

## Robinhood Markets

## 4Q23E: Mgmt. provides positive transfer data on call; Addresses graduation risk

Reiterate Rating: UNDERPERFORM | PO: 12.00 USD | Price: 11.84 USD

## HOOD reported strong overall financial results

HOOD reported better than expected EPS of \$0.03 (vs. \$0.02 BofA / -\$0.01 consensus) driven by an uptick in crypto transaction-based revenue (+\$20M q/q) and continued expense discipline, particularly in non-SBC expenses (-20% q/q). This is their third consecutive quarter of positive net income (excluding a one-time legal expense in 3Q23). Mgmt. guided to 2024 combined adj. opex to be in the \$1.85-1.95B range (+5% y/y) containing \$85M of SBC per quarter. Given recent positive signs of managements seriousness around cost discipline including multiple headcount reductions on top of their \$485M Founders Award cancellation, we view their targets as highly attainable.

## New data points help address “graduation risk”

Management made some positive statements on the call including that they monitored \$1.3B of net positive brokerage account transfers and won net asset inflows from every major competitor, averaging over \$100K per transfer. We consider this an important data point if HOOD is able to maintain the momentum signaling it is not suffering from “graduation risk” and winning larger accounts. While still a small portion of overall AuC, we also liked their reported growth in Retirement (\$1.7B vs. \$1.1B q/q) and view this as a positive step towards making their revenue streams less sensitive to overall macro volatility.

## Revising EPS; Maintain PO at \$12

We revised our 1Q24/2025/2026 EPS estimates to \$0.05/\$0.45/\$0.77 from \$0.06/\$0.47/\$0.76 driven by a slightly lower NIR forecast following weak securities lending results this quarter as well as updated expense guidance. We maintain our \$12 PO which is derived on a 7x multiple on 2026 adj. EBITDA plus \$3B of excess cash.

## Reiterate U/P; Retail engagement #1 risk to our rating

We reiterate our Underperform rating on HOOD given recent declines in monthly active users in addition to slow account growth relative to prior years. Following multiple expense cuts and an emphasis on expense discipline, we have HOOD generating positive adj. EBITDA and EPS going forward. Upside risks include improving retail engagement and additional product launches.

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)	0.18	0.22
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	45.5x	26.3x

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Timestamp: 13 February 2024 09:26PM EST

13 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
2023E Rev (m)	1,850.0	1,865.0
2024E Rev (m)	2,141.8	2,147.6
2025E Rev (m)	2,508.4	2,513.1
2023E EPS	-0.61	-0.60
2024E EPS	0.30	0.26
2025E EPS	0.47	0.45

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## Stock Data

Price	11.84 USD
Price Objective	12.00 USD
Date Established	11-Jan-2024
Investment Opinion	C-3-9
52-Week Range	7.91 USD -13.51 USD
Mrkt Val / Shares Out (mn)	8,737 USD / 737.9
Free Float	78.6%
Average Daily Value	113.98 USD
BofA Ticker / Exchange	HOOD / NAS
Bloomberg / Reuters	HOOD US / HOOD.OQ
ROE (2023E)	0%
ESGMeter™	NLA

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# iQprofile<sup>SM</sup> 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

**Management beat prior expense guidance; Updates to 24'**

HOOD reported FY23 total operating expenses excluding SBC of \$1.53B which fell above their original 1Q23 earnings call target (\$1.42-1.48B) but were able to hit their total operating expense guidance (\$2.401B reported vs. \$2.345-\$2.485B range) driven by large reductions in core opex less SBC (-\$285M y/y excluding one-time legal settlement). Management guided to 2024 combined adjusted opex including SBC to be in a range of \$1.85-1.95B containing \$85M of SBC per quarter which in total equates to +5% y/y growth excluding the one-time expense from the cancellation of their Founder Award. We believe this target is obtainable to hit given management's focus around maintaining a lean structure going forward following multiple rounds of headcount reductions the prior few quarters on top of their \$485M Founders Award cancellation which we viewed as a strong signal to the market of Vlad Tenev's and Baiju Bhatt's seriousness around alignment of management and investor interests.

## 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.

## Analyst Certification

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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
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	Cboe Global Markets	CBOE	CBOE US	Craig Siegenthaler, CFA
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	Intercontinental Exchange	ICE	ICE US	Craig Siegenthaler, CFA
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	Virtu Financial	VIRT	VIRT US	Craig Siegenthaler, CFA
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	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
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	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

## iQmethod<sup>SM</sup> 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 &amp; 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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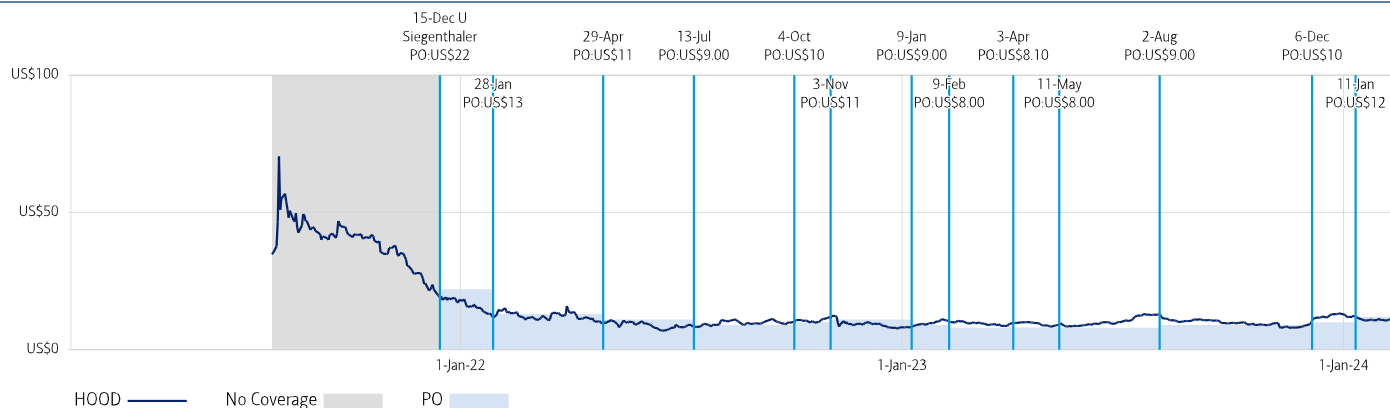
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### Robinhood Markets (HOOD) Price Chart



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 <sup>R1</sup>	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%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

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Neutral	≥ 0%	≤ 30%
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