TRINITY SMF

STUDENT MANAGED FUND

M&A Report

Morgan Stanley & E*TRADE

December 2020

Morgan Stanley & E*TRADE M&A

Morgan Stanley acquired E-Trade.

On October 2nd 2020, Morgan Stanley closed their acquisition of E*TRADE (NASDAQ: ETFC) in an all stock transaction valued at approximately $14.5 billion. It was the biggest acquisition by a US bank since the financial crisis. The acquisition announcement was first made on February 20th, 2020. E*TRADE stockholders received 1.0432 Morgan Stanley shares for each E*TRADE common share, which represents a per share consideration $58.74 based on the closing price of Morgan Stanley common stock on February 19th, 2020.

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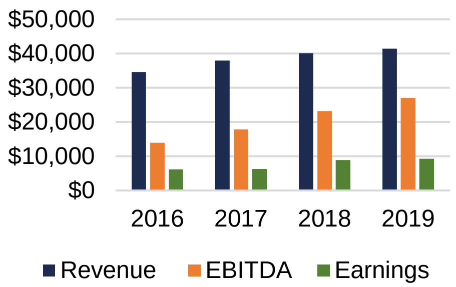
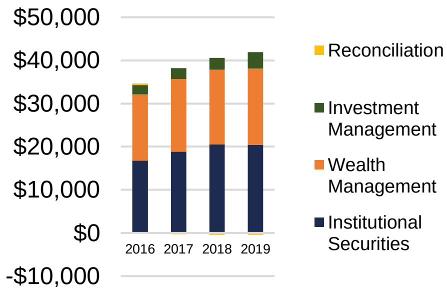
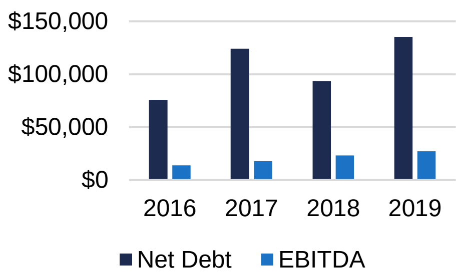
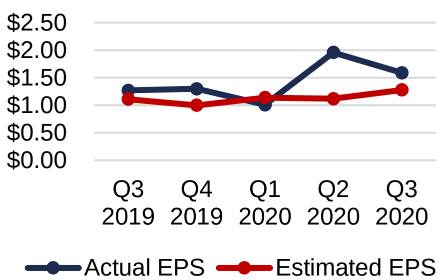
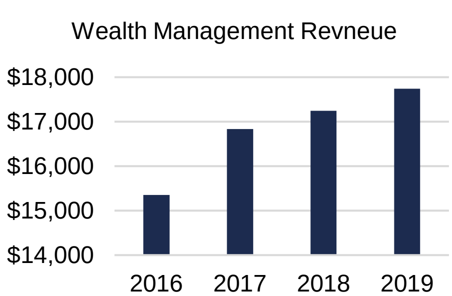










Figures in $USD Millions

Morgan Stanley Business Overview

Founded by Harold Stanley and Henry Morgan in 1935, Morgan Stanley is a multinational investment bank and financial service company headquartered in Manhattan New York. Morgan Stanley provides its services to a variety of customers which include governments, corporations, individuals and financial institutions. Morgan Stanley currently employees over 60,000 people and operates in 41 countries around the world. Morgan Stanley operates through three main segments:

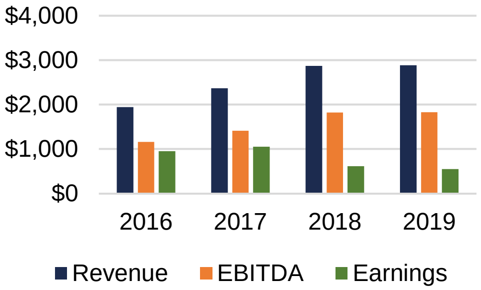
1) Institutional Securities
This segment provides investment banking services, sales and trading, capital fundraising, corporate lending and other financial services to corporations, governments, financial institutions and to ultra high net worth clients. Investment banking services include capital raising and financial advisory services.

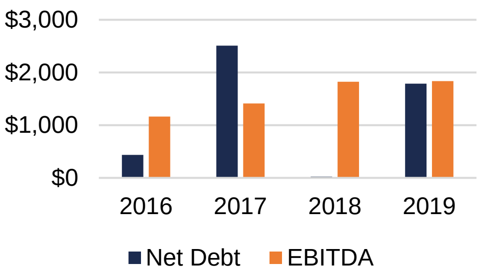
2) Wealth Management
This segment provides an array of financial services and solutions to individual investors, small to medium sized businesses and institutions.

