

Virtu Financial, Inc (VIRT)

\$24.09 (As of 04/21/20)

Price Target (6-12 Months): **\$28.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 04/05/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: D

Summary

Virtu Financial's shares have outperformed its industry in a year's time. Its diversified business positions it well for the long haul. The company has been witnessing growth in both its customer and non-customer market making businesses. Consistent operating performance of Market Making and Execution Services segments is impressive. Its balance sheet strength allows it to deploy capital, which in turn, should attract investors' attention. The 2019 buyout of Investment Technology Group (ITG) helped the company enhance its capabilities by boosting its Execution Services segment. However, its rising operating expenses continue to weigh on its bottom line. Rising level of leverage is another concern for Virtu Financial. The company's weak return on also equity bothers.

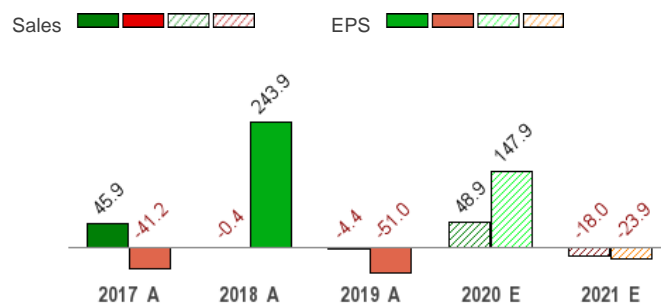
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|--|
| 52 Week High-Low | \$26.57 - \$14.94 |
| 20 Day Average Volume (sh) | 1,193,452 |
| Market Cap | \$4.6 B |
| YTD Price Change | 50.7% |
| Beta | -0.68 |
| Dividend / Div Yld | \$0.96 / 4.0% |
| Industry | Financial - Miscellaneous Services |
| Zacks Industry Rank | Top 36% (90 out of 253) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | 0.0% |
| Last Sales Surprise | -0.0% |
| EPS F1 Est- 4 week change | 25.9% |
| Expected Report Date | 05/07/2020 |
| Earnings ESP | 41.6% |
| P/E TTM | 24.6 |
| P/E F1 | 10.1 |
| PEG F1 | NA |
| P/S TTM | 3.0 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 300 E | 296 E | 297 E | 305 E | 1,191 E |
| 2020 | 586 E | 311 E | 277 E | 278 E | 1,452 E |
| 2019 | 229 A | 239 A | 250 A | 257 A | 975 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.43 E | \$0.41 E | \$0.41 E | \$0.44 E | \$1.81 E |
| 2020 | \$1.05 E | \$0.47 E | \$0.40 E | \$0.46 E | \$2.38 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/21/2020. The reports text is as of 04/22/2020.

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.

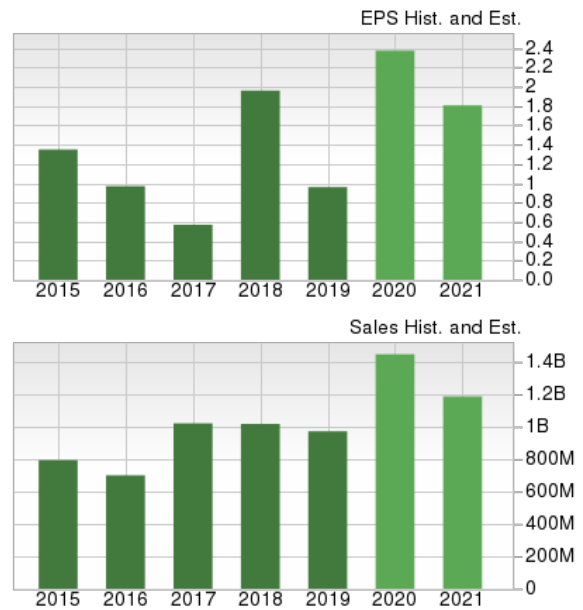
The company runs its business through three segments:

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. In 2017 and 2018, revenues from this segment increased 20.9% and 65.5%, respectively. Although revenues from this segment declined 25% year over year in 2019, we expect the segment to bounce back on the back of U.S. equities.
- ▲ **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.
- ▲ **Strong Capital Position:** On the back of its financial strength, the company deployed capital in the form of dividends for the fifth consecutive year. Its dividend yield stands at 4%, higher than the industry average of 2.3%. Its capital management strategy should instill investors' confidence.
- ▲ **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.
- ▲ **Share Price Performance:** Shares of the company have gained 50.7% year to date, outperforming its industry's decline of 28.4%. Moreover, its solid fundamentals are expected to continue driving the stock going forward.

