
Shares[3]	87	84	82	81	113	112	111	107	107	107	***106***	***105***

Cboe Global Markets has grown earnings by 1.1% per year over the past decade and 14.8% over the past five years. We expect earnings to increase by 7% 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 14 consecutive years. Over the last five years, the average annual dividend growth rate is 13.7%. In August 2023, the quarterly dividend increased by 10% from $0.50 to

[1] Estimated date.

[2] Diluted earnings per share

[3] 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.

$0.55 per share. As of September 30th, 2023, Cboe had $389.8 million left under its current share repurchase authorizations.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	21.7	24.4	25.5	29.2	25.6	28.7	32.4	22.8	23.3	18.9	***23.3***	***25.0***
Avg. Yld.	1.9%	1.4%	1.4%	1.4%	1.1%	1.1%	1.2%	1.6%	1.6%	1.6%	***1.3%***	***1.2%***

During the past decade shares of Cboe Global Markets have traded with an average price-to-earnings ratio of about 25.2 times earnings and today, it stands at 23.3. 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 1.3%, which is in line with the average yield over the past decade of 1.4%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	33%	35%	36%	42%	28%	31%	40%	37%	37%	89%	***29%***	***29%***

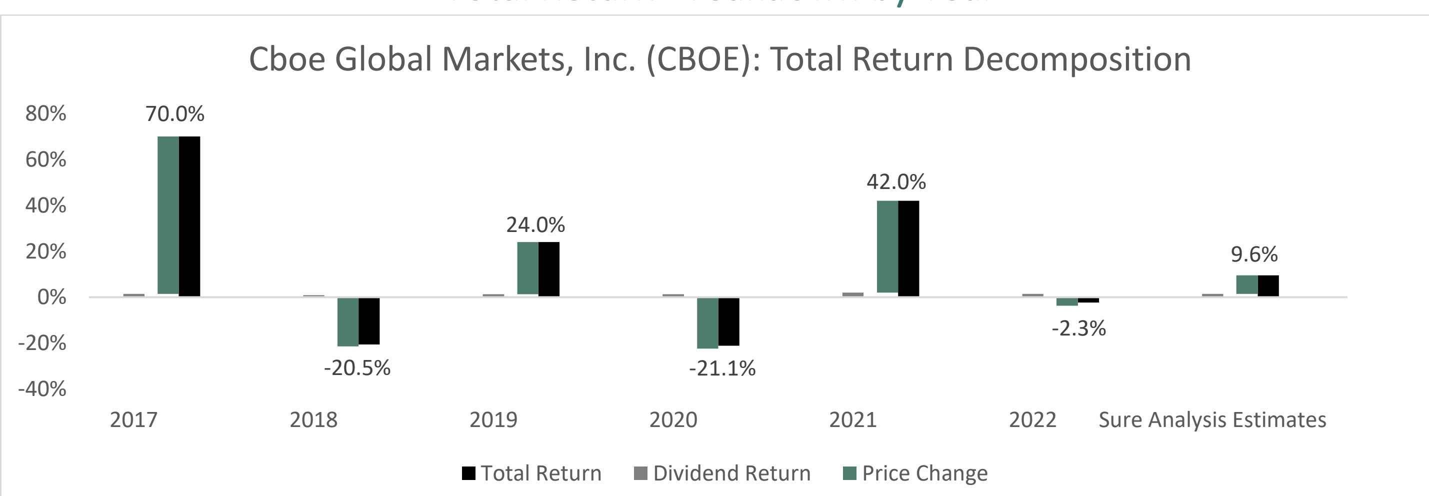
During the past five years, the company's dividend payout ratio has averaged around 35%. Cboe Global Markets' dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at the same pace and keep the payout ratio around the same 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 7% to 9% 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, has a sound dividend payout ratio, and has a solid earnings-per-share growth forecast for the next several years. We estimate total return potential of 9.6% per year for the next five years based on a 7% earnings-per-share growth, a 1.3% yield, and a valuation tailwind. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	572	617	664	703	2,229	2,769	2,496	3,427	3,495	3,958
Gross Profit	397	429	456	453	794	988	938	1,029	1,188	1,742
Gross Margin	69.5%	69.6%	68.7%	64.5%	35.6%	35.7%	37.6%	30.0%	34.0%	44.0%
SG&A Exp.	67	64	80	87	125	129	126	122	160	476
D&A Exp.	35	40	46	44	192	204	177	159	167	167
Operating Profit	286	314	320	312	456	629	586	707	822	970
Op. Margin	50.0%	50.8%	48.2%	44.3%	20.5%	22.7%	23.5%	20.6%	23.5%	24.5%
Net Profit	176	190	205	187	402	427	375	468	529	235
Net Margin	30.8%	30.7%	30.9%	26.6%	18.0%	15.4%	15.0%	13.7%	15.1%	5.9%
Free Cash Flow	196	213	206	185	337	498	598	1,411	546	591
Income Tax	108	120	119	121	(66)	146	131	192	227	198

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	442	384	385	477	5,266	5,321	5,114	6,517	6,815	6,999
Cash & Equivalents	221	148	102	97	144	275	229	245	342	433
Acc. Receivable	50	58	63	77	217	287	235	337	327	370
Goodwill & Int.	46	56	67	98	4,651	4,446	4,302	4,662	4,733	4,840
Total Liabilities	157	134	125	159	2,155	2,080	1,758	3,168	3,210	3,534
Accounts Payable	4	3	2	7	43	13	21	29	20	28
Long-Term Debt	---	---	---	---	1,238	1,215	868	1,204	1,299	1,742
Total Equity	285	250	260	318	3,111	3,241	3,356	3,349	3,605	3,465
LTD/E Ratio	---	---	---	---	0.40	0.38	0.26	0.36	0.36	0.50

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	45.1%	46.0%	53.3%	43.4%	14.0%	8.1%	7.2%	8.1%	7.9%	3.4%
Return on Equity	67.2%	71.0%	80.4%	64.7%	23.4%	13.4%	11.4%	14.0%	15.2%	6.7%
ROIC	67.2%	71.0%	80.4%	64.7%	17.2%	9.7%	8.6%	10.7%	11.2%	4.7%
Shares Out.	87	84	82	81	113	112	111	107	107	107
Revenue/Share	6.55	7.23	7.99	8.64	20.74	24.68	22.33	31.36	32.60	37.10
FCF/Share	2.24	2.49	2.48	2.28	3.13	4.44	5.35	12.91	5.09	5.54

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