



Presentation to the Shareholders of Morgan Stanley

May 12, 2005

Group of 8

Agenda

- 1 Current Situation**
- 2 Objectives**
- 3 Solution**
- 4 Appendix**

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Current Situation

- Morgan Stanley is a firm in crisis
- Eight years after the merger of Morgan Stanley and Dean Witter, the Chairman / CEO has failed to integrate the two firms
- Respected and trusted leaders have been forced out or departed, creating a vacuum at the senior levels
- Loss of respected leaders has caused further departures and the exodus of key professionals at all levels will likely continue
- Departure of respected leaders and key employees in wake of reorganization cannot be blamed on the media or outsiders
- Firm's reputation and standing have been adversely impacted
- The loss of key professionals and the negative impact on the Firm's reputation have reduced the Firm's competitive standing in the investment banking market

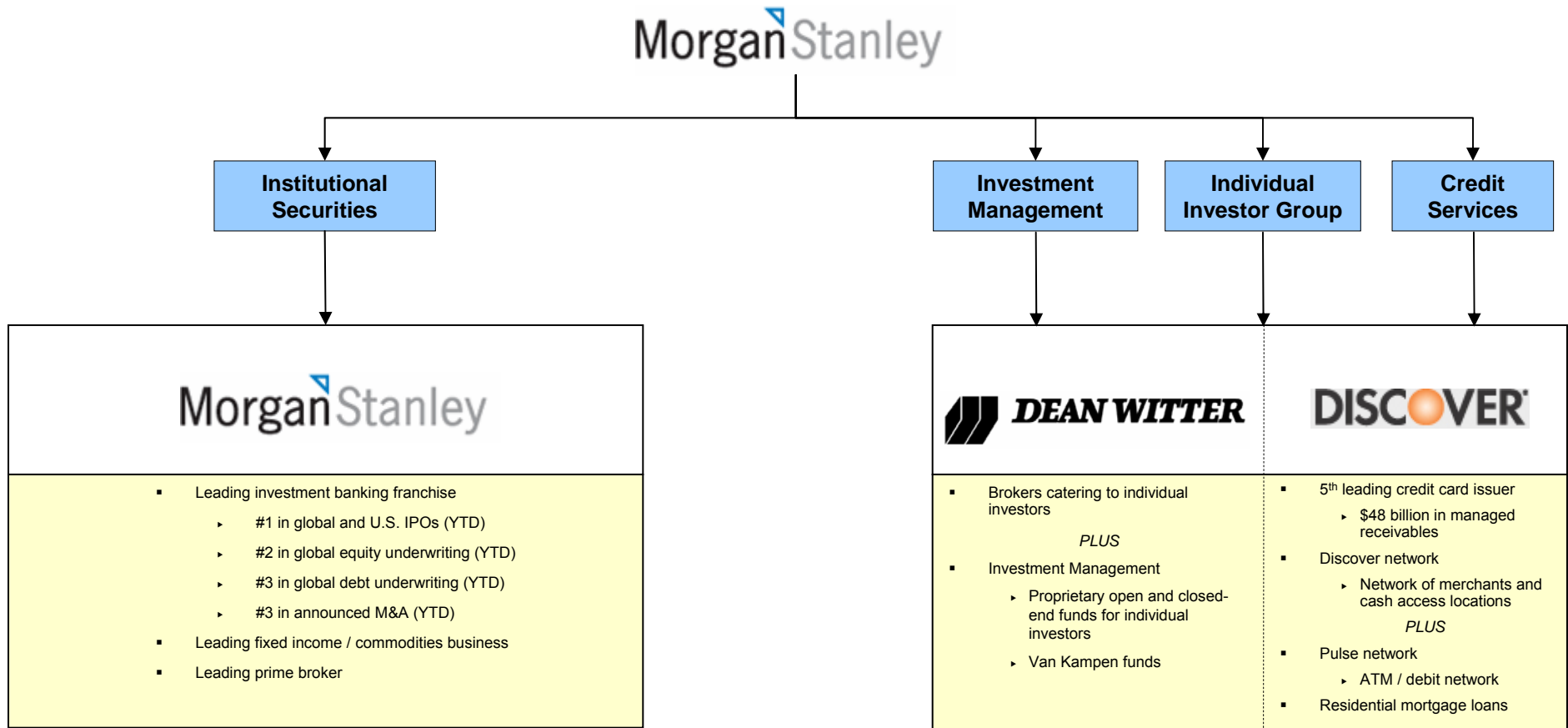
Current Situation

- Credit outlook has been downgraded by Moody's and S&P, likely increasing the Firm's cost of funding
- Retention bonuses and compensation guarantees will increase expenses and lower margins
- Employees and shareholders want a return to stability and to bring back franchise employees who have left
- Mr. Purcell and current senior management are viewed both inside and outside the Firm as unable to restore stability
- Time is of the essence

