

Robinhood Markets, Inc. (NASDAQ: HOOD)

Industry: FIG: Investment Banking/ Brokerage

Rating: **BUY**, Target Price: **\$119.81** – Implied Upside/Downside: **57.7%**

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THESIS

Pareto Capital initiates coverage of Robinhood Markets, Inc (NASDAQ: HOOD) with a **BUY rating and a 12-month price target of **\$119.81**.**

Pareto believes the recent Robinhood sell-off does not signal a structural deterioration in the company but rather a rare buy-in opportunity for a growth engine with strong fundamentals and plenty of headroom for further growth. After Robinhood's Q4 earnings, the stock saw a massive sell-off due to missed revenue consensus, down 6% in after-hours trading on the same day, and currently trading ~50% below its 52-week high. Pareto took this missed-revenue consensus in a different way: while the market focuses on the crypto-trading shortfall, we focus on the substantial increase in other trading category volume. Interpreting this as a signal of assurance in Robinhood's earning potential to not be overly reliant on any category. A strong revenue base with no reliance is one thing, but Pareto also sees in Robinhood a financial ecosystem in the making, with intentional expansion of product offerings that locks users into the platform. Given this, we believe that the current cryptocurrency shortfall is causing the market to misprice Robinhood on a growth basis, indicating a buy-in opportunity with a target price of \$119.81, a 57.7% upside.

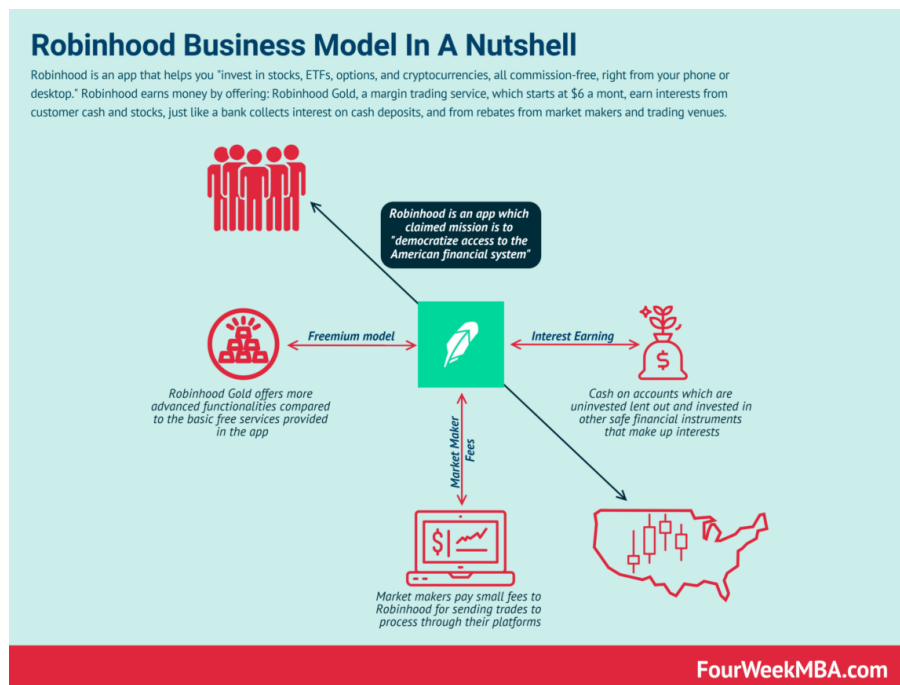
BUSINESS OVERVIEW

Robinhood Markets, Inc. stands as a transformative force in the financial services sector, having fundamentally disrupted the retail brokerage industry by pioneering the zero-commission trading model. Founded in 2013 by Vlad Tenev and Baiju Bhatt with the explicit mission to democratize finance for all, the company has successfully evolved from a simple, mobile-first stock trading application into a comprehensive "financial super app" tailored specifically for younger generations. This evolution has been marked by aggressive platform expansion and a strategic push into global markets over the last fiscal year. Beyond basic equity trading, the platform now encompasses a diverse suite of products, including derivatives and prediction markets, high-yield retirement accounts with unique contribution matching, and day-to-day spending solutions via the Robinhood Gold and Cash Cards. Furthermore, the recent acquisition of Bitstamp and the integration of TradePMR demonstrate a clear pivot toward institutional legitimacy, allowing Robinhood to offer crypto custody and services for Registered Investment Advisors.

