

Interactive Brokers (IBKR)

\$51.18 (As of 08/12/20)

Price Target (6-12 Months): **\$54.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: A

Summary

Shares of Interactive Brokers have outperformed the industry so far this year. Its second-quarter 2020 results benefited from growth in revenues, partly offset by higher costs. The company's efforts to develop proprietary software (including IBKR Lite), low level of compensation expenses and an increase in emerging market customer base are expected to continue supporting financials. Moreover, efficient capital deployments indicate a strong liquidity position, through which it will continue to enhance shareholder value. However, mounting operating expenses, mainly owing to technology upgrades and continued investment in franchise will likely hurt the bottom line to some extent in the near term. Further, the company's revenues are expected to be hampered to some extent because of the low interest rate environment and economic slowdown.

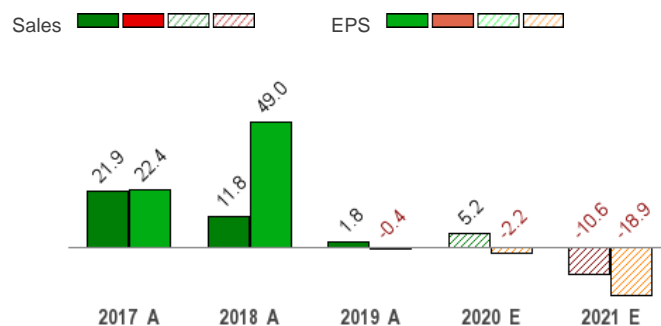
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$58.50 - \$33.70
20 Day Average Volume (sh)	610,083
Market Cap	\$21.3 B
YTD Price Change	9.8%
Beta	0.70
Dividend / Div Yld	\$0.40 / 0.8%
Industry	Financial - Investment Bank
Zacks Industry Rank	Top 26% (67 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	90.0%
Last Sales Surprise	13.4%
EPS F1 Est- 4 week change	26.9%
Expected Report Date	10/20/2020
Earnings ESP	0.0%
P/E TTM	22.4
P/E F1	23.1
PEG F1	1.1
P/S TTM	8.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	461 E	453 E	453 E	454 E	1,821 E
2020	581 A	539 A	482 E	451 E	2,037 E
2019	558 A	413 A	466 A	500 A	1,937 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.46 E	\$0.49 E	\$0.43 E	\$0.43 E	\$1.80 E
2020	\$0.69 A	\$0.57 A	\$0.51 E	\$0.46 E	\$2.22 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 08/12/2020. The reports text is as of 08/13/2020.

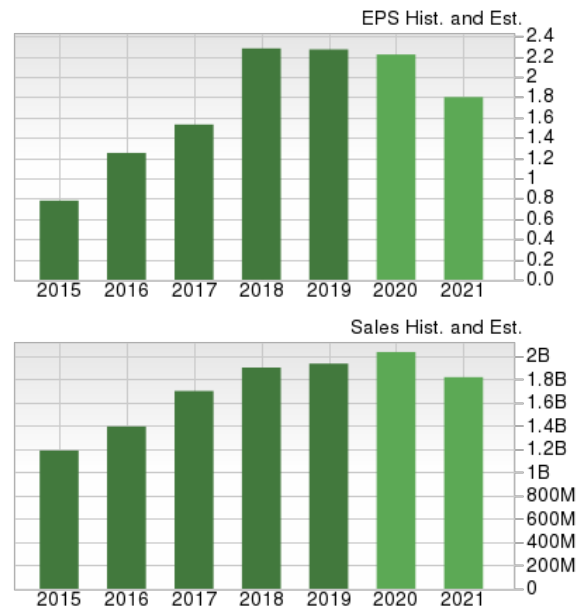
Overview

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 its operations through two separate segments.

Notably, prior to its IPO in May 2017, Interactive Brokers conducted 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 Jun 30, 2020, Interactive Brokers' primary assets were its ownership of 18.7% of the membership interests in IBG LLC. The remaining 81.3% of the membership interests are held by IBG Holdings LLC.

