



Discover Financial Services

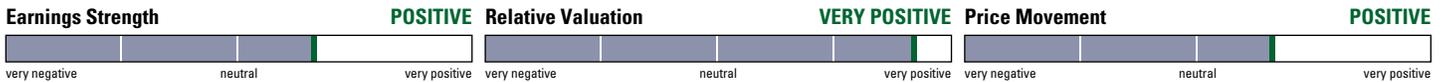
NYS:DFS

STRONG BUY

Upgraded 4/22/16

We project that Discover Financial Services will strongly outperform the market over the next 6 to 12 months. This projection is based on our analysis of three key factors that influence common stock performance: earnings strength, relative valuation, and recent price movement.

Previous Rating Hold (1/30/16 - 4/22/16)	52-Week Price Range \$43.25 - \$59.66	Market Capitalization \$21.35 Billions	Annual Dividend Yield 2.2%	Annual Dividend Rate \$1.12	Industry Finance & Leasing
--	---	--	--------------------------------------	---------------------------------------	--



EPS increased from \$5.18 to an estimated \$5.29 over the past 5 quarters indicating a rising growth rate. Analyst forecasts have recently been raised. Company recently reported higher than expected results.

Operating Earnings Yield of 10.2% ranks above 92% of the companies covered by Ford.

1-year price down 12.7%: **NEUTRAL**
1-quarter up 4.2%: **NEUTRAL**
1-month down 7.1%: **POSITIVE**

Discover Financial Services is a bank and financial holding company.Co. provides direct banking products and services and payment services through its subsidiaries. The company provides its customers credit card loans, private student loans, personal loans, home loans, home equity loans and deposit products. The company also operates the Discover Network, the PULSE network, and Diners Club International. The Discover Network processes transactions for Discover-branded credit cards and provides payment transaction processing and settlement services. At Dec 31 2015, the company had total assets of \$86.94 billion and total deposits of \$47.59 billion.

Finance & Leasing performance is **NEUTRAL**

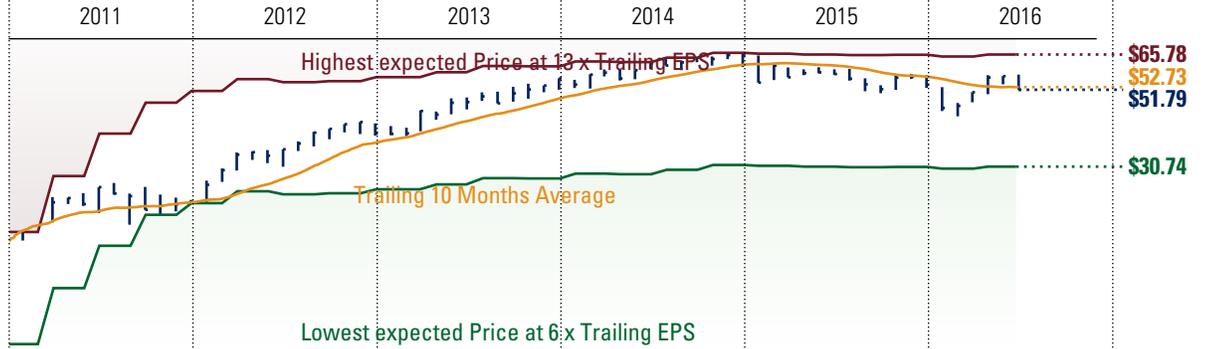
Peer Group Comparison

Ticker	Company Name	Recent Price	B/H/S Rating	Quality Rating	Dividend Yield	Share Buyback Rating	P/E Ratio	1-year Price Change	Market Cap(B)
DFS	Discover Financial Services	\$51.79	Strong Buy	Good	2.2%	Very Positive	10.0	-12.7%	\$21.35
V	Visa Inc.	\$75.05	Hold	High	0.7%	Positive	27.2	9.0%	\$178.99
MA	MasterCard Inc.	\$91.47	Hold	High	0.8%	Positive	26.9	-4.2%	\$100.53
AXP	American Express Co.	\$60.06	Buy	Good	1.9%	Very Positive	11.3	-25.6%	\$57.12

