BLUEGRASS CAPITAL RESEARCH

Stellan Knopp | *Analyst*
Financials | *Consumer Finance*
May 1, 2026

Capital One Financial Corporation

Discover the Value

Recent acquisitions by Capital One have made it one of only two companies in the U.S. that own their own payment networks. The market is treating this like a messy venture, but credit trends are healthy, synergies are on track, and the stock currently trades at just 8x normalized 2027 earnings. We believe the market is undervaluing the franchise, and the long-term earnings potential is underappreciated given current prices. **We initiate $COF with a BUY rating and a one-year price target of $251.**

Thesis Point 1

Capital One's $35.3bn acquisition of Discover in 2025 was a strategic move that changed the company's positioning as a credit issuer. By buying Discover, Capital One gains a 22% share in the U.S. credit card balance market and now competes with Visa, Mastercard, and American Express. This proprietary payments network requires the necessary processing infrastructure, merchant relationships, brand recognition, and regulatory approval to enter. Additionally, this makes COF one of only two vertically integrated U.S. payment networks alongside American Express. Next, ownership of the network diversifies the revenue stream as interchange and transaction fee revenue is volume-driven rather than credit-driven, serving as a hedge against the cyclical credit ecosystem. Lastly, owning the transaction data also strengthens Capital One's already proven underwriting, increasing the credit quality advantage over peers who rely on Visa and Mastercard.

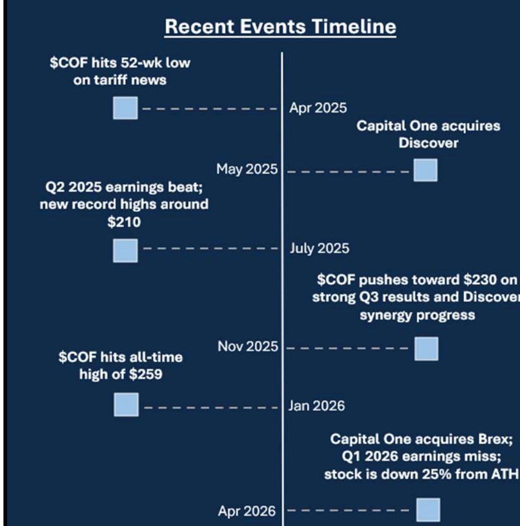
Thesis Point 2

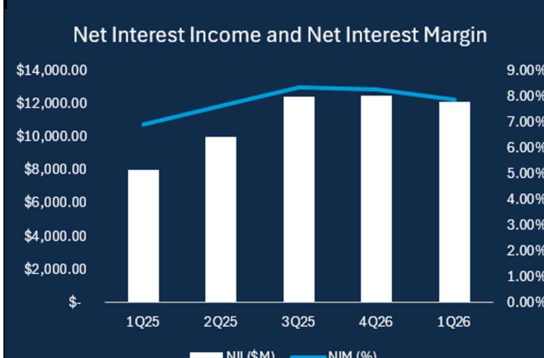
Despite the complex nature of the recent acquisitions, Capital One's shares remain attractively priced for investors willing to look past short-term noise. Current earnings are down due to one-time integration costs, increased capex, and an intentional pullback in loans as Capital One realigns the Discover portfolio to its own, stricter standards. At roughly 8x 2027 consensus net income per share of ~$24-25, the stock is trading in line with its own historical normalized multiple, before attributing any premium for network ownership. We plan to see synergies of the two deals phase in throughout this year and 2027, with 67% of targeted cost cuts already slated for this year. Moreover, revenue is projected to grow roughly 20% YoY in 2027. We believe the market is focused on the short-term, one-off expenses rather than pricing in synergy potential, network monetization, and loan book recovery on the Discover front.

Company Overview

Capital One Financial Corporation (NYSE: COF) is a McLean, Virginia-based financial services company founded in 1988 that operates through three segments: Credit Card, Consumer Banking, and Commercial Banking, which contribute 63%, 28%, and 9% of revenue, respectively. It offers a wide range of financial products, everything from credit/debit cards and personal loans to services such as checking, savings, and money market accounts. It serves individual customers, small businesses, and commercial clients throughout the United States, Canada, and the United Kingdom through its app, physical branches, and cafés. As of 2025, Capital One was the largest U.S. credit card issuer by outstanding loan balance following its $35.3 billion acquisition of Discover Financial Services.

TICKER:	$COF
RATING:	BUY
PRICE:	$191.91
PRICE TARGET:	$250.71
MARKET CAP:	$121.71bn
52-W RANGE:	$174.98 - $259.64
NTM P/E:	9x
IMPLIED UPSIDE:	30.6%





Stellan Knopp | *Analyst*
Financials | *Consumer Finance*
May 1, 2026

Risk 1

In January, President Trump proposed capping credit card interest rates at 10%. While the appeal of this is straightforward, credit cards are one of the most widespread forms of consumer credit, and enacting this policy would reshape access to credit. ~71% of prime borrowers currently carry cards with APRs above 10%, meaning the impact would extend beyond subprime borrowers. If the policy were enforced, credit card issuers would likely cut rewards, impose annual fees, or restrict access to higher-risk borrowers completely, pushing consumers towards less regulated, more opaque alternatives such as buy-now-pay-later platforms. The proposal has since stalled in Washington due to limited support in Congress and strong pushback from the banking industry. Banks argue that even a one-year interest rate cap of 10% on credit card balances would disrupt a key business line that helps fuel consumer spending, which drives 70% of domestic economic growth.