Objectives

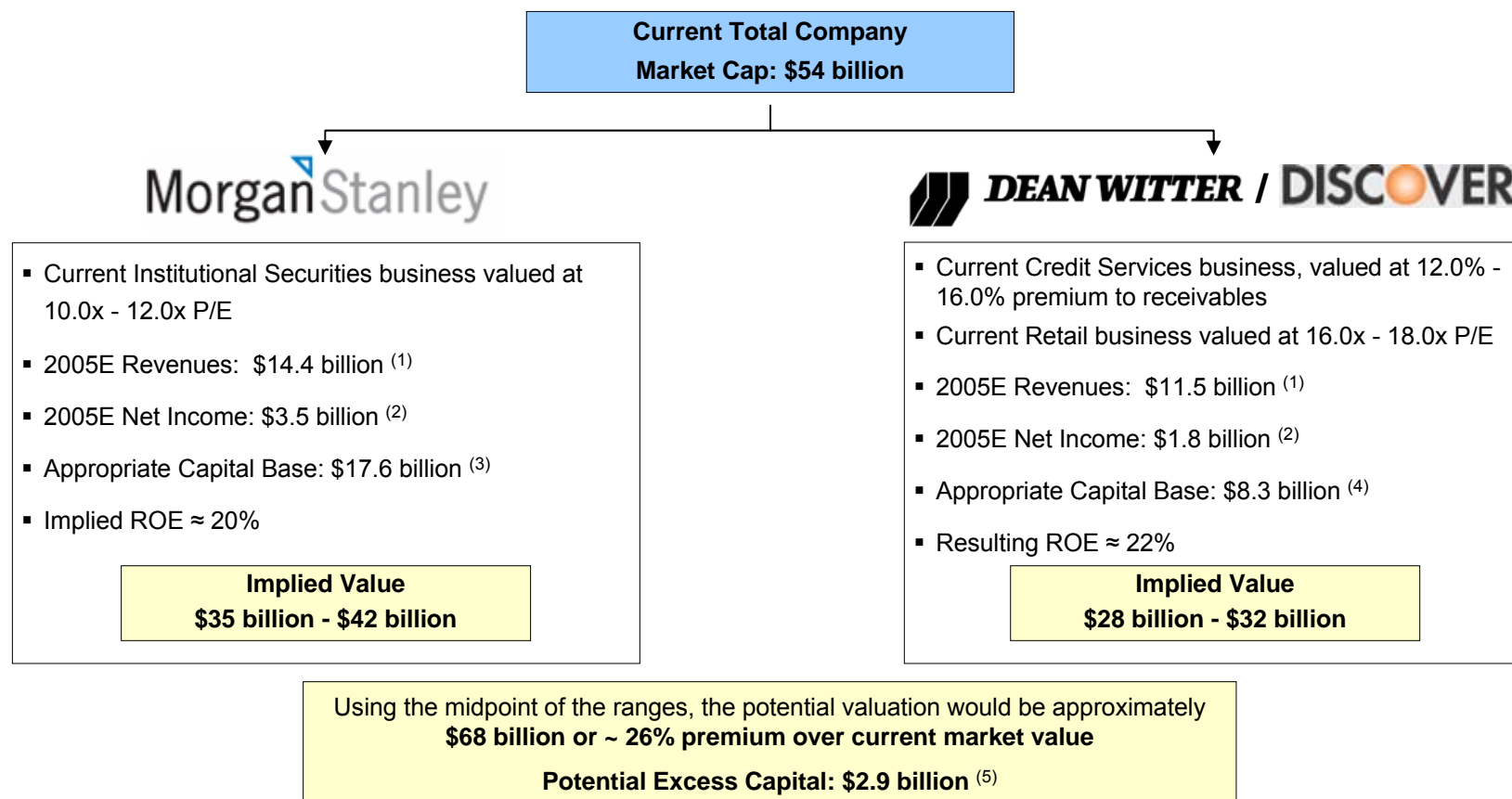
- End crisis and stop erosion of shareholder value
- Strengthen the perception of the Firm in the marketplace
- Provide leadership that would be immediately respected by all constituencies
 - ▶ Stabilize the base of key employees
 - ▶ Bring back many or all recently departed senior executives, including John Havens, Terry Meguid, Stephan Newhouse, Vikram Pandit and Joseph Perella
 - ▶ Regain the confidence of clients, customers, trading partners and shareholders
- Create two platforms which will allow the two cultures within the Firm to pursue targeted strategies to maximize each business
- Achieve significant value creation through these measures

