



BANKING SUMMARY

MERGERS & ACQUISITIONS

Carl Icahn's bid to break up AIG

Carl Icahn, the notable activist investor who is famous for his hostile takeover of Trans World Airlines, has claimed AIG "too big to succeed." He seeks to break the insurance giant into three pieces by spinning-off its mortgage and life insurance subsidiaries. Peter Hancock, the CEO of AIG, viewed this claim as financially insensible. AIG currently has 65,000 employees worldwide operating in 100 countries. It has 99.6% of the Fortune 500 companies as clients, and a \$77 billion market cap. Yet its ugly third quarter has made the company vulnerable to Icahn's attack. In AIG's third quarter report ending in September 30th, its earnings per share at 53 cents barely reaches half of Wall Street's estimate of \$1.03. Its net loss at 231 million also supports Icahn's emphasis on cutting cost. However, downside of the split still exists. By splitting up, AIG will lose at least \$5 billion of its deferred tax assets, benefits accrued during 2008 when the firm went through heavy losses.

Pfizer launches bid to merge with Allergan

Pfizer, the iconic American pharmaceutical company, announced on Thursday that it was in friendly talks to merge with the Ireland-based pharmaceutical company Allergan. Allergan, which makes Botox, is valued at nearly \$120 billion; a takeover would be the largest one ever in the healthcare sector and cap off a frenzied year of dealmaking in the drug industry. One of the main advantages for Pfizer in acquiring Allergan is the ability to lower its tax rate in a strategy known as an inversion. If an American company acquires a large enough company abroad and meets other regulatory conditions, the American company can then move its headquarters abroad. Allergan currently has a 4.8% tax rate compared to Pfizer's 26.5%, which Pfizer's CEO Ian C. Read has previously complained about. Last year, Pfizer sought to acquire British pharmaceutical AstraZeneca in a failed bid, leading the US Treasury Department to intervene and tighten inversion regulations.

INVESTMENT BANKING

Square sets share price in the \$11-\$13 range

On Friday, Square announced that it would price its shares in the \$11-\$13 range. This would value the company at \$4.2 billion which is much less than the \$6 billion it was valued by private investors in its latest fundraising round. This gives fuel to critics of so-called "unicorns" who they believe will fetch much lower valuations on the public market. Many tech companies that have gone public recently (Box, Apigee) have had disappointing IPOs. A more troubling sign for investors is a provision in their latest round of funding called a ratchet. A ratchet promises investors that even if the IPO price is below that of a private valuation, investors will get additional shares so they will get a 20% profit on their investment. Other concerns include the fact that Jack Dorsey will also serve as CEO of Twitter. In its third quarter earnings report, Square lost \$53.9 million with a revenue of \$332.3 million. Investors in public markets look for profits and if tech companies like Square continue to lose money, their valuations will only drop. The lead underwriter for Square is Goldman Sachs.

British Banks fragment and continue to minimize business in riskier operations.

Despite Britain's booming economy quarterly results for British investment banks, austere leveraging regulations and heavy fines are resulting in fragmentation between traditional investment banking and riskier financial market driven operations. The bank of England recently imposed a new "leverage ratio" of 3%, meaning that banks may have to possess more than \$3 in capital for every \$100 they lend out. Both Barclays and RBS have set aside \$800 million and \$780 million respectively to cover ongoing investigations into alleged manipulation of foreign-exchange markets and litigation. Furthermore, investment banking profits in British banks fell on average 38%. As a result, British banks are continually shrinking their riskier operations, shrinking their proprietary trading departments. For example, Barclays is pulling back from trading bonds, currencies and commodities and wants its investment-banking activities to take up no more than 30% of its balance sheet, down from 50% prior to 2011. This is becoming more prevalent as Deutsche bank, Standard Chartered and HSBC have all began restructuring their investment banking divisions.