Risk 2

Capital One is simultaneously integrating two acquisitions: the Discover merger closed in May 2025, and the Brex acquisition closed in April. Having to integrate two acquisitions concurrently poses certain operational risks since each of these mergers entails substantial technological, compliance, and culture-related efforts. On one hand, the integration of Discover is complex because of the need to consolidate a separate banking subsidiary, re-underwrite an entire loan book, and merge a whole payment network. On the other hand, adding a fintech firm to this process raises the risks of implementation and entails increased expenses on technology and marketing. Nevertheless, if the acquisitions proceed as currently planned by management, the combination of Discover's payment network and Brex's software will give the company a diverse revenue mix, which should lead to higher margins.

Catalyst 1

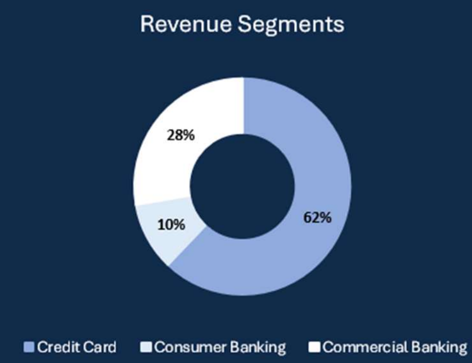
In a deal closed on April 7th, Capital One finalized the $5.15 billion acquisition of Brex, an AI-native corporate spend management software with clients such as OpenAI and DoorDash and a growing presence in Europe. Through the integration of Brex's AI-native software stack, Capital One demonstrates a clear intent to transition from conventional consumer lending to the higher-margin world of B2B payments. Through this strategic move, Capital One emerges as a fully integrated payments company where they own the bank, the payment infrastructure through Discover, and the software layer that manages corporate spend. This stack effectively competes against American Express in the corporate segment and acts as a buffer on the consumer borrowing side.

Catalyst 2

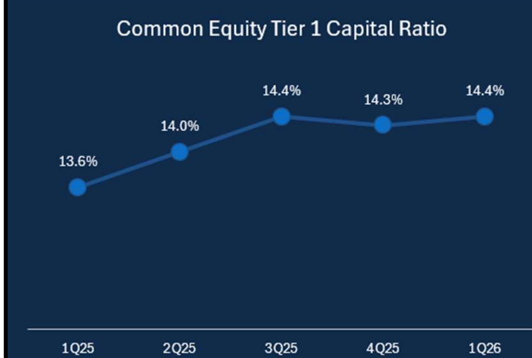
As Capital One's integration of Discover continues to progress, the company is positioned well to accelerate the return of additional cash to shareholders. Net income grew to $2.2bn in Q1 2026 as non-interest expenses dropped by 9% and cash reached $76bn. This shows that short-term expenses are manageable and the fundamental business remains attractive. Additionally, COF has signaled its commitment to shareholder returns by approving a $16bn share repurchase program in October 2025. With its Common Equity Tier 1 (CET1) ratio, a measure of the capital a bank holds as a buffer against potential losses, sitting at 14.4% against management’s long-term target of 12.5%, there is roughly 190 basis points of excess capital. This excess has no required use and can be deployed into buybacks and dividends as the integration risks fade. Capital One’s current Common Equity Tier 1 (CET1) is 14.4%, well above management’s 12.5% long term target, meaning there’s 190 basis points of excess capital to deploy. As we begin to see economies of scale improve through the rest of this year and into 2027, buyback acceleration becomes an EPS tailwind.

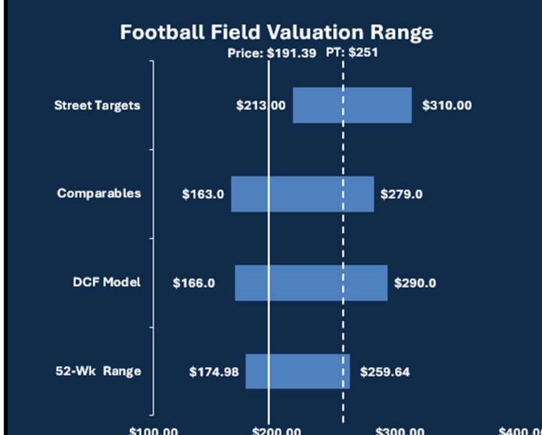
Conclusion

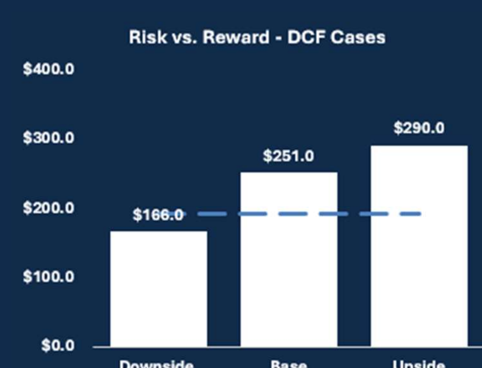
Capital One has matured from a credit card issuer to a vertically integrated payments network, one of only two in the United States. Short-term earnings are deflated because of integration costs, but credit trends are healthy, synergies are still on track, and 1.9% of excess capital represents a shareholder return tailwind.



