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# Building castles in the Air – another fluffy proposal

November 2021

# Petrus Advisers remains opposed to the creation of a banking Frankenstein at the expense of non-PPF shareholders

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- Investors are being misled and dragged into a complex transaction, set up in desperation to circumvent the 75% voting threshold at the next EGM
- Moneta's net income guidance has been almost 50% better than communicated, likely withholding material private information from market participants
- No guarantee of a mandatory takeover offer ("MTO") due to vague definitions of control by PPF
- PPF siphoning CZK >20bn in cash from Moneta means proposed dividends are unrealistic and will most likely not be approved by the regulator
- Based on the revised guidance, we are even more convinced that Moneta will enjoy a bright future as a standalone entity

- **We reject the proposed transaction structure and recommend all shareholders vote against at the EGM on December 20th, 2021**
- **We demand an all-share merger (with subsequent mandatory takeover offer) or straight takeover if PPF is so keen to combine Air Bank Group with Moneta**
- **We demand an independent investigation into why the material 2021/22 guidance upgrade has not been shared equally with investors – a potential ad-hoc regulation breach**

# After talking down investor excitement just weeks ago, Moneta now apparently has a new bullish guidance we were not made aware of

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***We have tried long and hard to find the benefits of this deal for Moneta shareholders – and found none***

**1 Moneta has used substantially higher net income estimates in the negotiations with PPF than what has previously been communicated to the market**

- Moneta's net income guidance for the next 9 months has been revised upwards by 46% vs. the latest guidance communicated to the market
- That has only been made public through answers provided by Moneta to our questions regarding the transaction structure
- We are shocked that the revised guidance has been underlying the transaction structure discussions with PPF (the seller of Air Bank Group and also a current shareholder of Moneta)

**2 Mandatory takeover offer by PPF is highly unlikely, increasing the risk of PPF simply enriching itself**

- MTO threshold not clearly defined by PPF and Moneta making it impossible to assess the precise mechanics of the transaction
- Current Moneta shareholders are facing a dilemma between underwriting the 1st rights issue at CZK 82 and PPF extracting substantial excess capital without launching an MTO (the higher the take-up of the 1st rights issue, the higher the excess capital extraction by PPF)
- If >71.6% of non-PPF shareholders participate in the 1st rights issue, PPF's pro-forma ownership will not trigger an MTO[1]
- Even if the underwriting of non-PPF shareholders in the 1st rights issue is <70%, PPF likely still will not launch an MTO as the share price could very realistically remain above CZK >95 until the 1st rights issue. In this case, all rational Moneta shareholders would underwrite the 2nd rights issue as well at CZK 90 per share
    1. We view an acceptance by the CNB of the proposed CZK 7 per share dividend for H1'22 as unrealistic given capital constraints and uncertainty around the post-transaction capitalisation
    2. Moneta will come out with an updated guidance for the next years in H1'22 which will likely lead to an increase in the share price

**3 If PPF so desperately wants to combine Air Bank Group with Moneta, we demand a fair compensation**

- We would only accept an all-share merger with a subsequent unconditional mandatory takeover offer by PPF for all Moneta shareholders
- The MTO would have to entail an adequate premium to the VWAP of Moneta as the whole sector has re-rated since the latest approach in January 2021

*Notes: (1) Implied 36.6% PPF ownership, please refer to page 7 for detailed analysis.*
*Source: Company filings*

# The creativity of PPF to drag Moneta shareholders into a deal with its underperforming Air Bank Group is truly fascinating

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## 4 Under the proposed transaction structure, PPF extracts CZK >20bn of funds from Moneta (assuming no MTO)

- Without a mandatory takeover offer, PPF could make itself a nice Christmas gift in the form of a CZK >20bn net payment
- The lack of a clearly defined MTO removes a valuation floor and provides uncertainty to Moneta investors
- The two-stage rights issue increases complexity for retail investors – we do not understand why this deal cannot be structured as an all share merger with certainty that a subsequent MTO will be triggered by PPF

