

Interactive Brokers (IBKR)

\$44.13 (As of 06/09/20)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform
(Since: 06/08/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5) **4-Sell**
Zacks Style Scores: VGM:B
Value: D | Growth: A | Momentum: A

Summary

Shares of Interactive Brokers have underperformed the industry over the past three months. The company's first-quarter 2020 results benefited from an increase in Daily Average Revenue Trades (DARTs), partly offset by higher operating expenses. Although efforts to develop proprietary software (including IBKR Lite), low level of compensation expenses and an increase in emerging market customer base will likely continue to support financials, mounting operating expenses mainly owing to technology upgrades and continued investment in franchise will likely hurt the bottom line to an extent in the near term. Interactive Brokers' efficient capital deployments indicate a strong liquidity position. Nonetheless, the company's revenues are expected to be hampered to some extent because of lower interest rate environment and economic slowdown.

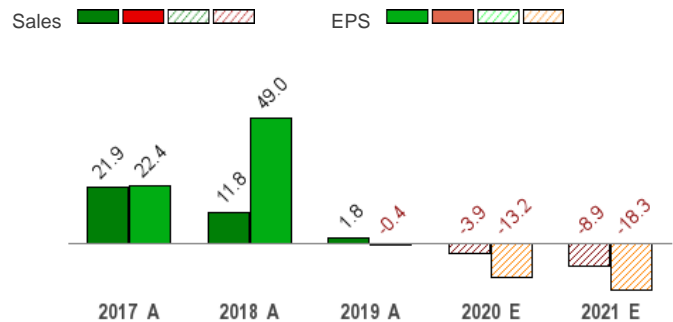
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$58.50 - \$33.70
20 Day Average Volume (sh)	651,977
Market Cap	\$18.3 B
YTD Price Change	-5.4%
Beta	0.59
Dividend / Div Yld	\$0.40 / 0.9%
Industry	Financial - Investment Bank
Zacks Industry Rank	Top 30% (75 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.0%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/21/2020
Earnings ESP	0.0%
P/E TTM	20.5
P/E F1	22.4
PEG F1	1.1
P/S TTM	7.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	423 E	423 E	424 E	428 E	1,697 E
2020	581 A	460 E	413 E	408 E	1,862 E
2019	558 A	413 A	466 A	500 A	1,937 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.39 E	\$0.43 E	\$0.39 E	\$0.39 E	\$1.61 E
2020	\$0.69 A	\$0.52 E	\$0.39 E	\$0.38 E	\$1.97 E
2019	\$0.64 A	\$0.43 A	\$0.45 A	\$0.58 A	\$2.27 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/09/2020. The reports text is as of 06/10/2020.

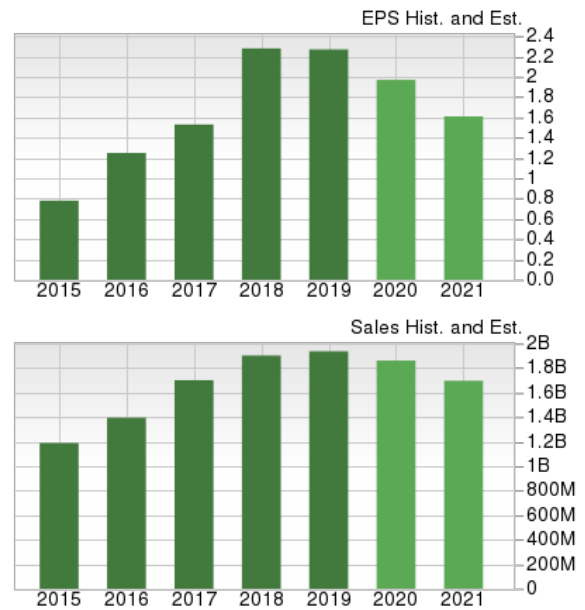
Overview

Incorporated in 1977 and headquartered in Greenwich, CT, Interactive Brokers Group Inc. operates as an automated global electronic market maker and broker. The company specializes in routing orders, besides executing and processing trades in securities, futures, foreign exchange instruments, bonds and mutual funds on more than 120 electronic exchanges and market centers worldwide.

Since 2017, the company has been working continuously to wind down its Market Making segment and focus more on the Electronic Brokerage segment. In April 2020, Interactive Brokers announced that its market making activities were almost insignificant and hence has decided not to report business through two separate segments.

