Morgan Stanley, European Financials Conference: Alberto Nagel Fireside Chat

Pamela: And CEO of Mediobanca. Thank you very much, Mr. Nagel, for being here today. There are a lot of things that I want to discuss. It's an interesting time for Italian banks in general, and also, of course, particularly for Mediobanca. So, um, a lot of ground to cover. But before we open to our discussion, let's start with a polling question so we can ask you what you think about. Um, as you see on the screen, we want to know which of the following options you think would drive the biggest positive move in Mediobanca shares. One revenues beating guidance. Two excess capital distribution. Three the pursuit of inorganic growth in wealth management. Or four Progress of Mediobanca standalone strategy. Wow. It's so three with 41%. The pursuit of inorganic growth in wealth management. And fourth, also with 41% progress with Mediobanca standalone strategy. With that in mind, let's kick start and I'm going to dive into it. Um, let's talk about the offer that Banca Monte Paschi has on Mediobanca. In February, the board of directors published a press release talking about some of the risks that the transaction could bring, one of them being potential revenue attrition. Could you tell us if so far, following the announcement of the offer, you've already seen any disruption in Mediobanca's client base? Financial adviser, employees or investment banking employees. And if I may also with that, um, with the offer in mind, can you tell us what are the next steps in terms of the timeline? And if you're thinking about any next steps for you, what you want to do next?

Alberto Nagel: Thank you, Pamela, thank you for hosting us. This conference of Morgan Stanley's remains my favourite one because we have a lot of interesting investors, and the quality of the debate is always very high. So, uh, it's now roughly two months that the transaction has been announced. So we have had all the time to go through, uh, the element of the offer and to discuss also the proposal among ourselves, among the board, with our bankers, with our clients. And the reaction has been that basically, uh, clients bankers are happy to continue to work with us, uh, provided that we remain focussed on what we do. We remain centred around basically the so-called PIB model. We're talking about the the, I would say the headquarters and and the parent company. Um, and basically the response has been has been very good in sticking to what they have been doing and showing that even in tough times or in uncertainty, uh, we can continue to deliver over deliver because this is coherent with the, our strategy, our past track record. So even in this situation, we are very much committed to show that to our self first to our clients, that we tend to overdeliver and to stick to our industrial trajectory. Having said that, we have had also more time to discuss with them about this the synergies and after a good amount of work, we came to the conclusion that, uh, the transaction is likely to bring important synergies, important synergies that are mainly centred into the PIB model.

Alberto Nagel: So it's not related to compass or to the insurance. It's related to the private investment banking model, where we think that important revenue attrition will materialise in basically part of the private banking staff and assets, and in part of the advisory and investment banking. Um, I would say, uh, bankers. So we did more analysis on, on, on the back of this input, and we arrived to the conclusion that the these synergies are high enough that cannot be compensated by cost cutting. The cost cutting target to us seems, uh, quite ambitious in reality. We think that less than a third is achievable, given the fact that we don't have overlapping in network. In branch network, we have different business. So even the IT system and the platform cannot really be shared and used because, for instance, the platform of consumer is a platform very specific to consumer is difficult to use that of retail banking for consumer, or is difficult to use this for PIB or to private banking. So come coming to the last piece of synergies announced funding. We have seen that the credit rating agency have put Mediobanca in Creditwatch negative. So we think that funding, achieving funding synergies would be complex because basically the new entity is not in a position to replace all the bonds with deposits, nor is in a position to price our deposits at the level of the retail deposits because our deposits, private banking deposits, as you may imagine, have to be remunerated because the client base we have, it's it's having naturally a greater negotiation power and has to be remunerated compared to mass market or retail banking.

