HOWARD UNIVERSITY INVESTMENT GROUP

WELLS FARGO

<u>Company Overview</u>

Wells Fargo & Company, incorporated on January 24, 1929, is a financial services holding company. Its principal business is to act as a holding company for its subsidiaries. The Company is a diversified financial services company and it has three operating segments: Community Banking, Wholesale Banking and Wealth and Brokerage and Retirement. The Company provides retail, commercial and corporate banking services through banking stores and offices, the Internet and other distribution channels to individuals, businesses and institutions in all around 50 states, the District of Columbia and in other countries. The Company provides other financial services through subsidiaries engaged in various businesses, principally wholesale banking, mortgage banking, consumer finance, equipment leasing, agricultural finance, commercial finance, securities brokerage and investment banking, insurance agency and brokerage services, computer and data processing services, trust services, investment advisory services, mortgage-backed securities servicing and venture capital investment. As of December 31, 2014, the Company had assets of $1.7 trillion, loans of $863 billion and deposits of $1.2 trillion

Bios of E-Suite

Executive Officers

John G. Stumpf, Chairman and Chief Executive Officer

John Stumpf became chairman for Wells Fargo & Company in January 2010. He was named chief executive officer in June 2007, elected to Wells Fargo's Board of Directors in June 2006, and served as president from August 2005 to November 2015.

A 34-year veteran of the company, he joined the former Norwest Corporation (predecessor of Wells Fargo) in 1982 in the loan administration department and then became senior vice president and chief credit officer for Norwest Bank, N.A., Minneapolis. He held a number of management positions at Norwest Bank Minneapolis and Norwest Bank Minnesota before assuming responsibility for Norwest Bank Arizona in 1989. He was named regional president for Norwest Banks in Colorado/Arizona in 1991. From 1994 to 1998, he was regional president for Norwest Bank Texas. During his four years in that position, he led Norwest's acquisition of 30 Texas banks with total assets of more than $13 billion.

In 1998, with the merger of Norwest Corporation and Wells Fargo & Company, he became head of the Southwestern Banking Group (Arizona, New Mexico and Texas). Two years later he became head of the new Western Banking Group (Arizona, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah, Washington and Wyoming). In 2000, he led the integration of Wells Fargo's acquisition of the $23 billion First Security Corporation, based in Salt Lake City. In May 2002, he was named Group EVP of Community Banking. In December 2008, he led one of the largest mergers in history with the purchase of Wachovia.

He serves on the board of directors for The Clearing House, the Financial Services Roundtable, Target Corporation and Chevron Corporation. He also serves on the Federal Advisory Council of the Federal Reserve Board as the appointed representative of the Federal Reserve Bank of San Francisco.

A Minnesota native, he earned his bachelor's degree in finance from St. Cloud State University, St. Cloud, Minnesota and his MBA with an emphasis in finance from the University of Minnesota.

Timothy J. Sloan, President and Chief Operating Officer

Timothy (Tim) J. Sloan became President and Chief Operating Officer in November 2015 and is responsible for the operations of the company's four main business groups: Community Banking, Consumer Lending, Wealth and Investment Management and Wholesale Banking. In his continuing role as head of Wholesale Banking, he oversees Asset Backed Finance, Business Banking, Capital Finance, Capital Markets, Commercial Banking, Commercial Real Estate, Corporate Banking, Equipment Finance, Insurance, International, Investment Banking and Treasury Management groups. Tim serves on the Wells Fargo Operating and Management Committees and is based in San Francisco.

A 28-year veteran of Wells Fargo & Company, Tim has served as the chief financial officer and was responsible for the financial management functions including controllers, financial reporting, tax management, asset liability management, treasury, corporate development, investor relations, investment portfolios, strategic planning and the company's corporate properties functions. Prior to that, Tim was chief administrative officer and managed Corporate Communications, Corporate Social Responsibility, Enterprise Marketing, Government Relations and Corporate Human Resources for the enterprise.

From 1991 to 2010, Tim served in various leadership roles in Wholesale Banking including head of Commercial Banking, Real Estate and Specialized Financial Services. Prior to joining Wells

Fargo as a vice president with the Loan Adjustment Group in 1987, he worked for three years at Continental Illinois Bank in Chicago.

Tim earned his B.A. in economics and history and his M.B.A. in finance and accounting, both from the University of Michigan in Ann Arbor.

With a strong commitment to community, Tim serves on the Board of Overseers of the Huntington Library, and is a member of the University of Michigan's Ross School of Business Advisory Board. He is a trustee of Ohio Wesleyan University and the City of Hope. He is also a member of the Board of Directors of California Resources Corporation and a member of the Board of Trustees at California Institute of Technology.

Michael J. Loughlin, Senior EVP, Chief Risk Officer

Senior Executive Vice President and Chief Risk Officer Michael J. Loughlin oversees all risk-taking activities at Wells Fargo, including credit, market, operational, compliance, information security (including cyber risk), and financial crimes risk management. He is also involved in issues such as liquidity, capital, profit planning, and compensation. As the leader of the Corporate Risk group, which includes 4,000 team members, he serves on the Wells Fargo Operating and Management Committees and is based in San Francisco.

Mike assumed his role as chief risk officer in 2006. Previously, he was responsible for credit approval, policy, and reporting for Wholesale Banking. A banking professional with 35 years of experience, he joined the company in 1986 after Wells Fargo acquired Crocker Bank.

Before serving as head of credit for Wells Fargo Wholesale Banking, he was responsible for the private banking business of Private Client Services, headed systems and operations for the Wholesale Banking unit, and held other positions within Commercial and Corporate Banking including head of U.S. Corporate Banking and Regional Vice President in the Santa Clara Valley Regional Commercial Banking Office.

He received his bachelor's degree from the University of California at Berkeley in 1978.

Mike is the immediate past chair of the Risk Management Association's Board of Directors, and he served as chair during the organization's centennial year. He also serves on the board of directors for Students Rising Above, an organization dedicated to helping low-income, first-generation college students realize their potential by guiding and supporting them through college graduation and into the workforce.

Porter's Five Forces Analysis

Competition in the industry

Analysis of the banking industry may be broken down into three primary components, the retail banking, commercial banking, and the investment banking industries. While many banks sell products and services in all three markets, there are some that cater solely to one market. Because Wells Fargo is involved in all three industries, it must compete with commercial, retail, and investment banking operators. It is important to note that the banking industry as a whole has come to be defined as increasingly vertical in organization over the past few years. The Financial Services Modernization Act of 1999 has spurred the consolidation of what used to be separate banking operations – and several players took advantage of the economies of scope derived from providing a diverse array of financial services under one entity. Recent mergers of the past several years include JP Morgan - Bank One, Wells Fargo – Norwest, and Bank of America - Fleet Boston. Thus, the competitive landscape has been transformed considerably and is much more fluid than before the enactment of this piece of legislation.

