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2881.TW - Fubon Financial Holding Co Ltd to Discuss Tender Offer of Common Shares of Jih Sun Financial Holding Co Ltd Call

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CONFERENCE CALL PARTICIPANTS

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Yafei Tian *Citigroup Inc. Exchange Research - Research Analyst*

PRESENTATION

Operator

Thank you for standing by and welcome to Fubon Financial's Investors Conference Call regarding the tender offer for the common shares of Jih Sun Financials. (Operator Instructions)

This call is being recorded. If you have any objections, you may disconnect at this time.

Now I'll hand the call over to your host, Ms. Amanda Wang, IR Officer of Fubon Financial Holdings. You may begin.

Amanda Wang - *Fubon Financial Holding Co., Ltd. - SVP*

Thank you. Welcome, everyone, and thank you for joining the conference call today. I'm Amanda Wang from Fubon's Investor Relations. We would like to update you that Fubon's announcement of its Board of Directors that has resolved a resolution last Friday to launch a tender offer to purchase over 50% and up to 100% of the outstanding common shares of Jih Sun financial Holdings. At a price of TWD 13 per common share in cash. The expected total over value is TWD 49 billion in 100% translation case. And following the closing of the tender offer, Fubon Financial expects to further conduct a cash merger with recent financials upon the regulatory permission.

And we would like to share with you the 3 key factors we consider to launch these offers. Firstly, we would like to strengthen the banking and securities business and realize the scale of economies. And secondly, we'd like to balance the multiple revenue and profit streams from banking, securities and insurance business and deepen our comprehensive financial service platform. And thirdly, we believe in the future prospects of Taiwan financial industry positively, and anticipate the continuous development and investment in Taiwan.

Fubon Financial plans to initially fund this offer through the use of short-term debt, and we expect to access the capital market in second quarter 2021. And preliminary equity financing plans, including a mix of 60% in common shares and 40% in preferred shares, and that is also subject to regulatory approval.

And next, we have Mr. Jerry Harn, the President of Fubon Financial Holdings, to host the session and also answer your questions. Sir, over to you. Thank you.

Wey-Ting Harn - *Fubon Financial Holding Co., Ltd. - President, CFO & Director*

Good morning, everyone. We would like to answer the question you have now, please.

Amanda Wang - Fubon Financial Holding Co., Ltd. - SVP

Operator, we have opened the floor. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Tammy Wang.

Thomas Wang - Goldman Sachs Group, Inc., Research Division - Equity Analyst

Three questions from me. The first one is, I think that most investors will be asking why you are paying 1x price to book on operation, that generates only mid-single-digit ROE in the past. So where do we see the revenue and also the cost synergy could come in from more, specifically?

And then given if the news is right, this is not a great merger position, more like a hostile takeover. Then on that basis, have you ever had a chance to do any more detailed due diligence? This is the first question.

The second question is in terms of the timing of the fund raising, because if the tender offer is finished on February 1, why do we need to wait until second quarter to launch the fund raising?

And then the third question is on debt basis. I think if you are borrowing the short-term debt to finance the deal temporarily, and your double leverage ratio will be over 120% in the first half -- in the first quarter, at least, then will that affect your dividend policy when you are making decision in March or April? Or should we assume there will be no impact on your dividend policy at all?

Wey-Ting Harn - Fubon Financial Holding Co., Ltd. - President, CFO & Director

Okay. I'll start on the third one, which is relatively easier. This acquisition will not affect our dividend policy, okay? Our dividend policy remain intact, okay? The reason why we are planning a second quarter, probably at the earliest next year, is that when we submit our capital-raising plan, for application in SFC, we need to complete our financial report before the submission of application. And as you all know, we'll probably only be able to finish the preparation of financial report in April next year, and that we need to get the Board approved. So our current estimate of planning for the capital raising is around April, May, starting next year. That's for the second one.

And on the first question, yes, we don't -- we have not conducted DD process as a normal M&A deal would go through. But you know -- you all know the disclosures, requirements by the Taiwan regulator is very comprehensive. So from the public available information, it is enough for us to do a reasonable due diligence for these transactions. And also, most importantly, we are in this market. And we are the market leader. So we know each other pretty well. And we know the customer pretty well. We also know their employee pretty well. So the -- we consider the risk of -- the potential risk of not doing a comprehensive DD is quite manageable or reasonable from our perspective.

And come back to the valuation. That is the most difficult part. And we always need to strike the balance between the interest of our -- I mean the Fubon's shareholders and Jih Sun's shareholders as well. And we think one-time books -- well, generally, if we can acquire Jih Sun at this price, we will create considerable synergies for the -- for Fubon's shareholders. And 25 -- close to 25% premiums, over 20 trading -- average 20 trading base price is also attractive for Jih Sun's shareholders.

So I think it could be a win-win for both sides. And the major synergy, as the -- as Amanda has pointed out in our press release and her statement just now. To be exact, the synergy would come from 3 parts. Number one, as you know, Jih Sun is a small -- is relatively small in terms of scale. It's small, but it's pretty stable. And if you look at its capitalization, is -- actually is capital base on a relative scale, it's even stronger than Fubon. So we

see through -- after the mergers, through the optimization of the capital base, we would have a pretty good chance to stream up or penetrate a part of the capital back to Fubon's financial holdings. And that's #1 is capital's optimizations.

