

Morgan Stanley & E*Trade

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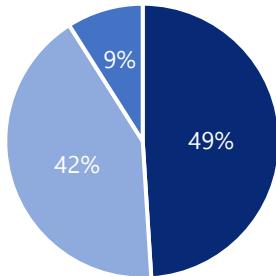
Acquiring Company Overview: Morgan Stanley

Business Description

- Founded in 1935, based in New York City, Morgan Stanley is a multinational financial services company that operates three segments: Institutional Securities, Wealth Management, and Investment Management
- Generated \$41.42B in net revenues in fiscal year 2019 with a net income of \$8.51B
- Strategic outlook is to grow Wealth Management division and reach broader range of clientele

Revenue Breakdown

- Investment Management
- Institutional Securities
- Wealth Management



Management Team

James P. Gorman - CEO & Chairman

- Became CEO in 2010 and Chairman in 2012; Previously acted as the Co-President and Co-Head of Strategic Planning at MS

Mandell Crawley - Head of Private Wealth Management

- Managing Director and Head of WM since 2017; Began as an intern and spent entire career at MS

Naureen Hassan - Chief Digital Officer for Wealth Management

- New position created in 2016 to lead strategy of digital tools

Financial Overview

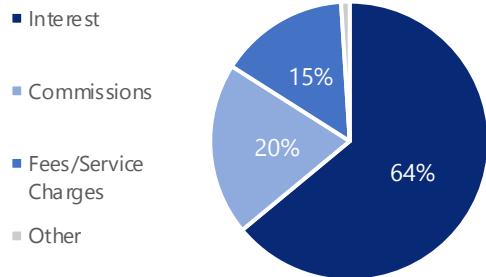
Market Cap	\$54.7B	P/E	9.30x
EV	\$302.4B	Debt to Equity	3.32
EV/ EBITDA	21.69x	EPS (TTM)	\$3.85

Target Company Overview: E*Trade

Business Description

- Founded in 1982, E*Trade is a financial services company offering an electronic trading platform and is headquartered in New York City
- Acquired for \$13 billion USD in an all-stock transaction, granting E*Trade shareholders 1.0432 shares of MS
- Vision is to be ranked as #1 digital broker and advisor to traders and investors, and well-known for its ease of use and broad services being offered

Revenue Breakdown



Management Team

Michael Pizzi - CEO

- Became CEO in 2019, previously served as COO, CFO, and CRO

Chad E. Turner - CFO & EVP

- CFO since 2018; Joined E*Trade since 2004, serving as the head of financial planning and analysis

Matthew Minetola - CIO

- Since 2019, responsible for developing overarching technology strategy

Financial Overview

Market Cap	\$7.91B	P/E	6.88x
EV	\$7.616B	Debt to Equity	25.1
EV/EBITDA	5.58x	EPS (TTM)	\$5.19

Industry Outlook

Emerging Trends

- Robo Advisory is expected to have a 19.4% CAGR till 2023 that serves as a catalyst for firms within the industry
- The "Great Wealth Transfer" will see an estimated \$68 trillion passed down from boomers over the next 30 years
- By 2030, millennials will be five times richer than they are today

Recent Mergers & Acquisitions

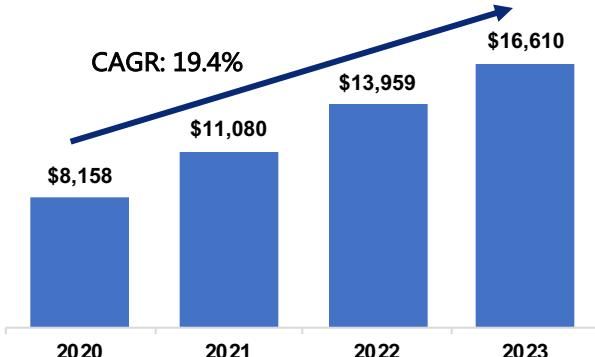


Charles Schwab announced the acquisition of TD Ameritrade

\$26b All-Stock deal expected to be completed by Q3 2020



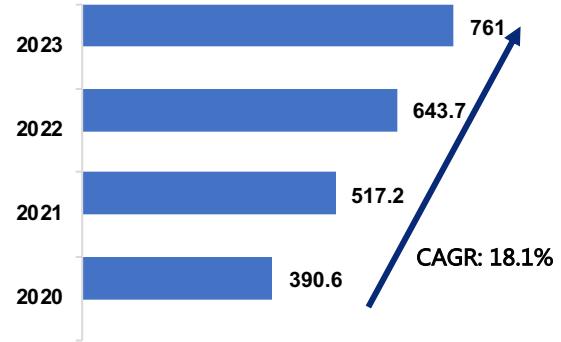
Robo Advisory AUM (USD Millions)



