



# Robinhood Markets (NASDAQ: HOOD)

Robinhood Markets   NASDAQ: HOOD	
Positive	Negative
Share price, 4/18/24:	\$49.119
Market capitalization:	\$43.33 bn
Shares outstanding:	883.84 mn
52-week range:	\$13.98 - \$66.91
EPS (FY23):	\$1.56
Beta:	2.18
Price target:	\$54.71

## Price Chart



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## Executive Summary

Robinhood Markets is a US-based financial services platform that offers commission-free trading of stocks, options, and cryptocurrencies. The company generates revenue primarily through payment for order flow (PFOF), interest on customer balances, and premium subscription-based features. With international expansion accelerating, a product mix shifting toward recurring revenues, and market overreaction to regulatory risks and crypto market cyclicalities, we believe HOOD is undervalued and rate it a **BUY**.

## Company Overview

Robinhood was founded in 2013 with a simple but transformative mission: to democratize finance for all. At a time when investing was largely restricted to wealthier individuals due to high trading fees and minimum account requirements, Robinhood pioneered commission-free stock trading, making investing accessible to a broader audience. Its easy-to-use mobile app and zero-commission model quickly attracted millions of first-time investors, particularly Millennials and Gen Z, who were drawn to its simplicity and low barriers to entry. By 2018, Robinhood expanded into cryptocurrency trading, positioning itself at the forefront of a rapidly growing market segment.

The company gained widespread attention during the 2021 retail trading boom, playing a pivotal role in events such as the GameStop short squeeze, which solidified its place in the broader financial conversation. That same year, Robinhood went public through an IPO in July 2021, reflecting its explosive growth but also drawing greater scrutiny to its business practices, especially its reliance on Payment for Order Flow (PFOF) as a core revenue

model. In the years that followed, Robinhood embarked on a strategic shift to diversify its revenue streams beyond transaction-based income. It introduced premium subscription services through Robinhood Gold, launched Robinhood Legend to cater to active traders, and expanded into new areas such as prediction markets, derivatives, and asset tokenization.

International growth also became a major focus, with Robinhood beginning its expansion into Europe, the UK, and APAC markets. To facilitate this, it announced the acquisition of Bitstamp, a major cryptocurrency exchange with regulatory licenses across key global markets, and TradePMR, a platform enhancing services for registered investment advisors (RIAs). Today, Robinhood is evolving from a mobile-first trading disruptor into a global financial platform, offering a wide range of products that aim to serve the next generation of investors across geographies and asset classes.

Robinhood generates revenue through three main channels: payment for order flow (PFOF), interest income, and other revenue. The split between the three is pretty skewed towards PFOF and NII (50% and 41%, respectively in 9-months ending Sep. 2024). Each of these categories of revenue also have fundamentally different drivers. PFOF is driven by trading volumes, thus falling when market activity weakens, while Net Interest Income is more steadily focused on deposit growth. The “Other Revenue” is comprised of Robinhood Gold and Legend, probably the most recurring in nature, as it is charged in exchange for a subscription.

## Industry Overview:

Over the past decade, consumer-facing finance products have transformed significantly:

1. Democratization of Finance: Traditional brokerage barriers—high trading fees, minimum deposit requirements—have been dismantled. Companies like Robinhood pioneered commission-free trading, making investing accessible to first-time and younger investors.
2. Technological Innovation: Fintech platforms have leveraged mobile apps, real-time data, and simple interfaces to make financial services user-friendly. This has led to a surge in first-time investors, especially among Millennials and Gen Z.
3. Diversification of Financial Products: Platforms now offer not just stocks but also options, cryptocurrencies, futures, and high-yield savings accounts.
4. Increased Financial Literacy: Modern brokerages emphasize investor education tools to foster financial literacy, further expanding their user bases.
5. Tokenization: Emerging technologies like asset tokenization (fractional ownership of illiquid assets) are creating new frontiers for retail investment.
6. Regulatory Scrutiny: As consumer-facing financial products become mainstream, they have attracted greater attention from regulators, especially around Payment for Order Flow (PFOF) models.