Alberto Nagel: So we don't see funding synergies. We see, on the contrary, some synergy to come to the to the final bottom line. We think that this transaction is able to generate double digit dilution in terms of EPS and DPS of Montepaschi, and hence it is a transaction that is not positive for us, not positive for MPS shareholder. When you look at the timetable and what we can do and is linked to also the poll, the results of the poll, I told you our assessment of this offer, on the other hand, you have our trajectory and the numbers that this trajectory is producing. Let's go through this. So we are having a run rate of 4 to 5% increase on revenue projected for the coming year. So we have a plan that ends at 2026. So this year we will grow at this level. Next year, more or less. We will grow between 4 and 5%. This, taking into consideration the dynamic of cost and cost of risk, should turn into 6 to 8% accretion in terms of BPS and more the same, likely the same to be the same in DPS, with an important caveat.

Alberto Nagel: On 2026, where we recently revised revisited the guidance, upgrade the guidance because on the back of the first half of this year, we are more confident about achieving a higher level of revenue for billion and achieving also better bottom line in the region of 1.4 billion. This led also to an upgrade in distribution roughly 4 billion in excess of 4 billion in during the plan. This means that in 2026 our shareholder with limited execution risk, because basically we are having this trajectory there since already some quarters we will distribute 10% in cash in two instalments. So because its interim dividend, plus if any buyback is approved or proposed at the end of this year and implemented in 2526, this will translate into 13% dividend yield. So you have on one hand this story, which is what is the results of the poll sticking to our acceleration, the PIB model delivering 13% of return in less than 18 months. And on the other, you have an offer that today is no premium and is having all the complexity and the synergies that we have seen. So this is why our board arrived to a preliminary conclusion that there is no interest in picking up or in recommending this offer is only a preliminary judgement because, as you know, the final and formal one will be there only when the offer will be in the market.

Pamela: It's interesting you were mentioning precisely you've increased the guidance and your commitment for distribution in 2026. Um, can we have an idea of the type of maybe soft CET 1 target that you have in mind to assess whether you want to launch additional buybacks? So is there a level of CET 1 that you can say above that I'll consider excess for potential buyback want.

Alberto Nagel: To to to answer your question, we need to spend some time or some few seconds at least on the business model answering your question. Three years ago would have required a different a different kind of position because the bank at the time was more RWA intensive. What we did, and I think it was the right move, and is also contrary to also some of the thesis on the MPS offer. So using the balance sheet of MPS to do more lending, which we don't want to do, basically our model of CIB is a model where given our size and the fact that we operate in certain markets, we want to become and we are becoming more and more advisory driven. So being becoming CIB less and less RWA intense and increasing bottom line and top line of waste management. The outcome is that the bank is producing 260 270 basis points of capital every year. So we don't need a very high capital ratio if we are progressing in this in on this ground of becoming more capitalised and reducing the overall risk embedded in, in, in our business proposition. So to come to your point, we will be happy. I mean, of course we have also to cope with the rating requirements and to supervise our expectation. But I think that the more we become wealth management driven or capitalised, the more closer to 13% we can say 13%. Yeah. Now 13 13.5 but with the three after the one and not with the four after the one. Just to tell you a bit more precise.

Pamela: Okay, um, now that's a capital target. You currently have access over that. Even if we think about the increase in the payout commitments that you just mentioned, there would still be optionality with the organic capital generation that you explained. Um, could we think about the optionality for inorganic growth? And with that, I the first topic that I want to cover for the options of inorganic growth is bolt ons. Um, because you've said before, you like to assess every single year towards the end of the fiscal year, if there are any opportunities that you want to pursue. You did that last year. You strengthened through bolt on acquisitions, for example, the CIB business. Um, are there any specific targets that you're currently looking at or you would be interested in in assessing. Yes.

