



# Northern Trust

## Northern Trust (NASDAQ: NTRS)

Wake Forest Investment Club

Target:	\$142.38
Current:	\$ 82.66
Upside:	72.25%

# Executive Summary

1

## **Strong Macro-Economic Tailwinds**

- Expected Rate cuts (5.50% terminal Fed funds rate, followed by 2 rate cuts in 2H24 and 2 more cuts in 2025) will encourage Northern Trust's deal activity frenzy

2

## **Great Outlook in NSTR's Investment Approach**

- The promising landscape of Informational Technology and its European business developments

3

## **Increasing Market Recognition**

- Recent drastic increase in contract flows
- Consistent recognition as sole advisor

# Company Overview

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## Overview

- Leading provider of wealth management, asset servicing, asset management and banking solutions to corporations, institutions, families and individuals
- Global presence with offices in 25 U.S. states and Washington, D.C., and across 23 locations in Canada, Europe, the Middle East and the Asia Pacific region

## Key Operating Facts & Financial Metrics

*All numbers in million USD, except specified otherwise*

Market Cap	16.96B
Share Price, as of Mar.3.2024	82.66
P/E	16.27
Revenue (TTM)	6.75B
Expected Revenue Growth	8%
Expected EBIT Margin	42.70%
Net Average Quarterly Interest Income (Past 5 Yrs)	1986.15
Average Loans (Past 5 Yrs)	36,165.88
Size of Active Portfolio	11

## Company Facts

**\$0.75 per share**  
Quarterly Cash Dividends

**144%**  
Dividend Payout Ratio

**\$15.4 T**  
AUM

**\$151 B**  
in Banking Assets

**\$11.9 T**  
Assets under Custody

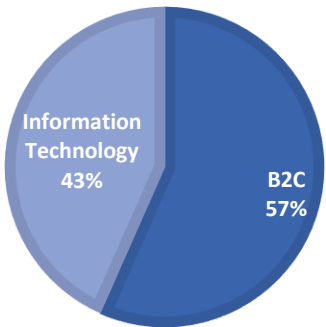
**Information Technology / Software**  
Investment Focus

# Company Overview (Con.)

## Portfolio Breakdown

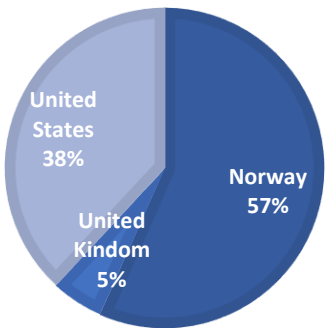
*Capital Invested by primary industry sector*

