

Goldman Sachs (GS)

\$234.32 (As of 01/02/20)

Price Target (6-12 Months): **\$246.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/02/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: F

Momentum: A

Summary

Shares of Goldman have outperformed the industry in the past six months. Further, the company has an impressive earnings surprise history, outpacing the Zacks Consensus Estimate in three of the trailing four quarters. The company's well-diversified business and focus to capitalize on growth opportunities through strategic moves will keep strengthening the overall business. Moreover, Goldman's solid position worldwide announced and completed M&As will likely give it further edge over its peers. Steady capital-deployment activities are also commendable. Additionally, expense management to aid bottom-line expansion. Yet, legal issues remain headwinds. Further, high dependence on overseas revenues is a concern. Also, muted trading activities aided by low client activity and challenging environment may hinder top-line growth of Goldman.

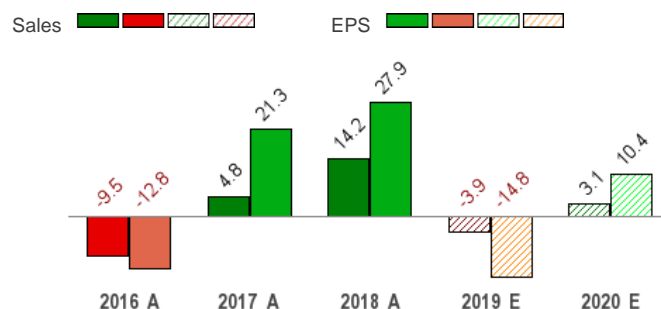
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$234.64 - \$168.29
20 Day Average Volume (sh)	2,099,511
Market Cap	\$83.0 B
YTD Price Change	1.9%
Beta	1.37
Dividend / Div Yld	\$5.00 / 2.1%
Industry	Financial - Investment Bank
Zacks Industry Rank	Top 22% (56 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.8%
Last Sales Surprise	-2.7%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	01/15/2020
Earnings ESP	1.7%
P/E TTM	10.5
P/E F1	9.9
PEG F1	1.5
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	9,273 E	9,234 E	8,935 E	8,823 E	36,300 E
2019	8,807 A	9,461 A	8,323 A	8,554 E	35,202 E
2018	10,036 A	9,402 A	8,646 A	8,080 A	36,616 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$6.25 E	\$5.73 E	\$6.22 E	\$6.14 E	\$23.79 E
2019	\$5.71 A	\$5.81 A	\$4.79 A	\$5.18 E	\$21.54 E
2018	\$6.95 A	\$5.98 A	\$6.28 A	\$6.04 A	\$25.27 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/02/2020. The reports text is as of 01/03/2020.

Overview

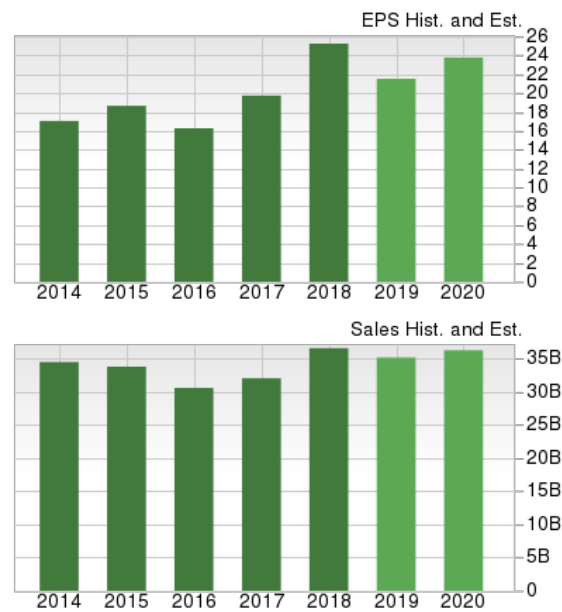
Founded in 1869, The Goldman Sachs Group, Inc. is a leading global financial holding company providing investment banking, securities and investment management services to a diversified client base. The company is headquartered in New York, with offices in London, Frankfurt, Tokyo, Hong Kong and other major financial centers around the world.

As of Sep 30, 2019, the company had a total of 37,800 employees.

