

# The Henry Fund

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## NATWEST GROUP (NWG)

Banking-Financial Services

April 19, 2026

Stock Rating

BUY

### Investment Thesis

#### Drivers of Thesis

- The structural hedge continues to reprice higher, sustaining NatWest's elevated net interest margin profile, our model projects NII growing from £12.8B in 2025 to £16.9B by 2029E (+32% cumulatively)
- NatWest trades at a material discount to peers despite ROTCE of 19.2% in 2025A and projected 18–20% through 2028E, with EPS growing from £0.71 in 2026E to £0.93 by 2029E and our DDM implying an intrinsic value of \$8.46 per share
- NatWest's £2.7B acquisition of Evelyn Partners combines Evelyn's £69B of AUMA with NatWest's existing £59B, creating a £127B combined platform, more than doubling the wealth management business overnight and accelerating the segment's contribution of high-margin, capital-light fee income well ahead of our model's organic growth projections

#### Risks to Thesis

- A faster-than-expected BoE rate cutting cycle would compress net interest margins and put material downside risk to our £16.9B NII projection by 2029E
- Integration risk surrounding the Evelyn Partners acquisition could delay synergy realization and weigh on the wealth segment's contribution to group earnings
- Persistent macro weakness in the UK could drive loan impairments above our modeled 25bps of loans, pressuring profitability and threatening the 18%+ ROTCE trajectory

### Earnings Estimates

Year	2023	2024	2025	2026E	2027E	2028E
EPS	£0.47	£0.51	£0.67	—	—	—
HF est. growth	—	8.5%	31.4%	3.1%	13.0%	8.1%

### NatWest Group — Cumulative Return vs S&P 500

April 2, 2025 — April 2, 2026 | Base = 0%



Source: London Stock Exchange & S&P Global | Monthly closing prices

### Target Price

£7.52-8.46

Henry Fund DCF	£8.28
Henry Fund DDM	£8.46
Relative Multiple	£7.52

### Price Data

Current Price	\$6.26
52wk Range	£3.81-7.05
Consensus 1yr Target	£8.09

### Key Statistics

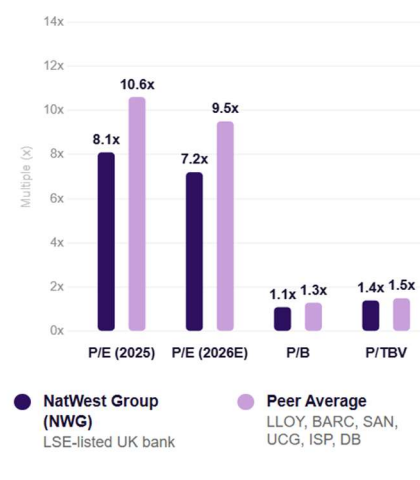
Market Cap (B)	£50.5B
Shares Outstanding (M)	8.06B
Institutional Ownership	67.69%
Beta	1.30
Dividend Yield	5.65%
Est. 5yr Growth	21.57%
Price/Earnings (TTM)	9.3
Price/Earnings (FY1)	8.6
Price/Sales (TTM)	2.76
Price/Book (mrq)	1.32

### Profitability

Operating Margin	46.31%
Profit Margin	32.92%
Return on Assets (TTM)	0.80%
Return on Equity (TTM)	13.90%

### NatWest Group — Valuation vs Peer Average

As of March 2025 | Multiples (x)



Source: FactSet | Peers: Lloyds, Barclays, Santander, UniCredit, Intesa, Deutsche Bank

Important disclosures appear on the last page of this report.

## COMPANY DESCRIPTION

NatWest Group plc is one of the United Kingdom's four largest retail and commercial banks, headquartered in Edinburgh, Scotland. The group was recapitalized by the UK Government following the 2008 financial crisis and operated under partial state ownership until May 2025, when it returned to full private ownership<sup>[1][2]</sup> a significant milestone that removed a persistent technical overhang on the stock. Today, NatWest serves over 20 million customers across three core business segments.

**Capital Freedom Post-Privatization.** Full exit of the UK Government stake in May 2025 is materially more significant for the investment case than simply removing an overhang. During the partial-ownership period, the UK Treasury's position constrained NatWest's strategic flexibility, particularly around capital return, leverage, and acquisitions. Because any balance-sheet action had to be reconciled with returning the bail money taken from the government. With full privatization complete, NatWest can now optimize its balance sheet *without* the political frictions that shaped decisions for the prior 17 years. Management's February 2026 announcement of the £2.7B Evelyn Partners acquisition<sup>[3][4]</sup> is the first major signal of this new freedom. This transaction would have faced meaningful political resistance under the partial ownership regime. Going forward, we expect the group to operate with modestly higher leverage (CET1 target is now 13–14%, down from the historical >14% level<sup>[1]</sup>), a more aggressive dividend payout (FY2025 total payout ratio was 53.9%, which we model converging toward 50% in line with guidance. With the remainder being to pursue bolt-on M&A in wealth management and consumer finance. This "capital freedom" dynamic is, in our view, under-priced in consensus forecasts and is a key reason our DDM and DCF values sit comfortably above current consensus.<sup>[9]</sup>

