

Discover (NYSE: DFS)

Sector: Payments & Credit

Industry: Financials



Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap	Dividend Yield	Beta
93.75	80.12	92.98	52.36	9.05	25.48 B	2.20%	1.50

Business Description:

Discover Financial Services, operates as a direct banking and payment services company. Discover's goal is to provide banking and credit products that help people achieve their financial goals - from establishing good credit, to paying for a college education, to consolidating debt. Discover is best known for their Discover-brand credit cards, which are used by more than 25 million members.

Investment Thesis:

Discover operates a closed-loop card system, meaning that they process a customer's transaction as well as finance their purchase. Their closed-loop system offers them a competitive advantage in security, efficiency, and data. Discover makes the majority of its money off of interest spreads from their credit card. The current interest rate environment is advantageous to them because they have access to cheap capital, and can still charge a significant premium in interest to their customers. Discover is primarily based in the US and has significant growth potential internationally, especially with their Diners Club Card

Industry Trends:

Over the past decade, there has been a movement called "the war on cash". Meaning that consumers are straying away from paying for goods in cash and switching to digital, debit, and credit payment options. We forecast that this war on cash will continue in the U.S. and accelerate in the developing world. Discover is in a direct beneficiary of this trend which will only continue to grow in the future. The Millennial and Gen-Z cohort are now going getting student loans, buying houses, and credit cards. Discover has a robust offering centered around students and a significant market share in this demographic. Discover will benefit from this greatly now, and in the future because of the historical credit card retention rate that people have throughout their life.

5 Year Stock Performance Vs. S&P:



Risks:

- DFS faces credit risk that current their borrowers or counterparties will fail to fulfill their financial obligation.
- DFS is exposed to market risks that can arise from adverse movements in market rates or prices such as interest rates, foreign exchange rates, credit spreads or equity prices. This can cause potential mismatches in the repricing terms of assets and liabilities.
- DFS is subject to operational risk from the potential loss of failed internal processes, people and systems or from external events.

Management:

- **Roger Hochschild, CEO**
 - Has been working with Discover Financial since it was acquired by Morgan Stanley in 2001.
 - Was President from 2004-2018
 - CEO since 2018
- **Julie Loeger, EVP US Cards**
 - Joined Discover in 1991
 - Responsible for managing DFS largest revenue stream credit cards.
 - Was named President in 2018.

Greener, Cleaner Campuses

Discover is constantly upgrading facilities, improving processes and investing in new technologies to lessen our impact on the environment in order to help create a cleaner, greener world.

Examples include...



In 2017, Discover's recycling saved:

More than **356,700** gallons of oil

More than **3,750,000** kilowatts of power

More than **2,800** cubic yards of landfill

More than **6,500,000** gallons of water

And diverted **13%** of waste from landfills



ESG CSR Comparables

Metric	Discover	Peer Median
% of Board of directors who are women (larger is better)	33.30%	26.50%
Board Size (larger is better)	12	11
Director Avg Compensation (smaller is better)	249.7k	279.9k
Total CEO Compensation (smaller is better)	15.8M	20.3M