As of Jun 30, 2020, Interactive Brokers had \$84 billion in total assets, \$49.2 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 135 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 (15.1% in the first half 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. This has resulted in steady improvement in revenues. Total net revenues 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 uptrend in net revenues continued in the first six months of 2020. In fact, the momentum is expected to continue in the quarters ahead, given the improvement in Daily Average Revenue Trades (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 insignificant amount of 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. The uptrend continued in the first half 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 2.23% compares unfavorably with ROE of 13.82% for the industry, reflecting that it is less efficient in using shareholders' funds than its peers.
- ▼ Shares of Interactive Brokers have outperformed the industry so far this year. However, the company's current-year earnings estimates have been unchanged over the past seven 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.

Last Earnings Report

Interactive Brokers Q2 Earnings Beat, DARTs Rise Y/Y

Interactive Brokers' second-quarter 2020 adjusted earnings per share of 57 cents surpassed the Zacks Consensus Estimate of 30 cents. The figure reflects no change from the prior-year quarter earnings.

Increase in DARTs and higher revenues primarily supported the results. However, a rise in expenses acted as a headwind.

Results excluded certain non-recurring items. After considering these, net income was \$207 million or 40 cents per share, down from \$210 million or 43 cents per share in the prior-year quarter.

Interactive Brokers reported comprehensive income available to common shareholders of \$36 million or 46 cents per share in the reported quarter, unchanged from the prior-year quarter.

Quarter Ending 06/2020

Report Date	Jul 21, 2020
Sales Surprise	13.43%
EPS Surprise	90.00%
Quarterly EPS	0.57
Annual EPS (TTM)	2.29

Revenues Improve, Expenses Rise

Total net revenues were \$539 million, up 30.5% year over year. The rise was driven by an increase in non-interest income. The top line surpassed the Zacks Consensus Estimate of \$475.2 million. Adjusted revenues were \$523 million, up 7.2% from the prior-year quarter.

Total non-interest expenses increased 68.6% from the year-ago quarter to \$317 million. The rise was primarily due to a significant increase in general and administrative expenses.

Income before income taxes was \$222 million, down 1.3% from the prior-year quarter.

Adjusted pre-tax profit margin was 59%, down from 61% a year ago.

Other Business Highlights

During the quarter, total DARTs increased significantly year over year to 1.75 million. Further, total cleared DARTs jumped from 0.74 million to 1.56 million.

Additionally, customer accounts grew 36% from the year-ago quarter to 876,000.

Strong Capital Position

As of Jun 30, 2020, cash and cash equivalents (including cash and securities set aside for regulatory purposes) totaled \$49.2 billion compared with \$30.1 billion on Dec 31, 2019.

As of Jun 30, 2020, total assets were \$84 billion compared with \$71.7 billion on Dec 31, 2019. Total equity was \$8.3 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 \$96 million in net interest income over the next four quarters and \$110 million as the run rate for 2020.

Recent News

Interactive Brokers to Pay \$38M to 3 US Regulators – Aug 10, 2020

The Securities and Exchange Commission said in a statement that Interactive Brokers will pay a penalty of \$11.5 million to settle charges it repeatedly failed to file Suspicious Activity Reports ("SARs") for U.S. microcap securities trades executed on behalf of its customers.

Also, the Financial Industry Regulatory Authority ("FINRA") and the Commodity Futures Trading Commission ("CFTC") announced that they had agreements with Interactive Brokers related to anti-money laundering failures. Per the agreement, the registered broker-dealer agreed to pay \$15 million and \$11.5 million to the respective agencies.

This brings Interactive Brokers' total penalty charges to \$38 million.

According to the SEC, Interactive Brokers failed to file more than 150 SARs to flag potential manipulation of microcap securities in its customers' accounts for a year, ending mid-2017. The firm failed to properly investigate suspicious activity as required by its written supervisory procedures and was unsuccessful in filing SARs in a timely fashion, even when suspicious transactions were flagged by compliance personnel.