## **Robinhood's Positioning: How It Stands Apart from Traditional Brokers**

Robinhood has fundamentally redefined what a modern brokerage can be—transforming it from a tool for the wealthy into a gateway for the next generation of investors. Where traditional brokers have long relied on outdated models and clunky interfaces, Robinhood broke through by offering commission-free trading via Payment for Order Flow (PFOF), making investing accessible to anyone with a smartphone. This simple yet radical shift unlocked the markets for Millennials, Gen Z, and first-time investors—demographics that had been largely underserved by legacy financial institutions.

What sets Robinhood apart isn't just low costs—it's the company's relentless focus on user experience, innovation, and platform breadth. Its mobile-first, highly intuitive interface strips away complexity without sacrificing functionality, creating a seamless experience that resonates with digital-native investors. This design-first approach, combined with educational content and real-time insights, has cultivated a loyal user base that sees Robinhood not just as a broker, but as a trusted financial partner.

Far from being a one-trick pony, Robinhood is expanding aggressively beyond basic equities. The platform now offers options, cryptocurrencies, futures, prediction markets, and tokenized assets (to be released soon)—many of which are still out of reach for users on traditional platforms. Its premium offerings, like Robinhood Gold (which includes margin trading, Level II data, and high-yield cash accounts), and Robinhood Legend (a robust web platform tailored for power users and high-frequency traders), demonstrate its ability to scale with its users as they grow more sophisticated.

Robinhood's Global Financial Ecosystem strategy—bolstered by strategic acquisitions like Bitstamp and TradePMR—is building the foundation for a platform that spans both traditional and decentralized finance (DeFi). This positions Robinhood to lead not just in the U.S., but in a global market increasingly eager for accessible, tech-enabled financial tools.

While newer entrants like Webull offer advanced features, Robinhood is rapidly closing the gap. The launch of Legend and the expansion of extended trading hours show that it's serious about retaining and growing its most active users. More importantly, Robinhood has moved beyond relying solely on trading activity for revenue. Its mix of transaction-based revenue, net interest income, and subscription fees reflects a maturing, more resilient business model.

In short, Robinhood is not merely keeping up—it's pulling ahead. By combining technological agility with a bold, user-centric vision, Robinhood is becoming the financial home for a generation. It's not just disrupting legacy brokers—it's building a financial platform with global reach, deep engagement, and long-term staying power.

# Mispricing Set-Up & Investment Theses

## Mispricing: Crypto Decoupling

In a December 2024 interview, CEO Vlad Tenev acknowledged that Robinhood's stock was "highly correlated" with Bitcoin, citing a correlation coefficient of approximately 0.70 at the time, which later rose to 0.96 in January 2025, indicating an almost perfect correlation. However, since February 2025 Robinhood stock has decreased significantly more than Bitcoin's retreat from its ~\$100,000 price level. We believe that **1) in the short term, if this correlation were to persist, this disparity in recent prices presents an opportunity to buy HOOD at a low point** and **2) In the long-term, Robinhood's business model is becoming significantly more diversified away from crypto and is largely shielded from long-term potential crypto headwinds.**

## Thesis #1: International Expansion

One development we are excited about is Robinhood's international expansion plans both organically and inorganically. Robinhood has over 100,000 non-U.S.-funded accounts in the EU + UK, which is less than 0.5% of RH's total customer base. Robinhood management has expressed interest in making the EU/UK more of a core customer base, and released several new products in 2024 to grow that prospect organically. This included futures, index options, and crypto services in Europe, and will unlock revenue opportunities to allow RH to continue its growth trajectory.

