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JP Morgan Chase

Author

Executive Summary
The following research has been based on the company profile and capital structure of JP Morgan. The notion was to analyze and find the fault lines for a potential employer. In this research, it has been clear that the brand name and reputation of JPM acts as a strong influence over the market. However, because of the economic meltdown in the market, the total debt to equity ratio and cost of capital has drifted away from the ideal value. It was analyzed that SVA model is more appropriate for analyzing the performance of the shareholders as well as the organizational structure of the company. The recent and potential merger and acquisitions are analyzed and thus far a potential synergy is established between Viacom and JPM. The discussion of HRM as well as other sectoral review also substantiate different the assertions made in the report.

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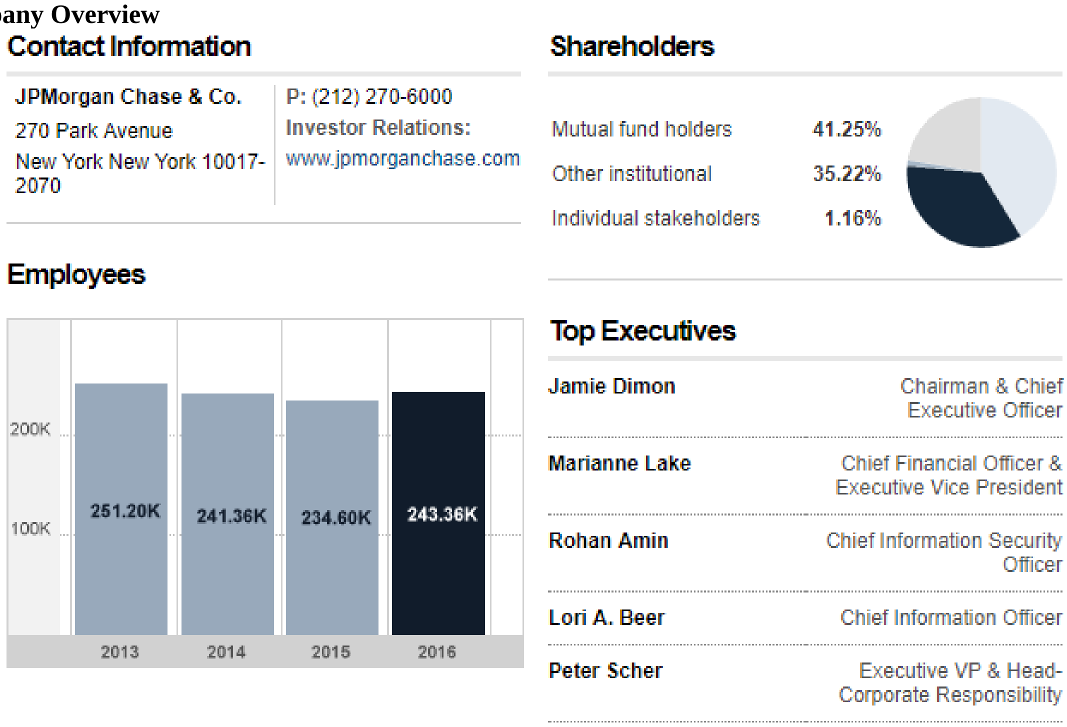
I. Introduction