The company's 4 reporting segments are as follows:

- The **Investment Banking** segment (contributed 21% of the 2018 revenues), comprises the Financial Advisory and Underwriting business. It provides a broad range of investment banking services to a diverse group of corporations, financial institutions, investment funds and governments.
- The **Institutional Client Services** segment (37%) consists of Fixed Income, Currency and Commodities, which include client execution activities related to making markets in credit products, interest rate products, mortgages, currencies and commodities. Equities include client execution activities related to making markets in equities, commissions and fees, and the company's securities services business.
- The **Investing and Lending segment** (23%) includes the company's activities across various asset classes, mainly consisting of debt securities and loans, as well as equity securities. These activities include direct investing, investing through funds, as well as lending activities. The firm also makes unsecured loans through its digital platform, *Marcus: by Goldman Sachs* and secured loans through its digital platform, *Goldman Sachs Private Bank Select*.
- The **Investment Management division** (19%) comprises management and other fees related to the company's asset management businesses. Further, this division includes incentive fees related to the company's asset management and merchant banking funds, as well as transaction revenues.

In third-quarter 2019, Goldman completed the acquisition of United Capital Financial Partners and the acquisition of Standard & Poor's Investment Advisory Services.



Reasons To Buy:

- ▲ The key source of Goldman's earnings stability is its business diversification. Within traditional banking, a diversified product portfolio has better chances of sustaining growth than many other banks, which have exited some of these areas. Notably, Goldman has been undertaking initiatives to boost the GS Bank's business with its acquisition of the online deposit platform of GE Capital Bank in April 2016. It also launched a digital consumer lending platform — *Marcus by Goldman Sachs*. Additionally, the company is likely to benefit from its exposure to the fast growing exchange-traded funds (ETF) market.
- ▲ Though Goldman recorded 8% decrease in investment banking revenues in the first nine months of 2019, affected by weak underwriting business, revenues recorded a three-year (2016-2018) CAGR of 12% providing a decent support to Goldman's top-line growth despite lower industry-wide transactions in 2016. Nevertheless, M&A activities were strong in 2018, with the execution of many large transactions. Steady economic growth and low interest rates in the emerging economies, along with growth in corporate earnings on tax reforms, are likely to keep the momentum alive in the quarters ahead. Moreover, Goldman's solid position in worldwide announced and completed M&As will likely give it further edge over its peers.
- ▲ Goldman has benefited for the past few years from its successful expense-reduction initiatives. Though expenses have been volatile for the past few years, the figure declined significantly in 2016, but increased 3% in 2017, and 12% in 2018, due to higher compensation and market development expenses. Notably, the company completed an expense initiative and generated nearly \$900 million of run rate savings. The company is focused on improving efficiency while maintaining strong franchise and investing in new opportunities. Notably, expenses dropped in the first nine months of 2019, mainly due to low compensation and benefit expenses. Therefore, continuation of expense management will aid bottom-line expansion in the coming years.
- ▲ Backed by a solid capital position, Goldman has consistently enhanced shareholders' value with steady capital-deployment activities. The company's approved 2019 capital plan includes up to \$7 billion in repurchases and \$1.8 billion in total common stock dividends beginning third-quarter 2019 through second-quarter 2020. Following the approval, the company increased its quarterly dividend to \$1.25 in July 2019. This not only reflects the company's commitment to return value to the shareholders but also its strong position to endure severe economic downturns. Notably, the company's payout ratio compares favorably with the broader industry reflecting such dividend hikes sustainable in the future.
- ▲ Shares of Goldman have outperformed the industry over the past six months. With this favorable trend, the company's 2019 earnings estimates have been revised slightly upward over the last 30 days. Also, the stock seems undervalued when compared with the broader industry. Its price-to-earnings (F1) and price-to-book value ratios are below the respective industry averages. Therefore, given the strong fundamentals and positive estimates revision, the stock has upside potential.

Organic growth, cost management, solid capital position and steady capital deployment activities continue to aid Goldman's growth prospects. Also, business diversification remains a key strength.

Reasons To Sell:

- ▼ Institutional Client Services division of Goldman mainly constitutes of Fixed Income, Currency and Commodities Client Execution (FICC) and Equities revenues. Though the division recorded 13% year-over-year rise in 2018, a challenging environment depicting lower client-activity levels, along with political uncertainty, legislative challenges in the United States, and low volatility affected the performance of this division, which recorded a negative three-year CAGR of 11.5% in 2017. Furthermore, it declined 6% year over year in the first nine months of 2019 on low levels of volatility and client activity. Therefore, the future performance of this volatility-driven division depends on market developments and client volumes.
- ▼ Goldman is a geographically diversified company with presence in almost all the major markets in the world. The company has high dependence on overseas revenues as reflected in the last few years. A number of risks stemming from the regulatory and political environment, foreign exchange fluctuations and performance of regional economy may hurt its top line.
- ▼ Goldman continues to face many investigations and lawsuits from investors and regulators. Though the company resolved certain litigations related to the sale of risky mortgage-backed securities, many of the cases are yet to be resolved. All these are expected to lead to increased expenses and litigation provisions in the near term. Goldman has been entangled in the heightened scandal related to the multibillion-dollar 1Malaysia Development Bhd (1MDB), which is a major concern.