Robinhood agreed to acquire a Luxembourg-based cryptocurrency exchange called Bitstamp. The acquisition is expected to close within a month and will significantly boost RH's exposure to the EU market, and in particular crypto transaction-based revenue. This acquisition is strategic in that BitStamp holds over 50 global crypto currency licenses, which Robinhood could use to expedite their regulatory approval process in foreign domiciles. We believe that this international growth opportunity differentiates Robinhood from competitors like Charles Schwab and Fidelity, who haven't expressed interest in such growth. This is due to RH's appeal to crypto users, who are an avid and growing consumer base in the EU.

Finally, Robinhood has announced plans to expand into Asia as well. The company is establishing a regional headquarters in Singapore to launch crypto and brokerage services there sometime in 2025.

## Thesis #2: Trump Trade

A key topic of contention for Robinhood is the Trump Trade. The market has portrayed mixed signals in response to key Trump-related events such as his election, policies, and foreign relationships. Although Robinhood is up 51% since Trump was elected on 11/15/24, it is down 25% since its ATH in mid-February. It appears that much of the 51% growth since Trump's election remains due to increased market volatility and trading

volume, which boosts transaction-based revenue. However, we are optimistic that Robinhood has even more room to grow, and that Trump's election remains a key value driver for the coming years.

Especially crucial to our thesis is that Trump's positive policies will outweigh his negative policies. We believe that several of Robinhood's key risks, including tariffs and regulation, are mitigated beyond what investors believe. For example investors have sold Robinhood stock since mid February (25%) at a similar pace to the broader market in response to tariffs. However, while less disposable income amongst consumers could hurt activity, Robinhood's core business isn't directly affected by tariffs and there is no real effect on RH's input costs. In fact, increases in volatility have often excited and further motivated RH's customers in the past (GameStop and AMC saga).

Trump's presidency has also been particularly positive for crypto regulation. Although EU regulation and its effect on payment-for-order-flow is a key concern for RH, we believe that such regulation is extremely unlikely within the United States - something that investors are somewhat concerned with. Trump has a proven track record of loyalty to his supporters, whether it's tech billionaire moguls, January 6th rioters, or the formerly imprisoned Trevor Milton. Given crypto's tremendous vocal and financial support during Trump's campaign trail, Trump will likely advocate for continued deregulation of crypto and would ensure that Robinhood's key payment-for-order-flow revenues are protected.

### **Thesis #3: Recurring Revenue Growth**

Investors have historically overlooked RH because it is unlikely to be included in major indices such as the S&P 500 due to earnings and share price volatility. In addition, investors naturally move away from volatility, preferring companies with stable cash flows/returns. This leads to underpricing for RH. However, Robinhood has been focusing on becoming more of a recurring revenue player to address these concerns, and we expect this push to both earn favor from investors and increase the likelihood of inclusion in a major index in the future.

RH is attempting to create a stable, vertically integrated product across Robinhood Legend, Robinhood Gold, Robinhood Gold Card, etc., creating diversified, stable revenue streams. Specific examples of this shift are Robinhood Legend, which has a more stable trader base, and Robinhood Gold, which is a recurring subscription. We factored this trait into our revenue build, which saw transaction-based revenue (volatile) as a % of total revenue decrease steadily, while Robinhood Gold revenue (recurring) as a % of total revenue increase.

We want to emphasize that the market truly values stable cash flows. A parallel example is Nasdaq, an exchange operator which also historically earned volatile revenues due to its dependence on trading volumes. In the past few years, it has transformed from an exchange operator into more of a software business through acquisitions of Verafin and Adenza, companies with more stable cash flows. Investors have rewarded Nasdaq's shift through generous valuation multiples, and Robinhood can receive the same optimism. A catalyst for the market to realize RH's transition away from transaction-based revenue could be a similar acquisition that introduces stability to RH's cash flows.