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

Risks

- **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. Rising expenses are likely to drain the company's margin going forward.
 - **Elevated Debt Level:** The company's rising level of debt persistently shoots up interest expenses in turn. In 2019, its long-term borrowings rose 111% year over year while interest expenses increased almost 70% year over year. Its times interest earned stands at 0.3x, lower than the industry average of 5.8x. A decline in interest earned ratio along with high debt raises financial risk.
 - **Weak Return on Equity:** The company's weak return on equity reflects its inefficiency in utilizing shareholder's funds. Its ROE stands at 14%, much lower than the industry average of 22.2%.
 - **Overvalued:** The stock is trading at a premium to its industry average. Its current price-to-book value stands at 3.77, much above the industry's average of 1.3. This makes its valuation expensive.
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Last Earnings Report

Virtu Financial's Q4 Earnings In Line, Down Y/Y

Virtu Financial's fourth-quarter 2019 earnings per share of 27 cents came in line with the Zacks Consensus Estimate. However, the bottom line declined 20.6% year over year, mainly due to lower trading income.

Revenues of \$257 million were reported in the quarter under review, mainly due to muted volatility and decline in volumes across global markets. However, the top line beat the Zacks Consensus Estimate by 3.6%.

Quarterly Operational Update

Adjusted trading income of the company decreased 14% year over year.

Total operating expenses surged 46.7% year over year to \$430.6 million. This increase was due to higher payments for order flow, communication and data processing, employee compensation and payroll taxes, operations and administrative expenses, amortization of purchased intangibles and acquired capitalized software, etc.

Segmental Update

Trading income from the Marketing Making segment fell 37.7% year over year in the quarter under review.

Its Execution services soared 127.7% from the prior-year quarter's figure.

Full-Year Highlights

In 2019, the company's total revenues were up 18.6% year over year to \$1.9 billion.

It reported adjusted EPS of 96 cents per share.

For the full year, its adjusted net trading income totalled \$974.7 million.

Adjusted EBITDA of \$431.9 million plunged 30.3% year over year.

Dividend Update

The company's board of directors declared a quarterly cash dividend of 24 cents per share, payable Mar 16, 2020 to its shareholders of record as of Mar 2, 2020.

Financial Update

As of Dec 31, 2019, the company had total assets worth \$9.6 billion, up 31% from the level at 2018 end.

It exited the quarter with total equity of \$1.2 billion, down 17.8% from the level on Dec 31, 2018.

The company exited 2019 with \$732 million of cash and cash equivalents, up 0.4% year over year.

In the quarter under review, long-term borrowings increased 111.4% year over year.

Quarter Ending **12/2019**

| Report Date | Feb 11, 2020 |
|------------------|--------------|
| Sales Surprise | -0.04% |
| EPS Surprise | 0.00% |
| Quarterly EPS | 0.27 |
| Annual EPS (TTM) | 0.98 |

Recent News

Virtu Financial Declares Broker Dealer Borrowing Capacity and QTD Results — Mar 20, 2020

Virtu Financial announced \$450 million of additional broker dealer borrowing capacity.

On a preliminary basis, it anticipates its adjusted trading income for the quarter to date through Mar 19, 2020 between \$509 and \$519 million. Also, it expects average daily adjusted net trading income between \$9.43 and \$9.61 million per day.

Valuation

Virtu Financial's shares are up 50.7% in the year-to-date period, but down 3.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 28.4% and 27% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 30% and 22%, respectively.

The S&P 500 index is down 35.4% in the year-to-date period and 4.3% in the past year.

The stock is currently trading at 12.98x forward 12-month price to earnings, which compares to 10.01x for the Zacks sub-industry, 13.72x for the Zacks sector and 19.23x for the S&P 500 index.

Over the past five years, the stock has traded as high as 44.14x and as low as 9.99x, with a 5-year median of 15.82x. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$28 price target reflects 15.14x forward 12-month earnings.

| Valuation Multiples - VIRT | | | | | |
|----------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M | Current | 12.98 | 10.1 | 13.72 | 19.23 |
| | 5-Year High | 44.14 | 14.15 | 16.16 | 19.34 |
| | 5-Year Low | 9.99 | 8.69 | 11.2 | 15.19 |
| | 5-Year Median | 15.82 | 11.35 | 13.92 | 17.46 |
| P/B TTM | Current | 3.77 | 1.3 | 2.06 | 3.74 |
| | 5-Year High | 6.66 | 2.77 | 2.9 | 4.55 |
| | 5-Year Low | 2.14 | 1.04 | 1.71 | 2.85 |
| | 5-Year Median | 3.85 | 2 | 2.52 | 3.64 |
| P/S F12M | Current | 4.04 | 1.14 | 4.93 | 3.14 |
| | 5-Year High | 6.2 | 1.92 | 6.65 | 3.43 |
| | 5-Year Low | 2.57 | 1.05 | 4.93 | 2.55 |
| | 5-Year Median | 3.84 | 1.39 | 6.01 | 3 |

As of 04/21/2020

Industry Analysis Zacks Industry Rank: Top 36% (90 out of 253)



