

Robinhood Markets

Key takeaways from meetings with CFO;
Greater appreciation for growth trajectory

Maintain Rating: UNDERPERFORM | PO: 12.00 USD | Price: 16.58 USD

Key takeaways from meetings with CFO

On Friday, we hosted investor meetings with Robinhood Markets' CFO Jason Warnick. Following the meetings, we maintain our Underperform rating but have a greater appreciation for HOOD's organic growth trajectory and overall monetization strategy. In the group meeting, we discussed HOOD's 3-legged growth strategy, new data points that counter the "graduation risk" argument, international expansion in the UK/EU and longer-term operating leverage/expense growth.

Focused on the active trader segment

By market share, HOOD estimates it is number one in mobile and number two overall in the active trader segment. HOOD also disclosed last quarter that it is seeing positive inflows from all major competitors. HOOD has plans to improve its desktop offering as well as launch both futures and cash settled index options in the near future.

Increasing wallet share through product expansion

HOOD has continued to launch new products with some geared towards longer-term investing. For example, retirement accounts have already grown to \$1.7B AuC (1.7% total) and have been helped by strong promotions such as 3% match for Gold members available through April. HOOD's acquisition of X1 (credit card offering) is another example of further increasing customer wallet share.

Launched crypto in EU and rolls out brokerage in UK

HOOD has already onboarded "tens of thousands" of international accounts since launching in both the EU and UK. This expands their TAM to millions of potential new users. The broker launched crypto trading capabilities in tandem with its digital wallet throughout the EU in December which happened to be fortuitous timing as the crypto market shows signs of heating up (Bitcoin price is close to record highs).

Expense discipline should drive operating leverage

HOOD has managed to cut their expense base over the last year helping the broker to reach profitability. Management commented that their cost structure is roughly 90% fixed and guides to +5% total expense growth in 2024 and low single digits over the long-term leading to operating leverage as revenues grow.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(7.49)	(1.17)	(0.60)	0.26	0.45
EPS Change (YoY)	NM	84.4%	48.7%	NM	73.1%
Consensus EPS (Bloomberg)			(0.65)	0.25	0.31
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	63.8x	36.8x

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Stock Data

Price	16.58 USD
Price Objective	12.00 USD
Date Established	11-Jan-2024
Investment Opinion	C-3-9
52-Week Range	7.91 USD -16.60 USD
Mkt Val / Shares Out (mn)	12,235 USD / 737.9
Free Float	78.6%
Average Daily Value	265.08 USD
BofA Ticker / Exchange	HOOD / NAS
Bloomberg / Reuters	HOOD US / HOOD.OQ
ROE (2023E)	0%
ESGMeter™	NLA

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Glossary:

AuC = assets under custody

TAM = total addressable market

PFOF = payment for order flow

EU = European union

UK = United Kingdom

iQprofileSM Robinhood Markets

Income Statement Data (Dec)

(US\$ Millions)

	2021A	2022A	2023E	2024E	2025E
Net Revenues	1,813	1,358	1,865	2,148	2,513
Compensation & Benefits	(1,371)	(925)	(1,169)	(554)	(601)
% of Net Revenue	75.6%	68.1%	62.7%	25.8%	23.9%
Non-Compensation Expenses	(2,084)	(1,444)	(1,232)	(1,351)	(1,488)
Net Income to Ordinary Shareholders	(3,688)	(1,028)	(541)	242	424

Balance Sheet Data (Dec)

(US\$ Millions)

	2021A	2022A	2023E	2024E	2025E
Total Assets	19,769	23,337	32,332	33,836	36,439
Deposits	NA	NA	NA	NA	NA
Long Term Debt	0	0	0	0	0
Total Equity	7,293	6,956	6,696	7,730	8,252

Sector Metrics (Dec)

(US\$ Millions)

	2021A	2022A	2023E	2024E	2025E
DARTs	0	2	0	0	0
Net Interest Margin	NA	NA	NA	NA	NA
Interest Earning Assets	17,097	17,520	24,967	30,523	33,003
Net New Assets	27	18	17	21	21
Growth	43.0%	18.8%	27.5%	20.3%	16.3%
Total Client Assets	98	62	103	130	160

Performance Metrics (Dec)

(US\$ Millions)

	2021A	2022A	2023E	2024E	2025E
Operating Margin	-90.6%	-74.4%	-28.7%	11.3%	16.9%
Net Profit Margin	-203.4%	-75.7%	-28.9%	11.3%	17.0%
Comp Expense/Revenue	75.6%	68.1%	62.7%	25.8%	23.9%
Non-Comp Expense / Revenue	114.9%	106.3%	66.1%	62.9%	59.2%
Net Revenue Growth	89.1%	-25.1%	37.3%	15.2%	17.0%

Company Sector

Asset Management

Company Description

HOOD is an online broker that pioneered commission-free trading and targets underserved "unbrokered" retail investors that are less wealthy and younger than the clients of other wealth managers. HOOD undercut much of its established competition by generating fees through order routing client trades to market-makers instead of charging commissions.

Investment Rationale

While the benefits from the perfect storm created by the pandemic continue to reverse and at the same time its main revenue driver (PFOF) is being investigated by the SEC, MAU's have shown signs of stabilization and net interest revenue is becoming a larger driver of revenue. We look for continued signs of reversing trends and maintain our Underperform rating.