# Risks and Mitigants

## **RISK: Economic Volatility and Retail Investor Activity Undermine Platform Stability**

Robinhood's reliance on transaction-based revenue, particularly through Payment for Order Flow (PFOF), makes it vulnerable to macroeconomic downturns. Rising inflation, recessionary fears, and geopolitical tensions can lead to declining investor confidence and reduced trading activity, especially as users shift to safer assets like gold. This trend was evident during the 20% drop in Robinhood's share price on April 10, triggered by heightened recession concerns and a \$26 million FINRA fine related to historical anti-money laundering and technology system violations. Compounding this is the high proportion of novice retail investors on the platform, who are more likely to panic-sell, disengage, or stop trading during market stress. This behavior causes volatility in transaction volumes and undermines customer lifetime value, exposing Robinhood to both short-term revenue shocks and longer-term attrition risks.

### *MITIGANT: Global Expansion, Product Diversification, and User Maturation Strategy*

Robinhood has implemented a multi-pronged strategy focused on geographic, product, and user diversification to counteract these risks. Its expansion into the UK, EU, and APAC markets reduces dependence on U.S. trading volumes and opens new revenue streams. The platform has also introduced alternative products such as futures, crypto derivatives, and prediction markets, which can maintain user engagement during periods of market uncertainty. Internally, Robinhood is evolving its user base through initiatives aimed at increasing financial literacy and trading sophistication. The acquisition of TradePMR brings wealth management capabilities and connects financial advisors with younger investors, while the launch of Robinhood Legend introduces institutional-grade tools tailored for high-frequency and transitioning traders. Additionally, the Gold subscription service, with over 1.5 million members, generates stable recurring revenue, less sensitive to market swings. Together, these efforts help mitigate platform volatility and position Robinhood to maintain user engagement and financial performance across economic cycles.

## **RISK: Regulatory Threats to Robinhood's Payment-for-Order-Flow (PFOF) Revenue**

Robinhood derives a significant portion of its revenue from payment for order flow (PFOF), a practice where brokers are compensated by market makers for routing customer trades. However, PFOF has drawn increasing scrutiny from regulators. The European Union has announced plans to ban the practice starting in 2026, and the U.S. Securities and Exchange Commission continues to evaluate its legality. A regulatory shift—either domestically or

internationally—could upend this core revenue stream and force Robinhood to overhaul its business model, significantly impacting financial performance and growth projections.

*MITIGANT: Monetization Diversification and Platform Adaptability*

While regulatory pressure around PFOF is real, it is not necessarily imminent. The SEC has debated the practice for years without taking definitive action, and no final decision has yet been made in the U.S., creating room for strategic adaptation. Meanwhile, Robinhood has already taken meaningful steps to diversify its monetization model beyond PFOF. Subscription-based services such as Robinhood Gold, which provides margin access and premium data, have become a growing source of recurring revenue. The company is also expanding into high-value areas like futures trading, prediction markets, and tokenized assets, all of which broaden its income streams and reduce reliance on equity order flow. The acquisition of Bitstamp, expected to close in June 2025, gives Robinhood regulatory licenses in the EU, UK, and Asia—potentially enabling it to route trades compliantly in jurisdictions affected by a PFOF ban. Furthermore, Robinhood retains the technical and operational flexibility to pivot to a traditional commission-based brokerage model if needed. In such a scenario, the company could introduce small trade fees similar to legacy brokers while continuing to deliver value through its user-friendly interface and advanced analytics. Lastly, Robinhood is actively engaging with regulators and could push for compromises, such as stricter disclosure requirements, rather than facing outright bans—providing yet another buffer against revenue disruption.

**RISK: Technological Failures and Regulatory Fines Undermining Customer Trust**

Robinhood has faced a consistent pattern of technological instability and compliance lapses, which have significantly impacted its reputation. High-profile platform outages during volatile trading periods, combined with substantial regulatory penalties—including a \$70 million FINRA fine in 2021 and a \$26 million fine in 2025—have eroded customer confidence. Most recently, the U.S. Securities and Exchange Commission formally censured the company, with Robinhood admitting to certain findings. These incidents, especially when occurring during peak trading demand, highlight lingering operational and governance vulnerabilities. As Robinhood grows its product offerings and expands internationally, repeated compliance failures may raise concerns about its scalability and institutional readiness.

