



Bats Global Markets, Inc.

1st Quarter 2016 Earnings Call

May 5, 2016

(SLIDE 1 – COVER)

Operator introduction: Greetings, and welcome to the Bats First Quarter 2016 Earnings Call.

At this time, all participants are in a listen-only mode. If anyone on the phone should require operator assistance during the conference press star-zero on your telephone keypad. If anyone online needs technical support simply click on the question mark icon on the upper right corner of your screen. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mark Marriott, Director of Investor Relations for Bats.

Thank you. You may begin.

(SLIDE 2)

Mark Marriott: Thank you, Diego, and good afternoon everyone. Our CEO, Chris Concannon, leads the call today along with our CFO, Brian Schell.

As part of today's discussion, we'll reference our first quarter 2016 earnings presentation, accessible via our website at ir.bats.com.

(SLIDE 3)

Our comments will include mention of non-GAAP financial measures, which are defined on slide 3 and reconciled in the appendix to the presentation. While we believe these tables provide investors useful information about our business trends, they do not replace and are not superior to GAAP measures.

Certain statements in the prepared presentation may relate to future events and expectations and, as such, constitute forward-looking statements. Actual results may differ materially from those projected in these forward-looking statements.

We will not be taking questions at the end of this call due to quiet period restrictions but plan to do so at the end of subsequent quarterly calls.

With that, I'll pass it to Chris.

CHRIS CONCANNON: Thanks Mark. Good afternoon everyone and thank you for joining us on our first earnings call as a public company. Before getting into the details of our first quarter performance, I would like to welcome our new investors to the call. The past couple of months have been very exciting for Bats, culminating with our successful IPO on April 15th. It was a pleasure to meet many of you during the roadshow and we are honored that so many of you chose to invest in our company. We look forward to partnering with you going forward. I would also like to take a moment to thank our customers, issuers, supporters and shareholders of Bats. We appreciate that all of this would not be possible without your longstanding commitment.

Thank you for allowing us this privilege.

(SLIDE 4)

With that, I'll begin on slide 4. The first quarter of 2016 was yet another record quarter for Bats. We set records for net revenue at \$112 million, normalized EBITDA at \$75 million, normalized EBITDA margin at 67%, earnings at \$30 million, adjusted earnings at \$36 million, and diluted adjusted earnings per share at 37 cents. It was a very strong quarter for the company to achieve while also very focused on executing our IPO.

As we achieved these record numbers, we also built upon our market leading position. In the first quarter, we remained #1 in U.S. Equities trading, excluding auctions, and strengthened our position as the #1 market in ETF trading. We also remained #1 in European Equities trading and European trade reporting. In U.S. Options, we remained the #1 price-time priority market as we continued to build momentum with our second exchange, EDGX Options. And in Global FX, we grew our market share to 11.8%, the highest since our acquisition of Hotspot in March 2015.

In addition, we made progress against several key initiatives. First, we continued to see success on the ETF listings front, with 13 new ETF listings and 1 ETF transfer. The 13 new listings accounted for 30% market share of new listings coming to market and demonstrated continued momentum in the ETF space since the launch of our ETF Marketplace in the fourth quarter of 2015.

To further strengthen our position in the ETF market, as previously announced, we acquired ETF.com, a leading provider of ETF data, news and analysis, in April. The acquisition of this innovative business underscores our commitment to the ETF industry and our focus on providing unique, value-added content for issuers, brokers, financial

advisors, market professionals and investors. We are excited to acquire a company that shares the Bats culture and dedication to the continuing education of investors and other market constituents.

Also during the quarter, we launched the SPYIX volatility index, an index measuring volatility in the world's most actively traded security, the S&P 500 ETF or SPY. SPYIX is calculated using prices from electronically-traded options on SPY, an improvement over the floor-based index options used to calculate other volatility indexes. We are excited about the launch of this new index and continue to receive positive feedback from the industry.

And finally on slide 4, we remain on track to deliver auctions capability on the EDGX Options exchange and to launch FX forwards on Hotspot in the second half of this year.