DFS Price Performance

Ford Valuation Bands

Valuation bands based on the highest and lowest P/E ratio in the past five years applied to the trailing 12 month operating earnings. Price(US\$)



Fiscal Year End - Dec	2011	2012	2013	2014	2015	TTM
Net Profit on Sales	25.1%	24.7%	25.0%	24.4%	21.2%	21.2%
Cash Flow/share	\$3.72	\$4.78	\$5.25	\$5.59	\$6.25	--
Book Value/share	\$15.63	\$18.50	\$21.63	\$23.50	\$25.38	\$26.90
Return on Equity	26.0	24.1	22.9	22.3	20.2	19.3
Debt to Equity	222.0%	202.0%	189.0%	202.0%	219.0%	--

Discover Financial Services

NYS:DFS

Recommendation Summary

Ford's Strong Buy recommendation on Discover Financial Services is the result of our systematic analysis on three basic characteristics: earnings strength, relative valuation, and recent stock price movement. The company has enjoyed a very positive trend in earnings per share over the past 5 quarters. However, recent analyst estimates for the company have been mixed and DFS has posted results that exceeded analysts' expectations. Based on operating earnings yield, the company is undervalued when compared to all of the companies we cover. Share price changes over the past year indicates that DFS will perform well over the near term.

Earnings Strength is POSITIVE

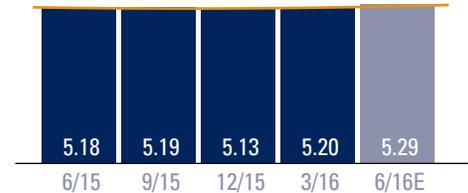
Ford's earnings momentum measures the acceleration or deceleration in trailing 12 month operating earnings per share growth. The upward curvature of the plotted points in the graph on the right indicates that while **Discover Financial Services's earnings have risen from \$5.18 to an estimated \$5.29 over the past 5 quarters, they have shown acceleration in quarterly growth rates** when adjusted for the volatility of earnings. This indicates an improvement in future earnings growth may occur.

Nearly 40 years of research have shown that the change in the growth of earnings per share is an important factor that drives stock price performance. Ford measures earnings momentum and analysts' forecast changes to get an early indication of changing earnings patterns.

Recent changes to analysts' forecasts and variances between reported and estimated earnings provide important information about a company's future earnings performance. Ford uses this information, in conjunction with earnings momentum, as early evidence of a catalyst to near-term stock price performance. Earnings forecasts for Discover Financial Services have been increasing recently, which indicates an improvement in future earnings growth. The company has also reported higher earnings than those predicted in earlier estimates. This indicates an ability to exceed analysts' expectations and the potential for improving earnings growth in the future.

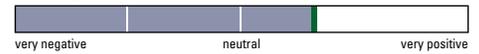
TTM Operating EPS in US (\$)

Positive earnings trend over past 5 quarters



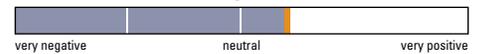
Earnings Momentum

POSITIVE



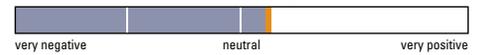
Current FY Estimate Change

NEUTRAL



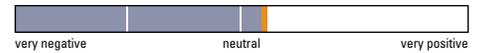
Next Fiscal Year Estimate Change

NEUTRAL



Reported vs Expected EPS

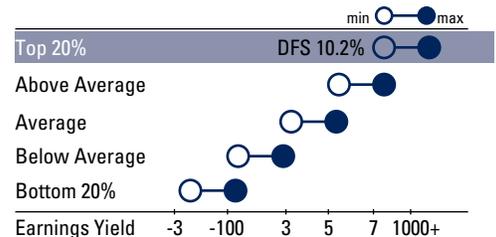
NEUTRAL



Relative Valuation is VERY POSITIVE

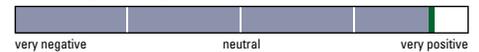
Discover Financial Services's operating earnings yield of 10.2% ranks above 92% of the other companies in the Ford universe of stocks, indicating that it is undervalued. Ford measures the relative valuation of each company against all other companies in our research universe. Operating earnings yield, an earnings-to-price ratio based on the last 3 quarters of operating earnings and the current quarter's estimate, has proven to be the most reliable relative valuation measure. A stock may stay undervalued or overvalued for a long period of time. For this reason, it is important to combine this factor with shorter-term predictive factors such as earnings momentum or price momentum to identify more imminent valuation adjustments.