The Solution: Spin-off of Institutional Securities Business – Formation of Two Strong Companies



Valuation of Spin-Off

- Separating Morgan Stanley and Dean Witter / Discover—and implementing appropriate management and governance at both entities—will stop the erosion of shareholder value and increase the likelihood of significant value creation:



(1) Source: Keefe, Bruyette & Woods research report dated 3/30/05

(2) Source: Merrill Lynch research report dated 3/30/05

(3) Assumes \$15.5 billion in shareholders' equity, plus \$2.8 billion in junior subordinated debt issued to capital trusts, less \$693 million in goodwill and intangible assets ascribed to "Morgan Stanley"

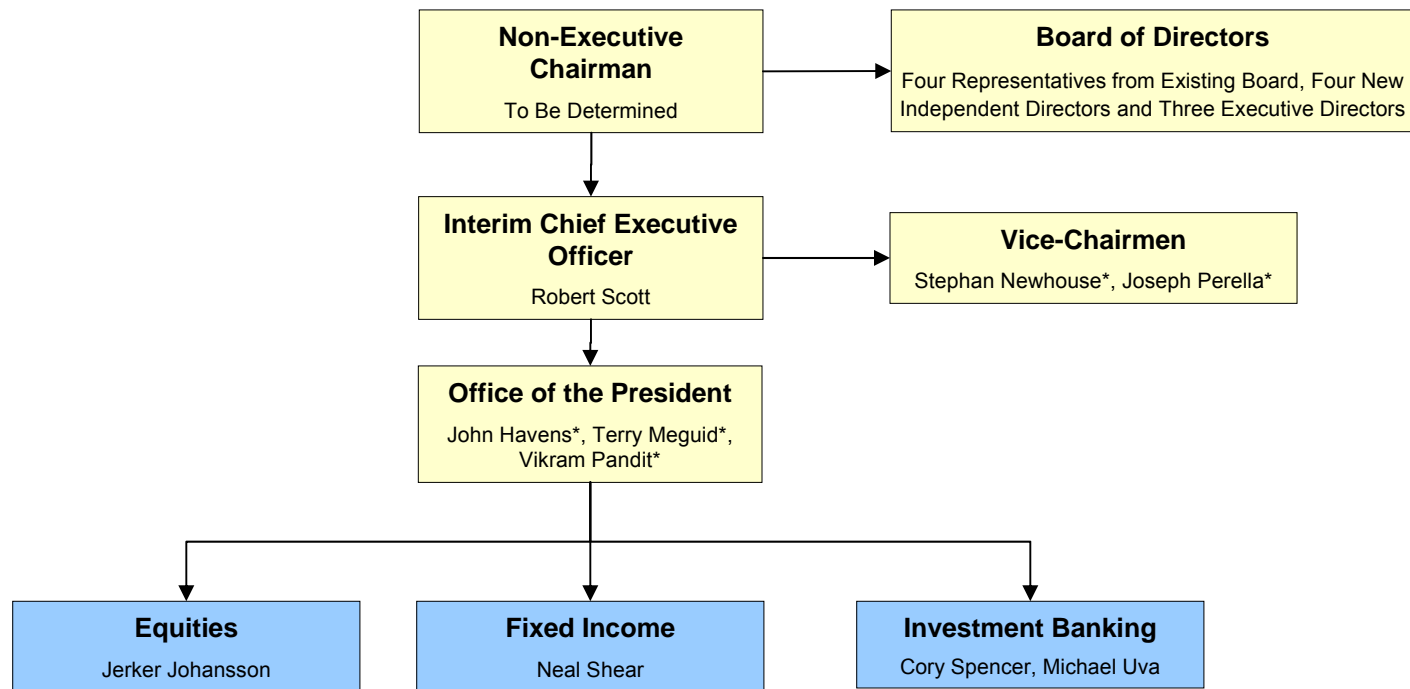
(4) Assumes \$3.5 billion in capital for Retail and \$4.8 billion in capital for Discover. See Appendix

