American Express Company

CEO and CFO meeting takeaways

Maintain Rating: BUY | PO: 224.00 USD | Price: 205.65 USD

Management meeting strikes a confident tone

We came away with increased confidence in AXP's 2024 outlook and its long-term prospects following an investor meeting we hosted with Amex CEO Steve Squeri and CFO Christophe Le Caillec at Amex's office in New York yesterday. Management struck a positive tone and highlighted Amex's strong competitive position, as well as, it's focus on growing it's 'flywheel'. We maintain our Buy rating for AXP.

Guidance achievable in variety of scenarios, especially EPS

Amex is very comfortable in its ability to deliver 9-11% revenue growth and even more confident it can deliver on its EPS guidance of $12.65-$13.15 in 2024. Amex noted that it ran multiple scenarios' including ones where billing growth slows further (a key investor concern), and was comfortable that top-line guidance of 9-11% is feasible. Amex highlighted that card fees will accelerate and lending income could also be strong. It also noted that there is growth optionality from its existing base of cardmembers, particularly US small business which has been weak in recent quarters. AXP is 'even more confident' on EPS outlook being achievable given natural hedges in the portfolio, as well as, expense flexibility. AXP noted that as the size of the company has increased it has more optionality.

Reinvesting to support the 'flywheel effect'

AXP reiterated it will spend more marketing dollars in 2024 and also execute on ample product refreshes which should support the long-term growth of the company. AXP aims to further differentiate its products to make them more attractive for new and existing cardmembers. It's marketing investments should drive robust new card acquisitions, as will product refreshes. It is also further engaging existing card members as it refreshes card products – e.g. the Resy benefit on the recent Delta co-brand refresh should drive incremental restaurant spending on the cards. During the pandemic AXP continued marketing and did smaller card refreshes, despite a seemingly weak environment, which led to outsized loan growth and a robust billings bounce back. AXP called out that it has had very low spend attrition rates and AXP believes it is well positioned to benefit as billed business which grew at 6% last quarter, reaccelerates. It noted that transaction growth was double-digits, suggesting card members were still engaged and using the card but just spending less (which it believes is typical of premium customers and a factor in why AXP's loss rates are lower than peers.

Product refreshes: more than meets the eye (cont'd inside)

Given AXP's announcement that it will refresh 40+ products and card fee growth will accelerate, there was ample discussion of product refreshes. The company noted that product refreshes complete three main tasks: 1) Creates news, which drives demand and additional opportunities to acquire cardmembers; 2) Gives AXP an opportunity to review the economics / ROI of the product; 3) Increase engagement and capture additional spend not previously accounted for. **Continued inside…**

07 February 2024

Equity

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Stock Data

Price	205.65 USD
Price Objective	224.00 USD
Date Established	26-Jan-2024
Investment Opinion	B-1-7
52-Week Range	140.91 USD -207.08 USD
Mrkt Val / Shares Out (mn)	149,867 USD / 728.7
Free Float	72.5%
Average Daily Value	676.87 USD
BofA Ticker / Exchange	AXP / NYS
Bloomberg / Reuters	AXP US / AXP.N
ROE (2024E)	31.0%
ESGMeter™	High

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SMB: Small-to-midsized business

Timestamp: 07 February 2024 05:00AM EST

Product refreshes: more than meets the eye (cont'd from page 1)

… The overarching strategy remains the same for card refreshes, add intrinsic value to the card and price for the value – which should drive more organic spend (in new and existing verticals), less spend attrition, and more new card acquisitions. AXP noted that card refreshes are usually supported by increased marketing and earned media, and also typically result in the refreshed product acquiring more new card members after the refresh than in the year prior. AXP is also able to leverage its merchant relationships to develop unique value propositions to drive product differentiation or incremental spending.

Product refreshes could also boost billings. In recent quarters organic growth from the existing base has been weal and growth has been driven by new card members. Product refreshes drive more new card acquisitions and can also drive incremental spend. For example, promotional credits around recurring billing typically result in card members changing their default card and leaving it in place, long after the promotional period expires.

