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Deutsche Bank Cuts Revenue Target a Day After Merger Talks Fail

The decision not to pursue a deal with Commerzbank has spurred a range of questions about Deutsche Bank's next moves



The Deutsche Bank AG headquarters in the financial district in Frankfurt. Shares in the bank fell after the earnings release. PHOTO: ALEX KRAUS/BLOOMBERG NEWS

By *Jenny Strasburg* and *Pietro Lombardi*

Updated April 26, 2019 7:32 a.m. ET

Deutsche Bank AG disclosed a disappointing revenue outlook Friday, sending its stock lower and highlighting the difficult road ahead a day after merger talks with [Commerzbank AG](#) failed.

Last month the bank forecast a slight increase in 2019 revenues. Its shares fell more than 3% after the earnings release. Cost-cutting helped Deutsche Bank boost first-quarter profit despite continuing revenue declines.

The [no-deal decision](#) ending the talks with Commerzbank spurred a range of questions about Deutsche Bank's next moves, including a possible restructuring of its investment bank and potential deal aimed at expanding its asset-management arm.

On a conference call with analysts, executives were hammered with questions about their strategic alternatives, the likely timing, what kind of deal might appeal to them if Commerzbank didn't, and whether Deutsche Bank can rule out having to raise capital. The answer was mostly no answer.

The bank is trying to blunt the impact of those uncertainties. It pre-released some first-quarter numbers on Thursday, including the profit improvement, when it disclosed the end of merger talks. However, the pre-release didn't mention the lowered 2019 revenue forecast, making that a negative surprise on Friday.

Chief Executive Christian Sewing emphasized progress in cutting expenses and strengthening loan growth. The bank's separately listed DWS asset-management arm was a bright spot, beating analyst estimates for inflows and reversing last year's decline in assets under management.

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Mr. Sewing told analysts that Deutsche Bank had seen a "major opportunity" in exploring a merger with Commerzbank and the talks were a useful self-examination even though they didn't lead to a deal. He promised Deutsche Bank will remain "globally relevant," and defended its strategic direction. "Our first order of business is that we have a plan against which we

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continue to deliver," he said.

First-quarter net income was €201 million euros (\$224 million), a 67% increase from a year ago and better than consensus analysts' expectations. Revenue declined 9% overall, to €6.35 billion. Investment-bank revenues fell 13%, with sales and trading revenues down 18% in equities and 19% in fixed income.

Executives pointed out that the bank has purposely slimmed down its equities-trading unit, explaining some of the declines. Many banks reported double-digit declines in stock-trading revenues during a tough quarter for trading operations.

"Our first-quarter results demonstrate the strength of our franchise and our continued progress in executing our plans in a very challenging market environment," Mr. Sewing said in a statement.

Deutsche Bank and Commerzbank disclosed merger discussions in mid-March. On Thursday Deutsche Bank said the costs and complexity of the deal [proved too daunting](#).

"After careful analysis, it became apparent that such a combination wouldn't be in the interests of either bank's shareholders or other stakeholders," the bank said.

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Revenue in Deutsche Bank's global transaction banking business, which provides cash-management services to governments, companies and other clients and finances trade flow, were up 6%. That business is a focus of

growth for the lender.

Overall asset-management revenue fell 4% in the first quarter, while revenue in the retail-banking unit was down 5%.

The bank said it is on track to meet cost targets this year, after eliminating jobs in a strategy overhaul launched when Mr. Sewing became CEO a year ago.

Write to Jenny Strasburg at jenny.strasburg@wsj.com and Pietro Lombardi at Pietro.Lombardi@dowjones.com

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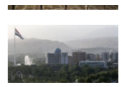
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