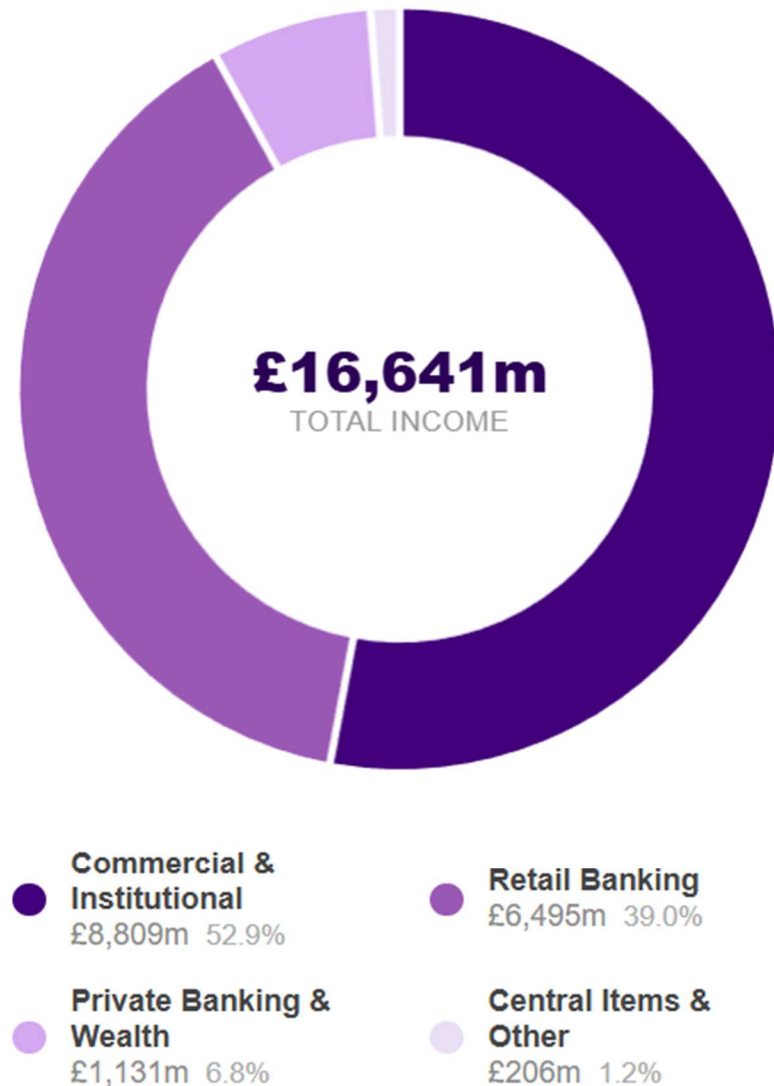
### Segment Analysis: Retail Banking

**FY2025 Income: £6,495m (39.0% of group) | Nil: £6,064m | YoY Growth: +8.3%**

Retail Banking is NatWest's largest customer-facing division by headcount and the primary channel through which the group acquires and retains personal customers. The segment serves 19 million individual and small business customers across Great Britain and Northern

## NatWest Group — Total Income by Segment

Full Year 2025 | £m



Source: NatWest Group 2025 Annual Results | Figures in £m

Ireland through the NatWest, Royal Bank of Scotland, and Ulster Bank brands, offering current accounts, mortgages, personal loans, credit cards, savings products, and everyday digital banking.

The segment's financial performance in FY2025 was driven primarily by net interest income of £6.1 billion, which reflected the continued repricing of the mortgage book at higher rates. NatWest successfully integrated over one million Sainsbury's Bank retail customer accounts (credit cards, loans, deposits) in May 2025 and absorbed the £2.3 billion Metro Bank prime mortgage portfolio acquired in September 2024, both transactions expanding the loan book without materially increasing operational complexity or expenses.<sup>[1]</sup>

**Digital engagement.** 82% of Retail Banking customers now bank entirely digitally, with the mobile app achieving a Net Promoter Score of +51. The bank deployed 24 additional AI models in H1 2025 to enhance customer experience and announced a five-year collaboration with Amazon Web Services and Accenture in July 2025 to accelerate its data and AI capabilities. NatWest was also the first UK-headquartered bank to partner with OpenAI, announced in March 2025.<sup>[1]</sup>

**Outlook** As the structural hedge rolls higher and deposit margins stabilize. The strong deposit beta will continue to drive NIM higher with its large zero cost deposits. With AI continuing to develop at unprecedented speed, and broad embracement of totally digital banking, we have reduced

our forecasted terminal staffing costs to 18% of revenue (down from 20%). A faster-than-expected Bank of England rate cutting cycle remains the primary downside risk.

## Segment Analysis: Commercial & Institutional

**FY2025 Income: £8,809m (52.9% of group) | ROE: 19.1% | Lending Growth: +8.7% YoY**

Commercial & Institutional (C&I) is NatWest's largest revenue segment and the primary earnings engine of the group. The segment encompasses three sub-divisions: Business Banking (sole traders and small enterprises), Commercial Mid-Market (mid-size UK corporates with revenues broadly in the range of £25m–£1bn), and Corporates & Institutions (large corporates, financial institutions, and public sector clients globally). Together these businesses served 1.5 million commercial customers in 2025 and generated income of £8.8 billion, representing 52.9% of group income.<sup>[5]</sup>

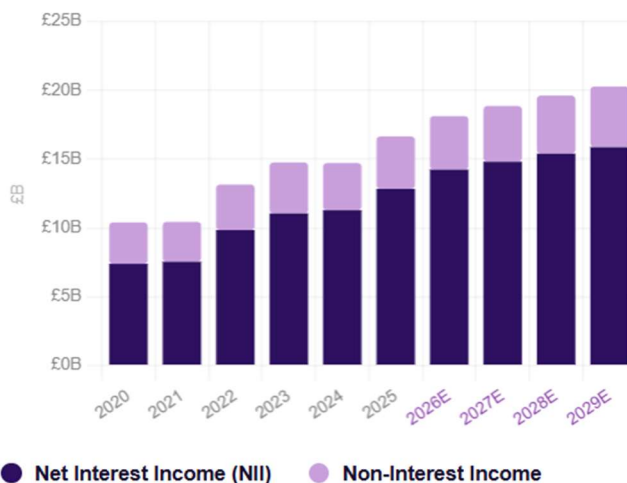
**Market position.** NatWest holds a 25% share of UK corporate deposits and approximately 20% of UK corporate lending, making it the largest bank for business

**in 2025.** Lending across C&I grew 8.7% in 2025, with Corporates & Institutions balances up £8.8 billion (driven by infrastructure & project finance, asset finance, and funds lending) and Commercial Mid-Market up £4.6 billion (particularly in social housing and commercial real estate). NatWest committed over £4.6 billion to the UK social housing sector in 2025, surpassing its own upgraded target of £7.5 billion in gross lending by end-2026.

**Outlook** We model C&I lending growing at approximately 3–4% annually beyond 2026E, consistent with management's medium-term growth ambitions. Fee income from capital markets and transaction banking provides a secondary growth driver that is less sensitive to interest rate movements, partially offsetting the NII compression risk from eventual Bank of England rate cuts.

### Total Income — NII vs Non-Interest Income

FY2020–FY2029E | £B | FY2026E–FY2029E are Henry Fund estimates



Source: NatWest Group Annual Results 2025; Henry Fund Financial Model (NWG\_43.xlsx)

## Segment Analysis: Private Banking & Wealth Management

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**FY2025 Income: £1,131m (6.8% of group) | AUMA: £58.5B (+19.6% YoY) | Strategic Priority: Evelyn Partners Acquisition (£2.7B)**

Private Banking & Wealth Management (PBWM) is the highest margin and most strategically significant growth segment within the group. It currently serves high-net-worth and ultra-high-net-worth customers through Coutts (one of the world's oldest private banks, founded in 1692), Adam & Company, and NatWest's broader retail wealth proposition. The segment offers integrated financial planning, discretionary investment management, private lending, and deposit services to clients seeking a relationship-based banking model.