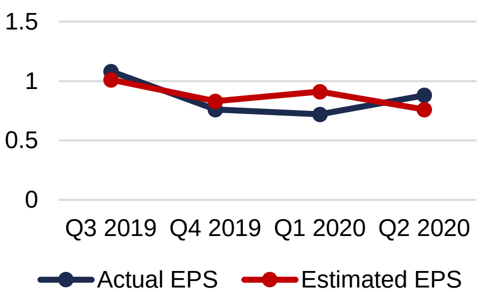
3) Investment Management
This segment provides an array of investment strategies and products to a diverse group of clients across multiple channels (Institutional and intermediary).

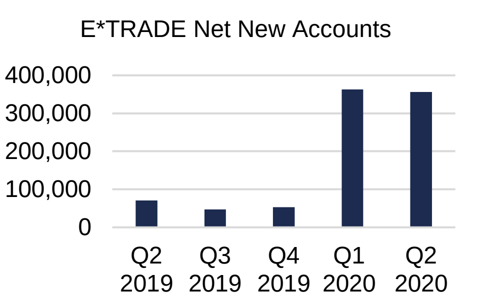
Institutional securities and wealth management account for the most of Morgan Stanley's net revenues (51% and 40%) while investment management accounts for 9% of Morgan Stanley's revenue (According to Quarter 3 2020 report).

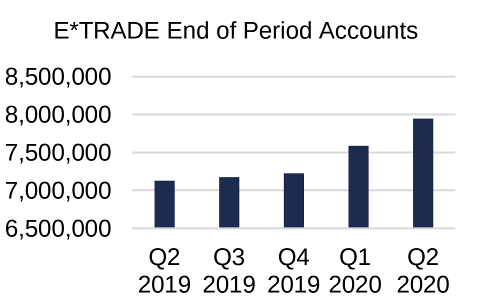
*E*TRADE Business Overview*











Figures in $USD Millions

Founded in 1982, E*TRADE is a financial service company that provides brokerage and other related products/ services. E*TRADE employees 4,178 people, and focuses on delivering its digital solutions for traders, investors, advisors, stock plan advisors and participants. It provides its services to clients through its digital platform and its network of industry licensed customer service representatives. E*TRADE operates two federally chartered savings banks to maximize the value of deposits generated through its brokerage business. E*TRADE is divided into two major business segments:

1) Retail
This segment provides services to individual brokerages and banking customers who utilize the web, mobile and/or trading platforms to meet their trading, investing or banking needs.

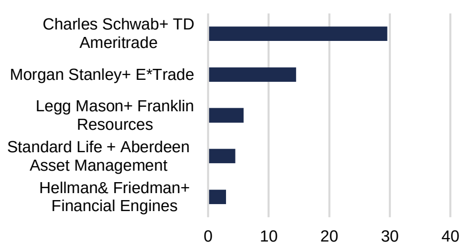
2) Institutional
Includes their corporate and advisor services. This segment provides stock plans, student loans and financial wellness solutions for public and private companies globally through their corporate service channel.

Prior to the acquisition, E*TRADE announced their 2020 Q2 10Q filings. For the six months ended 30th June 2020, E*TRADE revenues decreased 5% to $1.49 billion. Revenues reflect net interest margin (Decrease of 13.31%), interest income (Decrease of 24%) and commissions (Decrease of 34%). Net income also decreased by 26% to $377 million for six months ended 30th June 2020.

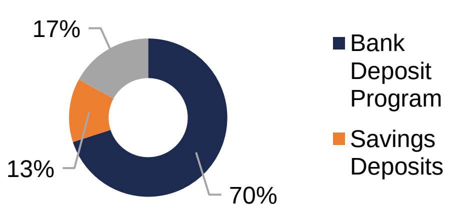
Deal Value	Announced	Final
Transaction Value(M)	14,507.65	12,928,53
Equity Value	12,719.65	11140.53
Premium	+29.17%	+1.59%
Net Debt	1,788.00	1,788.00

TTM Deal Multiples	Target	Comparable Multiples
TV/REVENUE	4.61x	3.17x
TV/EBIT	11.00x	18.95x
TV/EBITDA	7.89x	11.21x

