



# **Analysis of Morgan Stanley's Recent Financial Performance**

**March 3, 2005**

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# Share Price Performance

Last Five Years (3/2/00 – 3/2/05)

Morgan Stanley's (MWD) share price has decreased 28% over the last five years

In comparison to its most relevant peers, this underperformance is dramatic

MWD vs. Institutional Peers (1)



MWD vs. Key Competitors (2)



MWD vs. Financial Services Companies (3)



MWD vs. S&P 500, S&P 500 Div. Fin. Services (4)



Source: Factset

Note: All indices are market capitalization weighted

(1) Institutional Peers consist of Bear Stearns, Goldman Sachs and Lehman Brothers

(2) Key Competitors as defined in Morgan Stanley's proxy statement filed February 15, 2005 – Includes American Express, Bear Stearns, Citigroup, Goldman Sachs, JP Morgan, Lehman Brothers and Merrill Lynch

(3) Financial Services Companies as defined in Morgan Stanley's proxy statement filed February 15, 2005 – Includes American Express, Bear Stearns, Citigroup, CSFB, Deutsche Bank, Goldman Sachs, JP Morgan, Lehman Brothers, Merrill Lynch, UBS and Wachovia

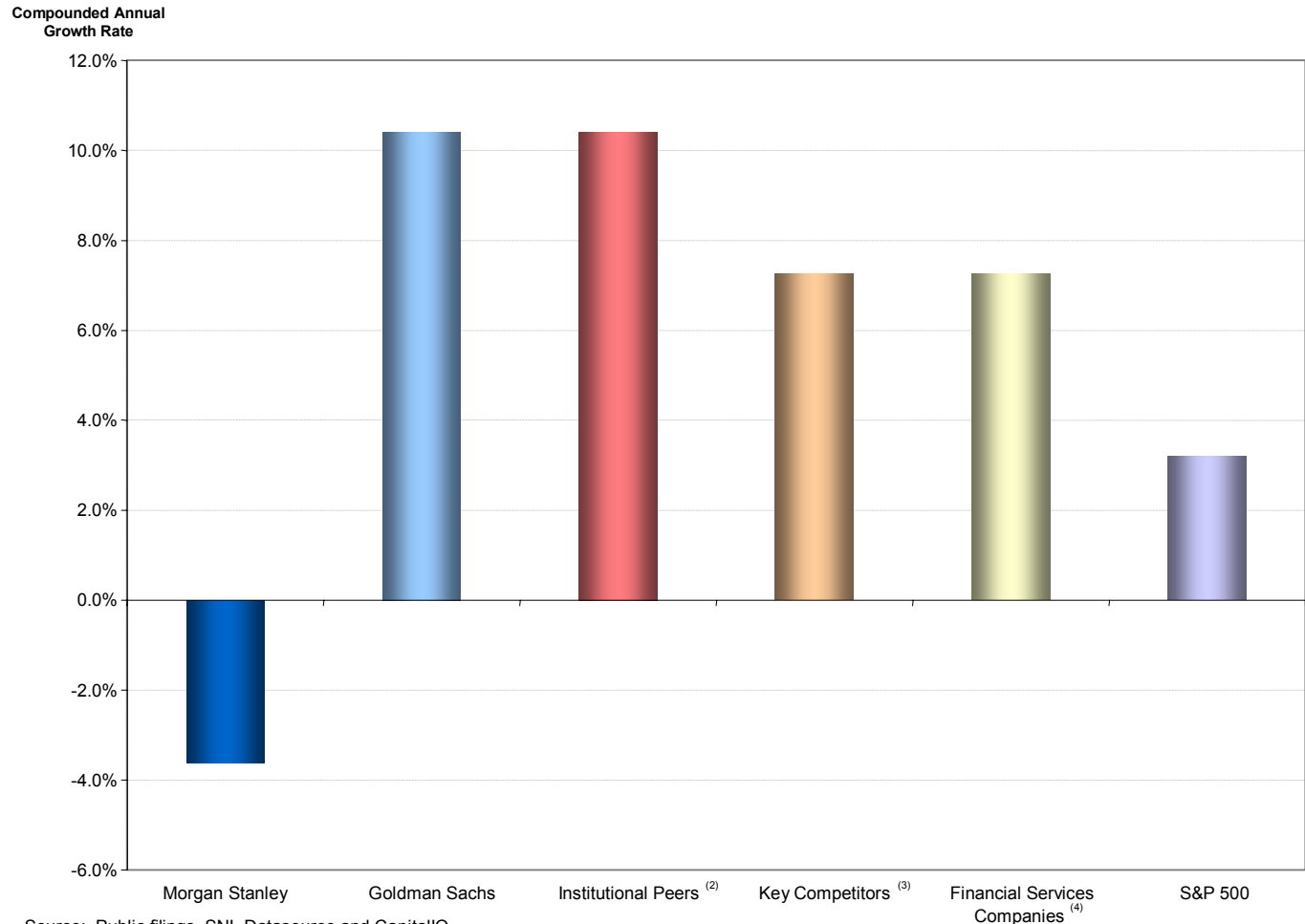
(4) 5-year comparison also used in Morgan Stanley's proxy statement filed February 15, 2005

## Morgan Stanley's Relative Earnings Growth

# Historical Earnings Growth <sup>(1)</sup>

Last Five Years (2000 – 2004)

A fundamental reason for its share price underperformance has been that Morgan Stanley has trailed its peers and the broader market in terms of earnings growth



Source: Public filings, SNL Datasource and CapitalIQ

Note: Results presented on a fiscal year basis

(1) Earnings defined as fully diluted earnings per share, before extraordinary items

(2) Institutional Peers consist of Bear Stearns, Goldman Sachs and Lehman Brothers

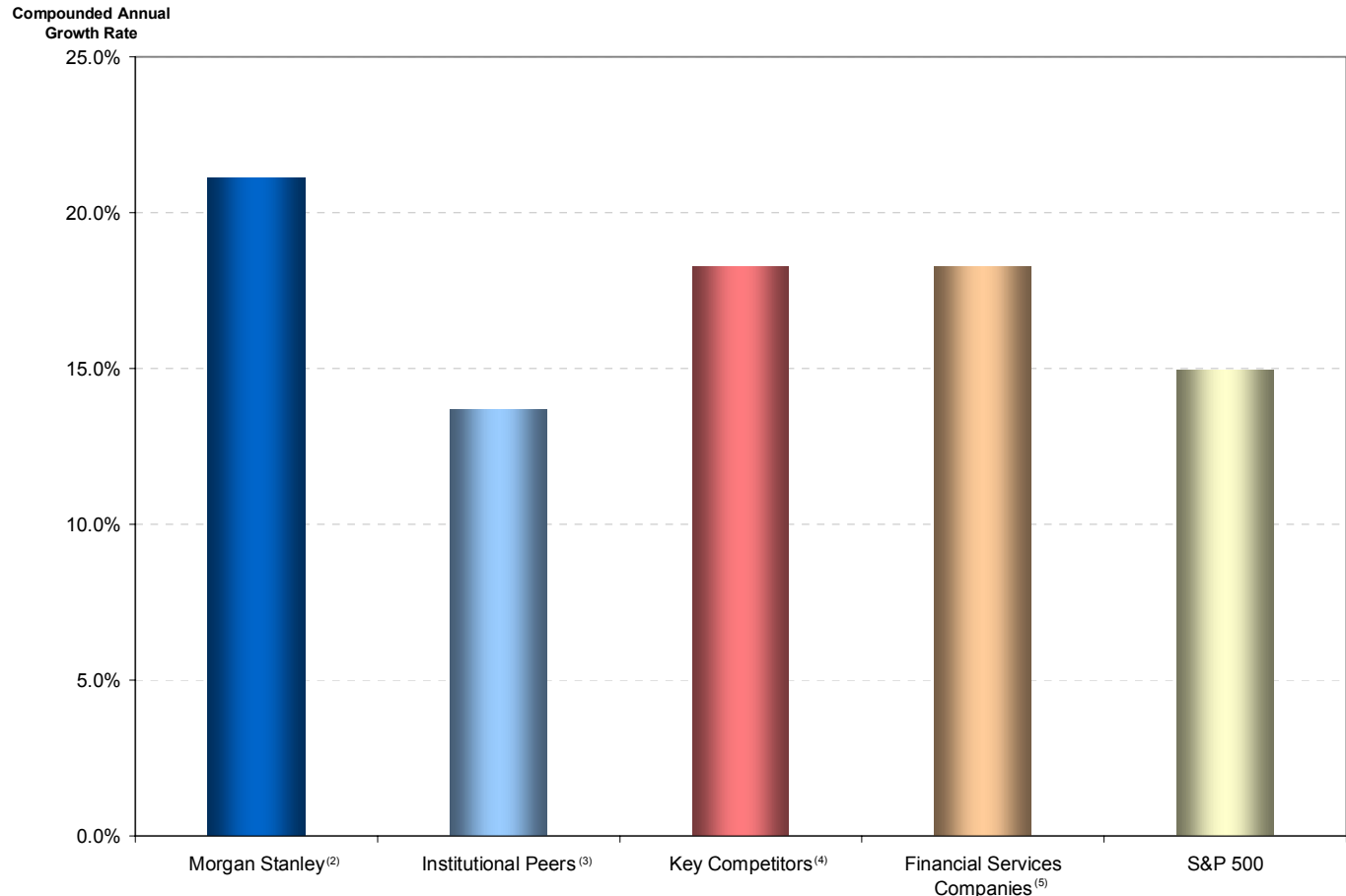
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(4) Financial Services Companies as defined in Morgan Stanley's proxy statement filed February 15, 2005 – Includes American Express, Bear Stearns, Citigroup, CSFB, Deutsche Bank, Goldman Sachs, JP Morgan, Lehman Brothers, Merrill Lynch, UBS and Wachovia