Quarterly Earnings Estimates

	2022	2023
Q1	-0.45A	-0.57A
Q2	-0.34A	0.03E
Q3	-0.20A	-0.09E
Q4	-0.19A	0.03E



Price objective basis & risk

Robinhood Markets (HOOD)

Our price objective (PO) of \$12 for Robinhood is derived from a EBITDA multiple method: We apply a 7x multiple to forecasted 2026 EBITDA to obtain a valuation which we then discount back one year to obtain our PO. Our multiple is based on peers. We also no longer include excess cash as we are including net interest revenue generation from that cash and wish to avoid double counting.

Upside risks to our PO are: expansion of cryptocurrency offering, entrance into international markets, and new product launches.

Downside risks to our PO are: US regulatory risks regarding payment for order flow, continued reversal of pandemic related tailwinds, and decelerating growth potential given its high market share within its addressable market.

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US - Brokers, Asset Managers, & Exchanges Coverage Cluster

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BUY				
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	Ameriprise Financial	AMP	AMP US	Craig Siegenthaler, CFA
	Ares Management Corp	ARES	ARES US	Craig Siegenthaler, CFA
	BlackRock, Inc.	BLK	BLK US	Craig Siegenthaler, CFA
	Blackstone	BX	BX US	Craig Siegenthaler, CFA
	Blue Owl Capital	OWL	OWL US	Craig Siegenthaler, CFA
	Cboe Global Markets	CBOE	CBOE US	Craig Siegenthaler, CFA
	Interactive Brokers	IBKR	IBKR US	Craig Siegenthaler, CFA
	Intercontinental Exchange	ICE	ICE US	Craig Siegenthaler, CFA
	KKR & Co. Inc.	KKR	KKR US	Craig Siegenthaler, CFA
	Raymond James Financial	RJF	RJF US	Mark McLaughlin, CFA
	TPG Inc	TPG	TPG US	Craig Siegenthaler, CFA
	Tradeweb Markets Inc.	TW	TW US	Craig Siegenthaler, CFA
	Victory Capital Holdings, Inc.	VCTR	VCTR US	Craig Siegenthaler, CFA
	Virtu Financial	VIRT	VIRT US	Craig Siegenthaler, CFA
NEUTRAL				
	Affiliated Managers Group	AMG	AMG US	Craig Siegenthaler, CFA
	Apollo Global Management	APO	APO US	Craig Siegenthaler, CFA
	Brookfield Asset Management	BAM	BAM US	Craig Siegenthaler, CFA
	CME Group Inc	CME	CME US	Craig Siegenthaler, CFA
	Invesco	IVZ	IVZ US	Craig Siegenthaler, CFA
	Janus Henderson Group	JHG	JHG US	Craig Siegenthaler, CFA
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	Patria	PAX	PAX US	Craig Siegenthaler, CFA
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	Franklin Resources	BEN	BEN US	Craig Siegenthaler, CFA
	Nasdaq	NDAQ	NDAQ US	Craig Siegenthaler, CFA
	Robinhood Markets	HOOD	HOOD US	Craig Siegenthaler, CFA
	T. Rowe Price	TROW	TROW US	Craig Siegenthaler, CFA
	The Carlyle Group	CG	CG US	Craig Siegenthaler, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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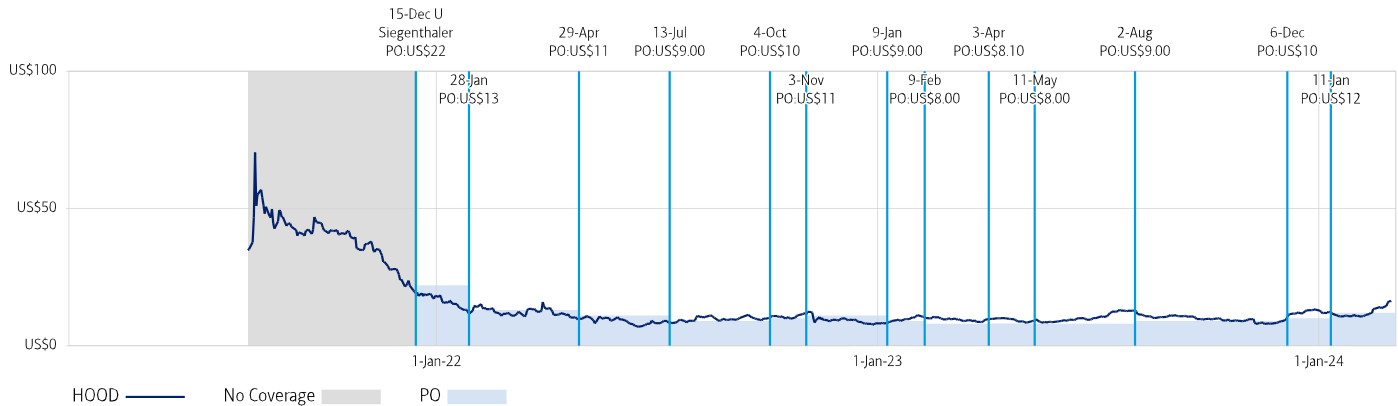
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Robinhood Markets (HOOD) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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