2023 INVESTOR DAY – COMMERCIAL BANKING

TRANSCRIPT

May 22, 2023

JPMorgan Chase & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Please welcome to the stage, Doug Petno, CEO of Commercial Banking.

Doug Petno

Chief Executive Officer of Commercial Banking

Haven't even said anything yet. Welcome back good afternoon. I want to definitely add my thanks to all of you for joining us today. 2023 has certainly been a dynamic year so far, and through all of it, Commercial Banking has continued to execute against our strategic priorities. The business is performing extremely well. There are tremendous growth opportunities ahead for us, and perhaps most importantly, we are well positioned to manage through the evolving market backdrop, so there's a lot to talk about, it's great to be here to update all of you.

As you know our strategy is anchored on being the most important financial partner to our clients and to that end, we have kept our focus on acquiring great clients and building deep, enduring relationships and though market fundamentals have continued to shift, our strategic priorities remained exactly the same. We are investing across our franchise to create powerful client solutions and to build operating processes to deliver the best client experience. We're harnessing our tremendous data assets, empowering and enabling our teams. And we're driving organic growth. As this year unfolds, the disruption in Commercial Banking has changed our competitive landscape, and it's highlighted the relative value of our franchise.

Complex markets play to our strengths, and as you'll see today, momentum is building across our business. I want to take a moment to share why we're so excited about First Republic Bank in Commercial Banking. And so for us, this is an opportunity to deepen our presence in several high growth markets. And it lets us now deliver our entire firm across their tremendous client franchise. In addition, we expect to benefit from their exceptional client service model and tract record of strong credit performance. First Republic's credit portfolio has a sizeable overlap with our multifamily term lending business and it's operating in a lot of the same markets. And while we still have much work to do, our integration is going as planned and we're confident in the synergies between our two businesses.

So for Commercial Banking overall, being a part of JPMorgan Chase gives us a tremendous competitive advantage. We face our clients as one institution with unmatched global capabilities and real economies of scale. In each of our presentations today, you will have seen the strong connectivity and adjacencies that exist across each of our lines of business. For example, last year, there were significant client referrals between Commercial Banking and Private Banking. Over 90% of our C&I clients use our payment solutions. Over a third executed in investment banking transaction and almost half visited a local branch, and moreover, Commercial Banking has benefited by following right behind our consumer branch expansion, getting a lot of value out of their small business franchise as well as their physical presence in our communities.

Across our firm, we are knit tightly together and it is this alignment that offers an unmatched value proposition for our clients and supports our strong financial performance. So we've organized the business to ensure a dedicated focus on important segments of the economy. In C&I, we have two distinct teams. Our middle market business covers companies from early-stage, high-growth startups to traditional mid-sized companies. Our Corporate Client Banking business serves both U.S. and non-U.S. headquartered corporates, generally with revenues in excess of $500 million. Overall, we have 18 specialized industry teams focused on important sectors like technology, healthcare, and government. Across these two businesses, we have over 1,700 bankers in almost 160 cities spanning 27 countries and together they are actively calling on about 25,000 clients. Perhaps what's most exciting is the significant organic growth opportunity that remains ahead for us. We are executing a data-driven strategy with our teams calling on almost 50,000 perspective clients across our footprint. Last year, we entered into seven new, high-potential markets and hired over 100 bankers. Our client acquisition is accelerating and in 2022 we added a record number of new C&I clients.

In Commercial Real Estate, our franchise is designed to perform through the cycle. All three of our Commercial Real Estate teams have deep, sector expertise and we are very disciplined in our market, client, and asset selection. In commercial term lending, we're the number one multifamily lender in the United States with nearly 30,000 clients. This gives us a huge scale advantage with the business built around exceptional credit and a highly efficient operating model. In Community Development Banking, we deliver capital to support affordable housing projects in some of the critical neighborhoods across the country. And last year we were a top three affordable housing lender in the United States. And finally Real Estate Banking – here we serve the best investors and developers of larger scale, commercial properties in very targeted markets and asset class. Our growth across Commercial Real Estate has been highly selective, deliberate and disciplined. And we believe this positions us well for any potential stress in the sector.