Financially, the company's revenue model is becoming increasingly diversified, though it remains anchored by transaction-based income. In Fiscal Year 2025, transaction-based revenues accounted for approximately 58% of the total, driven heavily by the rapid adoption of options trading and the explosion of "Event Contracts" in prediction markets, which helped offset volatility in the cryptocurrency sector. A significant 34% of revenue is now derived from Net Interest Income, a segment that surged as the margin book hit a record \$18.4 billion, reflecting a user base that is increasingly comfortable with leverage in a bull market. The remaining 8% consists of other revenues, primarily fueled by the sticky subscription fees from Robinhood Gold and interchange fees from the growing credit card portfolio.

Let's take a closer look into Robinhood's business model and how the company generates profit. Unlike traditional brokers, Robinhood came to the industry with a completely new commission-free trading service called Payment For Order Flow (PFOF), lifting the standard for its competitors and future entrances. Instead of taking commission fees every time the users make a trade, Robinhood found a better revenue stream through making a deal with market makers, where it will transfer customers' orders to market makers like Citadel or Jane Street and receives a 12.35% in trading hours or 9.0% in extended hours. This service alone can greatly benefit both Robinhood and its customer by offering "free" trading compared to a fixed cost that customers have to pay when they use traditional brokerage such as Schwab or Interactive Brokers, therefore attracting a greater customer base, especially younger generations, which indirectly built a solid fundamental for Robinhood to take over the industry in the near future. Apart from PFOF,

Robinhood has diversified its revenue stream through Robinhood Gold, where customer pays \$5 to get access to premium news, market insights, and margin investing, combined with Robinhood Gold and Cash card that act as a credit and debit cards for daily uses. Robinhood Gold subscription laid the first brick to Robinhood's dynamic ecosystem in the making, which further consolidated Pareto's thesis of Robinhood's long term growth. Lastly, by utilizing customers' uninvested cash in their accounts, Robinhood has been having valuable and stable passive revenue stream to diversify their earnings. Most brokerage companies operate similarly to a bank, where customers' deposits can be loaned out or put in interest-bearing accounts, and Robinhood is no exception. Not only did it generate extra profit for Robinhood, but customers (Gold members) can also benefit around 3% from their uninvested cash, which further attract newcomers to subscribe to Robinhood Gold.



THE MOAT

Robinhood's primary advantage lies in its intuitive, user-friendly mobile interface, which has successfully lowered the barrier to entry for millions of first-time investors and Gen Z traders. As the first mover in the zero-commission space, the firm commands significant brand recognition and a massive user base. This position is bolstered by strong funding from venture capital and public markets, providing the capital necessary to innovate. The management team has also demonstrated resilience, navigated operational hurdles, and maintained a rapid pace of product rollout, including 24-hour trading and banking services. Furthermore, Robinhood's strategic expansion into adjacent financial verticals, such as digital banking and credit, demonstrates strong foresight from the management team. This diversification positions the firm for sustained growth and builds a formidable ecosystem capable of capturing dominant market share.

Unsolved Challenges

Despite its strengths, the platform has historically suffered from technical instability during periods of peak market volatility, which has eroded customer trust and led to trading losses. Furthermore, the company's heavy reliance on Payment for Order Flow (PFOF) as a primary revenue driver creates a persistent vulnerability, as this practice is often viewed as a conflict of interest and remains under regulatory scrutiny. Additionally, poor customer support experiences have been a recurring pain point, contributing to retention challenges among more sophisticated traders.