# Historical Earnings Growth <sup>(1)</sup>

Five Years Preceding Dean Witter / Discover Merger (1992 – 1996)

In the years leading up to the Dean Witter / Discover Financial acquisition, Morgan Stanley outperformed both its peers and the broader market in terms of earnings growth



Source: Public filings and CapitalIQ

Note: Results presented on a fiscal year basis, except where noted

(1) Earnings defined as fully diluted earnings per share, before extraordinary items

(2) Per disclosure in Morgan Stanley standalone 1996 10-K (prior to merger with Dean Witter / Discover: Morgan Stanley growth rate reflects the period from the fiscal year ended January 31, 1993 to the fiscal year ended November 30, 1996)

(3) Institutional Peers consist of Bear Stearns (Goldman Sachs and Lehman Brothers were not public companies throughout this entire period)

(4) Key Competitors as defined in Morgan Stanley's proxy statement filed February 15, 2005 – Includes American Express, Bear Stearns, Citigroup, JP Morgan and Merrill Lynch (Goldman Sachs and Lehman Brothers were not public companies throughout this entire period)

(5) Financial Services Companies as defined in Morgan Stanley's proxy statement filed February 15, 2005 – Includes American Express, Bear Stearns, Citigroup, Deutsche Bank, JP Morgan, Merrill Lynch and Wachovia (CSFB, Goldman Sachs, Lehman Brothers and UBS were excluded either because they were not public throughout this entire period or no data was available)

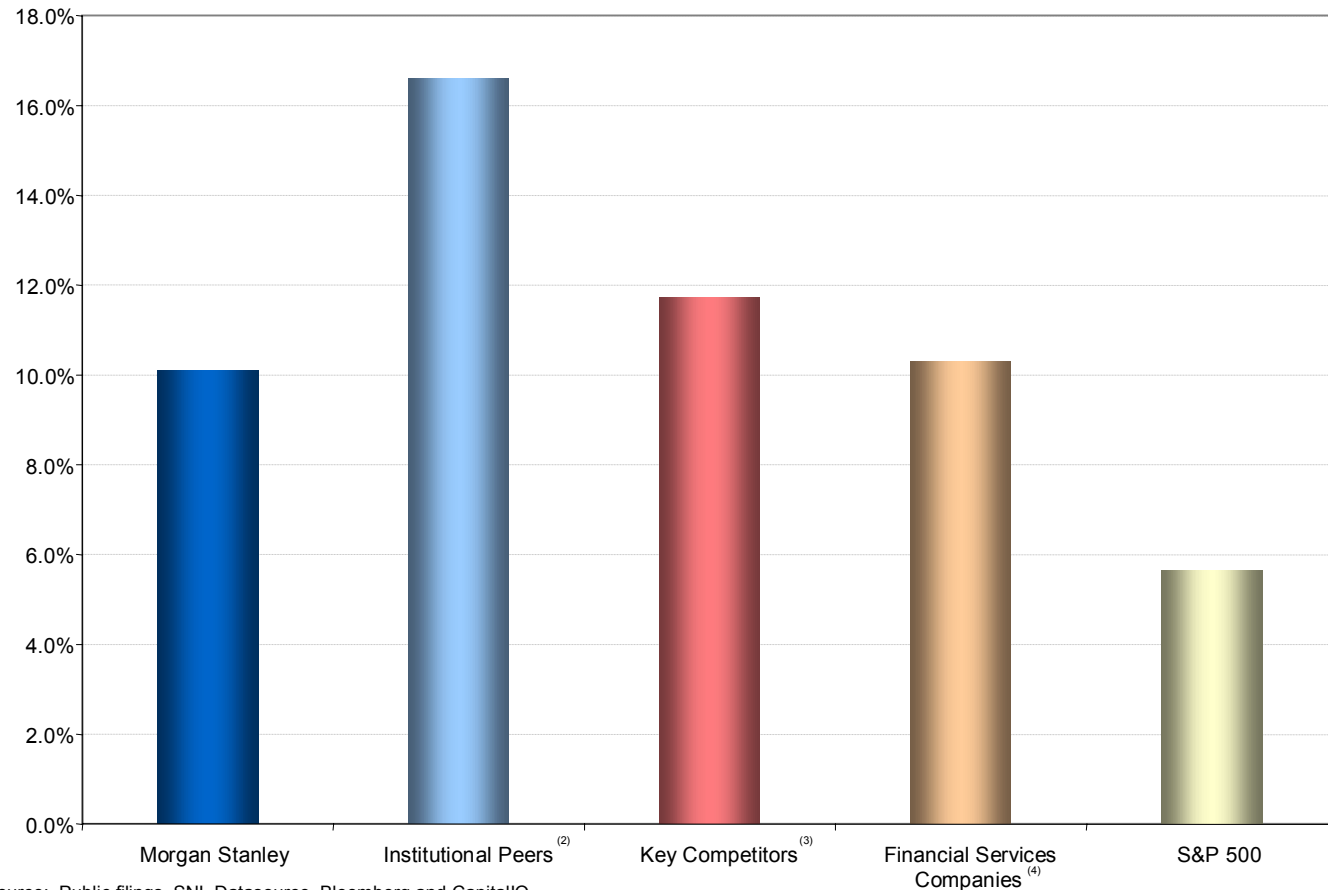
# Historical Earnings Growth <sup>(1)</sup>

Post - Dean Witter / Discover Merger (1997 – 2004)

Although less dramatic, this underperformance in earnings growth is consistent with the entire post-merger history

The relative underperformance has been more significant in the last five years

Compounded Annual Growth Rate



Source: Public filings, SNL Datasource, Bloomberg and CapitalIQ

Note: Results presented on a fiscal year basis

(1) Earnings defined as fully diluted earnings per share, before extraordinary items