In both C&I and Commercial Real Estate we seek the best clients in industries and markets that we know and understand, and our performance has been excellent. As you saw in our Q1 results, revenues were up 46% year-over-year and while we did benefit from a more favorable rate environment, we also had meaningful growth in payments fee revenues and investment banking year-over-year, as well as strong revenue growth from newly acquired clients. With ongoing expense discipline we maintained high operating efficiency with a 37% overhead ratio, even while making significant investments in our franchise and we delivered strong returns within 18% return on equity.

But since we never measure our success in quarterly increments, let's look back over the last decade. And if you do that, you can clearly see the impact of our strategy and the absolute strength of our franchise. We have gained share across our business. We have delivered core operating deposit and high-quality loan growth. We have significantly increased our payments fee revenues, reaching a record of almost $6 billion last year, and we have steadily increased our investment banking revenues. Overall, Commercial Banking continues to perform well in a complex competitive environment. But for as proud as we are of these results, we're taking nothing for granted. We have a tremendous and growing addressable market. We're making the strategic investments to best serve our clients and to further differentiate our franchise. We are on offense, and we believe we are well placed for out-sized share gains over the near, medium, and long-term.

A standout example of our organic growth potential is our successful strategy to build a national middle market business. We started the expansion effort back in 2010 and since then we've added 63 new locations. We are now local in 78 of the top 100 MSAs. Nationally, we're calling on over 45,000 prospects with over half of these potential new clients sitting in our new expansion markets. At last year's Investor Day, we doubled our revenue target for our expansion effort from $1 billion to $2 billion. Momentum is continuing to accelerate and so while it took us 12 years to hit this first target. We expect to hit this next target in the very near-term. And what's really exciting is that we're just getting started. Achieving a top three share in each of our markets is a multibillion-dollar opportunity for us. And with the foundational investments we've made largely in place, as we grow, we'll achieve significant operating leverage over time.

In addition to our domestic growth efforts, we continue to invest in our cross-border capabilities and expand our international presence in several key markets. The globalization of financial services across our client franchise is a powerful secular trend and has been accelerated by digital payments, increased cross-border investment, and growth in global trade. Many of our clients transact in markets outside their home countries or have locations or strategic partnerships in other locations. But unlike other commercial banks, we can offer clients of all sizes, streamline global solutions across every stage of their international growth journey. In addition, as you know in 2019, we launched our efforts to cover mid-corporate companies headquartered outside of the United States. We're taking a long-term view, focused on only the best companies and we now have bankers covering over 500 clients, 2,000 prospects across 24 countries. We're excited about the significant expansion of our global capabilities and platform and given the powerful trends underway, we expect this to be a significant growth driver for us.

Okay, so with the recent and dramatic changes to the banking landscapes, serving the innovation economy, I want to update you on our strategy to be the most important financial partner across the entire venture capital ecosystem. And recognizing that innovation is a critical economic growth driver, we have been steadily building upon our innovation economy Commercial Banking business, and while there was longstanding incumbent competitor, we believe that our platform and our capabilities positioned us to take high quality share over time. And as you can see on the bottom left, we have made real progress over the past several years. With the market disruption since March, we have seen a tremendous influx of new clients, onboarding thousands of innovation economy companies over the last two months. And along with these new clients and their substantial deposits, we now have the opportunity to provide them with our full suite of capabilities.

Looking forward, we have a real opportunity to support this sector and fill a real market need. And to do that, we are going to accelerate our growth strategy and step up our investment. Significantly expanding our support teams and bankers focused on startup banking, venture capital coverage, risk, and early-stage lending. This opportunity is quite exciting and our focus on founders and innovation across JPMorgan Chase positions us to be the leader in this important sector.

Similar to venture capital, private equity continues to be a large market opportunity in Commercial Banking. Globally there is over $1.2 trillion of dry powder and the number of private equity-led transactions within the middle market remains quite high. So along with our partners in the investment bank we are well placed to serve this sector. We have an extensive reach across 22,000 terrific middle market companies and we have dedicated teams focused on private equity coverage, direct lending solutions, regional investment banking, and middle market M&A.

