Bloomsburg Investment Group

Equity Analysis
Wells Fargo & Co (WFC)

Analyst:
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Bloomsburg Investment Group Opinion:

Despite the value of Wells Fargo recently plunging during an unauthorized accounts scandal that broke last fall, we believe that the Bloomsburg Investment Group should continue to hold the stock. This is due to the fact that the price of the stock has recovered significantly since the recent election, and that we must maintain as many banks as possible within the financials sector. As of the date of this presentation, Wells Fargo is delivering solid returns of 6.84% being 4.59% of our total portfolio. We believe that this can be even greater next semester pending further increases in the federal funds rate as well as deregulation and improvements in corporate image.

Corporate Summary:

Wells Fargo & Company provides retail, commercial, and corporate banking services to individuals, businesses, and institutions. Its Community Banking segment offers checking, savings, market rate, individual retirement, and health savings accounts, as well as time deposits and remittances, lines of credit, education and residential mortgage loans, and debit and credit cards. Its Wholesale Banking segment offers commercial loans and lines of credit, letters of credit, asset-based lending, equipment leasing, international trade facilities, trade financing, collection, foreign exchange, treasury management, investment management, institutional fixed-income sales, interest rate, commodity and equity risk management, insurance, corporate trust fiduciary and agency, and online/electronic products. The company's Wealth, Brokerage and Retirement segment offers financial advisory, wealth management, and brokerage. Wells Fargo operates through approximately 8,700 locations and 12,500 ATMs in 36 countries. The Company was founded in 1852 and is headquartered in San Francisco, California.

Corporate Details:

Name	Wells Fargo & Co
Ticker	WFC
Domicile	United States
Sector	Financial Services
Industry	Banks - Global
Exchange	NEW YORK STOCK EXCHANGE, INC.
Last Close	58.06
Price 52 Wk High	59.01
Price 52 Wk Low	43.55
Latest Dividend	0.38
Dividend Yield % TTM	2.62
Beta 5 Yr (Mo-End)	0.98
Avg Daily Volume (3 Mo)	19,763,209.53
Shares Outstanding (mil)	5,016.11
Number of Analysts	7

Wells Fargo & Co
WFC

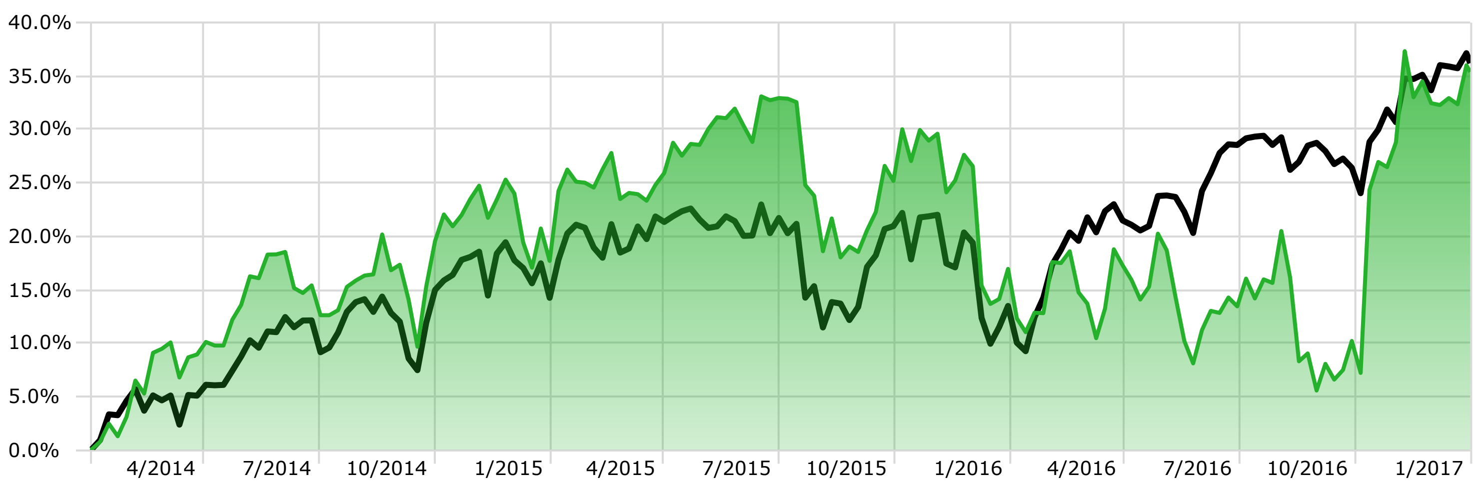
Financial Summary, Year End 2013 (in millions)	
Market Capitalization	291,235.31
Total Assets	1,787,632.00
Gross Loans	936,441.00
Net Loans	924,896.00
Avail for Sale Securities	267,358.00
Total Liabilities	1,594,634.00
Total Deposits	1,223,312.00
Total Equity	192,998.00
Interest Income	49,277.00
Interest Exp	3,976.00
Net Interest Income	45,301.00
Non Interest Income	40,756.00
Non Interest Exp	49,974.00
Credit Loss Provision	-2,442.00
Net Income	22,894.00
Operating Cash Flow	14,772.00
Investing Cash Flow	-107,235.00
Financing Cash Flow	92,003.00
Enterprise Value	
P/B Ratio Current	1.63
P/E Ratio Forward	13.76
PEG Ratio	2.46
Dividend Yield % TTM	2.62