(2) Institutional Peers consist of Bear Stearns and Lehman Brothers (Goldman Sachs was not a public company throughout this entire period)

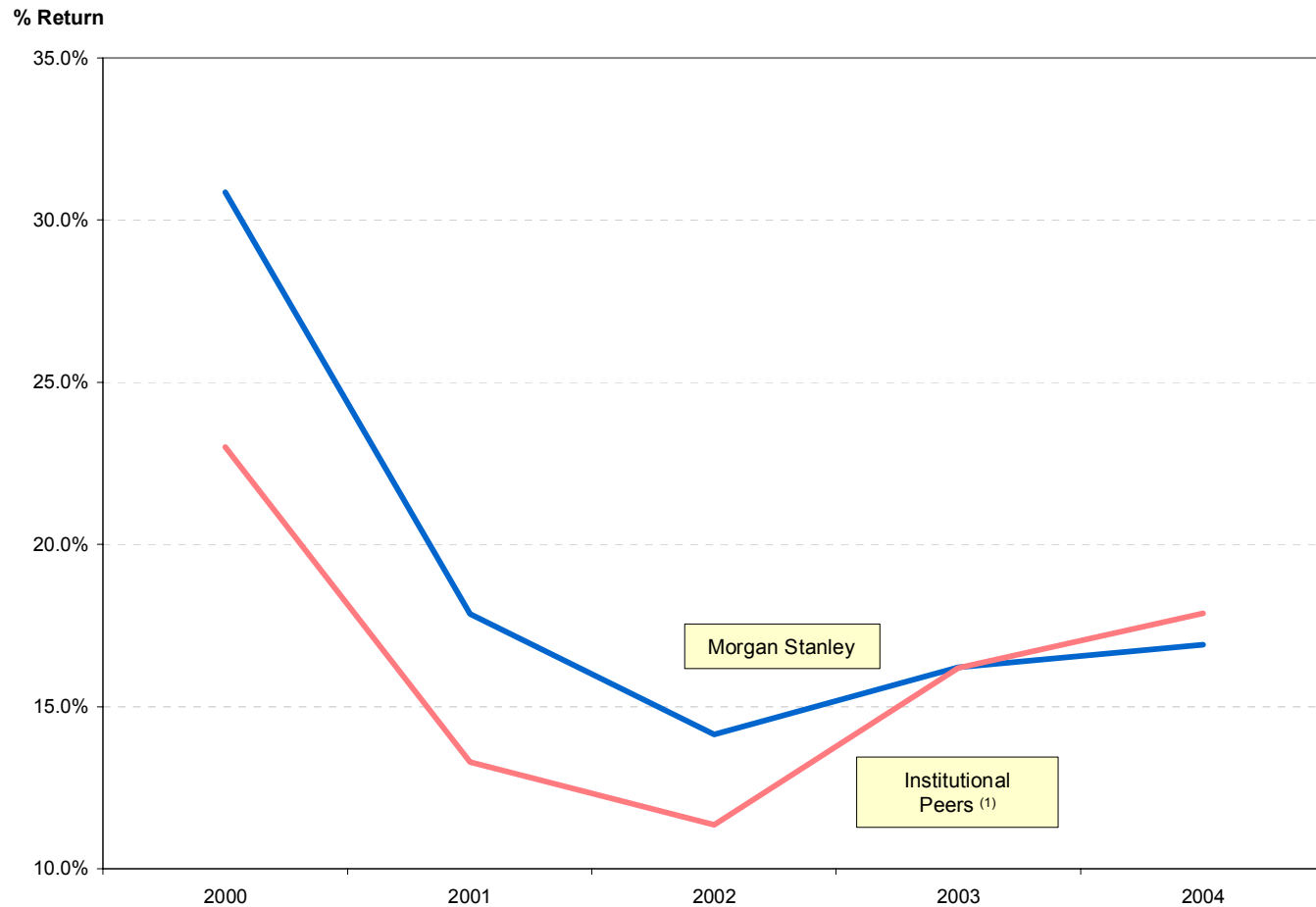
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# Return on Equity

Last Five Years (2000 – 2004)

Correspondingly, Morgan Stanley's return on capital has decreased by approximately 50% since 2000, which has resulted in transforming the Company from one that was able to achieve premium returns on capital to one that lags behind its peers



Source: Company filings and Bloomberg

Note: Results presented on fiscal year basis

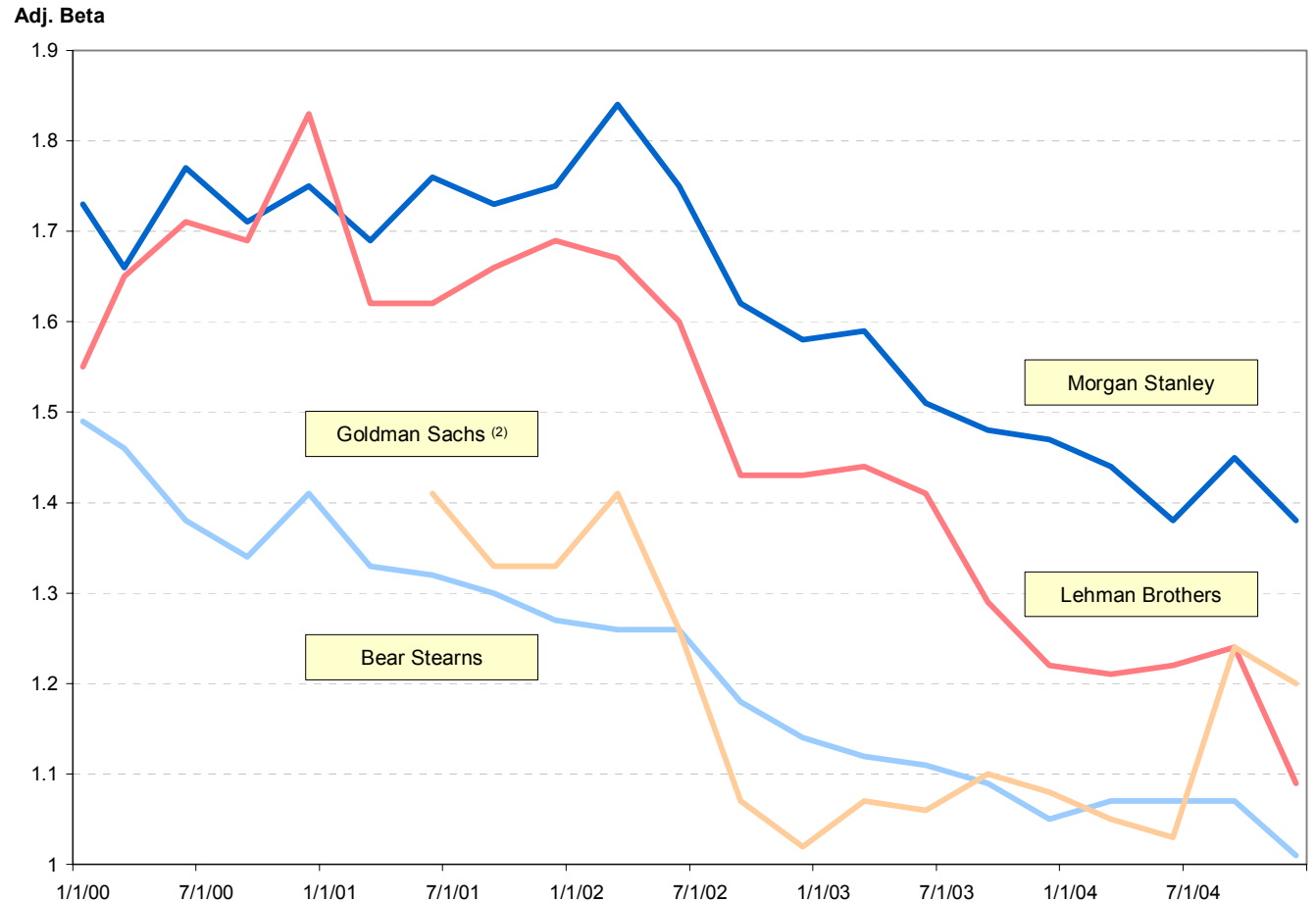
(1) Institutional Peers consist of Bear Stearns, Goldman Sachs and Lehman Brothers

