

Finance II

M&A scenarios

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1. Practicalities
2. Banking basics
3. M&A basics
4. Suggestions for the analysis
5. M&A example

5. M&A EXAMPLE

UBI  **Banca**



ACQUIRER

&

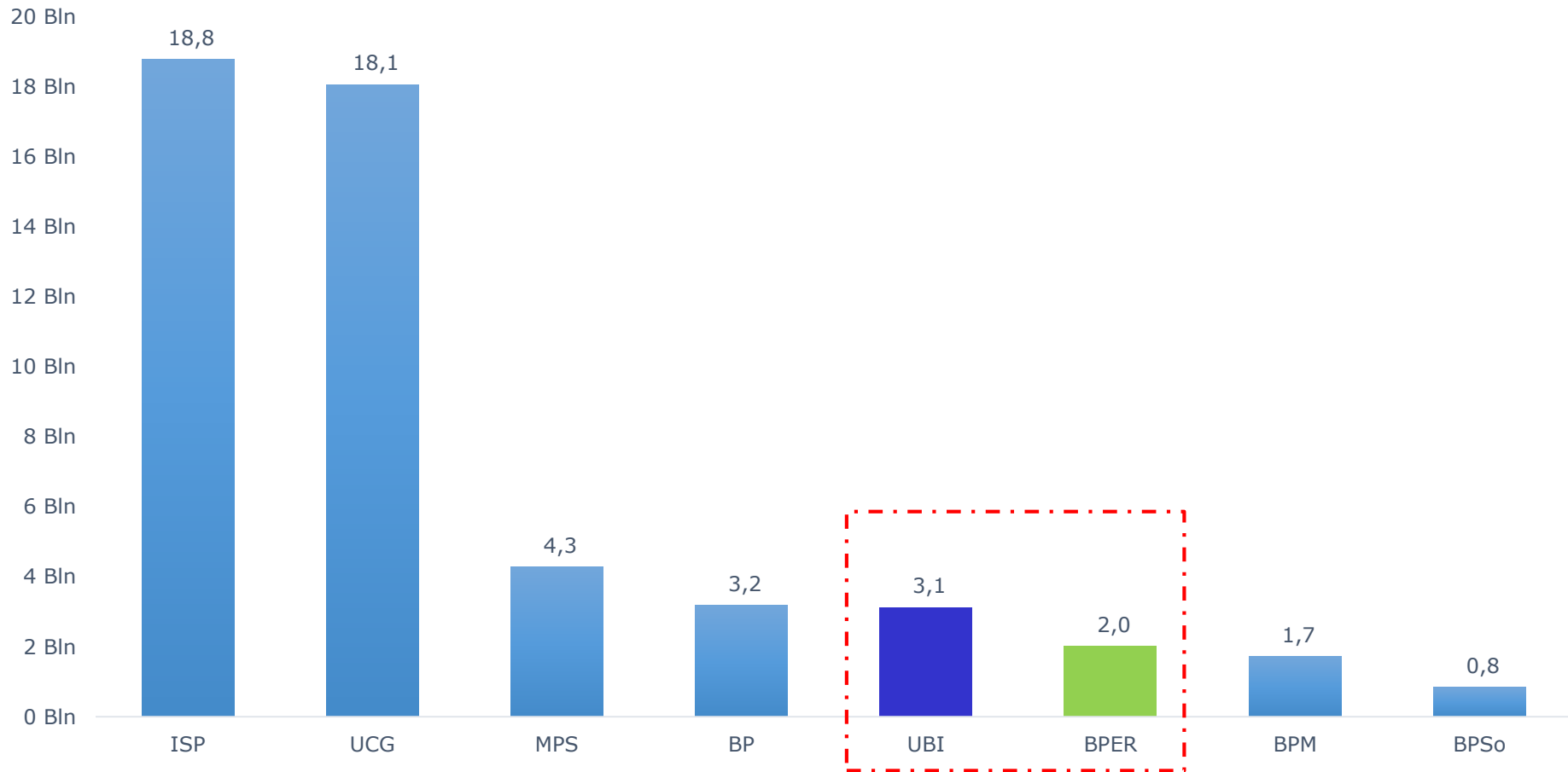
BPER:
Banca



**ACQUIREE/
TARGET**

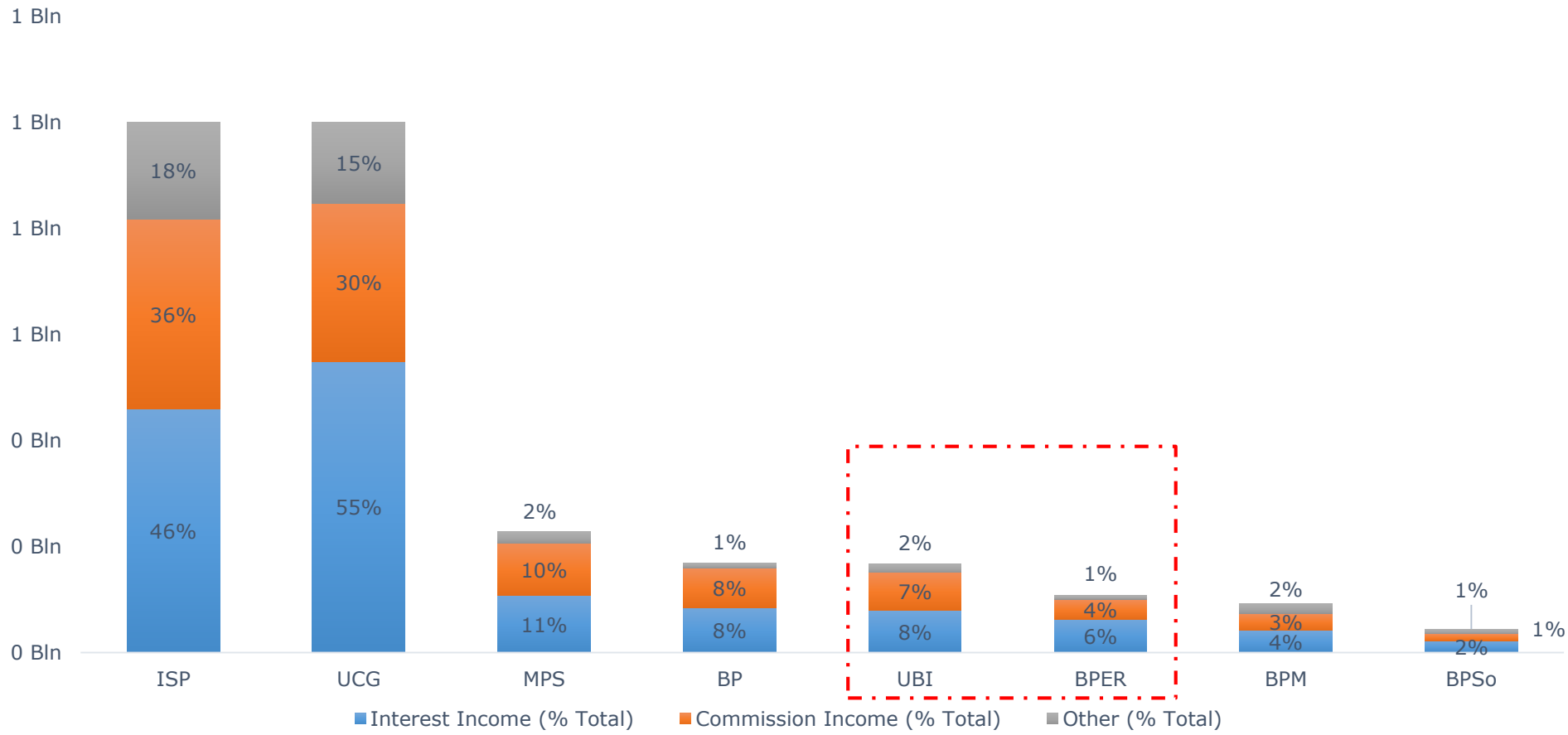
The Italian Market 31/12/2016

Operating Income 2016



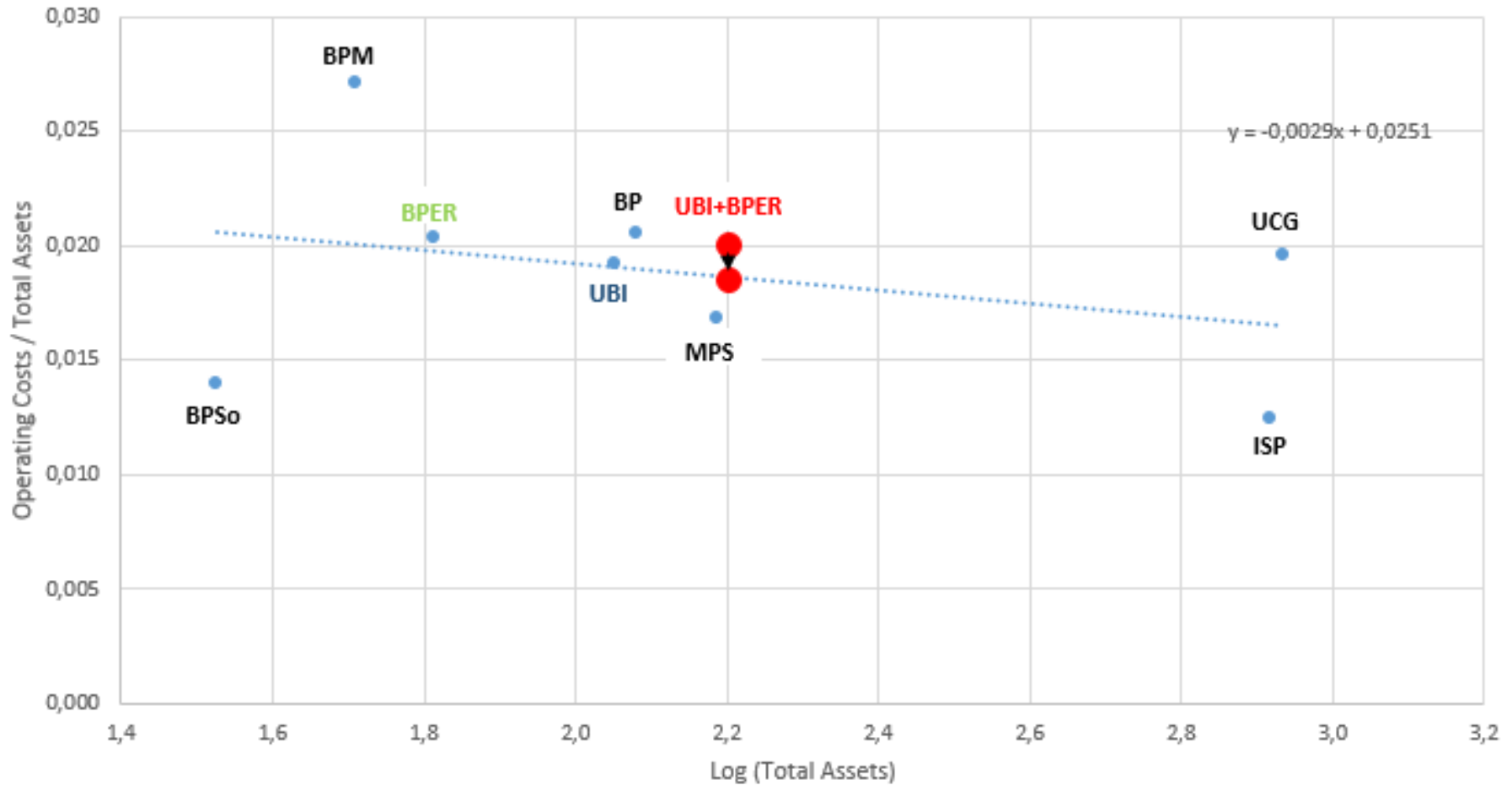
The Italian Market 31/12/2016

Operating Income details 2016



The Italian Market 31/12/2016

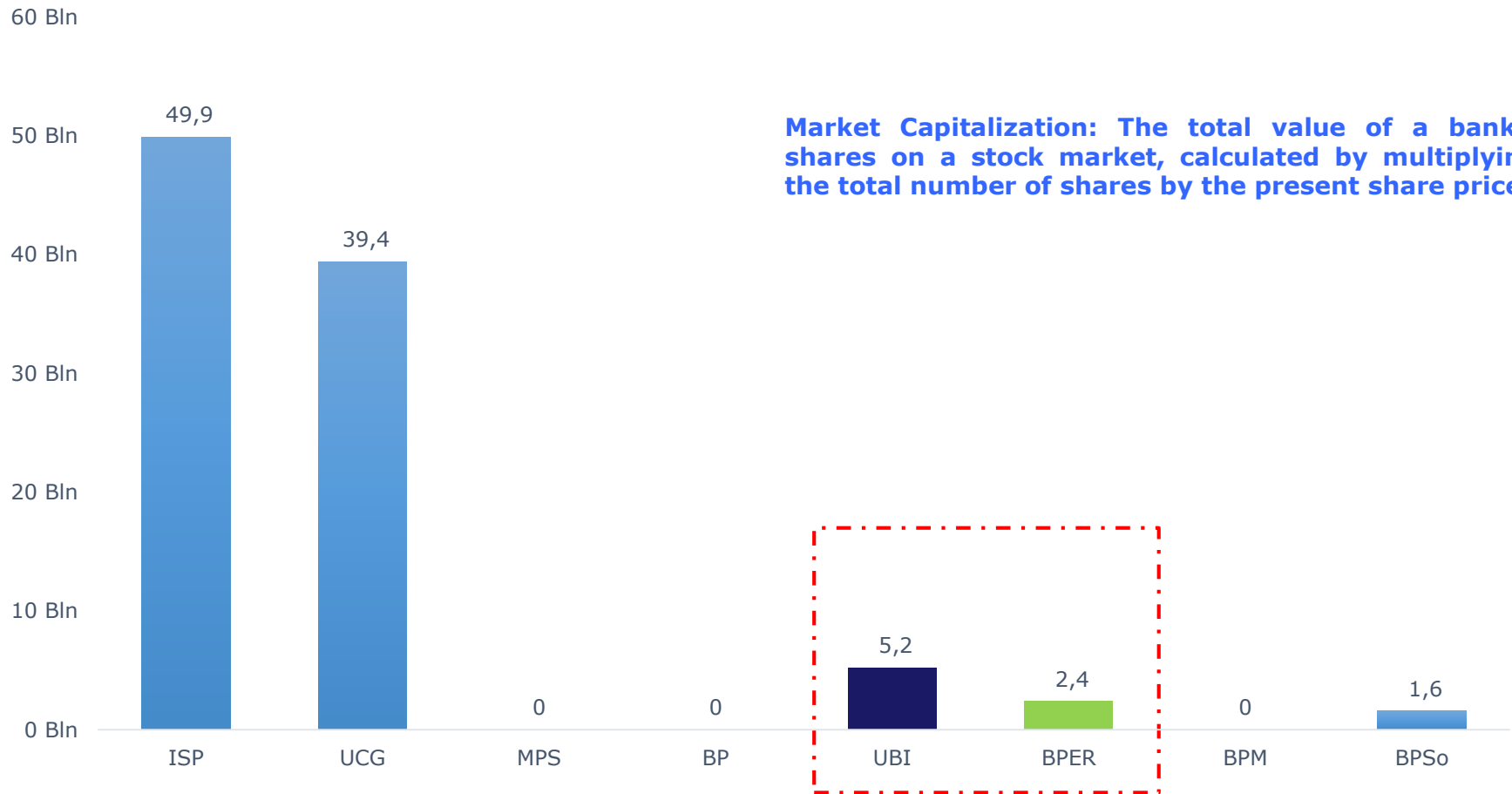
A measure of efficiency



- 22/12/2016 MPs: Decreto Salva Banche – the Government is the main shareholder
- 01/01/2017 Banco BPM: merger between Banco Popolare and Banca Popolare di Milano
- 10/05/2017 UBI acquired 3 banks (Nuova Carichieti, Nuova Banca Etruria, Nuova Banca Marche)
- 17/09/2017 The Government is editing the MPS Charter
- ...

The Italian Market today

Market Capitalization 4th October 2017



Could some of these reasons justify this M&A deal?

- **Market Timing:** M&A deals occur since the acquirer bank's managers intend to take advantage of market mispricing.
- **Industry-shock responding:** M&A transactions occur because firms are prompted to merge in order to reap the benefits of some common shocks.
- **The agency hypothesis:** M&A operations would occur because they enhance the acquirer management's welfare at the expense of the acquirer shareholders.
- **The hubris hypothesis:** M&A deals occur since managers make mistakes in evaluating target firms, and engage in mergers even when there is no synergy.

WHY UBI+BPER DEAL?

Other...

- Could the new entity acquire a leading position in the **Italian market** (in terms of Assets, Income, Deposits, Branch coverage..)?
- Could the new entity acquire a leading position in the **International market** (increasing international presence in strategic and complementary Countries/Segments)?
- Could the new entity benefit from **M&A synergies**?
- Could the new entity share **common values**?
- Have all the **stakeholders interest** in this deal (e.g. shareholders, customers, employees, community)?



<p>We want to be a driving force in the banking market with our experience and capacity to blend tradition with innovation</p>	<p>Mission</p>	<p>To be the federal system of banks which best meets the needs and plans of households and small/medium sized enterprises</p>