Financial Highlights

Net income was 21,930 in 2016, a slight decline from the previous year. Total equity increased by 6,606. Dividends per share increased from 1.48 in 2015 to 1.52 in 2016. Normalized EPS declined slightly by 0.07. The price of WFC hit a 52 week high in February. Total interest income increased by 4,386 between 2016 and 2015. Non interest income declined by 318 and total non interest expenses increased by 2,328.

Investment Growth

Time Period: 2/1/2014 to 1/31/2017



Wells Fargo & Co	35.4%	S&P 500 TR USD	36.2%

Source: Morningstar Direct

Wells Fargo & Co
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Wells Fargo Fires Four Senior Managers

- All four individuals have been terminated for cause by a unanimous vote by the board of directors. None will receive a bonus for 2016, Wells said, and they will forfeit all of their unvested equity awards and vested outstanding options.
- "We have made good progress, including rolling out our new retail banking incentive compensation program in January, but we have more work ahead as we remain focused on strengthening our relationships with existing customers and building new ones with potential customers," Mary Mack, the head of community banking, said in a statement last week, referring to the new compensation plan unveiled in January that eliminated sales goals and put a bigger emphasis on customer service.

Wells Fargo Unviels New Pay Plan

- Wells Fargo last year began restructuring its incentive plan more around customer service after eliminating sales goals. Tuesday's plan shows incentives will also be based on customer growth – measured by deposits, loans and assets – as well as customer use of products.
- Wells' community banking unit will use new "business success metrics" measured at the branch or district level, according to the description provided by Wells. Those include growth of customers who use Wells Fargo as their primary financial institution.

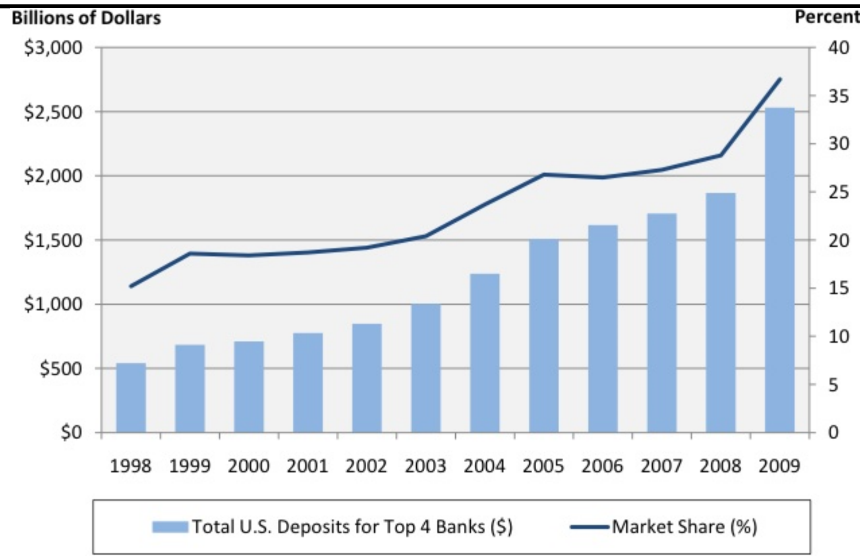
Wells Fargo poised to wipe out CEO's bonus