We continue to be well-positioned to grow all of our businesses by focusing on our customers' needs and working to become – or remain – #1 in every market in which we operate.

(SLIDE 5)

Turning to slide 5, market share in our U.S. Equities business was slightly higher than a year ago at 21.3% compared to 20.8% last year. Our market share was helped by an increase in volatility during the months of January and February. We also continued to hold the top spot for ETF trading in the U.S. with market share of 26.2% for the quarter, a distinction we have held since February 2014.

European Equities market share ended the quarter at 23.5%, a decrease of 20 basis points compared to the first quarter of last year. This is also down from the fourth quarter of last year, reflecting pricing changes implemented in January 2016 that are intended to enhance net transaction revenue going forward. As a result, net capture in the first quarter increased 10% from a year ago.

In U.S. Options, market share reached 10.2% for the quarter versus 8.8% a year ago and 8.9% in the fourth quarter. The first quarter growth represented a rebound from a dip in the fourth quarter as we continue to monitor pricing and the competitive environment. And, again, we remained the #1 price-time priority options market and are encouraged by the early momentum we have gained with the launch of EDGX Options in November. That new market is already closing in on 1% market share.

As for the Hotspot Global FX business, our overall market volumes were helped by volatility in the early part of the quarter and then pulled back in March. We also increased our market share, which has grown each quarter since our acquisition in March 2015, finishing the first quarter at 11.8%.

(SLIDE 6)

I'll briefly mention the financial highlights on slide 6 before Brian goes into greater detail. First quarter net revenue grew by 35% to \$112 million from \$83 million a year ago while normalized EBITDA increased by 67% to \$75 million from \$45 million. As I mentioned earlier, those are both quarterly records for Bats.

With that, I'll pass it to Brian.

(SLIDE 7)

BRIAN SCHELL: Thank you, Chris. I'll begin with slide 7. The first quarter net revenue growth of 35% that Chris mentioned was driven in part by the Hotspot acquisition in mid-March 2015, which generated net revenue of \$10.4 million in the first quarter of 2016 compared to \$2.4 million in the first quarter of 2015. Our organic growth rate, which excludes the Hotspot acquisition, grew 26% in the first quarter vs a year ago. This growth was the result of the run-rate benefit of connectivity fee pricing changes implemented in the middle of 2015, which contributed an incremental \$7 million to first quarter growth. The remainder of the variance was driven by higher market share in our U.S. Equities, U.S. Options, and Global FX businesses and higher net capture in our European Equities and U.S. Options businesses. And even though U.S. equity market volumes grew by 24%, driven by higher volatility in the early part of the quarter, overall market volumes only accounted for about 15% of our incremental growth.

For the quarter, our percentage of non-transaction revenue again made up the majority of our net revenue, coming in at 54%, 3 percentage points lower than the fourth quarter 2015 level of 57%. The reduction was primarily the result of the Hotspot acquisition in mid-March 2015, as Hotspot currently only generates transaction revenue. Excluding that transaction, the percentage of non-transaction revenue would have actually increased a full percentage point to 60% from 59% last year.

(SLIDE 8)

Turning to slide 8, a few comments about our record level of earnings for the first quarter of 2016. As I mentioned, the increased market share in U.S. Equities and U.S.

Options along with the Hotspot acquisition and incremental Direct Edge synergies contributed directly to our normalized EBITDA growth of 67% to \$75 million. The results in last year's quarter included a \$6 million charge reflecting the acceleration of various lease expenses associated with the Direct Edge acquisition. The effective normalized EBITDA margin on incremental net revenue growth was over 100% for the year over year quarter and 95% sequentially.

Adjusted earnings for the quarter were \$36 million compared to \$20 million last year, a 77% increase. On an EPS basis, diluted adjusted earnings per share improved to 37 cents per share compared to 21 cents last year, an increase of 76%.