<ul style="list-style-type: none"> • Approx. 3.8 millions of customers • First popolare bank to become a Joint Stock Company (Joint stock company as from October 2015 → transformation from co-operative after a recent Law dated March 2015 established that cooperative banks with total assets above 8€ bln must transform into Joint Stock Companies) • Fifth largest branch network, with a domestic market share over 5% and fourth largest bank in terms of: <ul style="list-style-type: none"> • direct funding from customers • loans to customers • Branches in 18 out of 20 regions of Italy • The Group directly provides assistance to its customers on foreign markets 	<p>Main Features</p>	<ul style="list-style-type: none"> • Approx. 2 millions of customers • November 2016 becomes a Joint Stock Company (Before Third largest cooperative bank in Italy) • Branches in 18 out of 20 regions of Italy • The Group provides assistance to its customers on foreign markets, also it has branches in South-East Asia
<ul style="list-style-type: none"> • Predominance of retail business • Solid capital base • Low risk profile 	<p>Strengths</p>	<ul style="list-style-type: none"> • Domestic market • Experiences business units • Satisfactory liquidity and funding
<ul style="list-style-type: none"> • Incorporations and Acquisition processes currently underway: badwill which amounted to €995 million as at 31st March 2017 	<p>Weaknesses</p>	<ul style="list-style-type: none"> • Exposure to fragile economies of Italy's southern region

UBI&BPER ANALYSIS

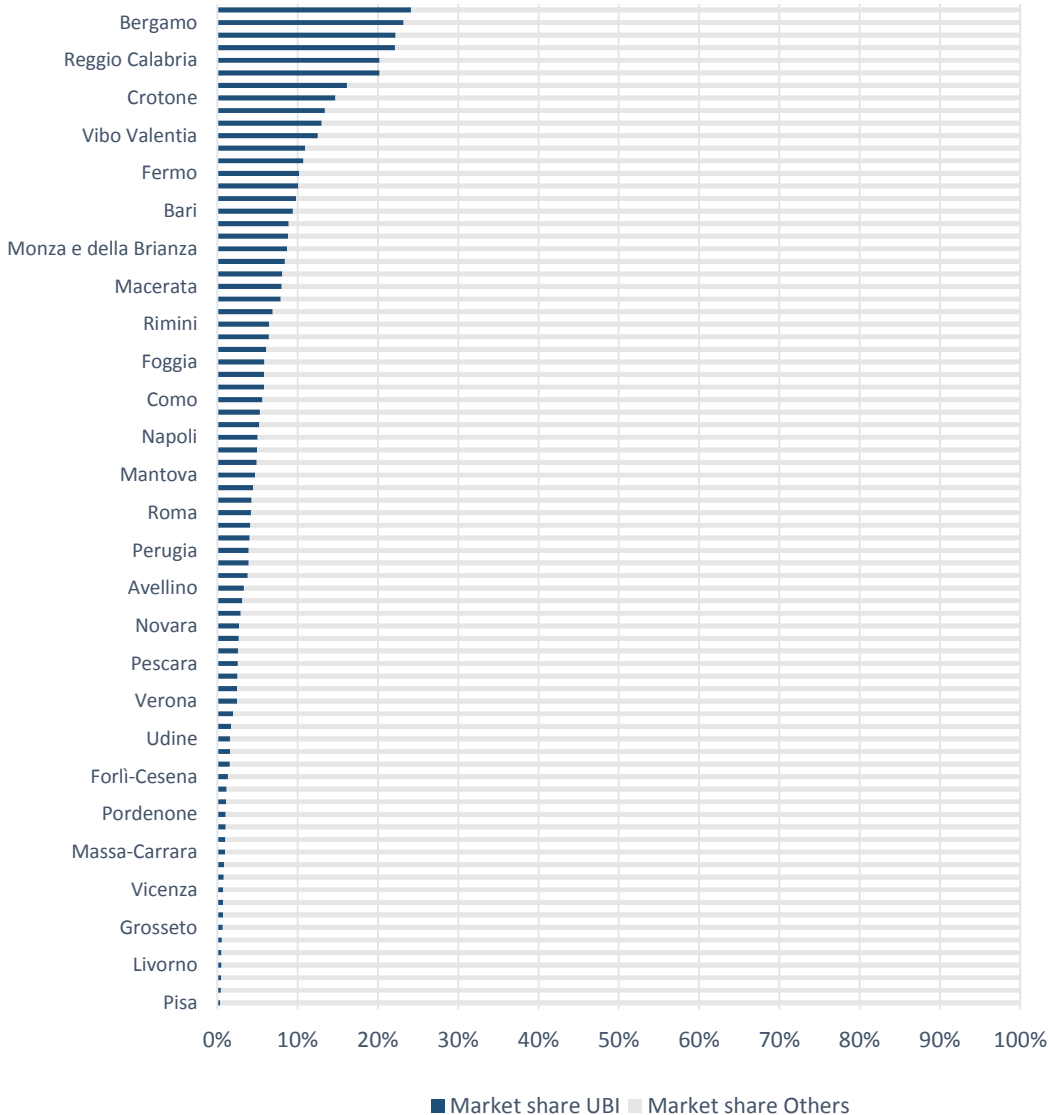
Bank structure



<p>Aviva Vita spa (20%) Lombarda Vita spa (40%)</p>	<p>Insurance</p>	
<p>UBI Factor spa (100%) Prestitalia spa (100%)</p>	<p>Financing & Credits</p>	<p>Emilia Romagna Factor spa (94,4%) Estense CPT Covered Bond srl (60%) Mutina srl (100%)</p>
<p>UBI Pramerica SRG spa (65%) UBI Management Co Sa Lussemburgo (100%) UBI Trustee Sa Lussemburgo (100%) Zhong Ou Asset Management Co. Ltd Cina (35%)</p>	<p>Asset management & trust service</p>	<p>Bper Trust Company spa (100%)</p>
<p>UBI Leasing spa (99,62%)</p>	<p>Leasing</p>	<p>Sardaleasing spa (98,37%)</p>
<p>IW Bank spa (100%) UBI Banca International Sa Lussemburgo (100%)</p>	<p>Online Banking</p>	

