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Subject: Fwd: BNY Mellon: Bringing Home the Bacon in an Expense-Led Beat; EW
Date: Fri, 21 Oct 2016 13:28:48 +0000

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Begin forwarded message:

From: "Morgan Stanley" <ms-wmir@morganstanley.com>
Subject: BNY Mellon: Bringing Home the Bacon in an Expense-Led Beat; EW
Date: October 21, 2016 at 9:24:32 AM EDT
To: <[REDACTED]>
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Subscription Notification: October 21

[BNY Mellon: Bringing Home the Bacon in an Expense-Led Beat; EW](#)

Betsy L. Graseck, CFA – Morgan Stanley
October 21, 2016 1:22 PM GMT

BK delivered its 7th straight beat on expense management. Consistent performance on expenses key to upgrade to Equal-weight. Raising price target to \$45 from \$41 with higher EPS estimate (2017 EPS up 7%) on better expense outlook.

Sustainable Cost Saves Drives our Estimates Higher: BK's investment spend in technology is driving the bus on operating leverage. We have been saying that consistent expense execution is key to upgrading BK to Equal-weight. After years of

hovering in the 70-71% expense ratio, the magnitude of this quarter's operating leverage, coupled with execution consistency, not only drives up our EPS and price target, but also improves the risk-reward. Together these are driving us to upgrade BK to Equal-weight from Underweight. BK delivered a sharp reduction in non-comp expenses dropping the expense ratio 200bps q/q from 69.5% to 67.5%.~100bps of the benefit came from a stronger dollar (large expense base in Sterling), and ~100bps came from lower vendor costs and reduced real estate expenses, which should be sustainable. One of the questions on the call is how far management can continue to drive operating leverage. Management believes 1-2% annually in the next few years (MSe 1%). There is room for upside to our EPS if BK delivers at the high end of its operating leverage guidance. BK has rearchitected its systems to enable a more comprehensive user interface with faster development times and more efficient delivery. CEO spoke at length on the call about its advancement in robotics (to speed up routine processes), distributed ledger (for its broker/dealer clearing system) and its 8 innovation centers. For more details on BK's technology investments, see our August 25, 2016 note on Welcome to The Nexen App Store. 3Q16 Earnings: BK reported operating EPS of \$0.89 (v. MSe \$0.79/cons \$0.81) on better expenses of 7c (\$2.67Bn v. MSe \$2.75Bn), better NIM (1.04% v. MSe 0.96%), and better credit (provision of -\$19mn v. MSe +\$5mn). Lower expense driv

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