

Virtu Financial, Inc (VIRT)

\$24.26 (As of 07/30/20)

Price Target (6-12 Months): **\$26.00**

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 shares have outperformed its industry year to date. The company is expected to gain traction amid 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. A Zacks Rank #3 and an Earnings ESP of -1.01% leave us inconclusive of its earnings surprise as it is set to report its second-quarter earnings on Aug 7.

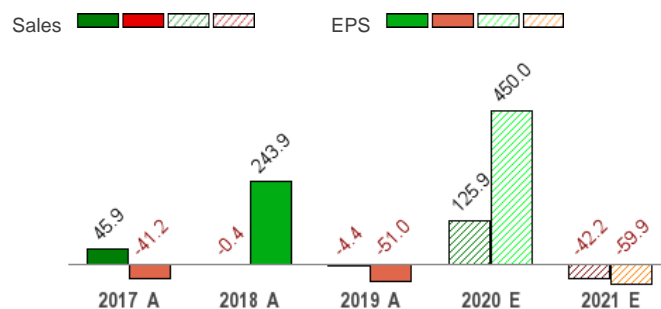
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$26.82 - \$14.94
20 Day Average Volume (sh)	1,166,361
Market Cap	\$4.7 B
YTD Price Change	51.7%
Beta	-0.44
Dividend / Div Yld	\$0.96 / 4.0%
Industry	Financial - Miscellaneous Services
Zacks Industry Rank	Bottom 25% (190 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	35.8%
Last Sales Surprise	33.9%
EPS F1 Est- 4 week change	0.5%
Expected Report Date	08/07/2020
Earnings ESP	-1.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	302 E	302 E	297 E	299 E	1,273 E
2020	784 A	647 E	410 E	360 E	2,203 E
2019	229 A	239 A	250 A	257 A	975 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.53 E	\$0.51 E	\$0.46 E	\$0.51 E	\$2.12 E
2020	\$2.05 A	\$1.57 E	\$0.88 E	\$0.78 E	\$5.28 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	9.0
P/E F1	4.6
PEG F1	NA
P/S TTM	2.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/30/2020. The reports text is as of 07/31/2020.

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.

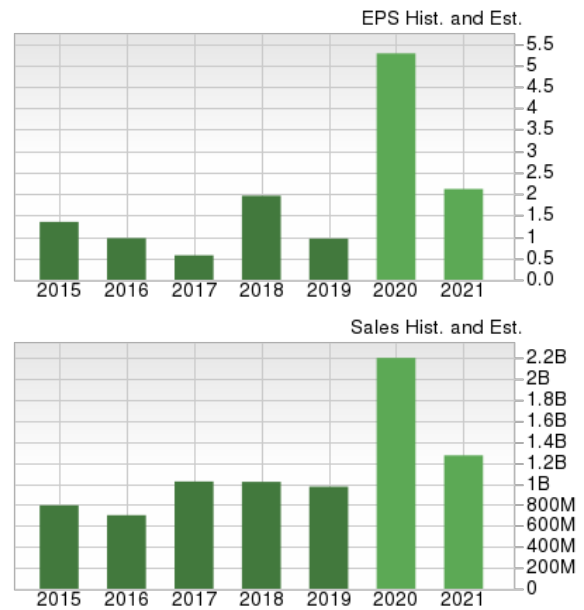
The company runs its business through three segments:

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, it again skyrocketed 198% in the first quarter 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 quarter of 2020, revenues from this segment grew 104% year over year. 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.
- ▲ **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 industry's average of 64.4%. As of Mar 31, 2020, it had cash and cash equivalents of \$2.2 billion, almost in line with its debt level of \$2.26 billion. The company even plans to prepay a debt of \$200 million before second quarter ends, which will allow it to save \$8 million in interest expense. Virtu Financial has plans to use its free cash flow to decrease the term debt. It has an internal management of target of debt-to-adjusted EBITDA of 2:1 before the second quarter ends. 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 stands at 38.6%, much 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. 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 3.4x, lower than the industry average of 5.2x. A decline in interest earned ratio along with high debt raises financial risk.
- ▼ **Overvalued:** The stock is trading at a premium to its industry average. Its current price-to-book value stands at 3.1, much above the industry's average of 1.9. This makes its valuation expensive.

Escalating operating expenses and high leverage continues to bother the company.

Last Earnings Report

Virtu Financial Q1 Earnings Beat Estimates, Soar Y/Y

Virtu Financial's first-quarter 2020 earnings per share of \$2.05 beat the Zacks Consensus Estimate by 35.8%. Moreover, the bottom line skyrocketed around 503% year over year.

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

Revenues of \$784 million soared 242.4% 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 33.8%.

Quarterly Operational Update

Adjusted trading income of the company increased 242.8% to \$784.5 million year over year.

In the quarter under review, adjusted EBITDA jumped 358.6% to \$569.7 million.

Total operating expenses surged 41.8% year over year to \$537.8 million.

This upside was owing to higher brokerage, exchange and clearance fees, communication and data processing, employee compensation and payroll taxes, payments for order flow, etc.

Segmental Update

Adjusted net trading income from the Marketing Making segment ascended 267% year over year in the quarter under review. Under this segment, adjusted net trading income from Global Equities rose 309.5% year over year while the same from Global FICC, Options and Other climbed 123.1% year over year.

Adjusted net trading income from its Execution Services soared 159% from the prior-year quarter's figure.

Dividend Update

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

Financial Update

As of Mar 31, 2020, the company had total assets worth \$10.9 billion, up 14.3% from the level at 2019 end.

