Week in Review Goldman Sachs Group

Week in Review, July 21

Blankfein and US bank results; Google, Danske Bank, Netflix and Farnborough Air Show also in the news



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A round up of some of the week's most significant corporate events and news stories.

Blankfein leaves on a high as Goldman bolsters profit



Goldman chief Lloyd Blankfein says 'it feels like the right time' to leave the bank © Reuters

Lloyd Blankfein finally announced his resignation as chief executive of Goldman Sachs on Tuesday, ending years of speculation about his departure as the bank and its peers reported strong profits for the second quarter, *writes Laura Noonan in New York.*

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colleagues in a town-hall meeting, noting the long-running speculation on his departure and the well-trailed succession of investment banker David Solomon.

Goldman unveiled a 44 per cent rise in second-quarter profits on Tuesday morning, helping it to its best first-half results in nine years and setting the scene for Mr Blankfein to go out on a high after 12 years at the top.

"When times are tougher, you can't leave," he told colleagues. "And, when times are better, you don't want to leave. Today, I don't want to retire from Goldman Sachs, but by my own perhaps convoluted logic, it feels like the right time. I am very optimistic that our firm has tremendous opportunities ahead and will continue to earn its distinctive position."

Percentage change to key metrics at US banks

Q2 results (year-on-year change, %)

	Net income	Divisional revenues		
		FICC	Investment banking	Equity trading
Goldman Sachs	40	45	18	0
Morgan Stanley	39	12	0	14
Bank of America	33	2	-9	17
Citigroup	16	-6	-7	19
JPMorgan	18	12	16	24

source: company reports; Autonomous

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Investors were not quite as optimistic. Despite strong top-line results for the second quarter, shares fell as much as 2 per cent on Tuesday as investors saw weakness in some of Goldman's underlying trends. The bank's share price, at about $230, is just a shade ahead of its $222 level a year ago and well off the high of $267.89 it touched in late January.

Big profit jumps at two of the other US banks also failed to drive shares up, as investors fretted that JPMorgan and Citigroup's double-digit rise in quarterly profits could be undone by a squeeze from rising interest rates.

Bank of America's 36 per cent rise in profits was mainly due to President Donald Trump's corporate tax cuts, but its shares rose 2.3 per cent in the hours after the results came out. Morgan Stanley was also rewarded with a 3 per cent rise in its share price after it reported a broad-based 39 per cent rise in second-quarter earnings.

EU antitrust regulators land blow against Google

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The EU demands on Google could weaken its negotiating clout in the mobile world

Eight years after they first took on Google, antitrust regulators in Brussels have finally landed a blow against a core part of its business, *writes Richard Waters in San Francisco*.

But whether this week's action — which included a record €4.3bn fine— will do anything to reduce the search group's power is another matter.

The European Commission's first action against Google involved a charge of bias against its search service, and a requirement that it give other comparison shopping engines more prominence in its results.

The comparison shopping market has become an afterthought in ecommerce, though, and the EU action has done little to revive groups in the sector.



With this week's move against the Android mobile operating system, on the other hand, Brussels

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has hit at the strategy that underpins Google's mobile advertising business, which produced an estimated $50bn of revenues last year.

Practices such as using Android contracts with handset makers requiring them to carry the Google search engine and other services amount to an illegal defence of its mobile monopoly, according to the EU.

Google has 90 days to relax contract terms or face more fines, though it is considering a legal challenge to have the judgment suspended until an appeal can be heard.

Bowing to the EU's demands might do little to stimulate more competition. Google's search engine, Play app store and Chrome browser are likely to be seen as must-haves by handset makers, even if they are not required to include them.

Sales struggle to gain altitude at Farnborough



A model of the new BAE Tempest fighter jet unveiled at the Farnborough air show © PA

There was very little "voom and boom" at the Farnborough Air Show, according to one aerospace executive, *writes Peggy Hollinger in Farnborough.*

He was talking about the absence of fighter jets in the flying displays, but he could have been talking about the absence of firm orders at the industry's biennial trade fair.