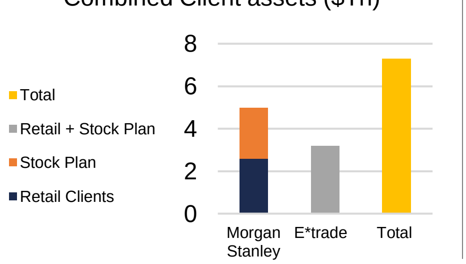
Comparable Transactions ($Billions)



Funding Synergies and Enhanced Deposit Profile



Combined Client assets ($Tn)



Figures in $USD Millions

Strategic Rationale for Acquisition

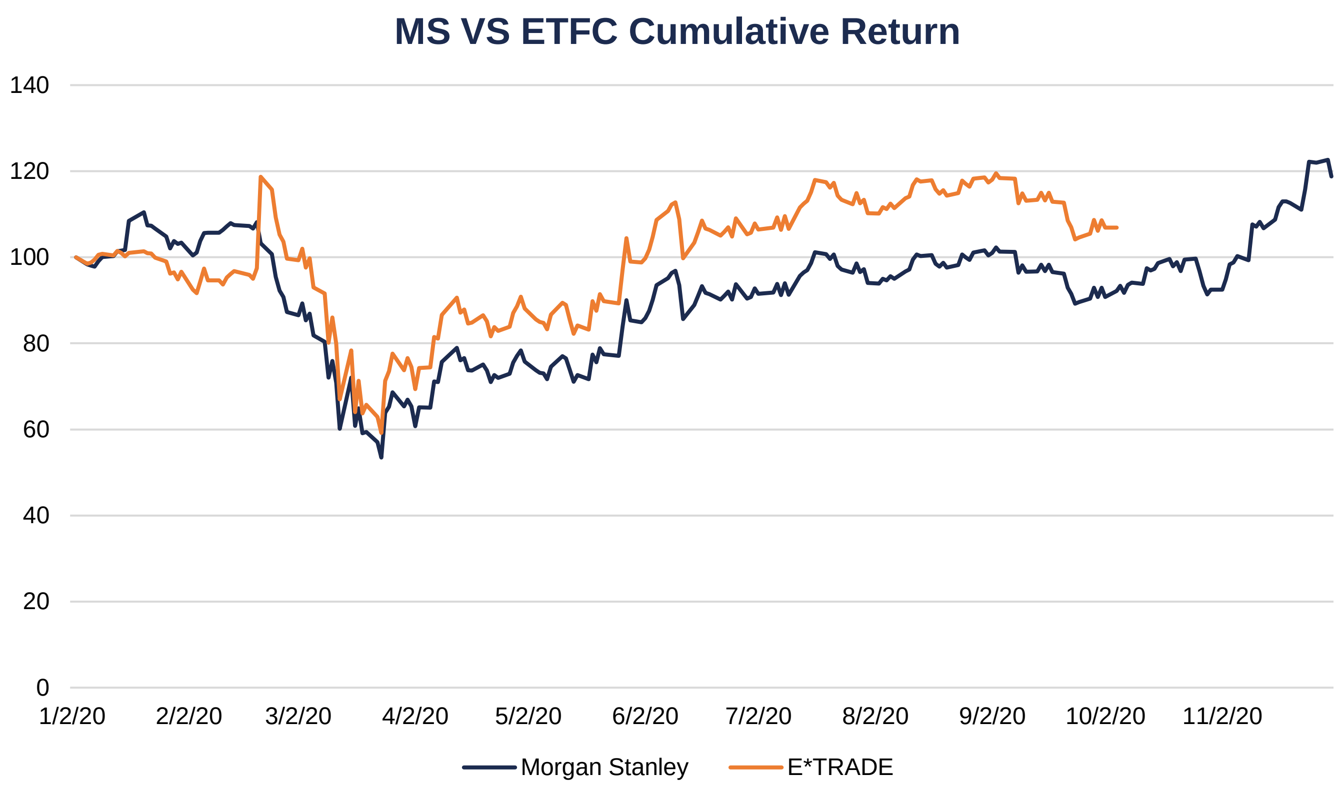
Strategically, the deal makes sense for Morgan Stanley. The deal highlights Morgan Stanley's shift to a more profitable and capital light business line. Wealth management offers Morgan Stanley more stability to ride out tough economic times and strengthens their balance sheet with fee-based revenue. Morgan Stanley’s acquisition of E*TRADE displays their commitment to their wealth management business and their attempt to appeal more to the masses.

