

COMPANY PROFILE

Wells Fargo & Company

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TABLE OF CONTENTS

Company Overview	3
Key Facts	3
SWOT Analysis	4

COMPANY OVERVIEW

Wells Fargo & Company (Wells Fargo) is a diversified financial services company, and third largest bank in the US by total assets. It provides financial services to individuals, small businesses and corporate houses. The company also offers its products and services to commercial sector and caters to different industries such as Education, Government, Healthcare, and Technology, Media & Telecom. Wells Fargo's major services include banking, investments, mortgage, and consumer and commercial finance through its locations spread across different countries. It operates its business across North America, Asia, Europe and UAE. It is headquartered in San Francisco, California, the US.

The bank reported interest income of (US Dollars) US\$58,909 million for the fiscal year ended December 2017 (FY2017), an increase of 9.8% over FY2016. The net interest income after loan loss provision of the bank was US\$47,029 million in FY2017, compared to net interest income after loan loss provision of US\$43,984 million in FY2016. In FY2017, the bank recorded a net margin of 37.7%, compared to a net margin of 40.9% in FY2016.

The bank reported interest income of US\$16,015.0 million for the second quarter ended June 2018, an increase of 4.4% over the previous quarter.

KEY FACTS

Head Office	Wells Fargo & Company 420 Montgomery Street San Francisco California San Francisco California USA
Phone	1 866 8785865
Fax	
Web Address	www.wellsfargo.com
Revenue / turnover (USD Mn)	97,741.0
Financial Year End	December
Employees	265,700
New York Stock Exchange Ticker	WFC

SWOT ANALYSIS

Wells Fargo & Company (Wells Fargo) is a diversified financial holding company, providing retail, commercial and corporate banking services in the US. Strong capital base, leading market position in the US, and strong interest income are the company's major strengths, whereas increasing non-interest expense remain a cause for concern. Growing card and payments market in the US, strategic initiatives, divestments are likely to offer growth opportunities to the company. However, increasing regulatory challenges, intense competition and increasing cost of labor in the US could affect its business operations.

<p>Strength</p> <p>Strong market position in the US Strong interest income Strong capital base</p>	<p>Weakness</p> <p>Increasing non-interest expense</p>
<p>Opportunity</p> <p>Strategic initiatives Divestments Increasing online and mobile customer base could improve operating performance Growing cards and payments market in the US</p>	<p>Threat</p> <p>Increasing cost of labor in the US Intense competition Increasing regulatory challenges</p>

Strength

Strong market position in the US

Wells Fargo holds a strong market position in the US financial services industry. At the end of FY2017, it was the third largest bank holding company in the US with assets of US\$1.9 trillion. It is the largest deposit gatherer in major metropolitan markets across the country. The company's market position rests on its leadership positions across several segments. For instance, it is the largest retail mortgage lender, mortgage servicer, home loan originator to minority and low-to-moderate income borrowers, used auto lender, used auto lender and overall auto lender, small business lender in dollars, agricultural business lender and commercial real estate originator. It is also among the leading wealth management providers, retail brokerage providers and insurance brokers in the world. The company operates across the country at 8,700 locations and with 13,000 ATMs as on December 31, 2017. . Strong market position provides significant economies of scale benefits for the company.

Strong interest income

Wells Fargo reported a consistent growth in its interest income over the past few years, In FY2017, its interest income stood at US\$58.9 million, which increased at a CAGR of 5.8% over 2013-2017, and grew

9.8% on a YoY basis (2017 vs 2016). The increase in the company's performance was due to increase in advances and customer base. Strong interest income enables the company to pursue its growth and expansion initiatives, and strengthens its liquidity and capital position, which provide it an overall financial stability.

Strong capital base

Wells Fargo's capital position became stronger in the last few years. Its total equity to assets increased from 10.39% in FY 2016 to 10.66% in FY2017. Also, its Common Equity tier 1 capital ratio and tier 1 capital ratio stood at 12.3% and 14.1 % in FY2017, respectively. Wells Fargo has strong capital base and is operating with strong capital ratios which are well above the regulatory requirements under Basel III norms. Moreover, Wells Fargo has less exposure than any of its large bank peers to capital loss from high-risk trading, derivatives and cross-border international risk. So, the company could continue to maintain strong capital base which should help it cushion against market uncertainties.

Weakness

Increasing non-interest expense

The company's expense management as measured by efficiency ratio has been deteriorating for the last few years ending FY2017. Efficiency ratio is defined as noninterest expense as a percentage of revenue. Therefore, a rise in efficiency ratio is unfavorable. Wells Fargo's efficiency ratio unfavorably rose from 59.3 % in FY2016 to 66.2% in FY2017. The unfavorable rise in efficiency ratio was the result of higher expansion in noninterest expense as compared to the expansion in revenue. Hence, continued weakening expense management will hamper the company's margins and further hurt its growth plans.