Company Overview

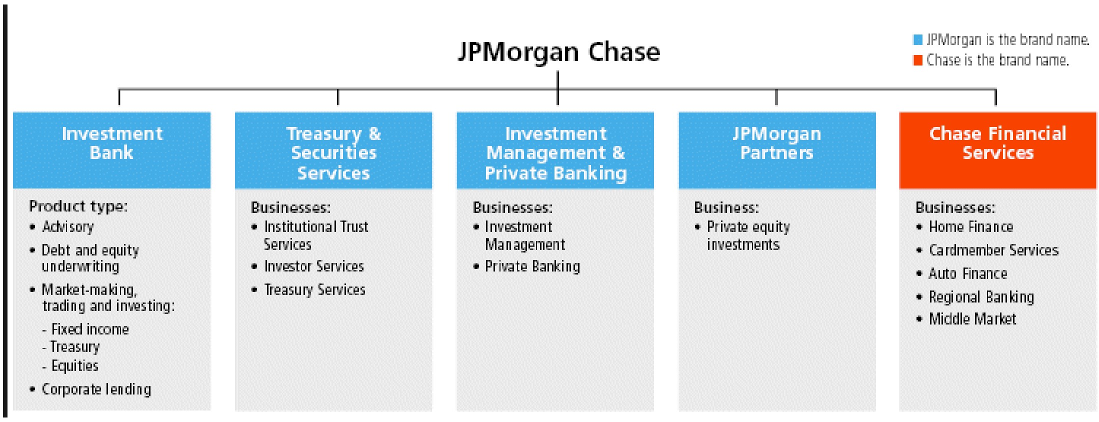


JPMorgan Chase& Co. is a financial holding company which delivers investment and finance related services, it was established in 1968. It is engaged in financial services for small business portfolios and consumers who require financial and investment-related information. The services also includes asset management, financial transaction processing; these activities are organized into four specific segments, excluding a corporate segment (JP Morgan, 2017). These segments include Consumer and community banking, commercial ban, asset and management of wealth. The following is the list of different section that the company deals with-

1) Consumer and Community banking – It provides opportunities for banking, personal and professional loan in terms of small portfolio business and also to a large variety of community banking opportunities to those in the urban sector. It also indulges in giving suitable incentives to a section of society in terms of mortgage origination and ATM facilities.
2) Corporate & Investment Bank- These facilities extend to the private and public organization even for the sections in the municipality. The area extends to Prime brokerage, market making, investment, and banking

facilities to a class of the community. The notion becomes more relevant when the indulgences are in order of origination of bank loan et cetra.

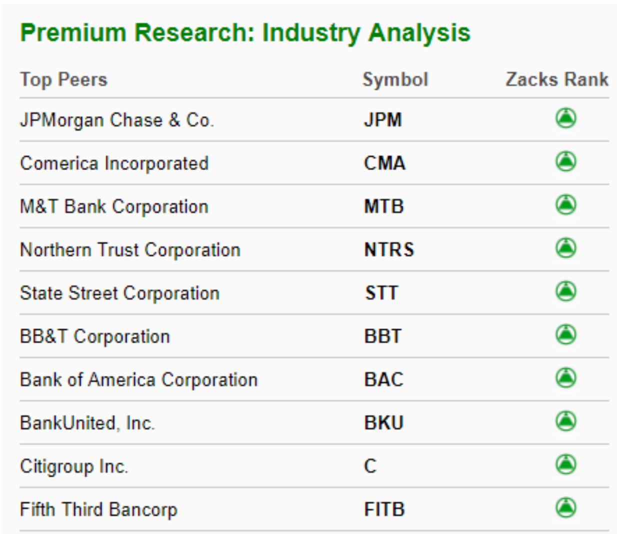
3) Commercial Banking- The notion of Commercial Banking facilities expand to various section of the corporate sector. The focus of the global clientele services is related to solutions of financial matters, investment, banking and asset management.
4) Asset and Wealth Management- The services offered correspond to the need for financial and wealth assessment. The facilities and services extend to equities, investment management and risk assessment of the firm in the capital market.



Industry Sector review

With a total market capitalization of $384.5 billion (Jan 2018), JP Morgan has certainly promising statistics, provided that is the largest financial company to offer asset management and related services. It has is also a member of Standard and Poor's 500 Index which implies that the company's shares are a part of the infamous index tracking funds (mutual and ETFs). It is, therefore, all the major shareholders of JP Morgan are primarily financial institution (CNN, 2018). Following is the list and credentials of the major shareholders of JP Morgan-

1) The Vanguard Group, Inc. is one of the major shareholders of this company with a total estimate of 7.2% of the total outstanding shares. It is valued to be one of the largest stakeholders of JP Morgan with more than 4.5$ trillion in AUM.
2) State Street owns 4.75% of the stock and 2.43$ trillion in AUM. It is another financial institution which is a major shareholder of JP Morgan.
3) Black rock owns around 2.7% of outstanding shares of JP Morgan with 5.7$ trillion in AUM.
4) Fidelity Management and Research offer 2.59% of total outstanding shares of JP Morgan. It is another financial institution which offers trade execution and services related to mutual funds.



Premium Research: Industry Analysis

Top Peers	Symbol	Zacks Rank
JPMorgan Chase & Co.	JPM	
Comerica Incorporated	CMA	
M&T Bank Corporation	MTB	
Northern Trust Corporation	NTRS	
State Street Corporation	STT	
BB&T Corporation	BBT	
Bank of America Corporation	BAC	
BankUnited, Inc.	BKU	
Citigroup Inc.	C	
Fifth Third Bancorp	FITB	

[1]

[1] Image source: https://www.zacks.com/stock/research/JPM/industry-comparison

The above image entails the company position of JP Morgan chase in the overall industry, it is quite observing to note that the industry is a dynamic one and the rise and fall of total debt or equity is dependent on variable factors.

