Joseph Fatzinger

4/15/2018

BMGT 495

Santander and Abbey HBR Case

1. How would you characterize Santander’s domestic and/or international strategy prior to its bid for Abbey?

-Santander has shown signs of being highly aggressive internationally and domestically. Domestically it attempts to create innovative strategies to increase its market share, such as lowering the switching costs for customers. Domestically, it also has acquired two other banks. Internationally it has acquired 13 banks in Latin American countries. These aggressive moves have helped Santander go from being the 5th biggest bank in Spain to the biggest bank in Spain and 15th biggest in the world.

1. Where, in the Santander Financial Statements (P&L, Balance Sheet or Cash Flow), does it suggest they can afford the Abbey acquisition?  What are they gaining?

-Santander stated that in order to acquire Abbey they would issue 1.5 million new shares of stock, which would amount to 23.6%. These actions would fall under the balance sheet. From this acquisition, Santander is expecting to gain an increase in revenues and decrease costs. While playing on each other’s strengths, they are projected to save 450 million euros in expenses the first 3 years. Santander also believed it could improve Abbey’s operations and sell products to their existing customers. By 2007, they are expected to have gained 220 million in revenue through synergy.

1. As you know, an M&A is supposed to create value for the stockholders through synergies of scope, economies of scale, etc.. Once this acquisition is complete, where will that ‘value’ show up in the financial statements?

-On the income statement investors can view their Return on Equity to help them determine how much equity is coming from profits.

1. Are the NPVs of Santander Performance Improvements justified by the potential costs to implement?  For instance, Is the 17% premium Santander is paying really justified?

-Santander is spending excessive amounts of capital to acquire Abbey, which is a dying bank. There is obviously very high risk acquiring this bank especially considering that this is international. Judging by the elevated risk and large capital involved a 17% premium is quite high to purchase a bank that is decreasing in value.

1. What recommendations would you make to Emilio Botin to manage the acquisition?

-During acquisitions it is imperative for leadership to focus on implementing the company culture on the new employees. It should be clear what is expected out of the employees and there should be limited uncertainty about their importance to the company. This will help the employee motivation and job satisfaction which will decrease turnover. Botin should also put heavy focus on making sure the companies are both pursuing short term revenues in order to keep shareholders satisfies in this crucial time. Finally, Botin should focus on what each company does well, before attempting to repair Abbey. In order for everything to go successful, it is important that the new companies find some common ground first.