



CORPORATE FINANCE

Unicredit: A €10.1 Billion Public Exchange Offer for Banco BPM

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Overview

In late November 2024, UniCredit launched a €10.1 billion all-share offer to acquire Banco BPM. The board of Banco BPM firmly rejected the offer, claiming it is an underestimation of the bank's potential. This strategic acquisition aims to consolidate UniCredit's position in the Italian market, particularly in northern regions where Banco BPM holds a strong presence.

UniCredit, Italy's second-largest bank by assets after Intesa, is a pan-European commercial bank operating across 13 countries. With a market capitalization of €59,11 billion, UniCredit carried out an impressive stock performance over the year, with a price per share of €38,38 as of January 3rd, 2025, and an increase of 48,68% year-over-year. The bank has demonstrated robust financial performance in 2024. As of June 2024, the bank's total assets amounted to almost €800 billion and reported a net profit for the first half of the year of more than €5 billion, marking a 19% increase year-over-year and earnings per share equal to €3.058, with a P/E ratio of 6,14. This financial growth with respect to 2023 was mainly driven by a substantial increase in *interest income and other revenues*, potentially powered by the overall increase in interest rates across Italy over 2024. UniCredit did in fact report a net interest income of €7,3 billion as of June 30th, indicating a 5,7% increase from 2023.



Figure 1: UniCredit's price per share over a one-year period

Banco BPM, on the other hand, is Italy's 4th bank by assets and was born in 2017 when two major cooperative banks from northern Italy merged and transformed into a S.p.A: Banco Popolare and Banca Popolare di Milano. Banco BPM reported total assets of \$198 billion as of the first half of 2024, marking a 2% decline from 2023. Despite ongoing challenges with the competitive banking landscape, the bank reflected solid financial health throughout the year, with a net profit for the period of €750 million, 20% higher than 2023, and net interest income amounting to \$1,8 billion. As of January 3rd, 2025, Banco BPM is capitalized at approximately 11,87 billion and closed at a price per share of €7,69, marking a 49,40% increase YoY, and with a P/E ratio of 5,67.



Figure 2: Banco BPM's price per share over a one-year period

On November 25th, 2024, UniCredit voluntarily made a public exchange offer of 10.1 billion for an all-share acquisition of Banco BPM. The transaction would be an *all-share*, meaning that Banco BPM shareholders will receive UniCredit shares in exchange for their Banco BPM shares, rather than cash. The proposal provides for an exchange ratio of 0.175 UniCredit shares for each Banco BPM share, which values Banco BPM at €6.657 per share, incorporating 0.5% premium over its closing price on the day of the offer. Following the announcement, Banco BPM's stock price rose by 5%, reflecting investor expectations of a potential premium, while UniCredit's shares dropped by 4%, signaling market concerns over the financial impact of the deal. This acquisition aims to create a banking group to further consolidate UniCredit's competitiveness, proving itself capable of playing a leader role not only in the Italian landscape, but in the international banking industry as well.

This deal is subject to regulatory approvals and, if approved, it could be completed by June 2025.

Strategy Behind the Acquisition

The potential merger between UniCredit and Banco BPM occurs in a broader context of banking consolidation in Italy, where fragmentation remains a key structural challenge. With eight publicly traded banks competing in a saturated market, consolidation offers an avenue to unlock efficiencies, achieve scale, and strengthen profitability.

On November 14th, the Italian government completed the third phase of Monte dei Paschi's privatization, reducing its stake by 15%, from 26.7% to 11.7%. This sale, valued at €1.1 billion, aligns with the government's long-term goal of reducing its exposure to MPS following the 2017 bailout. Market reaction was positive, with MPS shares surging over 12% post-transaction. In a parallel move, Banco BPM acquired a 5% stake in MPS as part of its strategic growth objectives while adhering to its standalone strategy, signaling its desire to maintain independence amid industry consolidation. However, UniCredit CEO Andrea Orcel's strategic ambitions disrupted the Italian government's presumed trajectory of merging MPS with Banco BPM. Orcel's approach diverges from state-led solutions, favoring market-driven consolidation to redefine the European banking landscape.

UniCredit's aspirations for cross-border consolidation are evident in its moves beyond Italy. Previously, the bank had acquired a 9% stake in Germany's Commerzbank, further increasing it to 28% in December 2024 through derivative instruments while waiting for BCE's approval.

This deal clearly sparks speculation about a full acquisition, aligning with the bank's goal to create a stronger pan-European banking player. However, the German government's resistance to such a merger reflects the political and regulatory complexities of cross-border banking consolidation within the EU.

UniCredit is a dominant player in the Italian banking sector, while Banco BPM has demonstrated consistent growth in SMEs and retail banking. A merger would create a clear market leader, enhancing pricing power and competitive positioning.

The combined entity could address market fragmentation, improving efficiency and aligning with EU expectations for a more consolidated banking landscape. By opting for this defensive strategy, UniCredit is blocking potential competitor acquisitions of Banco BPM which solidifies UniCredit's positioning and mitigates competitive threats.

UniCredit's fourteen consecutive quarters of growth underscore its operational and financial strength, with ROE consistently above 10%. The addition of Banco BPM's growth trajectory could increase combined net income, improving UniCredit's profitability metrics and enhancing shareholder value.

Concerns

Banco BPM has rejected UniCredit's unsolicited €10.1 billion takeover bid, expressing several concerns. One of the primary issues raised by the management is the undervaluation of the bank: the board has stated that UniCredit's offer does not adequately reflect Banco BPM's profitability and potential for value creation, highlighting a disagreement over the perceived worth of the bank. Additionally, Banco BPM is concerned about the impact this deal could have on its strategic autonomy. The offer triggered the "passivity rule", a regulation that restricts Banco BPM's management from taking certain actions during the offer period unless approved by shareholders. This has in fact complicated Banco BPM's plans on the OPA of Anima Holding, which aims to strengthen its position in the asset management sector. In this regard, Banco BPM's board of directors has requested Consob's intervention to ensure protection of stakeholders. What is more, the merger is projected to result in over €1 billion in cost savings, a significant portion of which is expected to come from cutting operational costs and workforce reduction. Banco BPM's CEO, Giuseppe Castagna, specifically warned that as many as 6,000 jobs could be at risk.

From the Italian government's perspective, there are additional concerns about the potential effects of UniCredit's bid on national banking consolidation efforts. The government has in fact been

planning to create a larger national banking group around Monte dei Paschi di Siena, but this bid could compromise all those efforts. What is more, the merger would create a large and leading banking group concentrated under foreign control, as UniCredit's major shareholder is the American fund BlackRock. To address these concerns, the Finance Minister Giancarlo Giorgetti has hinted at utilizing the *golden power* legislation,

although the issuance of the decree has been ruled out for now. The golden power is a legal regulation that grants the Italian government the authority to intervene in transactions involving strategic national assets, in this case major banks, in order to protect national strategic and economic interests. These overlapping concerns from Banco BPM and the government underscore the complexities of the proposed merger and the challenges it may face moving forward.

Conclusion

UniCredit's €10.1 billion proposal to acquire Banco BPM is a bold move to consolidate its market leadership in Italy and strengthen its European banking presence. However, the rejection by Banco BPM's board, coupled with the involvement of Consob and the Italian government, adds further complexity to the situation. Whether UniCredit revises its offer or seeks alternative strategies, the next steps will be closely watched by stakeholders and the market alike.

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