CAPITAL ONE FINANCIAL CORP

Ranked by assets and deposits, Capital One is one of the largest banks in the U.S., with top-tier national businesses in credit card and auto lending and a retail and commercial banking presence in the New York, Metro D.C., and the Louisiana/Texas markets. Capital One's mix of loans is about 49% card loans, 24% consumer loans, and 27% commercial loans.

Analyst's Notes

Analysis by Stephen Biggar, April 23, 2025

ARGUS RATING: BUY

- Discover acquisition on track for mid-May closing
- On April 22, Capital One reported adjusted 1Q25 earnings of $4.06 per share, up from $3.21 a year earlier and above the consensus of $3.65.
- Average credit card and consumer loans each rose 5% year over year in 1Q, and management noted seeing good opportunities to market to both segments.
- Capital One received final regulatory approvals in April to merge with Discover Financial (DFS) and expects the transaction to close on May 18.
- We are maintaining our BUY rating on COF but decreasing our target price to $205 (from $222).

INVESTMENT THESIS

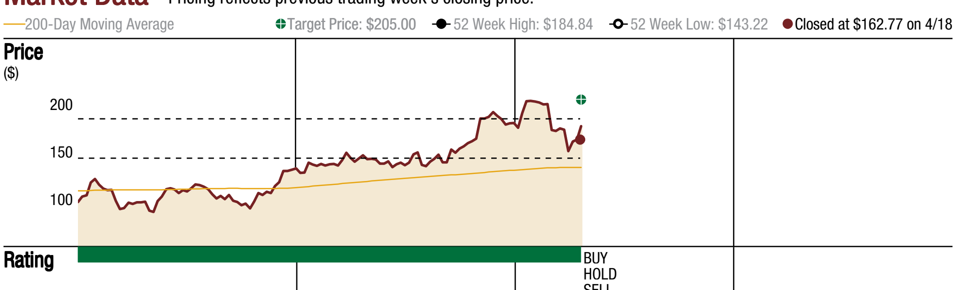
We are maintaining our BUY rating on Capital One Financial Corp. (NYSE: COF) following 1Q earnings, which showed average loans up 2% as credit card and consumer lending continued at a good pace. The company also saw an improvement in net charge-offs, both sequentially and year over year, enabling a $368 million loan reserve release.

In February 2024, Capital One announced a plan to acquire Discover Financial Services (DFS) in an all-stock deal valued at $35 billion at that time. Discover shareholders are to receive 1.0192 shares of COF for each DFS share, with the acquisition now expected to close on May 18. We view the merger positively, offering scale opportunities for marketing, compliance and technology costs, and a larger, vertically-integrated platform to compete better with other payment networks. COF sees double-digit EPS accretion in 2026 and 15% in 2027, reflecting $1.5 billion of expense synergies (26% of Discover's operating expenses and 10% of marketing expenses), and $1.2 billion of network synergies as COF debit purchase volume moves to Discover's network. The acquisition will allow COF to deal more directly with merchants, as DFS does, including controlling interchange fees. The combined firm is expected to have 70 million merchant acceptance points in more than 200 countries.

Turning to COF's recent results, average loans rose 2% year over year in 1Q, with

Market Data

Pricing reflects previous trading week's closing price.



EPS ($)

	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4
Quarterly	0.00	0.00	0.00	0.00	3.21	3.14	4.51	3.09	4.06	3.97	4.07	3.64	4.19	4.79	4.34	4.72
Annual	0.00				13.95				15.74 (Estimate)				18.03 (Estimate)			

Revenue ($ in Bil.)

