

WASHINGTON MUTUAL

Date: February 19, 2004
Ticker: WM
Action: Buy 175 shares (approximate cost: \$8000)
Current Price: 44.93 (Close 02/18/2004)
Analyst: Amrita Nath and ChenLi Wang
Profile: Washington Mutual Inc. is a financial services company serving small- to mid-sized businesses. The Company accepts deposits from the general public, originates, purchases, services and sells home loans, makes consumer loans and commercial real estate loans (primarily loans secured by multi-family properties) and is engaged in certain commercial banking activities, such as providing credit facilities and cash management and deposit services. Washington Mutual originates, purchases from correspondents, sells and services loans to higher-risk borrowers through its specialty mortgage finance program. The Company also markets annuities and other insurance products, offers full-service securities brokerage services and acts as the investment advisor to, and the distributor of, mutual funds. Washington Mutual has a concentration of operations in California. The Company has three major operating segments: banking and financial services, home loans and insurance services and specialty finance.

(From Yahoo Finance)

The numbers:

Shares Outstanding	880.99M	Market Cap	39.69B
Float	863.40M	Insiders & Institutions	2%, 80.68%
52 week high/low	32.40-46.85	Volume (2/18/2004)	4.39 mil (avg. 5.283M)
Shares Short	18.95M	Short % of Float	2.52%
P/E (ttm), P/E (forward)	11.03, 9.68*	Beta	0.314
P/Sales	3.26	PEG (5 yrs expected)	0.92
P/Book (mrq)	2.01	Revenue/share	13.195
ROE	18.58%	Operating Margins	62.38%
ROA	1.35%	Profit Margins	31.18%
Debt	45.83B	Cash	7.02B
Debt / Equity	N/A	Cash / Share	7.97
EPS (ttm)	4.073	Dividend Yield	3.74% (last 1/28/04)

Pros:

- **Economies of Scale.** Largest S&L (\$275 billion in assets) and one of the largest mortgage lenders in U.S.
- **Dividends.** Management has raised dividends for the last 36 quarters, reflecting their commitment to shareholders. After last year's dividend tax-cut, from 35% to 15%, WaMu's high dividend is even more appealing. Dividend earnings represent actual income unlike unrealized paper profits.
Dividend History: Dividends have been paid since 1986. Declared quarterly dividend increased from \$0.08 as of 01/17/95 to \$0.42 as of 01/20/04.

	WaMu	Industry
Dividend Yield	3.73	2.38
Dividend Yield (5 yr. avg)	3.00	2.27
Dividend 5 yr. Growth Rate	20.69	20.34

(From Reuters Investor)

- **Solid Fundamentals.** Solid P/Sales and P/Book ratios and PEG ratio < 1. Industry PEG (ttm) is 1.57.

* Using latest 4th quarter EPS of 0.92 a share, forward P/E is 12.21

- **Attractive Valuation:** Current Industry P/E (ttm) is 17.3. Also WaMu's Price to Cash Flow (ttm) is 10.95, significantly lower than the industry's 18.28.
- **Stock Buyback.** Company reduced shares outstanding by 5% last year, bolstering strength of existing shares Washington Mutual is supposed to be buying back 15 to 20 million shares of stock per quarter through 2004.
- **Focus on Margins.** Wide operating and profit margins achieved by management's dedication to cost-cutting. At its 2400 branches, it cut 4500 full-time positions in the last 4 months of 2003, planning on 2900 (5%) more this quarter. WaMu believes it can reduce \$1 billion in expenses over the next few quarters. A lot of their focus this year is cost reduction, restructuring and integration, which are investments for the future. By mid 2005 restructuring and cost reductions should be completed and also 2002 and 2003 store openings will enjoy profitability.

