

JPMorgan Chase is one of world's largest diversified banking firms. The company operates a leading global corporate and investment bank and is the second-largest mortgage originator in the United States, after Wells Fargo. JPMorgan Chase also operates a large retail banking network and is a leading credit card issuer.

Analyst's Notes

Analysis by Stephen Biggar, October 13, 2023

ARGUS RATING: BUY

- Strong 3Q EPS as loss provisions ease
- On October 13, JPM reported adjusted 3Q23 EPS of \$4.33, up from \$3.12 in the prior-year quarter and above the consensus of \$3.97.
- Loan growth was a strong 17%, aided by the First Republic Bank acquisition on May 1. The acquisition added some \$173 billion of loans and \$92 billion of deposits.
- JPM raised its guidance for 2023 net interest income to \$89 billion from \$87 billion, while lowering its adjusted expense guidance to \$84 billion from \$84.5 billion.
- We are raising our 2023 EPS estimate on the better-than-expected 3Q results and higher earnings guidance. Our target price remains \$183.

INVESTMENT THESIS

We are maintaining our BUY rating on JPMorgan Chase & Co. (NYSE: JPM) following 3Q23 earnings. The results included growth in net interest income (aided in part by the First Republic acquisition) and a reduction in loss provisions. Management also raised its net interest income guidance and lowered its expense outlook.

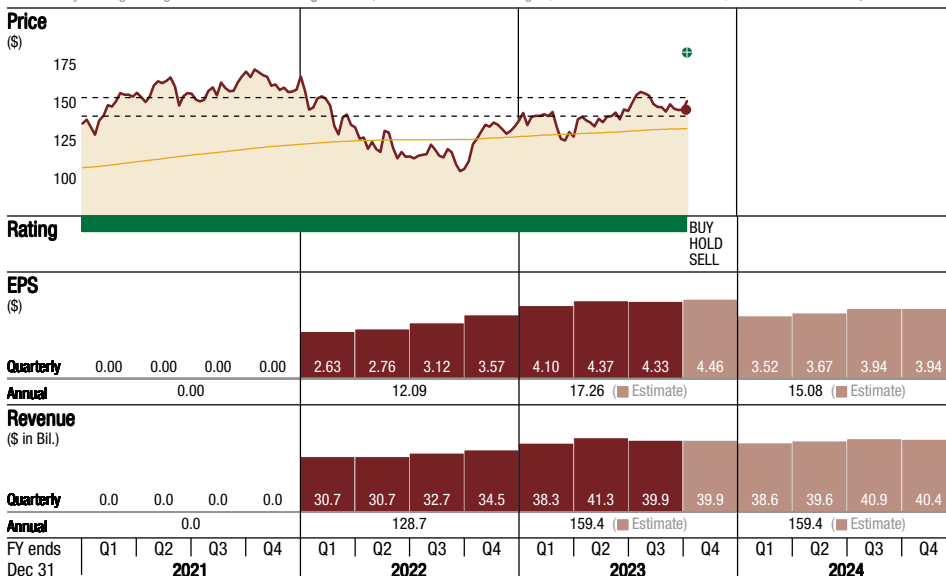
JPM held an Investor Day in May 2023, providing strategy updates on its major business units as well as revised financial guidance following its May 1 acquisition of substantially all of the assets and deposits of California-based First Republic Bank (FRC) from the Federal Deposit Insurance Corp. JPM also reaffirmed its forecast for a through-the-cycle return on tangible common equity of 17%.

First Republic catered to wealthy clients, and, like Silicon Valley Bank, had a high percentage of uninsured depositors (those with deposits of more than \$250,000). JPM paid the FDIC \$10.6 billion for \$173 billion in loans and \$92 billion of deposits. The deal includes a loss-sharing agreement with the FDIC covering single-family residential mortgages and commercial loans. JPM also repaid \$25 billion of deposits to a consortium of large banks that had been used to mitigate deposit outflows from FRC.

JPM recognized a \$2.7 billion gain on the purchase, excluding expected restructuring costs of \$2 billion between 2023 and 2024. The transaction is expected to be accretive to

Market Data Pricing reflects previous trading week's closing price.

