

# UBS's Acquisition of Credit Suisse: Case Study of Acquisition Results between Large Banks

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**Abstract.** UBS's acquisition of Credit Suisse is a typical case of acquisitions between large banks, which has a great influence on the development of UBS itself and the Swiss banking industry. This paper aims to evaluate the success of the acquisition based on the changes in UBS's stock price at the time of the acquisition news announcement and the actual occurrence of the acquisition. Through the study of UBS's stock price fluctuations before and after the release of acquisition news, this paper finds that investors generally hold a positive attitude toward the impact of the acquisition on UBS's operation and future revenues. Through analysis of the stock price and owners' equity per share changes during the acquisition, it can be indicated that the income of UBS also increased significantly after the actual occurrence of the acquisition, which is confirmed by both the positive reaction of market investors and UBS's financial statements. The generally upward indicators such as stock price, return on stocks, and owners' equity reflect the overall positive financial information of UBS, therefore UBS's acquisition can be considered successful to a large extent. According to this acquisition case, the acquisition is a significant means for large banks to enhance market investors' optimism about them, as well as reduce their operating costs and increase future revenues.

**Keywords:** UBS, Credit Suisse, Acquisition results, Stock Return, Owner's Equity.

## 1. Introduction

Credit Suisse, the second-largest bank in Switzerland, suffered from serious crisis due to a series of scandals and impacts of the Federal Reserve's aggressive interest rate hikes. In the past few years, Credit Suisse has encountered many problems in its operation, such as poor investment decisions, money laundering rule violations, and frequent management changes, which had significant adverse impacts on Credit Suisse [1]. The negative news led to increased market distrust of Credit Suisse and large capital outflows in late 2022. In addition, the Federal Reserve's interest rate hikes have led to increased stress in the banking sector, exacerbating the crisis in the whole sector. The continuous rise in interest rates has significantly driven up the cost of financing for banks, which has increased the risk and uncertainty in the banking sector [1]. Driven by the Swiss government to save Credit Suisse from the verge of bankruptcy, UBS proposed a plan to acquire Credit Suisse in March 2023, which was officially implemented in June of the year.

The acquisition is carried out by way of an equity swap and is expected to achieve a cost-saving of \$8 billion for UBS over the next five years. In the acquisition, Credit Suisse shareholders will receive 1 UBS share for every 22.48 Credit Suisse shares held, which means that CHF 0.76 will be paid to each Credit Suisse share, and a total of CHF 3 billion will be spent in this acquisition. The Swiss government provided a loss guarantee of CHF 9 billion for the acquisition. In addition, the SNB provided a loan of CHF 50 billion to facilitate UBS's acquisition of Credit Suisse.

This paper will mainly examine the case of the acquisition of Credit Suisse Group by UBS, the largest bank in Switzerland. UBS's acquisition has been studied by many scholars, which provides an important reference for the research of this paper. Rossi and Sergio examine the causes and consequences of Credit Suisse's banking crisis and make several recommendations for its reform [2]. This article is an important reference for understanding the acquisition's background. Valbuena and

Eidenmüller research the liquidation of the AT1 bonds at the time of Credit Suisse's bailout and explore the implications of this bailout [3]. They mainly focus on Credit Suisse's Bailout and provide a case study of bank bailouts and rescues that can help the understanding of bailouts in banking takeovers. Nekhili et al. studied the credit risk transmission of European banks during Credit Suisse's collapse [4]. They provide an understanding of banking crises and their impact on the financial system as a whole, which has important implications for the study of banking acquisitions and financial stability. Although involving in-depth research of background and impacts of the acquisition, these studies do not explicitly and exhaustively examine the outcomes of UBS's acquisitions, which will be the main focus of this paper.

This paper intends to evaluate the outcomes of UBS's acquisition from the perspective of changes in UBS's stock returns, which are derived from stock prices, and owner's equity due to the acquisition news announcement and actual occurrence of the acquisition. This paper finds an important increase in UBS's stock returns, which indicates the market investors' positive expectation of the acquisition outcomes. Meanwhile, the owner's equity per share also observed an upward trend during the acquisition, reflecting a profit gain generated by UBS due to the acquisition. Therefore, based on the above analysis, this paper believes that the acquisition can be considered a success for UBS, which generates positive effects on its operation and future development. The study of this case is of great significance to the development of UBS itself and the Swiss banking industry in the future, which provides a meaningful reference for large banks to improve their operations and increase business scales through acquisitions.

