THE GOLDMAN SACHS GROUP, INC. (NYSE: GS)

Financial Services: Banking

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Initiating Coverage of GS at Market Outperform and $556.08 Target Price

BOTTOM LINE

We are initiating coverage of Goldman Sachs Group Inc. with a market outperform rating and a $556.08 price target. This rating is based on the company's strong performance in its core segments, particularly Global Banking and Markets. With the current rate cut and upcoming rate cuts in the future, Goldman Sachs can increase its deal-flow and M&A activity, growing its traditional services. Improving market sentiment well positions Goldman Sachs to expand its other divisions for stable forms of revenue and growth.

KEY POINTS

Strong Position in Investment Banking – Goldman Sachs is the second-largest global investment bank, holding a 7.3% market share in investment banking revenue. This segment is crucial to its operations, with consistent growth in M&A and advisory services, especially in sectors like power and healthcare, providing resilience against high-interest rate impacts.

Asset and Wealth Management Growth – Managing $1.5 trillion in wealth management assets, Goldman Sachs emphasizes high-net-worth and institutional clients. With strategic shifts towards equity and alternative investments, this division supports steady revenue growth even amidst rate fluctuations, bolstered by the firm's recent overseas expansion efforts in Europe and Asia.

Refocused Traditional Strengths – Following losses in its consumer banking platform, Goldman Sachs has renewed its focus on core business areas like investment banking and wealth management. While recent digital initiatives showed challenges, its move to capitalize on its strengths positions it better for sustained growth in established financial services.

Increasing Net Interest Income (NII) – Benefiting from higher interest rates, Goldman Sachs has seen a 40% increase in NII from Q1 to Q2 2024, driven by strategic asset allocations in high-yield loans and fixed-income securities. This growth shows effective interest rate management and enhances overall profitability, providing a solid foundation for shareholder returns.

Market Outperform
Target Price $556.08

Suitability	Moderate Risk/Income

MARKET DATA

Current Price	$522.44
52-Week Range	$308.00 -$540.51
Market Cap	$164.04
Current Net Debt	$89.44
Dividend Yield	2.3%
EPS	$34.14
Beta	1.35

KEY FINANCIAL METRICS

	2022A	2023A	2024E
Revenue	$44.7	$45.2	$51.8
% Growth	*(24)%*	*1.3%*	*11.2%*
Net Income	$11.3	$8.5	$12.2
% Growth	*25.2%*	*18.8%*	*24.6%*
EPS	$30.1	$22.9	$36.9
% Growth	*(49)%*	*(24)%*	*65%*
EBIT	$16.2	$12.0	$18.1
% Change	*(41)%*	*(26)%*	*50%*

KEY MULTIPLES

VALUATION	
P/EPS	15.68x
P/NTM EPS	13.07x
P/BV	1.57x
P/Tangible BV	1.61x
LIQUIDITY	
Current Ratio	2.8x
Quick Ratio	2.0x
Cash from Ops. / Current Liabilities	0.0x
LEVERAGE	
LT Debt/Equity	494.2%
LT Debt/Capital	75.3%
Tier 1 Capital Ratio	15.9%
EFFICIENCY	
Return on Assets	0.7%
Return on Equity	10.2%

Source(s): FactSet, Capital-IQ, Goldman Sachs Company Filings. All figures in billions of $USD except per share values. Data as of October 30th, 2024.

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Company Overview

Company History

The Goldman Sachs Group Inc was founded in 1869 by Marcus Goldman in New York City during a period of tight and expensive bank credit. It has become one of the leading financial firms in the world, with presence in America, Asia, Europe, the Middle East, and Africa. As of June 2024, Goldman Sachs had a 7.3% market share of global investment banking revenue, making it the second largest investment bank in the world by revenue. GS is known for its advisory services, mergers and acquisitions, and underwriting initial public offerings (IPOs), such as two of the largest IPOs in history, Coinbase and Roblox, in 2021.

Business Description

Goldman Sachs is a leading global financial institution that delivers a broad range of financial services to a large and diversified client base that includes corporations, financial institutions, governments and individuals. The company operates through three main segments: Global Banking and Markets, Asset and Wealth Management, and Platform Solutions. The Global Banking and Markets Division provides advisory and underwriting services to help companies raise capital to strengthen and grow their businesses. Through this, GS generates revenues from investment banking fees, FICC and Equities intermediation and financing activities. The Asset and Wealth Management Division provides investment services to help clients preserve and grow their financial assets and achieve their financial goals. GS generates revenue through management and incentive fees, private banking and lending, and equity and debt investments. The Platform Solutions Division generates revenue through consumer solutions and transaction banking.

Business Segments

Global Banking and Markets

The Global Banking and Markets Division serves public and private sector clients including corporations, governments, states and municipalities. Goldman Sachs develops and maintains long-term relationships with its clients through its advisory and underwriting activities. These services serve as the main point of contact along with facilitating transactions in fixed income, currency, commodity, and equity products. Its clients include companies trying to raise capital to grow their businesses, engage in mergers and acquisitions, divestitures, corporate defense, restructurings, and spin-offs. The Global Banking and Markets segment is vital to Goldman Sachs' operations, accounting for over 70% of its revenue generation annually. This segment generates revenue through investment banking, FICC, and Equities.

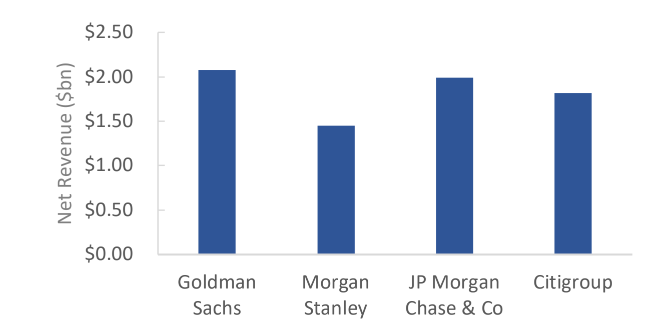
Global Banking and Markets is the highest revenue-generating business segment for Goldman Sachs.

Investment Banking – The investment banking service at Goldman Sachs provides advisory and underwriting services to help companies raise capital that grow their businesses. Through advisory, Goldman Sachs helps clients execute large, complex transactions by providing advice regarding mergers and acquisition, cross-border structuring, and managing asset and liability exposures. In the first quarter of 2024, investment banking revenue increased by 32% from year-to-date to $2.1 billion, with Goldman Sachs leading the market with a share of 7.3% (Exhibit 1). Despite uncertain market conditions, Goldman Sachs also reflected an increase in completed M&A transactions and IPO offerings due to their focus on the power sector, allowing them to target industries that are less affected by the heightened rates and showcase the strength of the investment banking service at Goldman Sachs. With this emphasis on industries in the power sector, Goldman Sachs can continue to increase their M&A activity for the coming quarters.