Alberto Nagel: Of course we can use the excess capital. We can use also our general participation to fund acquisition. And on this, I have to say that the segment in which we can do acquisition are the three main businesses. We operate with different intensity and nuance in the sense that, uh, in consumer we can hardly go and look at RWA. I would say intense company, uh, because basically the model of compass is geared towards a proprietary network in terms of origination of loans and in particular, digital An upgrade. So what we can do in composite we have been doing is buying or partnering with fintech. That can accelerate our journey to to digital and new kind of customer segment, which is what is happening with buy now, pay later. That encompass proved to be a great, if maybe the the single biggest, uh, new acquirer acquirer of new customer. So prove to be very, very effective in terms of, uh, repeated loan or repeated business and with very good core as well. But there we don't see big transaction. We see some sort of bolt on in, in uh, fintech, uh, in, in CIB, we are very happy with the partnership we did with Arma. So what we can do is replicate the business or acquisition like this in some vertical, uh, advisory to the digital economy, of course, was a clear driver of the future energy transition. We have invested heavily. We are very much present. If we find another vertical that can operate well in some certain countries in Europe where we can be competitive with it. Otherwise we are not bound to be present in every single vertical just to tick the box. Every, every time we make assumptions about can we be competitive? Can we really make money? Revenue minus cost or it's a me too strategy.

Alberto Nagel: Me too strategy. We are not. We are not keen to um, so can be a vertical can be not a vertical, but a segment like Mid-corporate. We like a lot what we have been building in Italy. Now in Spain and in Germany, where we have started a Mid-corporate, uh, advisory franchise in September. So doing an acquisition in one of the core countries, Mid-corporate will help again differentiating our revenue pool. If you look at our number, the first half, we had a breakdown of revenue in in investment banking that is basically at majority advisory at majority non-Italian. This was totally different only a few years ago. And this help helps to, you know, uh, soften the impact of certain countries or certain transactions, certain industry that can go, well, one quarter, but maybe less buoyant in other quarters. Coming to wealth management here, also linked to this business. I have to say that we have had a very nice start of the year on the back of what we did in on Mediobanca Premier. So we launched Mediobanca Premier in in February of a year ago, basically February 2024. But we are now having a reward in terms of the quality of the bank, the quality of the financial advisor that is well above our expectations. And so we have a trajectory of organic growth that is very, very important to to put this in discussion or under sort of a pause, because when you do an acquisition, uh, you have to do the integration, it migration, some redundancy. We need to have something that is meaningful, that is impacting and hence we are not looking at, uh, multiple in, in case we would be doing something that is more important and it changes a bit. It's accelerating. I would say that the size of the wealth management.

Pamela: So now that you just said that, um, let's go back to when you said when you talked about the stake in Generali being, as you referred to it before, a value option for M&A. If we think about maybe larger inorganic growth opportunities, um, what type of opportunities are you referring to? What could be interesting in a more sizeable type of transaction?

Alberto Nagel: We've been already touched on this in previous situations, in previous interview like this. I think the more the more we grow with the PIB model, the more we become interesting. Consolidator for third party. Why I'm saying this if you look what Other, more affirmed financial advisory chain did in the last few years. Think about our friends of Mediolanum or AC motor, even recently Banca Generali. They all have developed or tried to develop a sort of investment banking franchise. Someone hire people? Either bought companies like Banca Generali with Intermonte. Why they did this? Because they see like us the importance or the proximity to entrepreneur. But we have to say that our proximity to entrepreneur is very solid because it roots back 50 years of experience. So the more we grow, the more we hire also from competition, the more our brand. And now I would say investment banking franchise will be liked and considered By the other players, and this may lead to a discussion about M&A more than in the past. On top, I think our capital position and also, as you mentioned, the value of the stake is is today more important and more sizeable. And we have, I would say, all the options available today. Okay. Today we are now, as I said, very much in particular in this moment, focus on delivering our plan. There is this offer. I think once our shareholder will have decided which which route they want to pursue, the standalone of Mediobanca or the combination of MPS. After this, we can most likely, you know, also re-engage or try to engage to to see whether there is room for consolidation, which will happen to me also in wealth management and not only in commercial banking.