## 2. Methodology and Data

### 2.1. Methods

In this paper, stock returns are used to express the percentage of change in UBS's stock prices daily, where stock price represents the stock price of  $t$ th day, and stock return represents the stock return of  $t$ th day.

$$\text{stock return}_t = \ln \frac{\text{stock price}_t}{\text{stock price}_{t-1}} \quad (1)$$

To analyze the market's expectation of acquisition results, UBS's average stock returns 10 days before and 10 days after the announcement of acquisition information will be compared. 10 trading days before announcement are 2023/3/6~2023/3/10, 2023/3/13~2023/3/17. 10 trading days before announcement are 2023/3/20~2023/3/24, 2023/3/27~2023/3/31.

$$\text{average stock return of 10 days before announcement} = \frac{\text{stock returns of Adjacent 10 trading days before announcement}}{10} \quad (2)$$

$$\text{average stock return of 10 days after announcement} = \frac{\text{stock returns of Adjacent 10 trading days after announcement}}{10} \quad (3)$$

The average returns of UBS's stock before and after the acquisition are calculated to assess investors' perceptions and judgments of the acquisition's results. 20 trading days after acquisition occurrence includes 2023/6/2, 2023/6/5~2023/6/9, 2023/6/12~2023/6/16, 2023/6/20~2023/6/23, 2023/6/26~2023/6/30.

$$\text{average stock return of a year before acquisition announcement} = \frac{\text{stock returns of Adjacent 268 trading days before announcement}}{268} \quad (4)$$

$$\text{average stock return of 10 days after the acquisition} = \frac{\text{stock returns of Adjacent 20 trading days after acquisition occurrence}}{20} \quad (5)$$

Acquisition results will be further analyzed through the changes in UBS's owners' equity per share to measure the actual profit gains or losses generated by UBS due to the acquisition. Four-quarters of UBS's total owner's equity and outstanding shares are used.

$$\text{UBS's owner's equity per share} = \frac{\text{UBS's total owner's equity}}{\text{amount of UBS's total outstanding shares}} \quad (6)$$

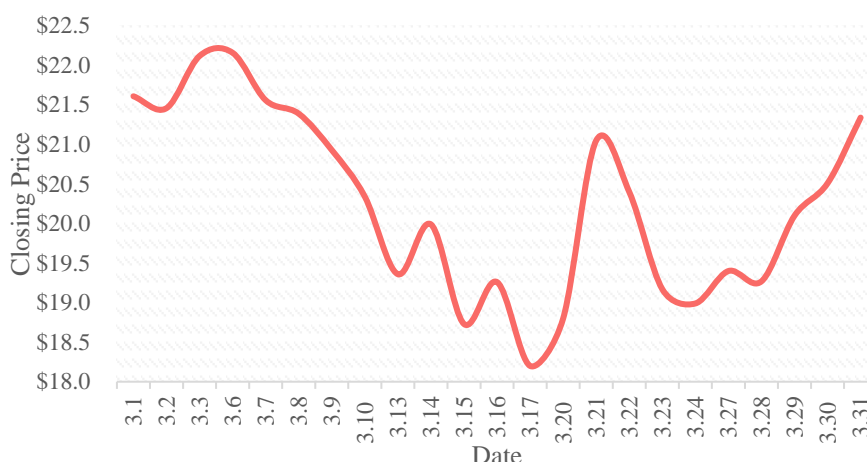
## 2.2. Data

The data used in the case study includes UBS's stock prices of 11 days before and 10 days after the acquisition announcement in March 19, 2023; UBS's stock prices of 20 trading days after the occurrence of acquisition in June 2023; UBS's stock price of 268 trading days from March 2022 to February 2023; UBS's total owner's equity and number of outstanding shares of four quarters before and after the acquisition, including the fourth quarter of 2022, the first, second and third quarters of 2023. The data selected in this paper is from *investing.com*. All the data on UBS's stock prices is retrieved from the website <https://cn.investing.com/equities/ubs-group-n-historical-data?cid=8132>; All the data on UBS's total owner's equity and number of outstanding shares is retrieved from the website <https://m.cn.investing.com/equities/ubs-group-n-financial-summary?cid=8132>. This paper will use the data to calculate UBS's average daily compounded stock returns of multiple periods and owner's equity per share of four quarters and make some reasonable comparisons to analyze the acquisition results.