## 5 Under the aggressive transaction structure, a CNB approval of the CZK 7 per share dividend seems unlikely

- The pro-forma CET1 capital leaves no headroom to target vs. >200bps average buffer of European banks (Q3'21)[1]
- On the Q2'21 conference call, CEO Tomáš Spurný expressed concern about excess capital releases due to CNB's conservative stance in that regard. We are very surprised to see a 180-degree change of opinion on this topic when it comes to using excess capital to compensate PPF
- Goodwill creation is unheard-of in recent European banking environment and puts further risk on future dividend distribution

## 6 We remain very sceptical of the strategic sense to acquire a high-risk consumer finance business facing substantial margin pressures and shrinking top-line year-to-date

- The transaction would substantially change the loan book composition of Moneta away from mortgages and SME/corporate loans towards consumer loans (contribution of consumer loans would increase from 21% to 31%)
- Consumer lending continues to face structural margin pressure (Moneta's consumer lending yields have declined by 2.6%pt since 2018[2])

*Notes: (1) Assuming 100% subscription of 1st rights issue; (2) Q3'21 yields of 7.4% vs. 10.0% yields in Q3'18.*
*Source: Company filings, UBS Research*

# Supporting Analysis

# 1 Moneta has apparently used substantially higher net income estimates in negotiations with PPF than what was previously communicated to the market

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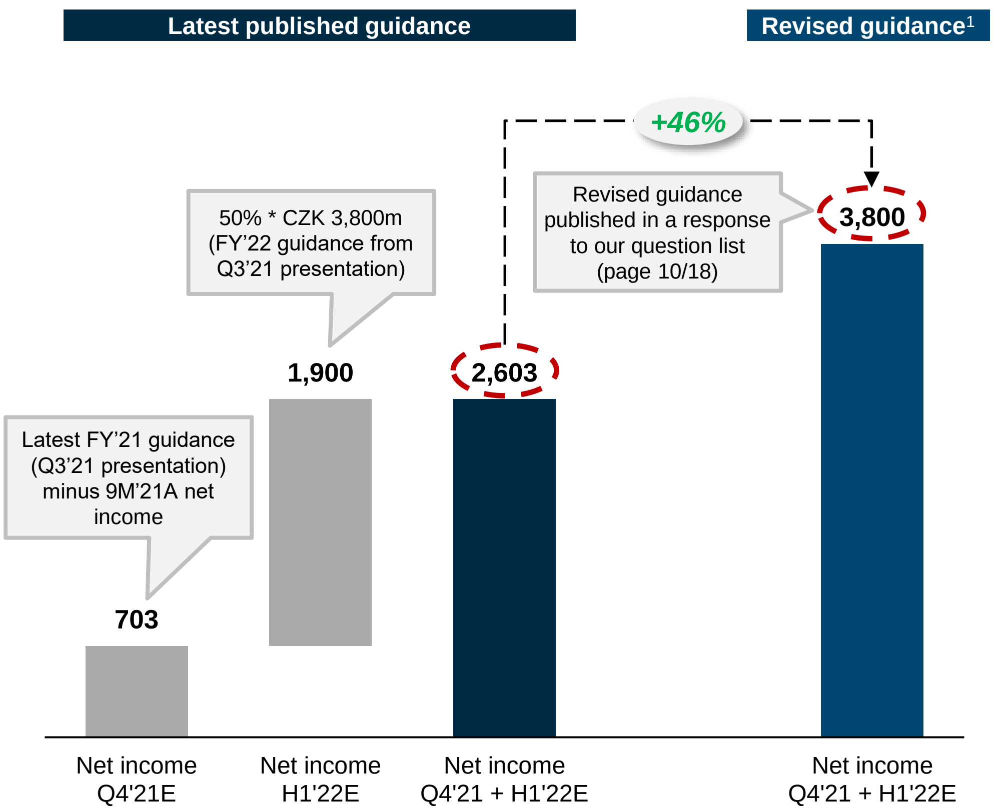
- **Through the transaction negotiations, PPF was likely made aware of a significant upward revision of Moneta's guidance**

