

Virtu Financial, Inc (VIRT)

\$23.59 (As of 08/12/20)

Price Target (6-12 Months): **\$25.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/13/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: F

Momentum: A

Summary

Virtu Financial's second-quarter 2020 earnings per share of \$1.72 beat the Zacks Consensus Estimate by 9.6% and skyrocketed 975% year over year too. Its shares have outperformed its industry year to date. The company is expected to gain traction from the current market volatility. Its diversified business bodes well for the long haul. It has been witnessing growth in both its customer and non-customer market making businesses. Consistent operating performance of Market Making is impressive. The company's Execution Services segment has been gaining from the ITG buyout, which diversified its revenues and leveraged its core technology. Its balance sheet strength enables it to deploy capital via dividends. However, its rising operating expenses weighs on its bottom line. Rising level of leverage is another concern.

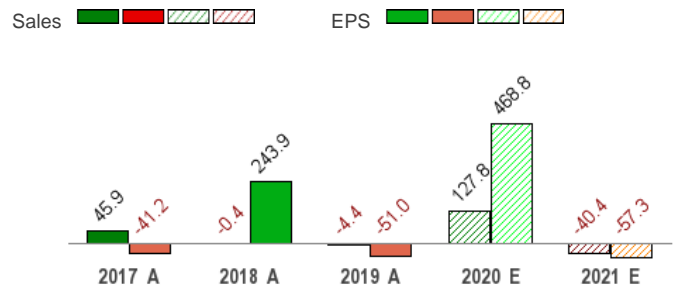
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$26.82 - \$14.94
20 Day Average Volume (sh)	1,446,639
Market Cap	\$4.5 B
YTD Price Change	47.5%
Beta	-0.41
Dividend / Div Yld	\$0.96 / 4.1%
Industry	Financial - Miscellaneous Services
Zacks Industry Rank	Bottom 18% (208 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.6%
Last Sales Surprise	3.3%
EPS F1 Est- 4 week change	2.6%
Expected Report Date	11/03/2020
Earnings ESP	-2.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	346 E	351 E	345 E	338 E	1,323 E
2020	784 A	669 A	413 E	369 E	2,221 E
2019	229 A	239 A	250 A	257 A	975 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.61 E	\$0.58 E	\$0.53 E	\$0.56 E	\$2.33 E
2020	\$2.05 A	\$1.72 A	\$0.95 E	\$0.78 E	\$5.46 E
2019	\$0.34 A	\$0.16 A	\$0.21 A	\$0.27 A	\$0.96 A

*Quarterly figures may not add up to annual.

P/E TTM	5.6
P/E F1	4.3
PEG F1	NA
P/S TTM	1.7

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

Headquartered in New York, NY, Virtu Financial is a market-leading financial services firm that leverages cutting-edge technology to provide execution services and data, analytics and connectivity products to its clients and deliver liquidity to the global markets. It provides a wide array of offerings in execution, liquidity sourcing, analytics and broker-neutral, multi-dealer platforms in workflow technology. The company was founded in 2008.

Its product suite allows clients to trade on several venues in more than fifty countries and in various asset classes, such as global equities, foreign exchange, futures, fixed income and myriad other commodities.

Additionally, Virtu's integrated, multi-asset analytics platform provides a range of pre and post-trade services, data products and compliance tools that helps clients invest, trade and manage risk across global markets. The company interacts with retail brokers, Registered Investment Advisors, private client networks, sell-side brokers and buy-side institutions.

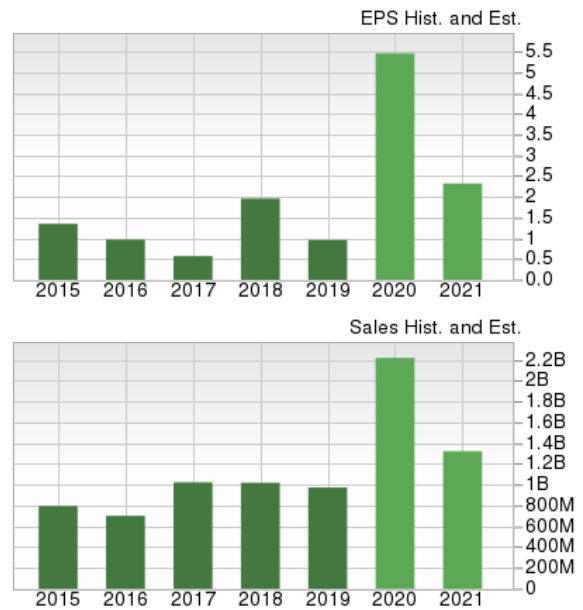
The company runs its business through three segments:

Market Making Segment (contributed to 68% of 2019 total revenues):

This segment engages in buying and selling securities and other financial instruments. It consists of market making in the cash, futures and options markets across global equities, options, fixed income, currencies and commodities. Its cutting-edge technology allows it to provide bids in more than 25000 securities and other financial instruments at above 235 venues in 36 countries across the globe.