— 200-Day Moving Average — Target Price: \$183.00 — 52 Week High: \$153.11 — 52 Week Low: \$140.83 — Closed at \$145.10 on 10/6



Argus Recommendations

Twelve Month Rating	SELL	HOLD	BUY
Five Year Rating	SELL	HOLD	BUY
Sector Rating	Under Weight	Market Weight	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 71% Buy, 29% Hold, 0% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	\$145.81
Target Price	\$183.00
52 Week Price Range	\$101.76 to \$159.38
Shares Outstanding	2.91 Billion
Dividend	\$4.20

Sector Overview

Sector	Financial
Sector Rating	OVER WEIGHT
Total % of S&P 500 Market Cap.	12.00%

Financial Strength

Financial Strength Rating	HIGH
Debt/Capital Ratio	70.3%
Return on Equity	15.5%
Net Margin	23.4%
Payout Ratio	0.24
Current Ratio	--
Revenue	\$204.03 Billion
After-Tax Income	\$47.84 Billion

Valuation

Current FY P/E	8.45
Prior FY P/E	12.06
Price/Sales	2.08
Price/Book	1.49
Book Value/Share	\$98.11
Market Capitalization	\$423.74 Billion

Forecasted Growth

1 Year EPS Growth Forecast	42.76%
5 Year EPS Growth Forecast	10.00%
1 Year Dividend Growth Forecast	2.50%

Risk

Beta	1.00
Institutional Ownership	69.94%

Analyst's Notes ...Continued

tangible book value and have an internal rate of return of at least 20%. We believe that FRC provides a healthy addition of loans and deposits and that it will help to expand JPM's high-net-worth franchise. As it already has more than 10% of U.S. bank deposits, JPM is unable to grow deposits via traditional acquisitions.

We like JPM among the large banks given its better lending growth profile, strong credit card franchise, and expected market share gains in its capital markets businesses. We view the current forward multiple as undervaluing the franchise.

Our target price is \$183, which represents a reasonable multiple of 12-times our 2024 EPS forecast. Given higher interest rates, we acknowledge the prospect of greater deposit funding costs and a more sluggish environment for loan growth going forward.

RECENT DEVELOPMENTS

Over the past year, JPM shares have risen 41% compared to a 22% advance for the broad market.

On October 13, JPM reported adjusted 3Q23 EPS of \$4.33, up from \$3.12 in the prior-year quarter and above the consensus of \$3.97. The results included a \$1.4 billion addition to loan loss reserves, down from \$2.9 billion in 2Q23. Net revenues rose 22%, to \$39.9 billion, as a 30% increase in net interest income (reflecting higher interest rates and the acquisition of First Republic) and 15% growth in trading revenues outweighed flat investment banking fees.

In Consumer & Community Banking, third-quarter net income

rose 36% to \$5.9 billion. Net revenues rose 29%, driven by gains in net interest income and the First Republic acquisition. Operating expenses rose 14%, reflecting higher compensation costs and investments. The results also reflected credit costs of \$1.4 billion, up substantially from \$529 million a year earlier.

In the Corporate & Investment Bank, net revenues fell 2% to \$11.7 billion, with declines of 2% in both banking revenue (due to lower investment banking activity) and markets revenue. Operating expenses rose 11% on higher legal and compensation costs. Results benefited from a \$185 million credit loss provision reversal, versus a provision of \$513 million in 3Q22. Net income fell 12% to \$3.1 billion.

Commercial Banking revenue rose 32% to \$4.0 billion, aided by higher deposit margins and the First Republic acquisition. Operating expenses rose 17%, reflecting higher compensation costs and higher volume and revenue-related expense. Following a credit loss provision of \$90 million (down from \$618 million in 3Q22), net income rose 105% to \$1.9 billion.

In Asset & Wealth Management, net revenue rose 10% on higher asset management fees. Assets under management rose 22% to \$3.2 trillion. Operating costs rose 4%, and net income was up 16% to \$1.4 billion.

EARNINGS & GROWTH ANALYSIS

JPM's business diversification continued to benefit results in 3Q23. The company was unable to shake off a weak environment

Growth & Valuation Analysis

GROWTH ANALYSIS

(\$ in Millions, except per share data)

	2018	2019	2020	2021	2022
Revenue	108,783	115,720	119,883	121,685	128,641
COGS	—	—	—	—	—
Gross Profit	—	—	—	—	—
SG&A	36,161	37,506	37,464	41,603	45,547
R&D	—	—	—	—	—
Operating Income	—	—	—	—	—
Interest Expense	-55,059	-57,245	-54,563	-52,311	-66,710
Pretax Income	40,764	44,866	35,815	59,562	46,166
Income Taxes	8,290	8,435	6,684	11,228	8,490
Tax Rate (%)	20	19	19	19	18
Net Income	32,474	36,431	29,131	48,334	37,676
Diluted Shares Outstanding	3,414	3,230	3,087	3,027	2,970
EPS	9.00	10.72	8.88	15.36	12.09
Dividend	2.72	3.40	3.60	3.80	4.00

