

Interactive Brokers (IBKR)

\$41.43 (As of 03/12/20)

Price Target (6-12 Months): **\$45.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/17/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: C

Summary

Shares of Interactive Brokers have underperformed the industry over the past year. The company's efforts to develop proprietary software (including IBKR Lite) will likely continue to support its financials. Moreover, low level of compensation expense and increase in emerging market customer base are expected to support the company's profitability. Further, strong balance sheet position is expected to enable it to continue enhancing shareholder value through steady capital deployments. However, persistently mounting expenses mainly due to technology upgrades and continued investment in franchise remains a major near-term concern. Elevated costs are expected to hurt the bottom line to an extent in the near term. Moreover, the company's revenues are expected to be hampered to some extent because of relatively lower interest rates.

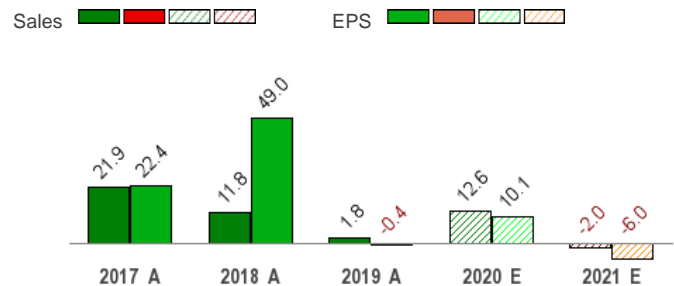
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$59.32 - \$40.70
20 Day Average Volume (sh)	897,218
Market Cap	\$17.2 B
YTD Price Change	-11.1%
Beta	0.62
Dividend / Div Yld	\$0.40 / 1.0%
Industry	Financial - Investment Bank
Zacks Industry Rank	Top 23% (57 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-10.4%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-0.4%
Expected Report Date	04/21/2020
Earnings ESP	0.0%
P/E TTM	19.7
P/E F1	16.6
PEG F1	0.8
P/S TTM	6.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	530 E	532 E	534 E	541 E	2,138 E
2020	565 E	557 E	535 E	525 E	2,181 E
2019	558 A	413 A	466 A	500 A	1,937 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.57 E	\$0.63 E	\$0.57 E	\$0.58 E	\$2.35 E
2020	\$0.65 E	\$0.69 E	\$0.59 E	\$0.57 E	\$2.50 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 03/12/2020. The reports text is as of 03/13/2020.

Overview

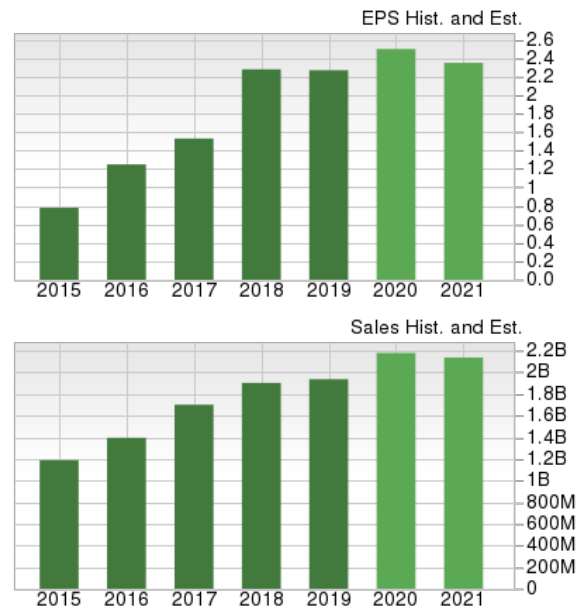
Headquartered in Greenwich, CT, Interactive Brokers Group Inc. operates as an automated global electronic market maker and broker. The company specializes in routing orders, besides executing and processing trades in securities, futures, foreign exchange instruments, bonds and mutual funds on more than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

- **Electronic Brokerage** (comprising 96.6% of total revenues in 2019): As an electronic broker, the company executes, clears and settles trades globally for both traditional brokers and prime brokers. From a single account in any major currency, customers can access several financial markets worldwide and trade across multiple asset classes denominated in 24 different currencies.
- **Market Making** (3.4%): The company provides continuous bid and offers quotations on securities and futures products listed on some electronic exchanges around the world. Despite the segment being part of discontinued operations, the company intends to continue conducting certain proprietary trading activities in stocks and related instruments.