	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4
Quarterly	0.0	0.0	0.0	0.0	9.4	9.5	10.0	10.2	10.0	10.3	10.4	10.4	10.5	10.8	10.9	10.9
Annual	0.0				39.1				41.1 (Estimate)				43.1 (Estimate)			

FY ends Dec 31

Argus Recommendations

Twelve Month Rating	SELL	HOLD	**BUY**
Five Year Rating	SELL	**HOLD**	BUY
Sector Rating	Under Weight	Market Weight	**Over Weight**

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 73% Buy, 26% Hold, 0% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	$170.20
Target Price	$205.00
52 Week Price Range	$128.23 to $210.67
Shares Outstanding	381.48 Million
Dividend	$2.40

Sector Overview

Sector	Financial
Sector Rating	OVER WEIGHT
Total % of S&P 500 Market Cap.	14.70%

Financial Strength

Financial Strength Rating	HIGH
Debt/Capital Ratio	43.0%
Return on Equity	10.8%
Net Margin	9.0%
Payout Ratio	0.16
Current Ratio	--
Revenue	$53.94 Billion
After-Tax Income	$4.87 Billion

Valuation

Current FY P/E	10.81
Prior FY P/E	12.20
Price/Sales	1.20
Price/Book	1.16
Book Value/Share	$146.73
Market Capitalization	$64.93 Billion

Forecasted Growth

1 Year EPS Growth Forecast	12.83%
5 Year EPS Growth Forecast	10.50%
1 Year Dividend Growth Forecast	2.50%

Risk

Beta	1.18
Institutional Ownership	94.02%

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Analyst's Notes ...Continued

much of that growth related to consumers carrying higher revolving balances. Overall credit card purchase volumes were up 5% year over year, similar to the pace seen over the past few quarters. Marketing spend continues at a high level as the company sees opportunities to attract new customers.

Net charge-offs took a step down in 1Q, and management has noted that credit 'normalization has run its course and credit results have stabilized' after abnormally low delinquencies during and immediately following the pandemic. After significant loan loss provisioning in 2023 and 2024, we believe the allowance for credit losses at March 31 was robust at $15.9 billion, or 4.91% of loans, up from 4.88% a year earlier.

We believe that the company is well positioned for the long term in the credit card space. Our target price of $205 implies a multiple of 13-times our 2025 EPS estimate.

RECENT DEVELOPMENTS

Over the past year, COF shares have risen 16%, compared to a 6% increase for the broad market.

On April 22, Capital One reported adjusted 1Q25 earnings of $4.06 per share, up from $3.21 a year earlier and above the consensus of $3.65. Results in the current period exclude Discover integration expenses and legal reserve activity of $0.22 and $0.39 per share, respectively. Net revenues rose 6% year over year, to $10.0 billion.

Average loans held for investment rose 2% from the prior year to $322.4 billion, with gains of 5% in both credit cards and consumer banking but a decline of 3% in commercial banking. The 1Q net interest margin was 6.93%, up from 6.69% a year earlier.

Net charge-offs were $2.74 billion (3.40% of average loans) in 1Q25, up from $2.62 billion (3.33%) in 1Q24. There was a loan loss provision of $2.37 billion, down from $2.68 billion a year earlier.

The company reported average interest-bearing deposits of $337.7 billion in 1Q, up 6% from the prior year.

In April 2025, Capital one said it had received approvals from the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency for its proposed acquisition of Discover Financial, representing final regulatory approvals. In December 2024, the company had received acquisition approval from the Office of the Delaware State Bank Commissioner. The transaction is expected to close on May 18, 2025.

EARNINGS & GROWTH ANALYSIS

Average loans held for investment were flat sequentially and up 2% from the prior year in 1Q25, with much of that gain related to consumers carrying higher revolving balances. We continue to look for low single-digit growth in light of still elevated interest rates. The recent Fed rate cuts should begin to aid loan growth but we expect the benefit will be gradual. After rising 2% in 2024, we look for 3% growth in 2025.