Community (Retail banking)

Catering primarily to lower middle to middle class consumers, Wells Fargo's primary competitors in this sector are Bank of America, U.S. Bancorp, and Washington Mutual. However, the competitive landscape is populated with many others including Bank One, Golden West Financial, Household International, and UnionBanCal. With hundreds of branches geographically spread throughout most of the West Coast, these institutions all offer products such as deposit accounts, loans, insurance, and asset management services to consumers and businesses. In times of low interest rates, such as today, people tend to move their money out of banks and into the stock market, where they can potentially earn a higher return. While Wells Fargo does offer brokerage services, customers tend to look towards more publicized names like Morgan Stanley and Merrill Lynch for asset management although this has been changing. Wells has pumped a lot of money into developing their Private Client Services and has a goal of double-digit net income growth from that area within the next three Wells Fargo / 11 PAC Consulting, LLP years. In order to do this, we believe it will take more publicity and a stronger push from the cross selling end. Recently there have been trends towards the offering of a wider array of financial services in an effort to realize economies of scope – once the infrastructure is set up for a couple basic financial services such as mortgages and savings accounts, setting up money market accounts is inexpensive relative to the expected benefits in increased exposure, revenues, and buyer switching costs. This is also a response to fringe competition from non-banks such as mutual funds, securities brokers and dealers, and credit unions, which all compete for consumer capital. The aforementioned factors also justify the aggressive cross-selling strategies designed to not only increase product sales, but to also increase customer loyalty and buyer switching costs. The marginal cost of selling a credit card to a customer who recently opened a deposit account is minimal in comparison to the benefits of realizing that sale. The selling of homeowner's insurance coupled with mortgages is another prime example.

Wholesale (Commercial Banking)

The biggest competitors in the commercial banking field are easily Bank of America/Fleet Boston and JP Morgan Chase/Banc One. Whereas Wells Fargo earns the largest portion of its income from retail banking with its mortgage business, these two banks deal primarily with large commercial accounts. Just as in retail banking, cross-selling plays an important role on the commercial side as well. Tools such as Fed money wires, online Commercial Electronic Office, and Payroll Services all complement each other. By offering a superior blend of products instead of specializing in just one or two areas, Wells Fargo continues to differentiate itself and retain its commercial customers. Again, as the number of financial products a company purchases increases, the switching costs of using another bank or adding services outside of Wells Fargo also increases. Wells Fargo offers price breaks to commercial customers who utilize several of their financial services. While the company continues to pump money into expanding its commercial resources to compete with larger nation-wide commercial banks, commercial cross-selling looks to be the backbone of Wells Fargo's strategy in the future

Wealth and Brokerage and Retirement (Investment Bank)

Wells Fargo's fledgling investment banking division has struggled to compete with well-known investment banks like Goldman Sachs, Morgan Stanley, and Merrill Lynch. However the acquisition of Wachovia has pushed Wells into the top 10 players in terms of investment banking revenue. The commercial and investment banking fields are more fragmented than the retail banking sector. There are many smaller investment banks that specialize in mergers & acquisitions as well as advisory investment services. While Wells Fargo has remained primarily focused on community banking and home mortgages their involvement in this area has been growing.

Potential of new entrants into industry

The barriers to entry in the banking industry are fairly substantial. Due to government regulations, continuous assessments, and the growing number of mergers, new comers face steep initial costs and intense competition from large country-wide banks. At this time there is not a high degree of economies of scale for larger banks. Most of the money-saving techniques occur through economies of scope instead. Recent geographic expansion stems from banks merely searching for more customers rather than reducing per customer costs. When an entity wishes to create a commercial bank, they must obtain a charter from the Comptroller of the Currency (for national banks) or the state banking authority (for local banks). The amount of knowledge needed to comply with regulations places a sizeable barrier on a firm's ability to enter the banking market. In this evolving environment of top-heavy market share, brand recognition will start to become more important. Currently people recognize different names, but shop for financial services primarily on price.

Hence the threats of new entrants into Wells Fargo many markets are all very weak forces.

Power of suppliers

Supplier power in the banking industry is technically non-existent because of the lack of a supply chain. We can assume that infrastructure costs, such as software, online servers, and processing machines are sold at prices determined by the market so supplier influence is minimal in this regard.

However, two factors which heavily influence Wells Fargo supply (its assets , its business, and its positions in the market) are government regulations, and the United States Federal Reserve. Through various legislation such as the Securities Acts of 1933 and 1934, the Dodd-Frank Act of 2010, and the Sarbanes- Oxley Act of 2002 banks are limited in terms of what markets they can participate in. More so, banks now have more reporting requirements. These all attempted to regulate firms in the financial service industry and to provide more transparency to the public, government, and investors.

Another factor which has had a dramatic effect on the financial services industry is the United States Federal Reserve. In attempts to promote economic growth and to keep unemployment low (and to achieve other economic objectives) , the fed often dictates the money supply and manipulates the federal fund rate which has a substantial affect on the financial sector on a whole. For instance in this current low interest rate environment banks like Wells Fargo have limited earning potential on short term treasuries which dramatically affects their bottom lines. Hence suppliers in the form of government regulation and the fed have a great influence on the financial sector.

Power of customers

Retail Bank

Banking’s retail/commercial dichotomy truly comes into play when determining the amount of buyer power. The average customer on the retail side has little ability to change the prices offered by the bank. One cannot haggle over the interest rate on a savings account.

Investment Bank

The average client has little control over the rates or returns at which the market provides for a security in most financial markets. However large clients can sometimes influence the price at which the security is offered based on a few factors such as credit worthiness, their relationship with the bank, and the volume of the transaction. Hence the influence of the customer is a medium force for investment banks.

Commercial Bank

The transaction process on the other hand is a bit different on the commercial side. Here, clients must first issue an RFP, or ‘Request for Proposal.’ This specifies the products and services desired by the potential commercial customer. Such requests could range from treasury management products to online account management programs to payroll services. After the potential client issues RFPs to various banks, those banks return to the client with proposals for business. Essentially, the banks place bids for the customer’s business, and the client decides which offer looks the most appealing. Thus, the commercial side of the bank faces heavier buyer power. The bank must pay close attention to each client’s individual needs in order to secure business and create revenue. When it comes to commercial accounts, banks are more price takers, whereas on the retail side, the bank is a price setter.

Hence the influence of the buyers are a strong force for commercial banks.

Threat of substitute products

Substitutes and compliments play a large role in the banking industry due to the aforementioned economies of scope. Financial services institutions offer a plethora of products to help people smartly manage their money. There are many products that can maximize wealth, but they may offer different rates of interest or varying time and withdrawal requirements. This makes cross selling even more important and the key to successful cross-selling is to price complements at an attractive level, but high enough to maximize switching costs. As people acquire more financial service products, the cost of switching banks or existing products increases as well. Thus, substitutes from opposing banks become less threatening as a company keeps a firm grip on its customers. As the number of mega-banks increases, this pattern will continue so that complements become significantly more important and substitute power diminishes. Possible substitutes such as mutual funds and credit unions continue to steal away possible clients on the retail side, but their power is relatively small and narrowly focused. Credit unions offer a higher degree of customer service than most banks because of their smaller size and community-ownership. However, customers must pay a premium for these services. In the current low-interest rate environment, mutual funds have become more attractive because people look more to the market for a higher return on assets. With probable interest rate hikes in the near future, people may move away from those substitutes and back into traditional banking assets such as savings and money market accounts. .

Despite the effects of cross selling, the threat of substitute products is still a medium to large force due to the plethora of financial products available today

Summary of Wells Fargo SWOT Analysis

Strengths

- Intensise cross selling efforts which increases both customer loyalty and customer switching cost.
- Low cost of deposits
- Strong customer service and a highly recognized brand
- Strong credit discipline
- Wide financial distribution networks

Weaknesses

- Limited international presence compared to its competitors

Threats

- Changing goverment regulations resulting from past recessions and market volatility.
- Online frauds and Scams involving Wells Fargo
- Strong competition from competiting firms.