FICC – The Fixed Income, Commodities, and Currency service at Goldman Sachs provides intermediation and financing activities that include client execution activities related to making markets in both cash and derivative instruments, and includes secured lending, resale agreements, and commodity financing for clients. Goldman Sachs reflected market wide growth in mortgages, roughly a 16.8% increase as of August 2024, and structured lending through its increase in FICC intermediation and financing for the first quarter of 2024, primarily making loans to its institutional investors who own 72% of the company. By leveraging its shareholders and its position as one of the companies with majority institutional shareholders, Goldman Sachs drove its FICC revenue beyond industry players, making up majority of the revenue under Global Banking and Markets.

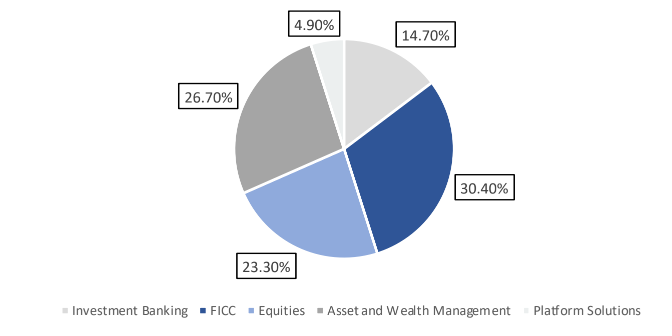
Equities – The Equities service at Goldman Sachs provides intermediation and financing activities that provide liquidity to its clients, develop strategies, and provide prime financing for securities trading which allows investors to establish or liquidate investment positions. It also provides information about portfolio hedging, restructuring, and asset allocation transactions. With a 27% increase in derivatives and equities financing during the first quarter of 2024, Goldman Sachs reflects strategic investments in technology and algorithmic trading, allowing them to execute trades more efficiently.

Exhibit 1: Goldman Sachs' Leading Revenue in Investment Banking Among Peers for 1Q24



Source(s): Capital-IQ, VIG Equity Research

Exhibit 2: Global Banking and Markets Earnings Breakdown for 1Q24



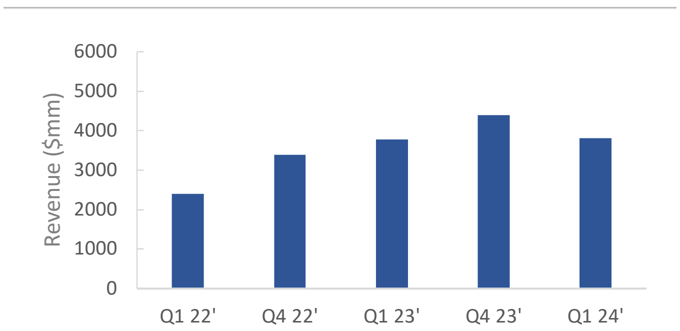
Source(s): Goldman Sachs Earnings, VIG Equity Research

Asset and Wealth Management

The Asset and Wealth Management Division offers investment services to help clients preserve and grow their financial assets, thereby achieving their financial goals. Goldman Sachs manages client assets across a broad range of investment strategies and classes, including equities, fixed income, and alternative investments. Alternative investments primarily include hedge funds, credit funds, private equity, real estate, currencies, commodities and asset allocation strategies. Goldman Sachs offers its investment solutions in various structures comprised of separately managed accounts, mutual funds, private partnerships, and other commingled vehicles. Goldman Sachs provides investment advisory solutions addressing client objective, portfolio construction, and risk management, tailoring their expertise to the needs of their clients.

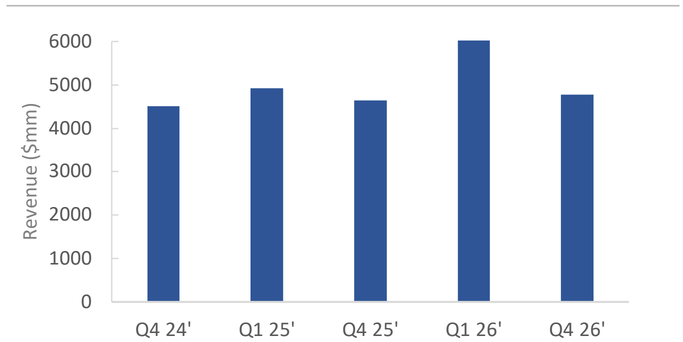
Goldman Sachs also provides customized wealth advisory services through investment advisory solutions, structuring and execution capabilities, and private banking services to its clients across the globe, serving individuals, families, family offices, and foundations. As of 2024, Goldman Sachs managed roughly $190 billion assets under its Asset and Wealth Management Division. To double its private-credit assets under management to $300 billion in next five years, Goldman Sachs has also let some of its big asset management clients, specifically insurance companies, to invest alongside it when it loans money to borrowers, which includes private-credit funds and nonbank lenders such as mortgage providers or asset backed loans.

Exhibit 3: Asset and Wealth Management Has Growing Revenues…



Source(s): Goldman Sachs Earnings, VIG Equity Research

Exhibit 4: …And Remains Positive for the Future



Source(s): Goldman Sachs Earnings, VIG Equity Research

Goldman Sachs plans to increase its wealth management business beyond the US by focusing on high-net worth clients in the overseas markets, particularly Europe and Asia, to diversify and bolster its revenue streams in the long-term. With its current leading presence in the EMEA compared to industry players, Goldman Sachs can make headwind on this growth strategy by building a robust high net-worth client base globally (Exhibit 5). The firm's strategic move in increasing loans for significant purchases like luxury homes and sports teams helps to enhance its wealth management client base. While other industry players are also aggressively expanding its business outside the U.S., Goldman Sachs remains a step ahead by yielding results already, with 23% of its AUS based in EMEA and 7% based in Asia for the first quarter of 2024 compared to Morgan Stanley's AUM of 15% in EMEA and 6% in Asia. On top of this, Goldman Sachs recently hired a new managing director for this division in hopes of utilizing his experience with Registered Investment Advisors to expand its service offerings in wealth management. This progress builds on sentiment that Goldman Sachs can make well-defined growth in its wealth management division in the coming years.

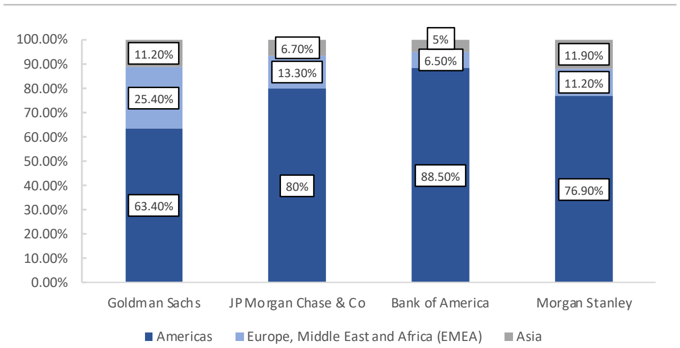
Platform Solutions

The Platform Solutions Division helps clients embed financial products and solutions to their customer-centered services. Goldman Sachs focuses on consumer platforms and transaction banking under this division. Goldman Sachs' consumer platforms issue credit cards and provide point-of-sale financing to help consumers finance their purchases. Goldman Sachs also provides transaction banking services consisting of cash management, deposit taking, and payment solutions for corporate and institutional clients.

