Z-BEN ADVISORS

July 2009

FLASH REPORT: The Italian Job

Generali drops €100m to buy 30% of Guotai AMC, in the first of many such deals expected in the months ahead.

For months, we have been promising a summer of salesmanship, as noncompliant fund management companies' shareholdings are sold off by consolidating owners. The first move of what we are certain will be many has now been publicized: **Italy-based Generali announced yesterday an agreement to buy 30% of Guotai AMC.** China Jianyin Investments, a wholly-owned subsidiary of China Investment Corporation, will, by virtue of the deal, become fully compliant with CSRC ownership size restrictions, unlocking one of the major bottlenecks to the fund manager's growth.

The following is a summary of this report's pertinent findings:

- Generali will pay a reported EUR100m (Rmb951m) for 30% of Guotai AMC, valuing the company at Rmb3.17bn, 8.57% of AUM and a trailing multiple of 16x earnings
- Although somewhat higher than multiples or proportions of AUM paid in past transactions, the price is not extraordinary for a large and well-positioned firm
- The premium may very well have been warranted, and the deal even underpriced, once various qualitative factors are included into the analysis
- At a minimum, six other fund managers have a shareholder which needs to reduce its stake to become CSRC compliant; prices may fall (as a proportion of AUM) if sellers' motivation rises

The purpose of Z-Ben Advisors' latest Flash Report is to objectively evaluate the transaction from a number of different vantage points. Generali, in our view, appears to have paid a mild premium that suggests an aggressive growth projection for AUM. The buyer has also acquired one of the firms to have suffered least for its owner's non-compliance.

REPORT HIGHLIGHTS

- Background: The players, deal rationale and environment
- The Deal: Structure, size and key features
- Financial Merits: Assessing the value of the asset
- Next Up: A look at other fund managers impacted by noncompliance

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The Flash Report includes the following supporting exhibits:

- Transaction Analysis I: Percentage of AUM
- Transaction Analysis II: Price per share

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INTRODUCTION

Very few had seen it coming and yet, on the sidelines of the G8 meeting in Italy yesterday, the presidents of both China and Italy stood by and watched as **Assicurazioni Generali SpA** signed an agreement to acquire a 30% stake in **Guotai Asset Management**. The position wasn't exactly cheap, priced at €100m and 8.57% of AUM, based upon Z-Ben Advisors calculations. The deal, however, was a necessity on the Chinese side in that the shareholding structure at Guotai AMC was noncompliant with CSRC regulations. And it is here that the real importance of the transaction resides; with an agreement now in hand - although still requiring formal CSRC approval - is then likely to increase pressure on other fund managers which are themselves operating in noncompliance.

Generali agreed to acquire 30% of Guotai for 8.57% of AUM

Z-Ben Advisors has conducted an in-depth assessment of the deal and, notwithstanding the price tag, finds it to be appropriately priced from both the buyer's and seller's perspective. What is all but certain, however, is that the deal comes at a time when the number of properties coming up for sale is about to spike. With Italy's largest insurer now removed as a possible candidate to acquire, that means even tougher times in finding an appropriate buyer. And with that, this Flash Report not only considers the merits of this transaction, financial and otherwise, but also assesses the potential ramifications for those institutions needing to divest from the Chinese fund industry sooner rather than later.

The deal will put pressure on others to move more quickly to sell stakes

- The 30% sake in Guotai AMC was priced at or 8.57% of the manager's average 1H09 AUM.
- Based upon estimated 2008 earnings, the deal was perhaps inexpensive given a trailing earnings multiple of just 16x
- There are a number of other fund managers with noncompliant shareholder issues. Pressure to resolve these issues is expected to rise.
- Guotai AMC isn't alone. A number of other fund managers will need to address noncompliant ownership structure.

For Generali, Z-Ben Advisors would suspect that some will see the agreed to pricing point as being outlandishly high, especially given current market conditions. Granted, we aren't referring to valuations as high as last year's when **Old Mutual** initially agreed to purchase a 49% equity stake in **ABN Amro TEDA** for 16%+ of AUM. Even still, Z-Ben Advisors' exhaustive research on the topic of valuing Chinese fund managers finds the transaction here to be more than appropriately priced in favor of the foreign buyer. The deal could even look just this side of brilliant a few years out based upon our analysis of previous examples.

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Flash Report

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