JPMorgan Chase & Co.

Company Description:

JPMorgan Chase & Co. is a financial holding company, which provides financial and investment banking services. It offers a range of investment banking products and services in all capital markets, including advising on corporate strategy and structure; capital raising in equity and debt markets; sophisticated risk management; market making in cash securities and derivative instruments; and prime brokerage and research.

Name	Ticker	Yield	Growth	D + G
JPMorgan Chase & Co.	JPM	2.07%	8.00%	10.07%

Highlights:

Though held annually, JPM's investor day in NYC is always a fun learning lesson. First, the investor day is always an excellent reminder of this company's deep bench of talent. Second, it showcases the uniqueness of the franchise management has created over so many years. We can think of few institutions that can describe themselves variously as national, global, local, diversified, and scaled...and have each characterization be 100% true. Third, it highlights JPM's numerous paths to ongoing success, and does so in a manner that makes the listener feel that management has quantified both the opportunities and risks, and then come to a substantiable conclusion.

Bull Case:

- ***Steady Dividend Growth Supported by Free Cash Flow –*** JPMorgan Chase has increased its annual dividend each of the past eleven years. The company increased its annualized dividend from $1.58/share in 2014 to $5.60/share today – a staggering 11.8% annual growth rate. Most importantly, JPM easily generates the cash flow needed to continue paying and growing this dividend. Over these five years, JPM has generated $76.9 billion in free cash flow, while paying only $42.4 billion in dividends.
- ***Investments in Technology –*** The company has been making significant reinvestments in technology for many years. This year alone, JPM has spent $11.6 billion on technology advancements (10% of revenues), which is higher than its peers. This has been driving the efficiency ratio down; that ratio measures non-interest expenses as a percentage of total net revenue. The advancement in technology also enables JPM to be more competitive on pricing, which then takes market share from peers.
- ***Opportunities in Consumer are a Standout –*** Not only is consumer banking one of JPM's higher return businesses (25%+ through-the-cycle ROTCE), but we were struck by the significant growth opportunities across multiple dimensions: 1) JPM's target for deposit market share of 15% vs. 11% today (via further geographic expansion) would add an estimated $350B+ in deposits over time; 2) there is significant runway to grow wealth management in low market share segments such as the mass affluent and HNW segments (via its roll out of JP Morgan Private Client), with the First Republic acquisition helping to accelerate that effort; and 3) investing in connected commerce can drive market share gains in cards (target of 20% vs. 16.9% today) and additional ancillary revenue.

Bear Case:

- ***Difficult Banking Environment –*** There is no question that it has been a difficult environment for banks – rate cuts and a flat yield curve are major headwinds that have squeezed net interest margins ("NIM"). NIM is the difference between the interest income banks generate by lending and how much interest they pay out on deposit accounts.
- ***Weakening Economy –*** Many of JPM's customers are individuals and businesses, which are dependent upon the overall economy. If unemployment levels rise or the market weakens, credit losses could accelerate more rapidly than anticipated, causing downside to our earnings expectations.
- ***Unknown Succession Plan –*** The JPM succession plan still undecided, but solid discipline and culture should benefit the bank regardless of CEO. While the departure of Jamie Dimon will likely be a headwind to stock performance in the far-out future, JPM's ability to win market share should remain somewhat insulated from changes in management.
- ***Decrease in Loan Credit Quality –*** JPM originates residential, commercial, and consumer loans, which may enter default, especially during times of economic stress. Depending on the health of the economy and the creditworthiness of its borrowers, loans could default more rapidly than anticipated, which could translate into higher losses at the bank.

Overall Thesis:

JPMorgan Chase & Co. is the one of the highest-quality banks out of the "Big 4" (JPMorgan Chase, Wells Fargo, Citigroup, Inc., and Bank of America). JPM is best-in-class across most financial metrics, has a history of making superior strategic decisions, and better at executing and managing costs relative to peers. JPMorgan has shown itself to be one of the leaders in the commercial and consumer banking space in applying modern information techniques to build the banking platform of the future, which has allowed the bank to grow earnings twice as fast as peers. The highest-quality bank, with above-average growth relative to peers checks the boxes regarding our investment philosophy.

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