Overview
Overview

Sector Weighting: S&P 500 vs. OSU SIM

(1) As of March 31, 2015.
Recap of Sector Recommendation

- S&P 500: 16.28%  |  SIM Weight: 19.28%
- SIM portfolio is 3.04% overweight in Financials relative to the index
- We recommend a **HOLD** rating

**Rationale**

- The financials sector is entering into a mature growth stage of its business cycle and we expect continued growth over the next few years
- Consumer confidence is increasing and the housing market is still improving
- Risks: strict regulation, legal fees, uncertainty of the global economy
## Current Sector Holdings

<table>
<thead>
<tr>
<th>Sector</th>
<th>Ticker</th>
<th>% Assets</th>
<th>Recommendation Buy / (Sell) bps</th>
<th>New % Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citigroup, Inc.</td>
<td>C</td>
<td>4.60%</td>
<td>50</td>
<td>5.10%</td>
</tr>
<tr>
<td>JPMorgan Chase &amp; Co.</td>
<td>JPM</td>
<td>4.31%</td>
<td>(150)</td>
<td>2.81%</td>
</tr>
<tr>
<td>KeyCorp</td>
<td>KEY</td>
<td>3.37%</td>
<td>0</td>
<td>3.37%</td>
</tr>
<tr>
<td>SunTrust</td>
<td>STI</td>
<td>2.45%</td>
<td>0</td>
<td>2.45%</td>
</tr>
<tr>
<td>Wells Fargo &amp; Company</td>
<td>WFC</td>
<td>4.59%</td>
<td>100</td>
<td>5.59%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>19.32%</strong></td>
<td></td>
<td><strong>19.32%</strong></td>
</tr>
</tbody>
</table>
C Adjusted Returns vs. S&P 500 (LTM)\(^{(1)}\)

Commentary:
- C has underperformed the S&P 500 over the last twelve months due to legal issues / fees and missed earnings
- C still down off of 52 week high of $56.95
- Trading at a discount – market not correcting for upside in earnings growth
- Price Target of $65.00 represents a 26.2% premium to March 31, 2015 market close price

\(^{(1)}\) Source: Yahoo Finance as of March 31, 2015.
Value Drivers

Idiosyncratic:

• Simplification of Operations
• Improving Capital Position
• Increased Focus on Risk Management
• Share buybacks

Macroeconomic:

• Rising Interest Rates
• Improving Loan Volumes
• Strong M&A and Capital Market Activity

(1) Source: 2015 Q1 company presentation.
## DCF Valuation

**DCF Assumptions:**

- **WACC:** 12%
- **Perpetuity Growth Rate:** 3%
- **Tax Rate:** 30%
- **Gradual expansion of operating margin**
- **Revenue and EPS figures roughly in line with consensus for 2015E – 2017E**

### Output:

#### Implied Share Price Sensitivity

<table>
<thead>
<tr>
<th>Perpetuity Growth Rate</th>
<th>2.50%</th>
<th>2.75%</th>
<th>3.00%</th>
<th>3.25%</th>
<th>3.50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.0%</td>
<td>$72.28</td>
<td>$73.38</td>
<td>$74.55</td>
<td>$75.80</td>
<td>$77.13</td>
</tr>
<tr>
<td>11.5%</td>
<td>$68.16</td>
<td>$69.10</td>
<td>$70.10</td>
<td>$71.16</td>
<td>$72.29</td>
</tr>
<tr>
<td>12.0%</td>
<td>$64.48</td>
<td>$65.29</td>
<td><strong>$66.15</strong></td>
<td>$67.05</td>
<td>$68.01</td>
</tr>
<tr>
<td>12.5%</td>
<td>$61.17</td>
<td>$61.87</td>
<td>$62.61</td>
<td>$63.39</td>
<td>$64.21</td>
</tr>
<tr>
<td>13.0%</td>
<td>$58.17</td>
<td>$58.79</td>
<td>$59.43</td>
<td>$60.10</td>
<td>$60.81</td>
</tr>
</tbody>
</table>

#### Implied Forward P/E Sensitivity

<table>
<thead>
<tr>
<th>Perpetuity Growth Rate</th>
<th>2.50%</th>
<th>2.75%</th>
<th>3.00%</th>
<th>3.25%</th>
<th>3.50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.0%</td>
<td>13.61x</td>
<td>13.82x</td>
<td>14.04x</td>
<td>14.27x</td>
<td>14.53x</td>
</tr>
<tr>
<td>11.5%</td>
<td>12.84x</td>
<td>13.01x</td>
<td>13.20x</td>
<td>13.40x</td>
<td>13.61x</td>
</tr>
<tr>
<td>12.0%</td>
<td>12.14x</td>
<td>12.30x</td>
<td><strong>12.46x</strong></td>
<td>12.63x</td>
<td>12.81x</td>
</tr>
<tr>
<td>12.5%</td>
<td>11.52x</td>
<td>11.65x</td>
<td>11.79x</td>
<td>11.94x</td>
<td>12.09x</td>
</tr>
<tr>
<td>13.0%</td>
<td>10.96x</td>
<td>11.07x</td>
<td>11.19x</td>
<td>11.32x</td>
<td>11.45x</td>
</tr>
</tbody>
</table>