# Volatility

Last Five Years (2000 – 2004)

In addition to its relative underperformance in share price, earnings growth and return on capital, Morgan Stanley remains consistently more volatile than its peers

Adjusted Beta – Last Five Years (2000 – 2004) <sup>(1)</sup>



Source: Bloomberg

(1) Adjusted Beta, using quarterly data over a two-year period

(2) Adjusted Beta only available after May 2001 (Goldman Sachs IPO – May 1999)

## Retail Businesses

### Individual Investor Group

The Individual Investor Group contributed 19.4% of revenues and 5.5% of pre-tax profits in FY2004

Revenue and pre-tax profit have declined by 5.2% and 19.7% per annum over the last five years

Financial Profile <sup>(1)</sup>						
	2000	2001	2002	2003	2004	CAGR / AVG ('00 - '04)
<i>(US\$ in millions, unless otherwise noted)</i>						
Net Revenues	\$5,706	\$4,671	\$4,268	\$4,242	\$4,615	(5.2%)
<i>Growth</i>		(18.1%)	(8.6%)	(0.6%)	8.8%	-
Pre-tax Profit <sup>(2)</sup>	893	58	120	464	371	(19.7%)
<i>Margin</i>	15.7%	1.2%	2.8%	10.9%	8.0%	7.7%
Memo:						
Global Financial Advisors	13,910	13,690	12,546	11,086	10,962	(5.8%)
<i>Growth</i>		(1.6%)	(8.4%)	(11.6%)	(1.1%)	-
Total Client Assets (\$bn)	659	595	516	565	602	(2.2%)
<i>Growth</i>		(9.7%)	(13.3%)	9.5%	6.5%	-

Source: Company filings

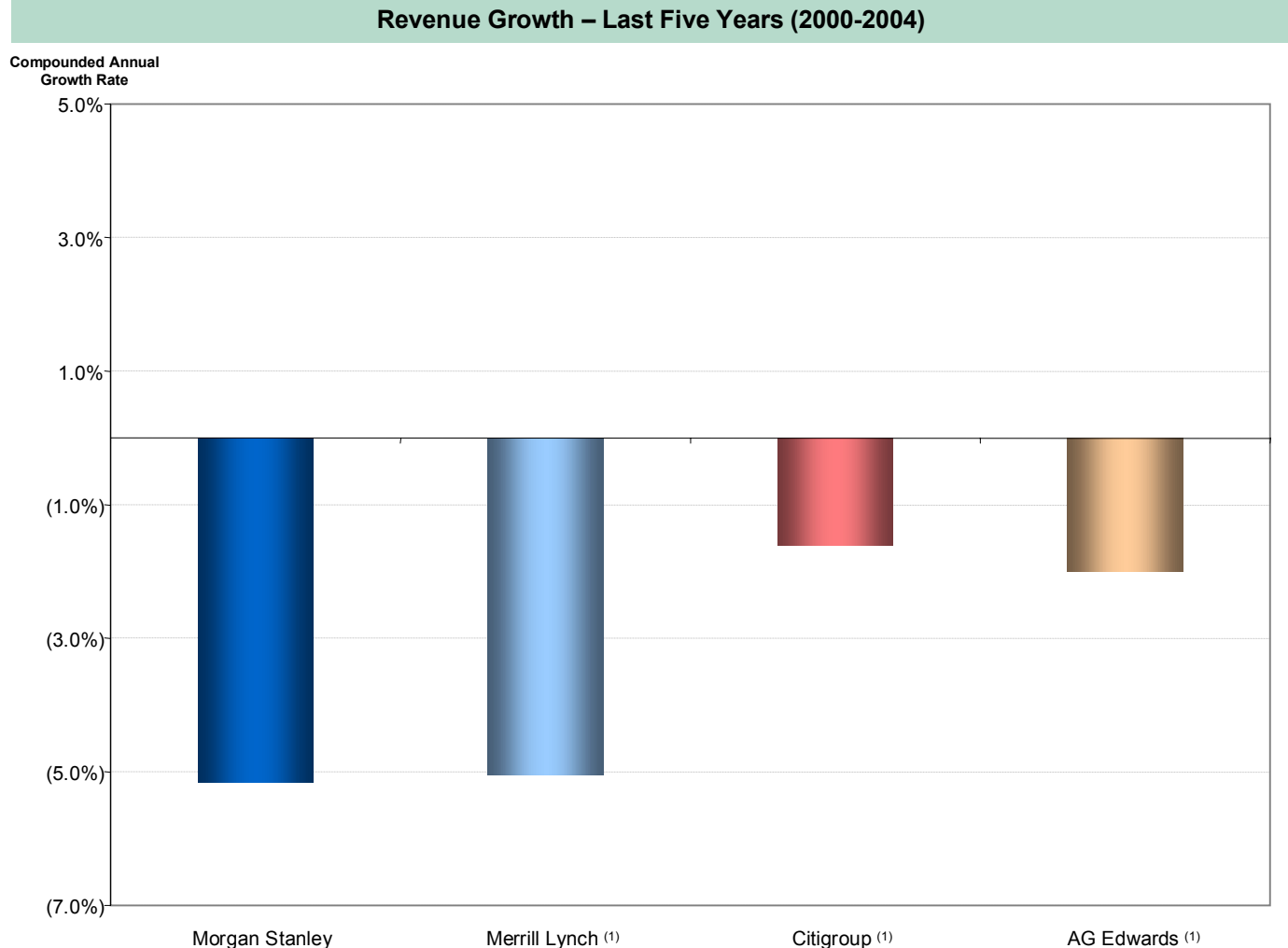
(1) Results presented on fiscal year basis

(2) Excludes losses from unconsolidated investees

# Retail Businesses

## Individual Investor Group (cont.)

The Individual Investor Group's decline in revenue growth is more severe than the decline in revenue of its peers



Source: Company filings and CSFB research dated February 7, 2005

Note: Results presented on a fiscal year basis, unless otherwise noted. Wachovia Capital Management has been excluded as revenues pro forma for the Prudential Securities acquisition are unavailable prior to 2003

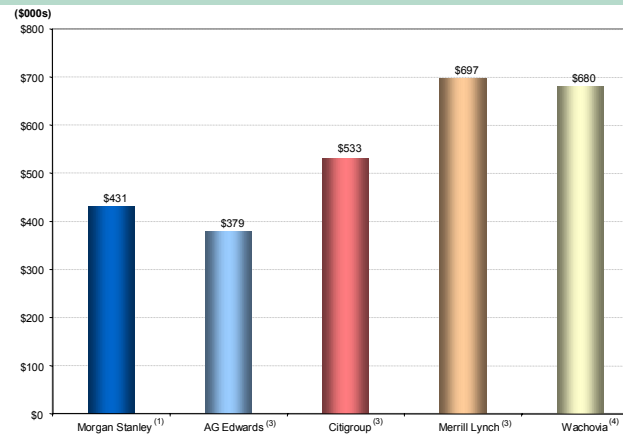
(1) AG Edwards results are presented on a calendar 2004 basis due to its February fiscal year-end. Merrill Lynch and Citigroup have fiscal years ended December 31

## Retail Businesses

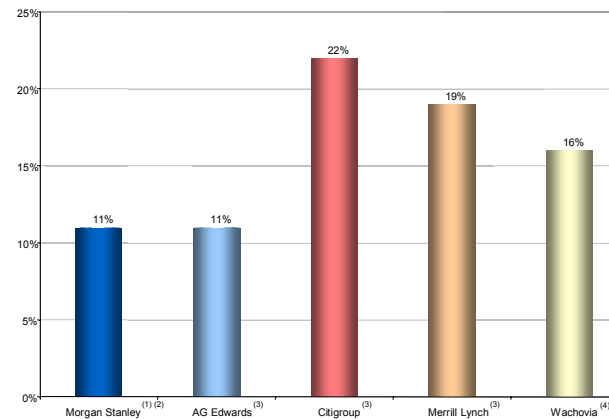
### Individual Investor Group (cont.)