**FY2025 performance.** Assets under management and administration grew 19.6% to £58.5 billion<sup>[1]</sup>, assisted by strong client net inflows and market appreciation. More than 50,000 customers invested with NatWest's wealth teams for the first time. Organic fee income growth has been running ahead of the group's model projections, driven by new-to-invest client acquisition and higher average balances per client. The segment's capital-light fee income model generates high incremental returns and provides a natural diversifier against NII compression risk from lower rates.

**Evelyn Partners acquisition.** On February 9, 2026, NatWest announced the acquisition of Evelyn Partners, the UK's leading independent wealth manager for an enterprise value of £2.7 billion (all-cash). Evelyn Partners oversees £68.6 billion of AUMA with a 7% compound annual growth rate since 2023, employs 270 financial planners and 325 investment managers, and generated £509 million of operating income in FY2025. By combining Evelyn's £69 billion of AUMA with NatWest's existing £59 billion, the combined business will oversee over £120 billion of AUMA and total customer assets and liabilities of £188 billion, creating the UK's largest private banking and wealth management franchise. <sup>[4]</sup>

## Cost Structure Analysis

### Customer Loan Book — Primary Capital Driver

Loans to customers are by far the largest deployed capital item, growing from £359 billion in 2022 to £418.9 billion in 2025 **(+16.7%, or £59.9 billion)**. This is vastly important to NWG's NIM with every incremental pound of performing loans generates net interest income at the prevailing spread above cost of funds. The loan-to-deposit ratio has been maintained at approximately 87–88% throughout the forecast period, providing a stable and conservative funding structure that leaves meaningful liquidity headroom. Our model projects loan balances growing at approximately 3–4% annually from 2026E onward, consistent with management guidance and the Bank of England's UK credit growth outlook.

### Staff Costs — Largest Expense, Improving Efficiency

Staff costs declined from 35.2% of total income in 2021 to 25.1% in 2025, a reduction of 10.1 percentage points. **In absolute terms, staff costs grew only modestly — from £3.68 billion to £4.17 billion (+13.4%) while total income grew 59.6%.** This positive operating leverage on compensation reflects several factors: NatWest reduced its headcount meaningfully through branch consolidation and back-office simplification; the digital-first strategy shifted customer interaction to lower-cost channels (82% of Retail Banking customers now bank entirely digitally); and productivity per employee improved as AI-assisted tools augmented relationship manager capacity. Our model holds staff costs at approximately 24.4% of income in 2026E and assumes a gradual improvement toward 18.7% by 2029E, consistent with the group's stated simplification targets.

### Other Administrative Expenses — Structural Reduction

Other administrative expenses fell from 19.4% of income in 2021 to 9.9% in 2025, driven primarily by the decommissioning of legacy technology platforms, the consolidation of third-party vendor relationships, and the reduction in regulatory remediation costs that elevated

this line in prior years. **The 2021 starting point was elevated by one-time compliance and restructuring costs; the 2025 level is more representative of the structural base.** We model this line as largely fixed at 9.9% of income through the forecast period.

### Fixed vs. Variable Cost Split

Approximately 60–65% of NatWest's operating cost base is effectively fixed in the near-term staff costs tied to multi-year employment agreements, premises costs locked by lease terms, and depreciation on capitalized assets. The remaining 35–40% has meaningful variable characteristics: technology and software licensing scales with transaction volumes, marketing spend adjusts with acquisition targets, and certain professional services are project-driven. This structure means that the substantial improvement in cost-to-income ratio from 74.4% in 2021 to 49.6% in 2025 was achieved almost entirely through income growth against a relatively stable cost base, a favorable dynamic that cannot repeat indefinitely. Our model projects the cost-to-income ratio stabilizing in the 48–52% range from 2026E onward, as income growth moderates and cost pressures

Expense (% of Total Income)	2021A	2022A	2023A	2024A	2025A	2026E	Δ 21→25
Staff Costs	35.2%	28.2%	26.4%	27.6%	25.1%	24.4%	-10.1pp
Premises & Equipment	10.9%	8.5%	7.8%	8.2%	7.8%	7.8%	-3.1pp
Other Administrative Expenses	19.4%	15.4%	13.6%	12.4%	9.9%	9.9%	-9.5pp
Depreciation & Amortization	8.9%	6.3%	6.3%	7.2%	6.9%	6.4%	-2.0pp
Total Opex	74.4%	58.4%	54.2%	55.4%	49.6%	48.4%	-24.8pp
Pre-Tax Profit Margin	36.9%	39.0%	41.9%	42.1%	46.3%	51.6%	+9.4pp

### Evidence of Operating Leverage — Forward Outlook

The strongest evidence of operating leverage is the difference between income and expense growth rates: from 2021 to 2025, income grew at a 12.4% CAGR while operating expenses grew at only 1.6% CAGR. This 10.8 percent differential is exceptional for a major bank and reflects both the structural rate tailwind and deliberate management action. From 2026E to 2029E, our model projects income growing at approximately 5.3% CAGR while opex grows at 3.0% CAGR, a more balanced profile that still delivers positive operating leverage, supported by Evelyn Partners fee contribution, continued hedge roll-up, and stable cost discipline. Despite this moderation, the absolute level of margin improvement achieved is structural and durable: a cost-to-income ratio below 55% compares favorably to NatWest's own 2020 level of 75.5% and the UK bank peer average of approximately 60%.

### Management Guidance Has Consistently Proven Conservative

A consistent pattern in NatWest's recent reporting cycles is that management has issued conservative guidance and subsequently exceeded it. Coming into FY2025, the group guided RoTE of ~15% and total income of approximately £15.2–15.7B; actual delivery was **19.2% RoTE on £16.6B of income** — comfortably above both targets. The same pattern held in 2024 (RoTE delivered 17.3% versus ~14% guided), 2023 (17.2% versus ~14%), and the cost-to-income ratio target of "below 50% by 2027" was effectively met two years early at 49.6% in 2025. Management's 2026 guidance issued in February calls for income of £17.0–17.4B and RoTE of **15–16%**; our model projects £18.2B and 18.2% respectively, sitting meaningfully above the guided range and consistent with the multi-year track record. We view this conservatism as embedded in NatWest's reporting culture rather than a one-off, and it reinforces our confidence in the EPS trajectory underpinning our DCF and DDM valuations.<sup>[1]</sup>

## Peer Comparisons

NatWest Group is primarily UK-focused, with a strong emphasis on retail and commercial banking, making it more sensitive to domestic economic conditions and interest rate dynamics. In contrast, Barclays maintains a more diversified model with a significant investment banking arm. Lloyds, like NatWest, is heavily concentrated in the UK market but differs in its balance sheet composition and strategic focus.