(1) Source: SIM analyst estimates.
Relative Valuation

(1) Source: Bloomberg as of March 31, 2015.
Recommendation

BUY

Price Target: $65.00

Increase position 50 bps

- Current position as % of assets: 4.60%
- Recommended position as a % of assets: 5.10%

<table>
<thead>
<tr>
<th>Implied Share Price</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>DCF</td>
<td>$66.15</td>
</tr>
<tr>
<td>Relative</td>
<td>$61.03</td>
</tr>
<tr>
<td>Target Price</td>
<td>$65.00</td>
</tr>
</tbody>
</table>
JP Morgan
Commentary:
- JPM has underperformed S&P for past 12 months
- Stock tends to move with macro data
- Trading at fair value
- Price Target of $58
Growth Drivers

Idiosyncratic:

- Cost Reductions
- Growing Real Estate Lending
- Maintaining Market Rankings (#1 & #2 in Consumer and Investment, Respectively)

Macroeconomic:

- Increase in GDP
- Growing Market Share (#2 Globally)
- Strategic Capital Allocations
Valuation

H-Model:

- Dividend = 1.44
- $G = 18\%$
- $GL=6.70\%$
- Years of Decline = 8
- Intrinsic Value = $57.98$

HOLD

- Maintain Portfolio Allocation of JPM
KeyCorp

Company Overview

- **Ticker**: KEY
- **Sector**: Financials
- **Industry**: Banking
- **52-Week Range**: $11.55 - $14.74
- **Market Cap**: 12.19B
- **Shares Outstanding**: 855.32M
- **Dividend/Yield**: $0.26 (1.80%) (ttm)
- **Avg Vol (3mo)**: 10,562,400
- **Beta**: 1.38
- **P/E (ttm)**: 14.31
- **EPS (ttm)**: 1.00

1-Yr Stock Performance
KeyCorp

Company Overview

LOANS

- 5% Others
- 41% Key Community Bank
- 54% Key Corporate Bank

DEPOSITS

- 1% Others
- 26% Key Community Bank
- 73% Key Corporate Bank

REVENUE

- 6% Others
- 42% Key Community Bank
- 52% Key Corporate Bank

NONINTEREST INCOME

- 11% Others
- 49% Key Community Bank
- 40% Key Corporate Bank
Growth Drivers

Opportunities

• Improving financial performance
• The recovering economy of United States
• Decreasing cost and expenses

Risks:

• Uncertainties in global economy
• Increasing regulation and supervision
• Credit risks
**KeyCorp**

**Valuation and Recommendation**

**Current Price** (04/13/2015):
$14.25

**Target Price**
15.16

**Total Projected Return**
8.19%

**Recommendation**: Hold

<table>
<thead>
<tr>
<th></th>
<th>DCF</th>
<th>Absolute Valuation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Estimated Price</strong></td>
<td>$15.93</td>
<td>$14.00</td>
</tr>
<tr>
<td><strong>Weight</strong></td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td><strong>Target Price</strong></td>
<td>$15.16</td>
<td></td>
</tr>
</tbody>
</table>
Wells Fargo
Wells Fargo

- WFC has slightly trailed the S&P 500 over the past 12 months
- WFC outperformed other big banks in 2014
- Strong financials in the recent history
- Weighted price target of $67.64 (closed at $54.59 on 4/13/15)
- 24.1% upside
- BUY

### Financial Metrics

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>13.41</td>
<td>13.87</td>
<td>12.95</td>
<td>11.93</td>
</tr>
<tr>
<td>ROA</td>
<td>1.45</td>
<td>1.51</td>
<td>1.41</td>
<td>1.25</td>
</tr>
<tr>
<td>NIM</td>
<td>3.11%</td>
<td>3.40%</td>
<td>3.76%</td>
<td>3.94%</td>
</tr>
<tr>
<td>Efficiency Ratio</td>
<td>58.10%</td>
<td>58.30%</td>
<td>58.50%</td>
<td>61.00%</td>
</tr>
<tr>
<td>Diluted EPS</td>
<td>4.10</td>
<td>3.89</td>
<td>3.36</td>
<td>2.82</td>
</tr>
<tr>
<td>Net Income ($B)</td>
<td>23.06</td>
<td>21.88</td>
<td>18.9</td>
<td>15.87</td>
</tr>
<tr>
<td>Average Loans ($B)</td>
<td>834.4</td>
<td>802.7</td>
<td>775.2</td>
<td>757.1</td>
</tr>
<tr>
<td>Average Core Deposits ($B)</td>
<td>1003.6</td>
<td>942.1</td>
<td>893.9</td>
<td>826.7</td>
</tr>
<tr>
<td>Dividends per common share ($)</td>
<td>1.35</td>
<td>1.15</td>
<td>0.88</td>
<td>0.48</td>
</tr>
<tr>
<td>Common Stock Repurchased ($M)</td>
<td>9414</td>
<td>5356</td>
<td>3918</td>
<td>2416</td>
</tr>
</tbody>
</table>
Wells Fargo