Opportunity

Strategic initiatives

Wells Fargo continues to focus on improving its operational efficiency by implementing various strategic initiatives which could help it in the long-term. For instance, in February 2018, it added predictive banking feature to its mobile app, offering personalized financial guidance, which guides the customer in a much user-friendly manner. In January 2018, in an effort to make process payments simpler and fast, Wells Fargo launched Fitbit Pay, in collaboration with Fitbit, which enables customers to process payments through Fitbit Ionic smart-watch. In November 2017, the company launched Intuitive Investor digital Wells Fargo Advisors³ accounts for investors. The new solution provides affordable access to customized investment portfolio and phone based advice, enabling it to attract next generation investors. In November 2017, the company launched Greenhouse app, which helps consumers manage their money at a lower cost. The Greenhouse provides personalized advice based on artificial intelligence and sends reminders to help customers in tracking their spending. During the same month, it launched Overdraft RewindSM, which allows direct-deposit customers to avoid overdraft charges.

Divestments

Wells Fargo is focusing on its core business areas by taking various strategic measures. In February 2018, it sold its share-owner services business, operated by Wells Fargo Bank, N.A. to a London-based technology and payment solution provider, Equiniti Group plc. The divestment of shareowner business will enable to focus on its core banking operations. In November 2017, the company exited from its personal insurance business in order to focus on its core business. Wells Fargo had already divested its crop insurance in 2016 and signed a deal to exit commercial insurance business also.

Increasing online and mobile customer base could improve operating performance

Wells Fargo offers online banking facilities to its clients. At the end of 2015, the company served more than 26 million active online customers and more than 16 million active mobile customers. This number is expected to rise considerably in the future. Moreover, the company is continuously working towards enhancing its self-service offerings and improving its customers' online experience.

Online banking service significantly amplifies the company's ability to enlarge its customer base without incurring substantial incremental cost on infrastructure. The company's operating margin would be positively affected by increasing proliferation of online banking services amongst its customers.

Growing cards and payments market in the US

The growing cards and payments channel in the US may provide growth opportunities to the company. According to in-house report, the number of cards in circulation in the country is projected to reach 1,622.8 million in 2021, which consist of 857.3 million debit cards, 736.8 million credit cards, and 28.7 million charge cards. The transaction value of the channel is forecast to grow to US\$8,771.5 billion in 2021, with debit cards contributing US\$4,253.3 billion, credit cards contributing US\$4,085.1 billion, and charge cards contributing US\$433.1 billion. The growth in the market is driven by increasing mobile payments, booming e-commerce, increase in the number of contactless terminals, and increasing digitization of the economy.

Threat

Increasing cost of labor in the US

Labor costs in the US have been increasing in the recent past. The tight labor markets, government mandated increase in minimum wages and a higher proportion of full-time employees result in an increase in labor costs. The federal minimum wage provisions are contained in the Fair Labor Standards Act (FLSA). The minimum wage rate in the US remained at US\$7.25 per hour in January 2017. The 29 states and the District of Columbia have minimum wages more than federal rate. These wages range from US\$8 per hour in Arkansas, US\$7.5 per hour in Maine, and New Mexico to US\$9.47 per hour in Washington. The minimum wage in California reached US\$10 per hour. Wells Fargo currently employs approximately 262,700 employees and it seeks to further spread its geographic reach which would require more personnel. Therefore, rising manpower cost could increase its overall cost structure and could impact its stability.

Intense competition

Wells Fargo operates in a highly competitive environment. The company competes with banks, thrifts, credit unions, investment banking firms, investment advisory firms, brokerage firms, investment companies, insurance companies, mortgage banking companies, credit card issuers, mutual fund companies and e-commerce and other internet-based companies. Competition is based on a number of factors including, among others, customer service, quality and range of products and services offered, price, reputation, interest rates on loans and deposits, lending limits and customer convenience. In the recent years, there has been substantial consolidation among companies in the financial services industry. Wells Fargo will continue to experience intensified competition as consolidation and globalization of the financial services industry may result in larger, better-capitalized and more geographically diverse companies that are capable of offering a wider array of financial products and services at more competitive prices. Intense competition is likely to erode market share and profitability of the company.

Increasing regulatory challenges

Financial services industry is undergoing sweeping financial legislative and regulatory reform efforts since the Great Depression. The year 2011 saw implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act as well as creation of Basel III, a global regulatory framework for a more resilient banking system worldwide. While these and many other regulatory changes worldwide will affect companies such as Wells Fargo less than other global institutions, it incurs, and will continue to incur, higher operating costs from these reforms as well as from the generally harsher regulatory environment. In addition, Wells Fargo could also be affected by Volcker Rule, which was adopted in 2013. The Volcker Rule includes the provisions prohibiting proprietary trading and restricting the activities involving private equity and hedge funds. Increasing regulatory challenges on one hand pose non-compliance risk and on the other hand increase compliance spending.

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