Moreover, the Individual Investor Group significantly lags in productivity per broker and profitability <sup>(1)</sup> <sup>(2)</sup> versus its peers

2004 Revenue per Financial Consultant



2004 Profitability (Pre-Tax Margin)



Source: CSFB research report dated February 7, 2005. Note: Results presented on fiscal year basis, unless otherwise noted

- (1) As presented by CSFB in its research report dated February 7, 2005, which excludes \$107 million in revenue adjustments relating to accounting changes in order to ensure comparability with peers
- (2) As presented by CSFB in its research report dated February 7, 2005, which excludes \$70 million 3Q04 litigation charge and \$27 million non-interest benefit relating to accounting change to ensure comparability
- (3) As presented by CSFB in its research report dated February 7, 2005 - AG Edwards results are presented on a calendar year basis due to its February year-end. Merrill Lynch and Citigroup have fiscal years ended 12/31
- (4) As presented by CSFB in its research report dated February 7, 2005 - Wachovia Capital Management results only. Financial consultants include only Series 7 registered reps

## Retail Businesses

### Credit Services

Credit Services contributed 15.3% of revenues and 19.0% of pre-tax profits in FY2004

Revenues and profitability have remained flat amid poor credit quality

Financial Profile <sup>(1)</sup>						
<i>(US\$ in millions, unless otherwise noted)</i>	2000	2001	2002	2003	2004	CAGR / AVG ('00 - '04)
Net Revenues	\$3,480	\$3,559	\$3,557	\$3,427	\$3,634	1.1%
<i>Growth</i>		2.3%	(0.1%)	(3.7%)	6.0%	-
Pre-tax Profit <sup>(2)</sup>	1,144	1,127	1,178	1,093	1,272	2.7%
<i>Margin</i>	32.9%	31.7%	33.1%	31.9%	35.0%	32.9%
Memo:						
Loans - Managed (\$bn)	47.1	49.3	51.1	48.4	48.3	0.6%
<i>Growth</i>		4.7%	3.7%	(5.4%)	(0.2%)	-
Charge Off Rate - Managed	4.40%	5.36%	6.19%	6.60%	6.00%	5.7%

Source: Company filings

(1) Results presented on fiscal year basis

(2) Excludes losses from unconsolidated investees

## Retail Businesses

### Credit Services (cont.)

Over the last five years, Discover has lost market share as receivables have remained flat

2000 <sup>(1)</sup>		
	Outstandings (\$bn)	Market Share
1 Citigroup	96.20	17%
2 MBNA	70.45	13%
3 Bank One / First USA	66.99	12%
<b>4 Discover</b>	<b>47.13</b>	<b>9%</b>
5 Chase Manhattan	36.20	7%
6 American Express	28.70	5%
7 Providian Financial	26.70	5%
8 Capital One	26.28	5%
9 Bank of America	23.58	4%
10 Household Bank	15.18	3%

2004		
	Outstandings (\$bn) <sup>(2)</sup>	Market Share <sup>(4)</sup>
1 Citigroup	147.80	23%
2 JP Morgan Chase / Bank One	135.37	20%
3 MBNA	80.14	13%
4 Bank of America	58.63	8%
<b>5 Discover</b>	<b>48.30 <sup>(3)</sup></b>	<b>7%</b>
6 Capital One	48.61	7%
7 American Express	47.20	6%
8 Household Financial	NA	3%
9 Providian Financial	NA	3%
10 Wells Fargo	NA	1%

Note: All results refer to U.S. credit card receivables

(1) Based on Nilson report as referenced in JP Morgan research report dated January 9, 2005

(2) Source: JP Morgan research dated January 31, 2005, unless otherwise noted

(3) Source: Company filings

(4) Source: JP Morgan research dated December 12, 2004; market share data as of 2Q04

## Retail Businesses

### Investment Management

The Investment Management Group contributed 11.5% of revenues and 12.4% of pre-tax profits in FY2004

Revenue and pre-tax profit have declined by 1.2% and 7.1% per annum over the last five years

Financial Profile <sup>(1)</sup>						
	2000	2001	2002	2003	2004	CAGR / AVG ('00 - '04)
<i>(US\$ in millions, unless otherwise noted)</i>						
Net Revenues	\$2,870	\$3,040	\$2,506	\$2,276	\$2,738	(1.2%)
<i>Growth</i>		5.9%	(17.6%)	(9.2%)	20.3%	-
Pre-tax Profit <sup>(2)</sup>	1,110	732	656	482	827	(7.1%)
<i>Margin</i>	38.7%	24.1%	26.2%	21.2%	30.2%	28.1%
Memo:						
Retail Assets Under Management (\$bn)	315	280	186	193	202	(10.5%)
<i>Growth</i>		(11.1%)	(33.6%)	3.8%	4.7%	-
Institutional Assets Under Management (\$bn)	185	179	151	164	222	4.7%
<i>Growth</i>		(3.2%)	(15.6%)	8.6%	35.4%	-

Source: Company filings

(1) Results presented on fiscal year basis

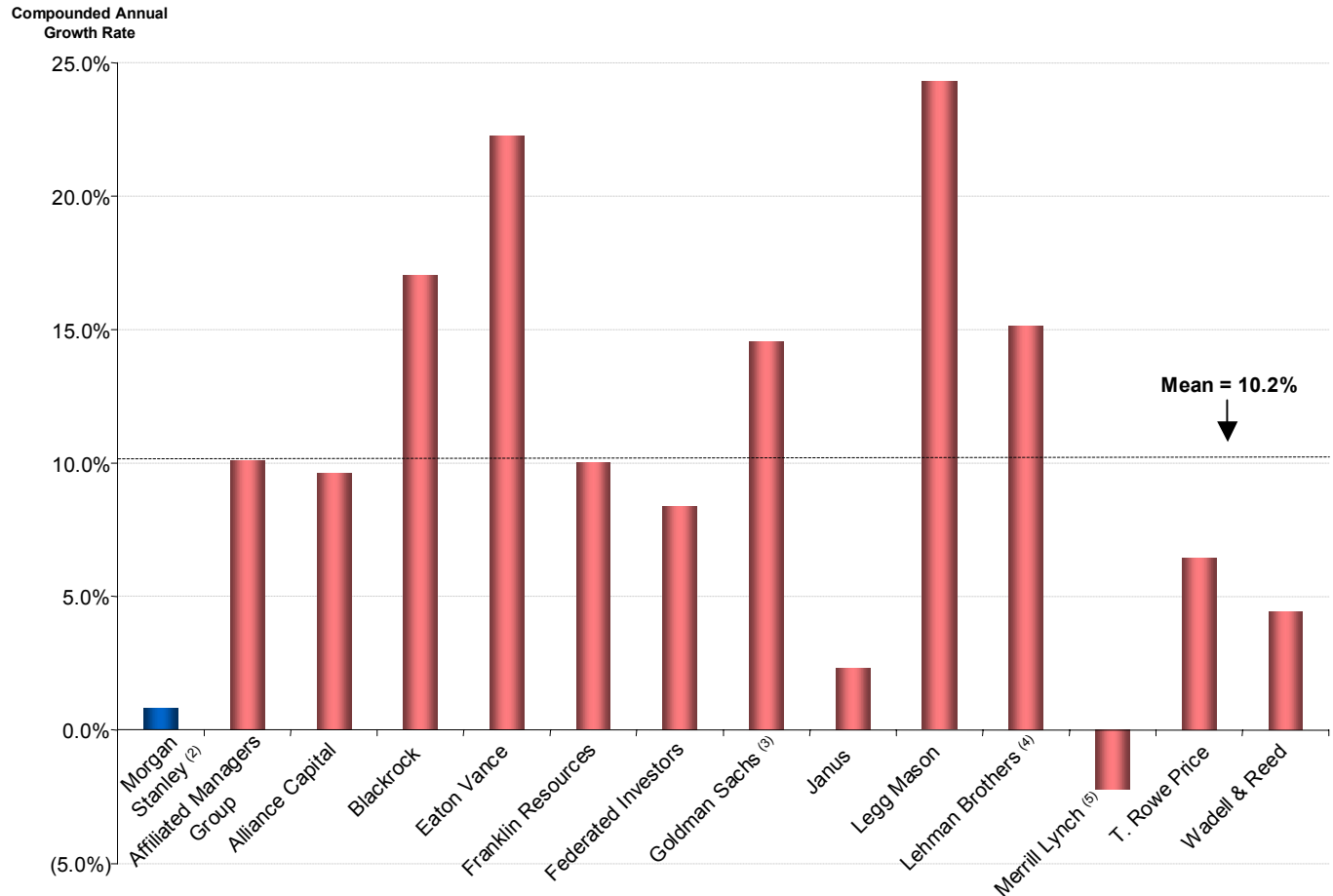
(2) Excludes losses from unconsolidated investees