Opportunites

- Expand business into other regions of the United States and Canada
- Increased exposure in Investment banking and Trading .
- Continue to develop its brokerage, and investment banking services.
- Acquisitions of other banks with stronger presences in security markets.
- Acquisitions of other banks with stronger presences in weak market share states.

<u>Analysis of Wells Fargo's SWOT</u>

Brand

Wells Fargo has been a consistent player across several product groups and has developed a brand built upon customer service and conservativeness. Through mergers with Wachovia Bank in 2008 and Norwest in 1998 to name a few the bank has become a national power house in banking and financial services.

Growth

One hallmark of Wells Fargo's business model has been their consistent growth in revenues and market share. Wells Fargo is a growth company that believes the key to the bottom line is the top line. The ability to grow profits consistently is based on sustainable revenue growth. Revenue is the measure that shows the firm how well they are serving their customers' needs, earning their trust, and growing their market share. It's the vote their customers cast every day about the company. Outside of revenue growth the bank has also sort to expand its commercial presence in non US markets through its commercial banking practice.

Credit Discipline

Another outstanding characteristic of Wells has been their strong credit discipline. Wells Fargo bases its credits decisions based on five key factors. The character of its clients, their credit, their cash flow, their capacities, and their collateral. They have become famous for their rule of thumb insisting that clients must have $1.50 in cash flow for every $1 in total loan payment.

Competition

Like any other firm Wells Fargo still faces its fair share of challenges. One of its majors challenges has been heavy competition from competing firms. This problem has been compounded by the bank's lack of a presence overseas. Of its competitors all of the ' Big Four Banks' (JP Morgan & Chase, Bank of America, and Citi Group) and as well as most of their investment banking counterparts have strong presences in international markets. Wells Fargo however has made many strategic moves to combat this competition. The bank may not offer services to retail client outside of the US but it does however provide lending and investing options to corporate clients in over 35 countries across the globe.

Another way in which Wells Fargo is combating its completion is by cross selling its clients. Wells Fargo has become famous for its consumer service and they have used this customer service to sell a multitude of products to their clients. Theses cross-selling strategies are designed to not only increase product sales, but to also increase customer loyalty and buyer switching costs. Wells Fargo offers price breaks to commercial customers who utilize several of their financial services. While the company continues to pump money into expanding its commercial resources to compete with larger nation-wide commercial banks, commercial cross-selling looks to be the backbone of Wells Fargo's strategy in the future.

Another key strategic advantage which the firm has over other banks is their low cost of capital in the form of low interest rates on deposits. This allows the bank to maximize their returns on short term investments.

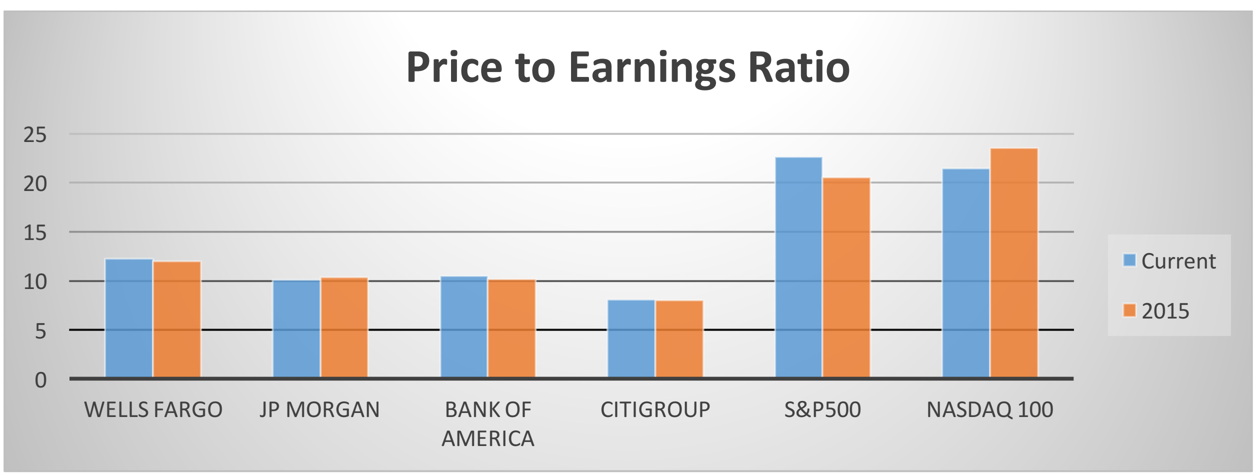
Regulation

The bank does face its fair share of issues such as the changing regulations from government such as the Dodd Frank and the Sarbanes- Oxley Act. The Sarbanes-Oxley Act has increase costs for everyone in financial services by forcing them to spend on proper reporting. The Dodd Frank Act has also limited trading practices in various derivatives, swaps, and proprietary business. More so, banks are now faced with stringent capital requirements and there are more regulatory bodies in place to ensure that banks adhere to regulations. However, this is an issue which all large banks have been facing, and it is no way unique to Wells Fargo.

However, Wells Fargo strengths do outweigh their weakness and their potential for growth in international markets and even in different regions in the US poses a good value propositions for investors.

<u>P/E, Profit Margin, & Leverage Analysis</u>

P/E



The average price to earnings ratio (P/E) for banking firms, as of January 2015, is approximately 17.8. This compares with an overall market average P/E ratio of 35.25 – but this is a simple arithmetic average, skewed by the figures for a very small number of firms with P/E ratios over 100 or 200. A mean or median average would show the banking industry's average P/E ratio much closer to typical market performance. The best-performing regional banks, because of the larger potential for rapid growth, tend to have P/E ratios noticeably higher than those for the large, major banks.

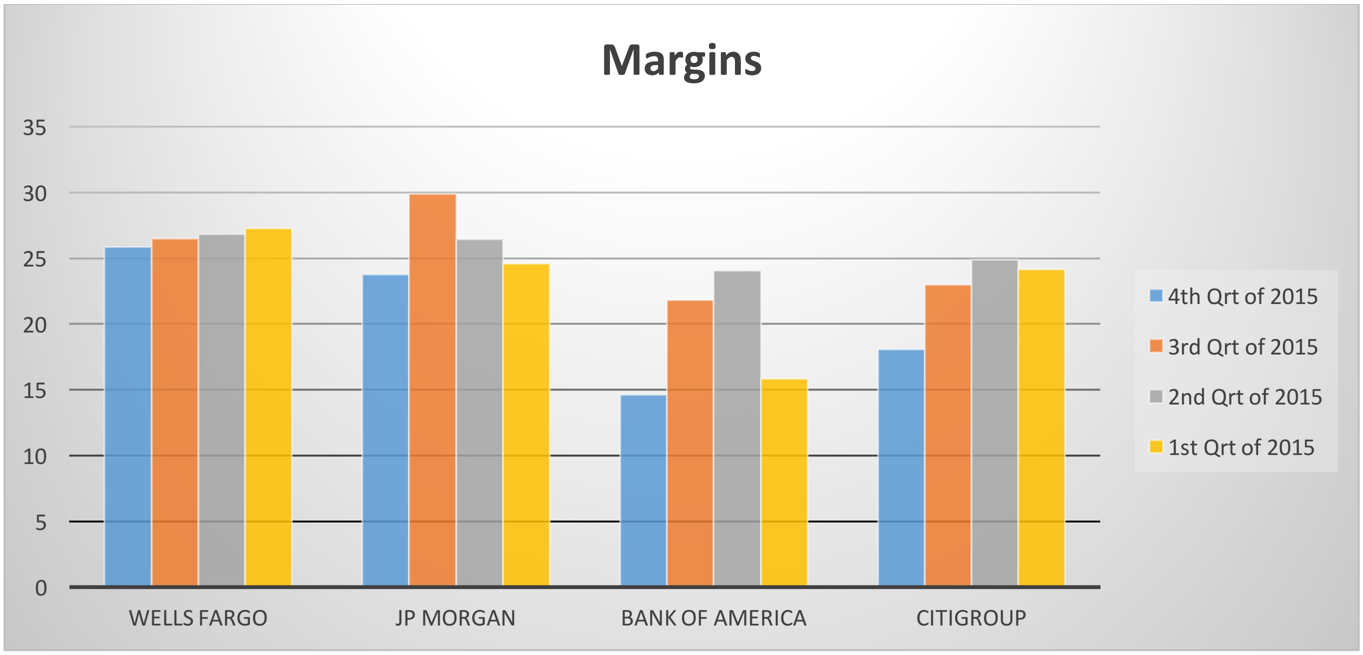
As of right now , Wells Fargo, one of the leading multiservice banks in the United States, is trading with a P/E ratio of 12.27, while Bank of America has a P/E ratio of 10.52, Citigroup has a P/e ratio if 8.06, and JP Morgan & Chase has a P/E ratio of 10.08. While Wells Fargo does have the highest P/E ratio of the big four banks it still has a ratio which is lower than the banking and overall market averages.