GROWTH RATES (%)

Revenue	8.0	6.4	3.6	1.5	5.7
Operating Income	—	—	—	—	—
Net Income	32.9	12.2	-20.0	65.9	-22.1
EPS	42.6	19.1	-17.2	73.0	-21.3
Dividend	28.3	25.0	5.9	5.6	5.3
Sustainable Growth Rate	8.3	9.6	5.3	14.9	9.1

VALUATION ANALYSIS

Price: High	\$119.33	\$140.08	\$141.10	\$172.96	\$169.81
Price: Low	\$91.11	\$95.94	\$76.91	\$123.77	\$101.28
Price/Sales: High-Low	3.7 - 2.9	3.9 - 2.7	3.6 - 2.0	4.3 - 3.1	3.9 - 2.3
P/E: High-Low	13.3 - 10.1	13.1 - 8.9	15.9 - 8.7	11.3 - 8.1	14.0 - 8.4
Price/Cash Flow: High-Low	11.9 - 9.1	— - —	13.3 - 7.3	— - —	5.5 - 3.3

Financial & Risk Analysis

FINANCIAL STRENGTH

	2020	2021	2022
Cash (\$ in Millions)	527,609	740,834	567,234
Working Capital (\$ in Millions)	—	—	—
Current Ratio	—	—	—
LT Debt/Equity Ratio (%)	113.0	116.1	111.7
Total Debt/Equity Ratio (%)	131.1	136.8	128.3

RATIOS (%)

Gross Profit Margin	—	—	—
Operating Margin	—	—	—
Net Margin	22.9	38.2	27.9
Return On Assets	0.9	1.3	1.0
Return On Equity	11.3	18.3	13.7

RISK ANALYSIS

Cash Cycle (days)	—	—	—
Cash Flow/Cap Ex	—	—	—
Oper. Income/Int. Exp. (ratio)	—	—	—
Payout Ratio	32.5	47.0	23.4

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Analyst's Notes ...Continued

for investment banking, but net interest income rose 30%, aided by healthy loan growth of 17% (in part reflecting the First Republic acquisition) and the Federal Reserve's aggressive rate hike campaign. Trading revenues rose 15% amid continued volatility across equities and fixed income. Overall revenues grew 22%.

Looking ahead, we expect continued weakness in investment banking offset by further growth in net interest income in 4Q (despite higher deposit costs as higher interest rates work their way onto the balance sheet). We look for overall revenue growth of 24% in 2023, including contributions from First Republic. We also look for the soft investment banking fees seen in the first three quarters of 2023 to continue into early 2024.

We are raising our 2023 EPS estimate to \$17.26 from \$15.22, reflecting the better-than-expected 3Q results and management's expectations for higher net interest income. We are also raising our 2024 forecast to \$15.08 from \$14.22.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on JPMorgan Chase is High.

In June 2023, the Federal Reserve completed its 2023 Comprehensive Capital Analysis and Review (CCAR) stress test process. The preliminary Stress Capital Buffer (SCB) requirement is 2.9% (down from a prior 4.0%) while the Standardized Common Equity Tier 1 capital ratio requirement including regulatory buffers is 11.4% (down from a prior 12.5%). Following the results, JPM decided to increase its quarterly common stock dividend to \$1.05

per share from \$1.00, effective 3Q23, after leaving the rate unchanged following the 2022 CCAR results. The company resumed buybacks in 1Q23 under a \$30 billion share repurchase program authorization. It repurchased \$2 billion of its stock in 3Q23, but said that the pace of buybacks might change given expected new capital regulations.

JPMorgan has indicated that its capital priorities are to first invest in and grow its market-leading businesses to support clients, customers, and communities; second, to pay a sustainable competitive dividend; and third, to return remaining excess capital to shareholders.

JPM's Basel III Tier I capital ratio (standardized) was 14.3% in 3Q23, up from 12.5% a year earlier. The total capital ratio was 17.8%, up from 16.0%.

Dividends came to \$4.00 per share in 2022. We expect payouts of \$4.10 in 2023 and \$4.30 in 2024. The current yield is about 2.9%.

