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QUIC RESEARCH REPORT

Financial Institutions Group

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JPMorgan Chase & Company Stock Pitch

A Pocket of Value within the U.S. Banking Space

Introduction

JPMorgan Chase & Company (JPM) is an international bank-holding company providing diversified financial services to institutional clients worldwide. JPM boasts one of America's most successful consumer banking arms, with one of the broadest branch networks in the country. The bank possesses more deposits and assets than any other bank in America, and in recent years the bank has been successful in developing its operations such as credit card lending and investment banking. JPM's dominant business operations and growing capital base position the firm well to outperform its U.S. banking peers.

Investment Thesis

Argument I: Market-Leading Businesses

Argument II: Strong Financial Position

Argument III: Unwarranted Valuation Discount

Valuation

When compared to other commercial banks, JPMorgan trades at a discount on a Price-to-Tangible Book Value, Price-to-Book Value and Price-to-Earnings basis. JPM also boasts the highest dividend yield among its peers. Using a Dividend Discount Model, we arrived at a price target of $71, implying a total return of 15.7%.

QUIC Research Reports focus on emerging investment themes that affect current portfolio companies and companies under coverage.

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Company Overview

Overview

JPMorgan Chase and Company operates through four major segments: Consumer and Community Banking, Corporate and Investment Bank, Commercial Banking, and Asset Management.

Consumer and Community Banking

Consumer and Community Banking is the company's largest banking segment, which provides services to retain customers and communities. JPMorgan is the number one credit-card issuer in the U.S. and also captures half of the U.S. e-commerce volume. The segment is further divided into Consumer and Business Banking, Mortgage Banking, and Card, Merchant Services and Auto. Net income from this segment was $9.2 billion, a decrease of 17% from the year prior. This was primarily due to higher credit losses.

Corporate and Investment Bank

This segment offers a broad suite of investment banking, market-making, prime brokerage, and treasurer products and services to a global client base. Referring to the league tables, JPMorgan ranked number one in investment banking based on global fees in 2014. However, revenues within the corporate and investment bank segment were relatively flat year-over-year due to decreased lending activity, and mark-to-market losses on securities received from reconstructed loans.

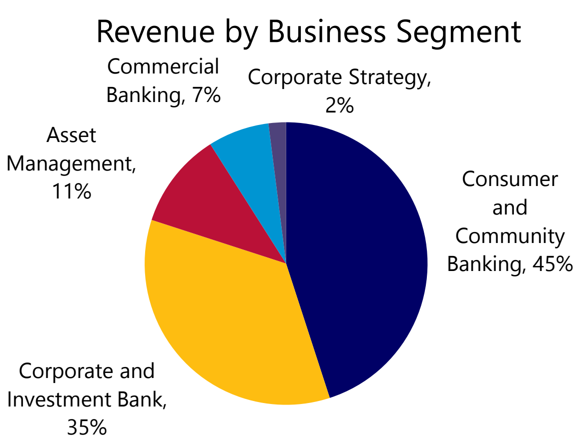
Commercial Banking

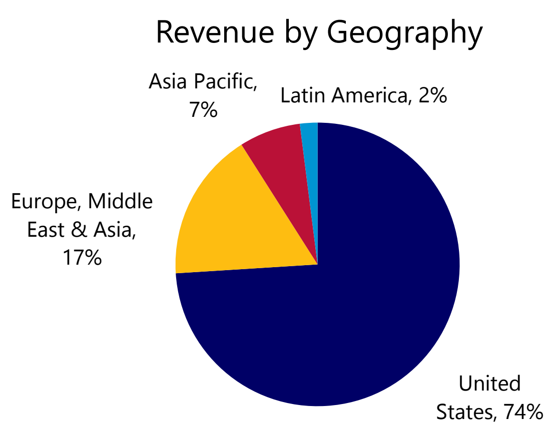
The Commercial Banking segment delivers extensive industry knowledge, local expertise and dedicated services to more than 25,000 corporations, municipalities, financial institutions and not-for-profit entities. The commercial banking segment faced less bottom-line growth than other divisions, reflecting lower net revenue and higher non-interest expense.

EXHIBIT 1

Revenue Breakdown

An emphasis on Consumer Banking in the U.S. Market





Source: Company Reports

Company Overview

Asset Management

This segment manages client assets of $2.3 trillion offering investment management across many asset services. For individual investors this segment provides retirement products and services, and brokerage and banking services. Net income was $2.2 billion, an increase of 3% from the prior year, reflecting higher net revenue and lower provision for credit losses.