## Net income estimates underlying the transaction structure

***Moneta net income guidance for the next 9M in CZKm***




- In a question list we submitted to Moneta on November 24th, we asked about a CET1 bridge as we were not able to reconcile a pro-forma CET1 ratio post-closing that would comply with the minimum requirements (based on the latest published guidance, the pro-forma CET1 ratio would be 13.5%[2], i.e. below the 13.9% threshold)
- To our surprise, two days later, Moneta responded with the requested bridge including **net income estimates for the next 9 months for Moneta that were 46% higher than the latest guidance published with Moneta's Q3'21 results** (i.e. less than one month ago)
- Moneta comments on this number as follow "*Net profit for 3 quarters includes expected performance improvements due to faster growth of interest rates and other positive factors than those assumed MONETA standalone business plan*"[1]
- We are shocked that the **revised guidance has apparently been underlying the transaction structure discussions with PPF** (the seller of Air Bank Group and also a current shareholder of Moneta!)
- Showing net income figures for 2022 in the acquisition presentation that have not been updated to the figures that were used in the capital roll-forward and subject to the negotiations with PPF is scandalous and appears to be misleading investors while it seems to provide inside information to PPF

*Notes: (1) Page 10 of the document "Explanation to published materials with respect to the General Meeting to be held on 20 December 2021" on https://investors.moneta.cz/general-meeting under the section "requests for a clarification"; (2) Keeping all other building blocks flat and simply changing Moneta's 9M net income figure.*

*Source: Company filings*

# 2 We view an MTO by PPF as highly unlikely and see the risk of PPF extracting excess capital from the bank as significant (1/2)

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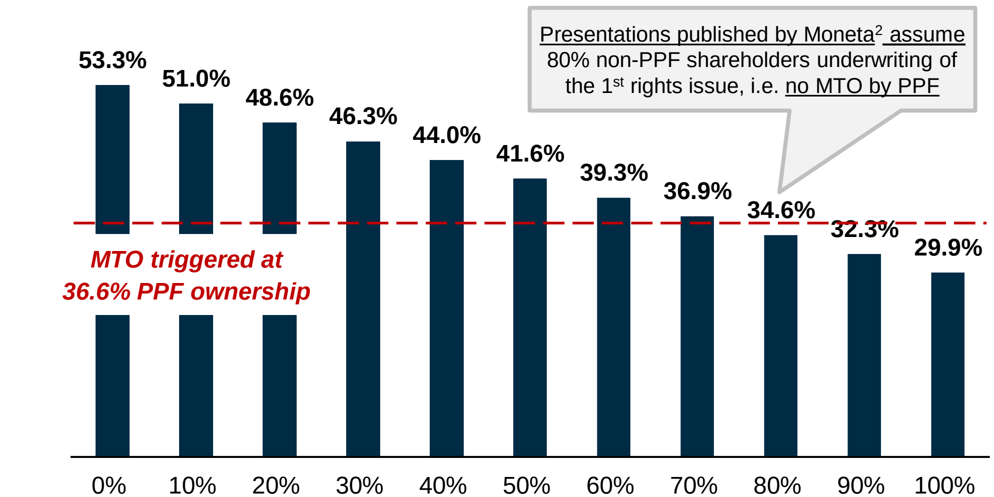
- **Current Moneta shareholders are facing a dilemma between underwriting the first rights issue at CZK 82 p.s. and PPF extracting substantial excess capital without being forced to launch an MTO**

## MTO not triggered given high uptake in 1st rights issue

***Implied PPF ownership based on % of non-PPF shareholders underwriting 1st rights issue (%)***




*CZKbn*

| | 0% | 10% | 20% | 30% | 40% | 50% | 60% | 70% | 80% | 90% | 100% |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Capital raised** | 22.4 | 22.2 | 22.1 | 22.0 | 21.8 | 21.7 | 21.5 | 21.4 | 21.2 | 21.1 | 21.0 |
| **Excess capital paid to PPF** | 3.5 | 3.7 | 3.8 | 3.9 | 4.1 | 4.2 | 4.4 | 4.5 | 4.7 | 4.8 | 4.9 |
| **Implied CET1 ratio** | 14.6% | 14.6% | 14.5% | 14.4% | 14.4% | 14.3% | 14.3% | 14.2% | 14.1% | 14.1% | 14.0% |

There are two scenarios that could lead to PPF not triggering an MTO:

(i) The **percentage of non-PPF shareholders underwriting the 1st rights issue at CZK 82 is >71.6%**

- In this case, PPF's pro-forma ownership would be <36.6% (the current MTO threshold based on our understanding of Moneta's presentation[1] and subject to change based on future EGM attendance)
- High underwriting percentage in the 1st rights issue also leads to relatively lower pro-forma capitalisation
  - More excess capital will be used to compensate PPF for Air Bank Group
  - This **puts current Moneta shareholders in a dilemma** as (i) they have an economic incentive to underwrite the 1st rights issue but (ii) everyone underwriting the 1st rights issue removes an MTO by PPF and leaves the combined entity with a weaker capital position as PPF is extracting much of the excess capital

*Notes: (1) Refers to page 15 of the presentation "Proposed acquisition of Air Bank Group and related proposal for capital increase". We understand that 36.58% is the current threshold, i.e. max attendance of last three GMs * 50%.*
*(2) Page 10/18 and page 11/18 of the "responses to Petrus Advisers' queries" implies an 80% underwriting of non-PPF shareholders.*

*Source: Company filings*

# We view an MTO by PPF as highly unlikely and see the risk of PPF extracting excess capital from the bank as significant (2/2)

2

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- **Multiple reasons, e.g. cancellation of the proposed CZK 7 per share dividend or publication of revised 5-year Moneta guidance could drive the share price up, sparing PPF from launching an MTO**

## MTO not triggered given high post-1st rights issue share price

***Implied post-1st rights issue share price (CZK)[1]***

*% of non-PPF shareholders underwriting 1st rights issue (%)*

| Share price pre-1st rights issue | 0% | 10% | 20% | 30% | 40% | 50% | 60% | 70% | 80% | 90% | 100% |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 97.5 | 95.5 | 95.1 | 94.7 | 94.4 | 94.0 | 93.7 | 93.4 | 93.1 | 92.8 | 92.6 | 92.3 |
| 95.0 | 93.3 | 93.0 | 92.7 | 92.4 | 92.1 | 91.8 | 91.6 | 91.3 | 91.1 | 90.9 | 90.7 |
| 92.5 | 91.1 | 90.9 | 90.6 | 90.4 | 90.1 | 89.9 | 89.7 | 89.5 | 89.3 | 89.2 | 89.0 |
| 90.0 | 89.0 | 88.8 | 88.6 | 88.4 | 88.2 | 88.0 | 87.9 | 87.7 | 87.6 | 87.5 | 87.3 |
| 87.5 | 86.8 | 86.6 | 86.5 | 86.4 | 86.3 | 86.2 | 86.0 | 85.9 | 85.8 | 85.8 | 85.7 |
| 85.0 | 84.6 | 84.5 | 84.5 | 84.4 | 84.3 | 84.3 | 84.2 | 84.2 | 84.1 | 84.0 | 84.0 |

*Risk remains that PPF "friends" step in, even if the share price is <CZK 90 to cover the 2nd rights issue and prevent an MTO (this would obviously be illegal acting in concert)*

*No MTO if >71.6%[2] underwriting in 1st rights issue*

MTO **not** triggered

There are two scenarios that could lead to PPF not triggering an MTO:

(ii) **The pro-forma share price after the 1st rights issue is CZK >90**

- In this case, all rational investors would have an incentive to participate in the 2nd rights issue and underwrite shares at CZK 90. PPF would then not have to step in and back-stop the rights issue
- We view two cases as likely that could keep the share price above CZK 92.5/95.0:
    1. The payment of the CZK 7 p.s. dividend proposed by Moneta for H1'22 will be prohibited by the CNB given uncertainty around post-acquisition capitalisation[3]
    2. Upward revision of 5-year Moneta guidance will be published, driving the share price up. This was indicated by Moneta in the published response to our question list "*Net profit […] includes expected performance improvements due to faster growth of interest rates and other positive factors than those assumed MONETA standalone business plan*"

*Notes: (1) Weighted average post-rights issue price; (2) Refers to non-PPF shareholders; (3) At the time of the AGM, when the dividend payment will be decided, the post-acquisition capital structure will not be certain yet as the rights issues are supposed to take place afterwards. The CNB might thus want to wait for finalisation of the Air Bank Group acquisition structure (to see how much excess capital will be paid to PPF) before approving further capital distribution.*