Financial Review

Previous Close	115.70	Market Cap	398.376B
Open	115.70	Beta	1.33
Bid	117.19 x 400	PE Ratio (TTM)	18.43
Ask	117.20 x 100	EPS (TTM)	6.31
Day's Range	116.02 - 117.34	Earnings Date	Apr 13, 2018
52 Week Range	81.64 - 117.34	Forward Dividend & Yield	2.24 (1.93%)
Volume	1,206,649	Ex-Dividend Date	2018-01-04
Avg. Volume	13,475,606	1y Target Est	117.86

Total long-term Debt (noncurrent liabilities)
Note: The formula applied for this heading is as follows-
Total Long-Term Debt = Current Portion of Long-Term Debt + Non-Current Portion of Long-Term Debt.

As of 2017, it can clearly observe a precedence and reduction in the total debt in the long term. It has reached a significantly low range of 335.88$ billion. This indication is an optimistic one for shareholders and other market players in the capital market.

JPM Total Long Term Debt (Quarterly) Benchmarks

Benchmarks	
Bank of America	260.07B
Citigroup	281.16B
PNC Financial Services Gr	59.09B

JPM Total Long Term Debt (Quarterly) Range, Past 5 Years

Minimum	325.32B	Dec 2015
Maximum	372.94B	Dec 2014
Average	347.87B	

JPM Total Long Term Debt (Quarterly) Excel Add-In Codes

Metric Code: total_long_term_debt
Latest data point: =YCP("JPM", "total_long_term_debt")
Last 5 data points: =YCS("JPM", "total_long_term_debt", -4) [2]

OVERALL

Beta:	1.20
Market Cap(Mil.):	$403,598.50
Shares Outstanding(Mil.):	3,469.73
Dividend:	0.56
Yield (%):	1.93

FINANCIALS

		Industry	Sector
P/E (TTM):	--	21.78	18.43
EPS (TTM):	--	--	--
ROI:	--	0.01	35.31
ROE:	--	15.70	17.20

[2] Source: https://ycharts.com/companies/JPM/total_long_term_debt

Company Capital Structure

The company has been facing a critical urgency to update their shareholders with respect to the financial risks and cons. The nature of the shareholding may be a direct result of the fact that the outstanding shares and the expected returns are not variable enough to intersect and even merge one another. The capital market offers a need for low risk and low returns, however, there are wide speculations on its existence with respect to the company profile of JP Morgan Chase. The notion is clearly advisable to pick up on and the promises may or may not be speculative in terms of financial risk and collateral damage.

The following theories promise to explain the Company capital Structure of the company critically –

1) Trade-off theory- The nature of balancing debt finance and equity finance in order to articulate the costs and the benefits with the respectable returns is one of the key concerns that JP Morgan faces with respect to their reputation. As can be observed from the outstanding debt and the equity ratio the market has been in complete takeover risk with an economic shakedown on the rise. To reduce the outstanding shares in order to balance cost and benefits seems imperative yet urgent at this moment. There can, however, be a value assigned if the total debt finance is reduced for good, it must mean that the tax and financial subsidies may merge to deliver the inevitable. In the occasion such as this, wherein the focus is to strike a balance between deadweight costs of bankruptcy and tax saving benefits of debt, the command must be therefore critical in nature. The theory suggests that JPM is financed with debt and equity partly, therefore through the theory of tradeoff essentially suggests a critical junction between establishing a majority of equity as opposed to that of deadweight costs. However, bankruptcy remains speculative in this case.
2) Pecking order theory- This theory encapsulates the need of studying asymmetric information with respect to the company assets and finances. The critical need for establishing and utilizing internal funds first followed by debt and new equity is the theoretical indices and basis of this theory. However, in the current need, it is imperative to allow new equity for the phase of debt and internal funds have already passed given the meltdown in the market. The analysis of financial and market risk is important at this stage of the capital structure. It also begs to analyze the profitability ratio and uses the knowledge of managers to maintain internal finances and allow issuance of debt and equity. Once such a theory is suggested there would exist a pecking order between the finances of the firm in order to balance both equity and debt.