Growth & Valuation Analysis

GROWTH ANALYSIS

($ in Millions, except per share data)	2020	2021	2022	2023	2024
Revenue	28,523	30,435	34,250	36,787	39,112
COGS	—	—	—	—	—
Gross Profit	—	—	—	—	—
SG&A	8,415	10,292	12,442	13,311	13,960
R&D	—	—	—	—	—
Operating Income	—	—	—	—	—
Interest Expense	-22,913	-24,171	-27,114	-29,241	-31,208
Pretax Income	3,203	15,809	9,240	6,045	5,910
Income Taxes	486	3,415	1,880	1,158	1,163
Tax Rate (%)	15	22	20	19	20
Net Income	2,714	12,390	7,360	4,887	4,750
Diluted Shares Outstanding	459	444	393	383	384
EPS	5.18	26.94	17.91	11.95	11.59
Dividend	1.00	2.00	2.40	2.40	2.40
GROWTH RATES (%)					
Revenue	-0.2	6.7	12.5	7.4	6.3
Operating Income	—	—	—	—	—
Net Income	-51.1	356.5	-40.6	-33.6	-2.8
EPS	-52.9	419.3	-33.5	-33.3	-3.1
Dividend	-37.5	100.0	20.0		
Sustainable Growth Rate	0.6	18.8	12.6	8.0	5.4
VALUATION ANALYSIS					
Price: High	$107.59	$177.95	$162.40	$132.50	$198.30
Price: Low	$38.00	$96.98	$86.98	$83.93	$123.23
Price/Sales: High-Low	1.7 - 0.6	2.6 - 1.4	1.9 - 1.0	1.4 - 0.9	1.9 - 1.2
P/E: High-Low	20.8 - 7.3	6.6 - 3.6	9.1 - 4.9	11.1 - 7.0	17.1 - 10.6
Price/Cash Flow: High-Low	3.0 - 1.1	6.5 - 3.6	6.4 - 3.4	2.3 - 1.5	3.3 - 2.1

Financial & Risk Analysis

FINANCIAL STRENGTH	2022	2023	2024
Cash ($ in Millions)	30,856	43,297	43,230
Working Capital ($ in Millions)	—	—	—
Current Ratio	—	—	—
LT Debt/Equity Ratio (%)	91.0	84.9	74.0
Total Debt/Equity Ratio (%)	91.0	84.9	74.0
RATIOS (%)			
Gross Profit Margin	—	—	—
Operating Margin	—	—	—
Net Margin	20.6	12.5	11.4
Return On Assets	1.6	1.0	0.9
Return On Equity	12.4	8.3	7.5
RISK ANALYSIS			
Cash Cycle (days)	—	—	—
Cash Flow/Cap Ex	14.8	21.4	15.1
Oper. Income/Int. Exp. (ratio)	—	—	—
Payout Ratio	5.6	11.8	18.0

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Analyst's Notes ...Continued

Marketing expenses rose 14% in 2024 as Capital One took advantage of opportunities in the card space. The company continues to note good opportunities for customer attraction, in both credit cards and auto lending, and we look for a 10% uptick in marketing expenses in 2025.

Credit costs are often a big swing factor for Capital One, as seen in 2023, when loss provisions surged to $10.4 billion from $5.8 billion in 2022 as the company prepared for the normalization of consumer credit quality. Importantly, management has said it believes that 'normalization has run its course and credit results have stabilized.' After large reserve building in 2024, we expect lower loss provisions in 2025, with 1Q showing a start to that trend.

We are lowering our EPS estimate for 2025 to $15.74 from $15.85 reflecting somewhat higher credit costs in a softer economic environment, and our 2026 forecast to $18.03 from $18.32. Our estimates do not yet factor in the merger with Discover Financial.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Capital One is High.

Capital One estimated a common equity Tier 1 capital ratio under the Basel III standardized approach of 13.6% on March 31, 2025, up from 13.1% a year earlier.

In June 2024, Capital One said its stress capital buffer requirement following the Federal Reserve's 2024 CCAR results would be 5.5%, effective October 1, 2024, up from 4.8% a year earlier.

The quarterly dividend is currently $0.60, raised from $0.40 in 3Q21, but currently on hold at that rate until the acquisition of Discover is completed. Our dividend estimates are $2.46 for 2025 and $2.68 for 2026. The current yield is about 1.4%.

The company repurchased one million common shares for $150 million in 3Q24, bringing year-to-date repurchases to $403 million. Repurchases are on hold pending the acquisition of Discover.

MANAGEMENT & RISKS

Capital One's founder, Richard D. Fairbank, has been the company's CEO since its initial public offering in 1994 and its chairman since 1995. Andrew Young became CFO in April 2021. We believe management is very forthright on earnings calls regarding the outlook for lending, credit and margins, marketing opportunities, capital deployment, and the competitive landscape.