Corporate Strategy

JPMorgan's corporate strategy focuses on strengthening its balance sheet and managing its capital base. Its primary strategy is to focus on long-term growth opportunities organically by introducing new products and inorganically through acquisitions.

2014 Fiscal Performance

The company produced strong 2014 fiscal results with a net income of $21.8 billion – an increase of 21% from the prior year. The increase in net income was caused by lower non-interest expenses, which were driven by lower legal expenses and lower compensation expenses. This however, was slightly offset by higher provision for credit losses and lower net revenues.

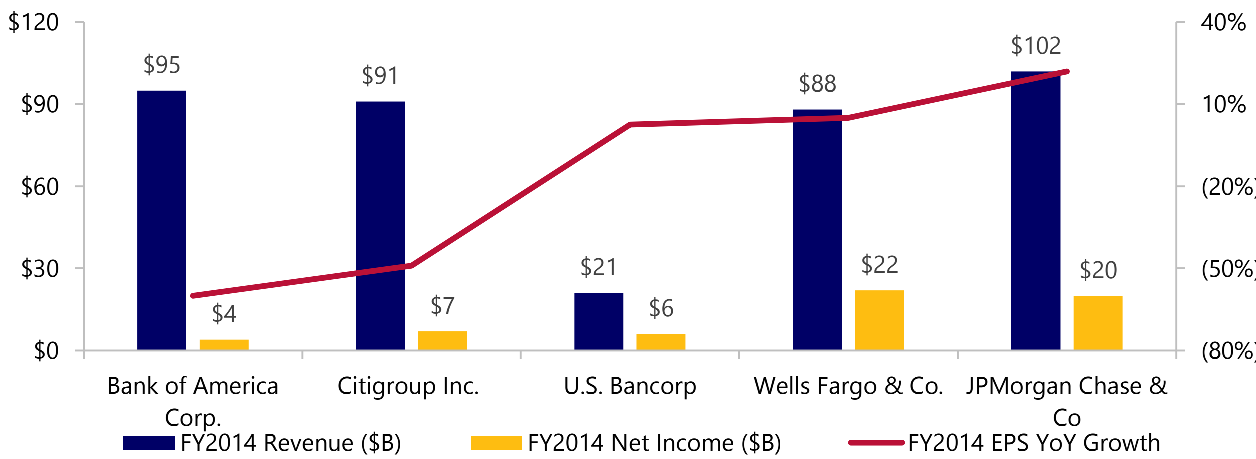
2015 Corporate Outlook

Over the past few years, JPMorgan has been adapting to a changing regulatory environment, while continuing to expand its balance sheet. The firm plans to begin new initiatives such as building a fortress control environment, de-risking and simplifying the organization, a disciplined approach to managing expenses and evolving its capital assessment frameworks. JPM continues to experience charge-offs at levels lower than its through-the-cycle expectations and if this favourable credit trend continues, the firm expects its total net charge offs should remain low, and expects a reduction in consumer allowance for loan losses over the next two years.

EXHIBIT 2

2014 Fiscal Performance

Strong Loan Growth and Low Litigation Fees Push JPM Above its Competitors



Source: Company Reports

Industry Overview

FY2014 U.S. Bank Earnings

In the past year, strong core U.S. banking results were offset by high litigation expenses. Despite bright economic conditions and a steady demand for consumer credit, the aggregate earnings (after litigation expenses) of the six largest American banks decreased slightly year-over-year. This represents the first time since the crisis where annual aggregate earnings have not grown, however this is largely due to multi-billion lawsuits faced primarily by Bank of America and Citigroup which cancelled out several quarters' earnings. It is becoming clear that the cleanest banks that face the lowest litigation expenses will be best positioned to outperform.

Economic Indicators and Statements from the Federal Reserve

At its last announcement, the Fed projected an improving labour market with declining unemployment in the coming years. Unemployment is a key indicator used to forecast the credit cycle and the profitability of banks, as a strong labour market can indicate low provisions for credit losses.

A key moment of the Fed's statement was the updated 2015/16 real GDP growth forecasts of 2.3-2.7%, representing a slight reduction from previous projections. The reduction in their GDP growth forecast by roughly 25bps indicates little urgency to increase rates. However, the Fed also altered language surrounding its plans to increase interest rates, implying that it no longer plans to be patient in adjusting rates. This supports the consensus that a rate rise can be anticipated in 2015. While the exact timing of the movement is not clear, a rise in short-term interest rates would have a direct and immediate positive effect on bank earnings.

