Full Reviewed Transcription

Vontobel Holding AG

Acquisition of Notenstein La Roche

Thursday, May 24th, 2018 at 7:30 am CEST

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COMPANY REPRESENTATIVES

Dr. Zeno Staub – *Chief Executive Officer*

Dr. Martin Sieg Castagnola – *Chief Financial Officer*

PRESENTATION

Operator

Ladies and Gentlemen, good morning, welcome to Vontobel's Acquisition of Notenstein La Roche Conference Call. I am Miruna, the Chorus Call operator. I'd like to remind you that all participants' will be in listen-only mode, and the Conference is being recorded. After the presentation, there will be a Q&A session. You can register for questions at any time by pressing * and 1 on your telephone. Should you need assistance, please press * and 0 to call an operator. The Conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Dr. Zeno Staub, CEO. Please go ahead, Sir.

Zeno Staub

Yes, good morning, everybody. I am sitting here together with Martin Sieg, our Chief Financial Officer. Thanks everybody for dialing-in this morning on short notice. So today's call is about informing you about our acquisition of Notenstein La Roche from Raiffeisen Switzerland. This is a very significant step in the development of our combined wealth management activities, and on our growth journey. In order to shed some color and light on this transaction, we tend to use the Investor Relations presentation that you can find on our website starting from 7 AM this morning. So I will casually refer to the slides that we have posted on the internet.

So let's start on page 3 which gives you the overview and the overview on the very strong economic rationale behind that transaction, which is fully in line with our criteria and the strategy we have put forward to the market over the last years. So this will be a very substantive step up in our market position in Switzerland, as 70% of the assets under management we are acquiring through that transaction are with clients domiciled in Switzerland. On top of this 70% in our home market Switzerland, we get an additional very strong fit with our international focus markets of an additional 20% of assets under management. On top, we get an increased footprint in a number of locations here in Switzerland.

This is a very high quality book of business. We are talking 16.5 billion in assets under management delivering a return on assets of approximately 80 basis points, and with 90% of asset management stemming from clients with accounts in a wealth bank above 1 million Swiss Franc.

We also expect a very strong and sensible cultural fit as the book of business of Notenstein La Roche has been forged through to asset deals stemming from Wegelin and from La Roche and we think that we resonate very well with these historic truths meaning bespoke service, individual solutions, high-end private wealth services, independents and (Swissnex). Vontobel brings all of that to the table and on top obviously our international footprint and our renowned capabilities at the wealth and asset management.

We intend to profit from the occasion of that transaction to migrate to a more efficient capital structure, with issuing a non-diluted AT1 bonds which will provide us both a capital position that supports that transaction as well as future developments of our company. Our CFO will provide more details on that in a minute.

We expect a seamless and fast migration and integration. First of all Notenstein La Roche has focused on a one booking platform strategy in Switzerland, second, we have already migrated the Eastern European book of business from this very platform, so we have experience and therefore we expect that the target operation model will deliver a marginal cost to income ratio of approximately 50%.

We have agreed with Raiffeisen on a price of approximately 700 million Swiss Francs which consist of the net asset value plus a 1.78% goodwill premium on assets under management which obviously resonates very well with the high quality of the book of business being 70% in Switzerland, return on asset plus 80 basis points and 90% of assets above 1 million. We expect a fast and significant contribution to our profitability, we expect this transaction to turn net positive as of January 2019, and we expect fully EPS accretion as we finance this in a strictly non-dilutive way.

Page 4, gives you some more color to the Notenstein La Roche Company, which is the first class client centric wealth manager and we have respect for the history, the rule, the culture, the people that have been driving that business and has been delivering the rules to this business, it's currently headquartered in St. Gallen in the eastern part of Switzerland and it is posting 13 locations across Switzerland. The business today runs total clients' assets of 21.2 billion with assets under management which we intend to acquire of 16.5, it's a very well capitalized business which has also been sensibly profitable as you see that from the 2017 numbers.

Page 5, sums up while we are very convinced that we are the optimal owner and acquirer of this company and we intend to deliver a clear win-win proposition to clients and to staff. First of all, we are convinced that we are optimal, reliable, long term future proof home for clients also in Switzerland, as well as, from the focus markets that Notenstein La Roche servicing.

We have proved that by our own ability to deliver organic growth over the last years, and we have evidence to that with the feedback that we get from our clients with an industry leading high net promoter score. We are also convinced that we offer the platform and the environment that will convince key staff and especially relationship managers to see their successful future with Vontobel. We can offer an entrepreneurial ownership driven culture, and we can bring to the table a long term stable independent platform which is an optimal base to write the next chapter which is consistent with the historical rules of these two books of businesses.

As an addition and obviously as a very important point going forward, we bring to the table our capabilities as a future-proof partner. We have one of the industry leadings investment-led value propositions, both on the advisory, as well as, on the discretionary side. We have a strong international successful footprint. We do have state-of-the-art digital platforms and support systems. And we have built-up a fully compliant cross-border platform and business model. This has also been recognized widely in the markets by the awards and the feedbacks from clients.