From a segment perspective, the majority of our growth came from U.S. Equities, reflecting not only the top-line growth drivers previously mentioned but also margin expansion of 21 percentage-points. Normalized EBITDA margin for our U.S. Equities business was a record 75% for the quarter. In U.S. Options, normalized EBITDA grew by more than 240%, driven by market share gains and realization of a significantly higher net capture. We are especially pleased with the results in our U.S. Options business as the earnings growth was achieved while aggressively growing our market share.

(SLIDE 9)

Moving to slide 9, normalized operating expenses increased slightly to \$47 million from \$46 million, as Direct Edge synergies were mostly offset by incremental expenses from the Hotspot acquisition. Total operating expenses, including one-time items, were \$50 million compared to \$51 million last year.

We continue to realize synergies from both the Direct Edge and Hotspot acquisitions. We realized \$11 million of synergies from the Direct Edge transaction this quarter and we remain confident that we will achieve the entire \$47-plus million annual synergy savings target announced in 2015. In fact, with the completion of the technology conversion and data center migration that occurred in the first half of 2015, we have taken actions that have locked in 99% of the overall savings target. For Hotspot, we are expecting annualized synergies of \$10-12 million, to be achieved by the end of 2017. During the first quarter, we realized another \$2 million of these synergies, bringing our total savings since the acquisition in March 2015 to \$6 million.

(SLIDE 10)

Now on to a few balance sheet metrics on slide 10. At the end of the first quarter of 2016, our leverage ratio shrank dramatically to 2.45 times, well below the covenant maximum of 4.5 times and significantly below the 4.2 times at the time of the Hotspot acquisition. During the quarter, we paid down an incremental \$20 million towards principal, reducing the total balance of our debt to \$637 million from \$678 million at the end of 2015. Since the leverage ratio is now below 2.5 times, we are able to implement our planned dividend policy of targeting an approximate 30% payout on GAAP E.P.S. As a result, the Board of Directors declared a regular quarterly cash dividend of \$0.08 per share on the company's outstanding common stock, which is payable on September 28, 2016 to stockholders of record at the close of business on September 14, 2016.

And finally, our adjusted cash, which is the sum of our cash and financial investments excluding the cash we've collected for Section 31 fees, was \$67 million as of March

31st. We continue to expect our annual capital expenditures to be \$15 to \$20 million in 2016.

With that, I'll pass it back to Chris to summarize the call.

(SLIDE 11 – SUMMARY)

CHRIS CONCANNON: Thank you Brian. I'll quickly refer to slide 11 for a recap.

Here is what we have done well this quarter:

- We set company records for net revenue, earnings and margin;
- We recorded a solid market share across all of our businesses, led by U.S. Equities and U.S. Options, and remained the #1 stock exchange in Europe, while Hotspot grew market share for the third consecutive quarter;
- We continued to gain momentum in our ETF Listings business with new listings and the acquisition of ETF.com;
- We remained on track to deliver new products within our U.S. Options and Global FX businesses;
- We successfully completed our IPO on Bats;
- And we maintained our commitment to de-levering quickly and appropriately.

While we had a very strong quarter, here is where we can do better:

- First, while we have had strong growth in Options, our market share has been volatile at times and we need to ensure a more stable options market share over time;
- Second, while we have increased our capture rate in European Equities and remain the #1 stock market in Europe, we need to target higher market share given our still competitive pricing there;
- Third, our success in our ETF Listings business has been extraordinary for Bats as we have more than doubled our listings in the past year. But it is not enough;

we can certainly be a better partner to the ETF issuers and we need to continue to innovate in that space;

- Finally, with respect to Global FX, growth at Hotspot must accelerate to meet our own very high standards. While overall FX market volumes have fallen more recently, we certainly have room to improve Hotspot's position in the FX market as a low-cost disruptor.

While we intend to improve in these areas, we remain committed to protecting the Bats culture of doing more with less. With the recent addition of ETF.com, we now have just over 300 associates and I believe we are well prepared to meet our ambitious agenda.

With that, I want to thank you for joining our call today. As a reminder, we will not take questions on this call but plan to take questions on future calls. I will now hand the call back to the operator. Thank you for joining.

Operator: Thank you. This concludes today's earnings call. All parties may disconnect. Have a good evening.