THE DAILY CHECK-IN WITH GOLDMAN SACHS

GOLDMAN SACHS' 2021 FIRST-QUARTER EARNINGS
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Jake Siewert: Hi, Stephen. Happy Earnings Day.

Stephen Scherr: Thank you very much, Jake. Good to talk to you again.

Jake Siewert: So Stephen, it seems as though the firm's performance in the quarter surprised many observers, close observers of the firm outside the company and maybe even inside the company. Talk us through some of the outperformance relative to analysts' expectations. And why don't you take it business-by business?

Stephen Scherr: Sure. Well, fortunately, it didn't surprise me, but I guess I'm the person you least want to be surprised in terms of financial performance of the firm. But I do think you're right. It did surprise many both in and out of the firm.

I think that for many of the sell-side analysts that look at the firm and so, you know, to the question of: How is there such disparity between where sell-side consensus was and where actual results were? I think it's a couple of things. I think we're in a moment in time that is unprecedented in a lot of ways. And so difficult to understand how much of the growth that's being witnessed in the real economy transmits into activity at a range of different banks, no less ours. In fact, maybe ours is even more difficult to understand because our face to the consumer is only new and small relative to big commercial banks and so hard to gauge that.

Hard to understand what's going to happen in a growing economy around the release of reserves or provision for loan loss. These are just a couple of variables that I think are a little confounding to the sell-side analysts in terms of putting together estimates that approximate where ultimately results were.

Jake Siewert: So we talk a lot about sustainability at the firm, but on Earnings Day we always talk about the sustainability of earnings.

Stephen Scherr: Yes.

Jake Siewert: A lot of the businesses set top- and bottom-line records this quarter. And you were pretty clear and David was as well that the pace of activity that we saw this quarter can't continue indefinitely. So how do you think about what people should take away about the sustainability of the firm's earnings?

Stephen Scherr: Well, listen, the way I approach the question, which is asked frequently and by analysts as well as people in the press, frankly, let alone ourselves, is how sustainable is this? And I think you need to answer the question a couple of ways.

One, nobody knows obviously what the market opportunity will be. Meaning, you could see it grow. You could see it shrink. There's a lot of evidence to suggest that as the economy takes lift and a real economy grows, you know, with Goldman Sachs skewed heavily to GDP growth, we'll rise with it. But you just don't know what the opportunity set is. And so the sustainable aspect of our performance has more to do with relative than absolute performance. Meaning, relative performance relative to our competition, I think we have reason to be confident in that sustainability because we have, over the last several quarters, been picking up market share. Whether that's market share in investment banking, in our M&A business, in our equity capital markets business. It's equally showing itself across all of global markets, particularly in equities this quarter where we picked up large market share.

Those will tend to linger. They will, if not permanent, they are sticky. We're working to maintain, if not grow, them. And that leads to sustainable relative performance to our competitive set.

The question of what's sustainable on an absolute basis is purely a function of where the market goes. And as I said on the earnings call and will repeat here, the second and third quarter will be year-on-year more difficult comparables relative to last year. Second and third quarter of last year saw incredible volatility in the market as we were moving into sort of the darker periods of COVID. That sprung to volatility in the market, which obviously contributed to our outperformance in those quarters. That volatility has dissipated, so we'll have to see what those comparable year-on-year comparisons look like as we get to the second and third quarter.

Jake Siewert: Apart from the ongoing pandemic and the related impact on the economy, we also saw a number of unrelated market disruptions or events in the quarter. I think in January very few market observers were familiar with either Roaring Kitty or Archegos Capital. And yet here we are talking about a huge burst in retail investor activity and the unwind of a big hedge fund or family office. Talk a little bit about how Goldman navigates those kinds of events and any lessons we learned from what we saw in the quarter. And, you know, leading question but do you expect more turbulence in coming quarters?

Stephen Scherr: Well, somebody said to me, you know, "Wow, we've seen at least a dozen black swan events over the last year," and I'm not sure that the analogy is such that if you see ten black swans that they are in fact a black swan. But it's always something. And I think that the story in each of these situations is less about our action in the moment so much as our level of preparedness and readiness in anticipation of something that will happen.

If it wasn't Archegos, it would be something else. If it wasn't kind of Reddit, it would be something else. And I think when you look at the control organization around the firm, whether that's risk, particularly in the context of prime, or you look at controllers or you look at legal, you look at compliance, I think the nature and level of surveillance that those organizations maintain over different risk units around the firm is quite impressive. But what's more impressive is their engagement with the business.