(5) Based on current capital base of \$28.8 billion for Total Company (\$28.5 billion in total shareholders' equity plus \$2.8 billion in junior subordinated debt issued to capital trusts, less \$2.6 billion in goodwill and intangible assets)

Spin-off of Institutional Securities Business: Valuation

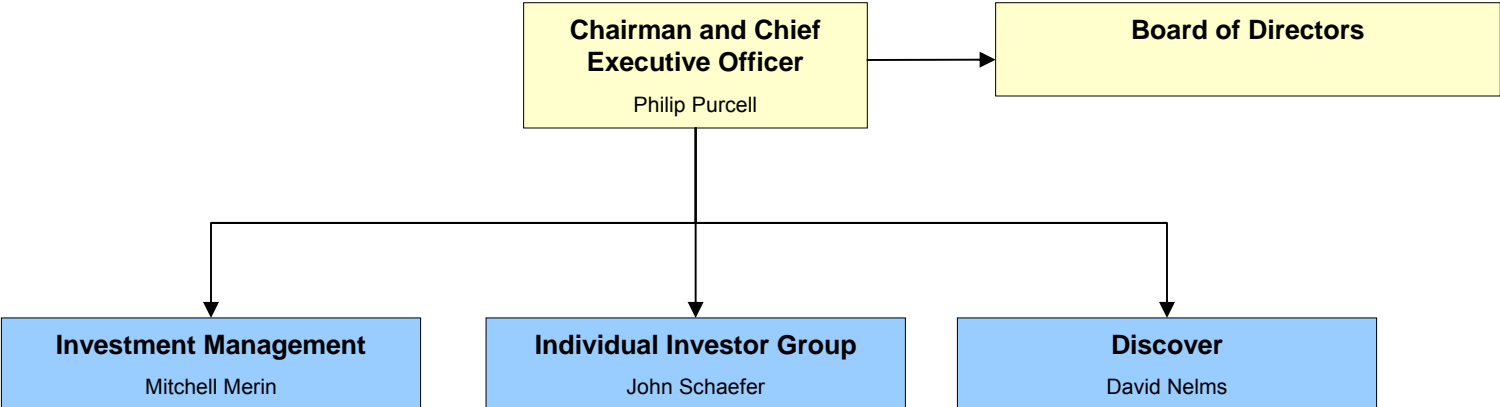
- Separating Morgan Stanley and Dean Witter / Discover is not merely a management succession strategy; it should create significant shareholder value:
 - ▶ **“A sum-of-parts valuation of \$63 indicates around 20% upside...”** - *Guy Moszkowski, Merrill Lynch (3/30/05)*
 - ▶ **“We believe MWD is more valuable on a break up basis relative to its current trading range**, with the Discover segment providing the least amount of synergies and cross-selling opportunities among the various business lines. **We also believe there is further upside to the shares as investors focus more of their attention on the institutional securities segment of Morgan Stanley.”** – *Jeff Harte, Sandler O’Neill & Partners (4/5/05)*
 - ▶ “With the high profile call by former directors for MWD to sell or divest some or all of its business units, we have created a sum-of-the-parts analysis for the firm...” **(Note: analysis indicated a price per MWD share of \$67.49 and \$70.92)**
– *Lauren Smith, Keefe Bruyette & Woods (3/30/05)*
 - ▶ “On a segment basis...the results would be as shown in the table below...” **(Note: table indicated price per MWD share of \$75.21)** – *Richard X. Bove, Punk Ziegel & Company (3/30/05)*

Spin-off of Institutional Securities Business: Leadership and Governance



* We are highly confident that under this leadership structure, these former senior executives would return

Dean Witter / Discover: Structure



Benefits of the Spin-off

- Establishes platform to resolve crisis and bring back key employees
- Creates experienced leadership for both entities
- Improves strategic focus and transparency at both entities
- Creates a structure that is more attractive to “pure-play” investors
- Allows equity incentive plans to be properly aligned for employees of both entities
- Improves corporate governance
- Preserves and enhances shareholder value

Spin-off: Issues to be Resolved

- Balance sheet
 - Appropriate capitalization of each company
- Regulatory, disclosure, licensing and compliance
- Resolve branding issues for each company
- Create necessary elements of retail infrastructure
 - Equity trading desk
 - Fixed income products
 - Research

Spin-off: Issues to be Resolved

- Interim governance for 3-6 month process to achieve separation
 - ▶ Put two management teams in place immediately
 - ▶ Board immediately sets up a transition committee for each business
 - ▶ Final establishment of two boards as last step at completion

