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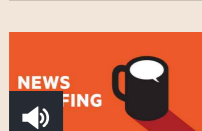
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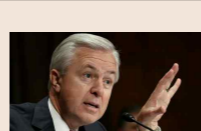
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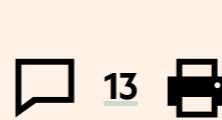
# PNC agrees to buy BBVA's US operations for \$11.6bn

Deal is first large bank merger since BB&T bought SunTrust in 2019



Shares in BBVA soared almost 20 per cent in early trading on Monday following the announcement of the deal © Bloomberg

Robert Armstrong and James Fontanella-Khan in New York and Daniel Dombey in Madrid 8 HOURS AGO



PNC has agreed to buy the US operations of Spanish bank BBVA for \$11.6bn in an all-cash deal that will create the fifth-largest US bank by assets, delivering a jolt to a fragmented industry that has been slow to consolidate.

The transaction comes six months after PNC sold its stake in BlackRock, the world's largest asset manager, for \$17bn as it sought to bolster its balance sheet amid concerns over the future of the US economy due to the coronavirus crisis.

The sum paid for BBVA's US operations almost exactly matches the after-tax proceeds of the BlackRock sale. The acquisition will give Pittsburgh-based PNC a presence in several important growth markets beyond its primarily mid-western and mid-Atlantic footprint, most prominently in Texas.

Bill Demchak, PNC's chief executive, characterised the two deals as a "substitution" that would help the bank build a nationwide franchise.

"We've managed to effectively trade the BlackRock ownership stake we had for a franchise that takes us coast to coast," Mr Demchak told the Financial Times. "BBVA is in the best markets in the country with substantial presence down in Texas, Arizona, California and in Denver, in Alabama, and down through Florida."

BBVA said the purchase price represented 20 times the 2019 earnings of its 637-branch US subsidiary and almost 50 per cent of BBVA's overall market capitalisation.

The Spanish lender added that it intended to use much of the funds raised in a share buyback when the transaction closes in six to nine months. "We have been pretty smart at capitalising on a very rare, unique opportunity of having a strategic purchaser with cash in hand," said Onur Genc, BBVA chief executive, adding that foreign banks exiting the US often sold at a discount or exchanged their stakes for stock. "The intention is clearly to do a sizeable buyback."

Shares in BBVA surged almost 20 per cent in early trading on Monday following the announcement of the deal.

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The deal is the first large bank merger since BB&T bought SunTrust for \$28bn in February of 2019, forming what is now Truist.

PNC, which has about \$450bn in assets, would overtake Truist once the deal is completed with BBVA USA, which has more than \$100bn in assets.

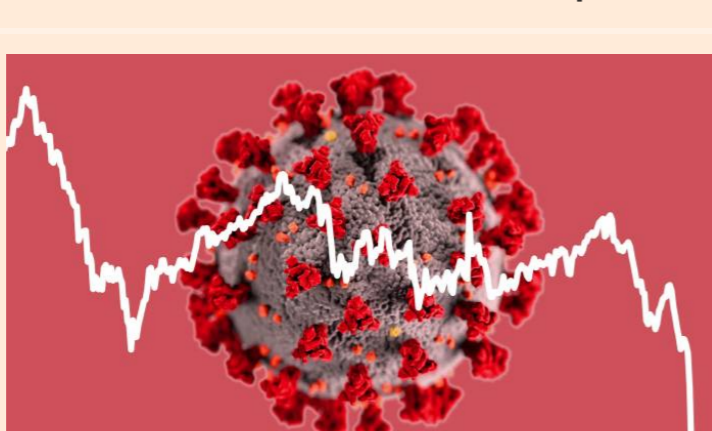
The combined PNC-BBVA USA will be the fifth-largest retail bank in the US behind JPMorgan Chase, Bank of America, Wells Fargo and Citigroup, which each have assets of at least \$2tn.

The deal initially will be dilutive to PNC's tangible book value per share, a metric closely followed by Wall Street banking analysts. PNC's tangible book value will fall from \$96 per share to \$88 but even then, Mr Demchak noted, it will still be more than the \$86 per PNC share before the sale of the BlackRock minority stake. PNC is paying 1.3 times tangible book value, he said, describing the valuation as "a cyclical low — things have not traded that low since 2011". PNC also trades at 1.3 times book.

Mr Demchak said the transaction would generate about \$900m in cost savings related to the overlap of global management and regulatory costs. The bank expects 20 per cent EPS accretion in the second year after the merger, which is expected to close in mid-2021.

The deal was made easier, according to Mr Demchak, by optimistic news of a vaccine candidate and post-US election stability. "We have in effect put a floor under the worst [Covid-19] downside, and the Federal Reserve and the US government have responded forcefully."

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The move follows a trend of European banks such as HSBC and Deutsche Bank reducing their US presence after finding it difficult to compete with larger and better capitalised rivals. The bulk of the cuts have been in investment banking, but retail divisions have been slashed, too.

"For BBVA, they have a lot of capital in the USA and invested heavily in technology, but could not bring [their operation] to scale and were in effect under-earning," Mr Demchak said. "We're a better owner

of the asset — we have lots of synergies and lots of products they don't have" that can be sold through their network.

Carlos Torres, BBVA's executive chairman, said that the sale "enhances our already strong financial position", adding that "we will have ample flexibility to profitably deploy capital in our markets, strengthening our long-term growth profile and supporting economies in the recovery phase, and to increase distributions to shareholders".

The deal will increase BBVA's core equity tier one ratio by about 300 basis points, the bank said. Spanish banks have some of the lowest core equity tier one capital in the eurozone. That has worried some regulators, since the Spanish economy, which the government expects to contract more than 11 per cent this year, has been severely affected by the crisis.

JPMorgan was the sole financial adviser to BBVA while Sullivan & Cromwell acted as legal adviser. Bank of America, Citi, Evercore and PNC Financial Institutions Advisory advised PNC on the financial side of the deal and Wachtell, Lipton, Rosen & Katz provided legal counsel.

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