The 'Corporate' segment includes corporate related activities, inter-segment eliminations and net gains and losses on positions held as part of the company's overall currency diversification strategy.

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 Dec 31, 2019, 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 Dec 31, 2019, Interactive Brokers had \$71.7 billion in total assets, \$30.1 billion in cash and cash equivalents (including segregated cash and securities), and \$1.5 billion in stockholders' equity.



Reasons To Buy:

- ▲ 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 (14.9% in 2019), 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. Over the last six years (2014-2019), its top line witnessed a CAGR of 18.3%. 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 Daily Average Revenue Trades (DARTs). Notably, the launch of IBKR Lite will enable 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.

Low level of compensation expense, development of proprietary software and increasing emerging market customers are expected to support Interactive Brokers' revenues in the quarters ahead.

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. 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 12.77% for the industry, reflecting that it is less efficient in using shareholder funds than its peers.
- ▼ Shares of Interactive Brokers have underperformed the industry in the past year. Moreover, the company's current-year earnings estimates have been revised marginally lower 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. Therefore, given the concerns and negative 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.

Last Earnings Report

Interactive Brokers Q4 Earnings Flat Y/Y, Revenues Up

Interactive Brokers recorded fourth-quarter 2019 adjusted earnings per share of 58 cents. The figure met the prior-year quarter's earnings.

Results excluded certain non-recurring items. After considering these, net income was \$294 million or 57 cents per share compared with \$290 million or 57 cents per share in the prior-year quarter.

Results were impacted by escalating non-interest expenses and a fall in DARTs. Also, the company's segmental net revenues failed to impress. However, rise in revenues acted as a tailwind.

Interactive Brokers reported comprehensive income available to common shareholders of \$51 million or 66 cents per share, up from \$43 million or 56 cents per share in the prior-year quarter.

For 2019, earnings were \$2.10 per share compared with the prior-year figure of \$2.28. Net income decreased 3.2% to \$1.1 billion.

Quarter Ending **12/2019**

Report Date	Jan 21, 2020
Sales Surprise	NA
EPS Surprise	-10.42%
Quarterly EPS	0.58
Annual EPS (TTM)	2.10

Revenues Rise & Expenses Up

Total net revenues were \$500 million, up 1.6% year over year. The rise was driven by higher interest income and stable trading gains, which were partially offset by decline in commissions.

For 2019, total net revenues of \$1.9 billion increased 1.8% year over year.

Total non-interest expenses increased 2.7% from the year-ago quarter to \$188 million. Rise in all expense components except for execution, clearing and distribution fees were the reasons behind the increase.

Income before income taxes was \$312 million, up 1% from the prior-year quarter. Pre-tax profit margin was 62%, down from 63% a year ago.

Quarterly Segmental Performance

Electronic Brokerage: Net revenues decreased nearly 1% year over year to \$486 million. However, pre-tax income rose 1% to \$314 million. Total DARTs for cleared and execution-only customers were 797,000, down 16% from the year-ago quarter. Pre-tax profit margin was 65%, up from 63%.

Market Making: Net revenues were \$15 million, down 11.8% from the prior-year quarter. Pre-tax income was \$5 million, down 44.4%. Pre-tax profit margin was 33% compared with 53% in the year-ago quarter.

Corporate: It reported negative net revenues of \$1 million compared with negative revenues of \$15 million in the year-ago quarter. Pre-tax loss was \$7 million compared with loss of \$11 million a year ago.

Strong Capital Position

As of Dec 31, 2019, cash and cash equivalents (including cash and securities set aside for regulatory purposes) totaled \$30.1 billion compared with \$25.7 billion as of Dec 31, 2018.

As of Dec 31, 2019, total assets were \$71.7 billion compared with \$60.5 billion on Dec 31, 2018. Total equity was \$7.9 billion compared with \$7.2 billion at the end of December 2018.

Outlook

The company anticipates an increase/decrease of 25 basis points in interest rates to lead to an increase/decrease in net interest income by \$22 million.