PRODUCT OFFERINGS

Brokerage, Investing & Trading

Robinhood's offers a platform for commission free investing, trading and retirement with added services for users such as their "investing on margin" and "Cash Sweep". Investing on margin allows eligible users to borrow funds from Robinhood to invest with flexible interest rates while Cash Sweep allows users to deposit uninvested cash into partner banks such as Goldman Sachs, CIBC and Citibank to earn interest.

- **Robinhood Investing:** Robinhood's platform allows investment into US stocks and exchange traded funds (ETFs) with fractional trading, recurring investments and 24-hour trading access.
- **Robinhood Retirement:** An individual retirement account (IRA) with instant deposit of a limited amount and free in-app portfolio recommendations. Users also receive a 1-3% match on contributions.
- **Options and Futures Trading (including crypto):** Robinhood diversifies its services through expanding into options and futures trading, a type of derivatives that allows users to make a contract or have a right to buy and sell an asset in the future.
- **Event Contracts (Prediction Markets):** Robinhood allows investors to buy and sell contracts in a market centered around a specific event such as the outcome of an election, sports match or economic indicators.
- **Cortex:** Robinhood's own AI assistant for retail investors and traders providing features such as market recaps, in-depth personalized portfolio analysis, trading indicator creation, upcoming event summaries and stock screening in a chat-bot or conversational format. Cortex is limited to Robinhood Gold subscribers.

Robinhood Legend

Robinhood's free web-based desktop trading app integrated with Cortex. Aside from basic desktop app functions, Legend allows users to create custom indicators without coding experience through prompts via Cortex, customize their dashboard and execute trades from the mobile app while using the web client to display charts among other features.

Robinhood Gold

A \$5 monthly or \$50 annual subscription giving users access to:

- 3.35% APY on uninvested brokerage cash
- 3% match on IRA
- Larger instant deposit
- Morning Star stock research reports
- Level II market data
- Access to Cortex

Robinhood Gold Card

A Robinhood Gold member exclusive credit card offering a points system upon spending with a conversion rate of 3 points per dollar spent on all category goods and 5 points per dollar spent on travel. Points can be converted to rewards not limited to:

- Cosmetic upgrades on the Gold Card
- Statement Credit
- Brokerage cash back
- Flights and Hotel bookings
- A mystery box option providing varying perks

Robinhood Banking

A financial platform offering checking, savings, joint and child accounts to Gold subscription users. Benefits include a doorstep cash delivery service and a 3.5% APY on savings and tax. Users who deposit at least \$1000 monthly receive increased benefits. Although benefits from Robinhood banking are currently limited due to it being a recent addition,

new perks such as estate planning, discounts and credits and access to events and free trials to Inspirato (a luxury club).

Digital Assets:

- **Robinhood Crypto:** Users can trade and hold crypto currencies while Robinhood directly manages the security and keys of cryptocurrencies tied to investment account. The staking of assets like Ethereum (ETH) and Solana (Sol) are also supported allowing users to earn yield.
- **Robinhood Wallet:** A self-custody crypto wallet giving users full control over their digital assets including private keys. Users can transfer their existing wallet to Robinhood and transfer between their Robinhood Crypto account and wallet.