- Review plan with credit rating agencies
 - ▶ Although further analysis needs to be performed, the objective is to maintain AA rating at the Institutional Securities business as we note that S&P focused on instability and uncertainty
 - ▶ On April 5, 2005, Moody's downgraded its outlook on Morgan Stanley to negative from stable, citing the spin-off of Discover, the exodus of key professionals and the appointment of two inside directors as causes for concern
 - ▶ On April 15, 2005, S&P also changed its outlook on Morgan Stanley to negative from stable:
 - "The outlook change reflects our concerns over the continuing departures of senior management within the Institutional Securities Division and the resulting strategic flux and uncertainty... These departures indicate a serious rift between senior management of Morgan Stanley and the management of its most important division."

Shareholder Response

- If you believe that a spin-off of the institutional securities business and the return of recently departed and highly respected leaders would be beneficial to shareholders, we urge you to let us know by e-mail on our website (www.futureofms.com) or by contacting us at (212) 372-4005
- We also encourage you make your views known to the Morgan Stanley Board by contacting them directly

Appendix

Appendix

Institutional Securities - Valuation

(US\$ in millions, unless otherwise noted)

	2000	2001	2002	2003	2004	CAGR
Net Revenues	\$14,092	\$11,280	\$9,119	\$11,211	\$13,063	(1.9%)
Growth		(20.0%)	(19.2%)	22.9%	16.5%	
Pre-tax Profit	\$5,407	\$3,687	\$2,655	\$3,645	\$4,097	(6.7%)
Margin	38.4%	32.7%	29.1%	32.5%	31.4%	

Public Comps Analysis:

	Price 5/10/05	CY 2005E EPS	2005E P/E	Tangible Book Value	Price / Tan. Book
Bear Stearns	\$94.49	\$9.55	9.9x	\$60.37	1.6x
Goldman Sachs	102.11	9.77	10.4x	41.57	2.5x
Lehman Brothers	88.83	9.17	9.7x	39.99	2.2x
Mean			10.0x		2.1x

Implied Valuation of Institutional Securities:

	2005E Net Income ⁽¹⁾	Implied 2005E P/E	Implied Market Cap
Inst. Securities	\$3,490	10.0x - 12.0x	\$34,900 - \$41,880
Appropriate Capital Base ⁽²⁾			\$17,640
Implied Price / Tangible Book Multiple			2.0x - 2.4x

(1) Source: Merrill Lynch research report dated 3/30/05

(2) Assumes \$15.5 billion in shareholders' equity, plus \$2.8 billion in junior subordinated debt issued to capital trusts, less \$693 million in goodwill and intangible assets

Retail (IIG & Investment Management) - Valuation

(US\$ in millions, unless otherwise noted)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>CAGR</u>
Net Revenues	\$8,576	\$7,711	\$6,774	\$6,518	\$7,353	(3.8%)
Growth		(10.1%)	(12.2%)	(3.8%)	12.8%	
Pre-tax Profit	\$2,003	\$790	\$776	\$946	\$1,198	(12.1%)
Margin	23.4%	10.2%	11.5%	14.5%	16.3%	

Public Comps Analysis:

	<u>Price</u> <u>5/10/05</u>	<u>CY 2005E</u> <u>EPS</u>	<u>2005E</u> <u>P/E</u>
AG Edwards	\$40.11	\$2.82	14.2x
Ameritrade	\$13.42	\$0.81	16.7x
Blackrock	\$75.55	\$3.69	20.5x
Etrade	\$12.31	\$1.01	12.2x
Federated	\$29.06	\$1.84	15.8x
Franklin	\$69.10	\$3.91	17.7x
Janus	\$13.52	\$0.47	29.0x
Jefferies	\$35.99	\$2.19	16.5x
Legg Mason	\$80.36	\$4.09	19.7x
Raymond James	\$26.89	\$2.02	13.3x
T. Rowe	\$56.93	\$3.00	19.0x
Mean			17.7x

Implied Valuation of Retail:

	<u>2005E</u> <u>Net Income</u> ⁽¹⁾	<u>Implied</u> <u>2005E P/E</u>	<u>Implied</u> <u>Market Cap</u>
Retail	\$1,075	16.0x - 18.0x	\$17,200 - \$19,350

Discover (Credit Services) - Valuation

(US\$ in millions, unless otherwise noted)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>CAGR</u>
Net Revenues	\$3,480	\$3,559	\$3,557	\$3,427	\$3,634	1.1%
Growth		2.3%	(0.1%)	(3.7%)	6.0%	
Pre-tax Profit	\$1,144	\$1,127	\$1,178	\$1,093	\$1,272	2.7%
Margin	32.9%	31.7%	33.1%	31.9%	35.0%	

