
Henderson State University

**Goldman Sachs
November 4, 2009**

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Investment Thesis



Goldman
Sachs

Goldman Sachs

(GS \$190.48)

One Year Target Price: \$202.52

Opinion: Overvalued

- ✓ Business Model
- ✓ Strong Growth Rates
- ✓ Minimal Risks
- ✓ Earnings Outperformance
- ✓ New Products

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GS Profile

General Information	
Ticker	GS
Exchange	NYSE
Sector	Financials
Industry	Securities Brokerage
Headquarters	New York, NY
Purchase Date	Na
Purchase Price/Shares	Na
Current Price	\$190.48
Book Value	\$121.14
52- Wk Low /High	\$47.41-190.58
52- Wk Change	85.66%
52- Wk Relative	
Market Cap.	95.21 Bil
Shares Outstanding	511.24M
Inst. Ownership	
Float	502.7M
Average Volume (3m)	10,369,200
Short Interest	
Beta	1.49
EPS	4.47
PE Ratio	42.57
PEG Ratio	.85
Dividend/Yield	\$1.40/.70%
IPO	
Secondary	

Sources: yahoofinance.com, Reuters.com, company documents

Estimates
SMF (rev, EPS, DCF)
• 1Q10E:
• 2010E:
• 2011E:
Consensus
• 1Q10E:
• 2010E:
• 2011E:
Guidance
• 2010E
– Rev
– Adj. EBITDA
– Option
–