If you look at Archegos, the real story to me was the level of engagement that went on before the world came to know it as between our risk organization and those that run the prime business. Looking for individual accounts that expressed concentrated positions, adjusting margin, thinking about what you might do in the event that there was some precipitous fall or decline in the market value of those positions.

And it's the level of readiness and preparedness that I think distinguishes the firm in that regard. And so it's always something. And when it is something, more often than not, this organization is prepared for it and reacts to it and engages on the issue as you would expect us to.

Jake Siewert: It's always something-- that could be a motto that CFOs live by or die by.

Stephen Scherr: It is. I think it's like a lamented card in my wallet. It's always something.

Jake Siewert: Okay. So we saw a pretty obviously very strong performance on the revenue side, historic levels, but the firm's profitability also obviously hinges on the ability to manage expenses. Last year at Investor Day you outlined a big plan on cutting expenses. How have we done on that front? And has the past year changed any of your thinking?

Stephen Scherr: The way I think about expense is in several different buckets. One is are we appropriately sweating the kind of day-on-day, week-on-week expense incurrence around the firm? Wholly independent of broad projects and initiatives to reduce down our run-rate expense, which I'll come onto. But if you look at our non-comp expense in the quarter, it was held reasonably in check. Now, mind you, we don't have the excess of litigation reserve that we needed to take at various points in time last year, so that undoubtedly is a blessing, but almost the entirety of our increase in non-comp expense, excluding litigation, came from expenses that are variable and relate to the level of activity in the firm.

So the more business, for example, global markets does, the more we incur expenses in the conduct of that. And those are expenses that you want to take on because ultimately it's accretive to the revenue net of expense of the firm overall.

Independent of day-to-day expense watch is the $1.3 billion expense initiative that we announced and embarked on at Investor Day. And we are more than halfway through the achievement of that. There's quite a bit of activity left to do and projects to take on. Some of our most recent announcements tie into it. So you saw us announce just yesterday the opening of an office and a presence in Birmingham in the UK. We opened a second campus, or will open a second campus, in Hyderabad in India. Those are all part and parcel of kind of real estate strategy as a sleeve, as a component piece of what we're doing. And so of course they're related in some sense, but one is just a day-to-day consciousness of expense. The second is a more purposeful, plodding strategy over an extended period of time to look to bring greater efficiency to the way in which the firm operates.

Jake Siewert: So obviously we're both in the office today. We got to spend some time collaborating, as it were. David made some comments both at the town hall that we host every Earnings Day and also on the earnings call itself about return to office, which is a topic that firms are really all over the map on as the vaccine progresses and life begins, hopefully, to return to normal.

Talk a little bit about your perspective on Goldman's thinking around the future of work and what might be the same, what might be different.

Stephen Scherr: Well, I think our view on the future of work is evolving. You know, there's little question that our longstanding aspiration is to be more together than to be apart, just as a working proposition. I think that this firm runs best and optimizes the outcomes when more of us are together than not.

All that said, and as David said on the call, none of that is a limiting factor on our ability to look to develop, if not encourage, flexibility. How that manifests itself I think is really to be determined kind of as a structural matter. But I think we're quite open to the notion of a more flexible scheme for people who need it, want it, for businesses that can kind of well afford it and function in that regard. And so we aim to create flexibility.

I think coming out of COVID, not to suggest the pandemic is done, but as we move away from it, I think we've learned a lot in the experience about our ability to be flexible in terms of work structure. Meaning, you know, what we've learned about operating in disparate locations, what we've learned about more people sitting in different locations, the way in which we've used Zoom and otherwise are all ingredients to a greater facility in terms of flexibility as to how we work. And so the firm has always tried to be flexible. I think we'll endeavor to be and exhibit even greater flexibility. And it's just simply not inconsistent with an abiding desire to, as and when it's safe and the clouds clear, to bring more and more people back into the office.

And to some extent that process has happened. We are, as I look this morning, 20% or better in terms of attendance in London. Approaching 20% here in New York. Obviously different geographies will sustain different levels of attendance. But circumstances are trending in that direction, and we want to be encouraging of it and create kind of a work environment that's inviting of it.

Jake Siewert: Stephen, thank you very much for joining us today. It was great to see you.

Stephen Scherr: My pleasure.

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The statements in the presentation are current only as of its date, March 14, 2021.