As of 2024, Goldman Sachs manages three platform solutions: Enterprise Partnerships, Transaction Banking, and ETF Accelerator. Enterprise partnerships empower large consumer brands to grow their business by embedding financial products such as credit cards, installment financing, and high-yield savings accounts into their ecosystems. Transaction banking assists clients in building a tech-forward treasury for the future through liquidity management and virtual accounts, payments, escrow services, and banking as a service. ETF accelerator is Goldman Sachs' digital platform that enables institutional clients to launch, list, and manage their ETFs through regulatory service, custody and administration integration, portfolio implementation, and capital markets.

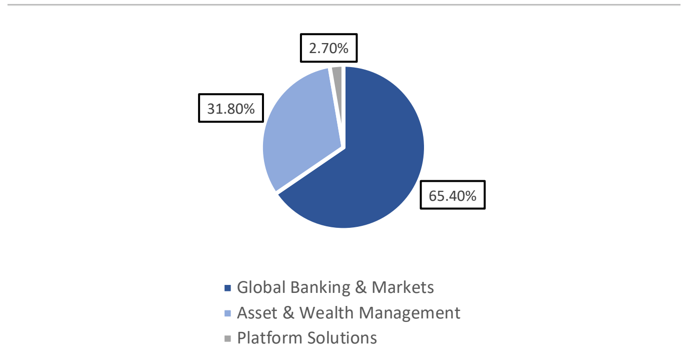
Despite market conditions and uncertain sentiment, transaction banking reflected higher deposit spreads, equaling to roughly $80 million in revenue for the first quarter of 2024. The division also has a substantial growth rate of 20.97% quarter-over-quarter and 23.76% year-over-year, primarily due to its focus on offering embedded financial products and services through cloud-native platforms, which cater to a broad range of clients, including developers and businesses. Recently, Goldman Sachs launched five new municipal bond ETFs to take advantage of attractive risk and reward trade-offs. With the September rate cut and additional cuts in the future, yields may fall causing demand for municipal bonds to rise, which Goldman Sachs plans to capitalize on. The five ETFs include Ultra Short Municipal Income ETF, Dynamic California Municipal Income ETF, Dynamic New York Municipal Income ETF, Tax-Exempt Municipal Income ETF, and Access U.S. Preferred Stock and Hybrid Securities ETF. By continually expanding its product offerings in growing markets like ETFs and blockchain, Goldman Sachs can continue this growth of Platform Solutions, addressing new innovations in the market early-on and standing out from players in the industry.

Exhibit 5: Goldman Sachs' Leading Presence in EMEA



Source(s): Capital-IQ, VIG Equity Research

Exhibit 6: Revenue Breakdown by Division for 2023



Source(s): Goldman Sachs 10-K, VIG Equity Research

Industry Overview

INDUSTRY ANALYSIS

Increased loan loss provisions due to economy uncertainty. With ongoing economic uncertainty and potential downturns in key markets, financial institutions are expected to increase their loan loss provisions as a precaution against a rise in non-performing loans, particularly in sectors like real estate and consumer lending. Financial institutions are likely to report higher credit costs, with JP Morgan Chase (NYSE: JPM) and Bank of America (NYSE: BAC) forecasting a 20% increase in loan loss provisions compared to the previous year.

High interest rates and market uncertainty are still a threat to financial firms. However, Goldman Sachs is positioned to overcome this threat through its growth in Asset and Wealth Management.

Further decline in equity financing driven by market volatility and uncertain interest rates. Equities financing activities are projected to continue declining due to persistent market volatility and investor caution. While initial public offerings are slowly on the rise again, the impact is mainly seen in underwriting and for sectors less affected by high interest rates. Portfolio financing and other equities financing activities in rate-sensitive sectors are still on the decline.

Lower commodities trading continues to impact FICC revenue. Decreased demand for raw materials, fluctuating global commodity prices, and geopolitical tensions have contributed to a volatile commodities market. Major trading houses and investment banks are forecasting a YoY decrease in commodities revenues by 15% for the second half of 2024. Firms heavily involved in commodities trading will see a decline in profitability, prompting a shift towards more stable revenue streams.

INDUSTRY UPSIDE FACTORS

Fee-Based Revenue Growth Driven by Wealth Management and Advisory Services. With a surge in assets under management driven by strong market performance and increasing investor confidence, major firms are seeing an increase in management fees and advisory revenues. This shift towards fee-based revenue will help mitigate the impact of interest rate pressures on traditional banking income.

Surge in underwriting revenues from a rebound in equity and debt issuances. After a period of subdued activity, improved market conditions and lower volatility are encouraging companies to seek capital with the help of financial firms, resulting in an increase in IPOs, bond issuances, and debt underwriting. In particular, debt underwriting reflects a significant increase in leveraged finance activity. This reads as a sign of economic strength and contributes to the revenue streams of leading investment banks.

Increase in deal flow and M&A activity from September rate-cut and potential additional rate cuts in the future. Lower financing costs from the recent September rate cut and potential further rate reductions are encouraging a rise in mergers and acquisitions, as companies pursue growth through strategic acquisitions. With reduced borrowing expenses, financial firms are more inclined to engage in M&A activities, driving increased deal flow across sectors. This surge in M&A activity is poised to enhance Goldman Sachs' investment banking revenue through advisory fees and underwriting services, particularly in leveraged buyouts and cross-border transactions.

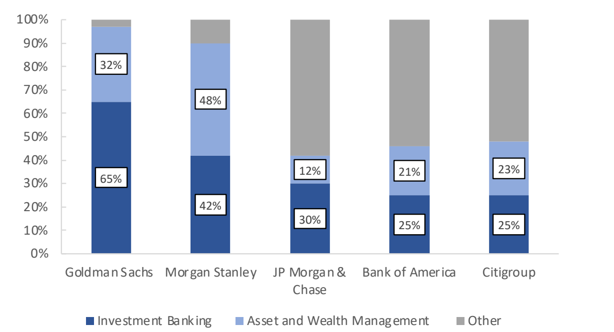
Investment Positives

Goldman Sachs' Leading Position in Investment Banking

LOSSES IN FICC AND EQUITIES OFFSET BY GAINS IN INVESTMENT BANKING

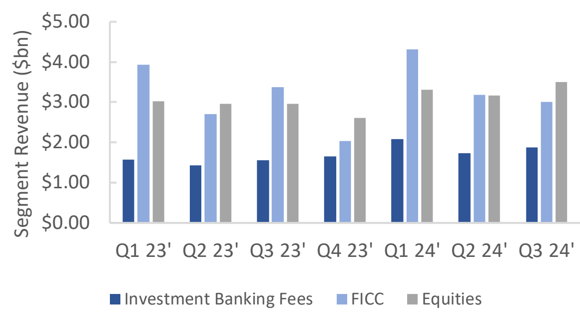
Goldman Sachs is the second largest investment bank globally, with a global revenue market share of 7.3%, providing the firm with significant exposure to investment banking revenues and activities compared to its direct peers (Exhibit 7). Goldman Sachs' investment banking revenues are primarily driven by debt and equity underwriting combined with advisory services. In the second quarter of 2024, investment banking fees increased by 21% from last year to $1.73bn. While investment banking activity remains below pre-COIVD levels, positive market sentiment and economic resilience has provided a stable backing for continuous increase in underwriting activity. In the third quarter of 2024, equity underwriting fees were higher due to an increase in secondary offerings along with advisory reflecting higher net revenues. Goldman Sachs has also seen an increase in M&A activity, particularly in the power and healthcare sectors, industries that are less affected by the heightened rates. Despite investment banking only comprising 14.7% of Goldman Sachs' Global Banking and Markets Division, it helped offset losses in FICC and Equities. These segments, which make up 30.4% and 23.3% respectively, experienced significantly lower net revenues in commodities and credit products from FICC intermediation, as well as lower net revenues from portfolio financing in Equities financing. Specifically, in the third quarter of 2024, FICC intermediation reflected significantly lower revenues in interest rate products.