Rob Stallard, aerospace analyst at Vertical Research, estimated that despite the announcement of a headline-grabbing tally of close to 1,000 orders and commitments for Boeing and Airbus, firm deals accounted for just 20 per cent of the total.

This compared with an average of 50 per cent over the past decade.

Both aerospace groups were confident that the commitments would convert to firm orders by the end of the year, and that their record backlogs would continue to grow with more net sales than deliveries.

Airbus, meanwhile, lost out to Boeing in the orders race, as it did at last year's Paris Air Show.

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But it did win a new order for its A330 neo wide-body, which has lost a number of sales campaigns to Boeing's 787 Dreamliner.

AirAsia, already a customer for the A330 neo, not only confirmed its order for 66 of the twin-aisle aircraft but added an extra 34.

Finally, Airbus's struggling A380 superjumbo received a welcome boost from Hi Fly, the Portuguese company that provides capacity to airlines and charter companies.

Hi Fly has acquired the first second-hand A380, in a deal that Airbus said would expose the largest passenger jet to many new potential customers.

Disney regains top spot after Netflix subscriber mis-step



Olivia Colman as Queen Elizabeth II in the Netflix series 'The Crown' © Netflix

Until this week, Netflix had been one of the best performers on Wall Street this year, *writes Tim Bradshaw in Los Angeles*.

A stunning rally saw the online video upstart add tens of billions of dollars to its market cap, overtaking Walt Disney in May to become the most valuable media group.

Investors have been betting that Netflix would continue to lead the shift of audiences away from traditional TV towards internet video.

This week, research by media regulator Ofcom found that more people in the UK subscribed to online video services such as Netflix and Amazon's Prime Video than traditional pay-TV providers such as Sky.

Yet despite the disruption engulfing the media industry, some on Wall Street have been concerned that Netflix's valuation — which exceeds $150bn — was getting ahead of itself.

Those fears seemed to be realised on Monday after the streaming service missed its subscriber targets. The news sent Netflix shares tumbling from their highs, allowing Disney to reclaim its position as the most valuable media group.

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Netflix executives blamed errors in their own forecasting as the company reported 5.2m net new subscribers in its second quarter, about 1m fewer than it had predicted three months earlier. Reed Hastings, chief executive, insisted its "fundamentals have never been stronger".

But some analysts fretted about growing competition, including from Disney itself, and tougher prospects for growth outside the US. "The easy growth is over for Net-flix," said Ben Bajarin of Creative Strategies.

Danske Bank vows to give away money laundering proceeds



© Bloomberg

Danske Bank promised to give away any proceeds it might have gained from a money laundering scandal, but the announcement failed to appease shareholders and politicians, *writes Richard Milne*.

Denmark's largest lender said on Wednesday that it had earned DKr1.5bn ($230m) in gross income in Estonia between 2007 and 2015 when it is alleged up to $8.3bn of suspicious transactions flowed through its branch in the Baltic country.

It could not yet estimate how much of the Estonian earnings it would make available for what it called "the benefit of society", but said it might know more after the results of its own internal investigation were announced in September.

Danske has been under pressure for months over allegations that its Estonian branch was used by customers from the former Soviet Union to launder money. It is facing a criminal complaint from Bill Browder, the investor and strong critic of the Kremlin, as well as investigations in Denmark, Estonia and France.

The lender also said it would hire a new chief compliance officer from Deutsche Bank, which has had its own problems with money laundering. "I don't think one should stigmatise people who have been in a place with challenges. You can turn that around and say people like that have learnt a lot," said Thomas Borgen, Danske's chief executive.

Investors sent Danske's shares down 9 per cent on Wednesday, while politicians suggested the

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repayment vow would not stop authorities from investigating and possibly punishing the bank.

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