

Dong Capital Research - Closed Investment Memo (LONG)
Robinhood Markets, Inc. (HOOD)

12 February 2025

Initial Entry: \$63

Average cost Basis: ~\$37.34

Position Closed: 26 May 2026

Exit Price: \$73.95

Position sizing: 30% of AUM

EXECUTIVE SUMMARY

RobinHood Markets is one of the most misunderstood financial technology companies in public markets. The market continues to view Robinhood primarily as a retail trading platform whose performance depends heavily on speculative activity, cryptocurrency, and meme stock participation. I believe that his perception is increasingly outdated.

Robinhood is evolving into a broader financial services platform with exposure across:

- Brokerage
- Options
- Cryptocurrency
- Retirement accounts
- Cash management
- Credit products

The company reported record results for Q4 2024:

Metric	Q4 2024
Revenue	\$1.01B
Net Income	\$916M
Diluted EPS	\$1.01
Adjusted EBITDA	\$613M

Assets Under Custody	\$193B
Net Deposits	\$16.1B
Gold Subscribers	2.6M

While investors remain focused on the cyclical nature of trading activity, I believe the more important story is the growth of Robinhood's platform and customer assets. The market is beginning to recognize Robinhood as more than a brokerage application, but I believe the company's long term earnings power remains significantly underappreciated

I recommend a LONG position with a 12-18 month target price of \$75/share.

INVESTMENT THESIS

1) Robinhood is Becoming a Financial Platform

The investment case is no longer centered solely around trading activity. Robinhood has expanded into multiple adjacent financial products:

- Retirement accounts
- Robinhood Gold
- Margin lending
- Credit products
- Cryptocurrency

Each product increases customer engagement while raising switching costs. The market continues to value Robinhood primarily as a trading application rather than a growing financial ecosystem.

I believe this disconnect creates opportunity.

2) Assets Under Custody are the most Important Long Term Metric

Robinhood ended 2024 with approximately \$193 billion of Assets Under Custody. This figure matters more than quarterly trading volumes.

Growing assets create multiple monetization opportunities:

- Net interest income

- Margin lending
- Options trading
- Subscription revenue
- Retirement products
- Future financial services

Robinhood also continues attracting new capital. With Net Deposits of \$50.5B and Q4 Net Deposits of \$16.1B for FY2024.

I believe Assets Under Custody better captures long-term earnings power.

3) Profitability Has Reached an Inflection Point

For years, investors questioned whether Robinhood could become consistently profitable. Q4 2024 suggests the answer is yes. Revenue reached \$1.01 billion, adjusted EBITDA reached \$613 million, and Net income reached \$916 million.

It is important to note that net income benefited from a deferred tax asset release and certain one time items. However, even excluding those benefits, profitability improved substantially. The underlying business is demonstrating significant operating leverage. Robinhood's platform scales efficiently because incremental customers require minimal incremental cost. As assets and engagement grow, I have no doubt that earnings can expand considerably faster than revenue.

4) Robinhood Gold is Creating Higher Quality Revenue

Robinhood Gold subscribers reached approximately 2.6 million. This is one of the most encouraging developments within the business.

Gold provides: subscription revenue, customer retention, product adoption, and cross selling opportunities. Subscription revenue is generally more durable than transactional revenue. The growth of Gold suggests Robinhood is becoming a platform customers actively choose to pay for rather than a free trading application.

5) The Market Underestimates Robinhood's Future Optionality

Robinhood remains one of the strongest consumer finance brands among younger

investors. The company has opportunities across: banking, retirement, credit, wealth management, and international markets.

This investment thesis is not dependent upon meme stocks nor cryptocurrency. The investment thesis depends on Robinhood becoming a larger participant in consumer finance. I believe the market is *severely* underestimating that opportunity.

RISKS

1. Trading Activity is Cyclical

A decline in trading activity could materially impact transaction revenue

2. Cryptocurrency Volatility

Crypto remains an important contributor to overall revenue.

3. Regulatory Risk

Future regulatory changes involving: payment for order flow, cryptocurrency, margin lending, and options trading could negatively affect profitability.

4. Execution Risk

Robinhood must continue successfully expanding beyond brokerage services.

VALUATION

The primary valuation framework is Forward Earnings Power (P/E). Robinhood is transitioning from a high growth fintech story into a profitable financial platform. FY2024 diluted EPS was approximately \$1.56. I believe normalized earnings power over the next several years is materially higher.

The thesis is not that Robinhood is statistically cheap. The thesis is that future earnings power is materially higher than current expectations.

SCENARIO ANALYSIS

Based on Forward Earnings Power

Scenario	Forward EPS	P/E	Implied Price	Return vs \$63 Initial Entry
Bear	\$2.00	20x	\$40	-37%
Base	\$2.50	24x	\$60	-5%
Target	\$3.00	25x	\$75	+19%
Bull	\$3.75	24x	\$90	+43%

POSITION MANAGEMENT (RETROSPECTIVE)

Following the initial purchase at approximately \$63/share, Robinhood experienced substantial volatility and traded significantly lower. Rather than exiting, additional shares were accumulated throughout the decline, including purchases in the low and high \$30 range. I believed that the core thesis remained intact.

This reduced the overall cost basis to approximately \$37.34/share. As shares recovered and valuation expanded, partial profit-taking was implemented. Trims were made as position size increased relative to portfolio value, valuation approached intrinsic value estimates and risk/reward became less asymmetric.

The remaining position was fully exited on 5 May 2026 at \$73.95.

Through active position management, averaging down during periods of weakness and implementing partial profit-taking during the recovery, the position generated a realized return of +106.31%.