Exhibit 7: Goldman Sachs' Highest Exposure to Investment Banking Among Peers



Source(s): Capital-IQ, VIG Equity Research

Exhibit 8: Goldman Sachs' Decreasing Revenues Are Attributable to Instability in FICC and Equities

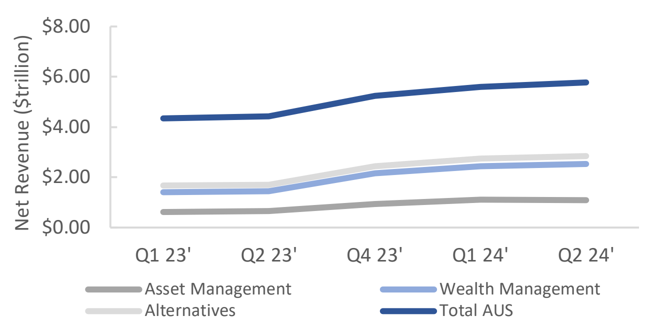


Source(s): Capital-IQ, VIG Equity Research

SHORT-TERM INCREASES IN ASSET AND WEALTH MANAGEMENT SEGMENT PROVIDES POTENTIAL FOR LONG TERM GROWTH

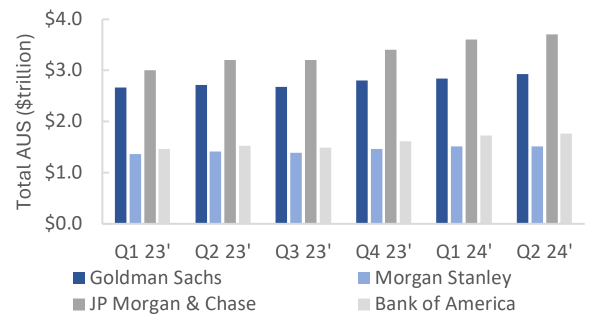
Goldman Sachs' asset and wealth management segment sees gradual growth mainly through its wealth management client channel. Managing $1.5 trillion in total wealth management client assets alone, its wealth management segment sees higher net revenues in comparison to its asset management segment, which is driven by robust market performance and strategic initiatives aimed at capturing high-net worth and institutional clients. This is highlighted by Goldman Sachs' third quarter numbers, with a $17 billion and $13 billion increase in its wealth management and institutional client channels respectively. Goldman Sachs also saw a gradual transition from debt investments to equity investments due to the high interest-rate environment, reflecting higher net gains in investments from private equities and net gains from real-estate investments. Despite the September rate cut, debt investments still decreased, roughly 40% from second quarter of 2024. However, with expected additional rate cuts, debt investments can normalize to regular levels gradually.

Exhibit 9: Wealth Management Segment Sees Continuous Growth in the Short-Term



Source(s): Goldman Sachs Earnings, VIG Equity Research

Exhibit 10: Goldman Sachs' High AUM Despite Lower Exposure in Asset and Wealth Management Among Peers

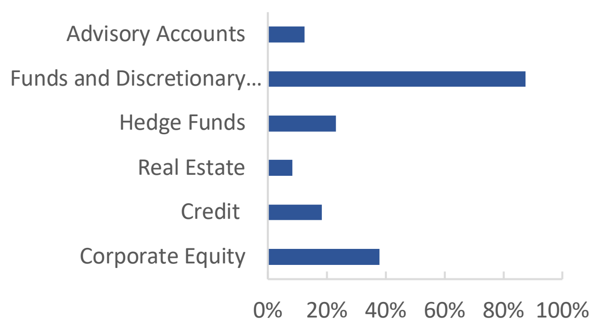


Source(s): Goldman Sachs Earnings, VIG Equity Research

The firm's strategic push into alternative investments and diversified asset classes have played a pivotal role in attracting significant asset inflows, translating directly into higher management fees and advisory revenues, which substantially boosts short-term profitability. For the second quarter of 2024, management and other fees from alternative investments were $548 million, up 5% from the previous year. The AUS for alternative investments increased $14 billion to $328 billion during the third quarter, heavily weighed by funds/discretionary accounts and corporate equity. These numbers emphasize the significant role of alternative investments for Goldman Sachs' asset management division. AUS numbers overall increased by $169 billion to a net high of $3.1 trillion in the third quarter, reflecting increases in liquidity products and fixed income assets. With its new initiative to allow insurance clients to invest alongside it, Goldman Sachs can increase its client co-invest channel in its on-balance sheet alternative investments. By also diversifying its product offerings to include alternative assets, Goldman Sachs caters to a broader client base that finds the high-fee asset class attractive in periods of market volatility. This focus not only enhances client retention, but also attracts new investments, creating a continuous cycle of growth.

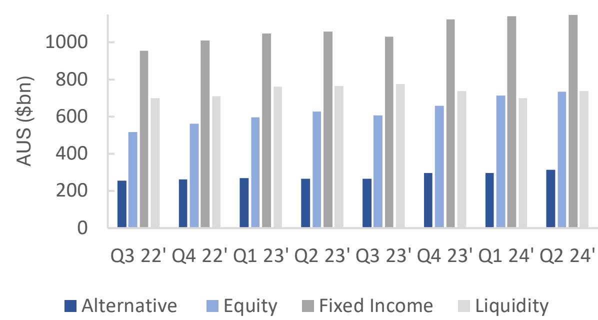
Goldman Sachs' significant growth in capturing high net-worth clients for its wealth management channel has increased its AUS and expanded its Asset and Wealth Management division.

Exhibit 11: Alternative Investments Breakdown For 2Q24



Source(s): Goldman Sachs Earnings, VIG Equity Research

Exhibit 12: AUS Asset Class Breakdown



Source(s): Goldman Sachs Earnings, VIG Equity Research

GOLDMAN SACHS REFOCUS ON TRADITIONAL MAINSTAYS FUELED BY UNSUCCESSFUL PIVOTS INTO FINANCIAL INNOVATIONS

While Goldman Sachs has historically been a powerhouse in investment banking, it has attempted to pivot into newer financial innovations that have not always yielded success. The firm's expansion into consumer lending via Marcus, its digital banking platform, and a partnership with Apple resulted in significant losses for Goldman Sach's Platform Solutions Division. After these losses, Goldman Sachs planned to divert to a credit card partnership with General Motors that fell short as well, resulting in Goldman Sachs diverting its attention back to areas it has traditionally excelled in. This strategic refocus, particularly in asset and wealth management, has been instrumental in navigating recent market fluctuations.