# Retail Businesses

## Investment Management (cont.)

The Investment Management division has underperformed its peers in terms of growth in Assets Under Management since 1998

AUM Growth (1998 – 3Q04) <sup>(1)</sup>



(1) Banc of America research report dated February 2005

(2) Morgan Stanley: All information for Investment Management only

(3) Goldman Sachs: All information for Asset Management only

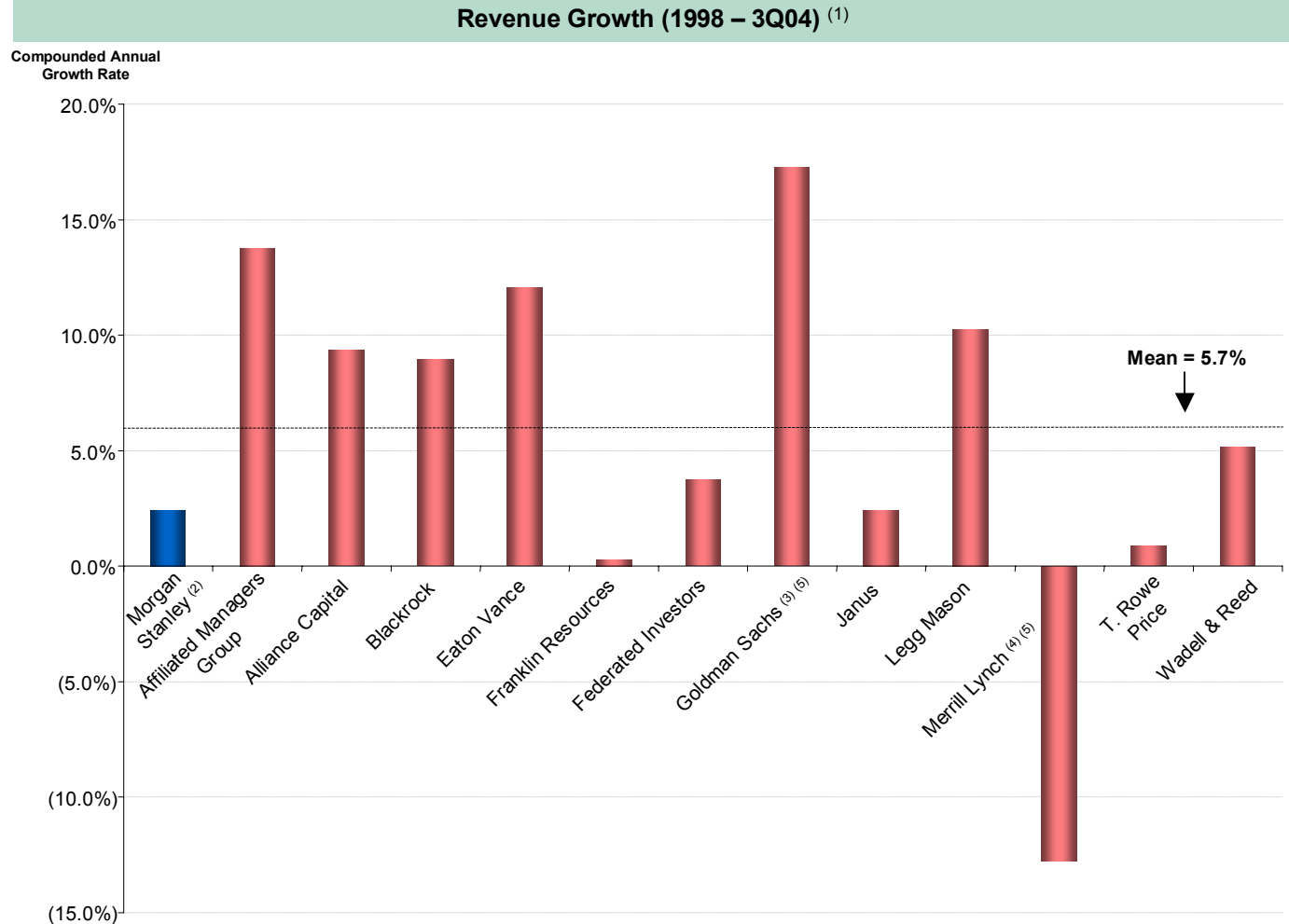
(4) Lehman Brothers: AUM results are pro-forma to include Neuberger Berman for periods preceding the 2004 merger

(5) Merrill Lynch: All information for Merrill Lynch Investment Management only

# Retail Businesses

## Investment Management (cont.)

The Investment Management division has also underperformed its peers in terms of growth in revenues since 1998