UBI&BPER ANALYSIS

UBI Market share*

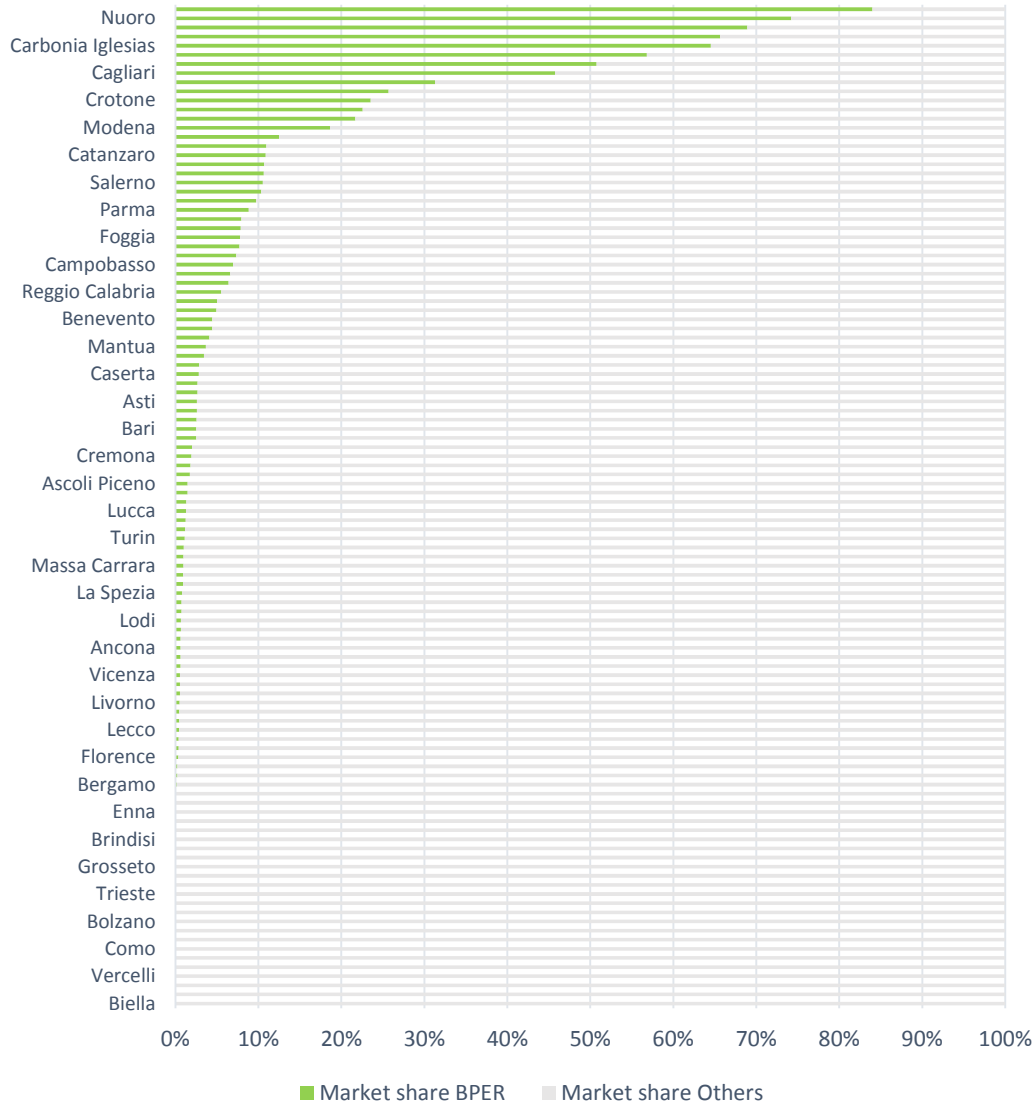


	NO. Of PROVINCES	NO of BRANCHES
MS > 25%	0	0
5% < MS > 25%	36	1.255
1% < MS > 5%	32	280
MS < 1%	12	26
TOTAL	80	1.561

* 30/09/2016

UBI&BPER ANALYSIS

BPER Market share*



	NO. Of PROVINCES	NO of BRANCHES
MS > 25%	10	409
5% < MS > 25%	23	532
1% < MS > 5%	29	219
MS < 1%	24	40
TOTAL	86	1.200

* 31/12/2016

UBI&BPER ANALYSIS

UBI Main Financials/Ratios 2010/2016

Income Statement (K€)	2010	2011	2012	2013	2014	2015	2016
Net Interest Income	2.146.598	2.121.689	1.931.684	1.750.715	1.818.387	1.631.055	1.497.891
Net Fee and Commission Expenses	1.181.225	1.191.934	1.181.806	1.187.066	1.226.587	1.300.119	1.335.033
Operating Income (Minter)	3.385.966	3.340.949	3.386.359	3.272.744	3.254.676	3.370.864	3.119.499
Net Impairment losses on property, equipment and investment property and intangible assets	-756.653	-742.221	-902.024	-990.489	-937.267	-819.512	-1.695.584
Operating Expenses	-2.403.291	-2.876.275	-2.372.380	-2.095.110	-2.177.916	-2.175.181	-2.153.466
Net Income	-13.602	-1.841.488	82.708	250.830	-725.767	116.765	-830.150
Balance Sheet (K€)	2010	2011	2012	2013	2014	2015	2016
Loans	101.814.829	99.689.770	92.887.969	88.421.467	85.644.223	84.586.200	81.854.280
Total Assets	130.558.569	129.803.692	132.433.702	124.241.837	121.786.704	117.200.765	112.383.917
Deposits	64.050.134	64.203.572	68.969.578	59.578.035	58.829.366	59.359.644	66.233.552
Equity	10.979.019	8.939.023	9.737.882	10.339.392	9.804.048	9.981.862	8.989.578
Total Liabilities and Equity	130.558.569	129.803.692	132.433.702	124.241.837	121.786.704	117.200.765	112.383.917
Key ratios (US\$)	2010	2011	2012	2013	2014	2015	2016
Loan Growth	3,9%	-2,1%	-6,8%	-4,8%	-3,1%	-1,2%	-3,2%
Deposit Growth	10,1%	0,2%	7,4%	-13,6%	-1,3%	0,9%	11,6%
Operating Expenses/Operating Income	71%	86%	70%	64%	67%	65%	69%
Equity/Total Assets (Approx. Tier 1)	8%	7%	7%	8%	8%	9%	8%
ROE	0%	-21%	1%	2%	-7%	1%	-9%

UBI&BPER ANALYSIS

UBI Credit risk

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Common Equity Tier 1 Ratio	7,73%	7,96%	7,47%	9,09%	10,79%	13,23%	12,33%	12,08%	11,48%
Total Capital Ratio	11,08%	11,91%	11,17%	13,50%	16,01%	18,91%	15,29%	13,93%	14,10%

- Common Equity Tier 1 Ratio (minimum 4,5%)
- Total Capital Ratio (minimum 8%, in Italy 10,5%)

UBI&BPER ANALYSIS

BPER Main Financials/Ratios 2010/2016

Income Statement (K€)	2010	2011	2012	2013	2014	2015	2016
Net Interest Income	1.289.541	1.330.443	1.309.539	1.289.989	1.291.809	1.227.541	1.170.447
Net Fee and Commission Expenses	690.124	693.694	707.941	698.258	690.664	726.693	712.722
Operating Income (Minter)	2.032.314	2.100.804	2.154.858	2.151.442	2.169.530	2.318.071	2.013.040
Net Impairment losses on property, equipment and investment property and intangible assets	-397.784	-350.132	-971.924	-876.547	-858.219	-737.800	-659.064
Operating Expenses	-1.250.177	-1.242.599	-1.205.805	-1.193.346	-1.252.376	-1.367.113	-1.318.849
Net Income	-34.233	214.639	-11.271	7.176	14.797	220.661	14.299
Balance Sheet (K€)	2010	2011	2012	2013	2014	2015	2016
Loans	47.780.029	48.186.287	48.048.735	46.514.738	43.919.717	43.702.561	45.494.179
Total Assets	58.498.416	60.487.931	61.637.758	61.758.052	60.652.970	61.261.231	64.960.024
Deposits	36.599.794	35.915.945	39.557.949	37.089.015	36.581.847	37.295.758	42.789.530
Equity	3.249.623	3.930.715	4.062.727	4.032.944	4.870.144	5.024.511	5.131.780
Total Liabilities and Equity	58.498.416	60.487.931	61.637.758	61.758.052	60.652.970	61.261.231	64.960.024
Key ratios (US\$)	2010	2011	2012	2013	2014	2015	2016
Loan Growth	5,1%	0,9%	-0,3%	-3,2%	-5,6%	-0,5%	4,1%
Deposit Growth	10,6%	-1,9%	10,1%	-6,2%	-1,4%	2,0%	14,7%
Operating Expenses/Operating Income	62%	59%	56%	55%	58%	59%	66%
Equity/Total Assets (Approx. Tier 1)	6%	6%	7%	7%	8%	8%	8%
ROE	-1%	5%	-0,3%	0,2%	0,3%	4%	0,3%

UBI&BPER ANALYSIS

BPER Credit risk

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Common Equity Tier 1 Ratio	7,16%	7,23%	6,81%	7,86%	8,30%	9,21%	11,29%	11,54%	13,80%
Total Capital Ratio	-	10,80%	10,55%	11,54%	12,13%	11,87%	12,24%	12,80%	15,21%

- Common Equity Tier 1 Ratio (minimum 4,5%)
- Total Capital Ratio (minimum 8%, in Italy 10,5%)

UBI Key targets 2016/2020

- Transition from a federal model (Banche Rete) to a Single Bank (Banca Unica), with confirmation of their close relationship with the territories
- An innovative approach on «Persons and Families» and «Businesses» and an evolution of the distribution model → Organizational reengineering (business model revised)
 - Holding company structure (revised from 21/11/2016) and Branches Network model (WIP)
 - Simplification of decision-making and control processes (elimination of operational inefficiencies and optimisation of structures and activities)
 - IT simplification with capacity freed up and costs optimised
 - Optimisation of the branch network footprint with the closure of around 130 branches
 - Creation of a Wealth/Welfare management macro unit

UBI&BPER ANALYSIS

UBI Key targets 2016/2020

- Maintenance of strong discipline over costs
- Confirmation of a «best in class» asset quality and adequate provisioning for Non Performing Exposures also by means of a partial re-absorption of the shortfall
- Investments mainly to support the revenue component
- Substantial generation turnover
- Increase online banking activities through IW Bank (new products/apps)
- A progressive return to value creation, confirming the fundamental solidity of the Group in observance of the often declared criteria they consider appropriate for a Quality Bank

BPER Key targets 2018/2021

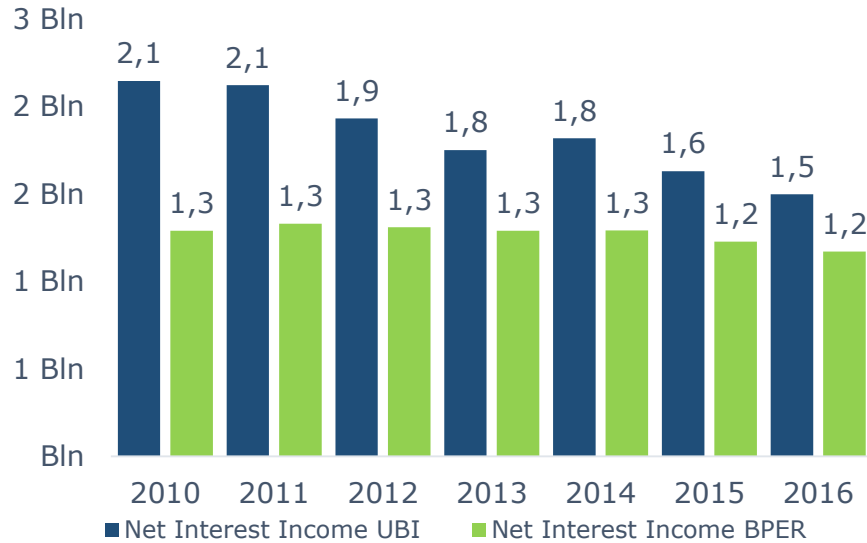
- Pending approval BPER Business Plan 2018/2021
 - Due to the significant changes seen over the last 2 years in the macroeconomic, market and interest rate scenario compared to the assumptions underlying the plan BPER has already prepared, the Bank has decided to start preparing the new 2018-2021 business plan (January 2018)
- Outperforming results (1° semester 2017):
 - Common Tier 1 Ratio Phased In 13,38%
 - Net Income 119,2 Mln € (65,1 Mln € 1° semester 2016)

BPER Key targets 2018/2021

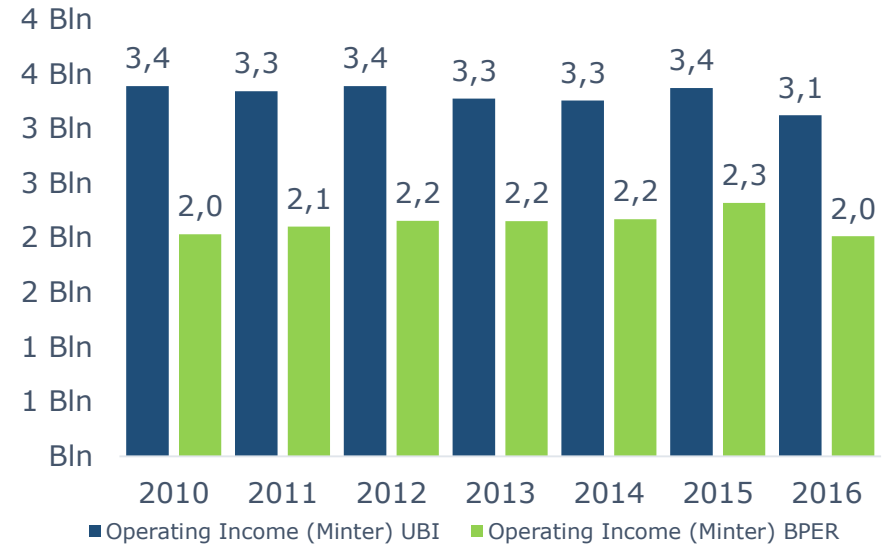
- 01/03/2017 BPER Banca signs a contract to buy the entire share capital of Nuova Cassa di Risparmio di Ferrara s.p.a.
 - **Strategic perspective of the operation:** the acquisition will allow them to significantly increase their market share, above all in the province of Ferrara, an area where the BPER Group has a below-average penetration compared with the other provinces of Emilia-Romagna.
 - **Facilitation of the process:** geographical proximity and the considerable knowledge that the Group already has of the local area. The BPER Group believes that it will help to give new impetus to the growth of the industrial, economic and social fabric of the areas. It is expected that the M&A process will take place by the end of 2017.
 - **Synergies:** in terms of both costs and revenues. Moreover, the good quality of the Nuova Carife's loan portfolio will result in a reduction of the Group's NPL ratio.