*Source: Company filings*

# 3 The current transaction structure overvalues Air Bank Group – we demand a fair all-share merger at multiple parity with a certain MTO triggered by PPF

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| | Moneta | Air Bank Group | Delta (%) |
|---|---|---|---|
| **Valuation metrics** | | | |
| Valuation (CZKm)[1] | 45,990 | 25,900 | |
| P/E (NTM)[2] | 9.1x | 10.0x | **(0.9x)** |
| P/B (latest)[3] | 1.5x | 2.2x | **(0.6x)** |

| | P/E Parity | P/BV Parity |
|---|---|---|
| **Air Bank Group valuation based on multiple parity** | | |
| Air Bank Group valuation (standalone, CZKm)[4] | 23,505 | 18,349 |
| Contribution to combined entity (%) | 34% | 29% |
| Synergies allocated (CZKm)[5] | 2,800 | 2,361 |
| Total value Air Bank Group (CZKm) | 26,304 | 20,710 |
| **Average (CZKm)** | **23,507** | |

**(9%) lower than the current proposal**

*Notes: (1) Moneta valuation at CZK 90 per share as per hypothetical PPF back-stop in 2nd rights issue. Air Bank Group valuation as per proposed transaction structure; (2) Moneta net income based on annualised next 9M net income from presentation "Explanation to published materials with respect to the General Meeting to be held on 20 December 2021", Air Bank Group net income based on latest published guidance from presentation "Air Bank Group – Intro & financials", i.e. FY21E less actuals for 9M'21 and 75% of 2022 net income guidance; (3) As per Q3'21A; (4) Air Bank Group valuation based on Moneta multiples; (5) Based on mid-point of synergy valuation range (post-synergy value of Air Bank Group less pre-synergy value of Air Bank Group) from expert opinion provided by E&Y (please refer to page 44/66 of the presentation "Proposed acquisition of Air Bank Group and related proposal for capital increase"), allocated based on relative contribution to combined entity.*

*Source: Company filings (Moneta and Air Bank Group)*

# 4 In case PPF does not trigger a mandatory takeover offer, PPF will extract CZK >20bn funds from Moneta

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- **The risk that PPF enriches itself on the back of Moneta shareholders is very tangible given the lack of a clearly defined mandatory takeover offer**

**Fund flows to PPF (assuming no MTO)**

| *All in CZKm* | **Including CZK 7 p.s. dividend in H1’22** | **Excluding CZK 7 p.s. dividend in H1’22** |
|---|---|---|
| Air Bank cash payment (1) | 25,900 | 25,900 |
| Participation in 1st rights issue (2) | (6,273) | (6,273) |
| Participation in 2nd rights issue (3) | 0 | 0 |
| Dividend Dec-21E (4) | 459 | 459 |
| Dividend May-22E[1] (5) | 1,071 | 0 |
| **Total fund flows to PPF by H1’22**[2] | **21,157** | **20,086** |

1. Cash payment as proposed under the acquisition structure from 19-Nov-21
2. Assuming proportionate participation of PPF in the 1st rights issue, i.e. 76.5m shares at CZK 82 p.s.
3. Assuming no participation of PPF in the 2nd rights issue (PPF can in fact participate up to 50.9m shares/CZK 4.6bn in the 2nd rights issue without triggering an MTO; please refer to pages 7+8)
4. Assuming CZK 3 dividend per share as proposed by Moneta management
5. CZK 7 per share dividend as proposed by Moneta management for H1’22 (we are very sceptical that this will be approved by the CNB and have hence shown a case excluding this payment)

*Notes: (1) Assuming a potential CZK 7 per share dividend payment takes place in May-22 following AGM approval in April 2021; (2) Assuming deal closing by the end of H1’22 (Moneta presentation references Jul-22).*
*Source: Company filings*

# 5 Proposed transaction structure puts capital position under stress making CZK 7 per share dividend approval by the CNB highly questionable