Wells Fargo also has a slightly higher stock price than both Citi and Bank of America and a higher Earnings Per Share than Bank of America. This goes to show that the stock is well priced relative to its earnings.

Over the past 5 years Wells Fargo Price to Earnings Ratio has been constant at around 11. However, over the past five years the stock has grown from $32. 05 to $50.54, a 57.69% capital gains.

WFC Valuation	Company	Industry	Sector	S&P 500
PE Ratio (Q3 TTM)	**12.01**	15.41	26.48	54.95
PE Ratio Expected EPS	**-**	-	22.03	21.87
Price to Sales (Q3 TTM)	**3.03**	2.79	3.03	4.24
Price to Sales Ratio Expected Sales	**-**	-	1.51	2.01
Price to Cash Flow (Q3 TTM)	**-**	38.89	90.48	746.09
Price to Free Cash Flow (Q3 TTM)	**26.18**	5.63	13.16	40.9
Price to Book (Q3 MRQ)	**1.51**	1.14	2.24	6
Price to Tangible Book (Q3 MRQ)	**1.77**	1.45	3	-
PEG (Q3 TTM)	**8.17**	-	-	-

Profit Margin



This data shows that Wells Fargo has experienced mostly higher Profit Margins that its competitors over the past four quarters. While close competitors JP Morgan Chase have recorded good margins, it has experience significant deviation in their margins and incomes compared to the consistency which Wells Fargo has experiences.

The revenues which large investment banks have been receiving has been at its highest since the recession. With trading revenues even more between 2009- 2014 than 2002-2008 there is great cause for optimism.

The banking sector's profitability normally increases with interest rate hikes and profitability decreases when interest rates are decreased. Institutions in the banking sector such as retail banks, commercial banks, investment banks, insurance companies and brokerages have massive cash holdings due to customer balances and business activities. These companies hold their customers' cash in accounts that pay out set interest rates below short-term rates. They profit off of the marginal difference between the yield they generate with this cash invested in short-term notes and the interest they pay out to customers. However, when rates rise, this spread increases with extra income going straight to earnings.

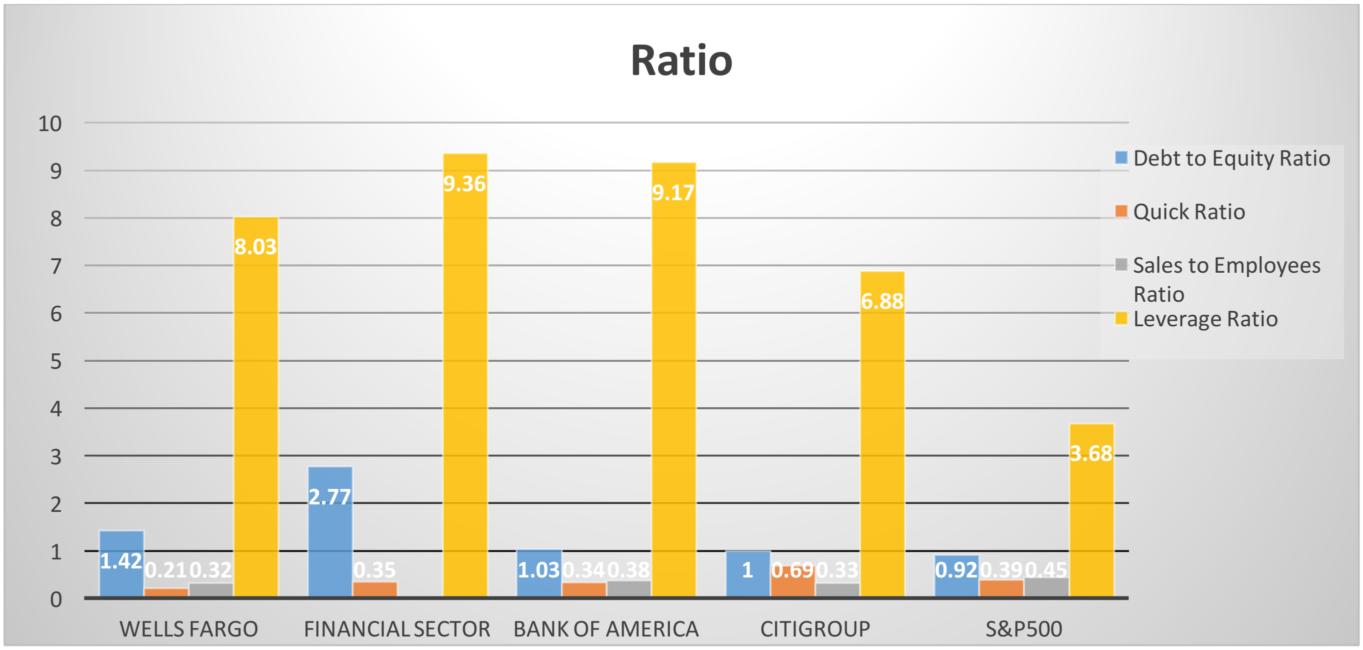
For example, a brokerage has $1 billion in customer accounts. This money earns 1% interest for customers, but the bank earns 2% on this money by investing it in short-term notes. Therefore, the bank is yielding $20 million on its customers' accounts but paying back $10 million to customers.

If the central bank brings up rates by 1%, and the federal funds rate rises from 2% to 3%, the bank will be yielding $30 million on customer accounts. Of course, the payout to customers will still be $10 million. This is a powerful effect. Whenever economic data or comments from central bank officials hint at rate hikes, these types of stocks begin to rally first.

However despite low interest rate and high volatility environments profit margins in the financial services and banking industries in particular has outperformed most industries. Data from the last quarter in 2015 suggest that regional banks had on average profit margins of 24.33% and money center banks had on average margins of 24.48%. In terms of its deposits the company was paying just 0.08% on its deposits as of the fourth quarter of 2015, and its total funding cost including all sources was only 0.25% in 2015.

Thanks to its cheap funding base, Wells Fargo is virtually guaranteed to generate a positive return on its loan portfolio despite today's low interest rate environment. These high may be due to the possible increase emphasis on financial prudency.