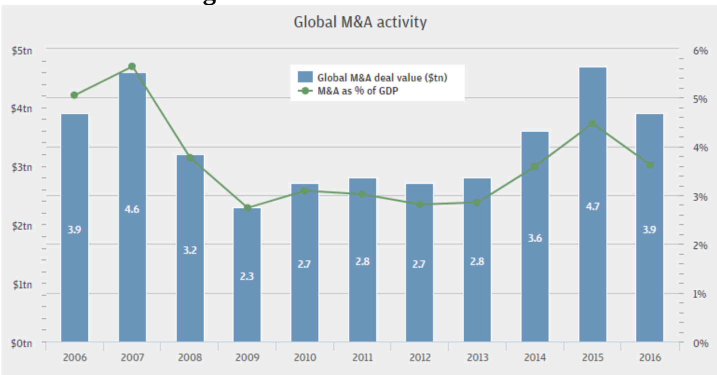
Overall conclusion from theories and critical analysis of the company's capital structure-

Rationale: The theories used to define the role of JPM's capital structure beg to question the very requirement of new equity and prevent the outstanding shares from decreasing. While, it seems apt to use the two series which are primarily based on balancing debt and equity for the cause of reaching a conclusion, although pecking order theory also requires analyzing the asymmetric knowledge of the firm and the company involved.

Problems faced and Competitor's capital structure

- The capital structures of Bank of America and US Bancorp clearly suggests that the market is in a situation of meltdown. The equities and debt ratio of both of the competitors seem to suggest that the market is tripling its risks and asset management. This must imply a situation wherein the balance of probability clearly does not lie in the favor of JPM and therefore it must be imperative to critically state the financial risks and debts in order to maintain a strong grasp over the market and thus maintain a stronghold over it.
- There also seems to be a deflection in the capital structure of the competitors. It must mean that not only is the market risk-prone rather it also suggests a possibility of reduction of assets and outstanding shares in the coming future.
- The opportunities for JPM are therefore limited in the present situation, wherein the pattern of total debt and equity seems to be out of proportion and hence a strong need of balancing the two seems but imperative to achieve.
- The tax structure, financial risk, and AUM suggest that there lies a critical standoff between the above three has it has to be balanced by critically evaluating the assets and outstanding liabilities, and the risk of in the capital market.

Current Merger Acquisition of JP Morgan



Sources: J.P. Morgan, Dealogic and IMF GDP forecasts as of January 10, 2017; M&A as a % of GDP is rounded to the nearest decimal

There has been a recent acquisition of Markit of JPM over software use and security in the capital market. The following graph above also the number of Global M&A of JP Morgan in the global market. A pattern thus can be observed from the year 2006 to 2016 (available data) which can thus call for a pattern shift in the way that the M&A has taken place.

It can also be observed that there have been growing opportunities from the year of 2014-2016 and it has made the growth of the company exponentially increasing. This would mean that the current tactics of Merger and Acquisition have rather been productive for the company. It has not only created a brand name but has also added a possible value to JPM.

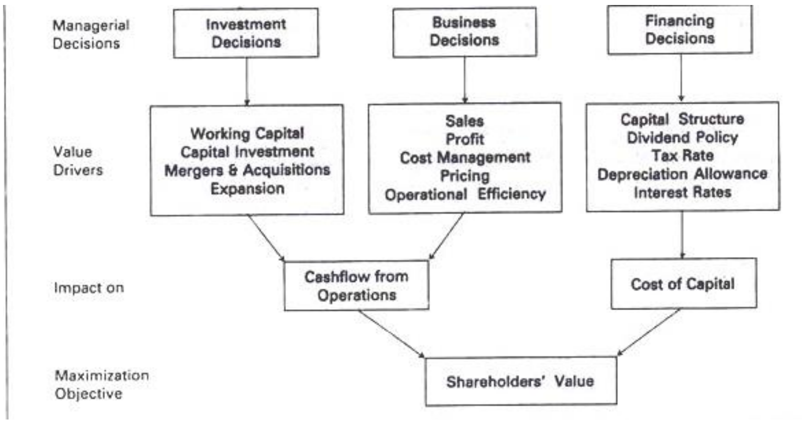
Organizational Structure

This organizational structure of the company has been analysed with the help of shareholders Value analysis. This approach defines the fundamentals of finding out shareholder's performance with the help of key drivers which essentially plans to analyze the potential shareholder's output within the company. It was developed during the 1980s, and since then the key focus is thus to quantify the economic value for shareholders, provided that we have the share price performance and the flow of funds. Therefore, once that is given we would analyze the given market strategy and define why the chosen variables are better. Thus a flow chart would be created and analyzed. It is a way to associate management strategy and resolution in the conception of worth for shareholders.