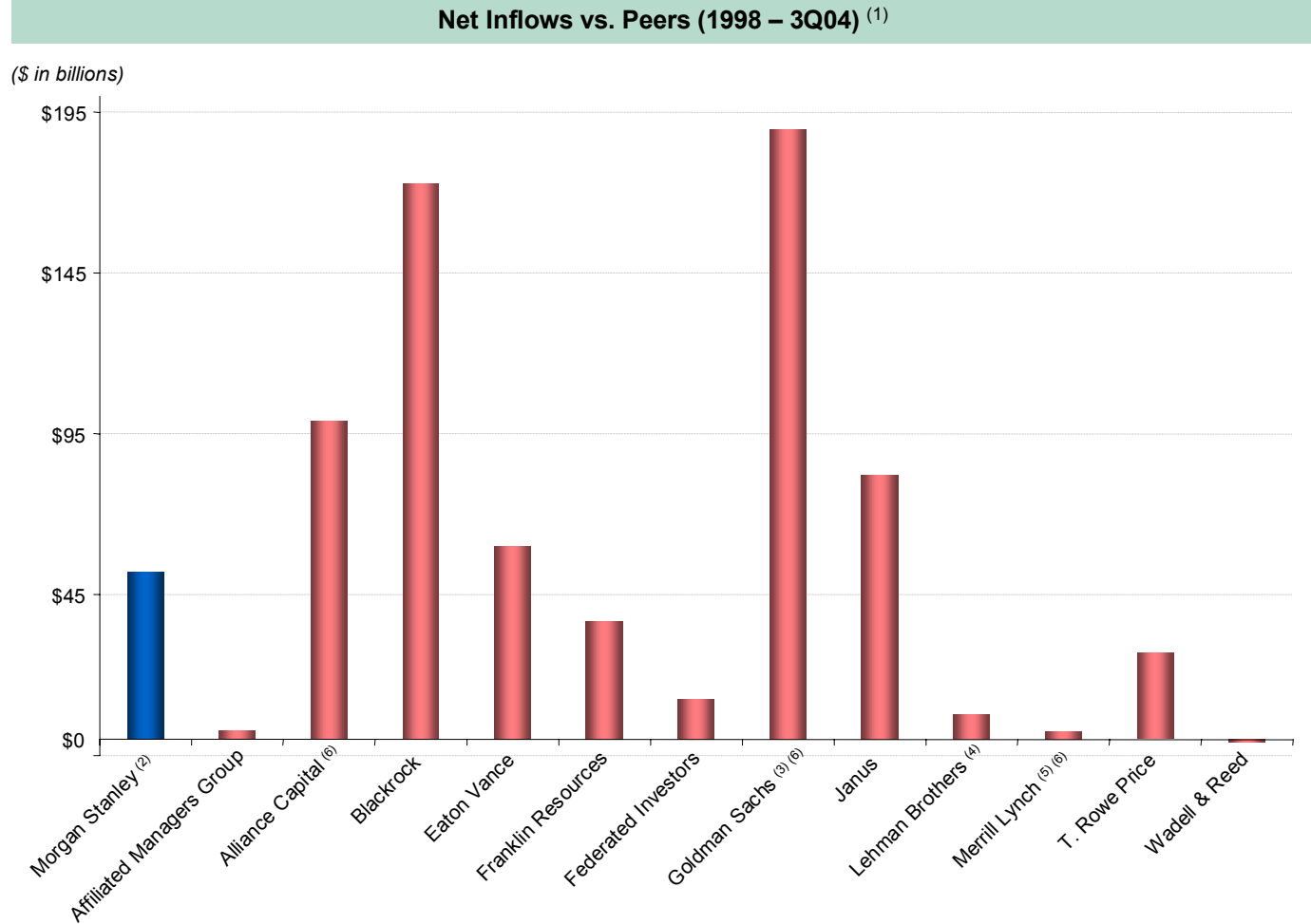


(1) Banc of America research report dated February 2005  
 (2) Morgan Stanley: All information for Investment Management only  
 (3) Goldman Sachs: All information for Asset Management only  
 (4) Merrill Lynch: All information for Merrill Lynch Investment Management only  
 (5) Data available only for the period between 1999 – 3Q04

# Retail Businesses

## Investment Management (cont.)

The Investment Management division has experienced lower inflows since 1998 than than most of its peers



(1) Banc of America research report dated February 2005

(2) Morgan Stanley: All information for Investment Management only

(3) Goldman Sachs: All information for Asset Management only

(4) Lehman Brothers: Results are pro-forma to include Neuberger Berman for periods preceding the 2004 merger

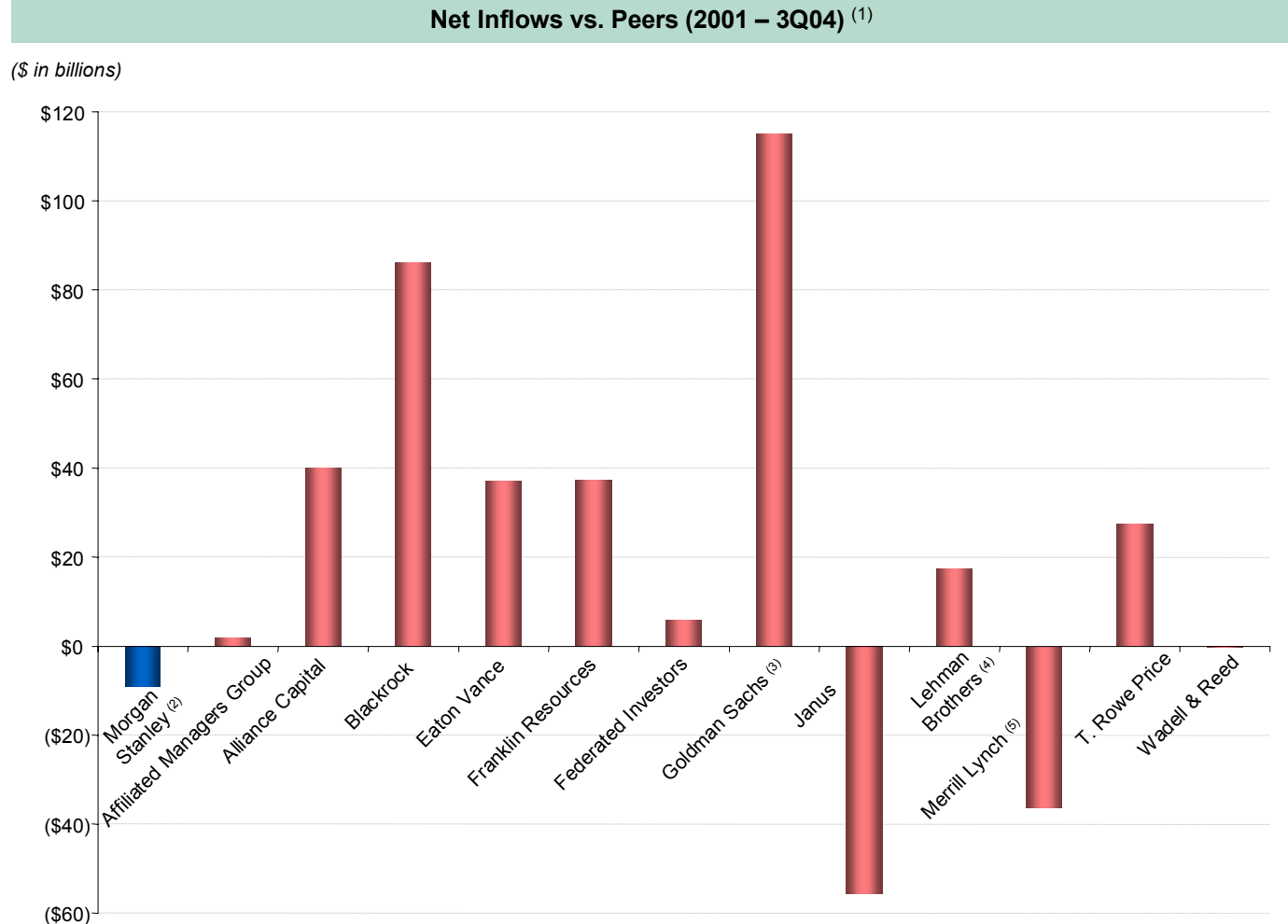
(5) Merrill Lynch: All information for Merrill Lynch Investment Management only

(6) Data available only for the period between 1999 – 3Q04

# Retail Businesses

## Investment Management (cont.)

This underperformance has been more dramatic since 2001, as the Investment Management division experienced more “net outflows” than almost all of its peers



(1) Banc of America research report dated February 2005

(2) Morgan Stanley: All information for Investment Management only

(3) Goldman Sachs: All information for Asset Management only

(4) Lehman Brothers: Results are pro-forma to include Neuberger Berman for periods preceding the 2004 merger

