

Capital One (COF) – Long PT: \$160.00



Today's Price: \$129.78
Dividend Yield: 1.23%
Market Cap: \$59.54B
Industry: Financial Services
Headquarters: McLean, Virginia

A dominant financial institution poised for long-term growth, that simply wants to know what's in your wallet

Business Overview

Capital One is a financial holding company that specializes in credit cards, auto loans, banking, and savings accounts. They have many flagship credit cards including Venture, Quicksilver, Savor, and Spark. Recently launched Capital One Cafés have changed the consumer banking experience, offering study spaces, financial teach-ins, and coffee rewards for Capital One Card holders.

Revenue Segmentation: 61.7% credit cards, 27% consumer banking, 10.4% commercial banking, 0.9% other. 2020 Total net revenue: \$28B

Thesis Points

- 1. Leading the charge in technology innovation:** Innovation and technology are very important to Capital One and are essential to their identity. CEO Richard Fairbank not only constantly emphasizes Capital One's commitment to technology, but also acts on it by hiring a strong team of software engineers, providing them with training to get CSSE and AWS certifications, and applying for more patents than any other financial institution. Products like Eno, Auto Navigator, and Credit Wise are some of the best in the industry, and COF has no plans of slowing down any time soon.
- 2. Integrating online and offline consumer banking:** The Capital One Lab is constantly innovating in the space of new online products and bank's online product portfolio already includes Eno, Second Look, Credit Wise, Mobile Deposit and others. Moreover, Capital One enhances offline experience with development of Capital One Cafes throughout areas with large customer bases.
- 3. Inorganic Growth Strategies Drive Top-Line Growth:** Capital One has recently locked in a partnership with Walmart as the sole issuer of credit cards and continues to serve as the issuer for Cabela's, Bass Pro Shops, and GM credit cards. These strategic partnerships help drive long-term growth through customer acquisition and increasing purchase volumes. Coupled with an extensive marketing and media presence, Capital One has positioned itself for long-term success.



Industry Overview

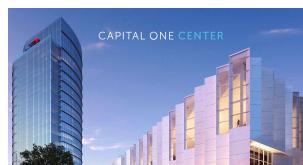
Capital One is a part of the **financial services industry**, an industry that The Financial Services market size was valued at \$103.99 billion in 2019 and is expected to reach \$164.01 billion by 2025. North America is currently the second largest region in the global market for financial services.

Industry Trends

Contactless Payment Methods: Contactless payment market size is expected to grow from \$10.3 bill to \$18 bil by 2025.

Modern and Secure Technology Infrastructure: The industry will continue to invest in modern data, technology, AI, etc.

Increased remote working: Pandemic helped remove the stigma that trading was only possible in an in-person environment



Left: New Company Facility, Right: Chairman and CEO Richard Fairbank

Additional Commentary – Valuation/Risks/News

Valuation: The DCF for financial companies is not as straightforward as valuing a consumer goods company. It's important to note that there is no working capital affecting the cash flow. Revenue growth estimates are slightly bearish compared to equity research estimates, and a conservative EV/EBITDA of 9.5x was used for the exit multiple. Recent reports from JP Morgan, Barclays, and Deutsche Bank rate COF as a BUY.

Risks: Financial market instability will affect loan repayment and digital transformation is forcing Capital One to rethink operations.

Other: Capital One has a Common Equity Tier 1 ratio of 13.7%, the highest it has been in company history. This exceptional rate shows that the company is prepared to and capable of weathering financial distress.

