Capital One Financial (COF)

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UNC CHARLOTTE STUDENT MANAGED INVESTMENT FUND

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Industry Overview

- $10 trillion in annual US card transactions
- Four networks process virtually all of it
- Four-party model: banks pay interchange to Visa/Mastercard on every swipe
- Three-party model: issuer owns network, keeps interchange - Amex
- Amex trades at 21.8x P/E vs. banks at 12-13x
- Network ownership commands a significant valuation premium

Industry Overview: Commercial Banking Disruption

- Corporate payments run on 1980s infrastructure
- Brex and Ramp built software-first alternatives
- Brex valued at ~$12B with no banking license
- Opportunity: combine fintech software with bank infrastructure
- Capital One acquired Brex for $5.15B in January 2026

Capital One - 30 Years in the Making

- Founded 1994 by Richard Fairbank - still CEO
- Top 3 Largest Credit Card Issuers
- $669B in assets, $53.4B revenue
- Adj. EPS $19.61 - 40% growth YoY on normalized basis
- May 2025: acquired Discover - became closed-loop network owner
- Built as a technology company inside a banking license

Thesis

The market is pricing COF as a distressed bank. We are buying it as a financial infrastructure platform at 10x earnings.

1. Network Ownership - permanent margin improvement via Discover
2. Valuation Disconnect - 10x P/E below banks that own no network
3. Founder-Led Execution - 30 years; integration ahead of schedule
4. Tech Talent Moat - FAANG-level engineering; legacy banks can't replicate
5. Brex + Commercial - AI-native B2B payments on proprietary network rails

1. Discover – Permanent Margin Advantage

- Before: COF pays Visa/Mastercard interchange on every swipe
- After: COF keeps interchange on Discover-network cards - forever
- $2.5B synergy target reaffirmed by management
- Early 2026: synergies ahead of analyst projections
- Delinquency rates improving - 3.98% → 3.59%
- Amex at 21x owns same advantage - COF at 10x

2. Valuation Disconnect

BAC	JPM	COF	AXP	V	MA
11x	13.5x	9x	17x	23x	25x

←Pure Bank Hybrid→ ←Pure Network→

- COF trades below pure banks that own zero network
- Re-rating to JPM multiple (~13.5x) → ~$275 (+50%)
- Re-rating halfway to Amex (~15.75x) → ~$320 (+75%)

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3 and 4 - Execution and Talent

- Fairbank: founder, CEO, 30 years — built from zero
- Net insider buying: 741K shares bought vs 587K sold
- Engineering culture competes directly with FAANG
- Talent enables what legacy banks consistently fail at
- Efficiency ratio miss = reinvestment, not deterioration
- Amazon suppressed profits for 15 years - AWS was the result

Number of Insider Shares Traded

Insider Trade	3 Months	12 Months
Number of Shares Bought	313,609	741,445
Number of Shares Sold	273,742	587,066
Total Shares Traded	587,351	1,328,511
Net Activity	39,867	154,379

*Source for Graphic: NASDAQ

5. Brex - Commercial Platform of the Future

- Legacy commercial banking: slow, manual, 1980s infrastructure
- Brex: AI-native expense management, real-time controls, modern UX
- COF brings: balance sheet, banking license, network rails
- Brex brings: software, talent, modern platform
- Neither could do this alone — together it's unique
- Commercial margins improve as Brex technology deploys

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Valuation - Multiple Ways to Win

Scenario	Target	Upside
Bear	$305	+63%
Base ★	$375	+100%
Bull	$523	+179%

- Bear case implies 63% upside - thesis doesn't require perfection
- Base case: 13x terminal P/E - 35% discount to Amex still
- At $375, COF still trades at ~10x FY2030 earnings

*Equity DCF - Approach for Financial Institutions where debt is an operating input not a financing tool

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Key Risks and Mitigants

Risk	Mitigant
Credit cycle deterioration	Network thesis independent of credit; 10x P/E prices in stress
Rate cap legislation	One-year proposal; fee income diversification underway
Integration cost overrun	Core EPS $19.61 strong ex-integration; ahead of schedule
Delayed synergies	$2.5B reaffirmed; $16B buyback signals confidence

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Recommendation

BUY

Current Price	$180.14
Base Target	$375.00
Bear Floor	$305.00
Upside	100%
Holding Period	3-5 Years

- 37% drawdown driven by noise - not fundamentals
- Market ignoring the network, Brex, and normalized earnings
- Largest card issuer, own network, AI platform, founder-led at 9x

Allocation Recommendation: 4%
(~$30,800 | ~164 shares)