Recent News

Interactive Brokers February DARTs Up Amid Coronavirus Fears - Mar 2, 2020

Interactive Brokers released its Electronic Brokerage segment's performance metrics for February 2020. The segment, which deals with the clearance and settlement of trades for individual and institutional clients globally, reported an increase in DARTs as concerns over coronavirus resulted in a rise in trading activities.

Total client DARTs were 1,346,000, surging 32% from January 2020 and 63% from February 2019. On an annualized basis, the company recorded Cleared Average DARTs per customer accounts of 423,000. This reflects a rise of 29% sequentially and 41% year over year.

Further, total customer accounts grew 2% from the prior month and 17% from the prior-year month to 719,700. Also, net new accounts were 15,100, increasing 3% from January 2020 and 104% from February 2019.

Interactive Brokers' total options contracts were 41.8 million, rising 8% from January 2020 and 82% year over year. Futures contracts grew 26% on a sequential basis and 75% from the year-ago month to 14.9 million.

At the end of February, client equity was \$170.1 billion, down 3% sequentially but up 18% year over year. Moreover, Interactive Brokers recorded client credit balance of \$59.6 billion, up 1% on a sequential basis and 14% from February 2019. The company's customer margin loan balance of \$28.9 billion grew 6% from January 2020 and 12% from the prior-year month.

Interactive Brokers' January DARTs Rise on Upbeat Markets – Feb 3, 2020

Interactive Brokers released its Electronic Brokerage segment's performance metrics for January 2020. The segment, which deals with the clearance and settlement of trades for individual and institutional clients globally, reported an increase in DARTs.

Total client DARTs were 1,019,000, up 32% from December 2019 and 20% from January 2019. On an annualized basis, the company recorded Cleared Average DARTs per customer accounts of 329,000. This reflects a rise of 30% sequentially and 3% year over year.

Further, total customer accounts grew 2% from the prior month and 16% from the prior-year month to 704,600. Also, net new accounts were 14,700, soaring 73% from December 2019 and 71% from January 2019.

Interactive Brokers' total options contracts were 38.7 million, jumping 25% from December 2019 and 42% year over year. Futures contracts grew 27% on a sequential basis and 7% from the year-ago month to 11.9 million.

At the end of January, client equity was \$176.1 billion, up 4% sequentially and 27% year over year. Moreover, Interactive Brokers recorded client credit balance of \$58.9 billion, up 2% on a sequential basis and 15% from January 2019. The company's customer margin loan balance of \$27.3 billion declined 12% from December 2019 but increased 15% from the prior-year month.

Dividend Update

On Jan 21, Interactive Brokers declared a quarterly cash dividend of 10 cents per share. The dividend is scheduled to be paid out on Mar 13 to shareholders of record as of Feb 28.

Valuation

Interactive Brokers' shares are down 23.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 18.6% and 15.4% over the past year, respectively.

The S&P 500 index is down 3.4% in the past year.

The stock is currently trading at 16.77X forward 12 months earnings, which compares to 8.48X for the Zacks sub-industry, 11.79X for the Zacks sector and 15.84X for the S&P 500 index.

Over the past five years, the stock has traded as high as 43.72X and as low as 16.36X, with a 5-year median of 24.22X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$45 price target reflects 18.22X forward earnings.

The table below shows summary valuation data for IBKR

Valuation Multiples - IBKR				
	Stock	Sub-Industry	Sector	S&P 500
Current	16.77	8.48	11.79	15.84

P/E F12M	5-Year High	43.72	15.3	16.21	19.34
	5-Year Low	16.36	6.05	11.79	15.18
	5-Year Median	24.22	11.34	13.97	17.42
P/TB TTM	Current	0.4	1.73	2.67	10.4
	5-Year High	0.86	3.33	3.98	12.86
	5-Year Low	0.37	1.6	2.44	6.02
	5-Year Median	0.48	2.39	3.46	9.14
P/S F12M	Current	7.92	2.85	5.99	2.91
	5-Year High	16.03	4.53	6.64	3.44
	5-Year Low	7.92	2.8	5.39	2.54
	5-Year Median	10.21	3.61	6.04	3

As of 03/12/2020

Industry Analysis Zacks Industry Rank: Top 23% (57 out of 253)