- Wells Fargo's board of directors is expected to soon decide to eliminate annual bonuses for CEO Tim Sloan, Chief Financial Officer John Shrewsberry and other senior executives, a person familiar with the matter confirmed to CNNMoney.
- The board's deliberations on compensation come four months after Sloan took over for longtime CEO John Stumpf, who abruptly retired and forfeited $41 million in stock awards as the crisis mounted at Wells Fargo.

Wells Fargo sets out plans to close 400 branches

- The San Francisco-based lender, which operates more than 6,000 branches across the country, is accelerating closures as it aims to reduce about $2bn in expenses by the end of 2018.
- The bank said on Friday that it shut 84 branches in 2016, mainly in the second half, and plans to axe 200 this year. It said that most of those targeted were located near another branch, and John Shrewsberry, chief financial officer, said that Wells did not expect a "significant" impact on revenue or jobs.

Wells Fargo & Co
WFC



Competitor Comparison

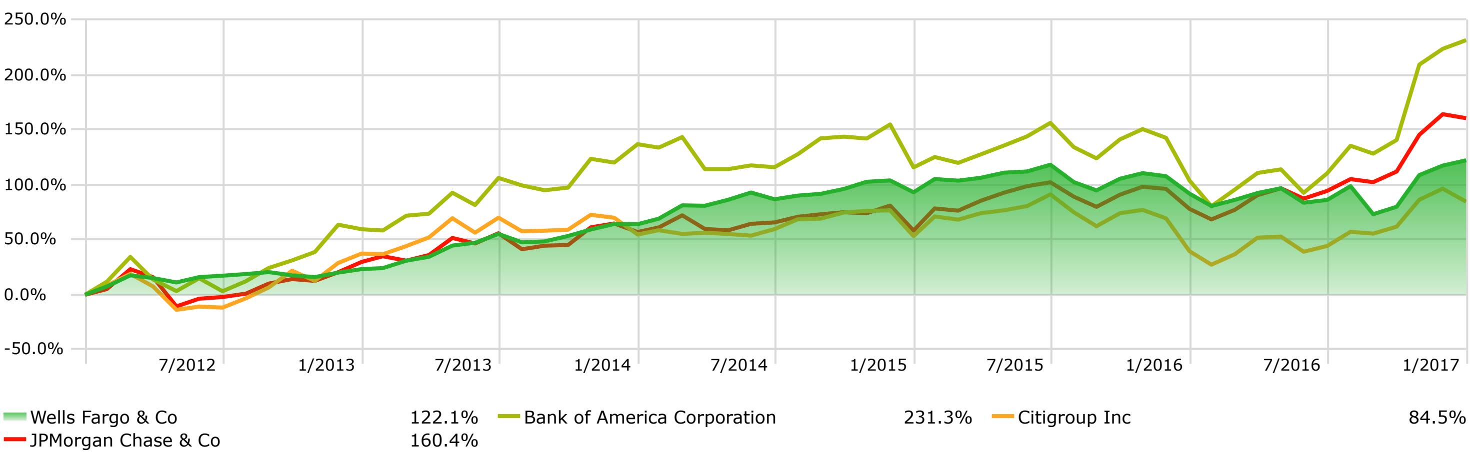
	Market Cap (mil) (Daily)	Beta 5 Yr (Mo-End)	Net Margin % TTM	ROA %	ROE %	Total Assets	Total Deposits	Gross Loans
Wells Fargo & Co	291,235.31	0.98	23.46	1.24	12.78	1,787,632.00	1,223,312.00	936,441.00
Bank of America Corporation	246,317.25	1.46	19.38	0.75	6.82	2,187,702.00	2,241,995.00	924,963.00
Citigroup Inc	166,297.97	1.68	19.52	0.77	6.64	1,792,077.00	929,406.00	625,073.00
JPMorgan Chase & Co	323,582.44	1.49	22.39	0.91	10.35	2,351,698.00	1,279,715.00	837,299.00

