

Estimating the Value of Entry for UBS into the Investment Banking Industry and US Market

An Assessment on the Shareholder Value of the UBS US Expansion Strategy

Master Thesis in Banking & Finance
at the Swiss Banking Institute, University of Zurich,
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Date of Submission: 19.11.2009

Abstract

This paper investigates the shareholder value of the US expansion strategy as implemented by UBS during the years 2002-2009. The assessment of the value was conducted amid the recent financial crisis affecting the global banking industry and especially in the context of the banking secrecy case, a suit filed by the US Internal Revenue Service to prosecute tax evasion by US citizens involving the assistance of UBS and of utmost importance to the Swiss banking secrecy law.

To examine whether investors categorically rejected the US expansion strategy, a market-model event study was conducted using SMI, DJ Euro STOXX Banks Index and two self-constructed indices reflecting banks with little or no US involvement. An additional market-adjustment model event study was conducted to derive the absolute cumulative abnormal returns to illustrate assessments of the market on a single event basis. This was done in order to assess the benefits and costs incurred by single parts of the expansion strategy. A final DCF analysis provided means for comparison and consolidation. The results indicate a direct loss incurred of USD 10.33 per share and as of 31.12.2008. Investing the funds used by UBS in US acquisitions and sell-offs in non-US banking operations instead would have yielded an additional USD 15.00 per share.