So that's the highlights in a nutshell from me, it's a significant transaction, it moves the needle for us in combined wealth management, but it has the cultural fit and the size that we can deliver and execute on a seamless integration and transaction.

I would now ask Martin to give you more details on the target debt migration and the financing structure.

Martin Sieg Castagnola

Thank you, Zeno. Good morning from my side. Please turn to slide 6. The acquisition we announced today resonates very well with the strategic focus of Vontobel's combined wealth management and our existing businesses.

Our combined wealth management consists of wealth management and the business with external asset managers. Of the 16.5 billion of total AuM acquired roughly 11% are with the business of external asset managers and 89% are in wealth management.

So we have... we add substantially to both businesses a 100% of the AuM we will buy, will be booked in Switzerland, on our existing and very modern IT platform. This will lead to substantial synergies in production more about that in a minute.

The AuM added to Vontobel have an extremely high overlap with the existing markets of Vontobel, 75 or 70% excuse me of the AuM are from Swiss-domiciled clients, while another 20 fully overlap with Vontobel's focus markets. Due to this overall high overlapping client-domiciles, we have a high overlapping important compliance aspects like the production of tax report, the applicable know-how and cross border access and so on. This is important to reach the economies of scale.

For most, almost all clients, the automatic information exchange is in effect since the beginning of this year, compared to earlier transactions we have done... this effect significantly reduces the legacy risk embedded in the AuM acquired, it therefore reduces attrition and strengthens the financials of our transactions.

The AuM acquired are clearly in the wealth management sector and shows a similar structure of the client portfolio. It’s important to note that 90% of the AuM are in wealth and larger than 1 million Swiss Francs per client, and this has an attractive return on assets of approximately 80 basis points. All-in-all the acquisition is a significant milestone for our combined wealth management and approves our footprint to Switzerland, while at the same time adding new locations to our Swiss map.

A couple of words from slide 07, on the technical side of the acquisition. Notenstein La Roche today runs on one IT platform in Switzerland and the core of it is Avaloq, the same is true for Bank of Vontobel that is the legal entities that will technically run the assets off the merger. One IT system at the core of it is Avaloq, these mature core systems allows for a smooth technical merger. We are integrating from one to another Avaloq.

In 2017, we announced the transfer of the Central and Eastern European clients’ portfolio from Notenstein La Roche to Vontobel. Technically, this transfer was very similar or even equal to what is ahead of us right now regarding integration work. Based on the successful and smooth technical migration, as well as, the successful integrations we have signed in the past of Finter Bank, Commerzbank and our former Bank in Geneva, we are therefore optimistic to integrate fast and smoothly. We expect the technical merger in Q3 2018. After this integration, we will have reached the target operating model on a centralized high quality production platform with a high degree of automation and efficiency.

For the integration, we expect integration cost of roughly 50 million split roughly equally over 2018 and 2019. The integration cost will as usual be booked in the corporate center. After the integration, we run the former Notenstein La Roche business at a marginal cost income ratio of 50%. This is considerably lower than the cost income ratio of combined wealth management in 2017 of roughly 74%. This fact is based on synergies expected after integration.

Please turn to slide 08, for the highlight of the outlook for a more efficient capital structure by issuing AT1 capital are given. All elements of this slide are, excuse me, expected key features. The details of the expected issue of an AT1 bond will be announced over the course of the next two weeks. We expect to raise 350 to 450 million Swiss Francs by issuing a perpetual bond that is non-callable for 5.5 or 6 years. The bond will be similar to other issues by other financials that the market has taken up well in the current environment. We therefore plan for a non-dilutive principal write-down structure. The conversion triggers will be at a CET1 ratio of 7% or at the point of non-viability.

We expect the non-cumulative discretionary coupons to be exempt of withholding tax under Swiss law. Our formerly stated capital ratio of targets remain unchanged and are supported by the AT1 transaction announced. We strive for a minimal CET1 ratio of 12% and a minimum total capital ratio of 16%. The bond will be structured to support our rating.

Furthermore, the bond will under no conditions convert to shares, the existing shareholder structure of Vontobel is not challenged by this transaction under any circumstance. By raising this AT1 bond, we also support our commitments to our previously stated dividend policy. There were a number of parameters driving our capital ratio in 2018 given at the right side of slide 8.

First of all, the acquisition of the parameters given in this presentation. Second, then of course, the AT1 bond announced today and last but not least all the other businesses of Vontobel including financial products business as well as our asset management will continue to run profits and accrue capital.

With reasonable assumptions you can come to the stimulated capital ratio as shown on the right hand side of this slide. The CET1 ratio comes off the transaction out at around 12% and the total capital ratio is at 17.7%, clearly above our target of 16%.

On slide 9, you can see the plan for the fast track integration. The AT1 bond issuance is expected to be announced in more details over the next two weeks. We plan to finish the issuance before H1, complete at the end of June.

The closing of the share you announced today is expected very early in July. It is of course subject legal and regulatory approval as well as the customer closing conditions.

On July 27, we will announce the first half year results for Vontobel and give an update on the transaction announced today. Our colleagues in Combined Wealth Management, Operations and Financial Risk will be busy with the legal as well as the technical merger of Bank Vontobel and Notenstein La Roche throughout the third quarter of the year.