	WM	WB	BAC	WFC	GDW
Market Cap	39.69B	62.67B	117.97B	97.47B	16.28B
P/E	9.71	11.54	10.43	12.62	12.46
PEG	0.92	1.27	1.14	1.17	1.13
Operating Margin	62.38%	N/A	N/A	N/A	62.25%
Profit Margin	31.18%	28.16%	34.16%	31.94%	31.35%
ROA	1.35%	1.15%	1.51%	1.66%	1.44%
ROE	18.58%	13.10%	21.65%	19.37%	19.53%
Cash	7.02B	11.48B	27.02B	15.55B	0.26B
Debt	45.83B	108.02B	195.87B	88.30B	7.03B

WB = Wachovia, BAC = Banc of America, WFC = Wells Fargo, GDW = Golden West Financial
PE is forward, PEG is 5-yr, Margins/Ratios are ttm

- Warren Buffett speculated at the Berkshire Hathaway's annual shareholder meeting that credit markets have gone crazy – many institutions approve loans that they should not approve because of the inordinately high risk of default. WaMu, on the other hand, maintains high loan-loss balances against the risk of default.
- As revenue is derived both from being a lender and from mortgage banking, this makes WaMu somewhat less susceptible to interest rate fluctuations. Although a large portion of income is interest-based, there is also significant non interest income.
- **How exciting can retail banking be?** WaMu is focused on customer service and takes an “un-bank-like” approach to financial services. Their banks are warm, inviting financial centers with concierge greeters, teller towers, internet presence, even “WaMu Kids” section. This at a time when most banks push customers to ATMs.
- In contrast to big bank mergers, WaMu expands strategically, and manages acquisitions well. After the mess of a merger, the banks usually neglect customers, while WaMu is customer-centric at its core. Different philosophy. Management asserts, justifiably, “Our business strategy - to provide a higher level of personalized customer service than our competitors - has helped to make us one of the fastest-growing financial services companies in the country” They are planning on opening 250 new stores and hiring 1500 more for 2004.

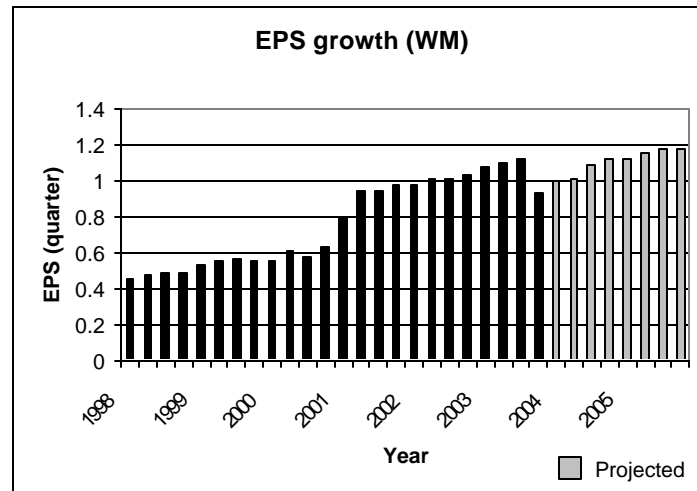
Laundry List of Acquisitions:

Bank	Acquisition Date	Bank	Acquisition Date
Dime Bancorp, Inc. (NY)	1/4/02	Olympus Capital Corp. (UT)	5/1/95
Bank United Corp. (TX)	2/9/01	Summit Savings Bank (WA)	11/15/94
Long Beach Financial Corp. (CA)	10/1/99	Pioneer Savings Bank (WA)	3/1/93
H.F. Ahmanson & Co. (CA)	10/1/98	GNW Financial Corp. (WA)	4/1/92
Great Western Financial Corp. (CA)	7/1/97	Sound S&L Association (WA)	1/1/92
United Western Financial Group (UT)	1/15/97	VanFed Bancorp. (WA)	8/2/91
Utah Federal Savings Bank	11/30/96	Shoreline S&L (WA)	4/29/1988
Western Bank (OR)	1/31/96	Columbia Federal Savings Bank (WA)	4/29/1988
Enterprise Bank (WA)	8/31/95	Lincoln Mutual Savings Bank (WA)	4/4/1985

- WaMu has moved aggressively into all West Coast markets after starting in Washington state. It currently has a significant concentration of operations in California in terms of deposits and its loan portfolio. It has a noteworthy presence in NY and Florida, but basically ample room for growth on the East Coast, especially the

lucrative New York area market. Note the consistency and even timing in their acquisitions, and keep in mind they were able to raise dividends for the last 36 quarters (9 years). There seems to be a mild fever in bank acquisitions lately, and we see WaMu as a potential player. Just this week, GreenPoint Financials merged with North Fork, and Provident with National City.