#2, and the easiest part after the acquisition, we will optimize the networks of Jih Sun Financial Holding. We also see there's a lot of cost synergies potentials from this merger. As you can -- as you would realize, we probably do not need that many physicals, securities branches for our operations. And we will optimize our banking networks. And the -- we don't need 2 different computer system, core computer system and et cetera. So there's considerable cost synergy that we envisaged in these mergers.

And the last one, least but most important one. We also see a lot of revenue -- incremental revenue opportunities. As you know, Jih Sun Securities itself is 59 years entities, and it has according to public information. As at the end of last year, Jih Sun Securities has a total of around 1.3 million client base and with a total AUM of around TWD 800 billion. And as I can share with you, this is probably just equals to the share-based and AUM base that Fubon's securities now is having, okay? So by these mergers, we will double the scale in terms of the client base in terms of the AUM on the management after these acquisitions. And also through our understanding, the Jih Sun Bank and Security has a 1 -- 65% to 70% common client base. That means Jih Sun Bank has well over a median client base for our banking operation after the mergers. And we see tremendous opportunity upside from the wealth management opportunity through the merger. So that's roughly how we see the synergies from our end.

Operator

Our next question comes from the line of Yafei Tian.

Yafei Tian - Citigroup Inc. Exchange Research - Research Analyst

I have 2 questions. The first one is, does this acquisition opens door for potentially more acquisitions and consolidation among financial holding companies in Taiwan? And how does Fubon look at the peers in the industry? And what are the areas that you wanted to further strengthen your presence in?

And the second question is that have you spoken with majority shareholders of Jih Sun, to give us some certainty how like -- what is the likelihood that the deal would be done before the deadline?

Wey-Ting Harn - Fubon Financial Holding Co., Ltd. - President, CFO & Director

Okay. Again, I will start from the second one. We did not contact the Jih Sun's major shareholders before our announcement. And you know this is tender offers. And it's not really -- not advisable for us to contact them beforehand. But through the indirect contact and direct contact many years ago, we understand some of the Jih Sun's major shareholders are looking for exit opportunity. And so I think through this process, we offer an exit opportunity for the major shareholder as well as all these small shareholders at equal terms.

Okay. Yes. And this is a first hostile take -- I mean, "tender offer" attempt in Taiwan. And yes, I really cannot speak for our peers in the market how they view this exercise. But I -- yes, I think it would open the door for the industry to -- well, to explore the opportunity for another options for acquisitions. And this time, we got the approval and support from FSC, which -- we got the approval from FSC last week. So yes, maybe it will affect the industry from certain perspectives.

And for us, as I said just now, being a financial holding company in Taiwan, it's probably easier to do a local domestic acquisition than foreign one. So we will definitely consider, if available, more opportunity to invest in Taiwan. For us, the ROE of our domestic operation is much -- at least at this moment, it's still much better than our offshore operations. And as I said, we know the business, we know the people and we know the risk. Also, we know the regulators well in the market. So we don't throw out the possibility. We may look at other opportunity in the future if a suitable opportunities arise. I don't know whether I answered your question.

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Yafei Tian - Citigroup Inc. Exchange Research - Research Analyst

Yes, it's super clear.

Operator

Our next question comes from the line of Chung Hsu.

Chung Hsu - Crédit Suisse AG, Research Division - Director and Taiwan Equity Strategist

Yes, a few questions. First, just want to ask first on the transaction itself. Just want to know if there is a specific time line given, by the way, too late to complete this tender offer or merger. Specifically, it somehow you cannot get enough share by February next year, are you able to expand it or this thing would be completed done by February next year? And also, can you remind us what is the minimum stake that we need in order to hold AGM or push through a strong merger?

My second question is the tentative capital raising 60% common equity and 40% preferred shares. Just trying to get a sense that if there's any specific rational behind this ratio. Is this based on the maximum preferred share you can issue? And is this partly contingent on what a 50% or 100%? I mean if you get 50%, you issue less preferred shares more common equity. Or if this is something that is fixed.

My last question is on your earlier comment about cost synergies. Yes, indeed, you look at 2 funds financial payment whether it's for the bank business and the brokerage business, just bringing the cost ratio of similar to Fubon can probably realize a couple of billions of cost synergies a year. But if you look at the past M&A transactions in Taiwan, there's always a guarantee for jobs and takes time to cross branches. Would you -- are you able to give us some sense based on your projection right now, how fast can you achieve those cost synergies? Or it would be very similar to its previous M&A cases in Taiwan?

Wey-Ting Harn - Fubon Financial Holding Co., Ltd. - President, CFO & Director

Okay. A couple of questions. (inaudible) timing. No. Anyway, I'll start off for the timing for the process. Okay. The -- according to the local regulators, we can -- the entire tender process is limited to 50 calendar years -- 50 calendar days. And the -- and now, unfortunately, if we -- I mean we will start -- starting the clock to click now. In 50 days, we will have a Chinese Spring Festival holidays. So we bring it forward -- I mean backward a little bit. So the first stage of our tender offer process will be closed at the 1st of February. And according to the law -- sorry, if we -- if the deal -- if we obtain a minimum of over 50% stakes of the Jih Sun Financials, then the process will be closed, and that will follow by the AGM needing to reelect the Board of Director of Jih Sun, and will start another Board and the AGM meeting to approve the merger with Fubon Financial afterwards, okay?