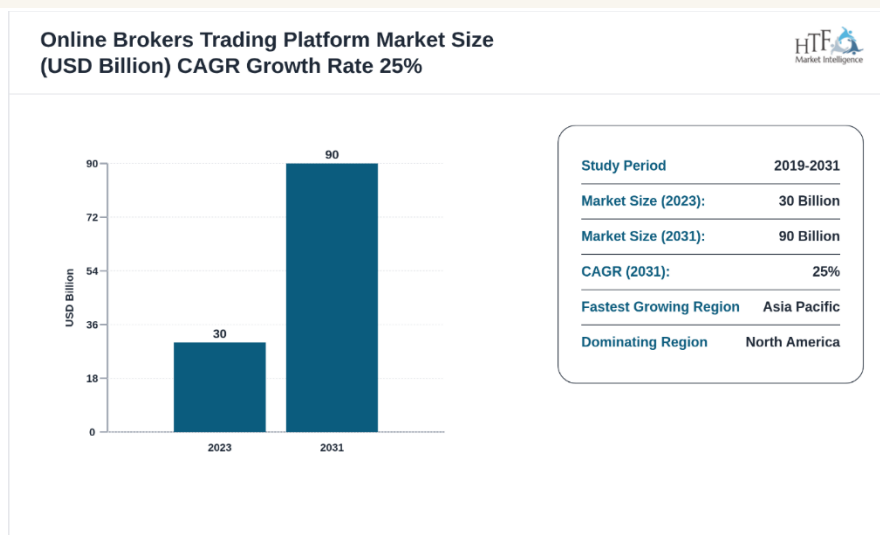
MACRO ANALYSIS

The retail brokerage and digital wealth management industry is currently undergoing a structural transformation, driven by shifting demographics, rapid technological adoption, and the commoditization of basic trade execution. Historically dominated by legacy institutions charging significant ticket fees, the sector was fundamentally and permanently altered by the "race to zero." Following Robinhood's pioneering of zero-commission trading, major incumbents such as Charles Schwab, Fidelity, and Interactive Brokers were forced to eliminate their own trading fees. Consequently, the industry has pivoted away from direct transaction costs, forcing brokerages to rely on alternative monetization engines. Today, industry profitability is heavily dependent on Payment for Order Flow (PFOF), Net Interest Margin (NIM) generated from uninvested client cash and margin lending, and the cross-selling of premium subscription services.

A primary macroeconomic catalyst propelling this industry forward is the "Great Wealth Transfer." Over the next two decades, an estimated \$80 to \$100 trillion in assets will pass from Baby Boomers to Millennials and Generation Z. This younger demographic exhibit vastly different financial behaviors compared to previous generations; they demand mobile-first interfaces, fractional share capabilities, and seamless integration of digital assets like cryptocurrencies alongside traditional equities. Legacy brokerages, while possessing massive Assets Under Management (AUM), often struggle to attract this younger cohort due to clunky user interfaces and archaic account minimums. Fintech disruptors are uniquely positioned at the top of this demographic funnel, capturing users early in their wealth-building journey with the intent to scale services as the users' net worth grows.

Furthermore, Robinhood's strategic expansion into adjacent financial verticals, such as digital banking, credit, and retirement, demonstrates strong foresight from the management team. This diversification positions the firm for sustained growth and builds a formidable ecosystem capable of capturing dominant market share. This trend, often referred to as the financial super app convergence, is defining the future of the industry. Brokerages are no longer just platforms for buying stocks but also serve as a personalized banking service where it can consolidate checking accounts, high-yield savings, credit cards, and peer-to-peer payments under a single digital roof. By increasing the switching costs for consumers, firms can drastically improve customer lifetime value (CLTV) while insulating themselves against the cyclical volatility of retail trading volumes.

Despite these growth catalysts, the industry operates within a highly stringent and evolving regulatory environment. Agencies such as the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA) are aggressively scrutinizing the gamification of retail trading, the transparency of PFOF mechanisms, and the regulatory classification of digital assets. For any firm operating in this space, maintaining robust compliance infrastructure is no longer merely a legal obligation, but a critical competitive advantage required to survive in an increasingly scrutinized financial landscape.



FINANCIAL ANALYSIS

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VALUATIONS

To determine a target share price for Robinhood Markets, Pareto have employed two key valuation method, intrinsic valuation using the Discounted Cash Flow Model projecting 5 years forward and relative valuation using the Industry Comparables method of 4 peer set.