Muted trading activities aided by low client activity may hinder top-line growth of Goldman. Further, legal hassles and higher dependence on overseas revenues remain other headwinds for the company.

Last Earnings Report

Goldman Q3 Earnings Miss on Lower Revenues

Goldman Sachs posted a negative earnings surprise of 4.8% in third-quarter 2019. The company reported earnings per share of \$4.79, missing the Zacks Consensus Estimate of \$5.03. Further, the bottom-line figure compares unfavorably with earnings of \$6.28 per share recorded in the year-earlier quarter.

The investment bank disappointed with its lower financial advisory and underwriting revenues. Also, lower investing and lending revenues was on the downside. Additionally, rise in expenses was a major drag. However, higher FICC revenues provided some respite.

Notably, high levels client activity was on the upside in the reported quarter.

Quarter Ending **09/2019**

Report Date	Oct 15, 2019
Sales Surprise	-2.66%
EPS Surprise	-4.77%
Quarterly EPS	4.79
Annual EPS (TTM)	22.35

Revenues Decline, Expenses Up

Goldman's net revenues were down 6% year over year to \$8.3 billion in the reported quarter. The revenue figure also lagged the Zacks Consensus Estimate of \$8.6 billion.

Quarterly revenues, as per business segments, are as follows:

The *Institutional Client Services* division recorded revenues of \$3.3 billion, up 6% year over year. This upside indicates higher net revenues in Fixed Income, Currency and Commodities Client Execution (up 8% year over year), driven by elevated revenues from interest rate, mortgages, commodities and credit products. These were partly mitigated by lower revenues from currencies.

Furthermore, higher equities revenues (up 5%), backed by stable equities client execution, elevated commissions and fees (up 8%) and securities service revenues (up 7%), were on the upside.

The *Investment Management* division recorded revenues of \$1.7 billion, down 2% year over year. This downside mainly stemmed from lower transaction and incentive fees, partly offset by higher management and other fees.

The *Investment Banking* division generated revenues of around \$1.7 billion, down 15% year over year. Results suggest decreased financial advisory revenues (down 22%) which reflects decline in industry-wide completed mergers and acquisition activities. Furthermore, lower underwriting revenues (down 9%), aided by reduced equity and debt underwriting revenues, were recorded.

The *Investing and Lending* division's revenues of \$1.7 billion in the September-end quarter came in 17% lower year over year. Decreased revenues from investments in equities, as well as debt securities & loans resulted in this downside.

Total operating expenses flared up around 1% year over year at \$5.6 billion. Rise in almost all components of expenses, partly offset by lower compensation and benefits and other expenses led to the increase.

Notably, lower net provisions for litigation and regulatory proceedings were recorded.

Provision for credit losses was \$291 million in the third quarter, up 67% year over year. Higher provisions are related to rise in impairments.

Strong Capital Position

Goldman displayed a robust capital position in the reported quarter. As of Sep 30, 2019, the company's Common Equity Tier 1 ratio was 13.4% under the Basel III Advanced Approach, highlighting valid transitional provisions. The figure was up from the prior quarter's 13.5%.

The company's supplementary leverage ratio, on a fully phased-in basis, was 6.2% at the end of the July-September quarter, down from 6.4% in the previous quarter.

Return on average common shareholders' equity, on an annualized basis, was 9% in the quarter.

Capital Deployment Update

During third-quarter 2019, the company repurchased 3.1 million shares of its common stock at an average price per share of \$217.66 and a total cost of \$1.14 billion, and paid around \$466 million of common stock dividends.

Outlook

For 2019, Goldman expects tax rate to be 22%.

Recent News

Dividend Update

On Oct 14, Goldman's board of directors announced a quarterly dividend of \$1.25 per share. The dividend was paid on Dec 30, to shareholders of record as of Dec 2, 2019.

Valuation

Goldman's shares are up 33.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 14.5% and 20.3% over the past year, respectively.

The S&P 500 index is up 30.7% in the past year.

The stock is currently trading at 10.81X forward 12 months earnings, which compares to 11.68X for the Zacks sub-industry, 14.92X for the Zacks sector and 19.07X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.48X and as low as 6.21X, with a 5-year median of 9.98X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$246 price target reflects 11.35X forward earnings.