- **Consistent EPS Growth:** 5 year Forward EPS growth rate is 11.5% compared with the industry's 10.17%



(Data from wamu.com)

Awards :

- Named “Top 40 best retail stores” by Retail Industry Leaders Association. Only financial institution to make the ranking. “Washington Mutual has transformed the banking experience with its signature brand of retail banking,” said Sandra Kennedy, president of the Retail Industry Leaders Association (formerly named the International Mass Retail Association). “Taking cues from top-notch retailers, Washington Mutual has created a retail environment that is warm and inviting, and offers a high level of customer service. As a result, its retail financial centers are places where people want to go, rather than have to go.”
- Named “Top Retail Bank Team” by U.S. Banker. Swept more categories than any other financial institution.
- Named “Best Retail Bank – Americas” in Lafferty International Retail Banking Awards. Innovative brand of retail banking.
- Named “Best Companies to Work For” by Fortune. Two years in a row.

Leadership:

WaMu has a strong, seasoned management team with a long, proven track record.

Killinger, Kerry. Chairman, President and CEO. 53. President and CEO since 1991.

Casey, Thomas. EVP and CFO. Previously VP, SVP, and CFO of GE Financial.

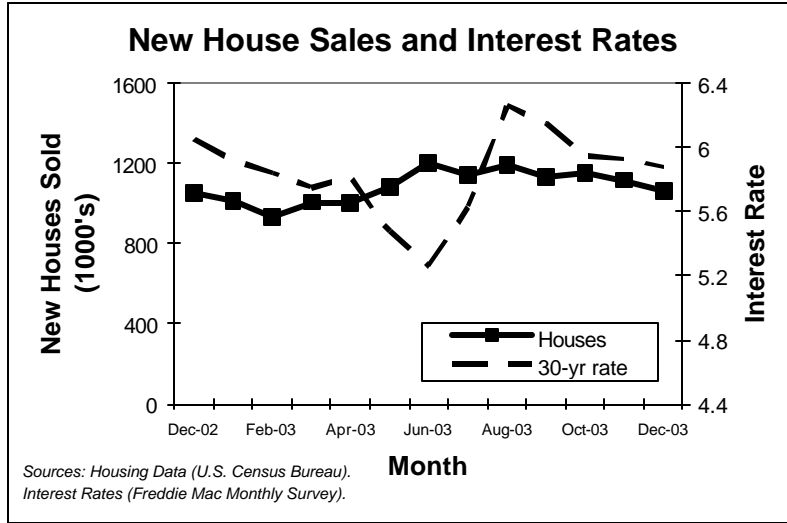
Oppenheimer, Deanna. President, Banking and Financial Services Group. Joined WaMu in 1985.

Tall, Craig. Vice Chair, Corporate Development and Strategic Planning. Joined WaMu in 1985. *Went to Cal* ☺

Cons:

- **Dividends.** Possible price pressure from future increase in interest rates.
- **Weakness in mortgage markets.** 42% decrease in home lending from higher mortgage rates in fourth quarter, earnings were off 11% from a year ago. Latest data from Mortgage Bankers Association (MBA): for week ending Jan. 30, 2004, seasonally adjusted index of 855.7, down 25.9% from a year ago. Refinance share fell to 57%. The MBA estimated that all loan applications fell 60% for the period between June – December 2003, due to an increase in the average fixed mortgage rate from 5.2% to 5.7%. However, Standard and Poor’s predicts that higher mortgage rates should lead to improved mortgage servicing results, which should offset the decline in mortgage origination volume and also the decrease in loan sale margin due to competitive pricing to gain share in a smaller market. Furthermore, operating expenses should be down 11% due to lower mortgage origination costs.

Mortgage Rates:



Charts:

