Cboe Global Markets, Inc. (CBOE)

Updated August 20th, 2024, by Patrick Neuwirth

Metrics

Current Price:	$205	**5 Year CAGR Estimate:**	9.1%	**Market Cap:**	$21.7 B
Fair Value Price:	$215	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date[1]:**	08/30/24
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.0%	**Dividend Payment Date[1]:**	09/13/24
Dividend Yield:	1.2%	**5 Year Price Target**	$302	**Years Of Dividend Growth:**	14
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**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 76% of 2023 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 $21.7 billion company and has about 1,650 employees.

On August 2nd, 2024, Cboe Global Markets released its second quarter results for the period ending June 30th, 2024. For the quarter, the company reported a record net revenue of $513.8 million, which represents a 10% increase compared with net revenue of $467.1 million in the same quarter last year. Earnings-per-share (EPS) for the quarter were $1.33, down from $1.57 per share in the previous year's quarter, primarily due to an $81 million impairment of intangible assets recognized in the Digital reporting unit. However, adjusted EPS was $2.15, up 21% year-over-year.

Second quarter growth was driven by strong performance across multiple business segments, with notable increases in the Cash and Spot Markets and Global FX categories. Derivative trends remained robust, with net revenues growing 11%, reflecting strong activity in both the derivatives markets and data and access solutions, while also benefiting from continued solid performance in cash and spot markets. Adjusted operating income increased to $316.7 million, and the adjusted operating margin was 61.6%, showing continued progress in enhancing margin efficiencies. Adjusted operating expenses were $197.1 million, a 2% increase year-over-year, primarily due to higher compensation and benefits and professional fees, partially offset by a decline in travel and promotional expenses. Cboe Global Markets' strategy remains focused on expanding its addressable market through its three growth pillars: organic growth, M&A growth, and recurring revenue growth. The company has updated its 2024 outlook, now anticipating organic total net revenue growth in the 6% to 8% range, up from the previous guidance of the higher end of the 5% to 7% range, and reaffirming Data and Access Solutions organic net revenue growth of 7 to 10%, though likely at the lower end of this range. Adjusted operating expenses for 2024 are reaffirmed to be in the range of $795 to $805 million.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS[2]	$2.21	$2.46	$2.27	$3.69	$3.76	$3.34	$4.27	$4.92	$2.19	$7.13	***$8.60***	***$12.06***
DPS	$0.78	$0.88	$0.96	$1.04	$1.16	$1.34	$1.56	$1.80	$1.96	$2.20	***$2.52***	***$3.53***
Shares[3]	84	82	81	113	112	111	107	107	107	107	***106***	***105***

Cboe Global Markets has grown earnings by 13.9% per year over the past decade and 20.8% 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. Looking forward, Cboe’s ambitions and the medium-term growth rate target of 7% to 9% annually look realistic.

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[1] Estimated date.

[2] Diluted earnings per share

[3] In millions.

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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 10.4%. In August 2024, the quarterly dividend increased by 14.5% from $0.55 to $0.63 per share. During the first quarter, the company utilized $90.4 million to repurchase approximately 514 thousand shares of its common stock under its share repurchase program at an average price of $175.76 per share.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	24.4	25.5	29.2	25.6	28.7	32.4	22.8	23.3	18.9	23.3	***23.8***	***25.0***
Avg. Yld.	1.9%	1.4%	1.4%	1.1%	1.1%	1.2%	1.6%	1.6%	1.6%	1.3%	***1.2%***	***1.2%***

During the past decade shares of Cboe Global Markets have traded with an average price-to-earnings ratio of about 25.4 times earnings and today, it stands at 23.8. 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 1.2%, which is nearly in-line with the average yield over the past decade of 1.4%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	35%	36%	42%	28%	31%	40%	37%	37%	89%	31%	***29%***	***29%***