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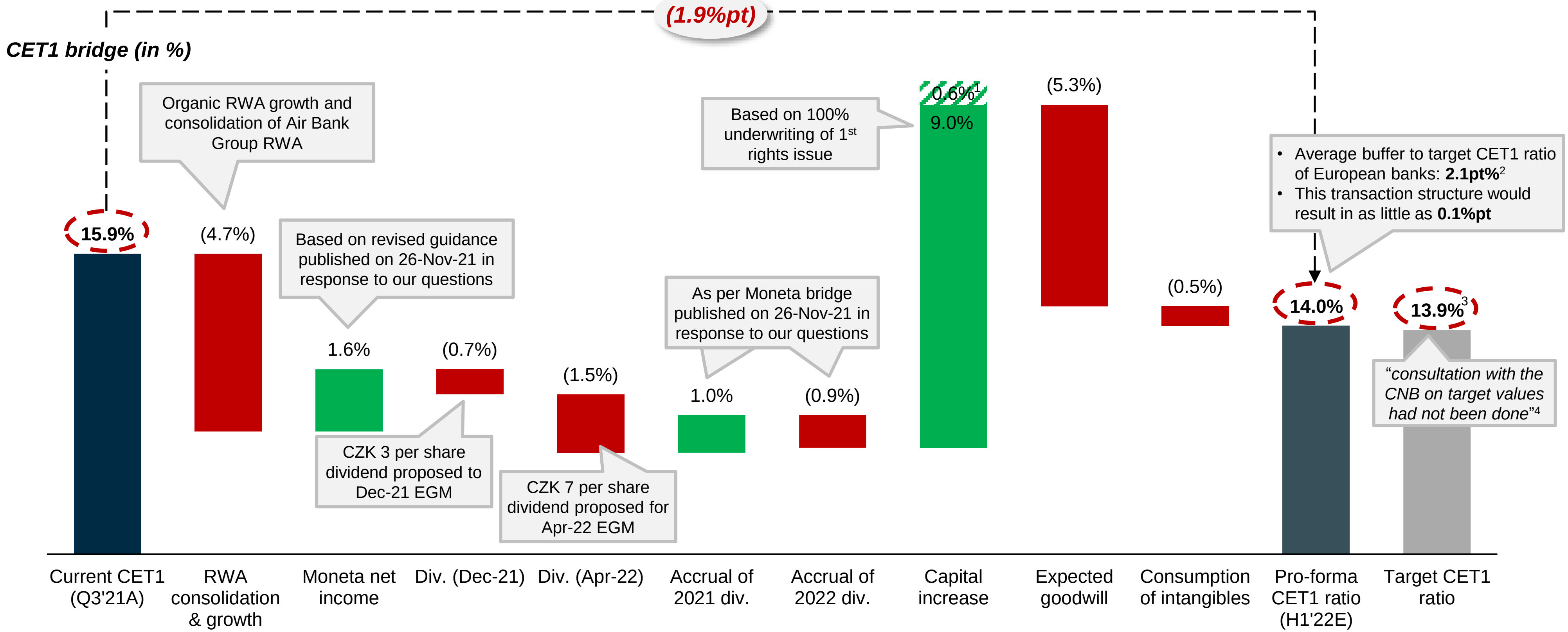
- **Pro-forma CET1 capital leaves no headroom to target vs. >200bps avg. buffer of European banks (Q3'21[2])**
- **Capital bridge does not even take into account restructuring costs and is based on aggressive net income assumptions for Moneta (+46% vs. latest guidance, see page 6)**
- **On the Q2'21 conference call, CEO Tomáš Spurný expressed concern about excess capital releases due to CNB's conservative stance in that regard**




*Notes: (1) Additional 0.6%pt CET1 ratio when assuming 0% of rights issue underwritten by non-PPF shareholders; (2) Based on UBS Research, includes ABN, AIB, BAMI, BOI, BKT, Barclays, Bawag, BBVA, BNPP, BPER, CABK, CBK, CASA, Credit Suisse, Danske, Deutsche, DNB, Erste, Handelsbanken, HSBC, ING, ISP, KBC, LBG, NatWest, Nordea, Raiffeisen, SAB, SAN, SEB, SocGen, StanChart, Swedbank, UNI, UCG, Virgin; (3) "Total capital adequacy ratio target above 15% (vs. above 14% on a standalone basis) and a minimum of 13.9% at Tier 1 level" (page 42/66 from presentation "Proposed acquisition of Air Bank Group and related proposal for capital increase"); (4) Page 3/18 of the document "Explanation to published materials with respect to the General Meeting to be held on 20 December 2021".*