Coverage
• Buys
– 17
• Holds
– 6
• Sells
– 0

Stock Chart

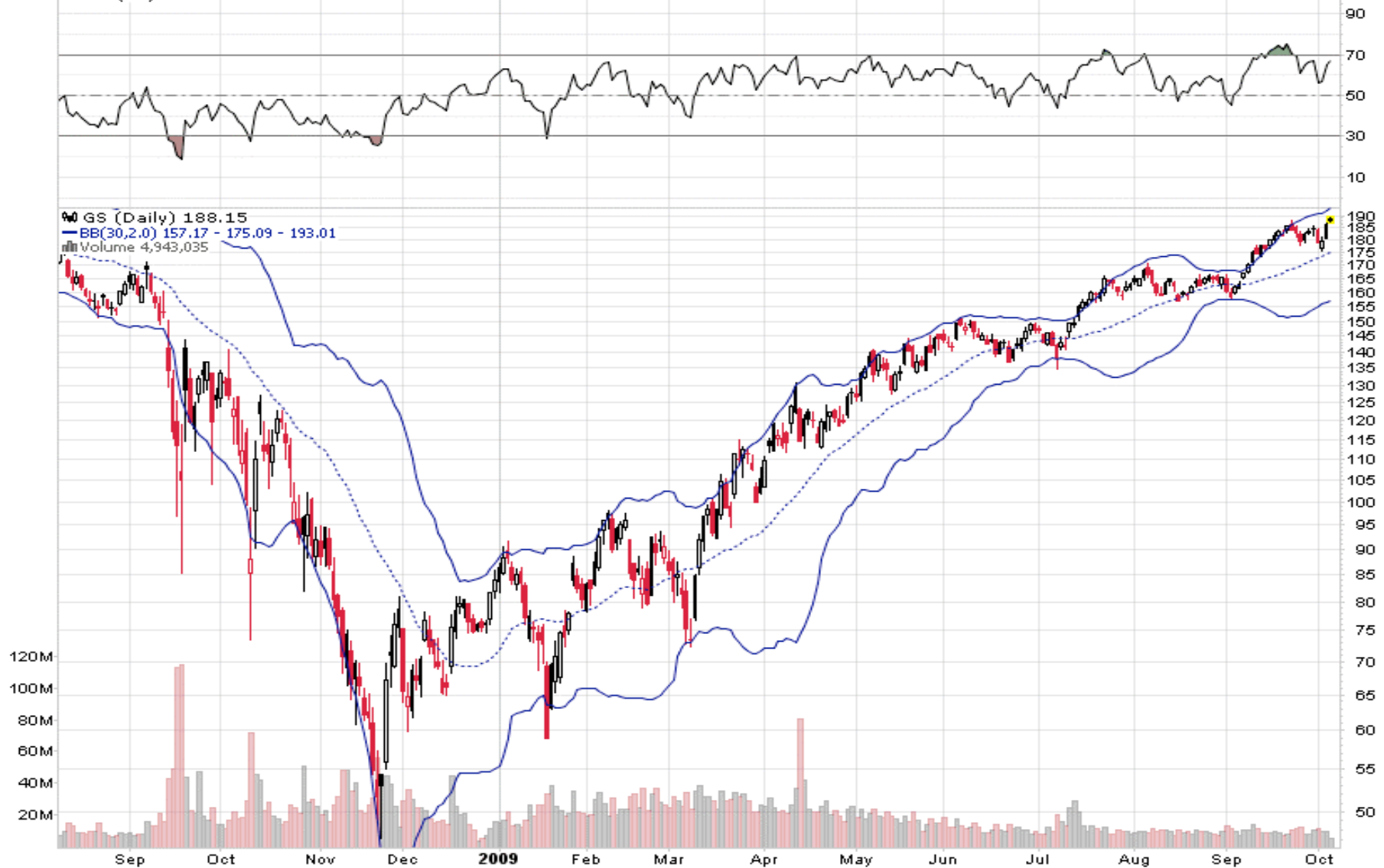
GS (Goldman Sachs Group, Inc.) NYSE

6-Oct-2009 12:04pm

▲ RSI(14) 66.86

Open 188.46 High 189.44 Low 187.37 Last 188.15 Volume 4.9M Chg +1.68 (+0.90%)▲

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Business Synopsis

Description

- Goldman Sachs is a leading global investment banking and securities and investment management firm that provides a wide range of services worldwide. They specialize in investment banking, asset management, and trading and securities transaction services. The company primarily operates in the US, Europe, and Asia. They serve corporations, financial institutions, governments and high-net worth individuals.
- Goldman Sachs has offices in more than 25 countries and 40 cities around the world.
- Goldman Sachs' research operations, named Global Investment Research (GIR), provide fundamental research on companies, industries, economies, currencies, commodities and macro strategy research. GIR covers 3,250 companies and over fifty national economies worldwide. Research is conducted globally through the following departments: equity research, credit research, economic research commodities research and strategy research.
- Goldman Sachs operates through three business segments: trading and principal investments, investment banking and asset management and securities services.
- The company recorded revenues of \$22,222 million in the fiscal year ending November 2008, a decrease of 51.7% from 2007. In 2008 the "Americas" the company's largest geographic market accounted for 50.9% of the total revenues.
- Through their three divisions of business the trading and principal investments accounted for 40.8% of total revenues in 2008. The asset management and securities services division accounted for 35.9% of revenues and the investment banking division accounted for 23.3% of total revenues for 2008.
- Throughout its history Goldman Sachs has been known for its ability to adapt and reinvent itself. When a stable capital base and increased funding diversification became necessary, Goldman Sachs converted from a private partnership to a publicly traded company. When scale became critical, it transformed from a relatively small firm to a Fortune 100 company. When its clients demanded a more integrated approach, it realigned and grew to become a comprehensive source of advice, financing and co-investment, providing clients the wherewithal to realize their goals. And, as markets opened up and growth accelerated around the world, Goldman Sachs expanded from being mainly a US-based firm to a truly global organization. Continuing this track record of responsiveness, in 2008, the company became a bank holding company (BHC). This transition allows Goldman Sachs to address market perceptions that placed a premium on the value of oversight by the Federal Reserve Board and enables the company to access a broader set of funding alternatives. The company's ability to reinvent itself indicates its strength as a going concern.

Business Synopsis

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Products/Services

The

companies key products and services are:

-Trading and principal investments:

- Commodities and commodity derivatives
- Credit products
- Currencies and currency derivatives
- Interest rate products
- Mortgage-related securities
- Loan products
- Asset-backed instruments
- Equity securities and derivatives
- Securities, futures and options clearing services
- Specialist and market-making activities in equity securities and options
- Insurance activities
- Principal investments in connection with merchant banking activities
- Asset management and securities services:**

- Asset management
- Advisory services
- Investment products
- Management of merchant banking funds
- Prime brokerage
- Financing services
- Securities lending
- Research and analysis:**
- Research Reports
- Company Information
- Investment Opportunities
- Trading Data
- Investment banking:**
- Mergers and acquisitions advisory services
- Financial restructuring advisory services
- Equity and debt underwriting

Internal Analysis

Valueline.com Safety Ranking: 3

Management:

Lloyd C. Blankfein, 54
-Chairman and Chief Executive Officer
Gary D. Cohn, 48
-President and Chief Operating Officer
John H. Bryan
-Director of Goldman Sachs
Cales Dahlbäck
-Director of Goldman Sachs
Stephen Friedman
-Director of Goldman Sachs
William W. George
-Director of Goldman Sachs

Channel Checking:

Sources: www.huie.hsu.edu ; www.goldmansachs.com

SWOT Analysis:

Strengths- GS has a good history of adaptability which indicates they can reinvent and sustain operations. GS balance sheet has been strengthened by recent initiatives. Their diverse global client franchise businesses help sustain profitable growth.