### Market Capitalization

Company	Mkt Cap	Listed	Total Assets
NWG	~£49bn	LSE / NYSE	~£840bn
LLOY	~£62bn	LSE / NYSE	~£944bn
BARC	~£62bn	LSE / NYSE	~£1,544bn

[10][11]

NatWest's market cap stabilized at ~£49bn as re-rating moderated after a 56% share price rise in 2025. Lloyds (£63bn) surged 76% and Barclays (£55bn) rose 65%, reflecting broad sector re-rating. Barclays' balance sheet expanded to ~£1,540bn, driven by Investment Bank growth and Tesco Bank consolidation. NatWest's balance sheet grew to ~£840bn, boosted by Sainsbury's Bank integration and strong mortgage and commercial lending growth.

### Price / Earnings (P/E) Ratio

Company	P/E	Context
NWG	~9.3x	Strong re-rating on back of 19.2% RoTE; UK domestic premium
LLOY	~14.83x	Motor finance resolution boosts multiple
BARC	~10.18x	All-divisions double-digit RoTE; IB + UK re-rating underway

[7]

NWG's P/E ratio of **~8.6x** aligns it closely with BARC (**~10.18x**), suggesting the market views these two as deep value plays within the UK sector. In contrast, LLOY commands a significant premium at **~14.83x**, likely reflecting market confidence following its motor finance resolution and its role as a stable, "pure-play" UK mortgage leader. While the higher multiple for Lloyds suggests a more "de-risked" narrative, NatWest's lower multiple combined with a sector-leading **19.2% RoTE** points to a massive efficiency-to-valuation gap.

### Net Interest Margin (NIM) — 2025

Company	NIM	vs FY24	Driver
NWG	2.34%	+21bps	Structural hedge driving expansion; Q4 NIM 2.45%; guides further uplift in 2026-27
LLOY	3.06%	+11bps	NIM rose to 3.06%; Q4 at 3.10%; hedge income +31% to £5.5bn
BARC UK	~3.63%	+41bps	UK NIM expanded materially

Sources: NatWest FY25 Results — Group NIM 2.34% (+21bps); Lloyds FY25 Results — Banking NIM 3.06% (+11bps); Barclays FY25 — Barclays UK NIM ~3.63% (+41bps). BARC NIM is UK ring-fenced segment only.

BARC UK's NIM of **~3.63%** places it materially ahead of peers like LLOY (**3.06%**) and well above NWG (**2.34%**), which continues to operate with a leaner margin profile. While all three institutions saw year-over-year expansion, BARC UK's **+41bps** surge reflects an aggressive growth narrative fueled by the integration of Tesco Bank alongside structural hedge momentum. LLOY's **+11bps** increase and NWG's **+21bps** climb suggest a more measured, yet consistent, benefit from the current interest rate environment.

It's important to note that higher NIMs aren't inherently indicative of "better" management; rather, they often reflect different asset mixes, risk profiles, or reporting segments.<sup>[7]</sup>

## UK Deposit Betas Are Structurally Lower Than US Peers

A critical structural advantage for UK banks, and one that is often under-appreciated by US-based investors — is that **UK deposit betas are materially lower than in the United States**. Through the post-2022 rate hiking cycle, US banks have seen cumulative interest-bearing deposit betas of approximately **50–65%**, with the largest super-regionals consistently passing through 60%+ of policy-rate moves into deposit costs. By contrast, UK banks have observed cumulative betas in the **30–40%** range, with NatWest specifically guiding to a through-the-cycle deposit beta of approximately 35%. The gap reflects three structural features of the UK retail banking market: (1) the dominance of the "Big Four" clearing banks which limits competitive pressure on deposit pricing relative to the more fragmented US market, (2) a much smaller money-market mutual fund industry that reduces the substitution threat for retail savers, and (3) a historically lower share of operating accounts that pay competitive rates. The implication is twofold: NatWest's NIM expansion has been more durable on the way up than US peer experience would suggest, and conversely the NIM compression from BoE rate cuts will be more muted than a US-style framework would predict. This deposit-beta differential is a key reason our model projects NatWest's NIM holding above 2.30% through the forecast period even under our base-case BoE easing path.<sup>[14][1]</sup>

## Operating Expense as % of Revenue — 2025

Company	Opex / Revenue	vs FY24	Driver
NWG	49.6%	-2.0pp	Strong operating leverage; digital-first strategy cutting headcount
LLOY	~61%	-1.0pp	UK-focused model with higher relative branch and compliance costs
BARC	~61%	-2.1pp	Investment Bank cost base weighs on group efficiency

[1]

NWG's cost-to-income ratio of **49.6%** is materially below UK peers LLOY and BARC at ~61%, representing roughly a **11 percentage point efficiency advantage** against the UK domestic group. Together with NWG's sector-leading 19.2% ROTCE, the cost-to-income advantage reinforces the view that NatWest's 2026E P/E of 8.6x roughly in line with Barclays at 8.5x materially understates the bank's earnings power and capital efficiency. Our model projects this efficiency advantage widening modestly as staff costs continue to fall as a share of income through 2029E.

## Risks

### Currency Translation Risk (GBP/USD)

For a US investor, the "true" return is a function of both stock performance and the strength of the British Pound. Recent volatility has seen GBP/USD slide from its January peak of **~1.38** to the current **~1.32** range—a 5% decline in a single quarter.<sup>[16]</sup>

**The Dividend Haircut:** Since dividends are declared in GBP, a weakening pound directly erodes the USD-denominated yield. A high-yielding stock like NWG can see its effective yield for US holders neutralized by FX depreciation.

**The Macro Drag:** Current "stagflation" fears in the UK, driven by energy price spikes, suggest the Pound may remain under pressure, potentially targeting the **1.30** level.

## The "Stagflation" Macro Mix

Unlike the US economy, which has shown significant resilience, the UK is navigating a more precarious "stagflationary" environment (high inflation + stagnant growth).

**Energy Sensitivity:** The UK's high dependence on imported energy makes its banking sector indirectly exposed to Middle East geopolitical volatility. Rising energy costs act as a "tax" on consumers, increasing the risk of credit impairment in mortgage and small-business portfolios.