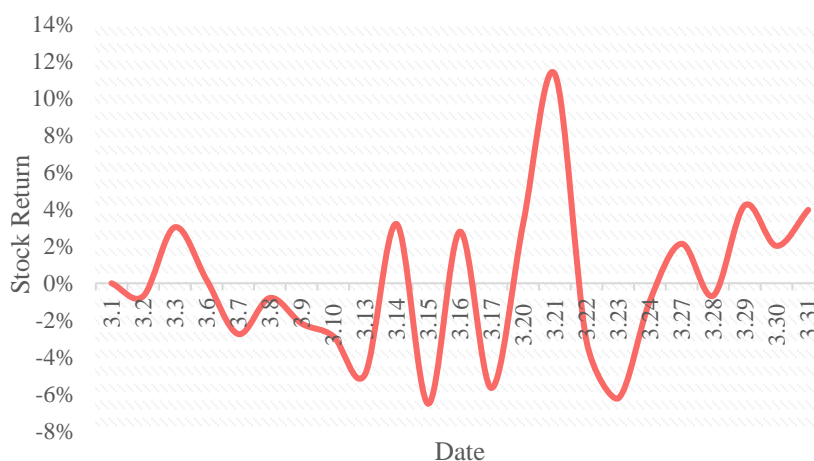
## 3. Analysis of Acquisition Results

### 3.1. Stock Price Changes when Acquisition Announced

After the announcement of UBS's acquisition of Credit Suisse on March 19, UBS's stock price and return on shares fluctuated greatly and peaked highly, and have continued to rise since then (see Figure 1). The average return of 10 stock trading days after the acquisition disclosure date was 1.59%, which was much higher than the average return of the previous 10 stock trading days (-1.95%), reflecting the overall positive attitude of the market towards the acquisition (see Figure 2). This is largely because the greater the strength and scale of the acquirer, the higher the position in the market after the acquisition is completed, and the higher the investors' expectations for the company's post-merger earnings growth. As a result, mergers and acquisitions of large companies are usually more attractive to investors, and their stock prices may rise as a result [5]. In addition, a large part of it is due to the previous credit default and huge losses of the acquired Credit Suisse, which gradually faded investors' confidence in Credit Suisse. In contrast, UBS has relatively better credit and development prospects and is believed to be able to change Credit Suisse's dilemma and take advantage of the combined scale after absorbing Credit Suisse. The other part is due to the participation and guarantee of the acquisition by the Swiss authorities. In response to the Credit Suisse crisis, the Swiss Federal Government, the Swiss Financial Market Supervisory Authority, and the Swiss National Bank participated in and brokered UBS's takeover of Credit Suisse and provided substantial support. These actions provide investors with a lot of confidence in the success of the acquisition and the good future development of UBS.



**Fig. 1** Changes in UBS’s stock price before and after acquisition announcement in March 2023



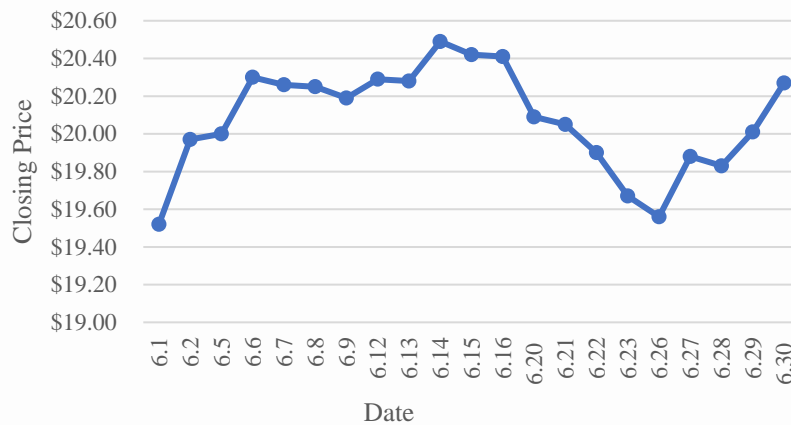
**Fig. 2** Changes in UBS's stock return when the acquisition was announced in March 2023