UBI&BPER PROFITABILITY ANALYSIS

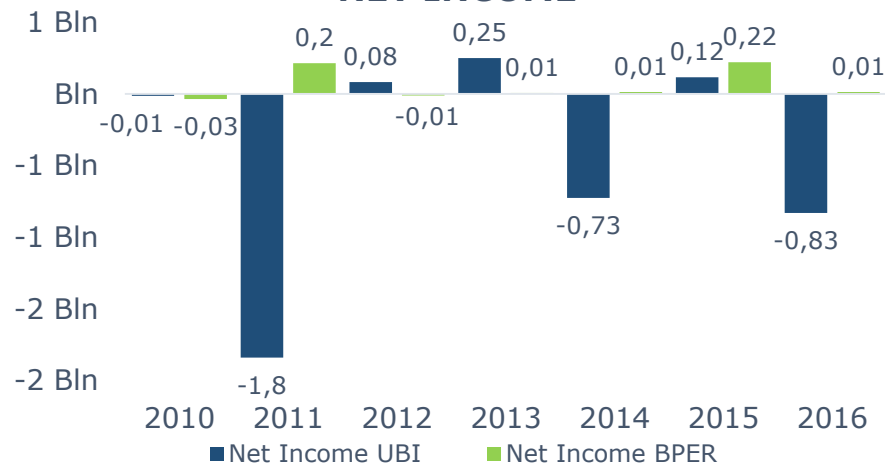
NET INTEREST INCOME



OPERATING INCOME

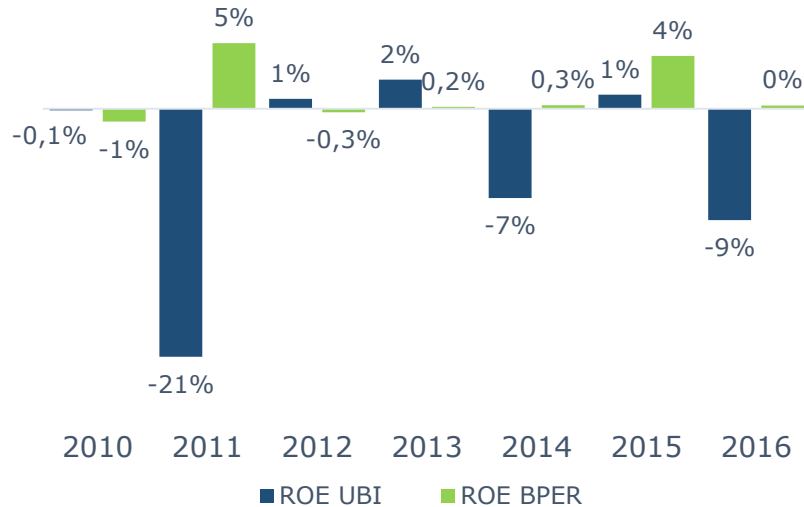


NET INCOME

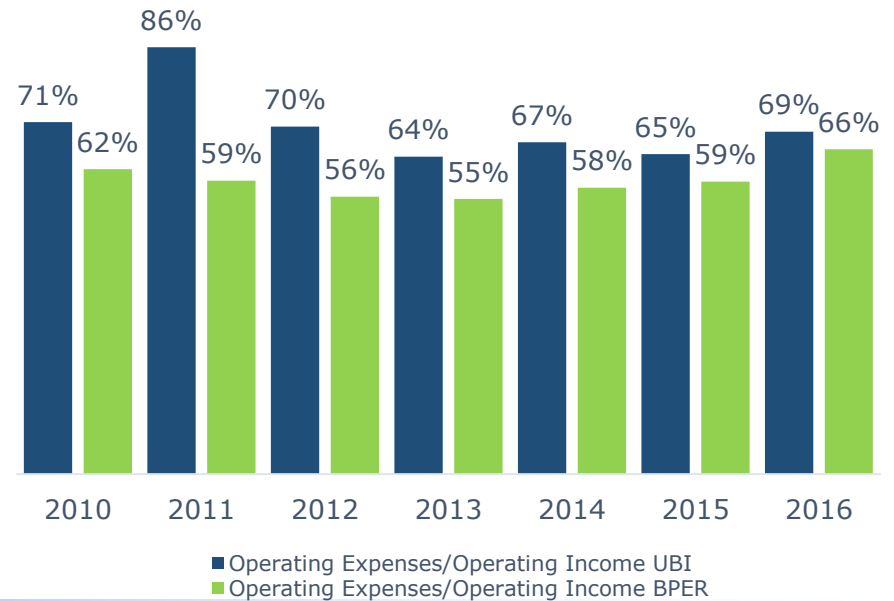


UBI&BPER PROFITABILITY ANALYSIS

ROE

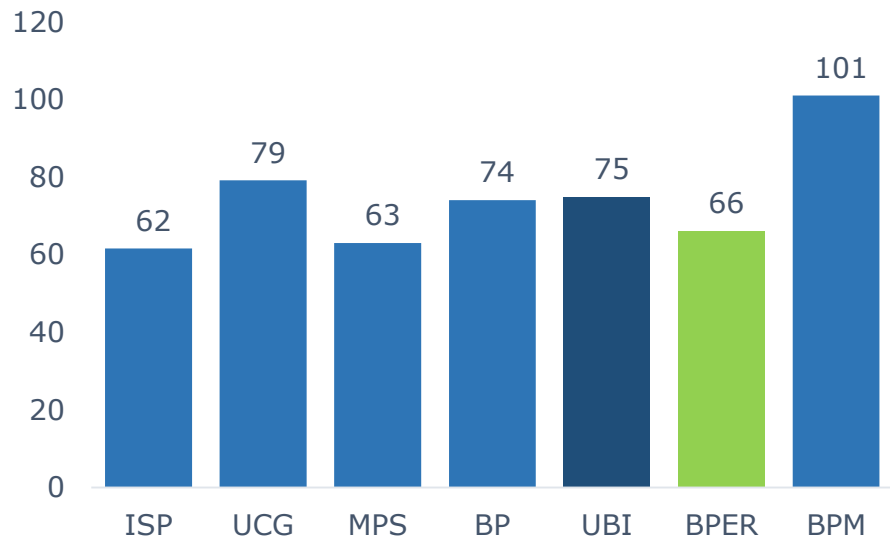


OPERATING EXPENSES / OPERATING INCOME

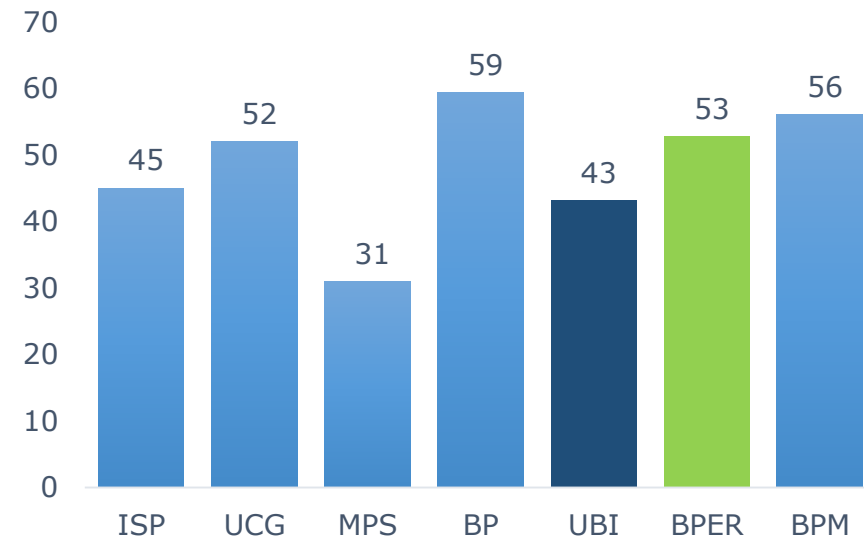


UBI&BPER COST ANALYSIS 2016

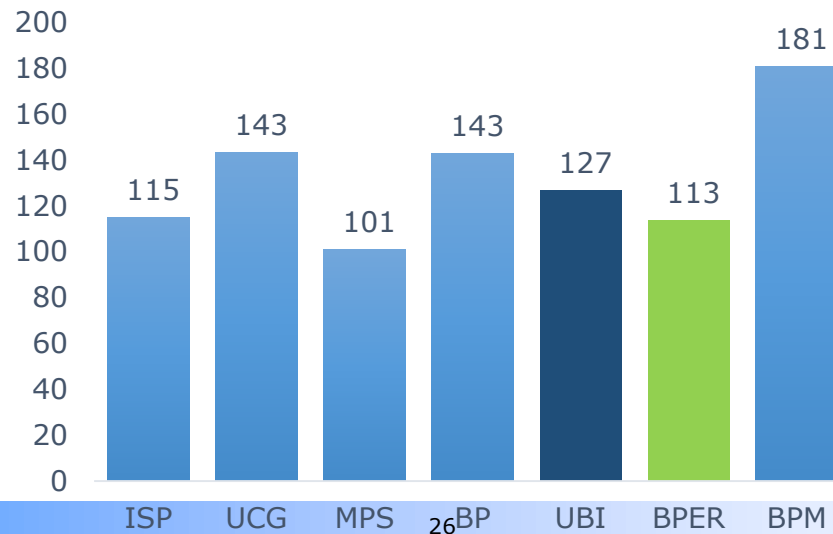
STAFF COSTS / FTE



ADMINISTRATIVE COSTS / FTE

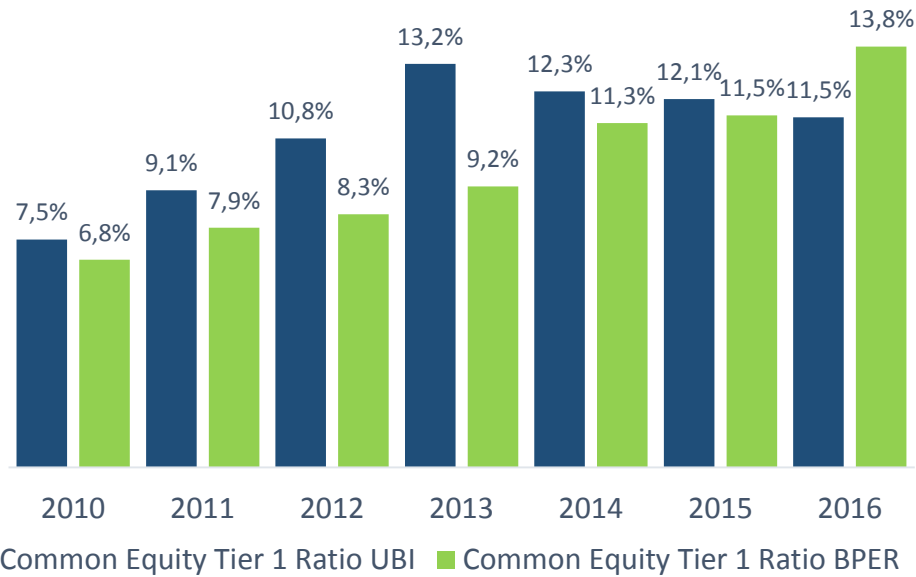


OPERATING EXPENSES / FTE

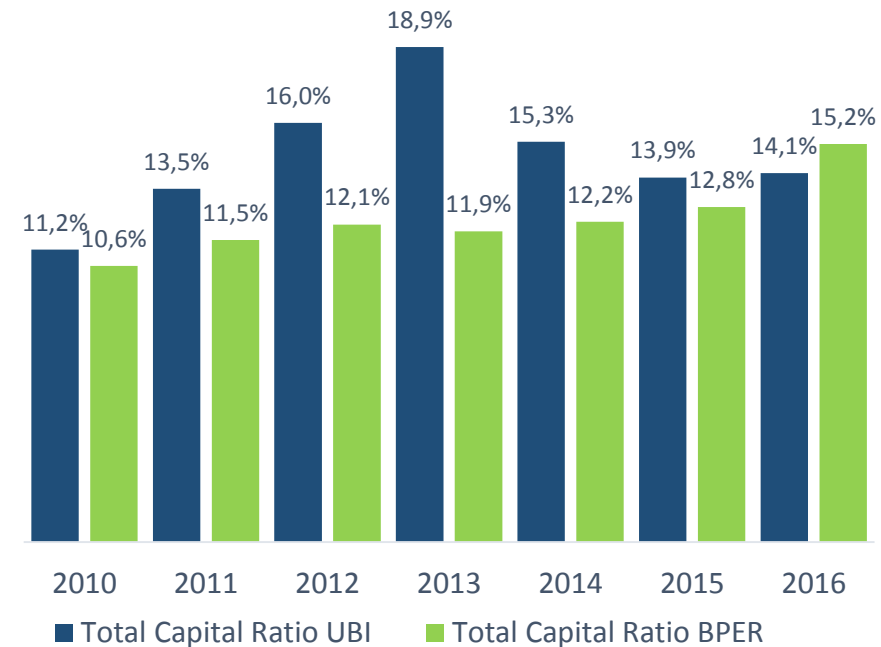


UBI&BPER RISK ANALYSIS

Common Equity Tier 1 Ratio

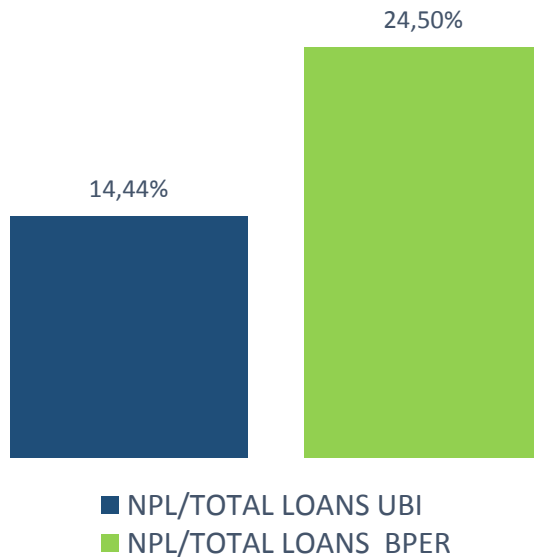


Total Capital Ratio



UBI&BPER RISK ANALYSIS

Non Performing Loans / Total Loans 2016



Non Performing Loan is the sum of borrowed money upon which the debtor has not made his scheduled payments for at least 90 days.