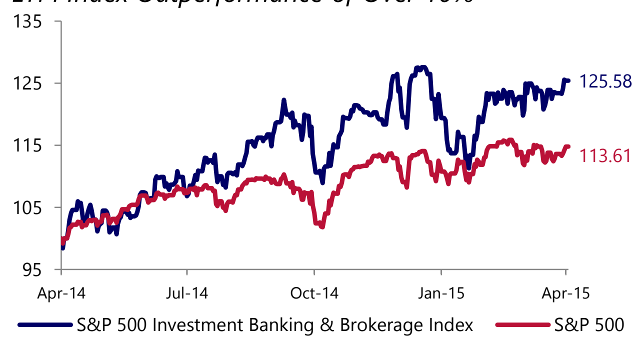
State of the Investment Banking Industry

Low interest rates have encouraged companies to issue debt to capitalize upon the low cost of borrowing. Relatively high equity market valuation multiples spur companies to issue equity, while company's cash-rich balance sheets incentivize firms to grow inorganically through M&A. The investment banking industry is still hot and firms with large IB market share are well-positioned to pick up on continued growth.

EXHIBIT 3

Investment Banking & Brokerage Performance

LTM Index Outperformance of Over 10%



Source: Capital IQ

Regulation's Effect on the Industry

Since the financial crisis, increased regulation and growing capital requirements have hindered the profitability of many bank operations. The rollout of Dodd-Frank legislation has fundamentally altered banks' operations as they shift from capital-intensive activities such as fixed income, currency and commodities (FICC) trading towards other operations. Effective in July 2015, banks will no longer be able to engage in proprietary trading which was one of the key business segments prior to the crisis. Since the financial crisis, the capital required to generate a single dollar of revenue has more than doubled across wholesale banking products such as currency and commodity-based products. Going forward, banks must look to loan growth and effective cost management to drive earnings growth while keeping legal charges to a minimum.

Investment Thesis

Argument I: Market-Leading Businesses

JPMorgan operates two market-leading businesses: the nation's largest investment bank in revenue, and the top credit card issuer in loans outstanding. The company also boasts the third largest asset management division, where it only trails BlackRock and UBS AG.

JPMorgan's credit card business targets an affluent customer base, and cards such as Sapphire and Palladium are rapidly stealing market share from American Express.

The company also plays a central role for multinational companies that require international lending, underwriting services, and foreign exchange and derivatives services. A commanding market presence across many lines of business allow JPM to capitalize on international economic growth better than its competitors. This will be especially important when Federal Reserve begins raising short-term interest rates, as expected; for every one percentage increase in rates, the firm calculates that earnings will rise $2.9 billion, or 50 cents per share.

Argument II: Strong Financial Position

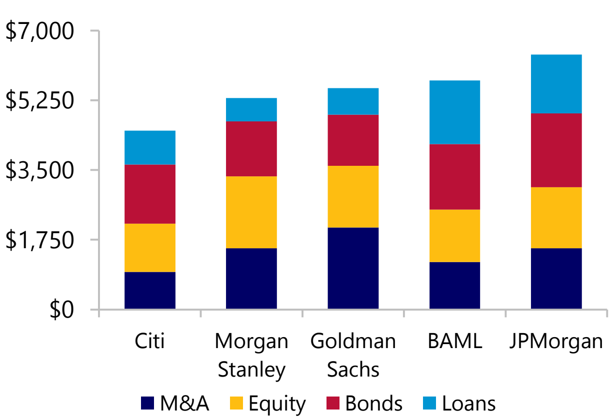
JPMorgan's "fortress" balance sheet, as deserved by CEO James Dimon, is one of the cleanest and most formidable among the large, U.S. Banks deemed systematically important. Tangible book value per share has increased has expanded over 10% year-over-year since 2010, growing from $26.13 to $43.93. Over that time its CET1 capital base has more than doubled; capital ratio improvements allowed the firm to raise its dividend 10% and repurchase $6.4 billion of shares. From a regulatory standpoint, management is confident that the vast majority of regulatory hurdles have been dealt with, and that litigation expenses will be significantly less for the foreseeable future; its legal reserve is now $2.2 billion versus $11 billion in 2013.

The investment bank has emphasized cost control since the financial crisis; compensation accounts for only 30% of revenue versus 37% at Goldman Sachs. Furthermore, competitive pressures across the industry continue to lessen as many top global competitors have eliminated or reduced their trading operation.