Despite the challenges faced in diversifying its offerings, the firm's substantial assets under management (AUM) have continued to grow, driven by strategic investments in high-fee asset classes and improving market sentiment. In 2023, Goldman Sachs saw a significant increase in AUM, translating into higher management fees and bolstering short-term profitability. Even as it trails behind some competitors in the wealth management exposure, Goldman Sachs' AUM stablility shows its resilience.

In regards to its Platform Solutions Division, Goldman Sachs is exploring the ETF and blockchain market, particularly through its ETF Accelerator and new crypto services. Three tokenization projects are set to launch by the end of Q4, with the U.S. fund complex and European debt issuance being primary focuses, leveraging private blockchain for regulatory compliance. This opportunity allows Goldman Sachs to create marketplaces for tokenized assets, enhance transaction speeds, and diversify the types of assets available for collateral. While broadening its services into new areas allows Goldman Sachs to differentiate itself, it also increases its risks as it enters markets with established players and could bring forth potential losses in the future, given how its past innovations ended in failure.

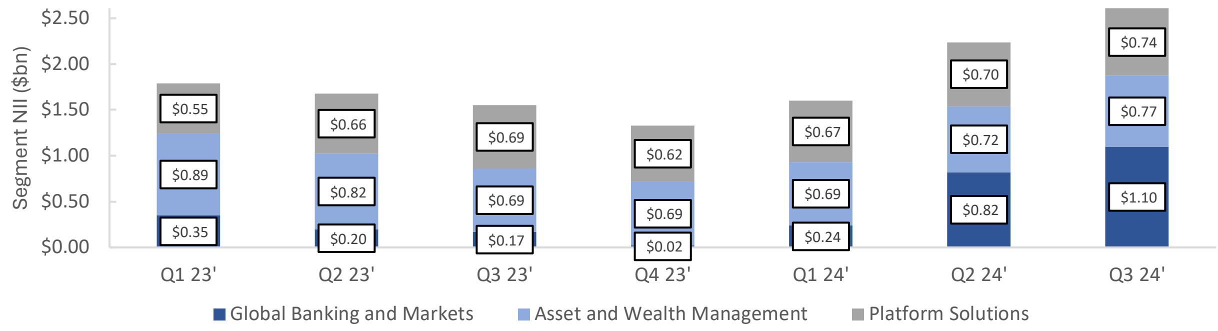
While Goldman Sachs continues to refine its platform initiatives, the firm's robust foundation in traditional financial services will provide a steady stream of revenue and growth opportunities. As the market evolves, Goldman Sachs' strategic focus on integrating new technologies and enhancing client offerings will likely yield long-term benefits, ensuring its competitive edge in the broader financial services industry.

CONSISTENT GROWTH IN NET INTEREST INCOME DRIVES PROFITABILITY, POSITIONING FOR FUTURE GAINS

Goldman Sachs has experienced consistent growth in its net interest income (NII), signaling a strong investment positive for the firm. From the first quarter to the second quarter of 2024, NII increased by roughly 40%, to $2.4 billion. This growth is largely attributed to the bank's strategic asset allocation and effective management of interest rate risk, capitalizing on higher interest rates set by the Federal Reserve to enhance its net interest margins. This strategic asset allocation is highlighted in Q3 24', where Goldman Sachs' averaged its interest-earning assets to $1.59 trillion, increasing its third quarter NII by 70% YoY. While other major banks like JPMorgan Chase and Morgan Stanley have also benefited from higher interest rates, Goldman Sachs' disciplined approach to controlling funding costs and focusing on higher-yielding investments, such as corporate loans and fixed-income securities, has uniquely positioned it to achieve robust NII growth.

The bank's diversified revenue streams, particularly in wealth management and institutional banking, have contributed to a solid increase in NII. Furthermore, Goldman Sachs has leveraged its strong client relationships and balance sheet optimization to maintain favorable funding costs, which in turn has supported this growth. As economic conditions remain favorable and potential interest rate hikes could further benefit the banking sector, Goldman Sachs is well-positioned to continue capitalizing on its interest income strategies. This consistent growth in NII highlights Goldman Sachs' strong financial management, enhancing profitability and providing a stable foundation for shareholder value creation in the coming quarters.

Exhibit 13: Goldman Sachs' NII Levels Restoring to Normal Levels and Increasing



Source(s): Goldman Sachs Earnings, VIG Equity Research

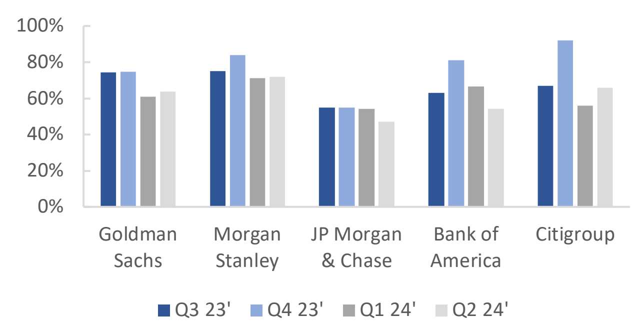
Potential Downsides

GRADUAL INCREASE IN EFFICIENCY STILL REQUIRES ADDITIONAL IMPROVEMENTS IN REGARD TO EXPENSE ALLOCATION

While Goldman Sach's efficiency has been gradually improving this year, it still lags behind previous years and among its peers in the industry, with a current efficiency ratio of 64%. Currently, Goldman Sach reflects higher compensation and benefits expenses, with an almost 10% increase in transaction based expenses from the first quarter of 2024. Allocating these expenses effectively is crucial for the firm to improve its efficiency in the coming quarters. However, as the firm moves away from its consumer business losses and re-shifts its focus in investment banking, it can continue to see an increase in efficiency, meeting its target in the first quarter of 2024. Despite lower efficiency, Goldman Sachs remains positive in its trajectory to meeting its ROE target of 14%, with a current ROE of 11% for the second quarter of 2024. As the market cools down and the Federal Reserve brings additional rate cuts, Goldman Sachs can remain competitive.

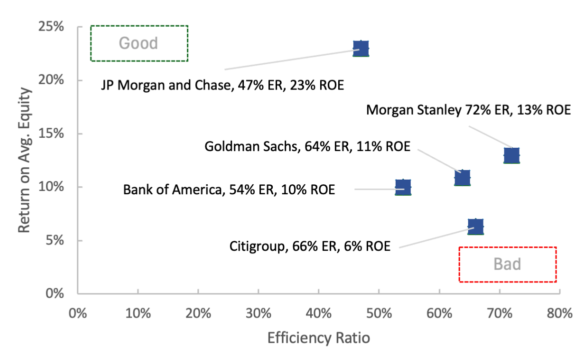
While Goldman Sachs' efficiency ratio still lags behind peers, it has been increasing gradually, allowing the firm to remain competitive.