■ B2C ■ Information Technology



*Capital Invested by countries*

■ Norway ■ United Kindom ■ United States



## Management Team



**Steven L. Fradkin**  
President  
Wealth Management



**David C. Blowers**  
Vice Chairman  
Northern Trust

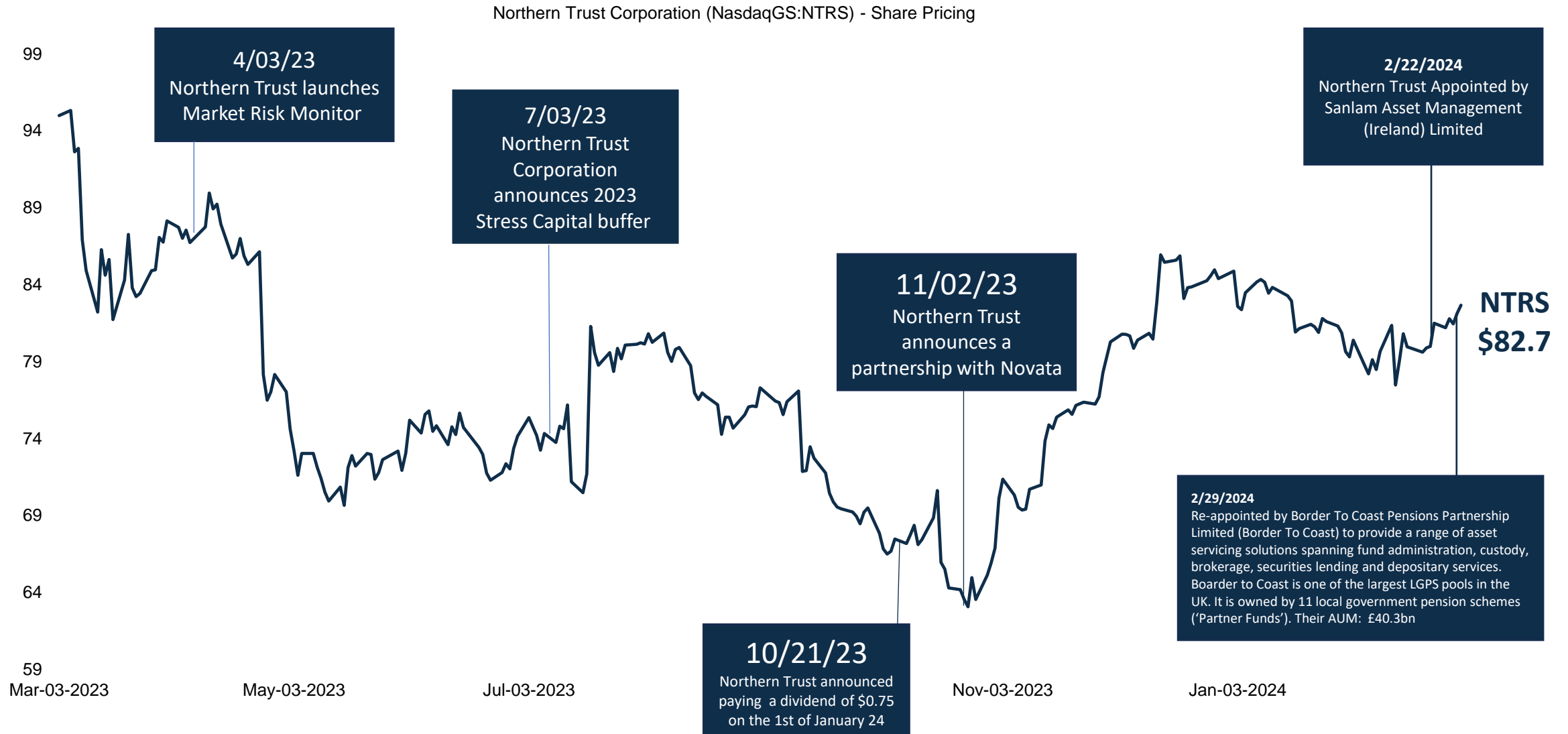


**David W. Fox**  
President  
Private Investment

## Noteworthy Recent News

- **Sanlam Asset Management (Ireland) Limited** appoints Northern Trust as Sole Asset Servicing Provider for \$8.7 billion Investment Management Platform
- Selected by **Costco Wholesale Corporation** to provide custody, daily valuation and brokerage services for Costco’s defined contribution retirement plan, with \$29 billion in assets

# Recent Performance



# Company Drivers

# Asset Management Industry Dynamics

## Sector Trends

The M&A market for private equities overview:

### Trend 1:

— *Dry Powder + few investment opportunity*

### Trend 2:

— *High interest rate, high cost of debt, preventing from M&A exit*

### Trend 3:

— *Pressure from LPs*

— *Pressure from securing management fees*

### Trend 4:

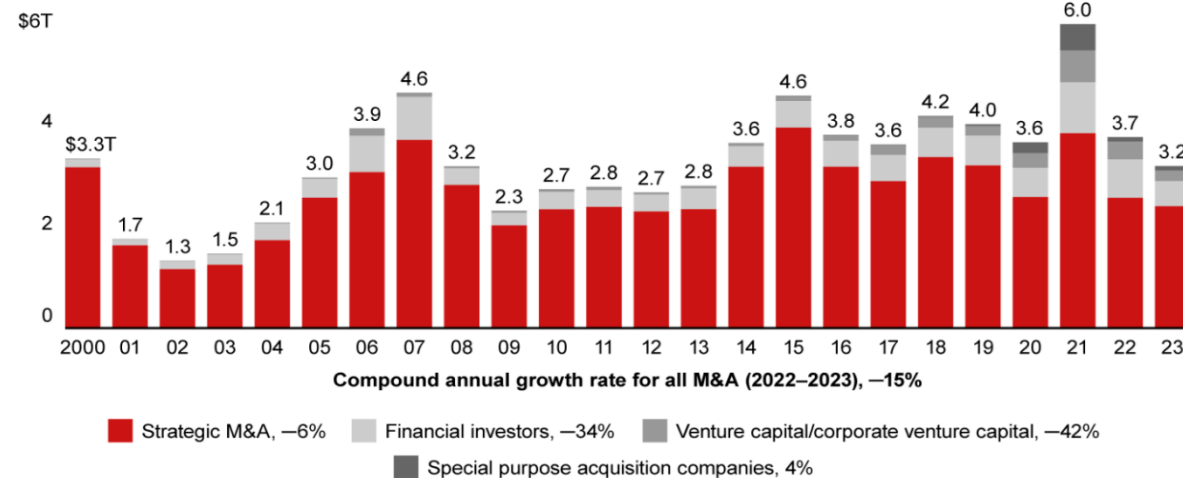
— *Hard time managing existing portfolio companies, especially for companies specializing in multiple arbitrage*