Traditionally, Morgan Stanley has relied heavily on serving institutional clients. While this group remains a large portion of their business, acquiring E*TRADE will bring in a new customer to Morgan Stanley. Alongside this new customer base, Morgan Stanley will have access to $56 billion in deposits. This will lower funding costs for loans by roughly $150 million and allow Morgan Stanley to fund loans to its high-profile clients through these deposits.

Deal Details

The deal was financed through equity financing. E*TRADE share holders received 1.0432 MS shares, totaling to a closing transaction value of roughly $13 billion. Morgan Stanley paid a premium of about 30% for the acquisition.

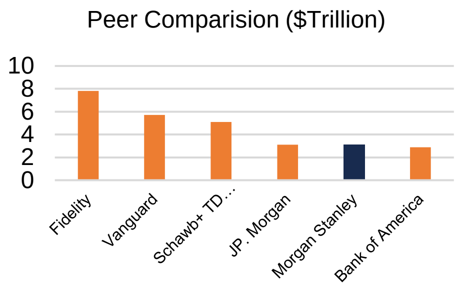
The acquisition of E*TRADE follows a recent trend of brokerage acquisitions. In 2019, Charles Schwab acquired TD Ameritrade in an all-stock purchase for $26 billion. When compared to the ten largest finance mergers and acquisitions since 2010, the transaction value/revenue multiple for the MS and E*TRADE deal was 4.16, which is slightly higher than the 3.17 median. However, its Transaction Value/EBIT and Transaction Value/EBITDA multiple were significantly lower than the other deals. The TV/EBIT multiple was 11.00 compared to the 18.9 median. The TV/EBITDA multiple was 7.89 compared to the 11.21 median.

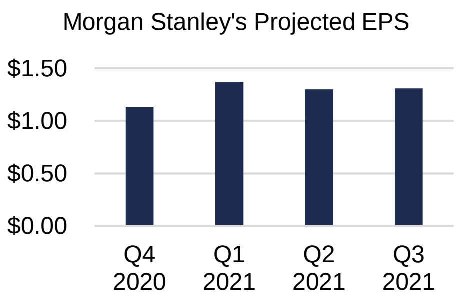


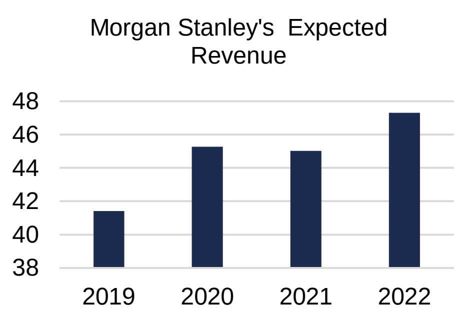
Share Price Analysis

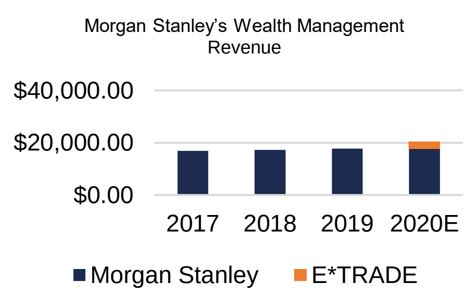
The graph above shows the cumulative return of Morgan Stanley and E*TRADE shares. Prior to the announcement, E*TRADE shares were trading at a substantially lower price than MS shares. After the deal was announced, E*TRADE shares jumped 22%, the highest in the past two years. Furthermore, after the deal was announced, daily trading volume was at its highest on record (42 million shares). As a result of the announcement, E*TRADE shares became a "derivate" of Morgan Stanley shares.

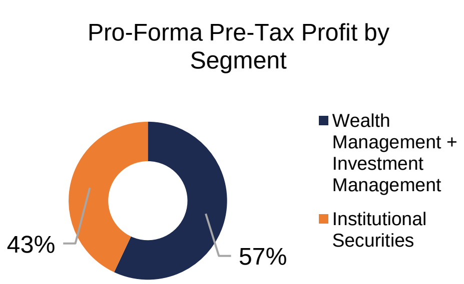
The acquisition of E*TRADE was a few days before the start of the 2020 coronavirus crash, which lead to a significant drop in both share prices. Recovery for both MS and E*TRADE stocks started in late March, with the deal being given a 99% approval rating by the Anti-Trust Commission on March 31st. On July 17th, 2020, 98% of the target shareholders approved the acquisition. Finally, on the 30th of September 2020, the Federal Reserve approved the acquisition. E*TRADE was delisted from all major stock exchanges on October 5th, 2020 after the deal was finalized. Since the finalization of the deal, Morgan Stanley's share price has been steadily increasing.