*MITIGANT: Infrastructure Upgrades, Governance Reform, and Regulatory Tailwinds*

To address these challenges, Robinhood has made significant strides in strengthening its operational backbone and compliance standards. The acquisition of TradePMR in February 2025 brings with it a suite of trusted infrastructure and advisor-grade compliance





All Values in Millions USD	Robinhood DCF								
	Historical			Projected					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Year									
Revenue	\$1,357	\$1,864	\$2,952	\$4,381	\$4,976	\$5,938	\$7,003	\$7,910	\$8,649
% Growth		37%	58%	48%	14%	19%	18%	13%	9%
Brokerage & Transaction Costs	179	146	164	286	347	457	557	637	680
% of Revenue	13%	8%	6%	7%	7%	8%	8%	8%	8%
Tech & Development Costs	875	805	818	996	1131	1279	1401	1503	1557
% of Revenue	64%	43%	28%	23%	23%	22%	20%	19%	18%
SG&A	1349	1450	915	1238	1378	1569	1876	2069	2248
% of Revenue	99%	78%	31%	28%	28%	26%	27%	26%	26%
D&A	61	71	77	114	124	148	175	198	216
% of Revenue	4%	4%	3%	3%	3%	3%	3%	3%	3%
EBITDA	(985)	(466)	1132	1975	2243	2781	3344	3899	4381
% Margin	-73%	-25%	38%	45%	45%	47%	48%	49%	51%
EBIT	(1046)	(537)	1055	1861	2119	2633	3169	3701	4165
% Margin	-77.08%	-28.79%	35.74%	42.48%	42.59%	44.34%	45.25%	46.79%	48.16%
Taxes	1	8	(347)	(447)	(509)	(632)	(761)	(888)	(1000)
Tax Rate				24%	24%	24%	24%	24%	24%
Net Income	(1045)	(529)	708	1414	1610	2001	2408	2813	3165
% Margin	-77%	-28%	24%	32%	32%	34%	34%	36%	37%
CapEx	(57)	(21)	(50)	(74)	(84)	(101)	(119)	(134)	(146)
% of Revenue	-4%	-1%	-2%	-2%	-2%	-2%	-2%	-2%	-2%
UFCF	(\$1,041)	(\$479)	\$735	\$1,454	\$1,651	\$2,049	\$2,465	\$2,877	\$3,235
DCF	-	-	-	\$1,278	\$1,275	\$1,391	\$1,471	\$1,509	\$1,492

## Exhibit 1: FCF Walk

<b>Cost of Debt</b>	N/A	<b>Exit Multiple Method</b>	PV of Terminal Value	\$	35,527
Risk Free Rate	N/A	Terminal P/E	24.34	Sum of PV and UFCF	43944
Tax Rate	N/A	Terminal Earnings	3,165	<b>Enterprise Value</b>	<b>\$ 43,944</b>
Cost of Debt After Taxes	N/A	<b>Terminal Value</b>	<b>\$ 77,039</b>	Less: Net Debt	(4416)
Weight of Debt	N/A			<b>Equity Value</b>	<b>\$ 48,360</b>
Weighted Cost of Debt	N/A			Diluted Shares (mn)	884
<b>Cost of Equity</b>				<b>Value Per Share</b>	<b>\$ 54.71</b>
Market Risk Premium	4.33%			Current Share Price	\$ 46.62
Risk - Free Rate (10Y Yield)	4.33%			<b>Implied Upside</b>	<b>17.36%</b>
HOOD Beta	2.18				
Cost of Equity	13.77%				
Weight of Equity	100%				
Weighted Cost of Equity	13.77%				
<b>WACC</b>	<b>13.77%</b>				