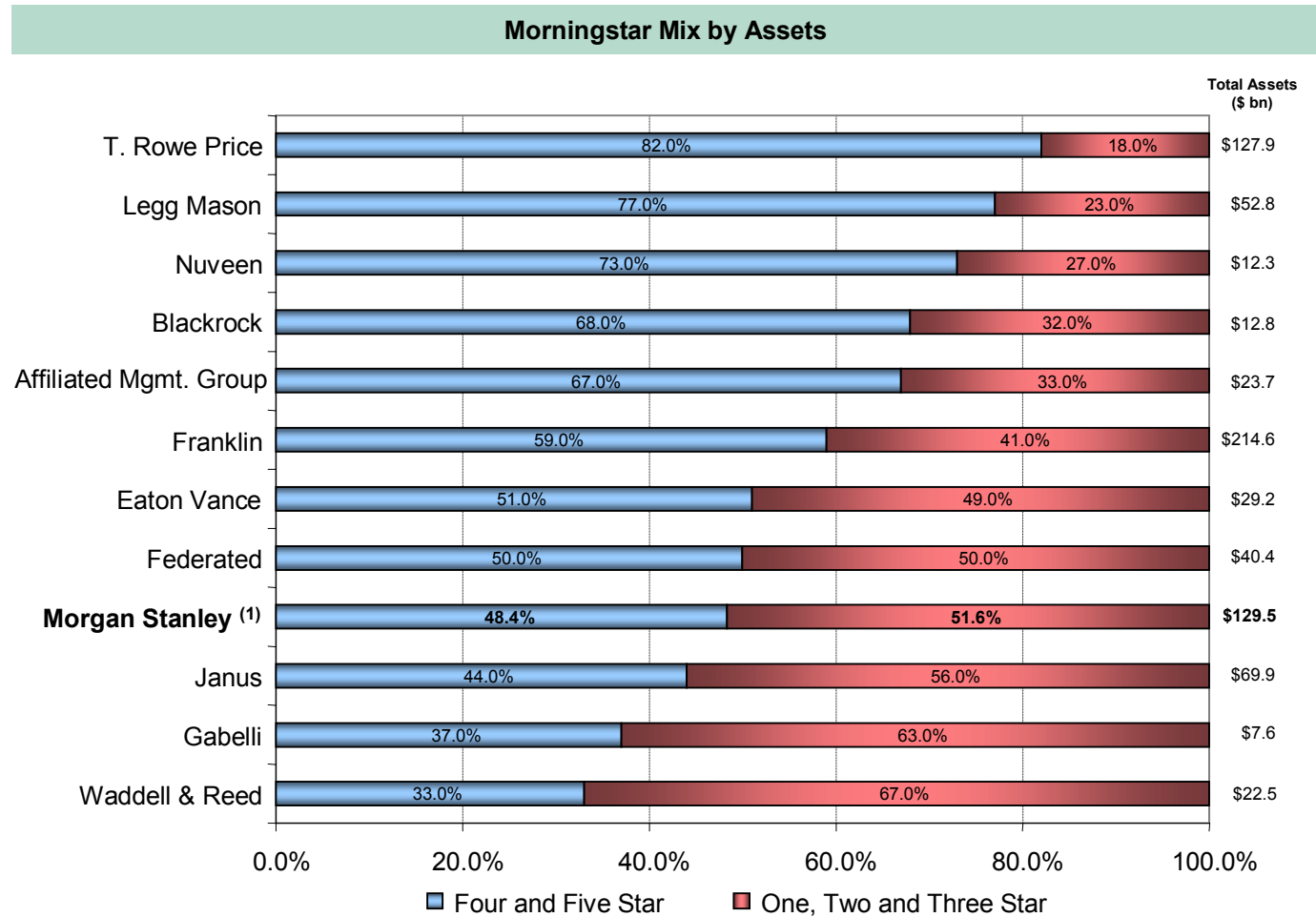
(5) Merrill Lynch: All information for Merrill Lynch Investment Management only

# Retail Businesses

## Investment Management (cont.)

Limited growth in assets is highly correlated with poor performance

Morgan Stanley ranks in the bottom third of its peer group in terms of percentage of assets with 4 and 5 star Morningstar rankings



Source: Morningstar as of December 31, 2004 and JP Morgan research report dated January 13, 2005

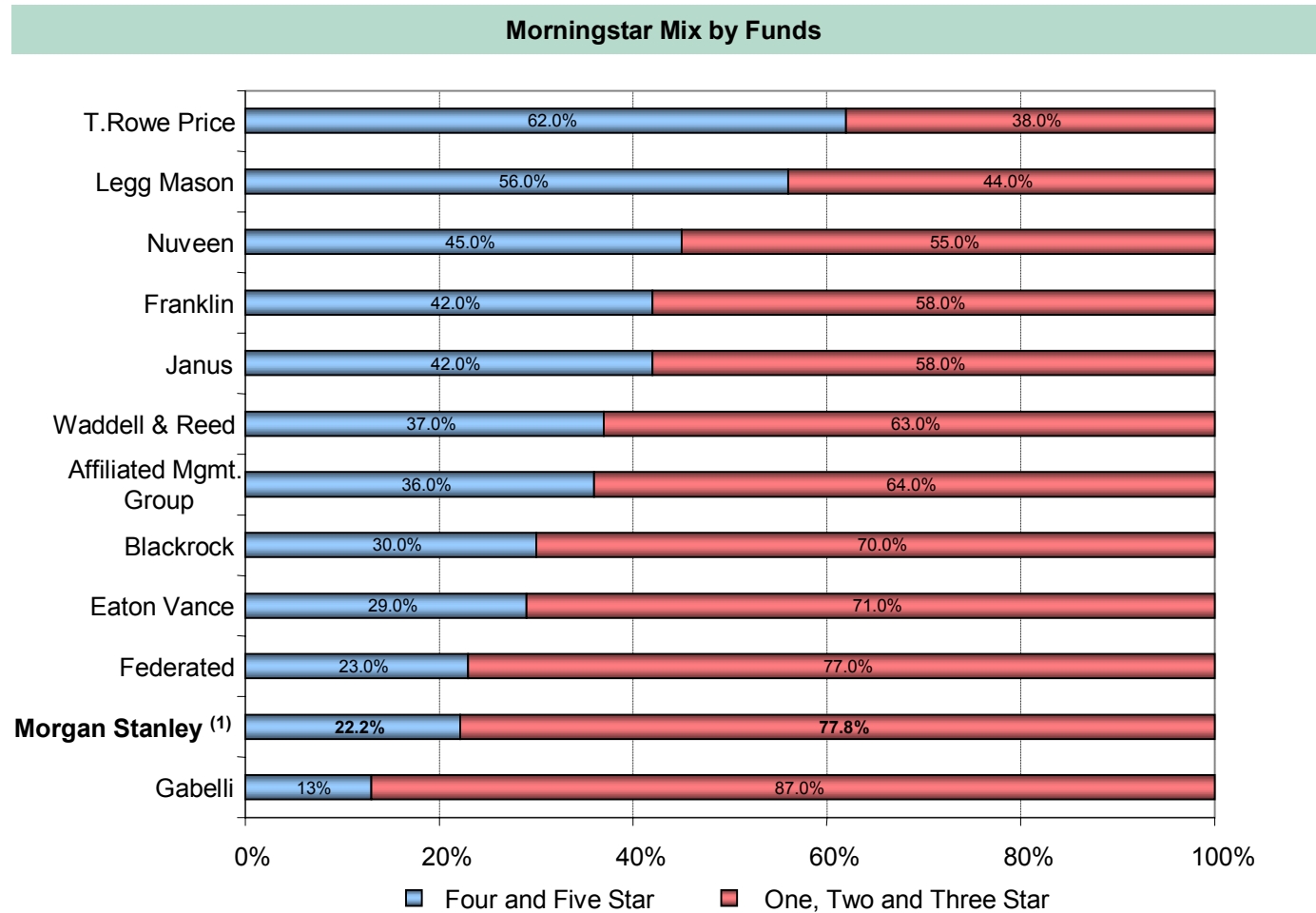
Note: Excludes funds not classified by Morningstar

(1) Includes Morgan Stanley and Van Kampen Funds

# Retail Businesses

## Investment Management (cont.)

The relatively poor performance is more dramatic when one examines the actual number of poorly performing funds



Source: Morningstar as of December 31, 2004 and JP Morgan research report dated January 13, 2005

Note: Excludes funds not classified by Morningstar

(1) Includes Morgan Stanley and Van Kampen Funds