



Mark Chiba



EnTie Commercial Bank head office

The Longreach Group: Turning around EnTie Commercial Bank: Successful deal shows banking turnaround doable

Taiwan's banking sector is notoriously problematic, with some 70 banks for just 22 million people, around half of them state-connected, poorly differentiated and frequently loss-making, yet resistant to consolidation. Banking investment has its own issues, with some skepticism over whether private equity owners can ever effect operational improvement. All the more gratifying, then, to find a case that successfully overcomes both challenges: **the Longreach Group's** turnaround investment in EnTie Commercial Bank.

First – and best?

To Longreach's credit, what is ostensibly the first ever private equity-controlled banking transaction in Taiwan is also looking to be one of the most successful.

EnTie is in many ways a typical Taiwanese bank. Founded in June 1992 and listed on the Taiwan Stock Exchange in 1999, EnTie is a mid-tier player, just below the local top twenty by assets. The bank is concentrated in the Greater Taipei region, with 34 of its 53 branches there, with a business well-balanced between commercial and retail banking.

Longreach Group Chairman **Mark Chiba** reflects. "Within our geographic and sector focus, and deal style, we felt that Taiwan could offer us a fairly valued, traditional control and operational turnaround opportunity in banking, with in-market consolidation and cross-Strait trends further assisting the ultimate exit, once we executed on the turnaround"

Longreach originally acquired EnTie in November 2007 after an 18-month negotiation, due diligence and deal structuring, and management search process, investing \$700 million in a friendly deal with the former majority shareholder, Hung Tai Group, for a clear majority control equity interest (61% of equity pre-convertible bond dilution; 51% on a maximum dilution basis). Longreach's LP co-investors in the deal included a strong bench of Japanese, US and European financial institutions.

"We would never do a minority investment or one that did not properly protect us from the legacy balance sheet losses," Chiba adds. "Control and a robust capital protection structure were the essentials, not only for our investment, but also to attract first-class new management to the bank. At the same time, we wanted a structure that would be a win-win with the seller."

Longreach's turnaround campaign

With its control equity position — later topped up by a small tender offer in May 2008 – Longreach had management control from the outset, with the former family owners participating as minority stakeholders and advisors. Longreach could therefore implement a sophisticated and innovative capital protection structure (by converting to equity the convertible bond the bank issued to the seller as a condition of the investment, needed to deal with

EnTie's legacy balance sheet losses) and to strongly capitalize the bank, while enabling strategic expansion as required.

Longreach also recruited a new high-quality management team, led by CEO Jessie Ding, the former President of Taipei Fubon Commercial Bank. For Ding, EnTie was definitely a smaller platform, but according to Chiba, he was attracted by EnTie's unrealized potential and fully professional governance platform, as well as the pioneering challenge to lead a ground-breaking turnaround in Taiwanese banking. In addition to the new business heads of corporate, retail and treasury, a CRO was recruited from the ADB and the CFO, Andrew Lee, was recruited from Lehman Brothers.

Longreach senior partners and staff personally went into the bank to work hand in hand with Jesse and his new team on the turnaround, with what the firm describes as "intense operational improvement work." Chiba himself served as Chairman of EnTie for the first 18 months to support Jesse and to help drive the change process. Bain Consulting advised on the new business plan, after EnTie's balance sheet had been cleaned up and NPLs written off.

Behind the new strategy came new internal controls and risk management mechanisms, with the new management comprehensively improving the bank's MIS, reporting and business plan execution practices, with fully-detailed monthly reports for the board, and deep

and timely information available to support decision-making. Chiba's own senior management experience at UBS, and deal experience during the 1997-98 Asian financial crisis, were fully drawn on to support the new CEO and his team.

The final phase of the capital protection plan, executed in December 2008 through a convertible bond conversion, gave EnTie one of the highest capital adequacy ratios in Taiwan, while crystallizing Longreach's stake at 57.7%.

Results of the investment to date

As a result, EnTie finally returned to profit in 1Q09 and appears on track for a good full year profit in line with the turnaround plan – despite the effects of the global financial crisis. Longreach's capital protection plan gave the bank sound capital underpinnings to withstand the impact of the global downturn.

Future prospects for the bank appear strong. With Taiwanese media already talking of potential bolt-on acquisitions, and many global financial players eyeing the island market as a springboard into China, Longreach seems to have worked itself into a position for a strong exit path.

Chiba concludes, "There is never a magic bullet. To make this kind of banking investment work, you must have the basics: control, a capital protective deal structure, and a genuinely strong and committed management team. From there it is mainly about execution quality and speed. Then you can survive and prosper – even if the market throws some unexpected shocks at you!"

- paul.mackintosh@incisivemedia.com

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