**Credit Quality:** With average mortgage rates moving back toward the **5% mark**, there is a growing risk that the high RoTEs seen in 2025 could be offset by a spike in loan defaults if the UK consumer weakens faster than expected.<sup>[13]</sup>

### Monetary Policy Uncertainty

The Bank of England (BoE) is currently in a "hold" pattern at **3.75%**<sup>[13]</sup>. For banks, this is a double-edged sword:

**NIM Compression vs. Asset Quality:** If the BoE cuts rates to stimulate growth, Net Interest Margins (NIM) will compress across the sector. However, if they hold rates high to fight energy-driven inflation, the risk of "mortgage shock" increases, potentially hurting the balance sheet through defaults.

### 4. Regulatory & Political Divergence

The UK regulatory environment is undergoing a period of "fragmentation" compared to the US.

**Basel 3.1 Delays:** The UK has pushed back full Basel 3.1 implementation to **January 2027** to stay competitive with US delays. This creates a "regulatory fog" regarding long-term capital requirements and buyback capacity.

**Political Sensitivity:** UK banks often face higher political scrutiny than US peers. The risk of "windfall taxes" or mandatory "savings rate pass-throughs" remains a persistent threat whenever bank profits remain high during a cost-of-living crisis.

## Summary Table: Risk vs. Reality

Risk Factor	Impact on US Investor	Severity
<b>FX Volatility</b>	Erodes capital gains and dividend yield when converted to USD.	<b>High</b>
<b>UK Stagflation</b>	Increases credit risk and potential loan losses.	<b>Medium-High</b>
<b>BoE Pivot</b>	Threatens the NIM expansion seen in 2025.	<b>Medium</b>
<b>Regulation</b>	Uncertainty regarding capital floors and share buybacks.	<b>Low-Medium</b>

## VALUATION

### Cost of Equity Calculation

NatWest's cost of equity is estimated using the Capital Asset Pricing Model (CAPM). Using a risk-free rate of **4.83%** (based on the 10-year Gilt) and an equity risk premium of **5.00%**, we apply a Beta of **1.30** to reflect the bank's systematic risk and sensitivity to the UK domestic market. This results in a **Cost of Equity of 10.76%**. In a banking context, this serves as the primary hurdle rate for evaluating whether the firm is creating or destroying shareholder value.<sup>[12]</sup>

### Excess Return & Economic Profit (EP)

Key inputs for the valuation model include a terminal growth rate of **3.0%** and a 2026 target Return on Tangible Equity (RoTE) of **19.2%**. The model evaluates the bank's value based on its ability to generate returns above its **10.76% cost of equity**. The present value (PV) of these excess returns from 2026 to 2035, combined with a continuing value (CV) based on a steady-state RoTE, estimates the total value of equity. After adjusting for the current tangible book value and dividing by shares outstanding, we arrive at an implied fair value that suggests significant upside from current trading levels.<sup>[9]</sup>

### Relative Valuation

NatWest's projected P/E ratios for 2025 and 2026 are **9.3x** and **8.6x**, respectively. Comparing these to the peer

averages of **11.9x** for 2025 and **10.4x** for 2026, NatWest's P/E ratio is lower than the peer averages. Despite having a superior RoTE of **19.2%** compared to Lloyds (>**16%**) and Barclays (**12%**), NatWest's lower multiple suggests it is relatively undervalued based on its earnings power and capital efficiency.<sup>[7]</sup>

## KEYS TO MONITOR

NatWest's valuation is highly sensitive to a small number of macroeconomic and bank-specific variables. The most important factors to monitor are interest rates, market return expectations, and credit quality in the UK, as these directly influence earnings, risk, and the appropriate valuation multiple.

### Interest Rates (Primary Driver of Earnings)

NatWest's profitability is heavily driven by the interest rate environment, given its large UK retail and commercial loan book. Higher base rates tend to expand net interest margins, as lending yields reprice faster than deposit costs, supporting earnings growth.

- **Upside trigger:** A "higher-for-longer" rate environment would sustain elevated net interest income and justify a higher valuation.
- **Downside trigger:** Rapid rate cuts would compress margins and reduce earnings visibility, leading to multiple contraction. This is particularly important as UK bank profitability remains closely tied to Bank of England policy and lending spreads.

### Market Return Expectations (AUMA)

With asset appreciation being a large driver of non-interest income a large appreciation of the stock market could lead to higher fees as well as a large pool to derive fees from.

### Credit Quality in the UK (Risk & Provisioning)

Asset quality remains a key risk factor, especially given NatWest's concentration in the UK market. While current credit metrics are strong, with low default rates and contained impairments, there are signs of gradual normalization.

- **Upside trigger:** Low default rates and stable employment would keep provisions low, supporting earnings durability.
- **Downside trigger:** Deterioration in UK credit conditions (e.g., rising unemployment, stress in commercial real estate, or highly leveraged borrowers) would increase loan losses and materially reduce profitability. Even modest increases in cost of risk can have an outsized impact on bank earnings due to operating leverage.