It exited the quarter with total equity of \$1.5 billion, up 24.4% from the level on Dec 31, 2019.

The company exited the first quarter with \$710.5 million of cash and cash equivalents, down 3% from the 2019-end level.

In the quarter under review, long-term borrowings dipped 0.1% from the level at 2019 end.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	33.90%
EPS Surprise	35.76%
Quarterly EPS	2.05
Annual EPS (TTM)	2.69

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 51.8% in the year-to-date period and 9.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 13.6% and 18.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 14.4% and 11.6%, respectively.

The S&P 500 index is up 1.3% in the year-to-date period and 10.8% in the past year.

The stock is currently trading at 7.05x forward 12-month earnings, which compares to 14.16x for the Zacks sub-industry, 16.59x for the Zacks sector and 22.69x for the S&P 500 index.

Over the past five years, the stock has traded as high as 44.14x and as low as 5.39x, with a 5-year median of 15.15x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$26 price target reflects 7.56x forward earnings.

Valuation Multiples - VIRT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.05	14.16	16.59	22.69
	5-Year High	44.14	14.16	16.59	22.69
	5-Year Low	5.39	8.69	11.59	15.25
	5-Year Median	15.15	11.46	14.21	17.55
P/B TTM	Current	3.06	1.9	2.42	4.46
	5-Year High	6.61	2.77	2.91	4.56
	5-Year Low	2.14	1.12	1.72	2.83
	5-Year Median	3.53	1.97	2.53	3.72
P/S F12M	Current	2.81	1.29	6.04	3.59
	5-Year High	6.19	1.77	6.66	3.59
	5-Year Low	2.26	1.01	4.96	2.53
	5-Year Median	3.77	1.34	6.06	3.02

As of 07/30/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (190 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
PPDAI Group Inc. Sponsored ADR (FINV)	Neutral	3
Houlihan Lokey, Inc. (HLI)	Neutral	3
MoneyGram International Inc. (MGI)	Neutral	4
Oaktree Specialty Lending Corp. (OCSL)	Neutral	3
PRA Group, Inc. (PRAA)	Neutral	3
R1 RCM Inc. (RCM)	Neutral	3
XP Inc. (XP)	Neutral	3
Intercorp Financial Services Inc. (IFS)	Underperform	5

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	-	-	5	4	3
VGM Score	D	-	-	-	F	D
Market Cap	4.68 B	188.79 M	22.57 B	NA	240.43 M	26.17 B
# of Analysts	4	3	14	1	4	3
Dividend Yield	3.96%	0.00%	1.83%	%	0.00%	0.00%
Value Score	D	-	-	C	C	F
Cash/Price	0.45	0.32	0.07	NA	0.69	NA
EV/EBITDA	20.50	4.16	12.96	NA	8.35	NA
PEG Ratio	NA	3.04	3.04	NA	NA	NA
Price/Book (P/B)	3.06	0.96	3.13	NA	NA	NA
Price/Cash Flow (P/CF)	13.86	8.28	12.61	NA	1.91	NA
P/E (F1)	4.62	16.45	22.06	NA	NA	93.61
Price/Sales (P/S)	2.15	1.63	2.42	NA	0.19	NA
Earnings Yield	21.76%	5.67%	4.31%	NA%	-6.86%	1.08%
Debt/Equity	1.48	0.40	0.75	0.82	-1.94	NA
Cash Flow (\$/share)	1.75	0.62	6.94	4.54	1.99	NA
Growth Score	F	-	-	C	F	C
Hist. EPS Growth (3-5 yrs)	22.84%	10.78%	10.85%	NA	-9.52%	NA
Proj. EPS Growth (F1/F0)	450.00%	-27.27%	-7.75%	-53.71%	-958.33%	1.33%
Curr. Cash Flow Growth	-30.73%	5.71%	5.39%	35.74%	-23.44%	NA
Hist. Cash Flow Growth (3-5 yrs)	8.56%	13.95%	8.55%	NA	-6.21%	NA
Current Ratio	0.76	1.39	1.31	1.26	0.04	NA
Debt/Capital	59.72%	30.05%	44.32%	44.93%	NA	NA
Net Margin	7.79%	7.65%	10.44%	NA	-5.41%	NA
Return on Equity	38.58%	7.13%	14.73%	NA	NA	NA
Sales/Assets	0.22	0.22	0.52	NA	0.30	NA
Proj. Sales Growth (F1/F0)	126.05%	0.00%	-1.95%	-2.55%	-14.39%	28.60%
Momentum Score	A	-	-	-	C	B
Daily Price Chg	-2.96%	0.00%	-0.92%	NA%	5.87%	-2.13%
1 Week Price Chg	-0.75%	0.00%	0.37%	NA%	-3.87%	4.79%
4 Week Price Chg	1.29%	0.34%	4.14%	NA%	19.94%	5.89%
12 Week Price Chg	-5.71%	11.12%	12.21%	NA	139.87%	94.23%
52 Week Price Chg	9.43%	-13.14%	-1.73%	NA	45.21%	NA
20 Day Average Volume	1,166,361	126,268	1,887,986	0	1,664,394	1,358,075
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.48%	0.00%	0.38%	0.00%	0.00%	4.47%
(F1) EPS Est 12 week change	82.61%	-0.40%	-0.07%	-28.46%	-21.18%	16.92%
(Q1) EPS Est Mthly Chg	-1.96%	0.00%	0.16%	0.00%	0.00%	18.18%

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.

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