The table below shows summary valuation data for GS

Valuation Multiples - GS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.81	11.68	14.92	19.07
	5-Year High	15.48	15.3	16.21	19.34
	5-Year Low	6.21	6.05	12.01	15.17
	5-Year Median	9.98	11.39	13.98	17.44
P/TB TTM	Current	1.09	2.38	3.28	12.32
	5-Year High	1.51	3.33	3.98	12.36
	5-Year Low	0.81	1.6	2.44	6.03
	5-Year Median	1.16	2.39	3.46	9.06
P/S F12M	Current	2.36	3.26	6.56	3.46
	5-Year High	3.24	4.53	6.61	3.46
	5-Year Low	1.6	2.8	5.2	2.54
	5-Year Median	2.35	3.62	6.04	3

As of 01/02/2020

Industry Analysis Zacks Industry Rank: Top 22% (56 out of 253)



Top Peers

Bank of America Corporation (BAC)	Neutral
Citigroup Inc. (C)	Neutral
Evercore Inc (EVR)	Neutral
JPMorgan Chase & Co. (JPM)	Neutral
KeyCorp (KEY)	Neutral
Moelis & Company (MC)	Neutral
Morgan Stanley (MS)	Neutral
Piper Jaffray Companies (PJC)	Neutral

Industry Comparison Industry: Financial - Investment Bank				Industry Peers		
	GS Neutral	X Industry	S&P 500	EVR Neutral	JPM Neutral	MS Neutral
VGM Score	D	-	-	A	D	A
Market Cap	82.97 B	511.66 M	23.93 B	2.96 B	442.53 B	84.23 B
# of Analysts	6	3	13	2	5	6
Dividend Yield	2.13%	0.68%	1.78%	3.06%	2.55%	2.69%
Value Score	D	-	-	A	C	B
Cash/Price	4.56	0.37	0.04	0.11	2.31	3.69
EV/EBITDA	-4.47	4.99	13.95	5.34	-3.73	-1.45
PEG Ratio	1.46	1.38	2.12	NA	1.93	1.11
Price/Book (P/B)	1.03	1.90	3.33	2.98	1.88	1.15
Price/Cash Flow (P/CF)	7.39	8.90	13.67	6.23	11.65	8.62
P/E (F1)	9.85	10.92	19.66	8.60	13.49	10.10
Price/Sales (P/S)	1.72	1.54	2.69	1.39	3.12	1.62
Earnings Yield	10.15%	9.16%	5.08%	11.63%	7.41%	9.90%
Debt/Equity	2.68	0.41	0.72	0.56	1.26	2.58
Cash Flow (\$/share)	31.69	2.72	6.94	12.16	12.11	6.04
Growth Score	F	-	-	C	F	B
Hist. EPS Growth (3-5 yrs)	8.96%	12.15%	10.56%	32.36%	15.31%	19.17%
Proj. EPS Growth (F1/F0)	10.47%	11.03%	0.00%	11.60%	0.40%	5.71%
Curr. Cash Flow Growth	19.84%	31.63%	14.83%	59.83%	23.43%	17.36%
Hist. Cash Flow Growth (3-5 yrs)	4.71%	15.78%	9.00%	32.06%	7.08%	12.40%
Current Ratio	0.78	1.31	1.23	3.07	0.93	0.78
Debt/Capital	70.21%	27.30%	42.92%	36.03%	54.37%	69.86%
Net Margin	18.86%	5.73%	11.08%	16.67%	24.70%	15.99%
Return on Equity	11.41%	12.26%	17.10%	43.83%	14.63%	10.86%
Sales/Assets	0.05	0.23	0.55	1.05	0.05	0.06
Proj. Sales Growth (F1/F0)	3.12%	5.01%	0.00%	7.10%	-0.17%	1.18%
Momentum Score	A	-	-	C	A	B
Daily Price Chg	1.91%	0.79%	0.33%	1.28%	1.21%	1.80%
1 Week Price Chg	0.76%	0.00%	0.13%	-1.54%	1.38%	0.79%
4 Week Price Chg	7.91%	0.00%	3.67%	-0.21%	6.03%	6.05%
12 Week Price Chg	17.24%	4.99%	10.64%	1.84%	23.54%	26.77%
52 Week Price Chg	38.23%	3.77%	27.46%	2.78%	45.29%	31.15%
20 Day Average Volume	2,099,511	90,743	1,693,267	323,759	9,246,998	7,412,843
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.10%	0.00%
(F1) EPS Est 4 week change	0.41%	0.00%	0.00%	0.00%	0.40%	0.13%
(F1) EPS Est 12 week change	-4.50%	-2.78%	0.14%	-3.24%	0.25%	-0.92%
(Q1) EPS Est Mthly Chg	0.86%	0.00%	0.00%	0.00%	0.77%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	F
Momentum Score	A
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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