Delivering the number one investment bank to commercial banking clients is a powerful part of our value proposition. Our investment bank deepens the strategic dialogue that we have with our clients, and it completely separates us from our traditional Commercial Banking competitors. This partnership continues to be highly successful and if you look back over the last 10 years, you can see both our steady growth as well as the unbelievable upside potential that exists when markets are active and vibrant. Going forward, we see several significant opportunities to build upon our success together. As our commercial banking client franchise expands, the addressable market for the investment bank grows, especially across the middle market and internationally. We are going to continue to invest in our regional investment banking capability to better serve middle market companies. And we're expanding our teams focused on high potential sectors like private capital, healthcare, and the green economy.

So just like investment banking, our comprehensive payment solutions are also a key competitive advantage. The investments Takis is making in our platform and capabilities support our goal to be our clients' primary operating bank. This allows us to build deep, enduring relationships which are foundational for gathering and retaining core, stable operating deposits. Last year, I spoke to the substantial payments opportunity and our significant near-term revenue potential. So as you saw in our first quarter, Commercial Banking's payments revenues hit $2 billion, up almost a 100% year-over-year. And as I mentioned, this isn't solely driven by rates or elevated market liquidity. In fact almost 30% of our 2022 middle market deposit balances were generated by clients we've acquired in the last five years. And we're also seeing substantial growth in payments fee revenues across core cash, cross-border payments and commercial card. With deposits, there are a number of forces at work, including rising rates, clients that are seeking higher-yielding alternatives, questions about uninsured deposits, and the impact of quantitative tightening. However we've not seeing anything atypical in our deposit flows and we believe that the stability of our core operating deposits and the market's overall flight to quality should insulate our deposit balances.

Let's now look at our lending activities. So in C&I, I want to highlight that we don't grow loans just to grow loans. We deploy capital strategically to support our clients and in fact only 25% of our middle market clients actively borrow from us. And while competition for high quality assets remains high including from direct lenders, we are finding attractive opportunities to lend, and we continue to price and structure with discipline and for underlying risk.

In commercial real estate we are watching market fundamentals carefully and maintaining our strict underwriting criteria. So as this year unfolds, we are seeing a significant reduction in purchase activity and overall loan demand with Q1 Commercial Real Estate originations down almost 70% year-over-year. As always credit discipline remains core to our strategy and our C&I and Commercial Real Estate loan portfolios remain strong, with C&Cs of less than 5% and a net charge-off rate of just 6 basis points in the first quarter and while our credit metrics are stable we are actively monitoring our portfolio to identify any emerging risks or potential signs of stress.

So in C&I, notwithstanding the broader market uncertainty, we feel very good about our current exposure. It's diversified across geography and industry, well-structured with 88% of our non-investment grade risk being secured. And it's been underwritten with through-the-cycle discipline. While credit fundamentals across our C&I portfolio are strong, we are carefully monitoring market conditions and have prepared a detailed downturn readiness playbook and we're working very closely with all of our clients that have been impacted by signs of consumer weakness, higher interest rates, and higher input costs.

Likewise in Commercial Real Estate, we remain confident in the quality of our underwriting and our portfolio overall. As I mentioned, we've been very intentional about lending against assets and in markets that have strong through-the-cycle performance. We have a very seasoned team of risk professionals and appraisers who understand our markets and fundamentals at a very granular level. And separate from other commercial banking peers, the majority of our portfolio is in our multifamily commercial term lending business, where we work with high quality investors with proven track records, the rents on the assets that we are financing are meaningfully below overall market average rents. This provides us a buffer and an economic downturn. The loans are secured by stabilized properties and highly granular with the average loan size of about $2 million.

Outside multifamily, we are closely monitoring our office exposure. But for us, office remains less than 9% of our total commercial real estate portfolio and less than 5% of our total loan portfolio. And importantly, it is predominantly against Class A buildings and supported by top sponsors in the industry. So as we consider rising rates, the prospect of more stress amongst the regional banks and the overall economic outlook, we are well prepared and believe we are appropriately reserved for a range of sector outcomes.

Looking forward, as strong as our franchise is, we are not standing still. We're making the long-term strategic investments to best serve our clients and compete in the future. As you can see on this slide, our 2022 expenses increased 17% as we made significant investments in our organic expansion, as well as our platform and capabilities. If you look at our volume- and revenue-related and structural costs, both are in line with the strong revenue growth and momentum that we're seeing across the business. As this year plays out, with market disruption and the shift in our competitive landscape, we have substantially heightened our new client acquisition. And so to accommodate this growth and rebalance the business and to accelerate our innovation economy banking efforts, we're adding incrementally higher front and middle office support than we have in prior years. But given the near-term revenues associated with this effort, we expect to maintain our overall overhead ratio target.