Operating Earnings Yield (%) within the Ford Universe



Operating Earnings Yield

VERY POSITIVE

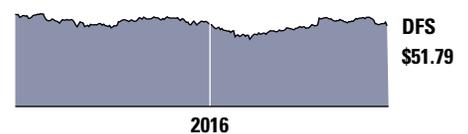


Price Movement is POSITIVE

Discover Financial Services's stock price is down 12.7% in the last 12 months, up 4.2% in the past quarter, and down 7.1% in the past month. This historical performance should lead to above average price performance in the next one to three months.

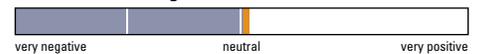
Historical price action of a company's stock is an especially helpful measure used to identify intermediate and short term performance potential. Long term historical performance is a good predictor of future price performance, but much more importantly, large price movements over the intermediate and short term tend to reverse themselves. Ford's price momentum measure integrates historical long, intermediate and short term price changes, creating ratings that are highest for stocks with strong twelve month price performance that have had a price consolidation in the past quarter and month.

Stock price is down 12.7% in the past year



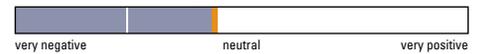
1 Year Price Change of -12.7%

NEUTRAL



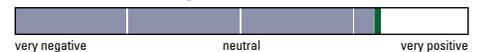
1 Quarter Price Change of 4.2%

NEUTRAL



1 Month Price Change of -7.1%

POSITIVE



Discover Financial Services

NYS:DFS

Ford Stock Rating: Ford covers approximately 4,000 stocks using a proprietary quantitative model that evaluates a company's earnings strength, its relative valuation and recent price movement. Ford's five recommendation ratings include strong buy, buy, hold, sell, strong sell. For all stocks in our coverage universe, ratings are generated each week and reflect the fundamental and price data as of the last trading day of the week.

Ford Stock Rating	Percentage of Universe With Rating	12-month Relative Return Forecast
STRONG BUY	8.7%	Significantly above average
BUY	16.6%	Above average
HOLD	57.8%	Average
SELL	11.9%	Below average
STRONG SELL	5.0%	Significantly below average

Earnings Strength: Earnings strength is a weighted combination of factors that measure a company's earnings growth performance. These include Ford's proprietary Earnings Momentum model, changes in analysts' estimates for the current and next fiscal year, and earnings surprises as compared to estimates. Combined score ratings and percentiles are as follows: Very Positive - top 20%, Positive - next highest 20%, Neutral - middle 20%, Negative - second lowest 20%, Very Negative - lowest 20%.

Relative Valuation: The coverage universe is sorted in descending order based on Ford's operating earnings yield measure. Operating earnings yield is the ratio of 12-month operating earnings per share (including the current quarter estimated EPS) to closing share price on the report date. Relative valuation ratings and percentiles are as follows: Very Positive - top 20%, Positive - next highest 20%, Neutral - middle 20%, Negative - second lowest 20%, Very Negative - lowest 20%.

Price Movement: Price movement is a proprietary evaluation based on a company's relative share price change in the past 1-year, 1-quarter and 1-month period. In the Ford analysis, positive price changes in the past 1-year period are a favorable indication of near-term price gain. Conversely, positive price changes in the past quarter or month periods can indicate a short-term overbought condition resulting in negative near-term price change. Price movement score ratings and percentiles are as follows: Very Positive - top 20%, Positive - next highest 20%, Neutral - middle 20%, Negative - second lowest 20%, Very Negative - lowest 20%.