*Source: Company filings, UBS Research, conference call transcript*

# 5 Goodwill creation is unheard-of in recent European banking environment and puts further risk on future dividend distribution

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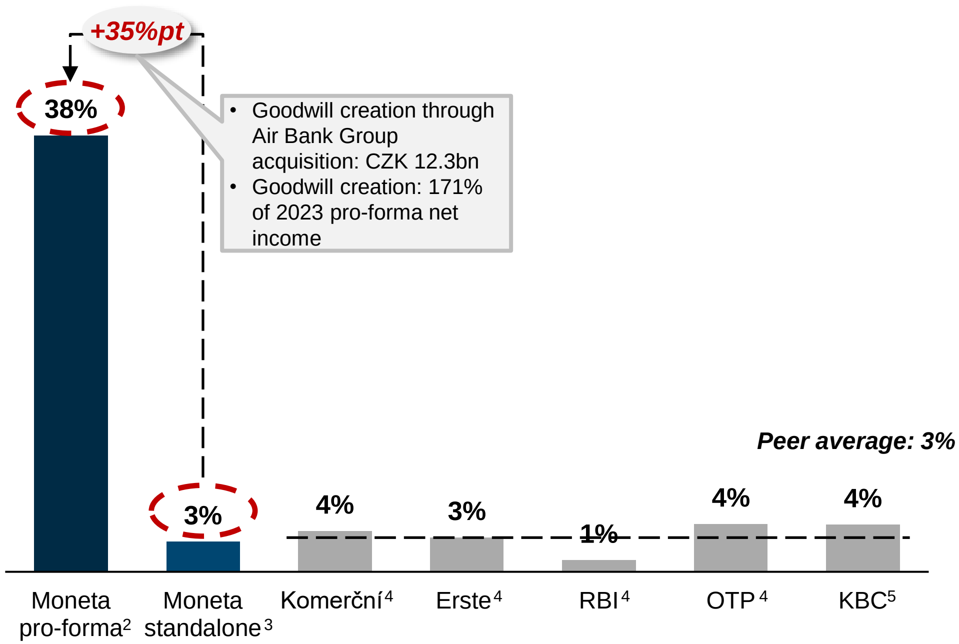
- **The acquisition of Air Bank Group is expected to create CZK 12.3bn of goodwill, bringing the relative goodwill level of Moneta way above the peer group**

## Goodwill comparison vs. standalone and peer group

***Goodwill as % of market capitalisation***

17.8%[1] | 1.2% | 2.3% | 3.5% | 1.4% | 2.2% | 2.5%

***Goodwill as % of CET1 capital***




- Proposed acquisition of Air Bank Group at 2.2x book value would lead to **massive goodwill creation** (38% of CET1 compared to 3% for the peers)
  - Currently, Moneta's goodwill level is in line with peers at 3% of CET1
- **Potential of future write-offs puts dividend capacity at risk** and adds uncertainty for Moneta shareholders
- Goodwill created through the acquisition equals 171% of the pro-forma 2023 net income of the combined entity (based on guidance published in latest M&A presentation)
- Recent examples of European banks writing down large parts of their goodwill in 2020 include Commerzbank: €1,578m and BBVA: €2,084m

*Notes: (1) Based on an illustrative post-merger share price of CZK 90, includes goodwill from Air Bank Group acquisition only; (2) Based on H1'22E post-merger capitalisation, includes goodwill from Air Bank Group acquisition only; (3) Based on FY'20A Moneta financials, goodwill includes core deposit intangibles and intangibles not yet activated; (4) As per Q3'21A; (5) As per FY'20A.*