### Conclusion:

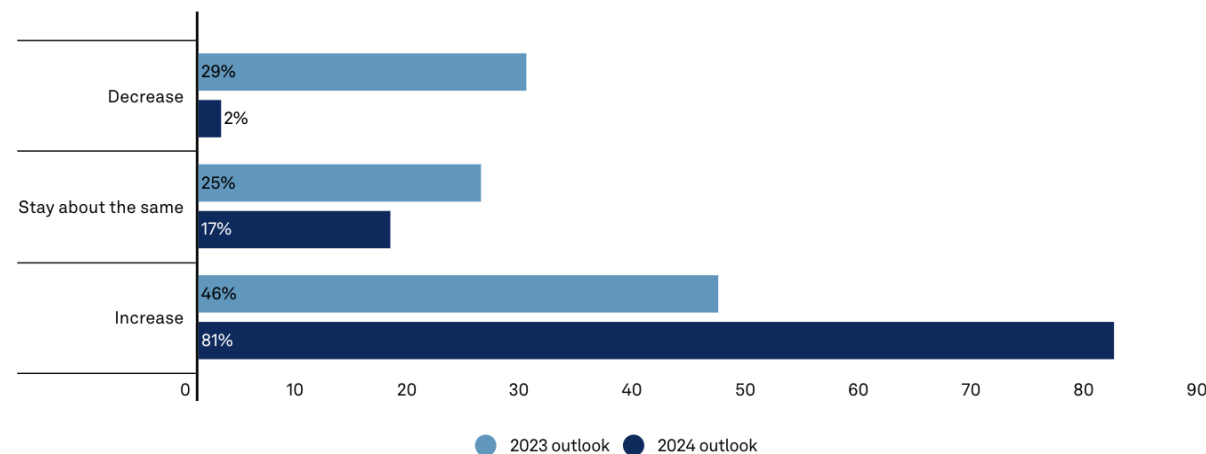
2024 — *Deals picking up*

2025 — *M&A market comes back*

M&A deal market value (in trillions of US dollars)



Note: Strategic M&A includes corporate M&A deals (which includes private equity exits) and add-ons  
Source: Dealogic as of January 16, 2024

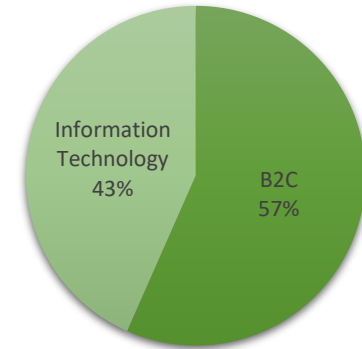




# Information Technology Dynamics

Sector	2023 Spending	2023 Growth (%)	2024 Spending	2024 Growth (%)
Data Center Systems	243,063	7.1	261,332	7.5
Devices	699,791	-8.7	732,287	4.6
Software	913,334	12.4	1,029,421	12.7
IT Services	1,381,832	5.8	1,501,365	8.7
Communications Services	1,440,827	1.5	1,473,314	2.3
Overall IT	4,678,847	3.3	4,997,718	6.8