Execution Services (32%): The segment provides agency execution services and trading venues, which is involved in transparent trading in global equities, ETFs and fixed income to institutions, banks and broker dealers. The segment provides proprietary technology and infrastructure, workflow technology and trading analytics services to selected third parties.

Corporate: The segment consists of investments in strategic financial services-oriented opportunities and maintains corporate overhead expenses.



Reasons To Buy:

- ▲ **Solid Market Making Segment:** This is steadily contributing a lion's share to the company's overall revenues. The segment also witnessed organic growth in its non-customer Market Making business on the back of recently launched Marketing Making strategies in Europe, improvement in exchange traded products block desk and better options capabilities. Market Making segment also benefited from KCG Holdings Inc.'s quantitative market making strategies. Although revenues from this segment declined 25% year over year in 2019, the same again skyrocketed 210.3% in the first six months of 2020. We expect the segment to continue performing well on the back of growing retail engagement and market volatility.
- ▲ **Well-Performing Execution Services Segment:** This has been gaining from the ITG buyout, which diversified its revenues along with leveraging its core technology. ITG helps brokers and asset managers reduce the cost of implementing investments via technology-enabled liquidity, execution, analytics and workflow solutions. In the first six months of 2020, revenues from this segment grew 41.6% year over year on the back of commissions, workflow technology and analytics. We expect the segment to continue performing well given the current market scenario.
- ▲ **Capital Deployment:** On the back of its financial strength, the company deployed capital in the form of dividends for 20 straight quarters. Its dividend yield stands at 4%, higher than the industry average of 1.8%. Its intelligent capital management strategy should instill investors' confidence in the stock.
- ▲ **Gains From Increased Volatility:** The company gains traction from market volatility and thus, the recent coronavirus pandemic aided it to earn a sweet spot. Being a high-frequency trader, Virtu Financial suffered in recent years due to an uninterrupted financial market. However, the pandemic proved to be a boon for the company as market volatility soared. With greater instability, there is increased need for liquidity, which in turn, provides the company with more trading and profit opportunities.
- ▲ **Sale of Match Now:** The company completed the sale of Match Now to CBOE Global Markets. This divestiture will be used to repay a portion of its outstanding term loan. MATCHNow, an alternative trading system, is the premier provider of dark liquidity in the Canadian equities market and the company expects it would be able to cater to a wider audience with this deal.
- ▲ **Share Price Performance:** Shares of the company have outperformed the industry year to date. Moreover, its solid fundamentals are expected to continue driving the stock going forward.
- ▲ **Capital Position:** The company's balance sheet position also remains a positive. Its total debt is 59.7% of capital, lower than the industry's average of 64.4%. Its times interest earned stands at 6.7X, higher than the industry's average of 5.2X. Virtu Financial has plans to use its free cash flow to decrease the term debt. Thus, its financial flexibility is impressive.
- ▲ **Higher Return on Equity:** The company's high return on equity reflects its efficiency in utilizing shareholder's funds. Its ROE of 48.3%, is higher than the industry average of 21.5%.

Virtu Financial's solid strength in Market Making and Execution Services segments augur well for the long haul. Its capital position also impresses.

Reasons To Sell:

- ▼ **Increasing Operating Expenses:** Steep increase in operating expenses has also been a major concern for the company over the past many years. In 2019 and 2018, the same rose by 38.2% and 29.2% year over year, respectively. In the first six months of 2020, the same increased 26.6% due to higher brokerage, exchange, clearance fees and payments for order flow, net, communication and data processing, employee compensation and payroll taxes, etc. Rising expenses are likely to drain the company's margin going forward.
 - ▼ **Overvalued:** The stock is trading at a premium to its industry average. Its current price-to-book value of 3, is above the industry's average of 1.9. This makes its valuation expensive.
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Escalating operating expenses and high leverage continues to bother the company.