Notably, prior to its IPO in May 2017, Interactive Brokers conducted its business through a limited liability company (LLC) structure. In connection with the IPO, the company purchased 10.0% of the membership interest in IBG LLC. As of Mar 31, 2020, Interactive Brokers' primary assets were its ownership of 18.5% of the membership interests in IBG LLC. The remaining 81.5% of the membership interests are held by IBG Holdings LLC.

As of Mar 31, 2020, Interactive Brokers had \$75.8 billion in total assets, \$47.6 billion in cash and cash equivalents (including segregated cash and securities), and \$1.5 billion in stockholders' equity.



Reasons To Sell:

- ▼ Interactive Brokers has been witnessing a steady increase in non-interest expenses. Over the last four years (2016-2019), expenses saw a CAGR of 7.1%. The increase was mainly due to higher execution, clearing and distribution fees. The uptrend continued in the first quarter of 2020. Expenses are likely to remain elevated, going forward, as the company continues to invest in franchise and technology upgrades.
- ▼ Interactive Brokers' trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 2.12% compares unfavorably with ROE of 14.28% for the industry, reflecting that it is less efficient in using shareholders' funds than its peers.
- ▼ Shares of Interactive Brokers have underperformed the industry so far this year. The company's current-year earnings estimates have been unchanged over the past 30 days. Further, the stock seems overvalued when compared with the broader industry. Its current price-to-book and price-earnings (F1) ratios are above the respective industry averages. Hence, given the concerns and lack of positive estimate revisions, the stock has limited upside potential.

Persistently increasing expenses are expected to hurt Interactive Brokers' bottom-line growth in the near term. Moreover, a stretched valuation indicates limited upside potential for the stock.

Risks

- Interactive Brokers' position with respect to the interface of four broad historical trends is very impressive. The company processes trades in stocks, futures, options and forex on more than 120 exchanges across several countries and currencies. Unlike many of its peers, the company has a very low level of compensation expense, relative to net revenues (15% in the first quarter of 2020), primarily driven by its technological excellence.
 - Since its inception, Interactive Brokers has mainly been focusing on developing proprietary software to automate broker-dealer functions. Thus, the company has been a pioneer in the field of developing and applying technology as a financial intermediary in the capital markets where it operates. Further, this has resulted in steady improvement in revenues. While total net revenues witnessed a decline in first-quarter 2020, the same has witnessed a CAGR of 18.3% over the last six years (2014-2019). This was mainly driven by rise in interest income, commissions and the company's restructuring efforts. The momentum is expected to continue, given the improvement in DARTs. Notably, the launch of IBKR Lite has enabled investors to trade commission free and is, thus expected to result in a rise in the company's market share to some extent.
 - Unlike other companies in the same space, which hike dividends at frequent intervals, Interactive Brokers has been consistent with its dividend payment for a long time. In fact, the company uses no debt to finance its operations. Thus, given a solid liquidity position, the company will be able to sustain the current level of dividends in the future as well and continue to enhance shareholder value. Notably, the company is evaluating its dividend funding and intends to begin sourcing these from the subsidiaries that accrued brokerage earnings over the coming quarters.
 - Interactive Brokers has continued to explore opportunities in the emerging markets of Taiwan, Mexico and India. The diversification helps it experience revenue stability. With the Central Clearing Houses as its counterparties, sole trading with exchange-listed instruments and continuous monitoring of customer positions, the company has been able to restrict its credit risk to a great extent.
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Last Earnings Report

Interactive Brokers' Q1 Earnings Beat Estimates, DARTs Rise Y/Y

Interactive Brokers' first-quarter 2020 adjusted earnings per share of 69 cents surpassed the Zacks Consensus Estimate of 67 cents. The figure was 25.5% higher than the prior-year earnings.

Increase in DARTs, mainly due to the coronavirus-induced volatility, supported results. However, lower revenues and rise in expenses acted as headwinds.

The results excluded certain non-recurring items. After considering these, net income came in at \$290 million or 60 cents per share, down from \$324 million or 64 cents per share in the prior-year quarter.

Interactive Brokers reported comprehensive income available to common shareholders of \$46 million or 51 cents per share, down from \$49 million or 64 cents per share in the prior-year quarter.

Revenues Decline, Expenses Rise

Total net revenues were \$532 million, down 4.7% year over year. The fall was mainly due to lower non-interest income. Adjusted revenues were \$581 million, up 24.1% from the prior-year quarter.

Total non-interest expenses increased 2.3% from the year-ago quarter to \$224 million. Rise in all expense components except for customer bad debt was attributed to this increase.

Income before income taxes was \$308 million, down 9.1% from the prior-year quarter.

Adjusted pre-tax profit margin was 61%, down from 62% a year ago.