**Impressive expected growth with a CAGR of 9% extending through 2025**



■ B2C ■ Information Technology

Companies (11)	Primary Industry Code
Zodia Custody	Business/Productivity Software
Kaltura (NAS: KLTR)	Business/Productivity Software
Docker	Business/Productivity Software
Leap (Business/Pr...	Business/Productivity Software
Essentia Analytics	Financial Software
Parilux Investmen...	Financial Software
Equity Data Science	Financial Software
Lemonade ( Prop...	Property and Casualty Insurance
R3	Financial Software
Mowi (OSL: MOWI)	Food Products
Novata	Business/Productivity Software

# Selected Portfolio Companies

- M&A Exit Success Rate Prediction: 89%, 2%, 60%, respectively
- IPO Exit Success Rate Prediction: 7%, 98%, 1%, respectively

## Zodia Custody

**Company Overview:** Private company founded in 2020 in Hong Kong, owned by Standard chartered

**Total employees:** 80

**Primary activities:** Institutional companies are their main demographic for their services

**Fund Raising:** Early-stage VC, \$36 million

**Pitchbook Post Valuation:** \$117.69M

**Outlook:** Expanding quickly in the Asia-Pacific region, opening services in Japan, Singapore, and Australia in 2023

## Docker

**Company Overview:** Private company founded in 2013, based in San Francisco

**Total employees:** 500

**Primary activities:** Pioneer in containerization technology, revolutionizing software development and deployment processes

**Fund Raising:** Series C, \$105 million

**Pitchbook Post Valuation:** \$2.10B

**Outlook:** Expanding quickly in the Asia-Pacific region, opening services in Japan, Singapore, and Australia in 2023

## Equity Data Science

**Company Overview:** Private company founded in 2017, based in New York

**Total employees:** 60

**Primary activities:** Operator of a cloud-based fundamental investment process management (IPM) solutions platform, enables buy-side insights and productivity to power decision-making

**Fund Raising:** NTRS, series A1 venture funding, \$5 million

**Pitchbook Post Valuation:** \$27M

**Outlook:** Expanding quickly in the Asia-Pacific region, opening services in Japan, Singapore, and Australia in 2023

# Wall Street Underestimate

	<i>Price Target</i>	<i>Upside Scenario</i>	<i>EPS</i>	<i>P/E 2024E</i>
<b>Current</b>	<b>\$82.13</b>	<b>N/A</b>	<b>\$5.08</b>	<b>16.27x</b>
<i>Jefferies</i>	\$99	\$129	\$6.5	12.5x
<i>RBC</i>	\$86	\$97	\$6.35	12.7x
<i>Evercore</i>	\$86	\$89	N/A	N/A
<i>JPMorgan</i>	\$89	N/A	\$6.37	N/A

## Facts

1. Net Interest Income is higher than expected
2. Total noninterest income was \$1.06 billion versus the prior quarter of \$1.27 billion and the year-ago quarter of \$985 million.
3. Organic fee and expense growth are better than expected






## Wall Street Beliefs

1. NSTR beat expectations handily in 4Q at \$501mm, and even with an est. decline in 1Q (guide \$480mm-\$500mm) and 2Q on deposit pricing roll-through, we still increase our forward NII estimates (Jefferies )
2. Should the Federal Reserve reduce the Federal Funds rate, NTRS is likely to see stronger net interest income growth as it reduces deposit rates quickly on its highest deposit beta accounts, i.e., intuitional and high net worth depositors (RBC)

# Company Valuation

# Comparable Analysis



All number in millions					
Company					
Market Cap	16,932.20	22,298.50	11,346.80	14,510.50	22,812.50
Revenue	6,749.00	11,899.00	7,106.00	7,537.00	8,998.00
Expected Revenue Growth	4.14	2.86	0.88	-4.28	-5.61
P / E	15.84x	12.56x	11.36x	9.65x	8.46x
Beta (6M)	1.13	1.54	1.39	1.38	0.79
EBITDA Margin	22.20%	21.00%	17.30%	26.90%	40.20%
TTM FCF	2509	-126	1904	2789	3649
Revenue Growth YoY	0.00%	-1.90%	-10.50%	-0.10%	17.40%
CAPEX / Sales (Last year)	1.70%	6.86%	38.83%	2.28%	2.85%

# Discounted Cash Flow Model

Fiscal year ended	Historical			LTM	Consensus Estimates			
	12/31/21	12/31/22	12/31/23		6/30/24	12/31/24	12/31/25	12/31/26
	FY	FY	FY	FY	FY	FY	FY	FY
	2021A	2022A	2023A	2024A	2025A	2026A	2027A	2028A