EXHIBIT 4

Investment Banking Fees by Product (2014)

Industry-Leading Position in Investment Banking

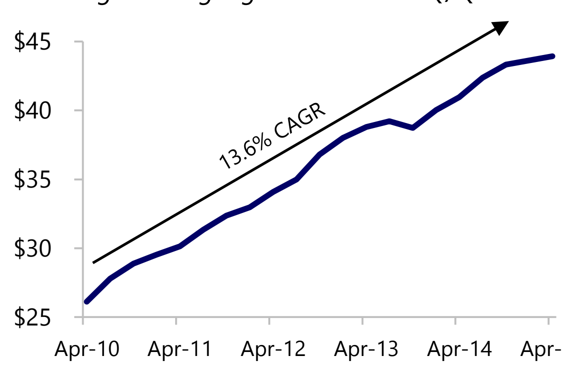


Source: Financial Times

EXHIBIT 5

Growth in Tangible Book Value per Share

Growing TBV Highlights Consistent Q/Q Success



Source: Capital IQ

Investment Thesis

Argument III: Unwarranted Valuation Discount

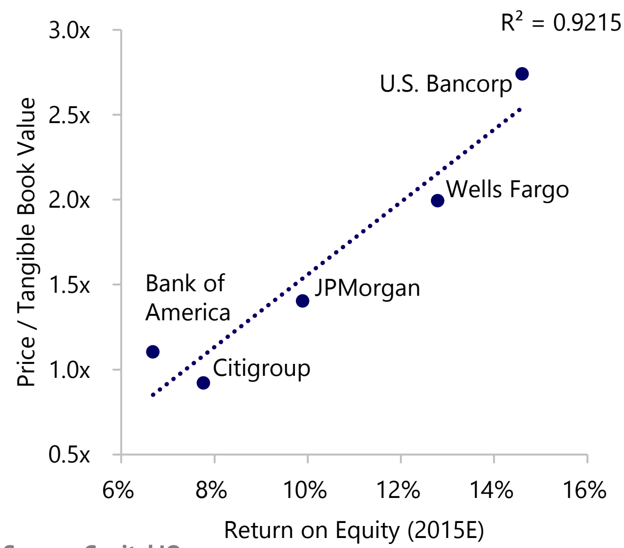
JPMorgan trades at 10.6x 2015E earnings, an 11% discount to its large, U.S. competitors. The company's return on tangible equity was 12% in 2014, surpassing its U.S. peer group average by 18%. JPM also offers the most attractive yield, 2.9% compared to the large U.S. banks. Its dividend has grown by more than 50% in the past 5 years as it continues to return capital to shareholders.

Investors are discounting JPM relative to its peers, as the market fails to attribute a multiple premium to JPM's diversified business mix. Viewing JPM's powerful business divisions holistically, it has built the top credit-card business, largest investment bank, largest private bank, and one of the top asset management business. Investors are also concerned that JPM will continue to face large legal expenses for the foreseeable future, though management, and its balance sheet reserves, indicate otherwise. We believe that a discount is unwarranted; JPM offers unmatched value within both its peer group and the market as a whole.

EXHIBIT 6

U.S. Commercial Bank Regression Analysis

JPMorgan's Attractive Valuation Offers Upside



Source: Capital IQ

EXHIBIT 7

Comparable Companies Analysis

	Market	P / TBV		P / B		P / E			ROE		Div.	CET 1
U.S. Commercial Banks	**Cap ($MM)**	**Current**	**5-yr**	**Current**	**5-yr**	**LTM**	**2015E**	**2016E**	**2015E**	**2016E**	**(%)**	**Ratio**
Wells Fargo & Company	$279,508	2.0x	2.5x	1.7x	2.0x	13.0x	13.1x	11.9x	12.8%	13.1%	2.6%	11.0%
Bank of America Corporation	$165,381	1.1x	1.2x	0.7x	0.8x	43.7x	11.2x	9.6x	6.7%	7.3%	1.3%	12.3%
Citigroup Inc.	$160,765	0.9x	1.0x	0.8x	0.8x	23.8x	9.8x	9.0x	7.8%	7.9%	0.1%	13.1%
U.S. Bancorp	$77,993	2.7x	3.5x	2.0x	2.4x	14.1x	13.4x	12.3x	14.6%	15.0%	2.2%	9.0%
Mean		**1.7x**	**2.0x**	**1.3x**	**1.5x**	**23.7x**	**11.9x**	**10.7x**	**10.5%**	**10.8%**	**1.5%**	**11.4%**
Median		**1.5x**	**1.9x**	**1.2x**	**1.4x**	**18.9x**	**12.2x**	**10.8x**	**10.3%**	**10.5%**	**1.8%**	**11.7%**
JPMorgan Chase & Co.	$229,173	1.4x	1.7x	1.1x	1.2x	11.6x	10.6x	9.5x	9.9%	10.2%	2.9%	10.2%