Top Peers

TD Ameritrade Holding Corporation (AMTD)	Neutral
E*TRADE Financial Corporation (ETFC)	Neutral
LPL Financial Holdings Inc. (LPLA)	Neutral
Raymond James Financial, Inc. (RJF)	Neutral
The Charles Schwab Corporation (SCHW)	Neutral
Tradeweb Markets Inc. (TW)	Neutral
Virtu Financial, Inc. (VIRT)	Neutral
GAIN Capital Holdings, Inc. (GCAP)	Underperform

Industry Comparison Industry: Financial - Investment Bank				Industry Peers		
	IBKR Neutral	X Industry	S&P 500	AMTD Neutral	ETFC Neutral	SCHW Neutral
VGM Score	D	-	-	F	B	D
Market Cap	17.21 B	407.96 M	17.38 B	15.51 B	7.55 B	36.57 B
# of Analysts	1	2.5	13	5	6	6
Dividend Yield	0.97%	0.00%	2.51%	4.32%	1.81%	2.53%
Value Score	F	-	-	B	B	D
Cash/Price	1.86	0.50	0.05	0.58	0.25	1.14
EV/EBITDA	-16.48	2.33	10.90	2.38	4.25	-0.54
PEG Ratio	0.78	0.99	1.54	0.70	1.93	1.12
Price/Book (P/B)	2.17	1.29	2.35	1.77	1.29	1.92
Price/Cash Flow (P/CF)	76.16	6.11	9.60	6.11	6.17	7.99
P/E (F1)	16.57	8.01	13.98	9.62	8.98	11.23
Price/Sales (P/S)	6.67	0.95	1.89	2.68	2.62	3.41
Earnings Yield	6.03%	12.48%	7.07%	10.39%	11.15%	8.90%
Debt/Equity	0.00	0.45	0.70	0.41	0.24	0.39
Cash Flow (\$/share)	0.54	2.30	7.01	4.69	5.00	3.56
Growth Score	C	-	-	F	C	C
Hist. EPS Growth (3-5 yrs)	44.37%	14.70%	10.85%	29.83%	39.47%	29.67%
Proj. EPS Growth (F1/F0)	10.13%	17.19%	5.99%	-27.85%	-14.72%	-6.92%
Curr. Cash Flow Growth	15.90%	13.40%	6.15%	17.86%	-5.88%	9.66%
Hist. Cash Flow Growth (3-5 yrs)	28.50%	13.46%	8.52%	21.50%	13.09%	22.65%
Current Ratio	1.12	1.29	1.24	1.11	0.29	0.34
Debt/Capital	0.00%	29.11%	42.57%	28.90%	17.73%	25.47%
Net Margin	6.24%	11.41%	11.64%	34.26%	33.09%	34.55%
Return on Equity	2.12%	12.77%	16.74%	24.24%	17.09%	20.14%
Sales/Assets	0.04	0.25	0.54	0.14	0.05	0.04
Proj. Sales Growth (F1/F0)	12.57%	3.04%	3.54%	-14.42%	-5.38%	-0.16%
Momentum Score	C	-	-	D	D	F
Daily Price Chg	-7.23%	-9.91%	-10.03%	-13.93%	-16.26%	-12.33%
1 Week Price Chg	-6.07%	-3.92%	-0.67%	-16.74%	-7.82%	-16.25%
4 Week Price Chg	-25.04%	-31.06%	-28.22%	-42.17%	-30.81%	-39.88%
12 Week Price Chg	-12.58%	-31.21%	-25.63%	-42.73%	-32.81%	-41.02%
52 Week Price Chg	-23.70%	-30.20%	-16.72%	-47.87%	-36.89%	-37.24%
20 Day Average Volume	897,218	63,162	3,061,271	6,504,164	9,304,729	19,588,920
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.22%	-1.81%	-1.04%
(F1) EPS Est 4 week change	-0.40%	-0.72%	-0.32%	-1.37%	-6.61%	-2.90%
(F1) EPS Est 12 week change	NA%	1.08%	-0.65%	-0.67%	-6.81%	-0.89%
(Q1) EPS Est Mthly Chg	6.56%	0.00%	-0.62%	1.81%	1.22%	0.31%

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	F
Growth Score	C
Momentum Score	C
VGM Score	D

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.

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