Valuation Framework	
Risk-Free Rate	4.38%
Equity Risk Premium	4.33%
Beta	1.14
Cost of Equity	7.86%
Normalized ROE	11.90%
Implied Share Price	**$250.71**
Upside/Downside	30.64%







Valuation

	P/E Multiple		
NTM EPS	9.5x	10.5x	11.5x
$22.00	$209.00	$231.00	$253.00
$24.00	$228.00	**$252.00**	$276.00
$26.00	$247.00	$273.00	$299.00

Our base case applies a **10.5x forward P/E multiple** to a **$24.00 NTM EPS** estimate, yielding an implied price of **$252** and supporting our **$251 price target**. The 10.5x multiple reflects a modest re-rating (~8x), justified by synergy realization, network monetization, and incremental B2B contribution from Brex. Our PPNR-based DCF supplements this view, yielding a base case price of **$251** with a **1.70x P/TBV multiple**, assuming credit card and commercial banking growth of ~8.0% in 2026, normalizing to 4.0% by 2031, PPNR margins expanding to 45%, and provisions declining to 18% of revenue as the Discover loan book seasons. Our sensitivity analysis ranges $22-26 NTM EPS and 9.5x-11.5x multiples, addressing uncertainty around integration execution and the pace of loan book normalization.

Income Statement ($mm)	2025A	2026E	2027E	2028E	2029E
Net Interest Revenue	42,878	45,808	48,698	51,558	54,401
Non-Net Interest Revenue	10,556	11,277	11,989	12,693	13,393
Total Revenue	53,434	57,085	60,687	64,251	67,794
Net Income	10,887	8,568	9,876	11,106	12,267

Margin & Growth Data	2025A	2026E	2027E	2028E	2029E
Pre-Tax Margin	24.8%	19.0%	20.6%	21.9%	22.9%
ROE	11.9%	9.0%	9.8%	10.3%	10.6%
ROTCE	18.5%	13.6%	14.4%	14.7%	14.7%
Net Interest Margin	7.9%	7.6%	7.5%	7.4%	7.4%

Comparable Companies
$mm

Ticker	Mkt Cap	P/TBV LTM	P/E LTM	Revenue LTM	Adj. ROE FY2025
AXP	$226,165	7.9x	21.4x	$66,973	34.0%
SYF	$26,146	2.1x	7.7x	$9,892	21.1%
ALLY	$14,049	1.1x	11.1x	$7,687	6.0%
SOFI	$24,013	2.8x	48.3x	$3,583	5.7%
COF	$125,358	2.0x	60.3x	$32,779	15.5%

Ticker	P/TBV LTM	P/E LTM	P/E NTM	ROE FY2025	NTM Rev Growth
AXP	7.9x	21.4x	18.7x	34.0%	17.7%
SYF	2.1x	7.7x	8.0x	21.1%	58.0%
ALLY	1.1x	11.1x	8.1x	6.0%	19.4%
SOFI	2.8x	48.3x	31.4x	5.7%	29.8%
COF	2.0x	60.3x	9.7x	15.5%	98.1%

High	7.94x	60.27x	31.38x	34.0%	98.1%
75th Percentile	2.82x	48.28x	18.75x	21.1%	58.0%
Average	3.19x	**29.76x**	**15.18x**	**16.5%**	**44.6%**
Median	2.13x	**21.44x**	**9.65x**	**15.5%**	**29.8%**
25th Percentile	2.01x	11.15x	8.10x	6.0%	19.4%
Low	1.06x	7.67x	8.03x	5.7%	17.7%

Capital One		
Implied Share Price (25th Percentile)	$	202.50
Implied Share Price (Median)	**$**	**214.95**
Implied Share Price (75th Percentile)	$	284.65

Downside Case: Our downside case yields a share price of **$166** with a **1.5x P/TBV multiple**, as near-term revenue contracts across all three segments, persistent integration costs compressing PPNR margins to **35%**, and elevated provisions at **30%** of revenue are the key drivers behind the **13.4% decline**.

Upside Case: Our upside case yields a share price of **$290** with a **1.7x P/TBV** multiple, as we see continued execution on cost targets, double-digit revenue growth across all three segments, and Brex providing Capital One with its corporate client base are the key drivers behind the **51.1% return**.