Pamela: As you said, you're focussed on the strategy for Mediobanca Standalone, so let's now focus on that. Um, I know we will have other questions from the audience when we open up the Q&A, but we'll touch back on M&A. But um, before we open to that, let's focus on the current plan and specifically how the year has started. And now that we have you here, you can maybe give us some colour around any commercial or financial trends that you've been seeing in this year, Q3 of 2025.

Alberto Nagel: So we entered in Q3, as I told you, with some I shouldn't say tailwinds, but with some initiative that has been launched. Uh, there were forecasted in the plan. They are starting to kick off to kick off. So if you see in consumer, for instance, we have been investing a lot in this digital upgrade and buy now, pay later. This requires a lot of investment because buy now, pay later is a 24 over seven. So basically you need to have system that are very well functioning 24 over seven, which of course we were not used to when we had only the purpose loan that is done only some days in the week. So we had to invest more. But now we are seeing the impact of this in terms of new loan generation. Every quarter we add 200, €250 million of additional loan book, which is a billion every year. Taking into consideration the gross margin of this, which is eight point, you understand immediately the NII impact. You understand immediately why Mediobanca is different from others in terms of NII trend in the next few quarters. Um, the other important, uh, the other important, I would say, uh, investment or intervention that were forecasted were embedded in the plan are basically what we did in CIB because an DPT specialist, uh, the new uh, desk that we have opened are generating revenues.

Alberto Nagel: And you see from the composition of the of the fee pool, which is more fragmented, it's bigger and more fragmented, more diversified. This is a trend like NII, which will continue in is continuing in this quarter. In terms of net to money, the fact that we have hired give you the sense in the last six months, we have hired 60, uh, between financial advisor and private banker only Mediobanca Premier. No. So this is giving us a run rate of 9 to 10 billion of net new money, uh, out of which a good chunk is managed assets. Again, this is on the back of the reposition of Mediobanca Premier on the new hiring, where the new financial advisor average portfolio is between 25 and 30 million, while when we started was more 1015. So this is also producing as expected, the fee trend in in Q3 and both NII and the fee trend are coherent with the guidance that we have given of and NII, which is resilient and a fee pool which is growing this year but also next year, low double digits. So between 1,011% every year.

Pamela: Thinking about fees, being your strengths, thinking about where we're going in terms of rates to a lower rate scenario that we saw in the past few years. What do you think is a sustainable profitability return on tangible equity for a bank like Mediobanca?

Alberto Nagel: Let me take a step back. When the interest rates were very low and we had more RWA, RWA, intense intensive bank, and without the Bank of Wealth Management, we were producing between 9 and 10. So we were not at five. Now we are freeing up capital. We are growing with less capital consumption. So the ROTE rate that I see is a ROTE rate which is between 14 and 15%, of course, with 15% capital ratio. Now, if we go to 13, of course 13.5, the royalty will be higher. No. Uh, by definition, uh, in case of further decline in interest rates on on which today there is like a different, uh, expectation because of what happened in Germany. So now the market thinks that the interest rates will stay higher, at least in 2026. And maybe also NII will stay high compared to what we forecasted. But then I think we need to cope this with real facts. No real facts is that the GDP trajectory in Europe is very modest. We have some important manufacturing sectors that are suffering and we have this trade war. So we have seen in Italy announcement about Next Generation fund. But from announcement to see impact in GDP and then in rates. I think it's still a long journey, so I won't be surprised. Even in two 2026, we will have a modest GDP growth and not really higher interest rates in this. In this case. Again, as you mentioned, lower interest rates will make Mediobanca interesting because basically NII in consumer will grow more like used to grow when interest rates were going down. And lower interest rates means generally more activity in acquisition finance, in M&A, in in wealth management. So the low interest rates is not a bad environment for us.

Pamela: For maybe longer. So 14-15% upside potential with distribution of excess capital.

Alberto Nagel: Yes.