Capital One is a domestic bank that derives nearly 80% of its earnings from lending. As such, its results are levered to general U.S. economic conditions, primarily related to employment, consumer spending, and debt leverage.

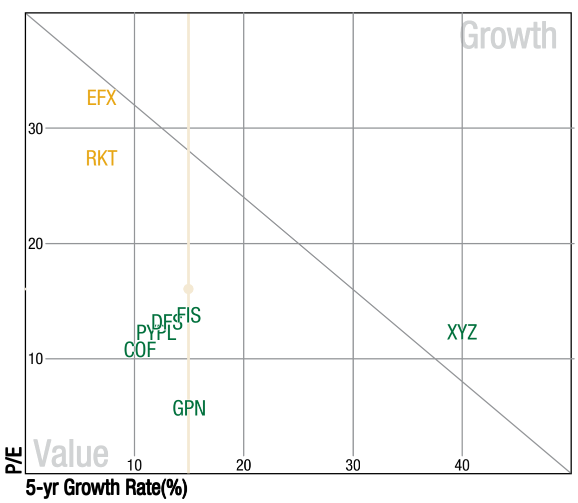
The actions of the Consumer Financial Protection Bureau (CFPB) bear watching, as Capital One's presence in subprime consumer lending could come under increased scrutiny.

In July 2019, the company announced a data breach involving the personal information of 100 million U.S. and 6 million

Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare COF versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- **The scatterplot shows how COF stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.**
- **The table builds on the scatterplot by displaying more financial information.**
- **The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how COF might fit into or modify a diversified portfolio.**



Ticker	Company	Market Cap ($ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
COF	Capital One Financial Corp.	64,928	10.5	10.8	9.0	14.5	BUY
PYPL	PayPal Holdings Inc	60,032	12.0	12.3	13.0	10.0	BUY
DFS	Discover Financial Services	43,359	13.0	13.2	16.9	12.9	BUY
FIS	Fidelity Natl Information Serv	41,909	15.0	13.8	14.3	8.4	BUY
EFX	Equifax, Inc.	30,439	7.0	32.7	10.7	6.7	HOLD
XYZ	Block Inc.	30,394	40.0	12.3	12.0	22.7	BUY
RKT	Rocket Companies Inc	24,636	7.0	27.4	.5	60.0	HOLD
GPN	Global Payments, Inc.	17,553	15.0	5.8	15.5	10.8	BUY
Peer Average		**39,156**	**14.9**	**16.0**	**11.5**	**18.3**	

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Analyst's Notes ...Continued

Canadian card applicants and customers in its credit card business. The company estimated that it would cost $100-$150 million to deal with the incident; however, it had cybersecurity insurance coverage of up to $400 million and recorded only $22 million of related expenses in 3Q and $16 million in 4Q of that year. Data breaches are expected to remain a risk for credit card companies, with cybersecurity as a substantial ongoing cost.

COMPANY DESCRIPTION

Ranked by assets and deposits, Capital One is one of the largest banks in the U.S., with top-tier national businesses in credit card and auto lending and a retail and commercial banking presence in the New York, Metro D.C., and the Louisiana/Texas markets. Capital One's mix of loans is about 49% card loans, 24% consumer loans, and 27% commercial loans.

VALUATION

COF shares have traded in a wide range between $128 and $211 over the past year and are currently just above the midpoint of that range. The shares trade at 11.3-times our EPS forecast for 2025. Peer comparisons are difficult for Capital One because the major U.S. card issuers (Citi, Bank of America, and JPMorgan Chase) tend to be global financial services firms whose businesses extend well beyond consumer finance.

COF's valuation tends to be low relative to banks, which we believe reflects the company's historical roots as a credit card lender, with high margins but also inherently higher credit loss rates. COF's current portfolio is about 49% credit card. Net charge-offs increased substantially in 2023 and 2024, as delinquencies normalized from abnormally low levels during and following the pandemic, but loss provisions and reserve builds have now slowed.

COF shares remain undervalued by historical standards and we like the proposed merger with Discover Financial. Our target price is $205 (down from $222), or 13-times our 2025 estimate.

On April 23 at midday, BUY-rated COF traded at $178.27, up $8.07.

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About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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