Value Drivers vs. Risks

Value Drivers

- Recovering US economy
- Interest rate hikes on the horizon
- Strong loan and deposit growth
- Strengthened capital and liquidity levels
- Increasing dividends and share buybacks
- Growing customer base

Risks

- Shrinking net interest margin industry wide
- Economic uncertainty
- The Fed keeping rates low
- Additional regulation and legislation (i.e. Dodd Frank)

Quarterly Net Interest Margins

- U.S. Bancorp
- Wells Fargo
- Citigroup
- Bank of America
- JPMorgan
- Weighted Average
Wells Fargo

Valuation and Recommendation

- Current Price (4/13/15): $54.59
- Weighted Target Price: $67.74
- Upside of 24.1%
- Recommendation: BUY

<table>
<thead>
<tr>
<th>WFC</th>
<th>Implied Share Price</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>DCF</td>
<td>$68.57</td>
<td>70%</td>
</tr>
<tr>
<td>P/E Absolute</td>
<td>$65.79</td>
<td>30%</td>
</tr>
<tr>
<td><strong>Target Price</strong></td>
<td><strong>$67.74</strong></td>
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</tbody>
</table>

**DCF Valuation**

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>% Growth</td>
<td></td>
<td>6.0%</td>
<td>8.4%</td>
<td>5.8%</td>
<td>4.2%</td>
<td>3.7%</td>
<td>5.9%</td>
<td>3.5%</td>
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</tr>
</tbody>
</table>

- NPV of Cash Flows 182,689 52%
- NPV of terminal value 170,084 48%
- Projected Equity Value 352,773 100%
- Free Cash Flow Yield 8.70%
- Terminal Value 505,141
- Free Cash Yield 7.73%

- Current P/E 11.5 10.8 10.0
- Projected P/E 14.4 13.6 12.6
- Current EV/EBITDA 9.9 9.3 8.6
- Projected EV/EBITDA 11.9 11.2 10.3
- Terminal P/E 12.9
- Terminal EV/EBITDA 10.1
- Shares Outstanding 5,145.0
- Current Price $54.59
- Implied equity value/share $68.57
- Upside/(Downside) to DCF 25.6%
- Terminal Discount Rate = 11.5%
- Terminal FCF Growth = 3.5%
SunTrust

Company Overview

- **Ticker**: STI
- **Sector**: Financials
- **Industry**: Banking
- **52-Week Range**: $33.97 - $43.23
- **Market Cap**: 21.69B
- **Dividend/Yield**: $0.8 (1.90%)
- **Avg Vol (3mo)**: 3,493,710
- **Beta**: 1.11
- **P/E (ttm)**: 12.87
- **EPS (ttm)**: 3.23

![1-Yr Stock Performance Graph]
Recommendation

Hold

Price Target: $44.46

Total Return: $6.08%

Increase position 0 bps

- Current position as % of assets: 2.45%
- Recommended position as a % of assets: 2.45%
Conclusion
**Conclusion**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Current Price</th>
<th>Target price</th>
<th>Total Return</th>
<th>% Assets</th>
<th>Recommendation Buy / (Sell) bps</th>
<th>New % Assets</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citigroup, Inc.</td>
<td>$52.66</td>
<td>$65.00</td>
<td>26.20%</td>
<td>4.60%</td>
<td>50</td>
<td>5.10%</td>
<td>BUY</td>
</tr>
<tr>
<td>JPMorgan Chase &amp; Co.</td>
<td>$62.07</td>
<td>$58</td>
<td>-6.6%</td>
<td>4.31%</td>
<td>-150</td>
<td>2.81%</td>
<td>HOLD</td>
</tr>
<tr>
<td>KeyCorp</td>
<td>$14.25</td>
<td>$15.16</td>
<td>8.19%</td>
<td>3.37%</td>
<td>0</td>
<td>3.37%</td>
<td>HOLD</td>
</tr>
<tr>
<td>SunTrust</td>
<td>$41.59</td>
<td>$44.46</td>
<td>6.08%</td>
<td>2.45%</td>
<td>0</td>
<td>2.45%</td>
<td>HOLD</td>
</tr>
<tr>
<td>Wells Fargo &amp; Company</td>
<td>$54.59</td>
<td>$67.74</td>
<td>24.1%</td>
<td>4.59%</td>
<td>100</td>
<td>5.59%</td>
<td>BUY</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td><strong>19.32%</strong></td>
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SIM portfolio is 3.04% overweight in Financials relative to the index

We recommend a **HOLD** rating