Last Earnings Report

Virtu Financial Q2 Earnings Surpass, Increase Y/Y

Virtu Financial's second-quarter 2020 earnings per share of \$1.72 beat the Zacks Consensus Estimate by 9.6%. Moreover, the bottom line skyrocketed 975% year over year.

The company benefited from the market volatility amid the COVID-19 outbreak.

Revenues of \$669 million soared 180% year over year on the back of heightened market volatility, bid-ask spreads, and trading volumes and asset classes. Moreover, the top line surpassed the consensus mark by 3.4%.

Quarter Ending 06/2020

Report Date	Aug 07, 2020
Sales Surprise	3.32%
EPS Surprise	9.55%
Quarterly EPS	1.72
Annual EPS (TTM)	4.25

Quarterly Operational Update

Adjusted trading income of the company surged 179.9% to \$668.7 million year over year.

In the quarter under review, adjusted EBITDA jumped 444.8% to \$485.8 million.

Total operating expenses jumped 13.5% year over year to \$501.4 million.

This upside was owing to higher brokerage, exchange and clearance fees, employee compensation and payroll taxes, etc.

Segmental Update

Adjusted net trading income from the Marketing Making segment ascended 262.3% year over year in the quarter under review. Under this segment, adjusted net trading income from Global Equities rose 305% year over year while the same from Global FICC, Options and Other climbed 105% year over year.

Adjusted net trading loss from Execution Services was \$689 million against the prior-year quarter's net trading income of \$355 million.

Dividend Update

The company's board of directors declared a quarterly cash dividend of 24 cents per share, payable Sep 15, 2020 to its shareholders of record as of Sep 1.

Financial Update

As of Jun 30, 2020, the company had total assets worth \$10.2 billion, up 7.1% from the level at 2019 end.

It exited the quarter with total equity of \$1.7 billion, up 38.4% from the level on Dec 31, 2019.

The company exited the second quarter with \$670.7 million of cash and cash equivalents, down 8.4% from the 2019-end level.

In the quarter under review, long-term borrowings dropped 9.7% from the level at 2019 end.

Recent News

Virtu POSIT Alert Europe Reaches New Value Traded Record — Jun 9, 2020

Virtu Financial announced a record trading day for its POSIT Alert Europe block indications network. The milestone reached over £1.256 billion in notional value traded on Jun 5, 2020.

Virtu Financial Posts Preliminary Q2 Report Through May 2020 — Jun 3, 2020

Virtu Financial announced the preliminary estimates for its second-quarter 2020 revenues through May 31, 2020.

On a preliminary basis, Virtu Financial expects its trading income, net to be in the range of \$460-\$474 million for the two months ended May 31, 2020. Adjusted net trading income is anticipated between \$425 million and \$440 million.

The company projects average daily adjusted net trading income in the bracket of \$10.37-\$10.73 million per day. Its results are likely to reflect its strong fundamentals and gains from the current market volatility.

Virtu Financial Boosts Clients' Access to Block Liquidity — May 27, 2020

Virtu Financial extended client access to electronic block liquidity through Interlisted Conditional orders. The company's clients will be allowed to avail of cross-border block liquidity via POSIT Alert Canada, which gains traction from Virtu Financial's Best Market Server (BMS) technology.

Virtu Financial to Sell MATCHNow to Cboe Global Markets — May 19, 2020

Virtu Financial has agreed to divest MATCHNow to Cboe Global Markets. Subject to certain closing conditions, the deal is expected to be completed in the third quarter of 2020.

Valuation

Virtu Financial's shares are up 51% in the year-to-date period and 36% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 9.1% and 14% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 5.5% and 1.2%, respectively.

The S&P 500 index is up 5% in the year-to-date period and 20% in the past year.

The stock is currently trading at 7.08x forward 12-month earnings, which compares to 13.3x for the Zacks sub-industry, 16.82x for the Zacks sector and 22.6x for the S&P 500 index.

Over the past five years, the stock has traded as high as 44.14x and as low as 5.4x, with a 5-year median of 15.07x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$25 price target reflects 7.51x forward earnings.