### 3.2. Stock Price Changes During Acquisition

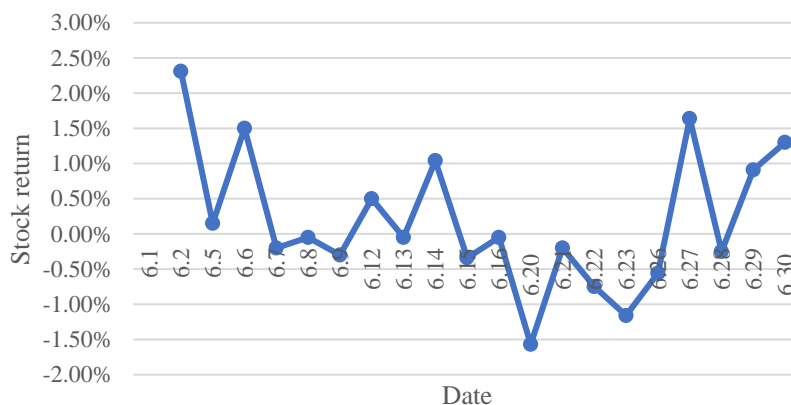
This section examines the impacts of the acquisition on UBS’s stock price when it was implemented in June. UBS announced the acquisition of Credit Suisse on March 20, 2023, which was completed in June, 2023. Unlike the information release in March, the changes in the stock price when the acquisition was implemented in June tend to reflect the perception of UBS shareholders of the actual benefits and additional revenues generated by the acquisition. This section compares UBS's average stock return on the month of acquisition with the return on all trading days of the previous year of the acquisition announcement. According to UBS’s stock price data, in June 2023, the month of acquisition, a higher average stock return (0.16%) was observed, which reflects the market's recognition of the actual results and benefits of the acquisition after its completion (see Figure 3 and Figure 4).

The average stock return of UBS after the acquisition was 0.16%, significantly higher than 0.02% of the year before the acquisition was announced. This indicates that the market is recognizable to the actual results of the acquisition, reflecting the increased confidence of investors. This positive market performance may be related to expected earnings and business integration effects, and is due to a combination of factors that have contributed to UBS's positive market performance. First, after the acquisition is completed, the market's optimistic expectations for UBS's future performance and strategic planning may become the main driver of the stock price rally. Investors may believe that the acquisition will bring strategic advantages and growth opportunities to the company, which will increase confidence in the company's prospects and drive the stock price higher. This view is also supported by the literature. For example, Adhikari et al.'s study analyzed the pre- and post-merger

financial performance of selected banks in Nepal and found that the post-merger banks improved in their financial performance [6]. They believe that mergers and acquisitions are likely to deliver the expected benefits and business integration effects, resulting in positive market performance [6]. Second, actual acquisition results are likely to be reflected in the smooth progress of business integration and performance above expectations. If UBS successfully implements the merger, realizes synergies, and demonstrates a solid financial position, investors may be more optimistic about the company's future, driving the stock price higher. This can be explained by the higher average change in the stock price after the takeover by UBS. Chiaramonte et al.'s study reviewed the literature on M&A in the financial sector and proposes future research directions [7]. This shows that M&A is an important area in the financial industry, and it can have a positive impact on market performance. And it can lead to positive market performance. This further supports the market's endorsement of the UBS acquisition. Macroeconomic factors and industry trends may also have an impact on UBS's stock price. If the financial sector as a whole is in a period of growth, or UBS is well-positioned to compete in the market, investors may be more willing to invest in the company's shares, supporting the stock price upside. Overall, there is a positive view of the actual results of the acquisition, and investor confidence has improved. Expected earnings and business integration effects may be one of the reasons for this positive market performance. Behind the rise in UBS's stock price may be the market's positive expectations for the company's future and the recognition of actual results.