## Income Statement

1	Revenue	\$6,465	\$6,762	\$6,774	\$7,231	\$7,710	\$8,388	\$8,800	\$9,380
	YoY Growth		4.6%	0.2%	6.8%	6.6%	8.8%	4.9%	6.6%
2	Total Non-Interest Expense (WST prediction)	\$4,536	\$4,953	\$5,248	\$5,276	\$5,549	\$5,828	\$5,747	\$5,747
	Other Unusual Expense	\$0	\$30	\$0	\$15	\$0	\$15	\$0	\$0
	EBIT (Include unusual expense)	1,928.6	1,809.1	\$1,526	\$1,955	\$2,161	\$2,560	\$3,053	\$3,633
	Effective Tax (24%)	\$465	\$430	\$366	\$469	\$519	\$614	\$733	\$872
	NOPAT (aka EBIAT)	1,463.8	1,378.8	\$1,160	\$1,486	\$1,642	\$1,946	\$2,320	\$2,761
	Depreciation & amortization	110.7	110	116	112	112	112	112	112
	Changes in net working capital	-3138.2	(12)	1,467	(398)	(417)	(590)	(357)	(505)
			-95.78%	-78.16%	-86.97%	-86.97%	-86.97%	-86.97%	-86.97%
	Capital expenditures	-95.5	(129)	(117)	(114)	(120)	(115)	(115)	(115)
	Unlevered free cash flows (UFCF)	4,808.2	1,629.4	-\$75	\$2,110	\$2,290	\$2,763	\$2,904	\$3,493
	Enterprise value								41,418
	cash-debt								12,253
	Equity value								29,165
	Shares outstanding								205
	Equity value per share								\$142.38
	Implied Upside:								72.25%

## Key Observations

- Revenue growth is driven by higher-than-expected organic fee, the more active market activity, and the expected lower interest rate

