

May 2024 –BK (Bank of New York Mellon)

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Company Overview

We believe that BK's strong financial position, combined with its diversified income streams and highly skilled leadership team, establishes a strong base...

Business model overview

- Businesses - 1) Securities Services, 2) Market & Wealth Services, 3) Investment & Wealth Management
- Operates across 35+ countries & 53,400 workforce over 239 years
- \$47.8T assets under custody and/or administration; \$2.0T AUM
- Clients - corporations, investors, institutions
- Subsidiaries - Mellon (Boston), BNY Mellon Pension Fund, Insight Investment

Leadership



Robin Vince, CEO

Global Market Infrastructure
CEO (2020-22)



Dermot McDonogh, CFO

EMEA COO, Goldman Sachs (2015-22)

Revenue Segmentation



Securities Services	\$8.6b
Market & Wealth Services	\$6.0b
Investment & Wealth Management	\$3.2b
Total Revenues (FY 2023)	\$18b

Key financials

(in billions USD)	2019A	2020A	2021A	2022A	2023A
Revenue	16.49	15.47	16.16	16.34	17.38
% growth	0.51%	-6.16%	4.46%	1.09%	6.40%
Operating expense	10.78	10.90	11.43	11.91	12.25
Net income	4.44	3.62	3.76	2.57	3.29
Net profit margin	26.94%	23.38%	23.26%	15.75%	18.90%
Free cash flow	-1.11	3.82	1.62	13.72	4.69

Share price analysis



Industry Overview

We believe that BK's positioning will allow them to capitalise on industry growth in the coming years...

Securities Services

- Total revenue had increased by 1%
- The money earned from asset servicing increased by 8% compared to last year. This increase was mainly because of gaining new clients, and increased client activity.
- Projected CAGR – 15% from 2022- 2030

Investment and Wealth Management

- The total value of assets belonging to their clients increased by 11% compared to last year, reaching \$309 billion.
- Wealth Management Up 2% YoY: The revenue from helping people manage their wealth increased by 2% compared to last year.

Global Asset Management CAGR – 34% from 2023 – 2030.

Market and Wealth Service

- Total Revenue has increased by 3% YoY
 - The revenue from Clearance and Collateral Management increased by 13% compared to last year.
- Projected CAGR – 13% from 2022-2031
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Thesis: BK’s strong fundamentals and entrepreneurial culture will allow it to capitalise on macroeconomic headwinds

We predict BK’s discrete revenue streams will surpass the mean expectations..

There are 2 key drivers of growth in financial services provision, each of which are becoming notably stronger

Leveraging digitisation and AI

- BK celebrates an Enterprise AI Hub - First bank to deploy a **DGX Superpod** – Accelerates processing capacity, reduces risk to launch AI capabilities
- 100’s of use-cases identified by management consultants

Deal Volumes

- **105%** YoY increase in open-market exits, **33% increase** in PE/VC Deals (1) □ Increased Client Activity □ Derived Demand for Securities Services
- Exacerbated through ‘3 strategic pillars’ devised in 1Q2023
- Executed through Client Expansion (product innovation), and delivering more to existing clients
(Product Innovation – Ashton Thomas Securities – Utilising Clearing & Custody Services through Indexing services)
(e.g – Bringing CISC US debt strategy on to BK’s global distribution platform)

Their product innovation allows them to capture first mover advantage, increasingly important in a changing financials landscape..

- Enterprise-wide innovation initiatives include
- **Accelerating strategic ventures**, principal investment in emerging tech companies
 - Ecosystem connectivity through engaging in the FinTech ecosystem

The benefits of their strong innovation initiatives include:

Expanding Third-party relationships, diversifying income streams

1) https://www.ey.com/en_in/news/2024/04/1q-2024-exits-recorded-at-us-dollar-5-point-1-billion-across-80-deals-35-percent-surge-y-o-y-ey-ivca-report#:~:text=In%201Q2024%2C%20open%20market%20exits,%24481million%20across%2026%20deals.
2) <https://www.bnymellon.com/us/en/about-us/newsroom/press-release/shannon-hobbs-joins-bny-mellon-as-chief-people-officer-130383.html>

BK’s ESG strategy will allow it to deliver higher quality securities services, at scale, whilst minimising costs through labour turnover.

CPO, Shannon Hobbs	Joining June 3 rd – Possesses two decades of managing director experience at Citi, JPM, Geico – Reinforces BK’s commitment to social dimension.
Global Finance	African Liquidity & Sustainability Facility – Access point for African Bonds, enabling economic development in developing countries.
Other notable initiatives	Research on gender-investment gap– The Pathway to Inclusive Investment BOLD Shares (Black Opportunity for Learning and Development Shares) Community Banking - \$8m donation to Optus Bank – Mission to serve underrepresented communities
ESG Industry Leader	Rated a ‘Leader’ among 160 companies in asset management / custody banks industry. - Leader for Human Capital Development , Responsible Investment

Valuations

We believe BK will peak at \$59 within the next year. We believe shorting might be the best strategy in the short-term, yet still maintain that BK's fundamentals are a worthy long-term investment.