Expects SMB spend to bounce back and support med-term

While SMB spending has been weak in recent quarters, AXP remains confident that it will bounce back as the macro backdrop improves. AXP is focusing on what it can control, including maintaining credit discipline and driving new acquisitions. It remains comfortable with its market position and highlighted recent investments like Business Blueprint. AXP will pursue a partnership model in SMB vs. trying to become a software company. AXP also noted its largest competitors in the space are larger financial institutions like JP Morgan and Capital One, vs. fintech players like Brex or Divy. AXP also highlighted its no spending limit offering is a key competitive advantage that others have not been able to replicate.

Pay over time is driving receivable growth

The biggest driver of loan balance growth has been the Pay over Time feature on Amex's charge cards. While not all card members use the feature, adoption among Gold and Platinum cardholders is high. Amex noted that there is ample room for the penetration rate to grow and drive receivable growth. The credit profile of these cardmembers is better than the average credit card customer. Importantly, Pay over Time customers tend to spend at high-levels and continue to engage with Amex products. (unlike a balance transfer customer who will revolve but not spend). Most new charge cards come with the pay over time feature. 'Plan it' loans are a much smaller contributor to overall growth.

Other key takeaways

(1) Variable engagement costs are effectively an initial investment to drive future growth, which is why it is expected to grow faster than revenue this year. (2) Recoveries are less pronounced at AXP than in the past given such strong credit performance exiting Covid has not left a large pool to work recoveries. However, the gross charge-off rate is lower too. (3) While competitors continue to focus on the super-premium consumer card category, Amex believes its offering remains top of the line. It also believes competitor actions have expanded the market. (4) Capital priorities remain consistent – fund the growth of the business, pay the dividend, and buyback shares to remain in the target 10-11% CET1 ratio. (5) Amex feels particularly good about the growth opportunity in small business and international card.

Price objective basis & risk

American Express Company (AXP)
Our $224 price objective is based on a 15x multiple to our 2025 EPS forecast. The 15x PE multiple is the middle of the historical range (12-18x) for AXP, which we think is appropriate given the growth outlook and strong operating momentum it is experiencing.

Downside risks to our PO are weaker-than-expected macroeconomic conditions, softer consumer and business spending, weaker loan growth, increasing competition, weaker US consumer credit performance, disruptions in capital markets, or an increasing regulatory burden.

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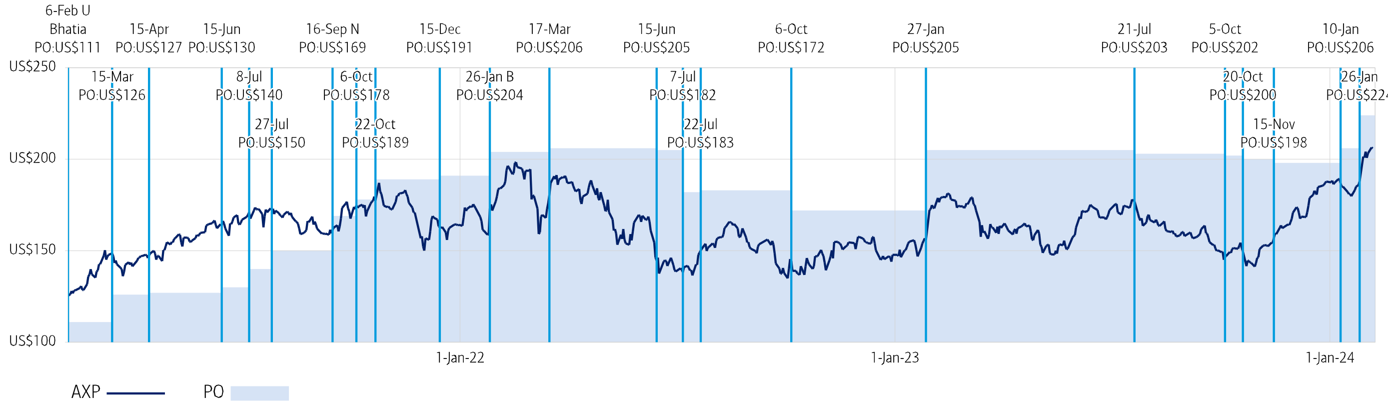
American Express (AXP) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

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