Extrinsic Valuation: Industry Comps

For our industry-comparables method, we compared Robinhood against a set of 4 competitors: Interactive Brokers (direct competitor), Coinbase (indirect competitor in cryptocurrency brokerage), SoFi (indirect competitor in lending and brokerage), and Stifel Financial (indirect competitor in a traditional brokerage format). Overall, Robinhood can be seen to have relatively good growth compared to the comparables set, mostly because it is still in its earlier stages. Its profit margins are also significantly better than those of other competitors. On a trading multiple basis, Robinhood could seem to be trading relatively in line with the industry, except for being at a significant discount compared to Interactive Brokers. As we run through our calculation of P/E for Interactive Broker, the P/E is significantly higher than what the market is quoting. Pareto has decided not to change this to keep our method consistent with the comparable set. For the share price bridge, Pareto has decided to derive it on solely the P/E multiple, the reason for this being that on an EV basis, the operational leverage of these firms differs significantly with Robinhood having virtually no funding leverage at all, and also because interest expense is a big reflection of Robinhood operational efficiency since their brokerage model ties interest expense directly in their day to day operation (interest on balance, interest on margin lending, etc) hence EBIT or EBITDA would not be a true representation of them. Deriving the implied share price from comparables' P/E yields a target of 121.24 (average) and 90.97 (median), which is relatively consistent with our intrinsic valuation.

Industry Comps						Trading Multiples											
Ticker	Company Name	Current Price	Share Count	Enterprise Value	Market Cap	Revenue Growth		EBITDA Margin		Profit Margin		EV / Revenue		EV / EBITDA		P / E	
						'23-'24	'24-'25	'24	'25	'24	'25	'24	'25	'24	'25	'24	'25
HOOD-US	Robinhood Markets, Inc	\$ 75.44	\$ 901.33	\$ 65,318.82	\$ 69,725.82	58%	50%	39%	49%	47%	42%	22.0x	14.6x	56.6x	30.0x	49.4x	37.0x
IBKR-US	Interactive Brokers Group, Inc	\$ 73.29	\$ 1,700.00	\$ 84,237.59	\$ 127,510.00	20%	10%	85%	88%	8%	9%	9.0x	8.1x	10.5x	9.3x	168.9x	129.6x
COIN-US	Coinbase Global, Inc	\$166.02	\$ 269.66	\$ 41,776.75	\$ 47,127.74	111%	9%	48%	15%	39%	18%	6.4x	5.8x	13.4x	38.2x	18.3x	37.4x
SOFI-US	SoFi Technologies, Inc	\$ 19.51	\$1,260.00	\$ 24,479.86	\$ 24,717.40	25%	27%	17%	40%	13%	10%	6.5x	5.1x	38.9x	12.8x	49.6x	51.4x
SF-US	Stifel Financial Corp	\$118.11	\$ 101.83	\$ 12,289.15	\$ 12,474.17	15%	7%	20%	31%	12%	11%	2.1x	1.9x	10.2x	6.3x	17.1x	18.2x

Share Price P/E Bridge	Peer Multiple	2025 Financial Metric		Implied Equity Value		Implied Share Price	
	P/E	EPS	Shares	Net Income		Net Income	
Minimum	18.2x	2.05	901	33,708	\$		37.40
Mean	59.1x	2.05	901	109,280	\$		121.24
Median	44.4x	2.05	901	81,990	\$		90.97
Maximum	129.6x	2.05	901	239,435	\$		265.65