In addition to expanding client coverage, another high confidence investment is our strategy to become a truly data-driven commercial bank. We're making great progress and have combined our existing data with multiple third-part data sources into a single, scalable data asset that provides an extensive 360-degree view of both our clients and our prospects. And moreover, we're maintaining our data in a manner foundational for the application of large language models and scalable AI. This work is quite exciting and we're leveraging our data at scale to provide clients with unique insights and predictive analytics to enhance our risk decisioning and portfolio management, and to enable our bankers to better understand our client's needs and preferences.

A key for us to developing deep, enduring relationships is having our bankers cover our clients in a highly differentiated manner. And we do this by ensuring that our teams have the data and analytics, training, content, and tools they need to best serve their clients. So investing to both empower and enable our bankers is driving real benefits. We have smaller client teams, shorter sales cycles and improved banker productivity and breakeven. And in fact, middle market banker productivity has increased almost 15% just since 2019.

We also continue to make excellent progress with our work to optimize our client's journey across every single touchpoint with us. We're investing in our operations and platforms to drive simpler, more efficient, more intuitive, digital-first experiences. And to do this, we have dedicated teams focused on KYC, client service, client onboarding, billing and pricing, as well as credit and delivery. And beyond a meaningful improvement to client experience, our work is freeing up banker capacity. It's increasing our competitiveness and it's reducing risk and expense. And a significant factor in our strong operating efficiency is our relentless focus on the unit cost of these activities. And since 2021, we have decreased client service enquiry volume by 10%. Implementation cycle times have come down by almost 15%, and we've reduced the cost of a service enquiry by about 7%.

So, looking forward, we are clearly seeing the compounding results from our sustained investments and continue to make steady progress against all of our financial targets. In middle market expansion, we are keeping our $2 billion revenue target for now, but as I highlighted, we have that target in our sights and see several billion dollars of upside potential across our new markets. For our international platform, which remains a key differentiator, we are working towards our $1 billion revenue target, this too is well within reach. And for Investment Banking, with the growth of our client franchise and our focus on several high potential sectors, we're keeping our $4 billion revenue target. Finally, for Commercial Banking overall, we expect an 18% return on equity and a 40% overhead ratio through-the-cycle, even while making significant investments in our franchise.

So, to wrap up, I hope it is clear why we're so incredibly proud of Commercial Banking. We have an outstanding and growing client franchise with actionable opportunities across our entire business. We have real competitive advantages being a part of JPMorgan Chase. We continue to deliver strong financial results with diversified recurring revenues. We are prepared for a wide range of economic scenarios, and most importantly, we have an incredible team. And I want to take a moment to acknowledge and thank everyone in Commercial Banking. Since March, they have poured their heart and soul into supporting thousands of new clients, and they've been absolutely tremendous. And this is the team that is executing our proven strategy, working hard together every day to help our clients succeed, to extend our market leadership positions, to drive high-quality growth, and to take a long-term disciplined view.

And with that, I'd be happy to take any questions. Thank you all very much again for being here.

QUESTION AND ANSWER SECTION

Mikael Grubb
Head of Investor Relations, JPMorgan Chase & Co.

Chris Kotowski back there.

Chris Kotowski
Analyst, Oppenheimer & Co., Inc.

Q

You mentioned in the prior one, the topic of direct lending came up and you touched on it kind of tangentially. But if you look at corporate finance generally over the last decade, that's probably been one of the biggest changes in that alternative asset managers are bringing hundreds of billions of dollars to market. So, I'm just curious if you can talk about what is JPMorgan's approach to alternative credit, direct lending, private credit, whatever you want to call it? How do you raise those fund vehicles? And how do you integrate that offering into an Investment Banking platform?

Doug Petno
Chief Executive Officer of Commercial Banking

A

There was a lot in that. So, better late than never. It's half the C&I loan market. You're right, it's really taken off. Kind of came out of the last decade of having low rates and having investors seeking floating rate and yield exposure. We have, as you just heard, an incredible middle market client franchise. It gives us a window into a tremendous volume of high-quality lending opportunities.