**Revenue Growth YoY**  
26,27,28

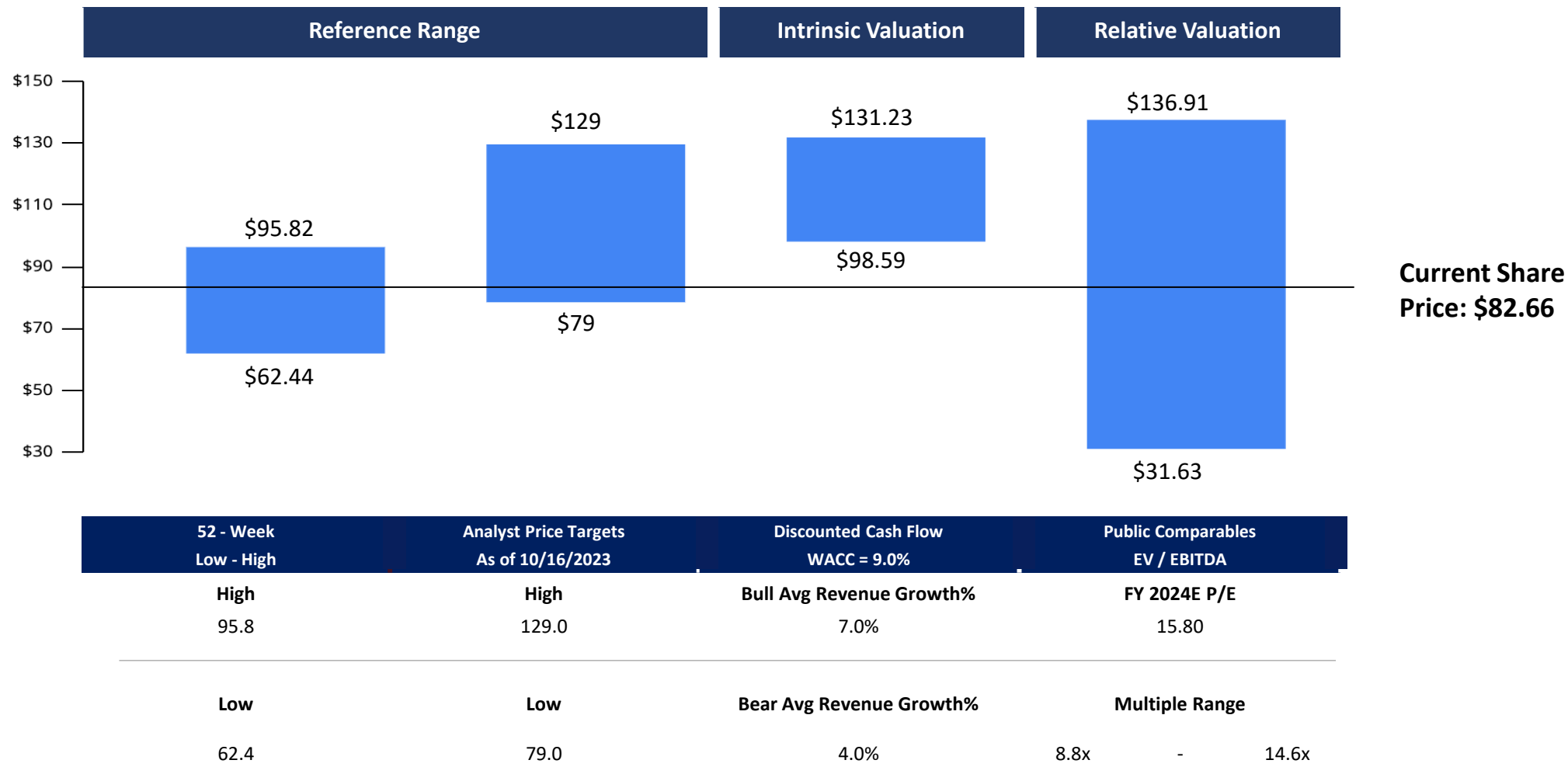
Bull 8.8%, 4.9%, 6.6%

Base 6.5%, 4.4 %, 6.2%

Bear 5.5%, 4.2%, 6.0%

- Total Non-Interest Expense stays steady

# Football Field



# Risks

## Strengths

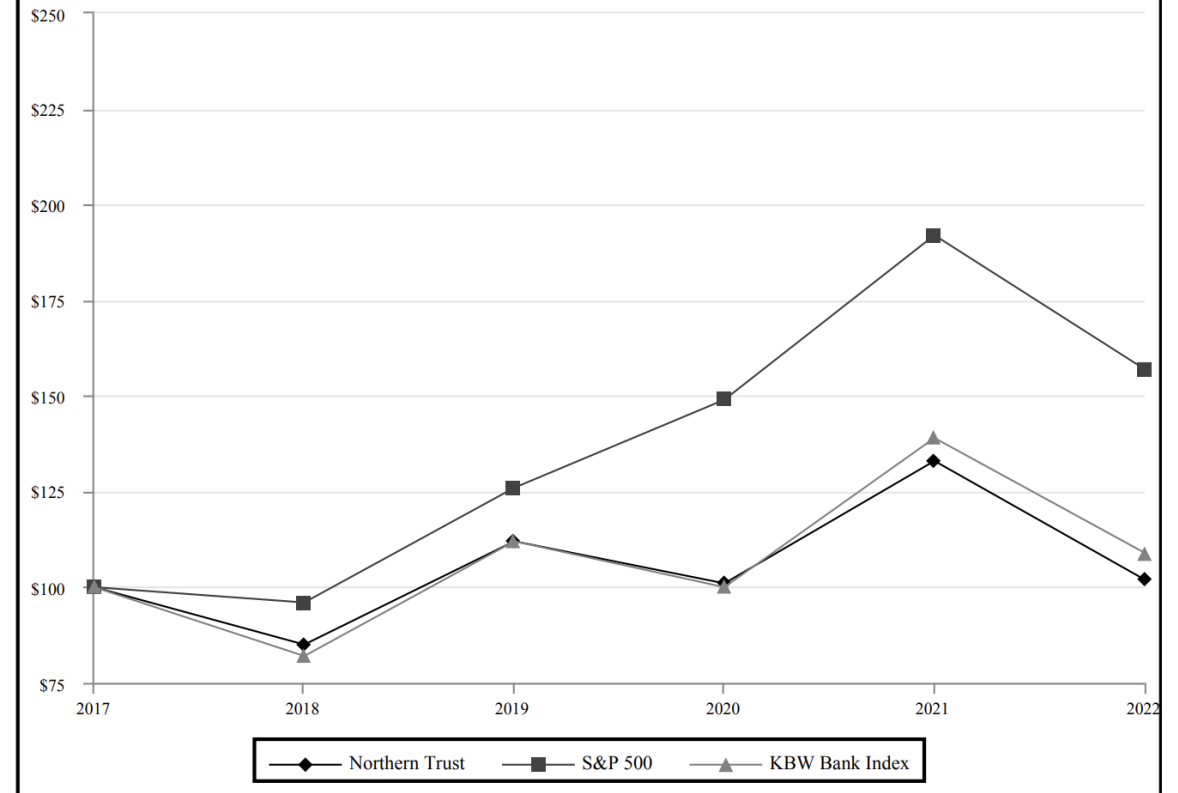
- Risk management practices include
  - Strong capital base and liquidity