A Non Performing Loan is either in default or close to being in default. Once a loan is non performing, the odds that it will be repaid in full are considered to be substantially lower.

UBI&BPER RISK ANALYSIS

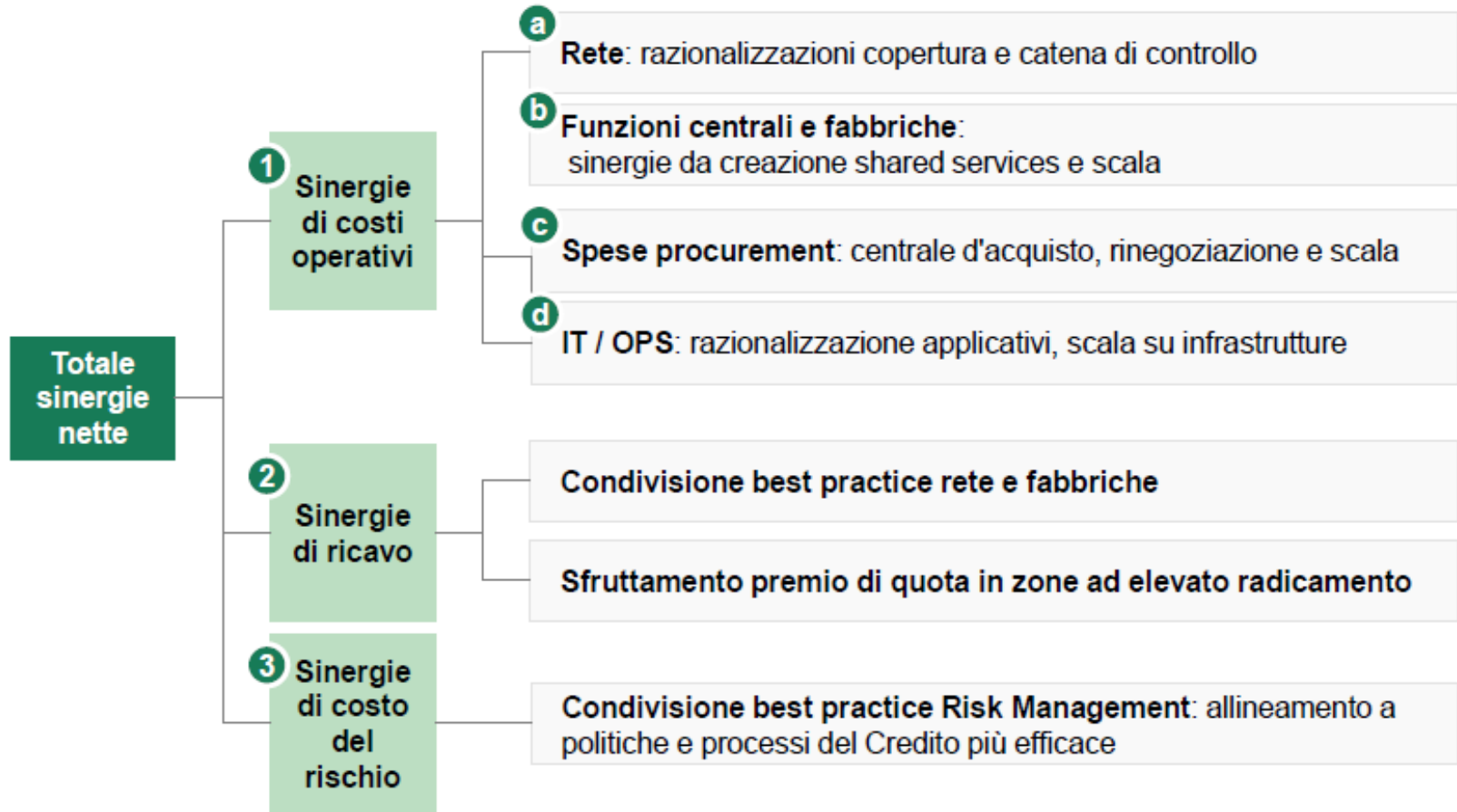
UBI	MOODY'S
LONG TERM BANK DEPOSITS	Baa2
SHORT TERM BANK DEPOSITS	Prime-2
OUTLOOK (LONG TERM RATING)	STABLE

BPER	MOODY'S
LONG TERM BANK DEPOSITS	Baa3
SHORT TERM BANK DEPOSITS	Prime-3
OUTLOOK (LONG TERM RATING)	STABLE

UBI	STANDARD & POORS
LONG TERM BANK DEPOSITS	A-3
SHORT TERM BANK DEPOSITS	BBB-
OUTLOOK (LONG TERM RATING)	STABLE

BPER	STANDARD & POORS
LONG TERM BANK DEPOSITS	BB-
SHORT TERM BANK DEPOSITS	B
OUTLOOK (LONG TERM RATING)	POSITIVE

How to look at synergies

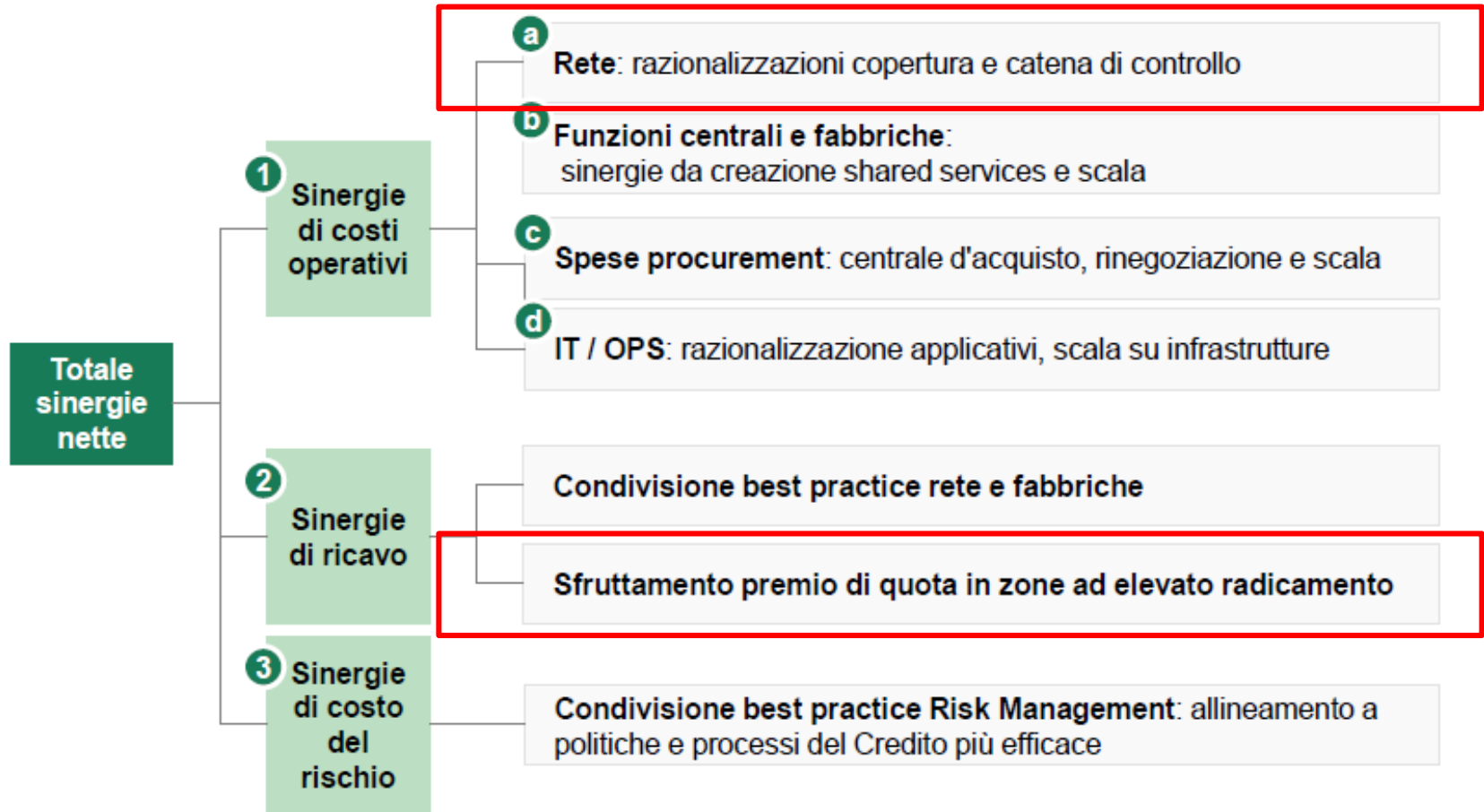


Fonte: Esperienza BCG
Programma UnIBG Nov18_v3.pptx

THE BOSTON CONSULTING GROUP

COST SAVINGS

How to look at synergies



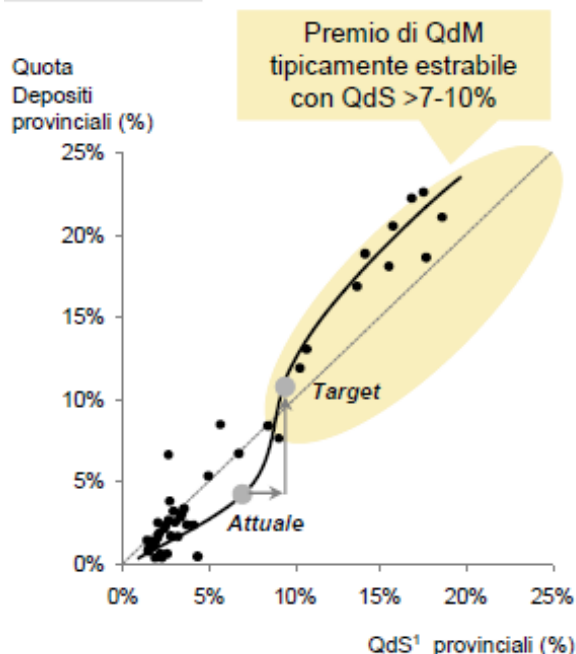
Fonte: Esperienza BCG
Programma UnIBG Nov18_v3.pptx

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Focus on costs: network

Sfruttamento di "premi di quota"

ILLUSTRATIVO



1. Quota di mercato a sportelli
2. Saving a filiale chiusa circa 400-450K€
3. Premesso che entrambe le banche abbiano almeno 1% QdS nella provincia
4. Riduzione di 7-10 dipendenti nelle province con QdS individuale >3%
5. Stimata attrition clientela del 2-3% per filiale chiusa