Share Buyback: Earnings of a company can be reinvested, or can be distributed to shareholders in the form of dividends or share buybacks. Share Buyback measures the percentage change in shares outstanding from twelve months prior. If earnings are unchanged, a reduction of shares outstanding will result in higher earnings per share, and if the price to earnings ratio remains the same share price should increase. Purchases of

a company's own shares are deemed to indicate management confidence and can also create additional demand for the stock. Share buyback ratings and shares outstanding changes are as follows: Very Positive - shares decline of more than 5% ; Positive - shares decline between 2% and 4.9%; Neutral - shares decline of 1.9% to increase of 9.9%; Negative - shares increase of 10% or more.

Price Movement: Ford measures the relative performance of the 88 industry groups that we cover. The top 20% of industries based on our metric are expected to have above average near-term performance and are classified as Positive. The bottom 20% based on the same metric are expected to have below average near-term performance and are classified as Negative. The remaining middle 60% of industries are expected to have average performance and are classified as Neutral.

Operating Earnings Per Share: Earnings per share figures in the Ford Valuation Bands, quarterly earnings series and 5-quarter earnings trend plot reflect Ford's operating earnings per share. Operating earnings per share are earnings per share from continuing operations and before accounting changes that have been adjusted to eliminate non-recurring and unusual items. In this way, earnings trend and valuation measurements are not affected by one-time and non-operational items that can skew earnings results.

Peer Group: Ford classifies each company in our coverage universe into one of 232 peer group categories based on industry group, products or services offered, annual sales level and market capitalization. Peer groups, which are made up of between 3 and 8 companies, are a useful point of industry reference and a source for alternative ideas within an industry.

Quality Rating: Quality Rating is based on factors that indicate a company's overall financial strength and earnings predictability. Each company in the Ford database is assigned a quality rating ranging from A+ to C- based on size, debt level, earnings history and industry stability. High quality stocks tend to have higher average market capitalizations and annual sales, as well as lower average levels of debt as a percent of equity and lower earnings variability. High quality stocks also tend to have lower standard deviations of annual returns. Accordingly, a firm's quality rating may be used to gauge the risk associated with a particular stock. The Quality Rating letter grades are translated into the following categories: A- and higher are High Quality; B and B+ are Good Quality; B- is Average Quality; C+ is Low Quality; C and lower are Very Poor Quality.

Valuation Band: The Ford Valuation Band chart shows the price performance of the stock over the past 5 year period in relation to its historical price/earnings valuation range. The red and green lines indicate the highest and lowest P/E, respectively, in the past 5 years multiplied by trailing 12-month operating earnings per share at the plotted point. The end point prices shows the current share price (in black) along with the potential high price based on the highest realized P/E in the past 5 years (in red), potential low price based on lowest realized P/E in the past 5 years (in green), and trailing 10-month average price (in yellow).

Disclaimer

The reports and the ratings contained herein were prepared by Ford Equity Research solely for the use of its clients and authorized subscribers. Reproduction or distribution of such reports or ratings in any form is prohibited without the express prior written permission of Ford Equity Research. The reports and ratings are based on publicly available information believed to be reliable. Ford Equity Research endeavors to present the timeliest and most accurate data possible, but accuracy is not guaranteed. Additional information, such as corporate actions, industry and economic factors, and other events and circumstances that may affect a stock's price may not be reflected in the Ford Equity Research rating or in the data presented. This report is for information purposes only and should not be construed as an offer to buy or sell any security. Recommendations made in this report may not be suitable for all investors. Recommendations do not take into account the individual user's investment risk or return objectives or constraints. Ford is not responsible for the results of actions taken based on the information presented. Opinions expressed herein are subject to change without notice. The research process used is derived solely from a quantitative approach that uses historical data to produce a stock ranking system. Each covered stock is assigned one of five ratings based on relative scores, Strong Buy, Buy, Hold, Sell, and Strong Sell. While stocks rated Strong Buy are expected to be the best performers and those rated Strong Sell are expected to be the worst performers, there is no guarantee that such will be the case on an individual stock basis or on average. Past results are no guarantee of future results.

Ford Equity Research, a subsidiary of Mergent Inc., is an independent research firm with no investment banking or brokerage businesses or affiliations. Ford Equity Research, its clients and/or its employees may at times own positions in the companies described in these reports.