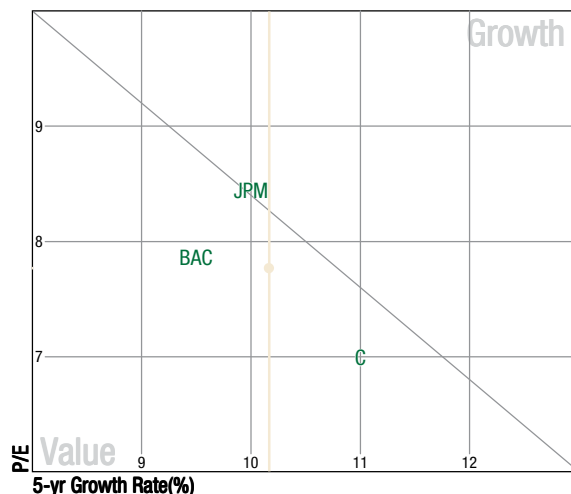
MANAGEMENT & RISKS

JPM is led by Chairman and CEO Jamie Dimon. In early March 2020, Mr. Dimon had emergency heart surgery to repair an acute aortic dissection, returning in early April. JPM is generally considered to have a deep bench of talent, and in recent years has had a stable group of senior executives. In January 2018, Daniel Pinto, CEO of the Corporate & Investment Bank, and Gordon Smith, CEO of Consumer & Community Banking, were appointed

Peer & Industry Analysis

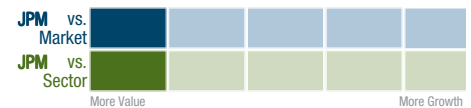
The graphics in this section are designed to allow investors to compare JPM versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- The scatterplot shows how JPM stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.
- The table builds on the scatterplot by displaying more financial information.
- The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how JPM might fit into or modify a diversified portfolio.



Ticker	Company	Market Cap (\$ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
JPM	JPMorgan Chase & Co.	423,736	10.0	8.4	23.4	-12.6	BUY
BAC	Bank Of America Corp.	213,757	9.5	7.9	20.0	-2.0	BUY
C	Citigroup Inc	79,974	11.0	7.0	10.2	6.7	BUY
Peer Average		239,156	10.2	7.8	17.9	-2.6	

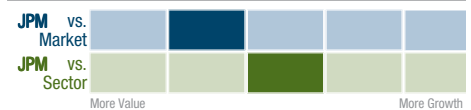
P/E



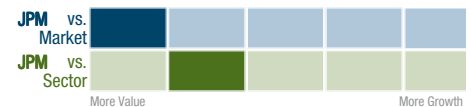
Price/Sales



Price/Book



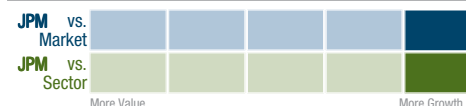
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5 Year Growth



Debt/Capital



Analyst's Notes ...Continued

co-presidents and co-chief operating officers, in what appeared to be succession planning for Mr. Dimon. However, in May 2021, Mr. Smith announced his retirement as of year-end 2021. His responsibilities were transferred to Jennifer Piepszak and Marianne Lake, which we believe represents new succession planning.

JPMorgan Chase has a large consumer franchise in the U.S. and a large global securities and asset management operation. The Dodd-Frank Act and other regulatory actions have impacted many of JPM's businesses; however, many of the costs related to the rules have already been factored into operating expenses.

On the commercial side, we note that most of JPM's revenue and earnings are not generated from proprietary trading businesses. However, JPM is a major owner and trader of derivatives. Increased regulation of derivatives trading, including the movement of trades to exchanges and clearinghouses, could have an impact on JPM's trading revenues.

In September 2020, JPM agreed to pay a \$920 million fine to the SEC and the Commodities Futures Trading Commission to resolve investigations into alleged manipulation in the metals and Treasury markets. The investigations involved 'spoofing,' in which traders flood markets with orders that they have no intention of executing.

COMPANY DESCRIPTION

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VALUATION

We believe that JPM's market outperformance over the past year reflects optimism about strong employment trends as the Fed nears the end of its rate hike campaign, which should limit loan delinquencies and loss provisions. Although the capital markets environment remains weak, the lending business has benefited from higher rates. JPM acquired First Republic at a fire-sale price, inexpensively adding significant revenues. We believe that this has also helped JPM shares.

JPM trades at a reasonable 10-times our 2024 EPS estimate. Our target price of \$183 assumes a multiple of 12-times our 2024 forecast.

On October 13 at midday, BUY-rated JPM traded at \$151.40, up \$5.59.

About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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