Fonte: Banca d'Italia, esperienze e analisi BCG

Programma UnIBG Nov18_v3.pptx

4 distinte situazioni emergenti nelle province

Sinergie da
aggregazione



€xx-xx M
sinergie al netto
dell'attrition⁵

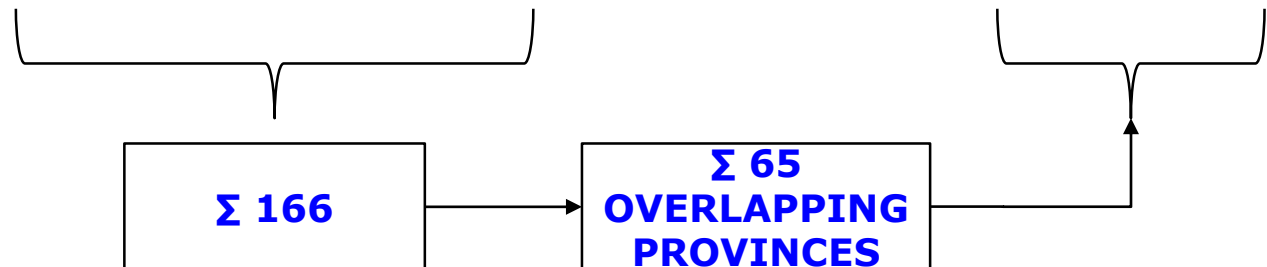
THE BOSTON CONSULTING GROUP

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UBI&BPER ANALYSIS

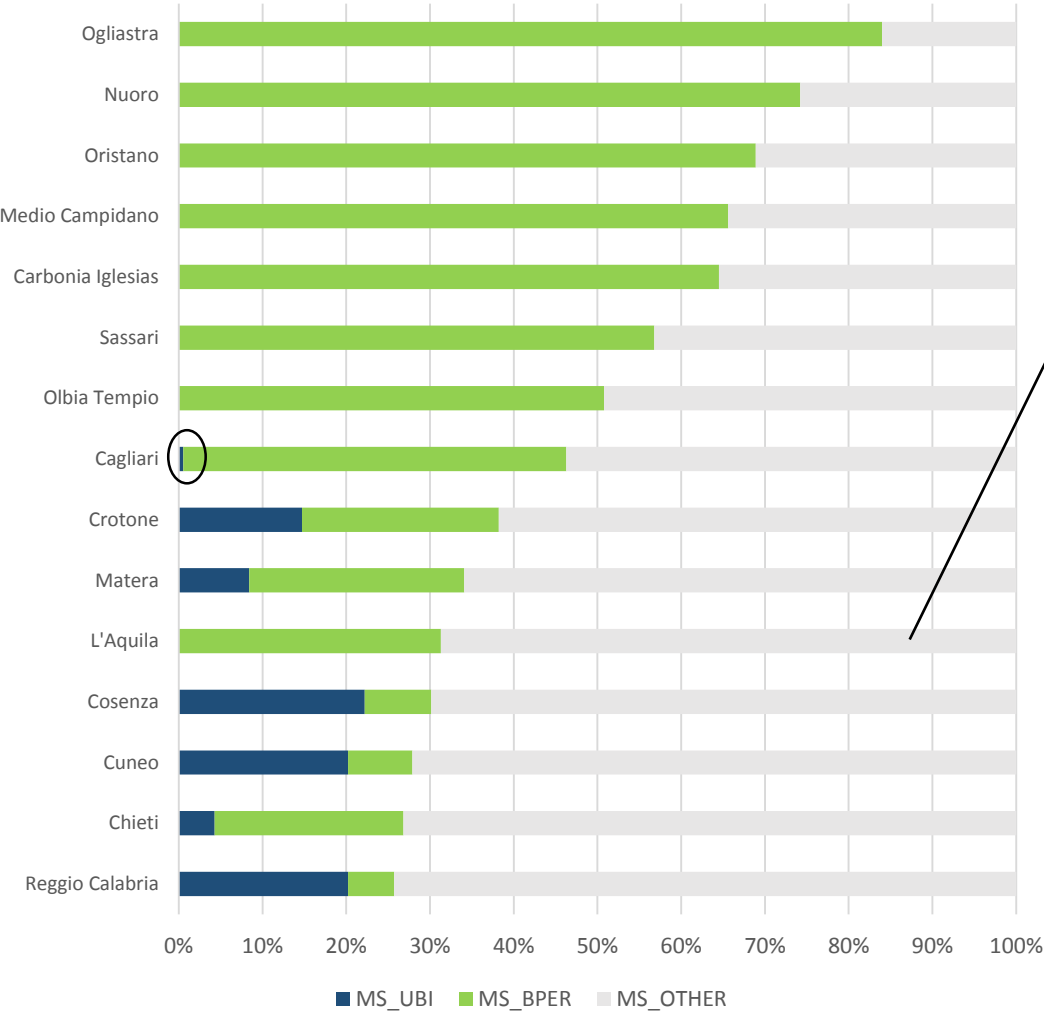
UBI+BPER Combined Market share

	UBI NO. of PROVINCES	BPER NO. of PROVINCES	UBI NO. of BRANCHES	BPER NO. of BRANCHES	UBI+BPER NO. Of PROVINCES
MS > 25%	0	10	0	409	15
5% < MS > 25%	36	23	1.255	532	47
1% < MS > 5%	32	29	280	219	32
MS < 1%	12	24	26	40	7
TOTAL	80	86	1.561	1.200	101



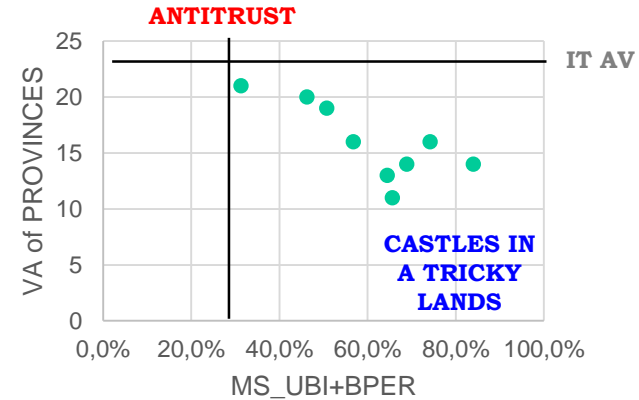
UBI&BPER ANALYSIS

UBI+BPER Combined Market share > 25%



INTERNAL RATIONALIZATION
Σ 9

NO. of PROVINCES	9
NO. of BRANCHES	174
SAVING COSTS PER BRANCH	450 K€
COST SAVINGS	78.300 K€

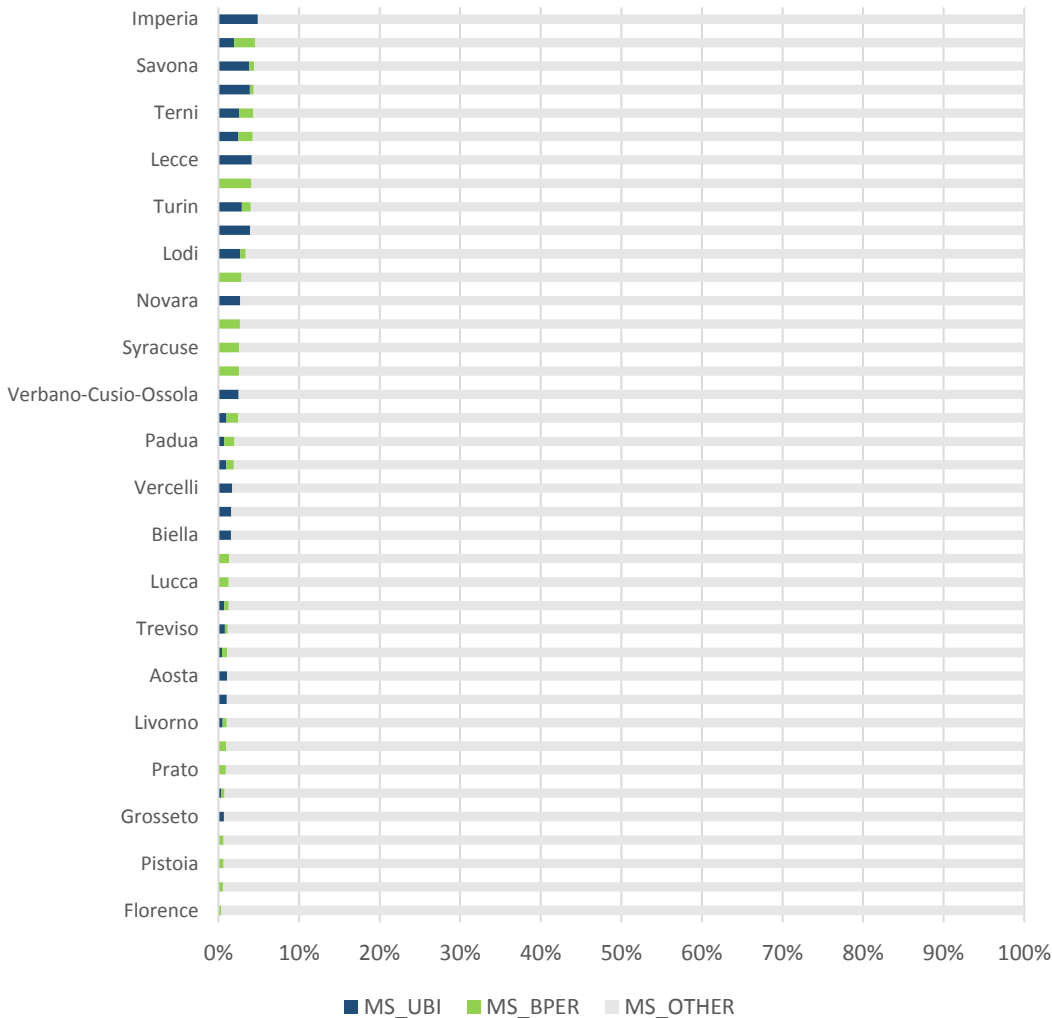


RATIONALIZATION BY OVERLAPPING
Σ 6

NO. of PROVINCES	6
NO. of BRANCHES	39
SAVING COSTS PER BRANCH	450 K€
COST SAVINGS	17.550 K€

UBI&BPER ANALYSIS

UBI+BPER Combined Market share 1% < MS > 5%



NO. of PROVINCES	32
SIMILAR FOOTPRINT → LIMITED BENEFITS	0 K€

OTHER HYPOTHESIS TO BE CONSIDERED:

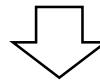
- VA PER PROVINCE
- DISTINCTION BETWEEN PERFORMING BRANCHES (HIGHER THAN THE AVERAGE MINTER PER BRANCH) AND NON PERFORMING BRANCHES (LOWER THAN THE AVERAGE MINTER PER BRANCH)
-

UBI&BPER ANALYSIS

UBI Individual MS > 3% + BPER Individual MS > 3%



**RATIONALIZATION
OF CONTROL CHAIN
Σ PROVINCES 20**



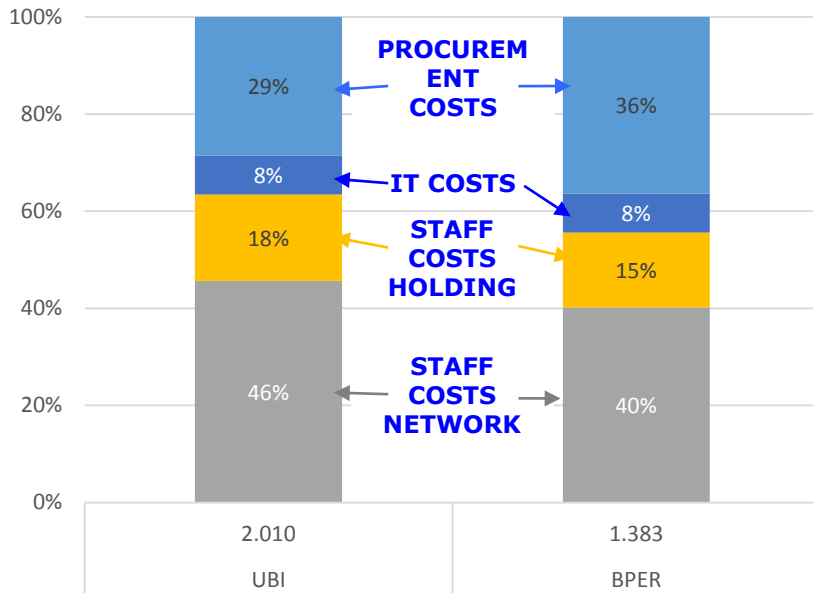
SCENARIOS	REDUCTION OF EMPLOYEES PER PROVINCE	NO of PROVINCES	AVG. STAFF COSTS PER EMPLOYEE	COST SAVINGS
Pessimistic	7	20	70,50 K€	9.870 K€
Optimistic	10	20	70,50 K€	14.100 K€

**COST SAVINGS
11.985 K€**

UBI&BPER ANALYSIS

UBI&BPER Costs and FTE Baseline

MAIN OPERATING COSTS



IT COSTS REDUCTION (ON BPER BASELINE)	20%
PROCUREMENT COSTS REDUCTION (ON UBI BASELINE)	15%
COST SAVINGS	108.300 K€

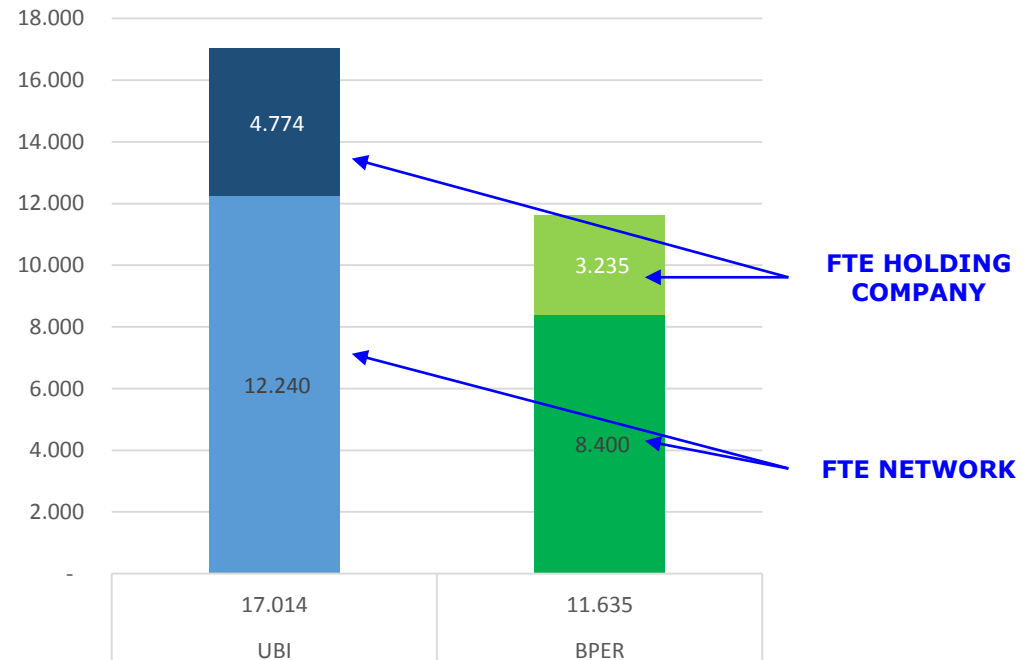
OTHER HYPOTHESIS TO BE CONSIDERED:

- OTHER HR SYNERGIES
- DISTINCTION BETWEEN PERFORMING BRANCHES (HIGHER THAN THE AVERAGE MINTER PER BRANCH) AND NON PERFORMING BRANCHES (LOWER THAN THE AVERAGE MINTER PER BRANCH)
-STAFF COSTS