Leverage



The banking and financial services industries generally have higher leverage ratios than non banking and non financial services industries. The Standard and Poor's 500 has a leverage ratio of 3.68, a quick ratio of 0.39, and a debt to equity ratio of 0.92. The financial sector on the other hand has a leverage ratio of 9.36, a quick ratio of 0.35 and a debt to equity ratio of 2.77. One possible reason for the high ratios is the huge liabilities that banks take on in the form of client deposits. Wells Fargo has more retail deposits than any other bank in the country and is ranked third overall in total deposits.

However, Wells Fargo has still managed to a leverage ratio of 8.03 which is 1.14 points lowers than the financial sector average. The bank also a debt to equity ratio of 1.42 which is lower than the financial sector average means that it has less debt relative to its equity. Wells Fargo also has a quick ratio of 0.21 which is lower than the financial sector and the SP 500 averages. This shows that the company has very little current assets relative to its currently liability.

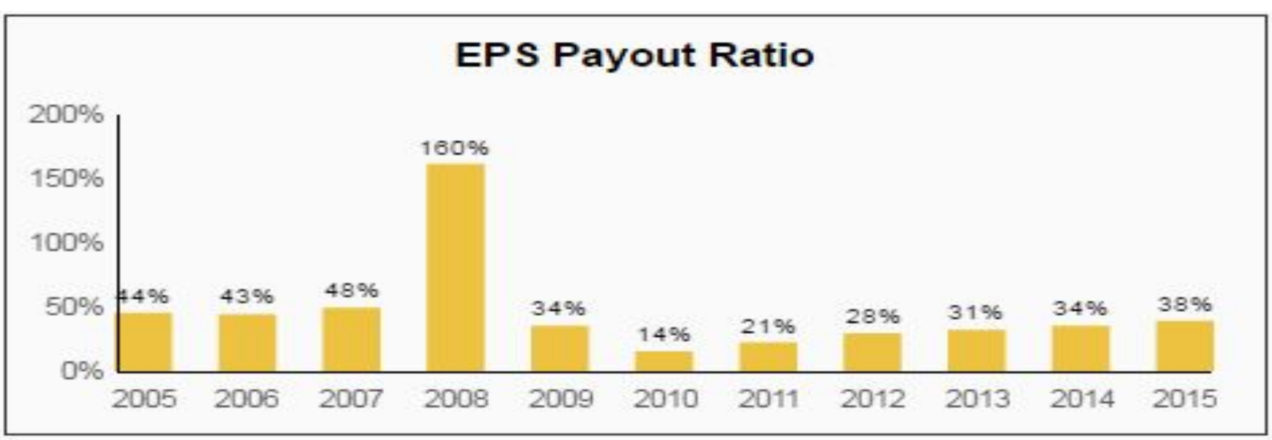
Turning to the balance sheet, the company maintains an "A" credit rating from Standard & Poor's and appears to be financially healthy. Overall, we believe Wells Fargo's dividend is very reliable. Banks are healthier than they have ever been, and Wells Fargo is particularly conservative in the way it runs its business.

Earning Per Share

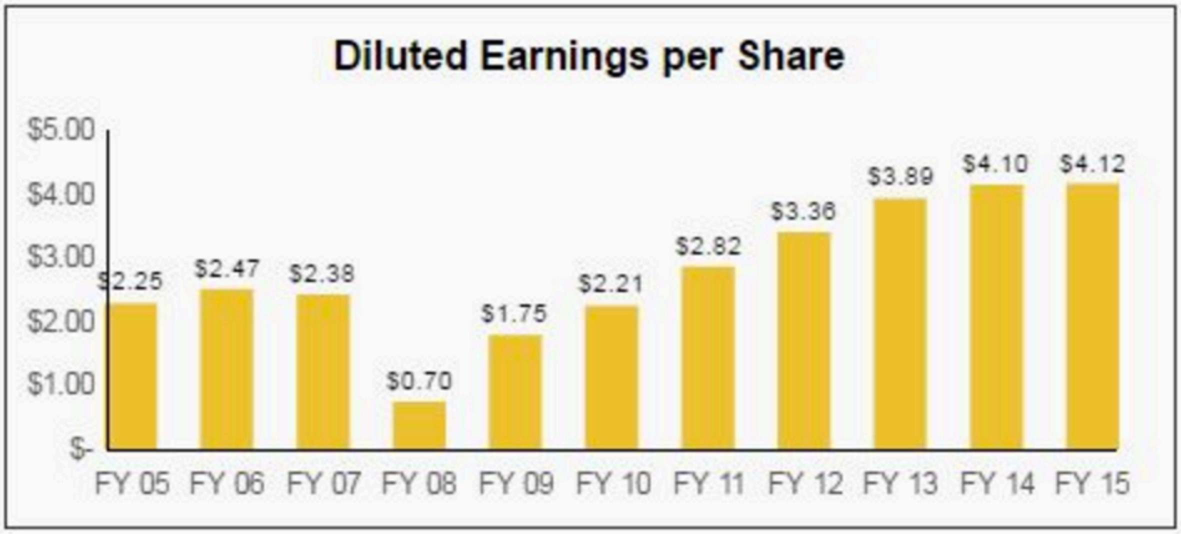
Dividend investors won't forget Wells Fargo's decision to cut its dividend by 85% in 2009 to save $5 billion per year, protect against further loan losses, and fund its 2008 acquisition of troubled Wachovia.

Despite the dividend cut, Wells Fargo was actually one of the best positioned banks going into the financial crisis. The Federal Reserve declared that Wells Fargo exceeded the capital levels required for well-capitalized banks in 2009, and its balance sheet remained healthy enough to let it acquire Wachovia at a bargain price. With a high Dividend Safety Score of 86. Barring another financial crisis, which seems extremely unlikely, I think the company is well positioned to continue paying and growing its dividend.