If the process, unfortunately, for whatever reason, we cannot get at least 50% shares on February 1, next year. And then we may, we may, not that we will, okay? We may consider an extension of another 50 days extensions for the offers, okay? The -- so by law, we can apply for 1 extensions up to 50 calendar days, okay? If for whatever reason we're not able to close the deal at the end of the second offering, second stage offering, then we will close the deal. And by law, we cannot announce another tender offers in a year's time, okay? So that's basically the baseline or time line for the tender offers.

And our offer, as you know, is contingent on to -- upon obtaining a minimum of 50% stakes, okay? We need to be over 50% stakes to enable for Fubon to request for a Board and AGM meeting, subsequently. So a minimum is 50.01%. And if unfortunately, we get 50%, then we will abandon this deal. We will not proceed the deals. So we don't want to be caught in the position, the major noncontrollable shareholders, okay? So throughout this process, the position for Fubon is we either get a 100% and merge the Jih Sun into Fubon completely or we abandon this deal. We do not wish -- or we will not be caught in the middle, okay? So that is the basic for our offers, okay?

As to the combination of our capital-raising plan. To be honest, we have discussed with the regulators, that is something we have an agreement or consensus with the regulators. So -- and so this is probably fixed. And it's not subject to further change, although we don't throughout the

possibility, there might be minor change depending on the market conditions or our consideration later on, but basically, the principle is set with the regulators.

And how fast we can extract the mergers from synergies. Well, obviously, we are hoping to do it ASAP. But we do not wish -- also, we do not wish to -- put this way, some of the considered consolidation plans in terms of all these details, like consolidation of the networks, et cetera, is still subject to the regulator's approval. And I can share with you, we have preliminary discussion with them already, which we have already got the green light, but this is still subject to regulators approval. So we do not wish to exaggerate how fast we can extract the synergy. But our stance is if we do it quicker, we will, okay?

But our internal estimate is that we can extract or we can see the synergies in a more significant way in 2 to 3 years' time, okay? Did I answer your question?

Chung Hsu - *Crédit Suisse AG, Research Division - Director and Taiwan Equity Strategist*

Yes, yes. That's very clear. And I just want to follow-up on the capital raising in the second quarter next year. Is it going to be the full TWD 49 billion a month or it depends on -- you're just going to raise the amount used in the tender offer?

Wey-Ting Harn - *Fubon Financial Holding Co., Ltd. - President, CFO & Director*

Sorry, I don't get your question. This tender, for us, if it's completed, we will need TWD 49 billion. And we will do the fund raising in 1 go, if at all possible, at the prevailing market conditions at that time. I don't know whether I got your question right?

Chung Hsu - *Crédit Suisse AG, Research Division - Director and Taiwan Equity Strategist*

Okay. My question is, say, if you get 55% of the shares in this 3 months or 2 months tender offer, would you raise the money for the 60%? Or do you raise everything?

Wey-Ting Harn - *Fubon Financial Holding Co., Ltd. - President, CFO & Director*

No, no. We'll raise 100% because we will request for the Board and AGM meeting to merge Jih Sun into Fubon. Therefore, we need 100% consideration for this deal to complete the subsequent market. Yes. Okay. I mean I don't want to use squeeze. I mean we will squeeze the remaining unsolicited shareholders. This is a 100% cash mergers. It's 0 or 100. We will not put our shareholders, I mean Fubon's shareholders in awkward situations.

Operator

Our next question comes from Tammy Wang.

Thomas Wang - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Yes. Just one small question from me. It's -- according to the shareholder list, Fubon Life has around 4% stakes in Jih Sun. So according to the process, you still need to acquire -- spend money to acquire the stakes from Fubon Life. Is that the case? Or that actually going to save you with some of the funding?

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Wey-Ting Harn - Fubon Financial Holding Co., Ltd. - President, CFO & Director

Okay, that is historical now. Actually, the Fubon Life has sold their financial investments in Jih Sun's earlier this year. So currently, Fubon Life has 0 shares outstanding in Jih Sun at the moment.

Yes. Fubon Life, I mean, to be honest, they did not know we are going to do this deal. So they do their investment decisions independently.

Operator

At this time, speakers, don't have any question in queue. (Operator Instructions)

Speakers, no more question in queue at this time. Thank you.

Amanda Wang - Fubon Financial Holding Co., Ltd. - SVP

Okay. If there is no more questions, we would like to thank you for your participation, today. And we feel -- please feel free to contact the IR team if you have any further questions. We'll end the session today. Thank you.

Wey-Ting Harn - Fubon Financial Holding Co., Ltd. - President, CFO & Director

Thank you very much.

Operator

That concludes today's conference. Thank you for your participation. You may now disconnect.

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