Intrinsic Valuation: Discounted Cash Flow Valuation

DCF	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue	1,815	1,358	1,865	2,975	4,473	5,514	6,493	7,680	9,199	11,018
% growth		-25.2%	37.3%	59.5%	50.4%	23.3%	17.7%	18.3%	19.8%	19.8%
Conservative Case						13.3%	7.7%	8.3%	9.8%	9.8%
Base Case						23.3%	17.7%	18.3%	19.8%	19.8%
Optimistic Case						33.3%	27.7%	23.3%	24.8%	24.8%
EBIT	-3,685	-1,027	-533	1,078	2,094	2,832	3,501	4,001	4,826	5,780
% margin	-203.0%	-75.6%	-28.6%	36.2%	46.8%	51.4%	53.9%	52.1%	52.5%	52.5%
Conservative Case						41.4%	43.9%	42.1%	42.5%	42.5%
Base Case						51.4%	53.9%	52.1%	52.5%	52.5%
Optimistic Case						56.4%	58.9%	57.1%	57.5%	57.5%
Taxes	2	1	8	-347	225	568	718	1,044	1,206	1,445
% of EBIT	-0.1%	-0.1%	-1.5%	-32.2%	10.7%	20.1%	20.5%	26.1%	25.0%	25.0%
EBIAT						2,264	2,783	2,957	3,619	4,335
D&A						94	99	170	202	242
% of sales						1.7%	1.5%	2.2%	2.2%	2.2%
CapEx						59	60	66	101	121
% of sales						1.1%	0.9%	0.9%	1.1%	1.1%
Change in NWC						-4,849	-5,710	-6,754	-8,090	-9,689
% of sales						(87.9%)	(87.9%)	(87.9%)	(87.9%)	(87.9%)
Unlevered FCF						7,148	8,532	9,815	11,810	14,145
Present Value of FCF						6,285	6,596	6,673	7,060	7,435
Terminal Value										129,127
Present Value of Terminal Value										67,870
Enterprise Value										101,918
+ Cash										58,043
- Debt										50
Equity Value										109,961
Diluted Shares Outstanding										918
Share Price										\$ 119.81

Sensitivity Table						
WACC	Growth Rate					
	119.81	1.50%	2.00%	2.50%	3.00%	3.50%
	12.73%	123.42	127.38	131.73	136.53	141.84
	13.23%	118.03	121.59	125.49	129.76	134.47
	13.73%	113.10	116.31	119.81	123.63	127.83
	14.23%	108.56	111.47	114.62	118.06	121.82
	14.73%	104.37	107.01	109.87	112.97	116.35

For the DCF model of Robinhood, we based our assumptions on FactSet street estimates for our base case and made major adjustments to these estimates in our Optimistic and Conservative Cases. The reason for this is that Robinhood is still a relatively new company, and the growth during the first few years of operations is not a reasonable estimate of how they will operate in 5 years as they enter maturity. Hence, using the street estimate provides a more reasonable assumption base than using historical data, especially when the street has more information than we do, but of course, we still want to employ a conservative approach. During the construction of this DCF, we noticed a sudden decrease in the projected revenue growth rate from ~50% in 2025 to ~20% in the years ahead, using the street estimate. This shows that the market believes Robinhood's growth rate will become more stagnant over time as its platform matures. While we agree this is a valid point, we also understand that, fundamentally, this revenue growth is relatively conservative given management's guidance on product expansion and the observed strong Q-o-Q growth. Another major point of note was the optimism the street has for EBIT margin growth going forward, with it expected to reach the 50% mark over the next 5 forecasted years. This is understandable, as Robinhood has extremely high fixed costs, but lower marginal costs given its economies of scale. The final important modelling nuance lies in the WACC, for which the cost of debt was zero. This is because, in Robinhood's operating model, there's no actual funding leverage; all the debt they currently have is tied to their business operations, hence not accounted for in the WACC and Equity Value bridge. The base case of Robinhood

shows great upside potential (57.7%) with an implied share price of \$119.81. The sensitivity table shows overall upside stability to WACC and TGR, with a high of \$141.84 and a low of \$104.37.