Notably, for transactions, which are suspected to involve fraud or a lack of an apparent lawful business purpose, broker-dealers are required to file SARs.

Marc P. Berger, director of the SEC's New York Regional Office, stated, "SAR filings are an essential tool in assisting regulators and law enforcement to detect potential violations of the securities laws, particularly in the microcap space. Today's multi-agency settlement reflects the seriousness we place on broker-dealers complying with their SAR reporting obligations and maintaining appropriate anti-money laundering controls."

Interactive Brokers consented to the settlements, without admitting to or denying the regulators' findings.

Notably, FINRA's action focused on a period starting from January 2013 till September 2018, while the CFTC's action covered the period between June 2014 and November 2018.

Interactive Brokers' July DARTs Rise Y/Y on Volatile Markets - Aug 3, 2020

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

Total client DARTs were 1,795,000, surging 124% from July 2019 but declining 4% from June 2020. On an annualized basis, the company recorded Cleared Average DARTs per customer accounts of 451,000. This reflects a jump of 63% year over year but a 7% sequential decline.

Total customer accounts grew 40% from the prior-year month and 4% from June 2020 to 912,700. Net new accounts were 36,800, increasing 404% from July 2019 but edging down 1% from June 2020.

Interactive Brokers' total option contracts were 49.1 million, rising 72% from July 2019 but falling 9% from the prior month. Futures contracts grew 32% on a year-over-year basis but declined 10% from the last month to 13.5 million.

At the end of July, client equity was \$218.6 billion, up 40% year over year and 8% sequentially. Also, Interactive Brokers recorded a client credit balance of \$72.5 billion, up 30% from July 2019 and 2% on a sequential basis. The company's customer margin loan balance of \$28.4 billion grew 7% from July 2019 and 14% from the prior month.

Dividend Update

On Jul 21, Interactive Brokers declared a quarterly cash dividend of 10 cents per share. The dividend will be paid out on Sep 14 to shareholders of record as of Sep 1.

Valuation

Interactive Brokers' shares are up 9.8% in the year-to-date period and 12.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 9.1% and 15.1%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry is up 12.3% while the sector is down 3.9%.

The S&P 500 index is up 3.3% in the year-to-date period and 17.5% in the past year.

The stock is currently trading at 26.10X forward 12 months earnings, which compares to 12.00X for the Zacks sub-industry, 16.82X for the Zacks sector and 22.60X for the S&P 500 index.

Over the past five years, the stock has traded as high as 40.47X and as low as 15.49X, with a 5-year median of 23.64X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$54 price target reflects 27.55X forward earnings.

The table below shows summary valuation data for IBKR

Valuation Multiples - IBKR				
	Stock	Sub-Industry	Sector	S&P 500
Current	26.1	12	16.82	22.6

	Current	5-Yr High	5-Yr Low	5-Yr Median	5-Yr Range
P/E F12M	5-Year High	40.47	15.31	16.82	22.62
	5-Year Low	15.49	6.02	11.59	15.25
	5-Year Median	23.64	11.48	14.26	17.58
P/TB TTM	Current	0.48	2.07	3.4	15.23
	5-Year High	0.86	3.35	4	15.36
	5-Year Low	0.34	1.4	2.01	5.96
	5-Year Median	0.48	2.37	3.48	9.57
P/S F12M	Current	11.17	3.57	6.22	3.65
	5-Year High	16.03	4.54	6.66	3.65
	5-Year Low	6.75	2.76	4.96	2.53
	5-Year Median	10.06	3.55	6.06	3.05