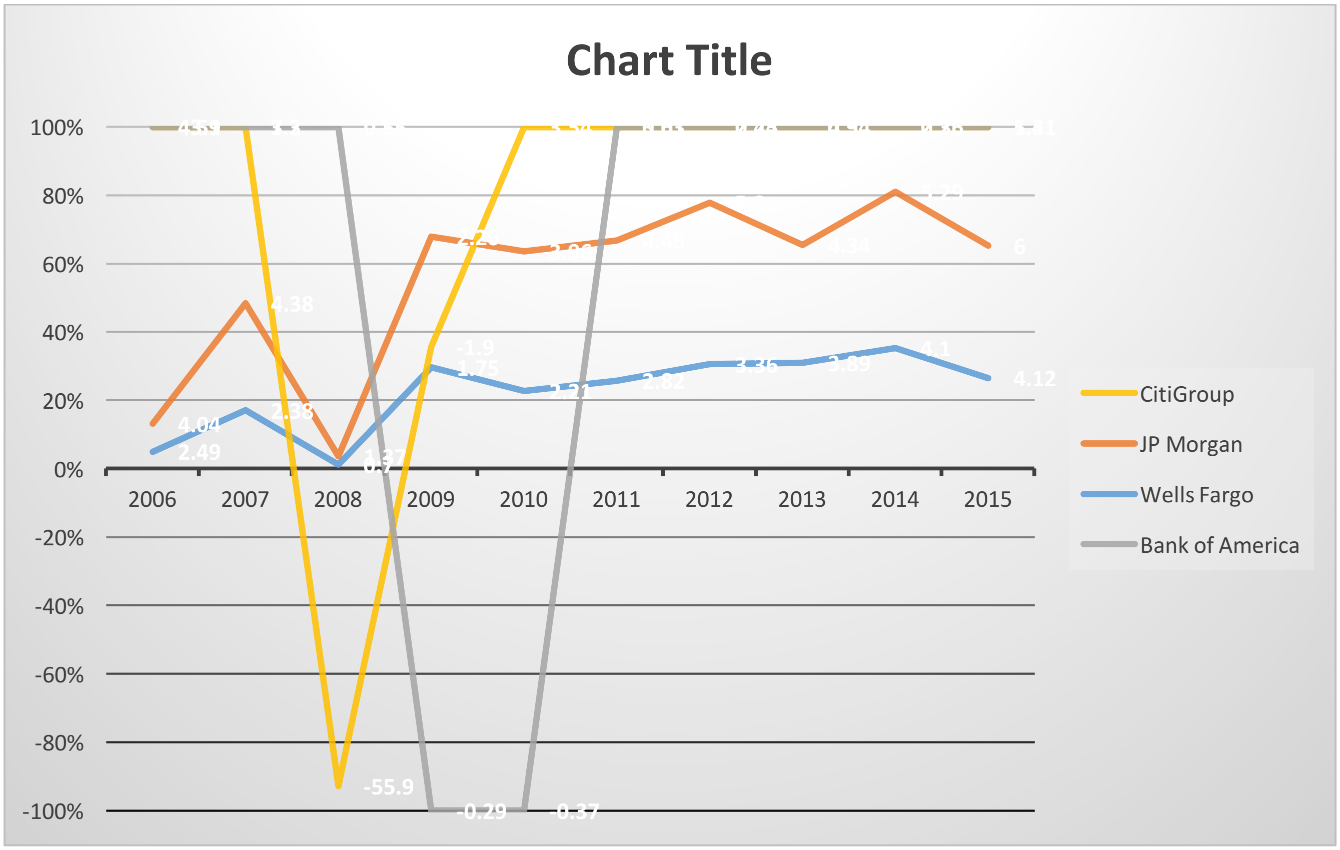
Wells Fargo's dividend has consumed 36% of its reported earnings over the past 12 months. As seen below, the company's payout ratio has historically been between 30% and 50%. However, the company's financial leverage caused earnings to plunge during the financial crisis, which sent its payout ratio to 160% and forced a dividend cut.



Source: Simply Safe Dividends

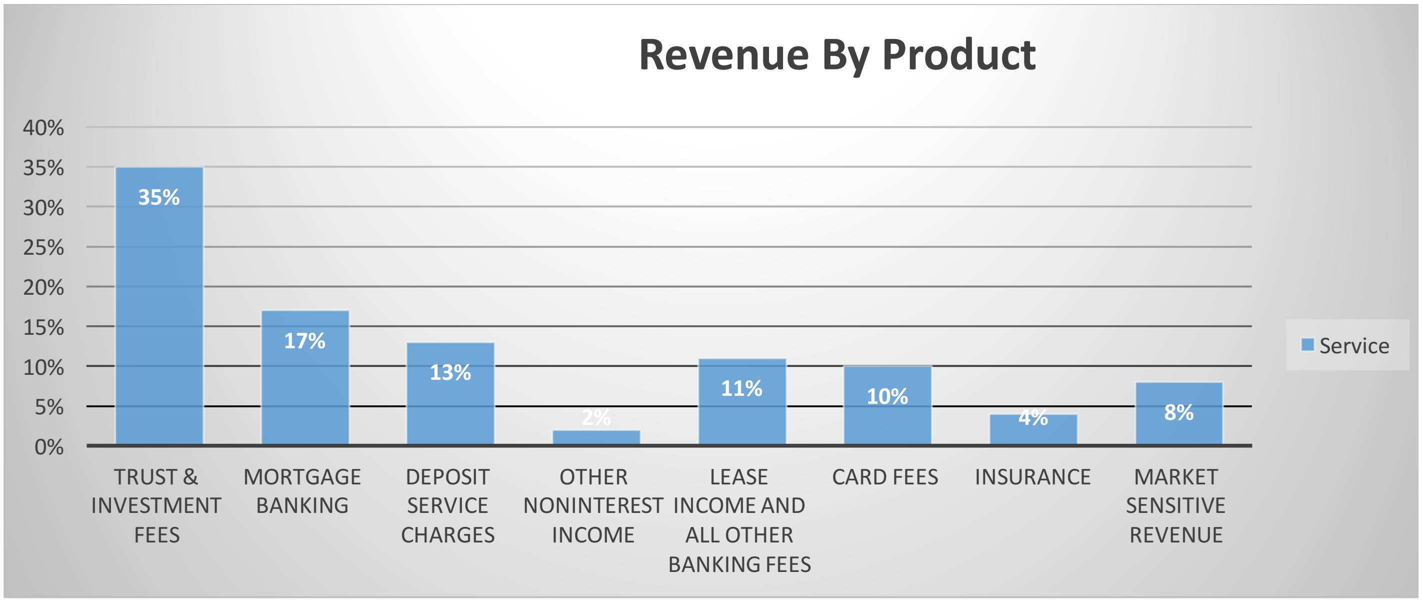


We can also see that the company’s reported earnings have been stable outside of the financial crisis, highlighting Wells Fargo’s large and diversified revenue base. Stable earnings make a dividend payment more reliable.

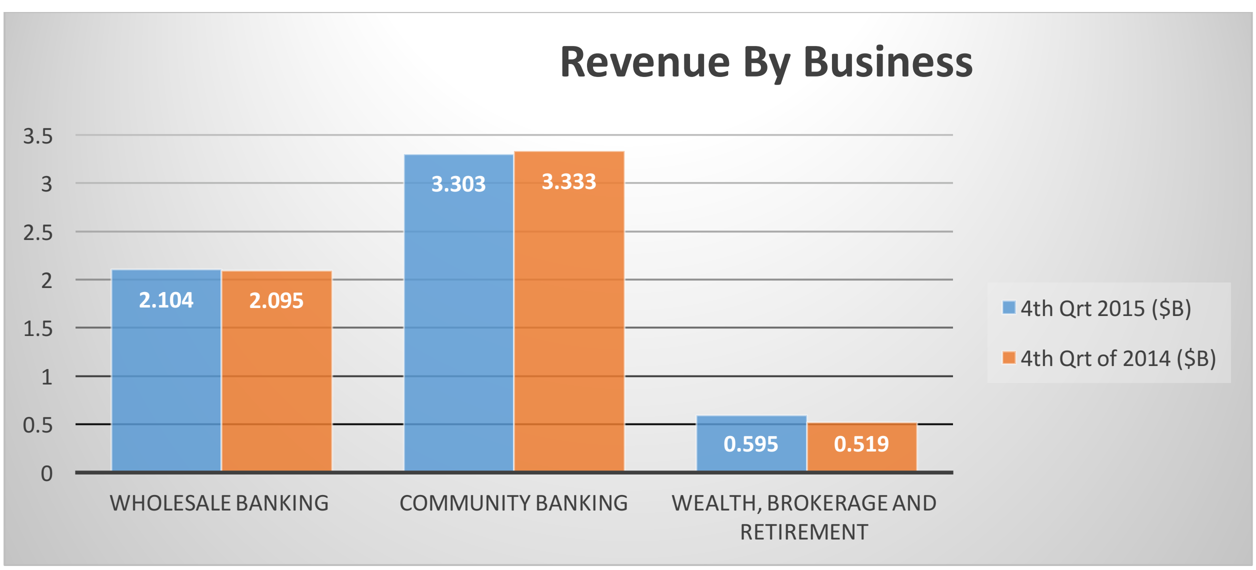


The above graph shows that while other banks such as JP Morgan Chase , Bank of America, and Citigroup may have larger yearly earnings per share in some years, the variance in this figure shows that on a risk adjusted basis Well Fargo has the best EPS.