Figures in $USD Millions

Post-merger performance

It is difficult to assess the post-merger performance of the combined entity, as Morgan Stanley's Q4 report is due to be released on January 14th, 2020. However, we believe that the acquisition of E*TRADE was a good deal for Morgan Stanley.

The acquisition of E*TRADE focused on cost synergies and growing Morgan Stanley's wealth management business. The deal gives Morgan Stanley the ability to reduce the cost of their wealth management segment and strengthen its overall balance sheet. Morgan Stanley's acquisition of E*TRADE highlights how Morgan Stanley sees its future in wealth management. Money will always need to be managed, even during economic downturns and periods of high volatility. Additionally, since the acquisition of E*TRADE, Morgan Stanley announced they will be acquiring Eaton Vance (NYSE: EV), a Boston based investment management firm. This second acquisition will only further strengthen Morgan Stanley's foothold in the wealth management industry.

Key Risks

1) Morgan Stanley common stock may be affected by factors which may not have affected E*TRADE common stock.

2) After the completion of the acquisition, the anticipated benefits and cost-saving may not be met, causing adverse effects on the value of Morgan Stanley common stock.

3) Morgan Stanley overpaid for E*TRADE.

4) Inability to effectively manage expanded operations post-merger may affect future results.

5) Competitor movement in wealth management (Goldman Sach's Marcus).

($ in millions, except per share data)

Accretion/(Dilution) Analysis

Assumptions

Purchase of TargetCo Equity	$11,141
TargetCo EBIT	1,350
Synergies	550
BuyerCo Share Price	$58.74
BuyerCo Cost-of-Debt	3.7%
BuyerCo Tax Rate	21%

100% Cash	
Debt	$379,731
Cost-of-Debt	4%
Interest Exp.	$13,860
Pre-deal Debt	$302,296
Cost-of-Debt	3.7%
Interest Exp.	$11,034

50% Cash	
Debt	$0
% Debt	0%
Equity	$11,141
BuyerCo Px	$59
New Shares	190
Cost-of-Debt	3.7%
Interest Exp.	$0

100% Stock	
Debt	$0
% Debt	0%
Equity	$11,141
BuyerCo Px	$59
New Shares	190
Cost-of-Debt	4%
Interest Exp.	$0

	100% Cash	50% Cash / 50% Stock	100% Stock	Standalone BuyerCo
Cash	$379,731	$0	-	
Stock	-	$11,141	$11,141	
BuyerCo EBIT	$12,939	$12,939	$12,939	$12,939
TargetCo EBIT	1,350	1,350	1,350	
Synergies	550	550	550	
PF EBIT	**$14,839**	**$14,839**	**$14,839**	**$12,939**
Pre-deal Interest Exp.	(11,034)	(11,034)	(11,034)	(11,034)
Incremental Interest Exp.	(13,860)	0	-	
Earnings Before Taxes	**($10,055)**	**$3,805**	**$3,805**	**$1,905**
Income Taxes @ 25%	2,123	(803)	(803)	(402)
PF Net Income	**($7,933)**	**$3,002**	**$3,002**	
Pre-deal Net Income	**$1,503**	**$1,503**	**$1,503**	**$1,503**
Pre-deal Diluted Shares	1,566	1,566	1,566	1,566
Net New Shares Issued	-	190	190	
PF Diluted Shares	**1,566**	**1,756**	**1,756**	**1,566**
PF Diluted EPS	($5.07)	$1.71	$1.71	
Pre-deal Diluted EPS	0.96	0.96	0.96	0.96
Accretion / (Dilution) - $	**($6.03)**	**$0.75**	**$0.75**	
Accretion / (Dilution) - %	**(628%)**	**78%**	**78%**	
Accretive / Dilutive	*Dilutive*	*Accretive*	*Accretive*	

Appendix

Here is a snapshot of what the deal would have looked like if it took different structures. The deal was 100% stock and accretive. An accretive deal occurs when EPS increases after the deal goes through. This type of deal is favorable to Morgan Stanley because the price paid by Morgan Stanley is lower than the boost the new acquisition is expected to provide to Morgan Stanley's EPS.

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