Source: Capital IQ

Catalysts & Risks

Catalysts

1. Strong Capital Market Activity

The first catalyst involves stronger capital market activity, specifically that of mergers and acquisitions. As oil prices continue to remain low, mergers and buyouts of oil producers have increased. Since 35% of JPMorgan's revenue is derived from Corporate and Investment Banking, this could lead to a significant increase of their revenue and ultimately, their share price.

2. Rising Interest Rates

Next, rising interest rates in the United States could help expand JPMorgan's profit margins. Since interest rates in the United States are expected to increase over the next six months, JPMorgan can expect higher returns on new investments and increased net interest margins on loans. As a result, JPMorgan should be able to deliver tangible book value growth leading to upward pressure on the stock price.

3. Dividend Increase and Share Buyback Program

The last catalyst is JPMorgan's share recently announced dividend increase and share buyback program which was formally approved by regulators in March 2015. The share buyback program is expected to occur from April 2015 to May 2016 and will involve the repurchasing of up to $6.4 billion of common shares. This is paired with a 10% dividend increase, which pushes JPM's industry-leading dividend yield even higher. These capital return plans would help deliver wealth to shareholders through stock appreciation or dividend payouts.

Risks

1. Reliance on Rising Short-Term Rates and Steepening Yield Curve

JPMorgan's future depends to a large extent on rising short-term rates and a steepening yield curve. The company only generated 2.14% net yield on interest-earning assets in the fourth quarter, nearly down 2.2% in the final quarter of 2013.

2. Regulatory Reform

Regarding regulations, the cost of compliance has continued to increase, while several sources of revenue such as proprietary trading, interchange fees and overdraft fees, and more have been curtailed since the financial crisis began. Due to the implications of the financial crisis, the company is clearly a prime target of regulators seeking fines and litigants seeking compensation.

Furthermore, JPMorgan has entered into various consent orders and settlements with federal and state government agencies and private parties related to mortgage servicing, origination and RMBS activities.

Legal costs are almost unavoidable expenses for large U.S. banks and we do not expect regulators to ease up on systematically important financial institutions.

3. Management Succession

Successive senior management may not be as talented as James Dimon and his team, who have defined a clear vision for the firm going forward. Unfortunately, Dimon's conservative philosophy has not fully penetrated the entire company, which has caused problems in recent quarters.

Valuation

Dividend Discount Model Assumptions

Net Income in the model is calculated by applying return on tangible common equity assumptions to average tangible common equity balances. Dividends are calculated as excess capital after minimum capital requirement assumptions are satisfied. Return on tangible common equity assumptions are a comprehensive average of analyst estimates. Projected annual share repurchases are on the conservative end of JPM's recently announced 2015-2016 buyback plan. Assumptions for growth in risk-weighted assets, stock issuances and disallowed intangibles stem from an average of the past 3 years. The exit price-to-tangible-book multiple is equal to the current peer median within the U.S. banking space.

Our model results in a share price target of $71.39 which implies a return of 15.7%.

EXHIBIT 8

Dividend Discount Model

JPMorgan Chase & Co. Dividend Discount Model

($ in Millions Except Per Share Data)