Pamela: Um, I have so many things that I still want to ask you, but um, I do want to see if you guys have any questions. So let's open up to Q&A. I can keep on going. And I felt guilty, so I needed to ask. Okay. Well, um, let me continue. You talked about how much you've been doing in terms of hiring financial advisors. You've also hired [Live stream connection interrupted].

Alberto Nagel: After the repositioning of the Bank of Premier. We need to press on to hiring because we have a lot of opportunity. And if it is an inflation driven by improvement or reinforcement of distribution network, Which should go for it when it comes to possible cost synergies and optimisation of sharing platform in wealth management or making more efficient use of holding function. This is something that we'll go after because, um, this will help us to keep inflation of cost better under control as opposed to, you know, having inflation in both. You mean at the end we can have better, better cost trend if we as we are planning, we become more efficient in some areas of the group.

Pamela: Um, again, if anyone wants to ask a question, please interrupt me. Um, okay. So again, thinking about the strategy for wealth management, some of the points that you've touched on, um, you've said throughout 2024 that was part of the narrative, the push to hiring financial advisors. You became a B2B specialist. Um, but I just want to know if there is something else from now on. Is there something that you can say, this is the driver of growth from now on?

Alberto Nagel: Well, the driver of growth is going to be, uh, you know, I would say printing, uh, loans that are really matching with our return target. What we did, and it was another busy decision we took two years ago is that the in in in CIB. But not only in CIB. We have raised the target of return on allocated capital In order not to print loans that were producing mainly NII, but not not real. Um, economic value added. No. This has helped us give a more discipline is helping to shift to this model. So we need to have a bank that is enjoying NII trend but based on real return produce and in the meantime is less risky if you want to, if you want to see it. Because for instance in a CIB the appetite. Risk appetite which was not huge has been reduced. And we focus on segments where in terms of risk return, we are more comfortable with. So a group that can grow on an AI producing real uh, value added and mainly produce fees and is having a low risk and low capital absorption. This is the new discipline we have installed in the bank, and I think it's going to be key to stay very much disciplined on this.

Pamela: Very clear.

Alberto Nagel: And sorry can help can help because I'm not so sure that the cost of risk for banks will stay as low as today. For the next 2 or 3 years we have seen a lot of cycle. Um, and what we see in terms of disruption of certain sectors, we mentioned briefly some manufacturing sectors think about car sectors. So some drivers of growth that were producing employment uh I would say GDP, the the inflation is not maybe not there anymore. So we need to think that Europe manufacturing sector may change a lot. This can produce also losses loss of employment loss of credit. So entering in this phase having a good portfolio with a good risk appetite is key to face difficult times that can be ahead of us.

Pamela: So are you expecting maybe an increase in cost of risk in the near term?

Alberto Nagel: Not in the near term, but this in the near term. What we see is very positive. But we have a bit of experience a ten years or five years of very low core. Normally it's the anticipation of an inversion of the cycle. The sooner or later will happen. In this case we have also some structural, I would say, changes because as I said, for instance, the automotive sector is going to go through a big a big reshuffle, a big reshuffle with most likely less employment, less revenue, less GDP produce and hence part of the system. May is already having a lot of tension, and this will be sooner or later be in the balance sheet of banks. This is one example, but you have a more than more this this sector you have as having facing issue in the next 2 or 3 years. So it's not a problem of this year, but what you do this year or last year will reverberate in 2 or 3 years time in terms of balance sheet and cause. It's the origination that you do, which is basically protect you in the future.

Pamela: Can you remind us briefly, what do you think is the through the cycle average cost of risk for Mediobanca with that in mind?