Beta	Sharpe Ratio
1.14	-.046

## Risks

- European markets underperform
- Rate hikes / Higher interest rates
- Competition with larger firms

Five-Year Cumulative Total Return



	DECEMBER 31,											
	2017		2018		2019		2020	2021	2022			
Northern Trust	\$	100	\$	85	\$	112	\$	101	\$	133	\$	102
S&P 500		100		96		126		149		192		157
KBW Bank Index		100		82		112		100		139		109



# Capital Allocation

We strongly recommend a long position in NTRS due to the implied price target of **\$142.38** which is **72.25%** upside from the current price of **\$82.66**

Our analysis reveals that NTRS will capitalize on the strong macroeconomic tailwinds, a positive outlook on its portfolio investment approach, and its increasing recognition in the market to continue increasing revenues and maximizing shareholder value.

# Appendix

## Unlevered Free Cash Flows

	Historical					Consensus Estimates			
	FY	FY	FY	FY	FY	FY	FY	FY	
	2021A	2022A	2023A	2024A	2025A	2026A	2027A	2028A	2029A

## Income Statement

Revenue	\$6,465	\$6,762	\$6,774	\$7,085	\$7,864	\$8,494	\$9,173	\$9,907	\$10,501
YoY Growth		4.6%	0.2%	4.6%	11.0%	8.0%	8.0%	8.0%	6.0%
Salaries and Other Empl. Benefits	\$2,347	\$2,530	\$2,727	\$2,863	\$2,892	\$2,979	\$3,068	\$3,160	\$3,255
YoY Growth		7.79%	7.80%	5.00%	1.00%	3.00%	3.00%	3.00%	3.00%
Occupancy Expense	\$40	\$35	\$0	\$37	\$39	\$41	\$43	\$45	\$45
YoY Growth		-11.97%	0.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
SG&A	\$1,915	\$2,105	\$2,084	\$2,177	\$2,274	\$2,376	\$2,482	\$2,592	\$2,708
YoY Growth		9.89%	-0.97%	4.46%	4.46%	4.46%	4.46%	4.46%	4.46%
Total Non-Interest Expense	\$234	\$283	\$473	\$572	\$632	\$665	\$700	\$737	\$775
YoY Growth		20.98%	67.34%	20.98%	10.49%	5.24%	5.24%	5.24%	5.24%
Other Unusual Expense	\$0	\$30	\$0	\$15	\$0	\$0	\$15	\$0	\$0
EBIT (Include unusual expense)	1,928.6	1,809.1	1,489.3	1,420.3	2,027.0	2,432.9	2,865.2	3,372.5	3,717.9
Effective Tax	\$465	\$430	\$358	\$341	\$486	\$584	\$688	\$809	\$892
NOPAT (aka EBIAT)	1,463.8	1,378.8	1,131.8	1,079.4	1,540.6	1,849.0	2,177.5	2,563.1	2,825.6
Depreciation & amortization	110.7	110	116	112	112	113	112	112	112
Changes in net working capital	-3138.2	(12)	1,467	(561)	(561)	115	(561)	(464)	(464)
Capital expenditures	-95.5	(129)	(117)	(114)	(120)	(117)	(115)	(115)	(115)
Unlevered free cash flows (UFCF)	4,808.2	1,629.4	(103.2)	1,866.1	2,333.2	1,963.8	2,965.4	3,254.8	3,517.3

# Appendix