Top Peers

| Company (Ticker) | Rec | Rank |
|---|------------|------|
| InterCorp Financial Services Inc. (IFS) | Outperform | 4 |
| PRA Group, Inc. (PRAA) | Outperform | 1 |
| CTT Correios de Portugal, S.A. Un-sponsored ADR (CTTPY) | Neutral | NA |
| PPDAI Group Inc. Sponsored ADR (FINV) | Neutral | 3 |
| Houlihan Lokey, Inc. (HLI) | Neutral | 3 |
| MoneyGram International Inc. (MGI) | Neutral | 2 |
| R1 RCM Inc. (RCM) | Neutral | 3 |
| XP Inc. (XP) | Neutral | 3 |

Industry Comparison Industry: Financial - Miscellaneous Services

| | VIRT | X Industry | S&P 500 | IFS | MGI | XP |
|----------------------------------|------------|------------|-----------|------------|-----------|-----------|
| Zacks Recommendation (Long Term) | Outperform | - | - | Outperform | Neutral | Neutral |
| Zacks Rank (Short Term) | 1 | - | - | 4 | 2 | 3 |
| VGM Score | D | - | - | - | B | F |
| Market Cap | 4.63 B | 170.97 M | 18.60 B | NA | 85.54 M | 13.61 B |
| # of Analysts | 4 | 3 | 14 | 1 | 4 | 3 |
| Dividend Yield | 3.99% | 0.00% | 2.28% | % | 0.00% | 0.00% |
| Value Score | B | - | - | D | A | F |
| Cash/Price | 0.62 | 0.44 | 0.05 | NA | 1.63 | NA |
| EV/EBITDA | 17.60 | 5.59 | 11.41 | NA | 6.94 | NA |
| PEG Ratio | NA | 1.47 | 2.13 | NA | NA | NA |
| Price/Book (P/B) | 3.75 | 0.74 | 2.52 | NA | NA | NA |
| Price/Cash Flow (P/CF) | 13.76 | 6.59 | 10.05 | NA | 0.68 | NA |
| P/E (F1) | 10.12 | 9.34 | 17.41 | NA | NA | 48.04 |
| Price/Sales (P/S) | 3.03 | 1.01 | 1.98 | NA | 0.07 | NA |
| Earnings Yield | 9.88% | 10.26% | 5.58% | NA% | -11.85% | 2.07% |
| Debt/Equity | 1.86 | 0.51 | 0.71 | 0.77 | -2.00 | NA |
| Cash Flow (\$/share) | 1.75 | 0.57 | 7.01 | 4.54 | 1.99 | NA |
| Growth Score | F | - | - | D | B | C |
| Hist. EPS Growth (3-5 yrs) | 17.55% | 11.32% | 10.92% | NA | -8.56% | NA |
| Proj. EPS Growth (F1/F0) | 147.40% | -7.78% | -4.01% | -35.29% | -641.67% | 2.67% |
| Curr. Cash Flow Growth | -30.73% | 5.34% | 5.93% | 35.74% | -23.44% | NA |
| Hist. Cash Flow Growth (3-5 yrs) | 8.56% | 13.16% | 8.55% | NA | -6.21% | NA |
| Current Ratio | 0.73 | 1.22 | 1.24 | 1.23 | 0.04 | NA |
| Debt/Capital | 65.01% | 34.62% | 42.91% | 43.63% | NA | NA |
| Net Margin | -3.83% | 14.06% | 11.57% | NA | -4.68% | NA |
| Return on Equity | 13.98% | 8.72% | 16.74% | NA | NA | NA |
| Sales/Assets | 0.17 | 0.21 | 0.54 | NA | 0.30 | NA |
| Proj. Sales Growth (F1/F0) | 48.92% | 0.00% | -0.39% | -2.31% | -8.42% | 14.14% |
| Momentum Score | D | - | - | - | F | D |
| Daily Price Chg | 1.77% | 0.00% | -2.84% | NA% | -3.57% | -8.43% |
| 1 Week Price Chg | -0.88% | -1.02% | 0.42% | NA% | -1.39% | 18.83% |
| 4 Week Price Chg | 15.60% | 2.92% | 10.78% | NA% | -5.59% | 25.56% |
| 12 Week Price Chg | 52.37% | -29.52% | -22.58% | NA | -40.53% | -36.83% |
| 52 Week Price Chg | -3.37% | -39.75% | -16.41% | NA | -45.57% | NA |
| 20 Day Average Volume | 1,193,452 | 78,641 | 2,973,334 | 0 | 1,117,996 | 1,731,323 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | -36.59% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | 25.88% | -11.39% | -6.75% | -36.59% | -170.97% | -7.78% |
| (F1) EPS Est 12 week change | 68.74% | -16.15% | -11.09% | -36.11% | -75.00% | -15.15% |
| (Q1) EPS Est Mthly Chg | 8.14% | -4.85% | -9.83% | -55.10% | -250.00% | 0.00% |

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 | B |
| Growth Score | F |
| Momentum Score | D |
| 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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