Valuation Multiples - VIRT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.08	13.3	16.82	22.6
	5-Year High	44.14	14.15	16.82	22.6
	5-Year Low	5.4	8.7	11.6	15.25
	5-Year Median	15.07	11.59	14.26	17.58
P/B TTM	Current	2.97	1.93	2.5	4.64
	5-Year High	6.61	2.77	2.91	4.68
	5-Year Low	2.14	1.12	1.71	2.83
	5-Year Median	3.52	1.97	2.53	3.74
P/S F12M	Current	2.8	1.44	6.22	3.65
	5-Year High	6.2	1.77	6.65	3.65
	5-Year Low	2.26	1.02	4.95	2.53
	5-Year Median	3.77	1.35	6.05	3.05

As of 08/12/2020

Industry Analysis Zacks Industry Rank: Bottom 18% (208 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
PRA Group, Inc. (PRAA)	Outperform	3
PPDAI Group Inc. Sponsored ADR (FINV)	Neutral	NA
Houlihan Lokey, Inc. (HLI)	Neutral	3
MoneyGram International Inc. (MGI)	Neutral	2
Oaktree Specialty Lending Corp. (OCSL)	Neutral	2
R1 RCM Inc. (RCM)	Neutral	3
XP Inc. (XP)	Neutral	3
Intercorp Financial Services Inc. (IFS)	Underperform	4

Industry Comparison Industry: Financial - Miscellaneous Services				Industry Peers		
	VIRT	X Industry	S&P 500	IFS	MGI	XP
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	2	3
VGM Score	D	-	-	B	B	C
Market Cap	4.55 B	186.37 M	23.75 B	2.82 B	230.74 M	25.68 B
# of Analysts	4	2.5	14	1	4	3
Dividend Yield	4.07%	0.00%	1.68%	0.00%	0.00%	0.00%
Value Score	D	-	-	B	A	F
Cash/Price	0.50	0.34	0.07	1.25	0.60	NA
EV/EBITDA	19.10	3.44	13.35	1.70	8.13	NA
PEG Ratio	NA	3.25	2.98	NA	NA	NA
Price/Book (P/B)	2.67	0.99	3.20	1.11	NA	NA
Price/Cash Flow (P/CF)	13.47	8.52	12.97	5.44	1.83	NA
P/E (F1)	4.39	17.29	22.17	14.97	36.30	88.35
Price/Sales (P/S)	1.68	1.66	2.54	NA	0.19	NA
Earnings Yield	23.15%	5.30%	4.31%	6.68%	2.75%	1.14%
Debt/Equity	1.22	0.40	0.77	0.82	-1.89	NA
Cash Flow (\$/share)	1.75	0.62	6.94	4.54	1.99	NA
Growth Score	F	-	-	C	F	B
Hist. EPS Growth (3-5 yrs)	30.06%	10.78%	10.41%	NA	-12.32%	NA
Proj. EPS Growth (F1/F0)	469.01%	-16.97%	-6.32%	-57.80%	233.33%	5.33%
Curr. Cash Flow Growth	-30.73%	5.71%	5.22%	35.74%	-23.44%	NA
Hist. Cash Flow Growth (3-5 yrs)	8.56%	13.95%	8.55%	NA	-6.21%	NA
Current Ratio	0.82	1.27	1.33	1.26	0.03	NA
Debt/Capital	54.92%	30.79%	44.59%	44.93%	NA	NA
Net Margin	14.76%	6.86%	10.13%	NA	-3.75%	NA
Return on Equity	48.31%	7.54%	14.59%	NA	NA	NA
Sales/Assets	0.27	0.22	0.51	NA	0.29	NA
Proj. Sales Growth (F1/F0)	127.85%	0.00%	-1.40%	-4.19%	-5.48%	28.60%
Momentum Score	A	-	-	A	A	A
Daily Price Chg	3.42%	0.00%	0.67%	1.15%	2.83%	-1.73%
1 Week Price Chg	-7.98%	2.98%	2.30%	NA%	-1.15%	3.51%
4 Week Price Chg	-9.58%	3.57%	4.87%	NA%	12.38%	3.56%
12 Week Price Chg	9.21%	18.59%	13.54%	NA	98.36%	69.20%
52 Week Price Chg	29.26%	-7.74%	6.06%	NA	5.52%	NA
20 Day Average Volume	1,446,639	103,169	2,006,991	38,644	2,028,827	1,265,191
(F1) EPS Est 1 week change	2.61%	0.00%	0.00%	0.00%	0.00%	3.95%
(F1) EPS Est 4 week change	2.61%	2.01%	1.95%	-8.84%	93.20%	3.95%
(F1) EPS Est 12 week change	2.95%	6.29%	2.72%	-34.78%	93.20%	21.54%
(Q1) EPS Est Mthly Chg	8.57%	1.73%	0.84%	0.00%	115.63%	11.54%

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	F
Momentum Score	A
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.

Disclosures

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