CATALYSTS

The Financial Ecosystem Expansion

Pareto believes that Robinhood is well positioned to transition into a more diversified revenue mix. Of the company's 18% projected expenditure growth in 2026, management plans to allocate 10 percentage points towards scaling newer products such as the Gold Card, prediction markets and Cortex and its international presence. The expansion of Robinhood's financial ecosystem serves as both a catalyst for revenue but also customer retention by offering a centralized and multifunctional platform. Across the new products, Pareto expects significant growth from:

- Robinhood Gold Card and Subscription:** As highlighted by Robinhood's strong year over year increase in Gold subscribers to 4.1 million members, and projected Gold Card ownership to over 1 million by the end of 2026, the subscription service is a robust source of recurring revenue. With 27 million funded users and 13 million monthly active users, the addressable market for Gold subscribers remain large, highlighting the potential for greater revenue growth. More importantly, the Gold Card has demonstrated strong adoption with a total of 10 billion annualized spend from holders, signalling positive customer sentiment around the product. By increasing card rollout, Robinhood creates a strong incentive for customers to subscribe and cash out rewards on their platforms, positioning the company to convert casual users to monthly active users within its financial ecosystem. As mentioned, rewards earned from spending can be spent on various rewards such as brokerage cash back, increasing exposure and engagement to Robinhood products. In addition, Robinhood's Gold subscription acts as a gateway for users to access newer product lines. This incentive is yet another driving factor towards increasing Gold membership in 2026. As such, we predict that Gold subscriptions will be a large contributor to Robinhood's 2026 revenue growth fueled by the ecosystem expansion.
- Robinhood Cortex and Social:** Robinhood Social and Cortex are Gold subscription exclusive features being rolled out in 2026 with Cortex already being accessible for eligible members. Robinhood Social is a social network exclusive to Gold subscribers allowing users to share their trades and trading strategies across all assets. These strategies or suggestions can then be copied or tracked by other users. The release of the social network reinforces Robinhood's ecosystem connectivity with Cortex's ability to provide analysis on strategies shared. This connected ecosystem sets Robinhood apart from other brokerages with similar features such as eToro where the focus is copy-trading. Combined with Cortex's analysis, Robinhood gives users more insight into the validity or success rate of a proposed trading strategy. Although these features do not lead to the direct generation of revenue, they bring Robinhood closer to a centralized platform while boosting user retention in their Gold subscriptions as both Robinhood Cortex and Social are exclusive to subscribers.
- Robinhood Ventures:** As part of Robinhood's diversification plan, the company has initiated efforts to "democratize" the private market. The Robinhood Ventures Fund I (RVI) is a closed-end fund currently giving investors access to 10 private companies such as Databricks, Mercor, Airwallex and many more to come. Expected to start trading on the 26th of February, the RVI differentiates itself from other funds through its 0% performance fee, positioning itself as a strong option for retail investors interested in private market exposure. Pareto sees this RVI as a potential source of revenue in 2026 with potential for further development through the including of more private companies. With many IPOs being expected in 2026 such as the mentioned Databricks and the attention around AI players, Robinhood can capitalize and expand their customer base through the 0% performance fee appeal assuming good execution from management.
- Prediction Market Growth:** Within 2025, Robinhood has shown the potential of prediction markets with over 12 billion event contracts traded on their platform in partnership with Kalshi. As of January 2026, Robinhood has completed their acquisition of MIAXdx, a US based Commodity Futures Trading Commission (CTFC) licensed Designated Contract Market (DCM), Derivatives Clearing Organization (DCO) and Swap Execution Facility (SEF). Where contract fees were split evenly with Kalshi in 2025, the MIAXdx acquisition

allows Robinhood to legally host their own prediction market while boosting fee internalization. Furthermore, the shift away from Kalshi addresses cyclical risks from sports concentrated prediction markets by creating their own custom contracts. Continuing the strong momentum of prediction markets in 2026, Robinhood is well positioned for margin expansion through ownership of each layer involved in prediction market transactions.