Exhibit 14: Goldman Sachs' Efficiency Ratio Lags From Previous Years



Source(s): Capital-IQ, VIG Equity Research

Exhibit 15: ...But Remains Competitive Considering Returns

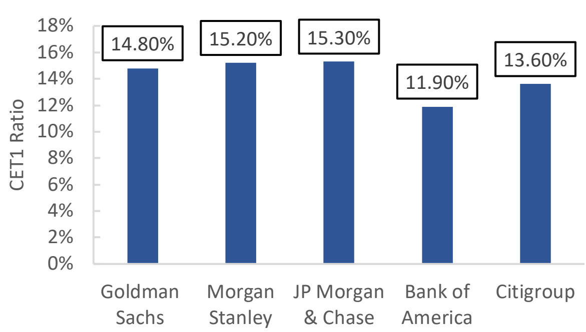


Source(s): Capital-IQ, VIG Equity Research

STEADY IMPROVEMENT IN CET1 RATIO SIGNALS STRENGTH, BUT FURTHER OPTIMIZATION NEEDED TO REACH TARGETS

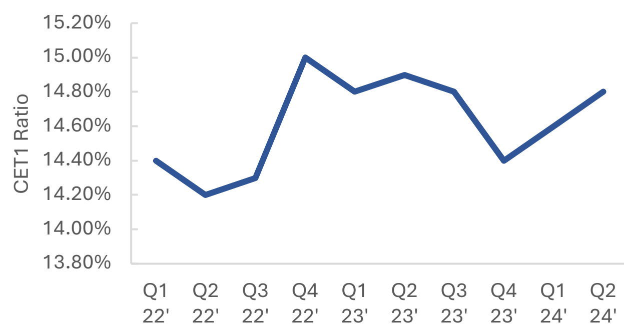
Goldman Sachs has shown a steady improvement in its CET1 ratio from the first quarter to the second quarter of 2024, rising from 14.6% to 14.8%. This upward trend is a positive indicator of the bank's growing capital strength and its ability to absorb potential financial shocks. However, despite this improvement, Goldman Sachs still lags behind some of its major competitors, who have maintained CET1 ratios closer to the 15% mark, reflecting stronger capital adequacy positions. Currently, Goldman Sachs has a Risk-Weighted Asset (RWA) allocation of approximately $690 billion, which, while significant, remains higher compared to some of its peers. For instance, Morgan Stanley report RWA allocations closer to $460 billion. These figures suggest that Goldman Sachs could benefit from further optimization of its RWA to enhance its capital efficiency and CET1 ratio. To improve, Goldman Sachs could focus on shedding non-core, high-risk assets and reallocating capital toward lower-risk, high-return investments. As economic conditions stabilize and regulatory capital requirements evolve, Goldman Sachs' proactive approach to managing its capital base and optimizing RWA will be crucial in achieving a higher CET1 target by the end of the year, thus solidifying its competitive positioning among major global banks.

Exhibit 16: Goldman Sachs' CET1 Ratio Lags Among Peers



Source(s): Capital-IQ, VIG Equity Research

Exhibit 17: …But Slowly Growing to its Peak



Source(s): Capital-IQ, VIG Equity Research

Valuation

Our base case valuation of Goldman Sachs implies a $556.08/share based on our blended valuation (Dividend Discount Model, Comparable Company Valuation) with equal weighting. This implies a 6.75% upside to the current share price. Using a blended approach accounts for Goldman Sachs' complex capital structure and regulatory requirements, and its steady dividend payout. This scenario requires continued progression in deal-making, which is a heavy possibility after the interest-rate cut. In this scenario, Goldman Sachs' investment banking division drives growth and increases the amount of dividend payouts.

The two-stage dividend discount model uses a cost of equity or discount rate of 12.61%, with a growth rate of 18.3% for stage one for heavy growth and 9.5% for stage two that is based on historical growth rates. Our valuation methodology takes our estimated 2025E DPS to arrive at an implied share price. We have also listed out a group of comparable companies and their respective average P/BV and P/E multiples.

The downside scenario of $456.38 is based off of a cost of equity of 13.1% and a stage one growth rate of 18.1%. This downside case would be in the event of an inflationary environment with high rates that would impact Goldman Sachs' deal flow and M&A activity. Lower revenue from its investment banking division followed by a decrease in assets managed, in particular, would heavily impact its revenue generation.

The upside scenario of $645.91 is based off of a cost of equity of 12.1% and a stage one growth rate of 18.5%. This upside case would occur in the event of heavy deal flow via IPOs and secondary offerings, followed by a surge in M&A activity. Success from Goldman Sachs' strategic push into ETFs would fuel this scenario. This scenario also requires a stable economy environment along with strong market sentiment.

Exhibit 18: Calculation of Dividend Model Price Target

Two-Stage Dividend Model								
Dividends Per Share (DPS) – Current Period		$10.50						
Cost of Equity (Ke)		12.6%						
	Stage 1	**Stage 2**						
Dividend Growth Rate (g):	18.3%	9.5%						
				Stage 1				
Stage 1 Dividends			**Year 0**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Dividends Per Share (DPS)			$10.50	$12.42	$14.68	$17.36	$20.53	$24.28
Cost of Equity (Ke)			12.6%	12.6%	12.6%	12.6%	12.6%	12.6%
Present Value (PV) of Dividend			**$10.50**	**$11.03**	**$11.58**	**$12.16**	**$12.77**	**$13.41**
Share Price Calculation								
PV of Sum of Stage 1 Dividends		$60.95						
Year 5 Dividend × (1 + Stage 2 Growth Rate)		$26.59						
Stage 2 Terminal Value		$855.00						
PV of Stage 2 Terminal Value		$472.15						
Value Per Share ($)		**$533.10**						

Source(s): Goldman Sachs Company Filings, VIG Equity Research

Exhibit 19: Discount Rate & DDM Sensitivity Analysis

Discount Rate	
Market Risk Premuim	7.00%
Beta	1.23
Risk Free Rate	4.00%
Cost of Equity	**12.61%**

Sensitivity Analysis

		Stage One Growth Rate										
		17.8%	**17.9%**	**18.0%**	**18.1%**	**18.2%**	**18.3%**	**18.4%**	**18.5%**	**18.6%**	**18.7%**	**18.8%**
Cost of Equity	**11.1%**	$1,025.83	$1,030.09	$1,034.36	$1,038.65	$1,042.96	$1,047.27	$1,051.61	$1,055.95	$1,060.32	$1,064.69	$1,069.08
	11.6%	$779.37	$782.59	$785.81	$789.05	$792.29	$795.55	$798.82	$802.10	$805.39	$808.69	$812.00
	12.1%	$627.74	$630.31	$632.89	$635.48	$638.07	$640.68	$643.29	$645.91	$648.54	$651.18	$653.83
	12.6%	$525.05	$527.18	$529.32	$531.47	$532.63	$533.10	$537.96	$540.14	$542.32	$544.51	$546.71
	13.1%	$450.90	$452.72	$454.55	$456.38	$458.22	$460.06	$461.91	$463.77	$465.63	$467.50	$469.38
	13.6%	$394.86	$396.44	$398.03	$399.63	$401.22	$402.83	$404.44	$406.05	$407.67	$409.29	$410.92
	14.1%	$351.02	$352.42	$353.82	$355.23	$356.64	$358.05	$359.47	$360.90	$362.33	$363.76	$365.20