Weaknesses- GS management's ability to control risk. They could also face litigation damage from questionable practices that could lead to reputational damage.

Opportunities- GS launch of internet banking could likely broaden its funding base. They are in a buoyant asset management industry. Emerging markets are likely to drive future growth.

Threats- Volatility in the stock markets likely to affect income from equities. There could be a declining in global economy prospects. There could be a decline in investment banking prospects.

Headlines

-recent news that had a positive or negative effect on the stock and its subsidiaries

-recent earnings call transcript from www.seekingalpha.com

- [Goldman Talks With CIT Over \\$3B Loan](#)
- **at TheStreet.com** (Tue 3:08am)
- [Goldman owed \\$1 billion if CIT fails](#)
- **Reuters** (Sun, Oct 4)
- [Goldman Tops Among 3Q M&A Advisors](#)
- **at TheStreet.com** (Thu, Oct 1)
- [\[\\$\\$\] Goldman Making Solid Gains](#)
- **at Barron's Online** (Wed, Sep 30)
- [FDIC Chooses Pay Early Over Pay More](#)
- **at TheStreet.com** (Wed, Sep 30)
- [Goldman Sachs Conference Call to Announce Third Quarter 2009 Results](#)
- **Business Wire** (Tue, Sep 29)
- [Goldman Sachs Writes Clients on High-Frequency Trades \(Update1\)](#)
- [High Frequency Trading: Wall Street's New Rent-Seeking Trick](#)
- [A credibility problem for Goldman](#)
- **at FT.com(Wed 5:35pm)**
-

Industry Analysis

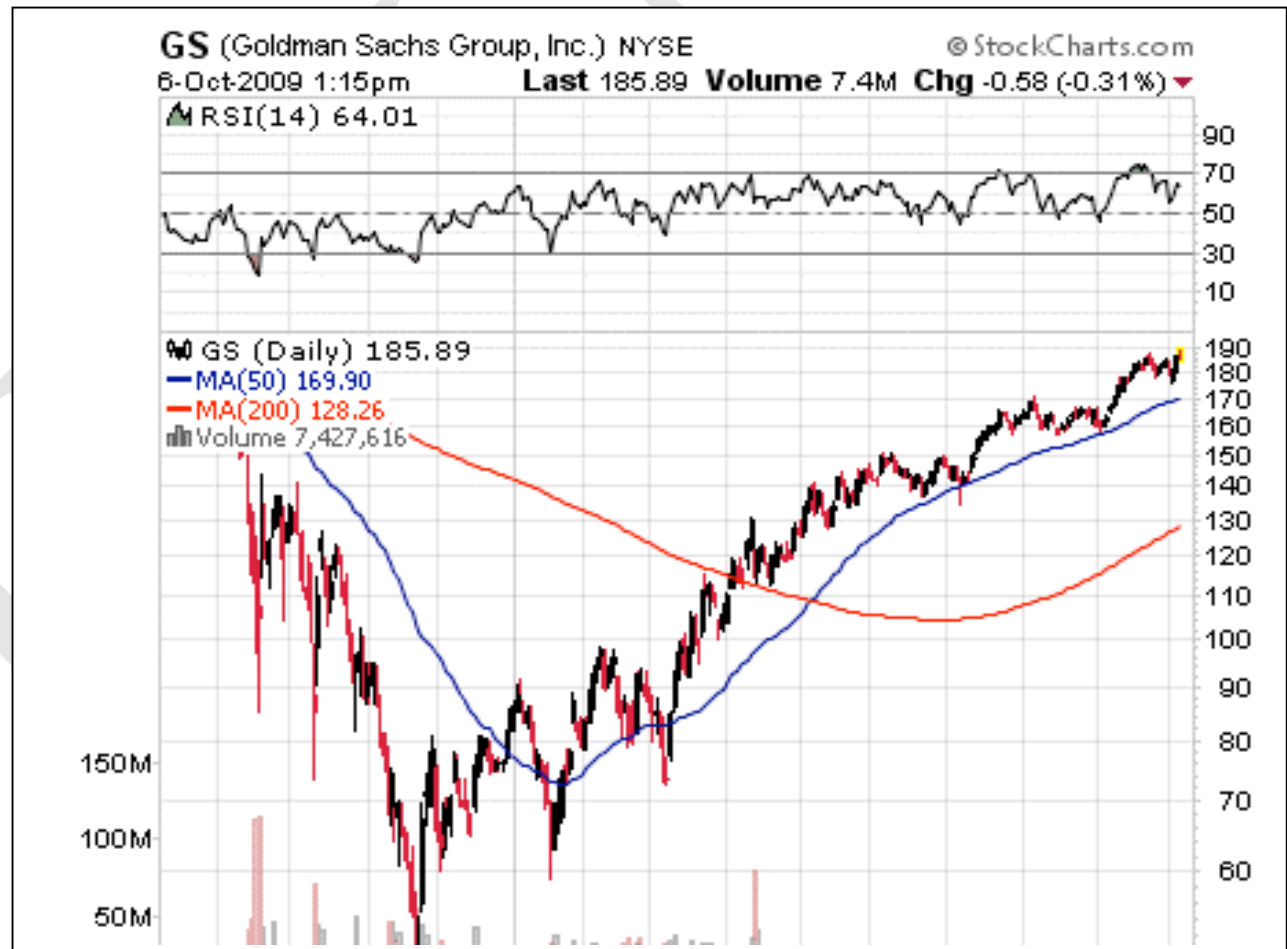
How has this industry done compared to the market? Diagnostic Substances