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## NatWest Group

### Income Statement

Fiscal Years Ending Dec. 31	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
Ordinary shareholders	(£0.75)	£2.95	£3.34	£4.39	£4.52	£5.48	£ 5.71	£ 6.14	£ 6.58	£ 7.06	£ 7.56	£ 8.10	£ 8.67	£ 9.27	£ 9.91	£ 10.60
Preferred	£ 0.32	£ 0.36	£ 0.26	£ 0.24	£ 0.29	£ 0.36	£ 0.36	£ 0.36	£ 0.36	£ 0.36	£ 0.36	£ 0.36	£ 0.36	£ 0.36	£ 0.36	£ 0.36
Profit for the period	(£0.43)	£3.31	£3.60	£4.63	£4.81	£5.83	£ 6.07	£ 6.49	£ 6.94	£ 7.41	£ 7.92	£ 8.45	£ 9.02	£ 9.62	£ 10.27	£ 10.95
Operating profit before tax	(£0.55)	£3.84	£5.13	£6.18	£6.20	£7.71	£ 9.57	£ 10.14	£ 10.75	£ 11.39	£ 12.07	£ 12.79	£ 13.55	£ 14.35	£ 15.21	£ 16.12
Profit before impairment (losses)/releases	£2.55	£2.67	£5.47	£6.76	£6.55	£8.38	£ 9.57	£ 10.14	£ 10.75	£ 11.39	£ 12.07	£ 12.79	£ 13.55	£ 14.35	£ 15.21	£ 16.12
<b>Total income</b>	<b>£14.40</b>	<b>£14.43</b>	<b>£13.16</b>	<b>£14.75</b>	<b>£14.70</b>	<b>£16.64</b>	<b>£ 18.17</b>	<b>£ 18.93</b>	<b>£ 19.72</b>	<b>£ 20.56</b>	<b>£ 21.44</b>	<b>£ 22.35</b>	<b>£ 23.32</b>	<b>£ 24.34</b>	<b>£ 25.41</b>	<b>£ 26.54</b>
Net interest income	£ 7.39	£ 7.54	£ 9.84	£ 11.05	£ 11.28	£ 12.83	£ 14.31	£ 14.95	£ 15.61	£ 16.29	£ 17.01	£ 17.75	£ 18.52	£ 19.33	£ 20.17	£ 21.05
Interest receivable	£9.71	£9.23	£12.64	£21.03	£25.19	£25.70										
Interest payable	(£2.32)	(£1.70)	(£2.80)	(£9.98)	(£13.91)	(£12.87)										
Non-interest income	£ 3.01	£ 2.89	£ 3.31	£ 3.70	£ 3.43	£ 3.81	£ 3.86	£ 3.98	£ 4.12	£ 4.26	£ 4.43	£ 4.60	£ 4.80	£ 5.01	£ 5.24	£ 5.49
Fees and commissions receivable	£2.70	£2.69	£2.92	£2.98	£3.18	£3.25										
Fees and commissions payable	(£0.72)	(£0.57)	(£0.62)	(£0.65)	(£0.71)	(£0.73)										
Trading income	£1.13	£0.32	£1.13	£0.79	£0.83	£1.11										
Other operating income	(£0.09)	£0.45	(£0.11)	£0.58	£0.14	£0.19										
Operating expenses	(£7.86)	(£7.76)	(£7.69)	(£8.00)	(£8.15)	(£8.26)	£ 8.60	£ 8.79	£ 8.97	£ 9.17	£ 9.37	£ 9.57	£ 9.77	£ 9.99	£ 10.20	£ 10.43
Staff costs	(£3.88)	(£3.68)	(£3.72)	(£3.90)	(£4.06)	(£4.17)	£ 4.43	£ 4.48	£ 4.53	£ 4.57	£ 4.62	£ 4.66	£ 4.69	£ 4.73	£ 4.75	£ 4.78
Premises and equipment	(£1.22)	(£1.13)	(£1.11)	(£1.15)	(£1.21)	(£1.29)	£ 1.41	£ 1.47	£ 1.53	£ 1.59	£ 1.66	£ 1.73	£ 1.81	£ 1.89	£ 1.97	£ 2.06
Other administrative expenses	(£1.85)	(£2.03)	(£2.03)	(£2.01)	(£1.82)	(£1.64)	£ 1.79	£ 1.87	£ 1.95	£ 2.03	£ 2.12	£ 2.21	£ 2.30	£ 2.40	£ 2.51	£ 2.62
Depreciation and amortisation	(£0.91)	(£0.92)	(£0.83)	(£0.93)	(£1.06)	(£1.15)	(£0.97)	(£0.97)	(£0.97)	(£0.97)	(£0.97)	(£0.97)	(£0.97)	(£0.97)	(£0.97)	(£0.97)
Impairment (losses) releases	(£3.10)	£1.17	(£0.34)	(£0.58)	(£0.36)	(£0.67)	£ 1.11	£ 1.12	£ 1.12	£ 1.13	£ 1.13	£ 1.14	£ 1.14	£ 1.14	£ 1.14	£ 1.13
Tax charge	(£0.07)	(£1.00)	(£1.28)	(£1.43)	(£1.47)	(£1.87)	£ 2.39	£ 2.54	£ 2.69	£ 2.85	£ 3.02	£ 3.20	£ 3.39	£ 3.59	£ 3.80	£ 4.03
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Paid-in equity holders	(£0.36)	(£0.30)	(£0.25)	(£0.24)	(£0.28)	(£0.35)										
Non-controlling interests	£0.06	(£0.04)	(£0.01)	£0.00	(£0.01)	(£0.00)										
Preference shares	(£0.03)	(£0.02)	-	-	-	-										
<b>Total returned to shareholders</b>	<b>£ 0.38</b>	<b>£ 2.82</b>	<b>£ 5.26</b>	<b>£ 4.12</b>	<b>£ 4.52</b>	<b>£ 2.96</b>	<b>£ 3.05</b>	<b>£ 3.17</b>	<b>£ 3.40</b>	<b>£ 3.64</b>	<b>£ 3.90</b>	<b>£ 4.18</b>	<b>£ 4.47</b>	<b>£ 4.79</b>	<b>£ 5.12</b>	<b>£ 5.47</b>