	Historical	Projected				
	2014	2015	2016	2017	2018	2019
Normalized Net Income to Common:	**$ 20,093**	**$ 27,164**	**$ 31,908**	**$ 35,765**	**$ 38,805**	**$ 42,103**
% Growth:		35.2%	17.5%	12.1%	8.5%	8.5%
Common Dividends:	**6,018**	**-**	**4,247**	**20,027**	**21,477**	**23,046**
% Growth:		(100.0%)	N/A	371.6%	7.2%	7.3%
Payout Ratio:	**29.9%**	0.0%	13.3%	56.0%	55.3%	54.7%
Beginning Common Equity:	**$ 200,020**	$ 211,451	$ 241,962	$ 274,403	$ 294,300	$ 315,854
Plus: Net Income to Common:	**20,093**	27,164	31,908	35,765	38,805	42,103
Plus: Stock Issuances:	**-**	4,920	4,920	4,920	4,920	4,920
Plus: Stock-Based Comp.:	**2,190**	2,540	2,604	2,669	2,735	2,804
Less: Stock Repurchases:	**(4,834)**	(4,114)	(2,743)	(3,429)	(3,429)	(3,429)
Less: Common Dividends:	**(6,018)**	-	(4,247)	(20,027)	(21,477)	(23,046)
Ending Common Equity:	**$ 211,451**	**$ 241,962**	**$ 274,403**	**$ 294,300**	**$ 315,854**	**$ 339,206**
Avg. Risk-Weighted Assets:	**1,619,000**	1,756,615	1,905,927	2,067,931	2,243,705	2,434,420
% Growth:		8.5%	8.5%	8.5%	8.5%	8.5%
Tier 1 Common Ratio:	**10.2%**	11.2%	12.0%	12.0%	12.0%	12.0%
Return on Tangible Common Equity:	**9.5%**	15.1%	15.1%	15.0%	15.0%	15.0%
Tangible Common Equity / Tier 1 Common Capital Calculation:						
Ending Common Equity:	**$ 211,451**	$ 241,962	$ 274,403	$ 294,300	$ 315,854	$ 339,206
Less: Disallowed Intangibles:	**(48,839)**	(48,102)	(48,583)	(49,069)	(49,560)	(50,055)
Plus: Other Adjustments:	**2,853**	2,863	2,892	2,921	2,950	2,979
Total Tier 1 Common Capital:	**$ 165,465**	**$ 196,723**	**$ 228,711**	**$ 248,152**	**$ 269,245**	**$ 292,130**
Discount Period:	**0.0**	1.0	2.0	3.0	4.0	5.0
Mid-Year Discount Period:		0.5	1.5	2.5	3.5	4.5
PV of Dividends:		$ -	$ 3,620	$ 15,348	$ 14,798	$ 14,276

Valuation

EXHIBIT 9

Dividend Discount Model Assumptions

DDM Assumptions: Exit Multiple Method	
Mid-Year Convention:	0.50
Minimum Tier 1 Common Ratio (by 2019):	12.00%
Return on Tangible Common Equity (by 2019)	15.00%
Risk-Weighted Assets Growth:	8.50%
Cost of Equity:	11.23%
Terminal Value:	
Sum of PV of Dividends:	48,042
Terminal P / TBV:	1.30 x
Terminal Value (Multiple):	379,770
PV of Terminal Value:	223,058
PV of Terminal Value as % of Total PV	82.28%
Present Value of Equity:	**$ 271,101**
Diluted Shares:	3,797.5
Implied Share Price:	**$ 71.39**
Implied Return	**15.70%**

EXHIBIT 10

Cost of Equity Calculation

Discount Rate Calculation - Assumptions	
10-Year US Treasury (Risk-Free Rate):	1.88%
Equity Risk Premium:	7.54%

Comparable Companies - Levered Beta Calculation Name	Equity Value	Levered Beta
Citigroup	$156,360	1.34
Bank of America	$162,645	1.22
Wells Fargo	$277,965	0.99
US Bancorp	$77,990	0.96
Median	**$ 159,503**	**1.11**
JPMorgan Chase & Co.	**$ 226,868**	**1.24**

Cost of Equity Based on Comparables:	**10.21%**
Cost of Equity Based on Historical Beta:	**11.23%**

EXHIBIT 11

Terminal Price to Tangible Book Value Multiple Sensitivity

Terminal Multiple Sensitivity

Terminal P / TBV Multiple	Cost of Equity: 8.2%	9.2%	10.2%	**11.2%**	12.2%	13.2%	14.2%
1.9 x	$112.28	$107.44	$102.85	**$98.50**	$94.37	$90.45	$86.73
1.7 x	$101.92	$97.55	$93.40	**$89.46**	$85.73	$82.19	$78.82
1.5 x	$91.56	$87.65	$83.94	**$80.43**	$77.09	$73.92	$70.91
1.3 x	**$81.20**	**$77.76**	**$74.49**	**$71.39**	**$68.45**	**$65.66**	**$63.00**
1.1 x	$70.84	$67.86	$65.03	**$62.35**	$59.81	$57.39	$55.09
0.9 x	$60.48	$57.97	$55.58	**$53.32**	$51.17	$49.12	$47.18
0.7 x	$50.12	$48.07	$46.13	**$44.28**	$42.52	$40.86	$39.27

References

1. Bloomberg
2. Capital IQ
3. Company Reports
4. Federal Reserve
5. Financial Times
6. Oliver Wyman
7. Reuters