This analysis would help in evaluating the decisions related to business and financial matters, the nature of which is equipped and deliberated. These factors once analyzed will have a direct result over the impact of the value created by the shareholders. These same factors are post facto called key drivers which are influence the value of the shareholders in this regard.

In the case of JPM, we would need the help of these value and key drivers to analyze the value performance of the shareholder, they are thus analyzed and can be put through a cash flow chart to thus explaining the relevant conclusion. However, it is important to pick suitable key drivers and justify their reason in order to substantiate the research.

However, first let us understand the flowchart with which we would further correlate the use of key and value drivers (Accountnotes, 2018).



The following variables are used and their justifications are as follows-

1) Improvement in profit margin- This variable is used in order to clarify the evaluation of profit margin. Since, the market is under a meltdown, it is quite imperative to analyze the value of profit margin to carefully place the revenue and operating profit while measuring the given outcomes.
2) Cost of Capital- It is thus another factor analyzing and advocating for its applicability a value driver. The cost of capital when analyzed would give a justified use of its application. The nature of using this factor as a key driver also gives precedence over other illustrative details.
3) Capital structure decisions- The relevant data and specifics related to capital structure decisions is an imperative factor to consider as a value driver. It provides give an analysis of both precedences over the current market position of the company as well as the internal funds getting influenced by managerial as well as external factors.
4) Capital investment decision (working+ fixed capital)- The nature of advising and investing for a company like JPM is crucial for the reason that there rules a clear need of investing carefully not only in terms of improving the internal funds but also to acquire new sources of equity of credit, thus naturally affecting the model and its position in the market.

Justification and suggestions to improve the actual market value

- The nature of Shareholder Value analysis model is always thus created to limit the actual market value and increase the performance value of the shareholders. However, the model may not always hold true with respect and regards to a discrepancy over the market value. This model requires specification of forecasting horizon or the number of years involved in planning the cashflows to be discounted in terms of value creation. The market value of creation, therefore, would be affected by creation strategies which would thus be implemented.
- The extended variety tactics usually assist in value formation, except the short-term yield associated actions may be opposite and negated in the value creation of JPM.
- The executive is obligatory to reimburse consideration to such key drivers while captivating outlay and investment assessment. Shareholders Value analysis also aids in the supervision to ponder on actions which generate worth to the shareholders rather an incorrect market value of the shareholder's value and performance.

Human resource Management

The human resource management of JP Morgan Chase also correlates to the organizational structure, however the company believes that it is most critical for its potential human resources to develop and convert its potential into better results.

The analysts as well as top most branch of the executive give utmost focus on the management and the development of Human resources. The Human resources of JP Morgan and its management remains key discussion of the organization as well as its share holders. The company wishes to attain a long term growth and as a result a budget of more than 2 million pounds is spent on the development of Human resources across all branches of JPM.

II. Conclusion

The above-mentioned research has been based on the company profile and capital structure of JP Morgan. The notion was to analyze and find the fault lines for a potential employer. In this research, it has been clear that the brand name and reputation of JPM acts as a strong influence over the market. However, because of the economic meltdown in the market, the total debt to equity ratio and cost of capital has drifted away from the ideal value. It was analyzed that SVA model is more appropriate for analyzing the performance of the shareholders. However, Shareholders Value added is also an efficient method of estimating the same. Finally, the recent and potential merger and acquisitions are analyzed and thus far a potential synergy is established between Viacom and JPM. Thus, the report seems to suggest that the company is living up to its promises not only is it a paradise for a potential investor but is also a paradise for a new employee.

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Appendices

SWOT Analysis

Strengths, Weaknesses, Opportunities and Threats (SWOT)

Location of Factor	TYPE OF FACTOR	
	Favorable	Unfavorable
Internal	**Strengths** • JPMorgan Chase: a globally leading financial brand name • Strong retail distribution network • High asset quality • Capital strength	**Weaknesses** • Subprime exposures • Over dependence on the US • Increasing DSR and debt pay-back period
External	**Opportunities** • Global investment banking and brokerage prospects • Buoyant asset management market • Growth in the US credit card market • Growth in the commercial banking industry	**Threats** • Weak mortgage market in the US • Increased regulatory pressures on interchange rates • Consolidation in financial services industry