**NatWest NWG**

Balance Sheet

Fiscal Years Ending Dec. 31	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
<b>Total assets</b>	<b>£815.41</b>	<b>£799</b>	<b>£738</b>	<b>£694</b>	<b>£723</b>	<b>£799</b>	<b>£782</b>	<b>£720</b>	<b>£693</b>	<b>£708</b>	<b>£715</b>	<b>£731</b>	<b>£750</b>	<b>£772</b>	<b>£795</b>	<b>£821</b>	<b>£850</b>	<b>£881</b>	<b>£914</b>	<b>£950</b>	<b>£988</b>
Cash and balances at central banks	£79.40	£74	£98	£89	£81	£124	£178	£145	£104	£93	£85	£86	£89	£93	£96	£100	£104	£108	£112	£116	£120
Trading assets	£103.97	£87	£86	£75	£77	£69	£59	£46	£46	£49	£47	£43	£40	£37	£34	£32	£30	£27	£25	£24	£22
Derivatives	£262.51	£247	£161	£133	£150	£167	£106	£100	£79	£78	£61	£53	£47	£41	£36	£32	£28	£25	£22	£19	£17
Settlement balances	£4.12	£6	£3	£3	£4	£2	£2	£3	£7	£2	£1	£1	£1	£1	£1	£1	£1	£1	£1	£1	£1
Loans to banks and customers - amortised cost	£297.02	£320	£322	£318	£335	£367	£367	£373	£388	£406	£426	£443	£461	£479	£498	£518	£539	£560	£583	£606	£630
Other financial assets	£47.00	£49	£52	£59	£61	£55	£46	£31	£51	£63	£80	£86	£94	£102	£110	£119	£129	£140	£152	£165	£178
Securities subject to repurchase agreements					£4	£12	£12	£3	£9	£14	£20										
Other financial assets excluding securities subject to repurchase agreements					£57	£44	£34	£28	£42	£50	£60										
Intangible assets					£7	£7	£7	£7	£8	£8	£7	£10	£10	£10	£10	£10	£10	£10	£10	£10	£10
Other assets	£21.38	£17	£17	£16	£8	£8	£8	£9	£10	£8	£8	£9	£9	£9	£9	£9	£10	£10	£10	£10	£11
PPE										£4	£4	£5	£5	£5	£5	£5	£6	£6	£6	£6	£7
All other assets											£4	£4	£4	£4	£4	£4	£4	£4	£4	£4	£4
<b>Total liabilities and equity</b>	<b>£815.41</b>	<b>£799</b>	<b>£738</b>	<b>£694</b>	<b>£723</b>	<b>£799</b>	<b>£782</b>	<b>£720</b>	<b>£693</b>	<b>£708</b>	<b>£715</b>	<b>£731</b>	<b>£750</b>	<b>£772</b>	<b>£795</b>	<b>£821</b>	<b>£850</b>	<b>£881</b>	<b>£914</b>	<b>£950</b>	<b>£988</b>
<b>Total liabilities</b>	<b>£761.26</b>	<b>£749</b>	<b>£689</b>	<b>£648</b>	<b>£679</b>	<b>£756</b>	<b>£740</b>	<b>£684</b>	<b>£655</b>	<b>£669</b>	<b>£672</b>	<b>£686</b>	<b>£702</b>	<b>£720</b>	<b>£740</b>	<b>£763</b>	<b>£787</b>	<b>£814</b>	<b>£843</b>	<b>£874</b>	<b>£907</b>
Bank deposits					£20	£21	£26	£20	£22	£31	£44										
Customer deposits					£369	£432	£480	£450	£431	£433	£443										
Deposits	£338.33	£357	£392	£384	£390	£452	£506	£471	£454	£465	£487	£505	£524	£544	£564	£586	£608	£630	£654	£679	£704
Growth%		£0	£0	(£0)	£0	£0	£0	(£0)	(£0)	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Settlement balances					£4	£6	£2	£2	£7	£2	£1	£1	£1	£1	£1	£1	£1	£1	£1	£1	£1
Trading liabilities	£92.30	£85	£82	£72	£74	£72	£65	£53	£54	£55	£49	£45	£42	£39	£36	£34	£31	£29	£27	£25	£23
Derivatives					£147	£161	£101	£94	£72	£72	£54	£47	£42	£37	£32	£28	£25	£22	£19	£17	£15
Other financial liabilities					£45	£46	£49	£49	£55	£61	£68	£73	£79	£86	£93	£101	£110	£119	£129	£139	£151
Settlement balances, derivatives, and other financial liabilities	£288.02	£267	£200	£182																	
Subordinated liabilities					£10	£10	£8	£6	£6	£6	£6	£6	£6	£6	£6	£6	£6	£6	£6	£6	£6
Notes in circulation					£2	£3	£3	£3	£3	£3	£3	£3	£3	£3	£3	£3	£3	£3	£3	£3	£3
Other liabilities	£42.61	£40	£15	£9	£8	£6	£6	£5	£5	£5	£4	£4	£4	£4	£4	£4	£4	£4	£4	£4	£4
<b>Total equity</b>	<b>£54.15</b>	<b>£49.40</b>	<b>£49.09</b>	<b>£46.49</b>	<b>£43.56</b>	<b>£43.82</b>	<b>£41.80</b>	<b>£36.50</b>	<b>£37.19</b>	<b>£39.38</b>	<b>£42.61</b>	<b>£45</b>	<b>£48</b>	<b>£51</b>	<b>£55</b>	<b>£59</b>	<b>£62</b>	<b>£67</b>	<b>£71</b>	<b>£76</b>	<b>£81</b>
Owners' equity	£53.43	£48.61	£48.33	£45.74	£43.55	£43.86	£41.80	£36.49	£37.16	£39.35	£42.60										
Ordinary shareholders' interests					£38.99	£38.37	£37.41	£32.60	£33.27	£34.07	£38.03	£41	£44	£47	£50	£54	£58	£62	£67	£71	£76
Other owners' interests					£4.55	£5.49	£4.38	£3.89	£3.89	£5.28	£4.57	£4.57	£4.57	£4.57	£4.57	£4.57	£4.57	£4.57	£4.57	£4.57	£4.57
Non-controlling interests	£0.72	£0.80	£0.76	£0.75	£0.01	(£0.04)	£0.01	£0.01	£0.03	£0.03	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01
All figures in billions of British Pounds.												£	£	£	£	£	£	£	£	£	£

### NatWest Group

Return on Tangible Common Equity (ROTCE)

Fiscal Year	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
<b>Numerator: Profit Attributable to Ordinary Shareholders (£bn)</b>																
Profit attributable to ordinary shareholders	(0.75)	2.95	3.34	4.39	4.52	5.48	5.71	6.14	6.58	7.06	7.56	8.10	8.67	9.27	9.91	10.60
<b>Denominator: Tangible Common Equity (£bn)</b>																
Ordinary shareholders' interests	38.37	37.41	32.60	33.27	34.07	38.03	40.70	43.66	46.85	50.26	53.92	57.84	62.03	66.51	71.31	76.44
Less: Intangible assets	(6.66)	(6.72)	(7.12)	(7.61)	(7.59)	(7.29)	(9.99)	(9.99)	(9.99)	(9.99)	(9.99)	(9.99)	(9.99)	(9.99)	(9.99)	(9.99)
<b>Tangible Common Equity (TCE) - period end</b>	<b>31.71</b>	<b>30.69</b>	<b>25.48</b>	<b>25.65</b>	<b>26.48</b>	<b>30.74</b>	<b>30.70</b>	<b>33.67</b>	<b>36.86</b>	<b>40.27</b>	<b>43.93</b>	<b>47.85</b>	<b>52.04</b>	<b>56.52</b>	<b>61.32</b>	<b>66.45</b>
Average TCE (avg of Beg + End)	31.71	31.20	28.09	25.57	26.07	28.61	30.72	32.19	35.26	38.56	42.10	45.89	49.94	54.28	58.92	63.88
<b>Return on Tangible Common Equity</b>																
ROTCE (NI / Avg TCE)	(2.4%)	9.5%	11.9%	17.2%	17.3%	19.2%	18.6%	19.1%	18.7%	18.3%	18.0%	17.6%	17.4%	17.1%	16.8%	16.6%
ROTCE (NI / Period-end TCE) — alt method	(2.4%)	9.6%	13.1%	17.1%	17.1%	17.8%	18.6%	18.2%	17.9%	17.5%	17.2%	16.9%	16.7%	16.4%	16.2%	16.0%