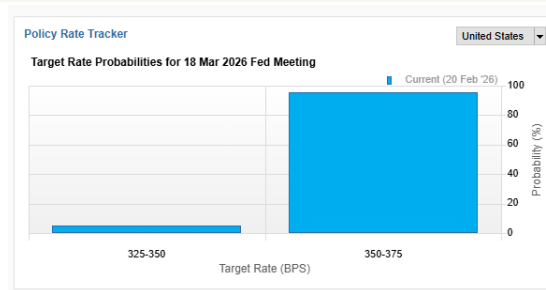
- **International Expansion:** As mentioned, Robinhood plans to increase international presence in 2026 through the acquisitions of WonderFi (Canada's leading crypto platform) and PT Buana Capital (an Indonesian securities firm). Acquisition of these firms guarantees an immediate increase in market share and revenue in the short term to offset some acquisition expenses. Despite these short-term gains, Pareto expects the greatest revenue growth to come from the long term when current users of WonderFi and PT Buana Capital become integrated into the Robinhood ecosystem addressing their stagnant customer base growth.

RISK & MITIGATION

- **Regulatory and PFOF Risk:** One of the most significant risks facing Robinhood is its dependence on Payment for Order Flow (PFOF), which constitutes most of its transaction-based revenue. Regulatory bodies continue to scrutinize this practice for potential conflicts of interest, and a ban would severely impact profitability. To mitigate this, the company is actively diversifying its revenue streams. By growing Net Interest Income and pushing the Robinhood Gold subscription, the firm is building a recurring revenue cushion that is less susceptible to sudden regulatory shifts in market structure.
- **Cyclical Market Exposure:** As a fintech company heavily tied to retail trading sentiment, Robinhood is exposed to significant cyclical risk. A recession or prolonged bear market would likely depress trading volumes and user engagement. To hedge against this volatility, management is focused on capturing "sticky" assets. The introduction of the retirement account (IRA) product with a contribution match incentivizes long-term holding, while the Gold Credit Card integrates the platform into users' daily financial lives, ensuring revenue generation even when stock market activity slows.
- **Trust and Cybersecurity:** Past service outages and the 2021 GameStop trading restrictions have left a lingering trust deficit, while the digital-first nature of the platform makes it a prime target for cyberattacks. Mitigation strategies involve heavy investment in institutional-grade infrastructure and security, underscored by the acquisition of Bitstamp. Furthermore, the move toward serving Registered Investment Advisors via TradePMR signals a strategic shift toward professionalization and transparency, essential for rebuilding reputation and securing user trust.
- **2026 Expense Hike:** Robinhood's aggressive product line expansion in 2026, although a strong catalyst, raises concerns about capital expenditure. Where total operating expenses grew by 25% in 2025 due to major acquisitions and international expansion, management has cited an 18% increase in expenditure in 2026 to allocate towards growth and maintenance. Thus, depending on the success of their newer product lines and acquisitions, net profit margins could decrease in the short run. Regardless, Pareto only sees this as a short-term risk and expects margins to recover as revenue continues to increase in the long run.

MACRO CONSIDERATION

Interest Rate Correlation



Given Robinhood's business model being reliant on trading activities/volume, Pareto believes there's a strong interest-rate correlation/implicit hedging mechanism that needs to be addressed. The Robinhood trading model is affected by interest rates in 2 primary ways: trading volumes and margin loans. As the rate increases, trading volume would generally decrease due to the opportunity cost of speculative activities rising, thereby dragging overall trading revenue down. However, as we note that another big part of Robinhood's revenue stream is from interest earned on margin loans and the idle cash interest rate spread. With rates increasing, net interest income may offset the decline in trading volume, creating an implicit hedging system for Robinhood, though these are all "ideal" mechanisms with limited evidence available to Pareto. With the next Fed Meeting on 18 March 2026, it is expected on the street that the interest rate will remain largely unchanged at ~3.5%. This is a neutral signal for Robinhood, and we expect trade volume and net interest revenue to remain in line with the forecast. Yet Pareto will take cautionary measures during March in response to this uncertainty, closely monitor revenue levels, and adjust our target price accordingly.

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