Industry Statistics

Market Capitalization:	73.42B
Price / Earnings:	13.58

Momentum Indicator: 3 of 10

Sector Rotation: 21 of 98



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Industry Analysis

Valuation Ratios

	Company	Industry	Sector	S&P 500
P/E Ratio (TTM)	42.57	3.54	11.38	43.02
P/E High - Last 5 Yrs.	22.78	2.03	1.44	24.67
P/E Low - Last 5 Yrs.	4.75	0.46	0.35	6.17
Beta	1.41	1.63	1.04	1.41
Price to Sales (TTM)	4.31	1.86	2.69	1.96
Price to Book (MRQ)	1.71	1.21	1.23	3.16
Price to Tangible Book (MRQ)	1.65	1.57	1.73	6.16
Price to Cash Flow (TTM)	18.76	5.25	5.05	15.36
Price to Free Cash Flow (TTM)	--	9.45	3.59	17.60
% Owned Institutions	76.30	--	--	--

Dividends

	Company	Industry	Sector	S&P 500
Dividend Yield	0.74	0.16	0.07	1.46
Dividend Yield - 5 Year Avg.	1.00	2.09	1.26	2.80
Dividend 5 Year Growth Rate	--	6.10	7.51	9.37
Payout Ratio(TTM)	31	5.83	15.32	85.16

Growth Rates

	Company	Industry	Sector	S&P 500
Sales (MRQ) vs Qtr. 1 Yr. Ago	-13.91	15.11	5.72	-5.42
Sales (TTM) vs TTM 1 Yr. Ago	--	-15.45	4.04	-1.78
Sales - 5 Yr. Growth Rate	--	6.46	17.09	16.05
EPS (MRQ) vs Qtr. 1 Yr. Ago	7.60	195.46	0.67	-20.54
EPS (TTM) vs TTM 1 Yr. Ago	--	--	--	--
EPS - 5 Yr. Growth Rate	--	3.05	9.52	0.68

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Industry Analysis

Capital Spending - 5 Yr. Growth Rate	--	16.80	11.88	20.51
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Financial Strength

	Company	Industry	Sector	S&P 500
Quick Ratio (MRQ)	1.35	0.95	0.84	0.77
Current Ratio (MRQ)	1.50	0.97	1.19	0.92
LT Debt to Equity (MRQ)	330.03	248.82	82.73	150.73
Total Debt to Equity (MRQ)	456.63	691.35	224.39	234.35
Interest Coverage (TTM)	--	0.47	0.08	29.57

