

BOW Finance Newsletter

2019-2020 Issue 6

Investment Banking:

Morgan Stanley to acquire E*Trade Financial Corp



Type of Deal: M&A

Industry: Financial services

Acquirer: Morgan Stanley (Ticker: MS) (Stock Price of MS as of 02/22/20: 52.42 USD)

Acquirer Description: **Morgan Stanley is an American investment bank and financial services company with locations across the world.**

Target: E*Trade Financial Corp (Ticker: ETFC.O) (Advisor: J.P. Morgan) (Stock Price of ETFC.O as of 02/22/20: 53.35 USD)

Target Description: **E*Trade Financial Corp is an online brokerage firm with 5.2 million customer accounts and US \$360 billion in retail assets.**

Time announced: February 20, 2020

Time closed: Fourth quarter of 2020

Purchase Price: US \$13 billion

Acquisition Rationale:

- 1. Cost savings:** By acquiring E*Trade Financial Corp, Morgan Stanley plans to **improve its cost savings** by 400 million USD within three years. Some of these cost savings will be created by refining efficiency in company infrastructure and real estate. Job costs will also comprise a portion of the cost savings. However, **Chief financial officer Jon Pruzan** states that the acquisition will "modestly" harm earnings per share in 2021 before breaking even in 2022. Further, Morgan Stanley aims to become an **industry leader** in stock plan administration by merging its 280 billion USD stock plan balances with E*Trade's 300 billion USD held in the Equity Edge platform.
- 2. Strengthening wealth management:** This deal will also notably increase the size of Morgan Stanley's Wealth Management arm and gives Morgan Stanley the opportunity to be an industry leader in the wealth management sector. E*TRADE has about 5.2 million client accounts holding over \$360bil of retail client assets. These accounts would add to Morgan Stanley's already-existing 3 million client relationships and \$2.7tril of assets from clients. In addition, because of Morgan Stanley's full-service, advisor-driven model and E*TRADE's direct-to-consumer and digital capabilities, the acquisition of E*TRADE for MS will prove to be a leader in the wealth management industry.
- 3. Implications for cryptocurrencies:** This deal also has implications for cryptocurrencies. In April, E*TRADE announced its plan to begin offering digital currency trading on its platform. E*TRADE is preparing to offer both Bitcoin and Ether, with plans to add more cryptocurrencies. On Morgan Stanley's end, since early Fall 2018, the company was about to launch swaps tracking Bitcoin futures but didn't receive a single contract by the end of that year. Morgan Stanley has noted they will be ready to launch crypto services once they see a demand for it. Thus, the two companies will be able to work together in launching such services.
- 4. Expand asset management services to the middle-class:** In recent years, trading and deal-making revenues have not been hugely profitable for Wall Street investment banks. Non-affluent customers are being seen as a potential opportunity for growth. By acquiring E*Trade Financial Corp, Morgan Stanley will likely be able to increase **funding for lending** by capitalizing on the brokerage firm's 57 billion USD of low-interest rate deposits. These deposits will **cut Morgan Stanley's funding costs** by 150 million USD within two years. Additionally, absorbing E*Trade's consumer base will grant Morgan Stanley a large middle-class consumer group to whom they may be able to offer other financial services in the future.
- 5. Take advantage of a successful company structure:** E*Trade will continue to operate under its current CEO Michael Pizzi. The E*Trade brand will remain, as will its retail store locations. The e-brokerage firm is well-known for its Super Bowl commercials and advertisements. These marketing campaigns will continue under the E*Trade name as well. The low-cost deposits that make up the majority of E*Trade's business will assist Morgan Stanley in diversifying its **funding base and solidifying its balance sheet in the event of a potential financial downturn.**

Other Interesting Deals

Lyft acquires Halo Cars:

<https://www.nytimes.com/reuters/2020/02/21/business/21reuters-halo-cars-m-a-lyft.html>

Dairy Farmers of America to buy bankrupt Dean Foods:

<https://www.wsj.com/articles/dairy-farmers-of-america-proposes-425-million-deal-for-dean-foods-assets-11581956631>

Good news for T-Mobile Sprint merger:

<https://www.wsj.com/articles/new-york-wont-appeal-t-mobile-merger-verdict-11581884506>

Kronos, Ultimate Software merge to form \$22 bln workplace software co

<https://www.ultimatesoftware.com/PR/Press-Release/Kronos-and-Ultimate-Software-Enter-Definitive-Merger-Agreement-Creating-Company-Valued-at-22-Billion>

Auto lender Ally Financial Inc on Tuesday agreed to acquire privately held CardWorks for \$2.65 billion

<https://www.nasdaq.com/articles/ally-financial-to-buy-cardworks-in-%242.65-bln-deal-2020-02-18>

Markets

Stocks: After a two-week win streak **U.S stocks dropped again on Friday** as the spread of the novel coronavirus or COVID-19 to other countries renewed fear of the virus's impact on global economic growth. The NASDAQ Composite Index, S&P 500, and Dow Jones Industrial Average all suffered the worst one-day percentage drops since January 27th, January 31st, and February 7th, respectively.

Bonds & Rates: As stocks slump, investors head for safe bond options. However, after long-term U.S. Treasury **bonds** surged to a new all-time high earlier this year, the yield of the 30 Year bond dropped down to 1.90% as of Friday. This has refueled recessionary fears as Treasury bonds tend to reflect a worsening rate of return in the economy when economic growth is expected to decline.

Currency: The U.S. dollar is currently doing well against two major currencies, x. The Euro was hurt in particular by weakened consumer sentiment in Germany after a halt in production among German companies manufacturing in China. On the other hand, the Japanese economy saw an incredibly fast-paced GDP contraction in December that has many market experts claiming the country is headed for a recession.

Commodities: Gold has surged as investors have similarly shifted from stocks to gold in addition to bonds. Conversely, tensions between Saudi Arabia and Russia reveal cracks in the countries' agreement to drive up oil prices by cutting oil production. As a result, future oil prices may drop again.

Continued Impacts of the Coronavirus

In the past week, the number of confirmed coronavirus cases has gone up by 25% as the death toll has risen by 55%. The spread of infection to 900 new cases in 26 other countries has curbed hope that the economic impact of the virus would be short-lived. Chinese industries are continuing to struggle with shortages and lockdowns, which have prevented many businesses from producing while the closing of marketplaces has drained consumption.

Economic & Market Implications:

On a more global level, new data reflects evidence of coronavirus disruption in the South Korean and Japanese economies. Furthermore, an IHS Market report citing the contraction of U.S. businesses in February, noting a decline in activity for manufacturing and service-oriented companies in particular, also reflects the impact of the coronavirus on the U.S. economy. Consumer electronics giant Apple even announced that the outbreak will affect March earnings more than expected given the delay in manufacturing and retail operations. Coca-Cola and Adidas expressed similar concerns in regards to supply chain and consumer retail in China. In fact, **Adidas** has already seen an 85% drop in Chinese business activity, which could lead to the temporary closing of stores.



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