*Source: Company filings, Factset as per 26-Nov-21*

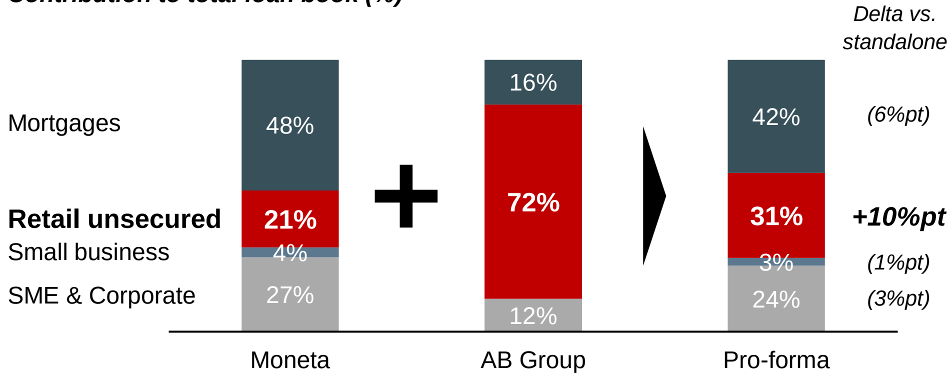
# 6 Proposed deal would substantially increase Moneta's unsecured consumer lending: a much riskier business model facing structural margin pressure



- **Air Bank deal adds unsecured consumer finance exposure while mortgage contribution declines**
- **Strategic shift exceeds targeted exposure to consumer lending and adds low quality top-line**

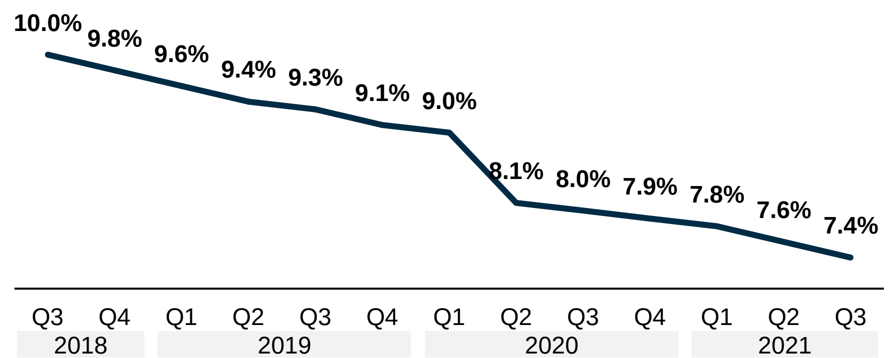
## Pro-forma loan book would be much riskier than status-quo

***Contribution to total loan book (%)***




## Substantial margin pressure in consumer lending

***Moneta consumer loan yields (interest income / avg. net loans; %)***

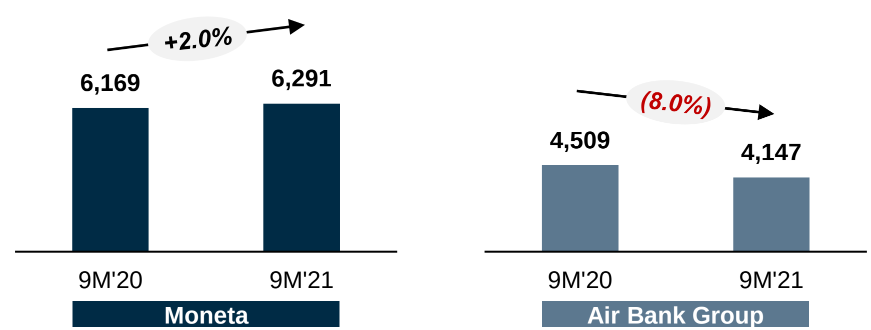



## Proposed transaction not in line with strategic ambition

| | Estimated current Moneta mkt. share | Estimated current Air Bank Group mkt. share | Post-merger position | Medium term strategic aspiration (latest) |
|---|---|---|---|---|
| Mortgage | 8% | 1% | 9% | 15% |
| **Consumer Finance** | **7%** | **32%** | **39%** | **35%** |

## Air Bank Group performance has been underwhelming lately

***Net interest income 9M'21 vs. 9M'20 (CZKm)***




*Source: Company filings*

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