Snapshot

	P/E Ratio Current	P/E Ratio Forward	EPS TTM	PEG Ratio	P/B Ratio Current	Dividend Yield % TTM	Total Debt/Total Equity	Financial Leverage	Tax Rate %
Wells Fargo & Co	14.41	13.76	4.03	2.46	1.63	2.62	1.74	10.47	0.31
Bank of America Corporation	16.38	14.29	1.50	0.94	1.02	1.02	1.00	9.05	0.29
Citigroup Inc	12.66	11.59	4.72	2.76	0.81	0.88	1.15	8.71	0.30
JPMorgan Chase & Co	15.59	13.81	5.80	2.23	1.42	2.08	1.47	10.62	0.20

Investment Growth

Time Period: 2/1/2012 to 1/31/2017



Source: Morningstar Direct

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Strengths:

Second largest U.S. bank in terms of total domestic assets. Third largest market cap in terms of domestic industry.

Important firm in an industry that is currently in a highly upward trajectory along with other large banks.

Favorable political environment, no looming threat of further regulations.

More branch locations than any other bank in the United States.

Showing recovery from scandal that saw stock plummeting.

Weaknesses:

Some negative financial numbers to due fall out effects from the accounts scandal that hurt Wells Fargo. With over 5,300 employees fired over two million fake accounts, and 400 locations set to close by 2018.

Decreases in account openings by approximately 31% compared to last year. This is due to customer anger over fees generated by fake accounts.

Reputation has completely plummeted; 52% of survey responders giving the company a negative image, and 54% stating they would not open an account with Wells Fargo compared to pre-scandal numbers at 22%.

Opportunities:

Further increases in the federal funds rates could become more common during this current time of economic improvement.

Dismantling of Dodd-Frank is expected to lead to further booms in the industry.

Economic improvements could lead to more loans for customers.

Visible attempts at rectifying reputation in the eyes of customers could prove successful, as Wells Fargo has publicly changed its compensation approach and fired several high level managers over scandal.

Threats:

The possibility of future scandals within the firm or industry, along with certain financial numbers continuing to drag due to previous scandal.

Delays in deregulation could back track the gains in stock value in recent weeks.

Online competition in the face of Wells Fargo's brick and mortar dominance.

Valuation: Discount Cash Flow Model (DCF)

Several valuation models and methods were utilized in order to ascertain a value on Wells Fargo. Discounted cash flow models used on most firms cannot be utilized for the sake of banks due to differences in the method of cash flow. As a result of this the excess return to equity model was utilized. This is done by forecasting growth rates of net income and equity which includes the past fives years of data which is then averaged. Using an attainable forecasted growth rate, present value of equity was derived by decreasing net income by the company's equity cost to get excess return to equity. Then we discounted the Excess Return to Equity by the company's Cost of Equity to arrive at Present Value of Equity. Fair Value per Share for Equity is then calculated by subtractng the total present value of equity from the current book value of equity and finally dividing by the total number of outstanding shares. We then added the sum of future dividends and share repurchases discounted to time zero to the Fair Value per Share of Equity to arrive at our intrinsic value of $72.02.

Valuation: Discount Dividend Model (DDM)

We calculated the Discounted Dividend Model with the P/E Analysis by forecasting future dividends based on a growth rate we found to be achievable. Then we discounted all the future dividends to time zero with the company's calculated cost of equity. We then calculated future stock price by multiplying the company's forward PricetoEarnings Ratio by the expected future Earnings per share. Then discounting the future stock price to time zero. Next we added the sum of all discounted future dividends and the discounted value of the future stock price to get an intrinsic value. The intrinsic value we calculated for Wells Fargo at $60.65.

Bloomsburg Investment Group Disclaimer

Sources Cited

Morningstar Direct
CapitalIQ
www.federalreserve.gov
www.money.cnn.com
www.ft.com (Financial Times)
CNBC
Wall Street Journal