ROE																	
Net income	-0.75	2.95	3.34	4.39	4.52	5.48	5.71	6.14	6.58	7.06	7.56	8.10	8.67	9.27	9.91	10.60	
Beg. TSE	43.56	43.82	41.80	36.50	37.19	39.38	42.61	45.28	48.25	51.43	54.85	58.51	62.42	66.62	71.10	75.90	
ROE	-1.7%	6.7%	8.0%	12.0%	12.2%	13.9%	13.4%	13.5%	13.6%	13.7%	13.8%	13.8%	13.9%	13.9%	13.9%	14.0%	
Free Cash Flow (FCFE):																	
Net Income	-0.75	2.95	3.34	4.39	4.52	5.48	5.71	6.14	6.58	7.06	7.56	8.10	8.67	9.27	9.91	10.60	
Change in total assets	-76.45	17.50	61.94	27.38	-15.31	-6.57	-16.53	-19.04	-21.41	-23.77	-26.12	-28.49	-30.89	-33.34	-35.84	-38.42	
Change in total Liabilities	76.18	-15.48	-56.63	-28.07	13.12	3.33	13.86	16.07	18.23	20.35	22.46	24.57	26.70	28.85	31.04	33.29	
FCFE	-1.02	4.97	8.65	3.70	2.33	2.24	3.05	3.17	3.40	3.64	3.90	4.18	4.47	4.79	5.12	5.47	

### Cost of Equity:

Risk-Free Rate	4.38%
Beta	1.32
Equity Risk Premi	4.83%
<b>Cost of Equity</b>	<b>10.76%</b>

### ASSUMPTIONS:

10Yr Gilt  
Factset Adjusted Beta 5yr  
Bloomberg

## NatWest Group

Relative Valuation Models

Ticker	Company	Price	EPS		P/E 25	P/E 26	Est. 5yr			BV	Tangible	Tangible	
			2025	2026E			EPS gr.	PEG 25	PEG 26	Equity	BV Equity	P/B	P/B
LLOY	Lloyds Banking	£1.05	£0.07	£ 0.08	15.00	13.46	10	1.50	1.35	0.71	0.56	1.48	1.88
BARC	Barclays PLC	£4.53	£0.44	£0.53	10.30	8.55	10	1.03	0.85	4.69	4.09	0.97	1.11
HSBC	HSBC Holdings	£13.65	£0.91	£1.17	15.00	11.67	10	1.50	1.17	6.13	5.10	2.23	2.68
UCG	UniCredit	€62.49	€6.03	€ 6.49	10.36	9.63	10	1.04	0.96	41.62	39.67	1.50	1.58
ISP	ntesa Sanpaolc	€5.15	€0.45	€0.50	11.44	10.30	10	1.14	1.03	3.35	2.75	1.54	1.87
DB	Deutsche Bank	€25.16	€2.64	€2.92	9.53	8.62	10	0.95	0.86	30.71	27.24	0.82	0.92
Average					11.94	10.37		1.19	1.04			1.42	1.67
NWG	NatWest	\$6.26	\$0.67	\$0.73	9.3	8.6	10	0.9	0.9	4.76	3.84	1.32	1.63
		2.76											
<b>Implied Relative Value:</b>													
P/E (EPS25)		\$	8.00										
P/E (EPS26)		\$	7.52										
PEG (EPS25)		\$	8.00										
PEG (EPS26)		\$	7.52										
P/B		\$	6.77										
P/Tangible BV		\$	6.42										

Fiscal Years Ending	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	
EPS	£ 0.71	£ 0.77	£ 0.83	£ 0.89	£ 0.96	£ 1.04	£ 1.12	£ 1.21	£ 1.30	£ 1.40	
Key Assumptions											
CV growth of EPS	3.00%										
CV Year ROE	13.96%										
Cost of Equity	10.76%										
Future Cash Flows											
P/E Multiple (CV Year)										£ 10.12	<== P/E = (1-(g/ROE))/(Re-g)
EPS (CV Year)										£ 1.40	
Future Stock Price										£ 14.17	:= Discount future stock price by 1 period less.
Dividends Per Share	£ 0.29	£ 0.31	£ 0.34	£ 0.37	£ 0.40	£ 0.43	£ 0.46	£ 0.50	£ 0.53	£ 0.57	
Discounted Cash Flows	£ 0.26	£ 0.26	£ 0.25	£ 0.24	£ 0.24	£ 0.23	£ 0.22	£ 0.22	£ 0.21	£ 5.88	
Intrinsic Value as of Last FYE	£ 8.01										
Implied Price as of Today	£ 8.08										

Fiscal Years Ending Dec. 31	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
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**DCF Model:**

Free Cash Flow (FCF)	3.0	3.2	3.4	3.6	3.9	4.2	4.5	4.8	5.1	5.5
Continuing Value (CV)										107.3
PV of FCF	2.8	2.6	2.5	2.4	2.3	2.3	2.2	2.1	2.0	42.8

CV =  $NOPLAT * (1 - (g/ROIC)) / (WACC - g)$

<b>Value of Operating Assets:</b>	<b>64.0</b>
Non-Operating Adjustments	
ESOP	-0.4

<b>Value of Equity</b>	<b>63.6</b>
Shares Outstanding	8.1
<b>Intrinsic Value of Last FYE</b>	<b>\$ 7.89</b>
<b>Implied Price as of Today</b>	<b>\$ 7.95</b>

**EP Model:**

Economic Profit (EP)	1.1	1.3	1.4	1.5	1.7	1.8	1.9	2.1	2.3	2.4
Continuing Value (CV)										31.4
PV of EP	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.9	12.5

CV =  $NOPLAT * (g/ROIC) * (ROIC - WACC) / (WACC * (WACC - g))$

<b>Total PV of EP</b>	<b>21.3</b>
Invested Capital (last FYE)	42.6
<b>Value of Operating Assets:</b>	<b>64.0</b>
Non-Operating Adjustments	
ESOP	(0.39)

<b>Value of Equity</b>	<b>63.6</b>
Shares Outstanding	8.1
<b>Intrinsic Value of Last FYE</b>	<b>\$ 7.89</b>
<b>Implied Price as of Today</b>	<b>\$ 7.95</b>