Leve di sinergia per categoria di costo

Razionalizzazione filiali e catena di controllo	~1,5% baseline
Shared services, consolidamento funzioni	~20% baseline
Razionalizzazione applicativi	~15% baseline
Consolidamento infrastrutture	~20% baseline
Procurement (scala, rinegoziazione, ottimizzazione)	~15% baseline

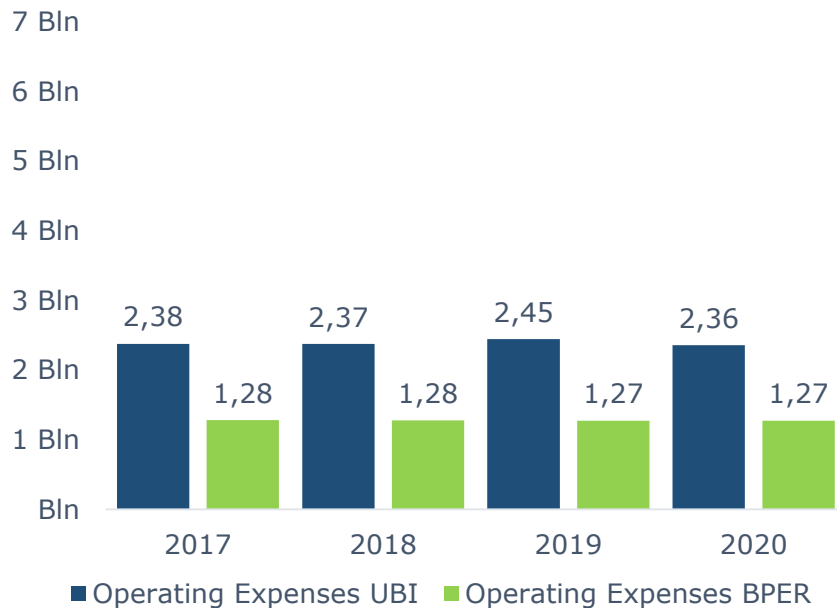
FTE



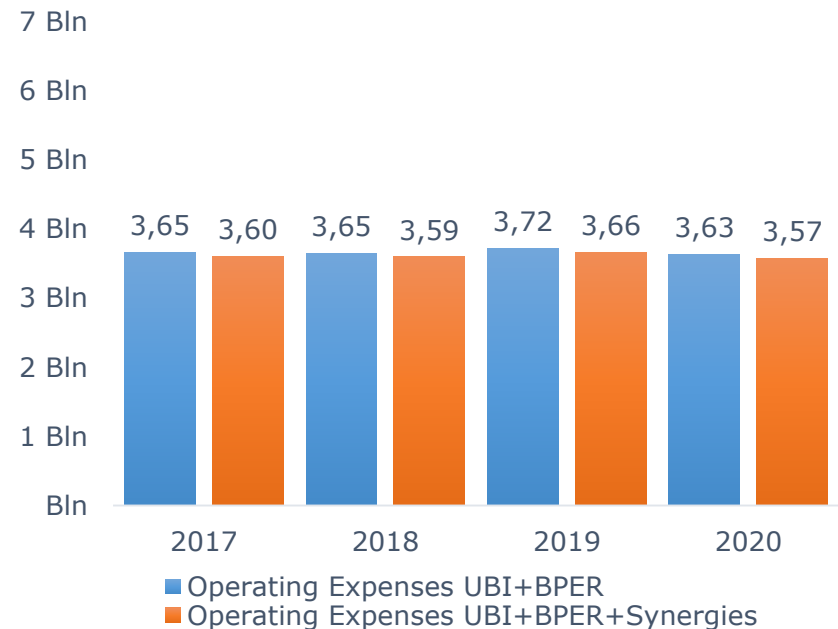
UBI&BPER ANALYSIS

Projection Cost Synergies

OPERATING EXPENSES



OPERATING EXPENSES



CAGR + BP OBJECTIVES + OTHER NEWS

Σ all the synergies (in Bln€):
0,0783+0,01755+0,011985+0,1083=0,216135

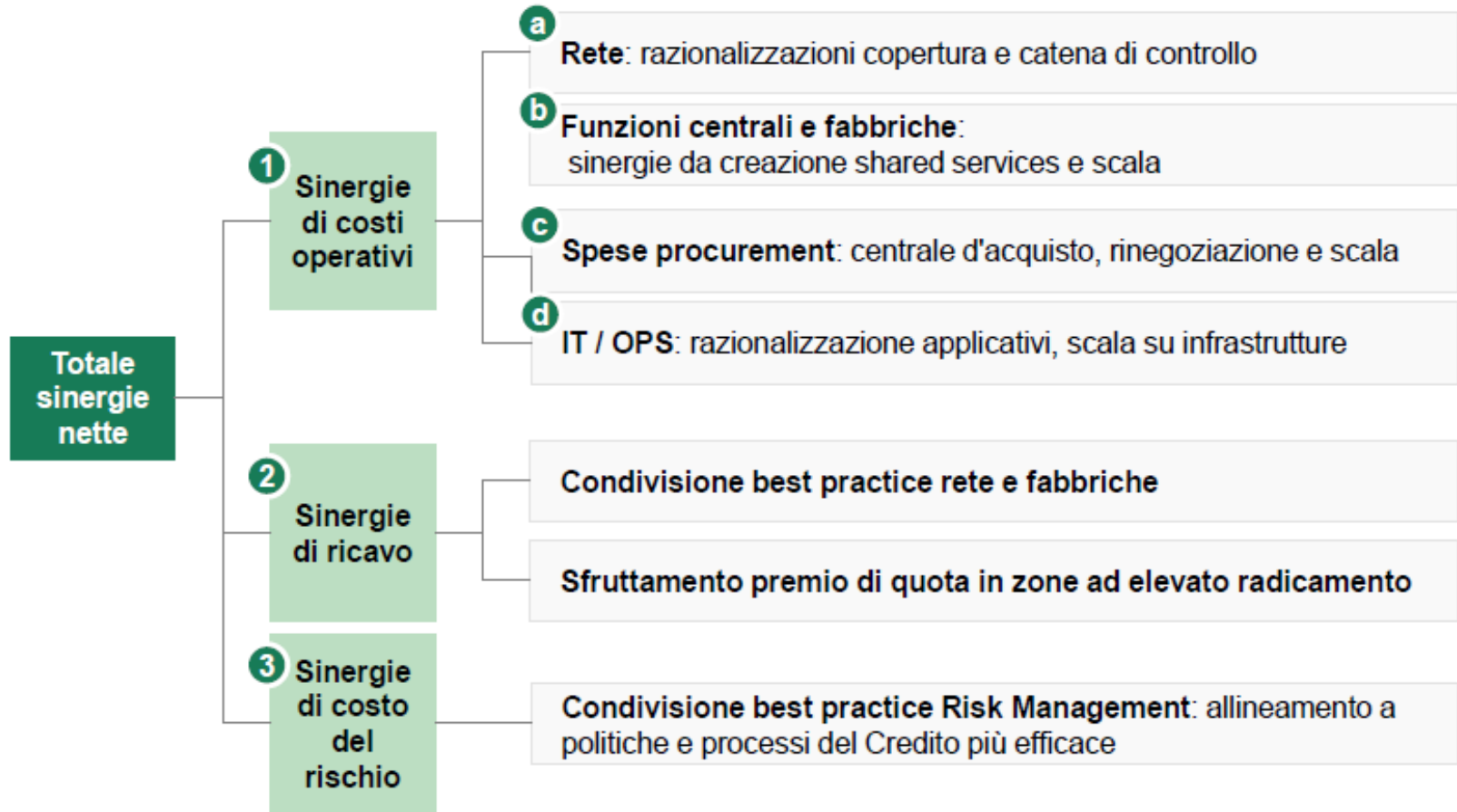
-0,054 Bln€ per year
(1,5%)

OTHER HYPOTHESIS TO BE CONSIDERED:

- INCORPORATIONS AND ACQUISITION PROCESS CURRENTLY UNDERWAY (GEOGRAPHICAL AREAS WITH A STRONG PRESENCE OF BPER BRANCHES)

REVENUE ENHANCEMENT

How to look at synergies

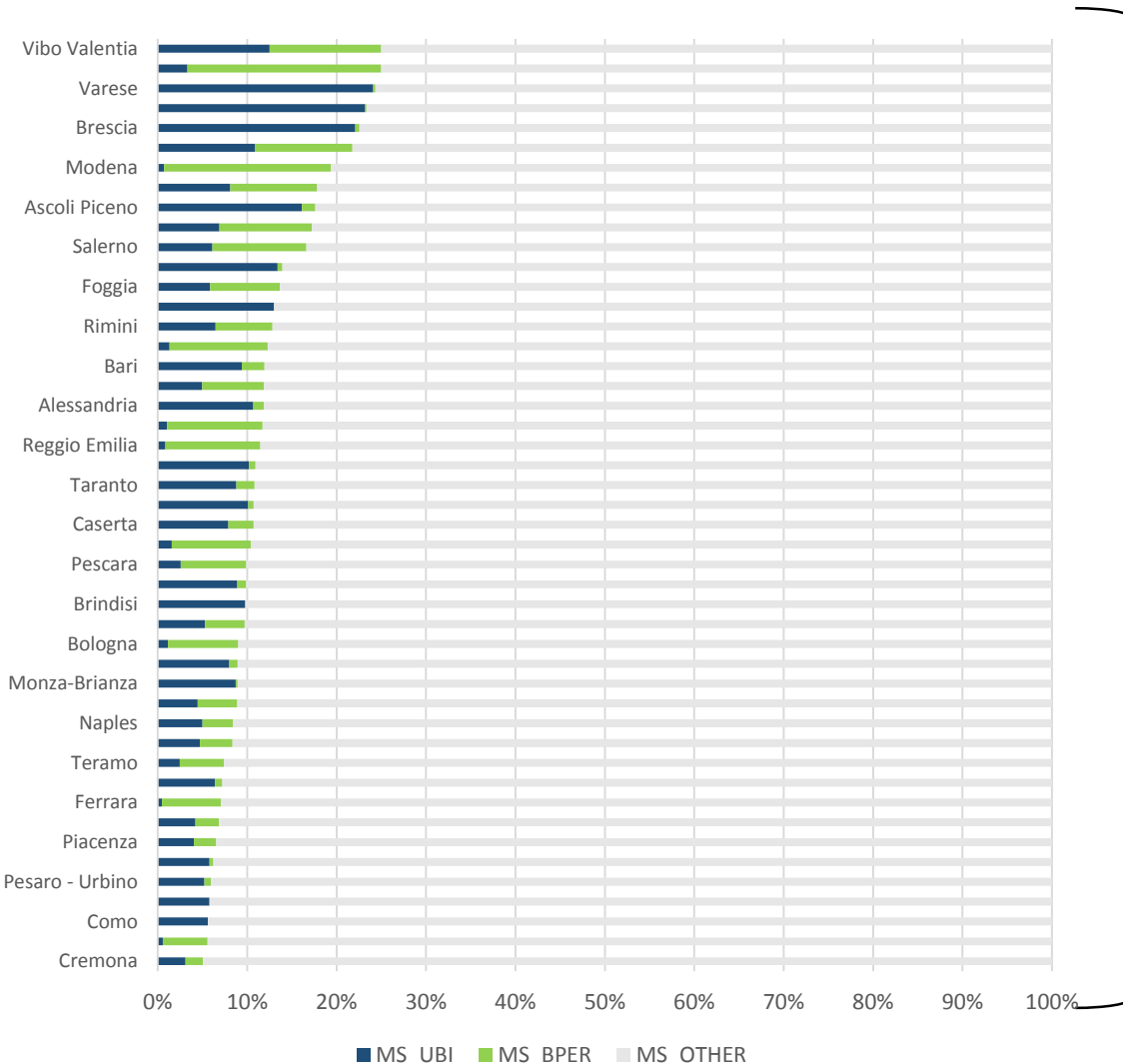


Fonte: Esperienza BCG
Programma UnIBG Nov18_v3.pptx

THE BOSTON CONSULTING GROUP

UBI&BPER ANALYSIS

UBI+BPER Combined Market share 5% < MS > 25%



NO. of PROVINCES	47
NO. of PROVINCES (INDIVIDUAL MS > 1%)	28
MINTER PER BRANCH	3.716 K€
PREMIUM MINTER PER BRANCH (CONSIDERED THE VA PER PROVINCE)	MS 5-10% = +1,5% MS 11-15% = +2% MS 16-20% = +2,5% MS 21-25% = +3%
REVENUE ENANCHEMENT	68.503 K€