Intrinsic valuation

Methodology:

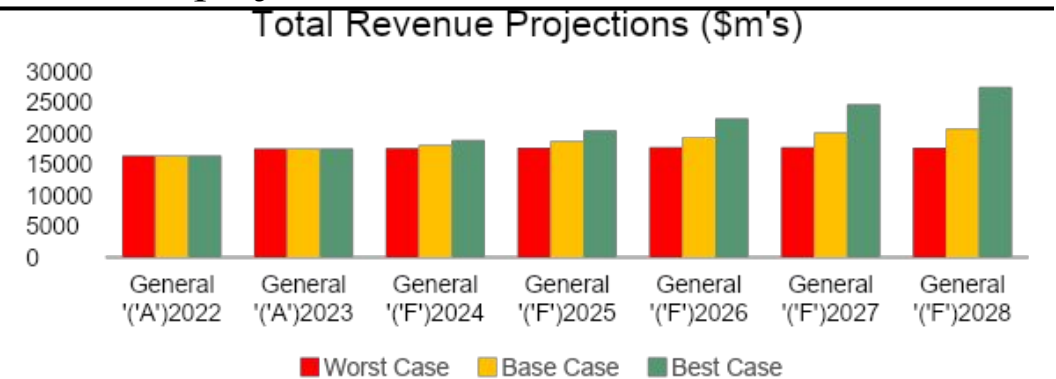
- Best Case – For revenue, calculated percentage change for each component of revenue– assumed revenue growth at that period for discrete forecast. Assuming overall market sentiment remains high,
- Base Case – Took percentage change for each component and divided it by 2 – Considers the change in composition of assets between 2022 – 2023.
- Worst Case – Took the percentage change and divided by 2, but also discounted the net interest rate by 0.99 to the power of the difference between the current year of discrete forecast and the last annual report (2023)
(e.g – 2025 – 2023 = x^2)

Best - \$66 , Base - \$59 , Worst - \$53

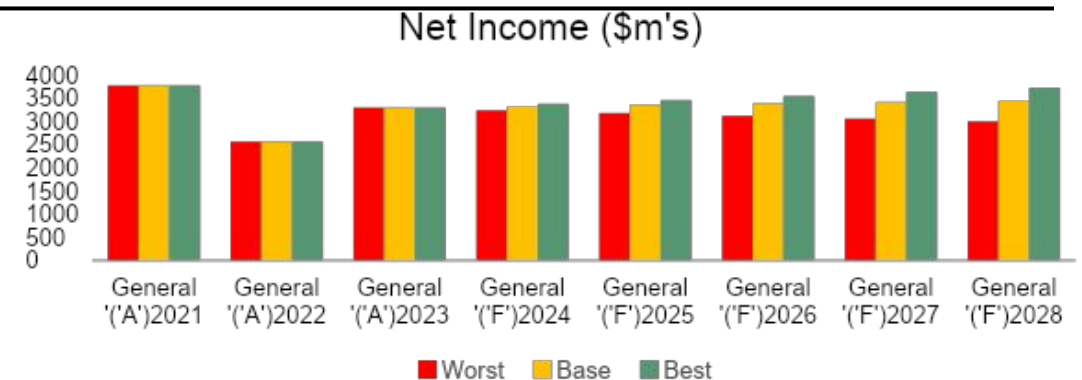
- Note – Timing is very important – Currently at 52-week high – Looking for a time where RSI cools down, individuals stop buying mega-cap stocks

** We could short in the immediate term and go long where the price decreases
– Needs another review.

Revenue projections



Net Income projections



Catalysts

We believe partnership, catalysing on technological advancements, and diversified products will enhance revenue growth...



1. Expansion globally and Technological Innovation

- BNY Mellon expands India operations, leasing nearly 1 million sq ft in Pune.
- With 15,000+ employees and 20% yearly growth, the move centralizes operations.
- India's skilled labour pool offers cost-effective talent acquisition, supporting long-term growth.
- Potential to lower staff costs (currently 41% of revenue) and increase profit margins.



2. Strategic Partnerships

- BNY Mellon extends partnership with CIFC, offering clients access to U.S. direct lending.
- Utilizes BNY Mellon's global distribution network to reach investors in Europe and Asia.
- Addresses growing interest in private credit, enhancing BNY Mellon's asset management business.
- Strategic move to meet evolving client demands and boost profitability



3. Risk Management and exploration of new investment opportunities

- BNY Mellon, a big US bank, invests in Bitcoin ETFs, according to official reports.
 - They bought shares in ETFs managed by BlackRock and Grayscale.
 - Shows traditional finance becoming more open to cryptocurrencies.
 - Could mean they're protecting against rising prices and trying new investments.
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Risks and Mitigants

Despite the probability of a protectionist agenda and the possibility of successive interest rate cuts, we believe that BK's leading position in technology allows it to navigate risk more effectively...

1. Interest Rate Cuts

- Disappointment between consensus and actual data impacting consumer confidence and outlook on "soft landing" US economy
 - Public perception and economic slowdown demoralising client confidence, triggering asset sales, reducing Custody and Administration Income and AUM
- Focus resources on S&P China 500 companies to diversify**

2. Geopolitical Tension

- Volatility arises as Russia expected to launch offensive attack, Israel invasion of Rafah, Israel/Iran shadow war, Sudan civil war destabilising fragile Middle East
- Can make Wealth Management branch delay investment decisions or look for safer alternatives at the cost of lower returns, deteriorating future earnings

Shift a higher % of client portfolios to Safe Haven Assets

3. Future of Technology

- Cryptocurrency at a pivotal point between mass regulation in US if SEC deems Bitcoin as a security
 - Negatively affects BNY Mellon's push into digital assets through costs of adapting to new policy or lower AUM if bans on unregulated currencies ensue.
- Manage risk by investing in highly decentralised coins only**