Source(s): Capital-IQ, Goldman Sachs Company Filings, VIG Equity Research

Exhibit 20: Goldman Sachs Comparable Company Valuation

Goldman Sachs Comparable Company Valuation

		Raw	Mean P/BV		Mean P/E	
Comparable Company Sector	**Goldman Sachs Equivalent**	**Weighting**	**2024E**	**2025E**	**2024E**	**2025E**
Investment Banking	Global Banking and Markets	81%	1.80x	1.66x	14.88x	12.28x
Asset and Wealth Management	Asset and Wealth Management	24%	2.40x	2.30x	21.65x	13.75x
Weighted			2.03x	1.90x	17.24x	13.24x

Estimated Company Financials

($ in Millions)	2022A	2023A	2024E	2025E
BVPS	$303.55	$313.56	$335.40	$359.01
% Growth		3.30%	6.97%	7.04%
EPS	$30.06	$22.87	$37.26	$41.13
% Growth		-23.92%	62.92%	10.39%
Net Debt	$397,075.00	$331,373.00	$311,537.00	$233,919.00

Shares Outstanding	339.8
P/BV Imp. Price	$682.23
P/E Imp. Price	$544.67
Final Target Price	**$579.06**
Blended	**$556.08**

Source(s): Capital-IQ, Goldman Sachs Company Filings, VIG Equity Research

Exhibit 21: Goldman Sachs Comparable Companies

			Market	Dividend	BVPS		P/BV		EPS		P/E	
Company	**Ticker**	**Price**	**Cap**	**Yield**	**2024E**	**2025E**	**2024E**	**2025E**	**2024E**	**2025E**	**2024E**	**2025E**
Investment Banking												
J.P. Morgan Chase	JPM-US	$199.14	$566,586.10	2.30%	$115.93	$125.08	1.78x	1.65x	$17.75	$17.16	11.50x	11.90x
Bank of America	BAC-US	$37.58	$291,604.90	2.80%	$35.77	$38.24	1.07x	1.00x	$3.25	$3.68	11.70x	10.40x
Citigroup	C-US	$58.76	$112,102.00	3.60%	$101.78	$108.11	0.57x	0.53x	$5.82	$7.06	10.30x	8.20x
Evercore	EVR-US	$227.98	$8,739.70	1.40%	$42.34	$47.99	5.50x	4.86x	$9.82	$14.58	26.00x	18.60x
HSBC Holdings	HSBC-US	$40.79	$150,531.70	7.43%	$47.24	$50.34	0.88x	0.83x	$6.13	$6.27	6.66x	6.51x
Raymond James	RJF-US	$107.28	$22,093.60	1.68%	$53.23	$57.35	2.07x	1.92x	$9.51	$9.99	11.28x	10.74x
Jefferies Group	JEF-US	$53.83	$11,061.60	2.60%	$46.76	$50.05	1.18x	1.10x	$2.98	$4.35	18.04x	12.37x
Houlihan Lokey	HLI-US	$144.13	$10,027.90	1.58%	$28.74	$30.16	5.21x	4.97x	$5.68	$6.71	25.37x	21.49x
Moelis	MC-US	$59.58	$4,567.80	4.03%	$5.43	$5.66	11.24x	10.79x	$1.06	$2.42	56.27x	24.61x
PJT Partners	PJT-US	$118.76	$2,848.50	0.84%	$7.57	$9.47	16.11x	12.87x	$4.31	$5.16	27.53x	23.02x
RBC Capital Markets	RY-US	$107.38	$151,986.10	3.86%	$60.13	$64.92	1.81x	1.68x	$8.49	$9.13	12.64x	11.77x
BMO Capital Markets	BMO-US	$80.21	$58,289.20	5.68%	$72.88	$76.89	1.12x	1.06x	$7.82	$8.46	10.26x	9.48x
Investment Banking Mean	-	-	-	-	-	-	**4.05x**	**3.60x**	-	-	**14.88x**	**12.28x**
Investment Banking Median	-	-	-	-	-	-	**1.80x**	**1.66x**	-	-	**11.60x**	**11.15x**
Asset & Wealth Management												
UBS	UBS-US	$28.12	$90,157.20	2.50%	$27.47	$28.93	1.04x	0.99x	$1.46	$2.21	29.60x	14.90x
BlackRock	BLK-US	$846.02	$125,380.20	2.40%	$265.98	$281.75	3.22x	3.04x	$41.55	$46.30	20.21x	18.14x
Morgan Stanley	MS-US	$95.85	$155,181.20	3.90%	$57.36	$59.72	1.65x	1.59x	$6.95	$7.61	13.70x	12.60x
Charles Schwab	SCHW-US	$62.22	$113,749.00	1.61%	$23.85	$25.05	2.62x	2.49x	$3.05	$4.05	20.40x	15.35x
Robinhood	HOOD-US	$17.12	$15,045.70	0.00%	$8.21	$8.46	2.18x	2.12x	$0.56	$0.59	30.54x	29.21x
Lazard	LAZ-US	$43.42	$3,915.20	4.61%	$5.88	$7.90	7.72x	5.75x	$2.58	$3.98	16.81x	10.91x
Asset & Wealth Management Mean	-	-	-	-	-	-	**3.07x**	**2.66x**	-	-	**21.65x**	**13.75x**
Asset & Wealth Management Median	-	-	-	-	-	-	**2.40x**	**2.30x**	-	-	**21.65x**	**13.75x**
Goldman Sachs	**GS-US**	**$470.64**	**$159,918.9**	**2.50%**	**$335.40**	**$359.01**	**1.46x**	**1.37x**	**$37.26**	**$41.13**	**13.10x**	**11.60x**
Unweighted Mean	**-**	**-**	**-**	**-**	**-**	**-**	**3.72x**	**3.29x**	**-**	**-**	**17.13x**	**12.77x**
VIG Estimates	**-**	**-**	**-**	**-**	**-**	**-**	**2.03x**	**1.90x**	**-**	**-**	**17.24x**	**13.24x**

Source(s): Capital-Q, FactSet, Goldman Sachs Company Filings, VIG Equity Research

Management Team & Executive Compensation

Management

David Solomon, Chairman and Chief Executive Officer – David Solomon is the Chairman and CEO of Goldman Sachs. He develops the firm's strategy and leverages firm and industry knowledge to lead the firm and its people. He develops the company's vision and risks in each case and provide his insights to the Board. He joined as the Co-Head of the Investment Banking Division in 2006 and became President and COO in 2017. Outside of Goldman Sachs, he serves as a member in the board for New York Presbyterian Hospital, Robin Hood Foundation, and Hamilton College.

John E. Waldron, President and Chief Operating Officer – John Waldron is President and COO of Goldman Sachs. He is a member of the Goldman Sachs Management Committee, Co-Chair of the Firmwide Enterprise Risk Committee, and Chair of the Firmwide Reputational Risk Committee. Outside of Goldman Sachs, he is a member of the Board of Directors of the Cleveland Clinic, and more.

Denis Coleman, Chief Financial Officer – Denis Coleman is Chief Financial Officer of Goldman Sachs, serving on the Management Committee, Firmwide Enterprise Risk Committee, Firmwide Asset Liability Committee and Firmwide Risk Council. He joined Goldman Sachs in 1996 as an Analyst in the Bank Loan Group and moved to CM and FICC in 1998.

