Strategic Acquisition of Colonial First State Global Asset Management Main Q&A

Q : The valuation seems relatively high compared to asset management (AM) firms listed in the United States. Can you explain the reason for this and why it is considered fair?

A : Australia boasts substantial market growth potential; valuations there are thus relatively higher than in other countries consistently. Moreover, the EBITDA multiple for listed AM firms in Australia is roughly around 10 to 11 times. So, taking the control premium into consideration, we believe this valuation of 12.4 times is quite reasonable.

Q : How would you rate this acquisition's profitability in terms of ROI or similar indicators?

A : In the first year or two, the impact on MUFG's net profit will be minimal when taking the estimated cost of amortization into account. From the third year onward, the acquisition is expected to contribute to profits. We anticipate that the acquisition will steadily exceed our internal ROI standard within the same time frame as our previous investments in overseas commercial banks. The Colonial First State Global Asset Management (CFSGAM) has various growing AM teams in multiple areas, and I'd like to touch on the diversification provided by future profits from this investment. Specifically, the Edinburgh and Hong Kong offices have long followed an investment philosophy as for their emerging equity strategies that focus on investments into high-quality companies, and have maintained good long-term management performance. They enjoy strong support from their clients and boast consistently high personnel retention rates. In Australia, we can expect stable growth supported by the backdrop of superannuation arrangement. This diversification of revenue is significant in terms of reducing profit volatility for MUFG as a whole and stabilizing our credit ratings.

Q : What affect will this acquisition have on MUFG's capital ratio?

A : The acquisition comes to approximately A$4.0 billion (¥328 billion). Excluding tangible fixed assets, the total of goodwill and other intangible fixed assets is expected to be about ¥290 billion. The acquisition is expected to slightly lower the Common Equity Tier 1 ratio by a little over 20 basis points.

Q : What were the PDCA cycles like for past acquisitions? In addition, is the top management of MUFG holding thorough discussions that extend to potential sales of current investments?

A : MUFG regularly holds investment monitoring committee meetings and is consistently aware of how effectively its capital is being managed. In fact, we sold all of the shares of Malaysia's CIMB in the previous fiscal year and half of the shares of Brazil's Banco Bradesco in the current fiscal year. We regularly review the strategic significance and profitability of all our investments and work diligently to effectively manage capital.

Q : Is MUFG considering another large-scale acquisition of AM firms? If so, might this not be a cause for concern as such acquisitions may distract the Company's focus from delivering robust shareholder returns?

A : Expanding Assets under management (AuM) aren't everything. We value the support of our clients and believe this support is what leads to positive results. If we think a potential investment target possesses value that will benefit our clients and that its corporate culture aligns with ours, we will consider seizing the opportunity presented by the acquisition, but we don't have any target date on it.

MUFG has not budgeted for M&A in specific fields. Looking ahead, we will continue considering investment opportunities based on our long-term strategies while remaining mindful of the balance between capital accumulation to ensure financial soundness and shareholder returns. Since the results announcement in May, we have had various conversations with investors and are well aware of your expectations for shareholder returns. As we have said before, our policy of executing tight capital management—that is, not holding onto unnecessary capital—stands unaltered. We will notify all investors when we decide to take specific actions regarding shareholder returns.

Q : Is there any concern that, with the change in the parent company, top management and fund managers will leave or AuM will flow out from the firm?

A : Regarding the M&A of AM firms, the biggest risks are key personnel exits and AuM outflow. As we move forward with this majority investment, we are fully considering these risks. I'd like to touch on two significant factors related to this acquisition.

The first is that although the parent company at the top will change with our acquisition, we will respect the current way CFSGAM's top management are handling operations as well as the practices of the asset management teams, who are under their management. This has been a point of discussion during negotiations with our partners and key personnel, and we have ensured that they understood and felt reassured by our position.

The second factor is that we are confident in our ability to retain key personnel by offering certain employment packages.

Q : I saw a report from some media outlets about financial improprieties in connection with the Commonwealth Bank of Australia and AMP being involved in a class-action lawsuit seeking compensation for losses. What impact will that have on the acquisition?

A : Australia's royal commission is focusing mainly on sellers and sales platforms, and we do not recognize this as a problem for the AM firm CFSGAM.

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