What we noticed when we looked at the direct lending active competitors and their book of business is a lot of those loans we would have made. And so, we put a dedicated team of risk professionals, bankers, and debt capital markets together, focused on a select group of private equity sponsors and we have a several billion-dollar direct lending portfolio that we built all on balance sheet. We are working on ways to create a pool of capital with third-party money, but that's – we haven't completed that work yet, but right now we're active in the markets supporting our targeted private equity clients. And I'd also like to underscore that our credit box is very finite, very focused on longstanding clients, companies, and industries that we know well, not deep cyclical companies that won't tolerate those types of loans.

Mikael Grubb
Head of Investor Relations, JPMorgan Chase & Co.

We have a question down there from Ken Usdin.

Ken Usdin
Analyst, Jefferies LLC

Q

Thanks. Hey, Doug, you mentioned the concern about uninsured deposits. And I'm just wondering, inside your franchise, since March, how'd that discussion go? How far down does that go into the client base? And then, what's the solution set that you brought to your own clients in terms of that? And I guess, also, if you could also answer what kind of inflows did you see as a result as well?

Doug Petno
Chief Executive Officer of Commercial Banking

A

I don't know Jeremy if we've disclosed the total inflows. I think...

Jeremy Barnum
Chief Financial Officer, JPMorgan Chase & Co.

A

Only on an aggregate basis.

Doug Petno
Chief Executive Officer of Commercial Banking

A

Yeah. A lot. I think we've had clients whose boards and CEOs have sort of said, hey, where are deposits. And often times, the question sort of dies when the answer is they are at JPMorgan Chase. No question that people want to make sure they have diversified operating accounts at other banks just given what many companies lived through in the last several weeks. But we have liquidity sweep capabilities that allow clients to sweep into Mary's business. In fact, the biggest outflow out of our deposit portfolio is Mary's money market complex. And so, I think when our clients realize that they're at JPMorgan and they need their core operating deposits with us and that that they have sweep capability into higher yielding alternatives, most of which land with Mary, it's not an issue that's – it's not a drumbeat that's not loud for us, just I think given the combination of all those factors.

Mikael Grubb
Head of Investor Relations, JPMorgan Chase & Co.

Okay. We have a question down here.

Unidentified Participant

Q

You mentioned office lending is an area you're monitoring closely. But outside that, across both CRE and C&I, what are you monitoring most closely for signs of potential stress?

Doug Petno
Chief Executive Officer of Commercial Banking

A

I mean, I touched on it. There's no real sort of standout part of the economy that's really suffering a lot of stress right now. Anything that's with higher input costs, higher labor costs, healthcare is a standout example. If you look at the unit cost of nursing, it's gone up exponentially since the pandemic. So, some of our healthcare clients are facing margin pressures, not to the point where– maybe it affects their overall credit standing or margins overall, but not to the point of distress. So, as you heard from my comments, there's not a lot of stress in C&I. And honestly, for us not a lot of stress in CRE, but it really revolves around higher input costs, higher labor costs, higher interest rates and some emerging signs of consumer shifting of their preferences more than it is weakness.

Mikael Grubb
Head of Investor Relations, JPMorgan Chase & Co.

Okay. One last question from Scott Siefers down there.

Scott Siefers

Analyst, Piper Sandler & Co.

Q

Maybe just a little bit of expansion, I guess on Ken's question. When you onboard these new clients that have come particularly over the last couple of months or so, what are you finding that they're becoming, there's sort of a range of outcomes from just they're diversifying their options to you could become their primary account. What are they manifesting themselves into?

Doug Petno

Chief Executive Officer of Commercial Banking

A

Well, the obvious objective is to be their primary operating bank. It's all kind of playing out. I mean, I think the early data would suggest that's in fact the way it's going to play out. I mean, I think that those companies were desperate to move their money and being at JPMorgan is a relief for them. And the more we work with – the thousands of new clients – the more we expect that we'll be able to sort of fully develop the relationship and bring our broad-based capabilities to bear. But it's still kind of playing out. Not all of them are going to stay. I think Jeremy said it well in the moments after that, they're flighty, I think, was the word you used. I mean, there's going to be a little bit of that. But I think that the large majority we expect will be our clients for a long time.

Scott Siefers

Analyst, Piper Sandler & Co.

Q

All right.

Doug Petno

Chief Executive Officer of Commercial Banking

Thank you.