Other Business Highlights

During the first quarter, total DARTs surged 71% year over year to 1.45 million. Further, total cleared DARTs jumped 72% from the year-ago quarter to 1.3 billion.

Additionally, customer accounts grew 22% from the year-ago quarter to 760,000.

Strong Capital Position

As of Mar 31, 2020, cash and cash equivalents (including cash and securities set aside for regulatory purposes) totaled \$17.4 billion compared with \$12.3 billion on Dec 31, 2019.

As of Mar 31, 2020, total assets were \$75.8 billion compared with \$71.7 billion on Dec 31, 2019. Total equity was \$8.1 billion compared with \$7.9 billion at the end of December 2019.

Outlook

The company anticipates the next 25 basis point increase in rates to result in additional \$79 million in net interest income over the next four quarters and \$94 million as the run rate for 2020.

Quarter Ending **03/2020**

Report Date	Apr 21, 2020
Sales Surprise	0.02%
EPS Surprise	2.99%
Quarterly EPS	0.69
Annual EPS (TTM)	2.15

Recent News

Interactive Brokers May DARTs Rise Y/Y on Coronavirus Mayhem - Jun 1, 2020

Interactive Brokers released the Electronic Brokerage performance metrics for May 2020. The segment, which deals with the clearance and settlement of trades for individual and institutional clients globally, reported a substantial surge in DARTs on a year-over-year basis. This was attributed to a rise in trading activities owing to concerns over coronavirus.

Total client DARTs were 1,720,000, surging 84% from May 2019 but declining 4% from April 2020. On an annualized basis, the company recorded Cleared Average DARTs per customer accounts of 448,000. This reflects a jump of 41% year over year but 10% sequential decline.

Total customer accounts jumped 31% from the prior-year month and 4% from April 2020 to 838,700. Net new accounts were 33,100, increasing 319% from May 2019 but falling 28% from April 2020.

Interactive Brokers' total options contracts were 43.4 million, rising 32% from May 2019 but decreasing 1% year over year. Futures contracts grew 2% on a year-over-year basis but declined 10% from the year-ago month to 13 million.

At the end of May, client equity was \$190.6 billion, up 32% year over year and 6% sequentially. Also, Interactive Brokers recorded client credit balance of \$70 billion, up 32% from May 2019 and 1% on a sequential basis. The company's customer margin loan balance of \$23.3 billion declined 10% from May 2019 but increased 13% from the prior month.

Interactive Brokers April DARTs Up Y/Y on Coronavirus Mayhem – May 1, 2020

Interactive Brokers released the Electronic Brokerage performance metrics for April 2020. The segment reported a substantial surge in DARTs on year-over-year basis. This was attributed to a rise in trading activities, owing to concerns over the coronavirus outbreak.

Total client DARTs were 1,720,000, surging 121% from April 2019 but down 12% from March 2020. On an annualized basis, the company recorded Cleared Average DARTs per customer accounts of 498,000. This reflects a jump of 80% year over year but declined 17% sequentially.

Further, total customer accounts jumped 28% from the prior-year month and 6% from the prior month to 805,600. Also, net new accounts were 46,000, soaring 461% from April 2019 and 15% from March 2020.

Interactive Brokers' total options contracts were 43.6 million, rising 60% from April 2019 but down 10% year over year. Futures contracts grew 74% on a year-over-year basis but declined 33% from the year-ago month to 14.5 million.

At the end of April, client equity was \$179.8 billion, up 19% year over year and 12% sequentially. Also, Interactive Brokers recorded client credit balance of \$69.3 billion, up 30% from April 2019 and 7% on a sequential basis. The company's customer margin loan balance of \$20.6 billion declined 23% from April 2019 but increased 4% from the prior month.

Dividend Update

On Apr 21, Interactive Brokers declared a quarterly cash dividend of 10 cents per share. The dividend will be paid out on Jun 12 to shareholders of record as of Jun 1.

Valuation

Interactive Brokers' shares are down 5.4% in the year-to-date period and 19.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 5.1% and 12.6%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry is up 6% but the sector is down 5.5%.

The S&P 500 index is up 0.2% in the year-to-date period and 11.9% in the past year.

The stock is currently trading at 24.36X forward 12 months earnings, which compares to 14.52X for the Zacks sub-industry, 18.08X for the Zacks sector and 23.33X for the S&P 500 index.

Over the past five years, the stock has traded as high as 43.72X and as low as 15.49X, with a 5-year median of 23.66X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$38 price target reflects 20.99X forward earnings.