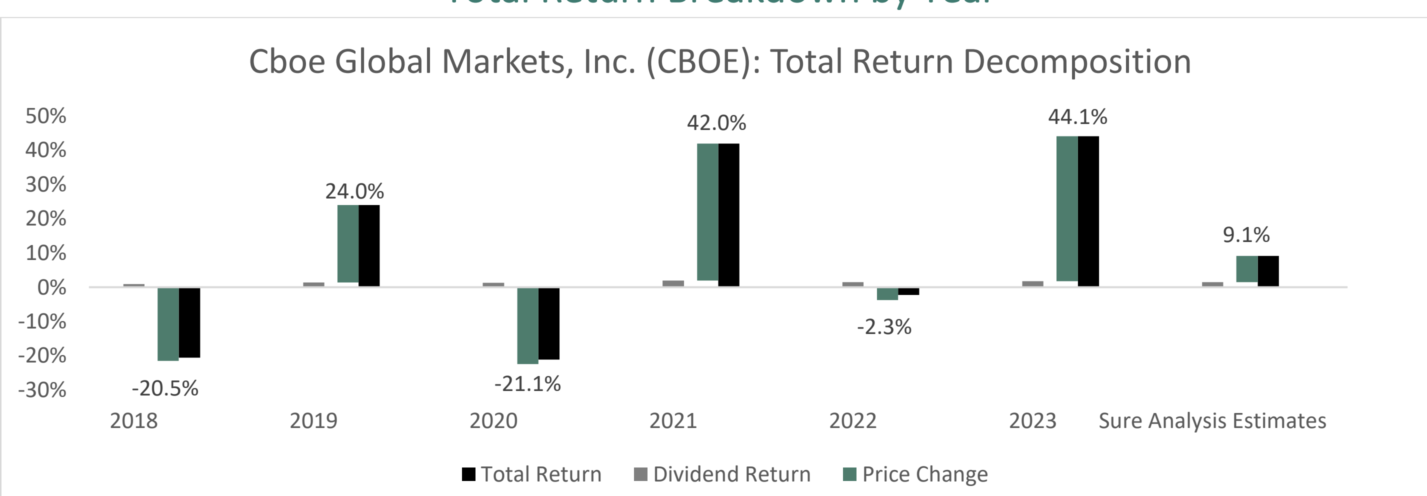
During the past five years, the company's dividend payout ratio has averaged around 35%. Cboe Global Markets' dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at the same pace and keep the payout ratio around the same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

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, but has a sound dividend payout ratio and a solid earnings-per-share growth forecast for the next several years. We estimate total return potential of 9.1% per year for the next five years based on a 7% earnings-per-share growth, a 1.2% yield, and a valuation tailwind. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	617	664	703	2,229	2,769	2,496	3,427	3,495	3,958	3,774
Gross Profit	429	456	453	794	988	938	1,029	1,188	1,742	1,492
Gross Margin	69.6%	68.7%	64.5%	35.6%	35.7%	37.6%	30.0%	34.0%	44.0%	39.5%
SG&A Exp.	64	80	87	125	129	126	122	160	476	130
D&A Exp.	40	46	44	192	204	177	159	167	167	158
Operating Profit	314	320	312	456	629	586	707	822	970	1,065
Op. Margin	50.8%	48.2%	44.3%	20.5%	22.7%	23.5%	20.6%	23.5%	24.5%	28.2%
Net Profit	190	205	187	402	427	375	468	529	235	761
Net Margin	30.7%	30.9%	26.6%	18.0%	15.4%	15.0%	13.7%	15.1%	5.9%	20.2%
Free Cash Flow	213	206	185	337	498	598	1,411	546	591	1,031
Income Tax	120	119	121	(66)	146	131	192	227	198	286

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	384	385	477	5,266	5,321	5,114	6,517	6,815	6,999	7,488
Cash & Equivalents	148	102	97	144	275	229	245	342	433	543
Acc. Receivable	58	63	77	217	287	235	337	327	370	337
Goodwill & Int.	56	67	98	4,651	4,446	4,302	4,662	4,733	4,840	4,745
Total Liabilities	134	125	159	2,155	2,080	1,758	3,168	3,210	3,534	3,502
Accounts Payable	3	2	7	43	13	21	29	20	28	25
Long-Term Debt	---	---	---	1,238	1,215	868	1,204	1,299	1,742	1,439
Total Equity	250	260	318	3,111	3,241	3,356	3,349	3,605	3,465	3,985
LTD/E Ratio	---	---	---	0.40	0.38	0.26	0.36	0.36	0.50	0.36

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	46.0%	53.3%	43.4%	14.0%	8.1%	7.2%	8.1%	7.9%	3.4%	10.5%
Return on Equity	71.0%	80.4%	64.7%	23.4%	13.4%	11.4%	14.0%	15.2%	6.7%	20.4%
ROIC	71.0%	80.4%	64.7%	17.2%	9.7%	8.6%	10.7%	11.2%	4.7%	14.3%
Shares Out.	84	82	81	113	112	111	107	107	107	106
Revenue/Share	7.23	7.99	8.64	20.74	24.68	22.33	31.36	32.60	37.10	35.53
FCF/Share	2.49	2.48	2.28	3.13	4.44	5.35	12.91	5.09	5.54	9.70

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