Revenue by Business Line



As seen in the chart above Wells Fargo's main products are its Mortgages, Trusts and Investments, Deposits, and Card products. When aggregated, overall profit at Wells Fargo's community banking division (retail banking), which includes its consumer operations, was $3.3 billion, unchanged from the fourth quarter of 2014. Wells Fargo's wholesale banking (commercial banking) division recorded profit of $2.1 billion, also similar from the same quarter in 2014. The bank's wealth, brokerage and retirement (investment bank) unit posted profit of $595 million, a 15% increase from the $514 million it earned in the fourth quarter of 2014.



Wells Fargo's mortgage business, the largest in the U.S. by volume, earned $1.66 billion in fees in the fourth quarter, up 10% from the $1.52 billion it earned in same period a year ago. The bank extended $47 billion in home loans between the end of September and the end of December, compared with $44 billion in the fourth quarter of 2014 and $55 billion in the third quarter of 2015.

Mr. Stumpf said 2015 "appears to be the best year" for home sales and housing starts since 2007 though December data isn't yet available.

Exposure

One of the largest U.S. energy lenders, Wells Fargo's lost $118 million to defaults on loans to oil and gas companies in the fourth quarter citing a "continued deterioration within the energy sector," a $90 million increase from the third quarter. Loans to energy companies comprised around 2% of Wells Fargo's overall portfolio, but the bank said in the third quarter that there was a risk of delinquency on $566 million in those balances.

Wells Fargo has set aside $1.2 billion of reserves against its oil and gas loans, equating to 6.7% of the total outstanding. When stacked against the total exposure including unfunded loans, however, the ratio drops to 2.8%.

However Wells Fargo's loan exposure to the battered oil and gas industry includes $25 billion in credit lines that customers haven't even used as yet , an amount that more than doubles its previously disclosed risk

The total of $42 billion in oil and gas credit reported shows that its vulnerability to falling crude prices is at the very worst on par with rivals who had reported much large figures. Citigroup has the largest exposure of the big U.S. banks, at $58 billion, followed by Bank of America with $43.8 billion and JPMorgan Chase at $42 billion.

On a call with investors last month, Chief Financial Officer John Shrewsberry said that the company had $17 billion of loans to the energy industry. In today's presentation, Wells Fargo noted that the previously disclosed figure didn't include unfunded loan commitments -- such as corporate credit lines that haven't been drawn upon.

However over the past month oil prices have been rallying which would prove beneficial for Wells Fargo as this reduces the likelihood of default for their debtors. More so, many analysts forecast oil prices to rise to between $50 and $60 by the end of 2016.

Evaluation

Wells Fargo's stock is currently valued at $50.49. However using a Free Cash Flow to Equity method the company was valued at $91.85. One of the drivers of this high stock value in this evaluation method was its high Net Profits for 2015 was $21.604 billion.

One huge influencer of Net Profits has been the company's diverse product base. Despite low interest rate environments Wells Fargo has still been able to remain successful but storing deposits at low cost and implementing cost efficient methods to maximize the spread on their deposits when they initiate loans. Thanks to its cheap funding base, Wells Fargo is virtually guaranteed to generate a positive return on its loan portfolio despite today's low interest rate environment.

Wells Fargo serves one in three households in the U.S., and its convenience and brand recognition are two reasons why it has enjoyed such strong deposit growth. The company maintains industry-leading distribution channels, including storefronts, ATMs, online, and mobile. This allows Wells Fargo to serve customers in more locations than any other bank.

Another driver of their Profits has been their cross selling effort. Many businesses that loan money from banks must also maintain a large deposit with their bank if they desire to secure a line of credit, adding to Wells Fargo's low-cost deposit base. Once a consumer or business opens an account with a bank, switching costs are also created given the hassles involved with closing and transferring accounts, especially when most mega banks are perceived as being somewhat comparable to one another.

Using an alternative approach to evaluation called the Free Cash Flow to Firm Wells Fargo was evaluated at $120.14 an even higher evaluation than the FCFTE method. Similar to the Free Cash Flow to Equity, big driver of the evaluation was Wells Fargo high Profits. However some other factors which pushed their evaluation for 2016 using this method was the extremely high cash balance of $366.44 billion , low after tax interest payments of $1.903 billion , and a low debt of $12.222 billion. With such a high cash balance the company can now expand into new markets through acquisitions or invest in existing businesses.

The median of three evaluation estimates Wells Fargo intrinsic value is near $91.85. Wells Fargo has a cost of equity of 12.11%. This means that Well Fargo's stock could potentially provide capital gains returns of 103.74% if the stock were to rise to by its cost of equity to reach $102.97. Also Wells Fargo paid dividends of $1.48 last year. Hence even if apple does not provide dividend growth, dividends of $1.48 would provide a 2.92% return.

Final Recommendation

Wells Fargo has been considered the safe stock of banking for the past 15 years. Their strong underwriting process, coupled with their cross selling and their cheap funding base has led them to great success in a time where many have struggled. In a time of extreme uncertainty and market volatility their strong business model encapsulates conservativeness, and growth. Even though they have expanded into the Investment banking and Securities markets the bank remains primarily focused and heavily invested in the markets which they know well such as the mortgage market which has been growing at the fastest rates since 2007.
The banks growth in international markets has offered new opportunities for expansion and increasing market shares in non- US and non traditional markets.

The company also has great financials with its Profit Margin stronger than most of its individual competitors and the banking and financial sectors on a whole. Wells Fargo is also well leveraged given its size , and it has less debt than most financials which can be contributed to their underwriting conservativeness. On the earnings side of things Wells Fargo's Earnings Per Share has been growing steadily and they provide a very stable investment for investors compared to their competitors.

Wells stock is currently worth $50.54. When evaluating Wells Fargo I estimated that the company's stock is worth close to $91.85. Considering this evaluation and a target price of $102.97, if the stock is purchased today I predict that within a five year period this stock would be worth $102.97 which would provide capital gains returns of 103.74% These predictions are of course dependent on factors such as the Federal Reserve and their interest rate policy, and the overall economic environment in the United States.

Hence, I ultimately rate Wells Fargo as a Buy and hold stock.

<u>Headlines, Statistics, and Trends</u>

1. Federal Open Market Committee meetings on April 26th – 27th
2. Increased exposure into Investment Banking
    a. Generally narrower focus on home buyers and corporate borrowers in the United States, which appeals to investors these days. Simplicity has trumped sprawl and riskier operations like bond trading since the financial crisis
3. Steady growth in EPS and Profit Margins
4. 50 Day Moving Average is less than the 200 Day Moving Average which is bearish Technical Indicator. (50 Day = $48.53 , 200 Day = $51.86)
5. Wells Fargo has agreed to pay $1.2 billion to put to rest claims that it engaged in reckless lending under a Federal Housing Administration program that left a government insurance fund to clean up the mess.