## Sensitivity Tables

		Exit Multiple				
		20	22	24	26	28
WACC	11%	\$ 53.71	\$ 57.54	\$ 61.37	\$ 65.20	\$ 69.03
	12%	\$ 51.37	\$ 54.99	\$ 58.62	\$ 62.25	\$ 65.88
	13%	\$ 49.16	\$ 52.60	\$ 56.04	\$ 59.48	\$ 62.92
	14%	\$ 47.08	\$ 50.35	\$ 53.61	\$ 56.87	\$ 60.13
	15%	\$ 45.12	\$ 48.22	\$ 51.32	\$ 54.41	\$ 57.51

Exhibit 3: WACC, Terminal Value, and sensitivity table

Consolidated	2020E				2021E				2022E				2023E				2024E				2025E			
	1Q20E	2Q20E	3Q20E	4Q20E	1Q21E	2Q21E	3Q21E	4Q21E	1Q22E	2Q22E	3Q22E	4Q22E	1Q23E	2Q23E	3Q23E	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E	1Q25E	2Q25E	3Q25E	4Q25E
Expenses																								
Table Data																								
Brokerage and transaction	\$ 67	\$ 69	\$ 71	\$ 77	\$ 78	\$ 84	\$ 87	\$ 97	\$ 106	\$ 111	\$ 117	\$ 123	\$ 130	\$ 136	\$ 142	\$ 149	\$ 154	\$ 158	\$ 160	\$ 164	\$ 165	\$ 168	\$ 172	\$ 175
% of transaction-based revenue	10%	10%	10%	10%	10%	11%	11%	11%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
Technology and development	235	241	255	264	273	278	287	294	303	316	322	338	329	342	357	372	362	371	380	390	377	385	393	401
% of net revenue	23%	23%	23%	23%	23%	23%	23%	22%	22%	22%	21%	21%	20%	20%	20%	20%	19%	19%	19%	19%	18%	18%	18%	18%
Operations	33	34	37	39	39	40	40	41	43	43	45	49	54	58	61	63	65	62	64	66	65	66	68	69
% of net revenue	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Marketing	99	102	114	120	123	120	128	130	136	138	151	162	166	173	175	182	187	189	194	203	208	212	218	223
% of net revenue	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
General and Administration	128	148	158	159	156	161	164	169	160	180	194	200	206	214	223	232	234	240	246	251	256	261	264	270
% of net revenue	12%	14%	14%	14%	13%	13%	13%	13%	12%	12%	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%
Total operating expenses	563	593	636	668	668	683	707	738	749	787	829	872	886	923	959	998	1001	1021	1044	1075	1071	1093	1115	1138
% of net revenue																								

Exhibit 4: Cost build

Noteworthy Points:

1. For PFOF, we predicted slowing of growth over the coming years, with upticks in all three major product categories (equities, options, crypto) in 2027 and 2028 to align with our international expansion thesis. We figured it would take at least 2 years for Robinhood to navigate regulatory framework and gain traction in European/Asian markets
2. We intentionally kept crypto growth extremely low. This segment has seen meteoric and unpredictable rises and falls over the past few years, so we did not want to underwrite any crypto market related theses. We acknowledge this as a potential source of error / volatility in our prediction
3. Over the entire projection period, we predicted steady growth in Average MAUs, % MAUs using Robinhood Gold, and Other Revenue per MAU. Robinhood has been putting an incredible amount of resources into growing their subscription base and innovating interesting products, and we have conviction in that paying off over the next few years.

Comps:

Brokerage Firms	
Company	Forward P/E
SCHW	18.4
IBKR	22.5
NASDAQ	34.5
COIN	22.9
SOFI	42.4
LPLA	17.0
AMP	12.8
Mean	24.3

We used a combination of traditional brokerages, cryptocurrency exchanges, and neo-bank / fintech companies. The idea here was to have a wide-range of companies that captured both Robinhood's operational features along with their status as a fast growing technology company situated at the forefront of strong tailwind themes (De-Fi, crypto, etc.)