**Fig. 3** Changes in UBS’s stock price before and after occurrence of acquisition in June 2023

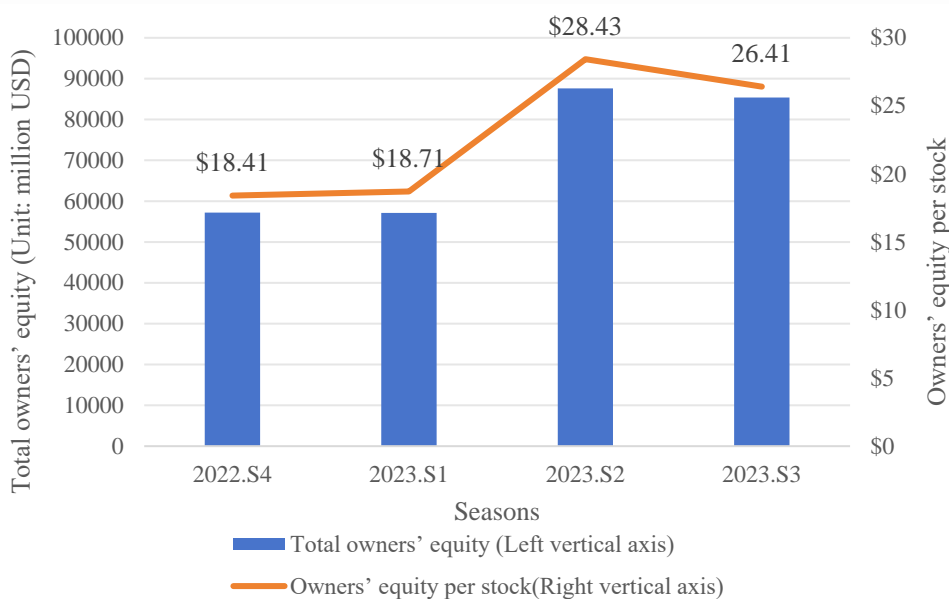


**Fig. 4** Changes in UBS’s stock return before and after the occurrence of acquisition in June 2023

### 3.3. Changes in Owner's Equity During Acquisition

After the acquisition of Credit Suisse, UBS's total ownership equity increased from approximately \$57,000 million to approximately \$86,000 million, and the average owner's equity per share (\$27.42) at the end of the two quarters after the acquisition increased by approximately 47.75% compared to \$18.56 at the end of the two quarters before the acquisition (see Figure 5). This significant change

indicates that the acquisition has generated positive impacts on UBS's ownership equity and led to an increase in its owner's wealth, reflecting that the acquisition achieved significant profit gains for UBS [8]. This corollary can be explained from many perspectives. Through the acquisition, UBS inherited a significant amount of Credit Suisse's debt, which means that UBS will take on more interest expenses and debt service repayments. However, by acquiring Credit Suisse, UBS was able to expand its market share in both Swiss and international markets, as well as generate economies of scale and operating cost savings, which is beneficial to UBS's profitability. Overall, UBS has made significant gains through this acquisition and has strengthened its strength and market position. The overall positive impact of M&A on the banking industry has been demonstrated by numerous studies. Mi and Osuma showed that M&A is an effective means of ensuring the stability and profitability of the banking sector by studying the case of mergers and acquisitions between banks in Nigeria [9]. They argue that M&A, as a means of corporate restructuring, can provide several forms of economic and financial benefits, such as economies of scale, risk diversification, and the ability to compete with other banks locally and internationally [10]. At the same time, Muhammad et al. tested the impact of bank mergers and acquisitions on the financial performance of banks in Pakistan during the period 2004-2015 based on accounting measures [10]. The results show that the liquidity, profitability and investment ratio of banks after mergers and acquisitions are positive, and the financial performance is significantly improved, which also proves the thesis of this section.



**Fig. 5** Changes in total owners' equity and owners' equity per stock before and after acquisition

#### 4. Conclusion

This paper is to analyze the case of UBS's acquisition of Credit Suisse and examine the results of the acquisition. This paper examines the success of UBS's acquisition from three aspects: the market's expectation of the acquisition prospects, the judgment and perception of the actual results of the acquisition, and the actual benefits of the acquisition to UBS. In this paper, changes in the average return of UBS shares are used to reflect investors' expectations and judgments about the UBS acquisition, and use the change in UBS's owner's equity per share to infer the actual earnings generated by the acquisition. This paper concludes that investors are generally optimistic about the UBS acquisition and recognize the actual results of the acquisition, and that the acquisition has a high potential to contribute to the growth of UBS's earnings and drive a significant change in UBS's earnings. Therefore, this paper argues that UBS's acquisition was successful in terms of stock returns

and owner's equity per share, which reflects market investors' positive perception of UBS's acquisition results and actual revenue growth due to the acquisition.

Because the acquisition was only six months before the writing of this paper, the disclosed data of the acquisition is very limited. Therefore, this paper has to use UBS's stock price and owner's equity to examine the success of the acquisition. However, the stock price only reflects investors' attitudes towards UBS's acquisition, which is highly subjective. Additionally, owner's equity is disclosed in the form of quarterly reports, therefore at the time of writing, only two series of data on owner's equity following UBS's acquisition is available. As the impact of the acquisition on UBS is long-term and comprehensive, the existing data is very limited and only reflects the acquisition's short-term impacts on UBS. Therefore, the current data can hardly indicate the long-term effects of acquisition and is difficult to compare with the overall cost of the acquisition. Therefore, this paper suggests that future studies utilize a data set with a long timeframe which contains the data more than 5 years after the acquisition, and compare them with the pre-acquisition data and cost of investment to acquisition, to study the acquisition outcomes more objectively and accurately.

## Authors Contribution

All authors contribute equally, regardless of the order of authorship.

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