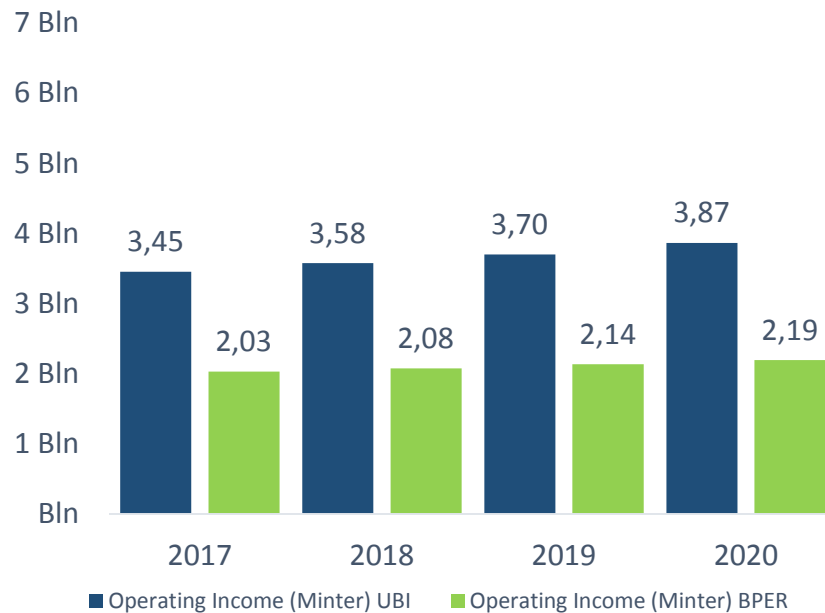
OTHER HYPOTHESIS TO BE CONSIDERED:

- VA PER PROVINCE
- DISTINCTION BETWEEN PERFORMING BRANCHES (HIGHER THAN THE AVERAGE MINTER PER BRANCH) AND NON PERFORMING BRANCHES (LOWER THAN THE AVERAGE MINTER PER BRANCH)
-

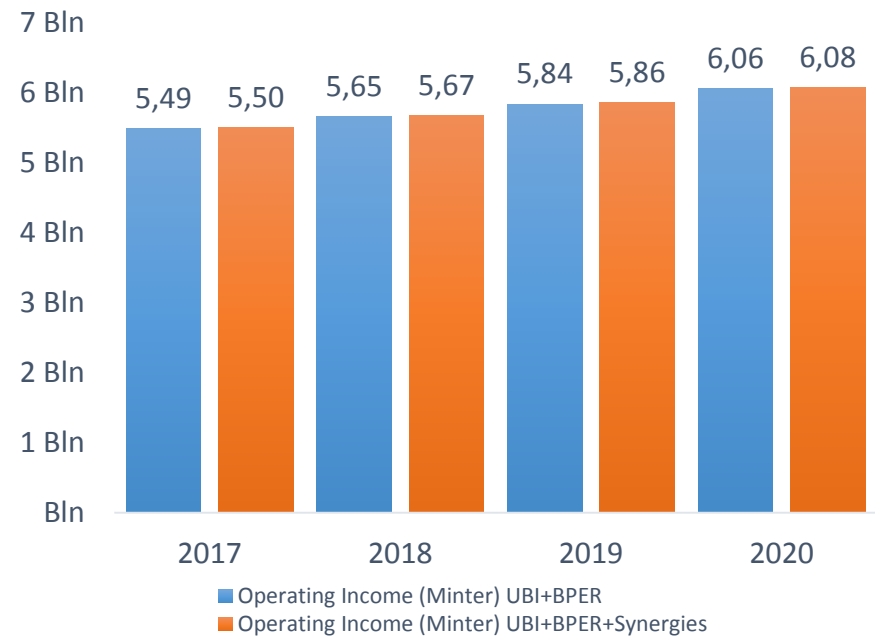
UBI&BPER ANALYSIS

Projection Revenue Synergies

OPERATING INCOME



OPERATING INCOME



CAGR + BP OBJECTIVES + OTHER NEWS

**+0,017 Bln€ per year
(0,3%)**

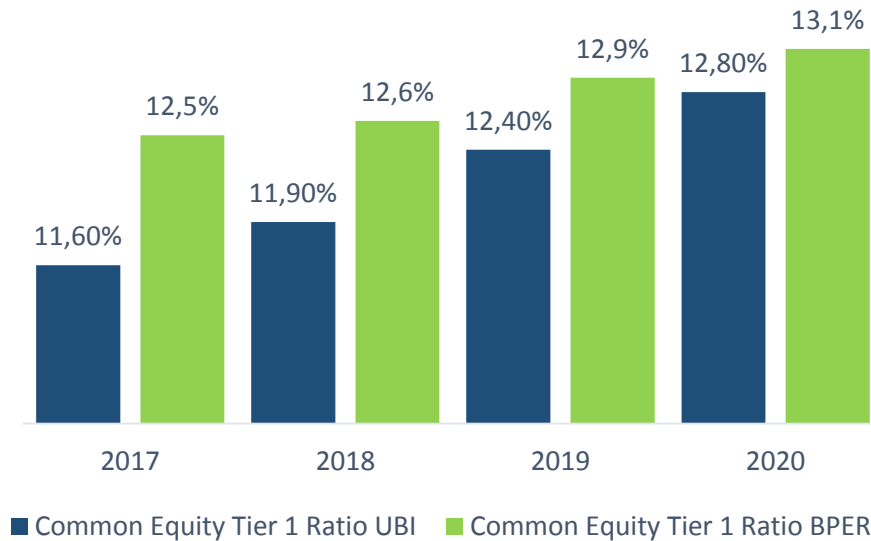
OTHER HYPOTHESIS TO BE CONSIDERED:

- TO TAKE ADVANTAGE OF EACH OTHER'S MARKETING CAPABILITIES

RISK SYNERGIES

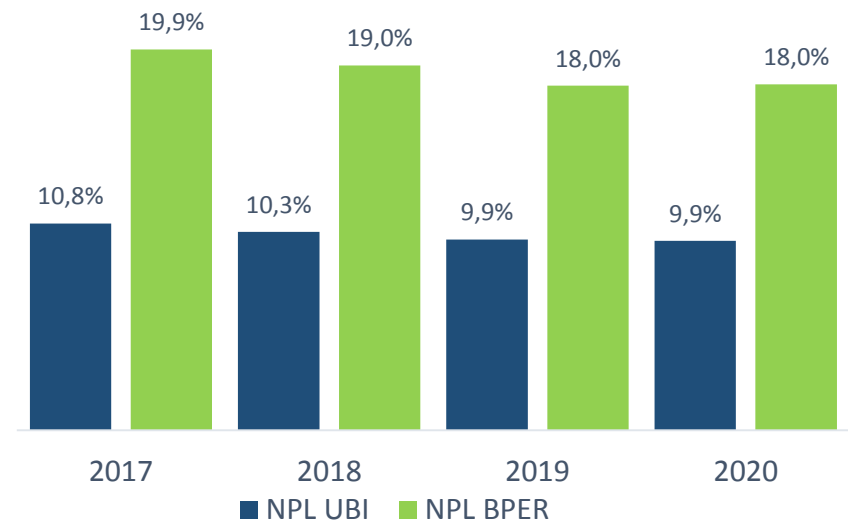
UBI&BPER ANALYSIS

Common Equity Tier 1 Ratio



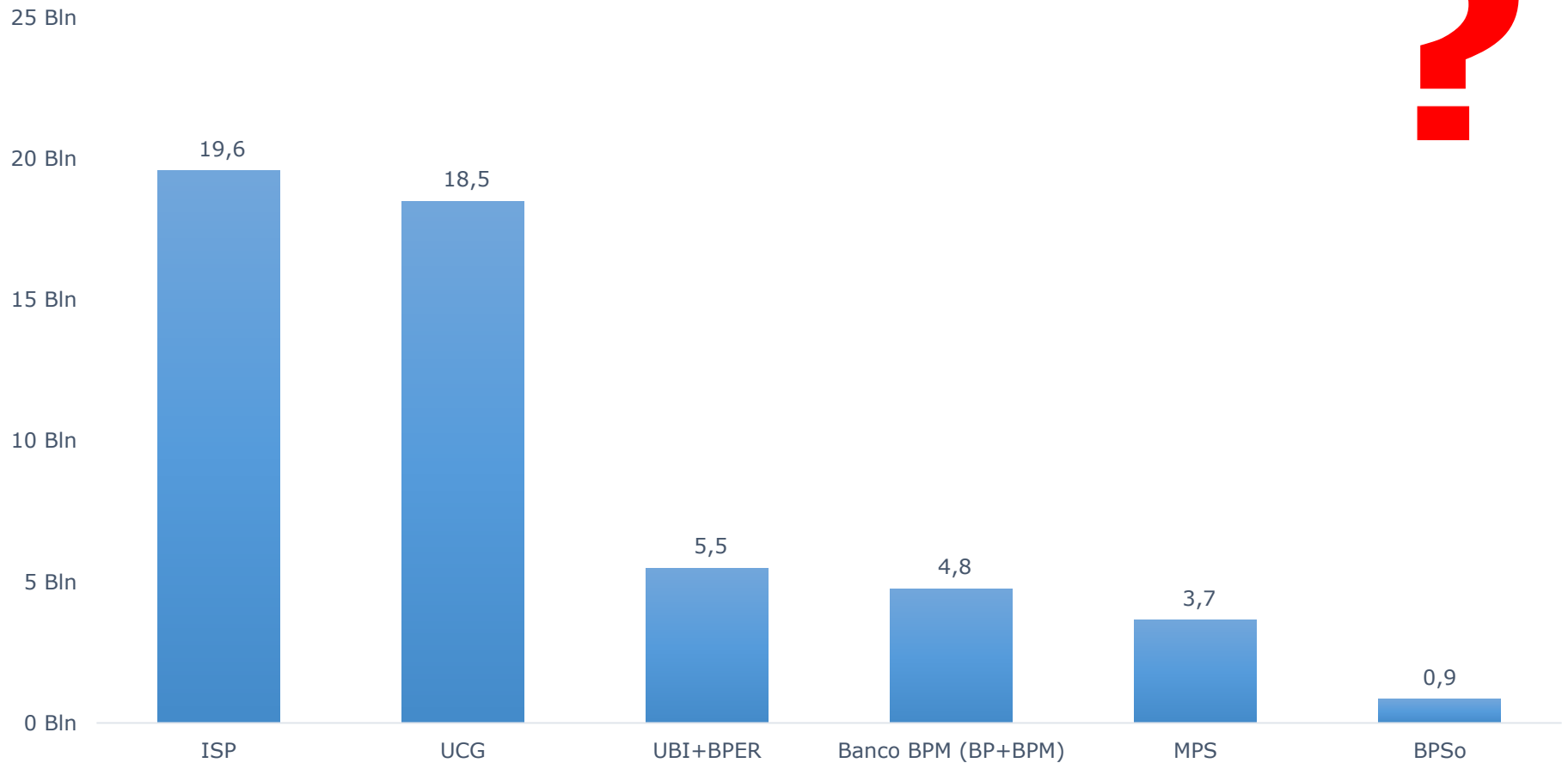
Projection Risk Synergies

NPL / Total Loans



The Italian Market 31/12/2017

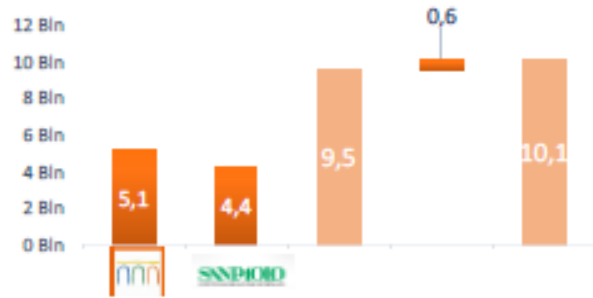
Operating Income 2017



Synergies Benchmarking

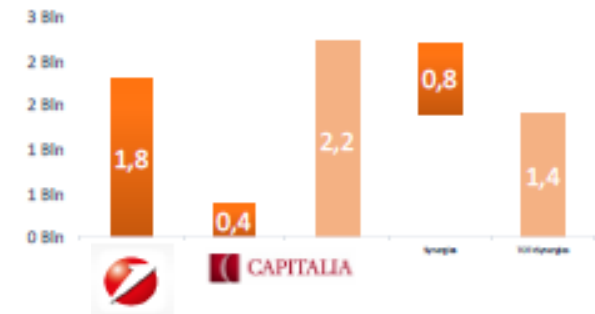
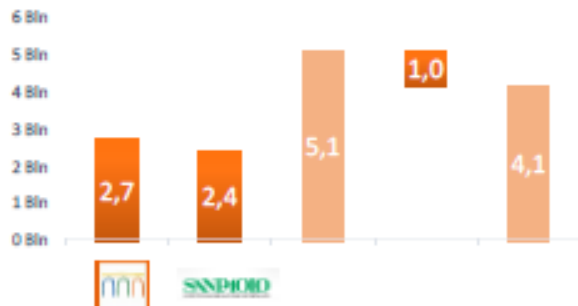
2007

REVENUES








SYNERGIES / REVENUES = 4,5%

COST



SYNERGIES / COSTS = 18%

Could some of these results justify this M&A deal?

-  Revenue and Cost synergies are lower than the benchmarking. At the aggregate level, a significant effect on the value of the involved banks is not observed.
-  Both target and acquirer bank should be healthy institutions at the time of merger.
-  Both merged banks should not have engaged in other mergers 2 years before or after the merger date.
-  The value created is greater when the acquiring bank have goods performance in the phase prior to merger.
-  The value created is greater when there is a strong territory overlap between the two firms involved in the M&A.

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