Public Comps Analysis:

	Market Cap 5/10/05	Tangible Book Value	Managed Receivables	Capitalization	Premium to Receivables	2005E P/E
Capital One	\$17,605	\$8,036	\$79,861	10.1%	12.0%	10.2x
MBNA	25,707	9,751	121,618	8.0%	13.1%	10.0x
			Mean	9.0%	12.6%	10.1x

Implied Valuation of Discover:

	Managed Receivables	Premium to Receivables ⁽¹⁾	Appropriate Capital Base ⁽²⁾	Implied Market Cap ⁽³⁾
Discover	\$47,770	12.0% - 16.0%	\$4,777	\$10,509 - \$12,420

(1) Valued at a premium to its peers due to proprietary network, which Smith Barney (4/7/05) has valued at between \$0 - \$5.6 billion

(2) Assumes capitalization of 10% applied to managed receivables of \$47.8 billion

(3) UBS has valued Discover at \$9 - \$13 billion in a spin-off scenario (4/14/05) and at \$11 - \$15 billion in a sale scenario; Merrill Lynch has valued Discover at \$10 billion (3/30/05); and Smith Barney has valued Discover in a spin-off scenario at \$11 - \$16 billion (4/7/05)

Sum of the Parts Valuation

(US\$ in millions, unless otherwise noted)

Sum of the Parts Valuation:

	Implied Market Cap ⁽¹⁾
Institutional Securities	\$38,390
Discover	11,465
Retail	18,275
Sum of the Parts	\$68,130

Implied Share Price:

Shares Outstanding (mm)	1,096
Implied Share Price	\$62.19
Current Share Price (5/10/05)	\$49.42
Implied Premium	25.8%

Capitalization

- Potential Excess Capital:

(\$ in billions, unless otherwise noted)

Appropriate Capital Base at "Morgan Stanley"	\$17.6 ⁽¹⁾
Appropriate Capital Base at Retail	3.5 ⁽²⁾
Appropriate Capital Base at Discover	4.8 ⁽³⁾
Total Appropriate Capital Base	\$25.9
Current Capital Base at Total Company	\$28.8 ⁽⁴⁾
Potential Excess Capital	\$2.9
Shares Outstanding (mm)	1,095.6
Potential Excess Capital (\$ per share)	\$2.62

- (1) Assumes \$15.5 billion in shareholders' equity, plus \$2.8 billion in junior subordinated debt issued to capital trusts, less \$693 million in goodwill and intangible assets
- (2) Assumes tangible book value of \$17.8 billion for Individual Investor Group capitalized at 12.8% and tangible book value of \$2.9 billion for Investment Management capitalized at 41.9%
- (3) Assumes capitalization of 10% applied to managed receivables of \$47.8 billion
- (4) Source: Company 10-Q dated 2/28/05, equals \$28.5 billion in total shareholders' equity plus \$2.8 billion in junior subordinated debt issued to capital trusts, less \$2.6 billion in goodwill and intangible assets

Implied Capital Base at Retail

(US\$ in millions)

	Tangible Book	Tangible Assets	Tan. Book / Tan. Assets
Brokers			
AG Edwards	\$1,753.0	\$4,687.8	37.4%
Ameritrade	271.8	15,317.8	1.8%
E*TRADE	1,765.3	32,581.5	5.4%
Jefferies	942.7	13,392.0	7.0%
Legg Mason	707.4	6,277.3	11.3%
Raymond James	1,097.8	7,828.6	14.0%

Mean	12.8%
High	37.4%
Low	1.8%

Asset Managers			
BlackRock	\$402.7	\$1,050.2	38.3%
Federated Investors	111.7	639.7	17.5%
Franklin Resources	3,251.4	6,363.3	51.1%
Janus	262.0	1,242.9	21.1%
T. Rowe Price	1,031.6	1,263.1	81.7%

Mean	41.9%
High	81.7%
Low	17.5%

	Total Assets	Goodwill & Intangibles	Tangible Assets	Appropriate Capitalization	Implied Capital Base
Implied Capital @ Individual Investor Group	\$18,418	\$584	\$17,834	12.8%	\$2,286
Implied Capital @ Investment Management	3,897	966	2,931	41.9%	1,229
Total Implied Capital Base @ Retail					\$3,515