We plan both mergers, the technical and the legal merger in Q3 2018 in order to be back to our focus on growth and profitability, expecting net positive contribution from this transaction from 2019.

Let's go to slide 10, we confirm the existing targets on growth, capital ratios as well as our dividend policy. The targets on profitability and the cost to income ratio are under review. We will give an update on these figures together with the presentation of the half-year results at the end of July.

With that, I hand back to Zeno. Thanks.

Zeno Staub
Thank you, Martin, and I would like to conclude with a short summary that you also find on page 11. So at the very center of this is a high-quality book of business that fully matches our strategy and our acquisition criteria that we have consistently put forward over the last years.

Behind that is also a company and people that fit very highly to what Vontobel stands for, so we are confident that we can provide a culturally smooth integration with our own client-centric culture with our own commitment to independence and long-term business development.

We are also convinced that given the high quality characteristic of the assets as again they stem from two assets deals executed under very recent regulatory conditions, the high fit to our home market and to our focus market that we can manage that transition with a very sensible attrition level. And obviously the economics of the Notenstein book of business will be very positive in the combination with a combined Wealth Management.

We expect strong economics also from the synergy side as this is a highly concentrated focused business model with a single platform booking up here in Switzerland both on the Notenstein side as well as on our side. We have already done the migration, so we think that these are the very best conditions for a seamless, fast track and highly adding value technical integration.

We can provide added value to our core shareholders and our investors as we profit from the occasion of that transaction to move to a more efficient capital structure which will bring us also the ability to underpin further organic and further growth in the future. Integration costs are in a sensible side and we expect net profitability already starting January 2019.

So this is a significant important transaction for us that is an addition to our organic growth trajectory but is moving the needle for our combined Wealth Management. It underpins our longstanding trusted partnership with Raiffeisen with whom we will continue and broaden our cooperation that we have already struck last year, and we can deliver a transaction that is fully shareholder value accretive and start to be net positive very fast in early 2019. So that's it from our side as an overview and as you know there will be a combined media Conference from Raiffeisen has asked at 10:30 here in Zurich. So we ask our people who have listened in from media then to join in at 10:30 and also to host their questions for that occasion and we will take however questions from investors and analysts if the occur already now.

Q&A

Operator

We will now begin the question and answer session. We ask for your understanding that we will take only questions from investors and analysts at this call. Media will have the opportunity to ask questions at the media Conference at 10:30 CET at the Hyatt Zurich. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. You will hear a tone to confirm that you have entered the queue, if you wish to remove yourself from the question queue you may press * and 2. Participants are requested to use only handsets while asking the question. Anyone who has a question may press * and 1 at this time.

The first question from the phone comes from Regli Daniel from Main First. Please go ahead.

Daniel Regli

Hello, good morning, everybody. I have a quick question regarding the acquisition processes, I made a quick calculation and I expect you excluded the intangible assets from the equity value of Notenstein La Roche, is this true?

Zeno Staub

Now Daniel, that's a fair assumption.

Daniel Regli

Okay, thanks.

Operator

The next question from the phone comes from Tomasz Grzelak, Helvea. Please go ahead.

Tomasz Grzelak

Yes, good morning, everyone. Just one question on cost synergies, could you give us a bit more color on that front. I think that it seems that Notenstein has subscale operations if it has petty low net profitability despite quite high gross margin. And could you comment how exactly you would like to extract cost synergies from Notenstein platform and what's the extent these cost synergies could be? Thank you.

Zeno Staub

Yes, thank you for the question. So, first of all, we obviously expect a very, very high, almost a perfect overlap in terms of the business model, the products, the services, as we know this business inside out, its providing a high class wealth advice to private clients predominantly based in Switzerland and in a purely cross-border model. So this is exactly what we do every day and will fit therefore very well with the capabilities we already have. Second, obviously we expect also from the experience we already have done with the migration of the Eastern European part of the portfolio that we have already taken over full fit with our IT capabilities.

So, we expect that our IT systems and processes will fully fit the needs of what we need for the business and will fully scale. Second, as you know, when you checked the map there is a significant overlap in locations, so we can join forces in a number of cities, especially in Geneva, Zurich, Basel, Lugano. So there is another sensible set of synergies. We tried for a target marginal cost to income ratio of around 50%, for more details, it is obviously too early and we as always will do... will apply utmost diligence now in understanding the business, talking to people, being respectful to the history of that company and finding sensible and professional ways in order to offer the most smooth on-boarding as possible to the people running the business today.

Tomasz Grzelak

Okay, thank you.

Operator

For any further questions please press * and 1 on your telephone.

Zeno Staub

So, we have no further questions from investors and analysts. Thank you, everybody for joining-in and if you have additional questions or details do not hesitate to call our Investor Relations team. They are here to help. And for everybody else also from the media side, we do look forward to meet you at 10:30. Thanks for joining we wish everybody a successful day.

Operator

Ladies and Gentlemen, the Conference is now over. Thank you for choosing Chorus Call and thank you for participating in the Conference. You may now disconnect your lines. Goodbye.

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