John F.W. Rogers, Executive Vice President - John Rogers serves as Executive Vice President and Secretary to the Board of Directors. He is a member of the Management Committee, the Firmwide Reputational Risk Committee and Co-Chair of the Regulatory Reform Steering Group. He is also the Chairman of the Supervisory Board of Goldman Sachs Bank Europe SE, Chairman of the Goldman Sachs Foundation and Goldman Sachs Gives. He joined Goldman Sachs in 1994 and was named Managing Director in 1997 and Partner in 2000.

Brian J. Lee, Chief Risk Officer – Brian Lee is the Chief Risk Officer of Goldman Sachs. He is a member of the Management Committee, Firmwide Risk Council, Firmwide Asset Liability Committee, Firmwide Enterprise Risk Committee and Firmwide Investment Policy Committee. He joined Goldman Sachs in 1994 and formerly served as the firm's Controller and Chief Accounting Officer from 2017 to 2019.

Carey Halio, Global Treasurer – Carey Halio is Global Treasurer of Goldman Sachs. Sher serves as a member of the Management Committee, Conduct Committee, Enterprise Risk Committee and co-chair of the Firmwide Asset Liability Committee. She started at Goldman Sachs in 1999 as a Summer Associate and served as Global Head of Investor Relations and Chief Strategy Officer. Throughout her time, she held various positions at the firm, including CEO of Goldman Sachs Bank USA.

Sheara J. Fredman, Chief Accounting Officer – Sheara Fredman is Chief Accounting Officer and Controller at Goldman Sachs. She oversees the external and internal reporting, product control, and regulatory capital. She joined Goldman Sachs in 2002 as an associate and was named Managing Director in 2008 and Partner in 2012.

Kathryn Ruemmler, Chief Legal Officer and General Counsel – Kathryn Ruemmler is Chief Legal Officer and General Counsel at Goldman Sachs. She serves on the firmwide Management Committee and is Chair of the Firmwide Conduct Committee. She joined Goldman Sachs in 2020 as a Partner.

Compensation

Executive compensation at Goldman Sachs consists of a base salary and an annual variable compensation. The variable compensation is based on a performance-based system that directly relates firmwide compensation to firmwide performance over a given cycle. The Compensation Committee utilizes an Assessment Framework to provide in-depth definition and transparency to this compensation system and how it connects firmwide performance with compensation for their NEOs ("Named Executive Officers").

Base Salaries – The base salary is an annual fixed cash compensation that provides NEOs with a predictable leve of income. For 2023, the following annual base salaries were: $2.0 milliion for CEO, $1.85 million for COO and CFO, and $1.5 million for other NEOs.

Annual Variable Compensation – The variable compensation is either equity-based (PSUs) or cash based. At least 60% of NEOs' annual variable compensation is given in the form of PSUs. The variable compensation is determined by the assessment framenwork and other factors.

- **Assessment Framework –** The assessment framework looks at financial performance, strategic priorities & clients, risk management & controls, and people. The framework is reviewed annually and amended as necessary based on stakeholder and general feedback.

- **Other Factors –** The compensation committee also looks at individual performance and the market for talent when determining the compensation for the firm's NEOs. At least 60% of NEOs variable compensation is subject to performance conditions.

Key Accomplishments – Listed below are the key accomplishments that drove Goldman Sachs' business and influenced the bonuses received by NEOs.

- Ranked #1 in worldwide announced and completed mergers and acquisitions, equity and equity-related offerings, and common stock offerings for 2023
- Record Management and other fees of $9.5 billion in 2023, up 8% YoY with an AUS of $2.8 trillion
- Surpassed five-year $225 billion alternatives fundraising target, one year ahead of schedule

Exhibit 22: Goldman Sachs Executive Compensation Summary, 2023

			Annual Variable Compensation		
Name	Position	Salary	PSUs	Cash	Total
David Solomon	Chairman, Chief Executive Officer	$2,000,000.00	$20,300,000.00	$8,700,000.00	$31,000,000.00
John Waldron	President, Chief Operational Officer	$1,850,000.00	$16,890,000.00	$11,260,000.00	$30,000,000.00
Denis Coleman	Chief Financial Officer	$1,850,000.00	$10,890,000.00	$7,260,000.00	$20,000,000.00
Kathryn Ruemmler	Chief Legal Officer, General Counsel	$1,500,000.00	$8,700,000.00	$5,800,000.00	$16,000,000.00

Source(s): Goldman Sachs Company Filings, VIG Equity Research

Please read disclosures/risk and liability information beginning on page 16, including Analyst information on page 17.

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(MP3): Expected to perform generally in line with the respective sector over the next 12 months. Underperform (MU4): Expected to underperform the respective sector over the next six to 12 months and should be sold. Suspended (S): The rating and price target have been temporarily suspended. This may be due to market events that have made coverage impractical, or to comply with applicable regulations or firm policies in certain circumstances. The previous rating and price target are no longer effective and should not be relied upon.

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Medium Risk/Income (M/INC): Equities with lower to average risk from companies that have sound financials, consistent earnings, and dividend yields exceeding that of the S&P 500. These securities are often designed to provide a reliable dividend or return of capital. Medium Risk/Growth (M/GRW): Equities with lower to average risk from companies boasting sound financials, consistent earnings growth, potential for long-term price appreciation, a possible dividend yield, and/or share repurchase programs. High Risk/Income (H/INC): Equities with medium to higher risk from companies that focus on delivering a significant dividend but may experience less predictable earnings (or losses), more leveraged balance sheets, volatile market conditions, financial and competitive challenges, and higher price volatility (beta), along with potential principal risk. Income streams from dividends or capital distributions in this category may be less predictable. High Risk/Growth (H/GRW): Equities with medium to higher risk from companies in fast-growing and competitive sectors, facing less predictable earnings (or losses), more leveraged balance sheets, fluctuating market dynamics, financial or legal challenges, higher price volatility (beta), and potential principal risk. High Risk/Speculation (H/SPEC): Equities with high risk from companies with short or unprofitable operating histories, limited or unpredictable revenues, very high success risks, significant financial or legal issues, or substantial risk of principal loss.

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Company-Specific Risk Factors

Goldman Sachs is subject to several company-specific risk factors due to its reliance on market-driven revenues and exposure to global financial conditions. Key risks for Goldman Sachs include fluctuations in capital markets, where volatility can impact revenues from trading, underwriting, and advisory services. Regulatory risks are also significant, as the firm must navigate complex global regulations, including changes in financial reporting, capital requirements, and restrictions on proprietary trading. Goldman Sachs is exposed to credit risk due to its lending and investment activities, where defaults or deteriorations in borrower creditworthiness could impact its financial health. The company's reliance on debt financing to support its operations introduces additional risks related to interest rate fluctuations and the potential for credit market tightening, which could affect Goldman Sachs' cost of capital and refinancing options. Effectively managing these risks is crucial to Goldman Sachs' ability to sustain profitability, meet regulatory requirements, and maintain a strong position in the competitive financial services industry.