Players within the E-trading Industry



Robo Advisory Users (000's)



Expansion of Wealth Management Franchise

Increased Retail Client Assets

E*Trade Clientele

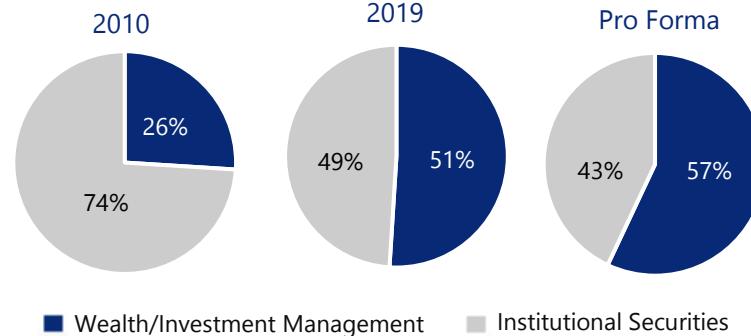
- As of the date of the acquisition, E*Trade possesses over 5.2 million client accounts worth over \$360 billion in retail client assets
 - E*Trade has been posting average trading volumes of 300,000 trades per day
- Will add to Morgan Stanley's existing 3 million accounts with over \$2.7 trillion of client assets, which are mostly comprised of institutional investors
- As retail banking becomes more digital, easier for investment banks to enter market and gain additional returns
 - Already possess the risk-management and technology skills to offer new retail products such as savings & checking accounts
- Goal: Increase recurring and durable revenue sources to provide a means of countercyclicality

Recurring and Durable Revenue

Shift to Wealth Management

- Morgan Stanley has been directing efforts to shift portfolio of businesses in order to generate more income from durable, asset-light sources
- Acquisition of E*Trade will grossly provide 57% of firm's pre-tax profits

Pre-Tax Profits by Segment



Enhanced Digital Capacity

Improved Digital Banking Experience

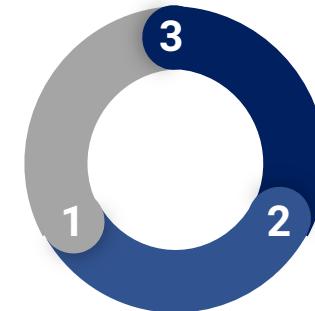
Client-Centered Service

- Throughout the last 40 years, E*Trade has been known be a pioneer of the digital brokerage & banking market space
- Offers digital banking services, which includes direct integration with checking, high-yield savings, and brokerage accounts
- E*Trade's established consumer-facing technology will complement Morgan Stanley's advisor-facing technology

Savings via Technological Efficiencies

- \$400 million in cost savings expected from maximizing technology infrastructure efficiencies and shared corporate services
- E*Trade will provide MS with additional low-cost deposits (i.e. premium savings accounts) worth \$56 billion upon transaction

New Technology Portfolio for All WM Channels



Financial Advisors

- Goals based planning
- Risk analytics

Workplace

- Public equity administration platform
- Private company management
- Digital financial wellness, planning, and student loan benefits

Self-Directed

- Brokerage accounts
- Digital checking/savings accounts
- Trading tools for investors

Transaction Outlook Summary

Benefits to MS

Business Strategy

- Through the acquisition of E*Trade, Morgan Stanley has gained an opportunity and an opening to a new market segment in which it can capitalize for the coming years
- Despite the small pool of client assets from E*Trade compared to their \$2.7 trillion, the introduction of ordinary, consumer-level retail accounts will provide a plethora of intangible benefits
 - With the base of delegators that MS already has, E*Trade is comprised of self-directed investors that account 48% of their customer base
 - The similarity between these two segments are that they require financial advisors to make investment decisions

Feasibility Analysis

Synergies

- As illustrated through Morgan Stanley's business strategy, the benefits from acquiring E*Trade overwhelmingly exceed the costs as the benefits deals with selling to a new market segment, which are mainly synergies from revenue upside
- Observing cost saving synergies, E*Trade and MS will be able to share information technology, especially E*Trade digital banking interface, which allow for operational efficiencies and expansion of digital capacity
- As E*Trade will still operate virtually independent, except for employing MS advisors to current customers, operational and technical feasibility will not be of a hindrance to MS

Opportunity to Upsell Financial Advisory through Expanding Digital Capacity & WM Business

Sources

1. Morgan Stanley Corporate Website & Disclosures
2. New York Times
3. Wall Street Journal
4. MarketWatch
5. Forbes
6. PYMNTS
7. The Week

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