Alberto Nagel: Overall, we say we guided it is between 50 and 55 this year It's very positive. It's 50 rather than 55. No, or I would say that the different components are that in CIB, since already ten years, we have decreased our risk appetite. So in leveraged lending and in acquisition finance, since already 3 to 4 years, we are revisiting our risk appetite and we do transaction only if some criteria that are more stringent are met. In consumer, the increase of core is only function on the fact that we do much more personal loan which have a higher gross yield and hence can stand also in higher core to have a very interesting profitability. So it's a math and in in mortgage we have very, very modest core. So in wealth management as well. So we have different components very different. But basically the only driver of growth is the different mix in consumer finance. Okay.

Pamela: Very clear. Thank you. Um, does anyone have, um, maybe one last question. Yes, please. Can we have the mic up front? Thank you very much.

Speaker5: Thank you. I'm Kerry from Pictet. Regarding the Monte offer, I mean, your business case is very clear that it's, uh, it's destroying value. But there seems to be a political angle through this offer. So what is the probability that the politics wins over the business case?

Alberto Nagel: Well, the majority of our share capital is within institutional investor and some private investor. And I think they will make they will make their decision based on convenience, not on politics. So I think that at the end, also at the start, the numbers projection, equity story, uh, decision on the risk you want to take, uh, investing in one stock or the other will be the key decision factor to, to decide whether to tender the shares or not.

Pamela: Any more questions? We still have time. Okay. I still want to ask you more things. Uh, we have five more minutes, so I'm going to use them. Um, in 2024.

Alberto Nagel: You can ask question about M&A general M&A if you want.

Pamela: Well I think I did didn't we.

Alberto Nagel: Ask.

Pamela: I think I did. Um okay. Well um so.

Alberto Nagel: Italy is very hot in this moment.

Pamela: Italy is the discussion right now. And there was to.

Alberto Nagel: Keep the tension.

Pamela: There was a peer, um, that said during 2024 results that there was going to be a lot of disruption in Italy precisely because all of the M&A that's going on. How do you see that comment? What do you think?

Alberto Nagel: Well, we have to understand that what disruption? There is some, uh, meaning of disruption which may be positive and some negative. I mean, I think at the end, consolidation in each segment makes sense because basically you can do some synergies. You can invest more in digital in cyber today still in ESG. Let's see how the rules are evolving. So peer to peer it makes sense. No commercial banking is becoming bigger in commercial banking, becoming bigger in private banking having makes sense in private banking investments. You need to be careful about investing when it comes to financial advisors that you can retain. The financial advisor because as you know, financial advisors are not employee. So they they are agents. And so you need to be good enough to retain them. And and there is a risk of, of retention. But I mean it it makes sense clearly to get there you need to have some disruption. And the issue we are seeing in M&A today is that all banks are making good results. All banks are pretty valued and nobody wants to sell today because they say, look we are producing a lot of good results, so why should we. So there is this problem of matching between expectation of seller and uh, you know, criteria of the buyer, which sometimes they have time to be to be put together. Apart from this, I think Italy, in terms of banking landscape, having a fewer number of banks to on the verticals and making some good synergies. I think it makes sense. So it will happen. But with these bumps and ups and downs, depending on the valuation, the expectation of shareholder, the possibility to to put down a fair offer for everybody.

Pamela: So definitely opportunities.

Alberto Nagel: It's an opportunities. Of course we are working on this. And uh, I think that we still need to see in market consolidation first and maybe after we can see some cross-border. I mean, uh, also the, possible transaction between UniCredit and Commerzbank. It's not really cross-border. It's more a market consolidation. So I think that maybe in some product company like or industry like asset management insurance, you may see some consolidation at European level. When it comes to put together commercial banking network, maybe also an investment banking could make sense. But commercial bank retail banking generates important synergies. Cross-border is something that has to be assessed because I didn't hear from CEOs or from CFO that there is still a strong case to justify this.

Pamela: Well, thank you very much. That was very interesting. Thank you for the audience. You have.

Alberto Nagel: Been.

Pamela: Patient. Everyone, for joining us today. Thank you. We reached the end. So thank you. Have a good day. Thank you, Mr. Nagel.