6. Federal Reserve Approve Capital restraints for big banks
    a. http://www.nytimes.com/2015/07/21/business/federal-reserve-finalizes-capital-restraints-for-big-banks.html?rref=collection%2Ftimestopic%2FWells Fargo %26 Company&action=click&contentCollection=business&region=stream&module=stream_unit&versioh

7. Warren Buffet loads up on more shares of Wells Fargo
    a. http://www.bizjournals.com/sanfrancisco/blog/2016/02/warren-buffett-wells-fargo-bank-berkshire-brk-wfc.html

8. Credit Exposure to Oil
    a. http://www.thestreet.com/story/13453060/1/wells-fargo-s-total-energy-exposure-is-42-billion-twice-what-you-thought.html
9. The Board of Directors of the FDIC adopted a proposal to increase the Deposit Insurance Fund (DIF) to the statutorily required minimum level of 1.35 percent
    a. https://www.fdic.gov/news/news/press/2015/pr15082.html
10. Loan growth remained a bright spot for Wells Fargo. Total loans at the end of the fourth quarter in 2015 were $916.56 billion, a 6% increase from $862.55 billion in the same period a year ago.
    a. Wells Fargo's mortgage business, the largest in the U.S. by volume, earned $1.66 billion in fees in the fourth quarter, up 10% from the $1.52 billion it earned in same period a year ago. The bank extended $47 billion in home loans between the end of September and the end of December, compared with $44 billion in the fourth quarter of 2014 and $55 billion in the third quarter of 2015.

WELLS FARGO FUNDAMENTAL STOCK VALUATION

WEIGHTED AVERAGE COST OF CAPITAL			
Value Line Beta	1.05	Market Value of Equity	$ 244,676,300,000.00
Yahoo Beta	0.96498	Long Term Debt	$ 185,300,000,000.00
Average Beta	1.01	Long Term Interest	$ 6,000,000,000.00
Adjusted Beta	1.00	Cost of Debt	3.24%
Treasury Bill Return	3.50%	Income Tax Rate (2018-20)	35.00%
Expected Market Return	12.07%	Proportion of Equity	56.90%
Market Risk Premium	8.57%	Proportion of Debt	43.10%
Cost of Equity	12.11%	Weighted Average Cost of Capital	7.799763245747250%
Shares Outstanding	5,090,000,000	Average Annual P/E Ratio (2018-20)	14.00
Stock Price	$48.07		

(Millions of Dollars)

Current and Projected Amounts	09/30/15	09/30/16	09/30/17	09/30/18	09/30/19	09/30/20
Working Capital	$35,790,000,000	$39,262,312,535	$41,623,021,200	$43,983,729,865	$46,344,438,530	$48,705,147,195
Capital Spending per Share	$ 0.03	$ 0.03	$ 0.03	$ 0.03	$ 0.03	$ 0.03
Common Shares Outstanding	5,090,000,000	5,090,000,000	5,090,000,000	5,090,000,000	5,090,000,000	5,090,000,000
Long-Term Debt	$ 185,300,000,000.00	203,277,633,772	215,500,023,144	227,722,412,516	239,944,801,889	252,167,191,261
Interest Payment	$ 2,929,000,000.00	3,213,168,858	3,406,365,719	3,599,562,581	3,792,759,443	3,985,956,304

FINANCIAL PROJECTIONS	09/30/15	09/30/16	09/30/17	09/30/18	09/30/19	09/30/20
Net Profit	$ 21,604,000,000.00	$ 23,700,000,000.00	$ 25,125,000,000.00	$ 26,550,000,000.00	$ 27,975,000,000.00	$ 29,400,000,000.00
+ Depreciation	$ 2,515,000,000.00	2,759,002,962	2,924,892,381	3,090,781,800	3,256,671,218	3,422,560,637
- Increase In Working Capital	($35,790,000,000)	($3,472,312,535)	($2,360,708,665)	($2,360,708,665)	($2,360,708,665)	($2,360,708,665)
- Capital Spending	$ (135,000,000.00)	$ (135,000,000.00)	$ (135,000,000.00)	$ (135,000,000.00)	$ (135,000,000.00)	$ (135,000,000.00)
+ New Borrowing		$ 17,977,633,771.52	$ 12,222,389,372.34	$ 12,222,389,372.34	$ 12,222,389,372.34	$ 12,222,389,372.34
+ After-tax Interest Payment	1,903,850,000	2,088,559,757	2,214,137,718	2,339,715,678	2,465,293,638	2,590,871,598

	Date					
DISCOUNTED FCFTE VALUATION	09/30/15	09/30/16	09/30/17	09/30/18	09/30/19	09/30/20
Fractional Years from Current Date	0.00	1.00	2.00	3.00	4.00	5.00
Free Cash Flows to Equity (FCFTE)	$ 6,171,633,771.52	$ 40,829,324,199.22	$ 37,776,573,088.32	$ 39,367,462,506.94	$ 40,958,351,925.57	$ 42,549,241,344.20
Terminal Value of FCFTE						$ 411,600,000,000.00
Total FCFTE	$ 6,171,633,771.52	$ 40,829,324,199.22	$ 37,776,573,088.32	$ 39,367,462,506.94	$ 40,958,351,925.57	$ 454,149,241,344.20
Present Values of FCFTE	$ 6,171,633,771.52	$ 37,875,152,013.22	$ 32,507,752,470.06	$ 31,425,630,618.24	$ 30,329,918,625.81	$ 311,967,647,402.25
Market Value of Equity (FCFTE Method)	$ 467,508,354,508.29					
Stock Value (FCFTE Method)	$91.85					

	Date					
DISCOUNTED FCFTF VALUATION	09/30/15	09/30/16	09/30/17	09/30/18	09/30/19	09/30/20
Free Cash Flows to Firm (FCFTF)	$ (4,146,905,600.81)	$ 24,940,250,185.15	$ 27,768,321,433.53	$ 29,484,788,812.26	$ 31,201,256,190.98	$ 32,917,723,569.71
Terminal Value of FCFTF						$ 596,900,000,000.00
Total FCFTF	$ (4,146,905,600.81)	$ 24,940,250,185.15	$ 27,768,321,433.53	$ 29,484,788,812.26	$ 31,201,256,190.98	$ 629,817,723,569.71
Present Values of Total FCFTF	$ (4,146,905,600.81)	$ 23,135,718,886.78	$ 23,895,383,987.31	$ 23,536,647,349.50	$ 23,104,727,529.45	$ 432,639,175,907.75
Enterprise Value	$ 542,146,242,699.24					
Total Cash	$ 366,440,000,000.00					
Market Value of Firm	$ 908,586,242,699.24					
Total Debt	$ 297,060,000,000.00					
Market Value of Equity (FCFTF Method)	611,526,242,699					
Stock Value (FCFTF Method)	$120.14					

COMPARABLES VALUATION	COMPETITORS			INDUSTRY	MEDIAN
Market Value Ratios	Citigroup (C)	Bank of America (BAC)	JP Morgan (JPM)		
PEG Ratio	0.21	0.91	1.34	1.19	0.91

Company's Earnings and Growth	
Earnings per Share (TTM)	4.15
Next 5 Years' Annual Growth Estimate (%)	9.59
Stock Value (Comparables Method)	$36.22

Estimated Stock Value	$91.85
12-Month Target Price	$102.97
Projected 1-Year Gain	114.22%
Forward Annual Dividend Yield	3.00%
Projected 1-Year Return	117.22%
Treynor Index	1.13
Excess Return	105.10%
Investment Recommendation	STRONGBUY

Brokers' Price Target & Recommendation Summary	
High	$ 68.00
Mean	$ 57.21
Median	$ 57.00
Low	$ 47.00
No. of Brokers	$ 31.00
Mean Recommendation	2.2