The table below shows summary valuation data for IBKR

Valuation Multiples - IBKR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.36	14.52	18.08	23.33
	5-Year High	43.72	15.31	18.08	23.33

P/E F12M	5-Year High	45.72	19.91	18.98	23.33
	5-Year Low	15.49	6.04	11.58	15.23
	5-Year Median	23.66	11.47	13.98	17.49
P/TB	Current	0.42	2.42	3.57	12.69
	5-Year High	0.86	3.33	4	12.76
	5-Year Low	0.34	1.4	2	5.96
	5-Year Median	0.48	2.38	3.48	9.29
P/S F12M	Current	10.25	4.04	6	3.63
	5-Year High	16.03	4.53	6.65	3.63
	5-Year Low	6.75	2.74	4.95	2.53
	5-Year Median	10.11	3.55	6.06	3.02

As of 06/09/2020

Industry Analysis Zacks Industry Rank: Top 30% (75 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
TD Ameritrade Holding Corporation (AMTD)	Neutral	3
BGC Partners, Inc. (BGCP)	Neutral	3
ETRADE Financial Corporation (ETFC)	Neutral	4
Evercore Inc (EVR)	Neutral	3
LPL Financial Holdings Inc. (LPLA)	Neutral	2
SBI Holdings Inc. (SBHGF)	Neutral	3
Cowen Group, Inc. (COWN)	Underperform	3
Piper Jaffray Companies (PIPR)	Underperform	4

Industry Comparison Industry: Financial - Investment Bank				Industry Peers		
	IBKR	X Industry	S&P 500	BGCP	ETFC	SBHGF
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	3
VGM Score	B	-	-	B	A	B
Market Cap	18.33 B	578.77 M	22.74 B	1.13 B	11.49 B	5.02 B
# of Analysts	1	2	14	2	4	1
Dividend Yield	0.91%	0.00%	1.81%	1.26%	1.08%	0.00%
Value Score	D	-	-	A	B	C
Cash/Price	2.90	0.63	0.06	0.63	0.61	NA
EV/EBITDA	-28.21	1.89	13.04	1.33	4.09	NA
PEG Ratio	1.06	1.95	3.12	NA	NA	NA
Price/Book (P/B)	2.25	1.69	3.14	1.58	1.97	1.08
Price/Cash Flow (P/CF)	81.11	9.23	12.32	2.55	10.40	9.37
P/E (F1)	22.34	16.74	22.61	5.03	19.41	13.60
Price/Sales (P/S)	7.38	1.42	2.46	0.52	4.05	NA
Earnings Yield	4.46%	5.66%	4.26%	19.87%	5.16%	7.35%
Debt/Equity	0.00	0.36	0.76	0.00	0.24	NA
Cash Flow (\$/share)	0.54	2.30	7.01	1.24	5.00	2.32
Growth Score	A	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	32.89%	15.61%	10.87%	2.60%	37.93%	NA
Proj. EPS Growth (F1/F0)	-13.22%	-25.46%	-10.76%	3.28%	-33.56%	18.52%
Curr. Cash Flow Growth	15.90%	2.06%	5.48%	5.03%	-5.88%	NA
Hist. Cash Flow Growth (3-5 yrs)	28.50%	13.28%	8.55%	9.17%	13.09%	33.19%
Current Ratio	1.11	1.31	1.29	0.84	0.29	NA
Debt/Capital	0.00%	28.51%	44.75%	3.17%	17.79%	NA
Net Margin	6.36%	9.77%	10.54%	0.38%	29.81%	NA
Return on Equity	2.12%	14.28%	16.08%	42.22%	15.84%	NA
Sales/Assets	0.04	0.29	0.55	0.40	0.04	NA
Proj. Sales Growth (F1/F0)	-3.89%	-1.41%	-2.59%	5.38%	-11.59%	-10.13%
Momentum Score	A	-	-	C	A	B
Daily Price Chg	-2.05%	0.00%	-2.13%	-3.65%	0.46%	0.90%
1 Week Price Chg	2.67%	3.87%	7.51%	22.91%	12.12%	2.51%
4 Week Price Chg	14.28%	22.58%	16.33%	23.35%	31.97%	4.69%
12 Week Price Chg	3.43%	25.06%	28.71%	2.92%	58.11%	60.63%
52 Week Price Chg	-19.02%	-5.06%	1.59%	-36.98%	11.43%	-7.66%
20 Day Average Volume	651,977	111,314	2,644,123	4,108,980	2,550,921	1,469
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.60%	0.00%
(F1) EPS Est 12 week change	-21.20%	-26.80%	-15.96%	2.44%	-12.29%	NA
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	2.82%	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	A
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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