Profitability Ratios

	Company	Industry	Sector	S&P 500
Gross Margin (TTM)	--	-2.18	2.30	25.39
Gross Margin - 5 Yr. Avg.	--	30.62	5.43	25.03
EBITD Margin (TTM)	--	--	--	--
EBITD - 5 Yr. Avg.	--	13.58	3.07	14.53
Operating Margin (TTM)	11.75	-33.03	9.26	--
Operating Margin - 5 Yr. Avg.	--	12.59	20.54	20.11
Pre-Tax Margin (TTM)	--	-34.02	4.11	6.61
Pre-Tax Margin - 5 Yr. Avg.	--	13.41	20.27	19.83
Net Profit Margin (TTM)	--	-32.17	2.79	5.45
Net Profit Margin - 5 Yr. Avg.	--	7.35	15.47	14.02
Effective Tax Rate (TTM)	--	4.10	4.80	16.76
Effective Tax Rate - 5 Yr. Avg.	--	122.84	27.47	28.47

Management Effectiveness

	Company	Industry	Sector	S&P 500
Return on Assets (TTM)	.42	-0.98	0.00	3.38
Return on Assets - 5 Yr. Avg.	--	0.78	1.10	5.01
Return on Investment (TTM)	--	-3.18	-0.47	4.61
Return on Investment - 5 Yr. Avg.	--	1.85	0.46	6.35

Industry Analysis

Return on Equity (TTM)	8.22	-11.97	3.22	8.23
Return on Equity - 5 Yr. Avg.	--	3.47	11.07	14.79

Competitors

Competitor companies with similar products and services

DIRECT COMPETITOR COMPARISON

	<u>GS</u>	<u>JPM</u>	Pvt1	<u>MS</u>	<u>Industry</u>
Market Cap:	95.59B	176.61B	N/A	41.85B	73.42M
Employees:	33,300	220,255	9,700 ¹	62,215	88
Qtrly Rev Growth (yoy):	N/A	17.70%	N/A	-14.50%	17.00%
Revenue (ttm):	22.22B	53.35B	33.40M ¹	22.51B	28.96M
Gross Margin (ttm):	86.51%	N/A	N/A	92.63%	98.82%
EBITDA (ttm):	N/A	N/A	N/A	N/A	4.86M
Oper Margins (ttm):	11.75%	10.98%	N/A	18.31%	12.73%
Net Income (ttm):	2.04B	1.48B	-27.61B ¹	1.69B	N/A
EPS (ttm):	4.474	0.896	N/A	1.449	N/A
P/E (ttm):	41.79	50.12	N/A	21.25	13.58
PEG (5 yr expected):	0.85	2.19	N/A	N/A	1.39
P/S (ttm):	4.29	3.23	N/A	1.80	3.49

Summation

This stock is way overpriced.

If we own:
If we don't

Sell
Don't buy

Valuation Tables

- DCF model
- Over Valued/ Under Valued
-

Stress Test (PE and EPS sensitivity)

DCF Model	
Beta	1.41
Valueline Safety Rating	3
Expected Growth (EPS)	3.40
Projected Growth & Dividend Yield	1/.7%
Required Rate Return	13.80%
Projected Future P/E	11
Annualized HPR	-0.34%
PV of Future Price	\$83.93
Recommendation	Undervalued

P/E Sensitivity					
Present Value	Price 2014	P/E 2014	EPS 2014	HPR 2014	Annual Return
38.15	80.95	5	16.19	.47	-12.15
53.41	113.33	7	16.19	.64	-7.37
68.67	145.71	9	16.19	.81	-3.54
83.93	178.09	11	16.19	.98	-.34
99.19	210.47	13	16.19	1.15	2.44
114.45	242.85	15	16.19	1.32	4.89
129.71	275.23	17	16.19	1.49	7.10

Summation

- Our numbers vs. the streets
- A comparison
- A buy, hold, or sell recommendation

Earnings Sensitivity					
Present Value	Price 2014	P/E 20014	EPS 2014	HPR 2014	Annual Return
80.62	171.79	11	15.59	.95	-.95
81.86	173.69	11	15.79	.96	-.74
82.89	175.89	11	15.99	.97	-.54
83.93	178.09	11	16.19	.98	-.34
84.97	180.29	11	16.39	.99	-.13
86.00	182.49	11	16.59	1.00	.06
87.04	184.69	11	16.79	1.02	.26