As of 08/12/2020

Industry Analysis Zacks Industry Rank: Top 26% (67 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
TD Ameritrade Holding Corporation (AMTD)	Outperform	1
Cowen Group, Inc. (COWN)	Outperform	1
BGC Partners, Inc. (BGCP)	Neutral	4
ETRADE Financial Corporation (ETFC)	Neutral	2
Evercore Inc (EVR)	Neutral	3
LPL Financial Holdings Inc. (LPLA)	Neutral	3
Piper Sandler Companies (PIPR)	Neutral	2
SBI Holdings Inc. (SBHGF)	Neutral	NA

Industry Comparison Industry: Financial - Investment Bank				Industry Peers		
	IBKR	X Industry	S&P 500	BGCP	ETFC	SBHGF
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	4	2	-
VGM Score	C	-	-	B	F	-
Market Cap	21.26 B	913.58 M	23.75 B	1.00 B	12.04 B	5.06 B
# of Analysts	1	2	14	2	3	0
Dividend Yield	0.78%	0.00%	1.68%	1.42%	1.03%	0.00%
Value Score	D	-	-	B	F	-
Cash/Price	2.61	0.68	0.07	0.69	0.52	6.90
EV/EBITDA	-28.28	3.42	13.35	5.01	4.92	-28.92
PEG Ratio	1.09	1.15	2.98	NA	NA	NA
Price/Book (P/B)	2.58	1.64	3.20	1.32	1.96	0.93
Price/Cash Flow (P/CF)	94.08	9.03	12.97	2.26	10.90	9.03
P/E (F1)	23.05	13.98	22.17	4.97	17.85	NA
Price/Sales (P/S)	8.55	1.47	2.54	0.47	4.20	NA
Earnings Yield	4.34%	7.14%	4.31%	19.93%	5.60%	NA%
Debt/Equity	0.00	0.39	0.77	1.69	0.23	0.00
Cash Flow (\$/share)	0.54	2.30	6.94	1.24	5.00	2.43
Growth Score	B	-	-	D	F	NA
Hist. EPS Growth (3-5 yrs)	24.33%	20.42%	10.41%	-0.88%	34.95%	NA
Proj. EPS Growth (F1/F0)	-2.20%	-13.56%	-6.32%	-7.38%	-24.32%	NA
Curr. Cash Flow Growth	15.90%	-0.49%	5.22%	5.03%	-5.88%	-19.52%
Hist. Cash Flow Growth (3-5 yrs)	28.50%	12.22%	8.55%	9.17%	13.09%	1.47%
Current Ratio	1.10	1.23	1.33	1.22	0.30	0.96
Debt/Capital	0.00%	27.82%	44.59%	63.28%	17.15%	0.00%
Net Margin	6.36%	9.74%	10.13%	1.06%	28.69%	NA
Return on Equity	2.23%	13.82%	14.59%	42.18%	14.59%	NA
Sales/Assets	0.03	0.26	0.51	0.41	0.04	NA
Proj. Sales Growth (F1/F0)	5.14%	0.00%	-1.40%	-3.21%	-6.43%	-11.75%
Momentum Score	A	-	-	A	D	-
Daily Price Chg	2.81%	0.00%	0.67%	-0.71%	1.13%	2.21%
1 Week Price Chg	3.25%	2.80%	2.30%	4.15%	3.23%	0.50%
4 Week Price Chg	-3.83%	1.03%	4.87%	-3.10%	2.58%	4.83%
12 Week Price Chg	30.59%	14.91%	13.54%	1.81%	29.21%	3.81%
52 Week Price Chg	12.66%	0.00%	6.06%	-42.77%	34.88%	5.71%
20 Day Average Volume	610,083	74,407	2,006,991	3,824,590	1,899,227	1,237
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	NA
(F1) EPS Est 4 week change	26.86%	10.35%	1.95%	-4.24%	6.27%	NA
(F1) EPS Est 12 week change	12.69%	22.36%	2.72%	-10.32%	9.32%	NA
(Q1) EPS Est Mthly Chg	27.50%	5.05%	0.84%	-7.69%	13.55%	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	B
Momentum Score	A
VGM Score	C

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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