Meet the man who would break up Credit Suisse — and the Mideast angle that will see him in Cairo in early 2018

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The Swiss hedge fund RBR Capital Advisors has been making the rounds of the press lately with shareholder activism plays that brought on recent changes in Gate Group and GAM Holding, which produced a +130% net total return for investors.

Their next target made global headlines: A bid to break up multinational financial services conglomerate Credit Suisse, which RBR says has been on a persistent downtrend for almost a decade — and where CEO Tidjane Thiam has made slow progress with a turnaround bid that sees Credit Suisse's share price at barely half what it was when he took the reins in 2015. RBR has a plan they believe can turn things around.

The plan, which RBR has dubbed Parade 2.0, essentially involves spinning three distinct entities off Credit Suisse that are more focused in what they do, and ultimately, more profitable: Its investment banking arm, a reborn First Boston, would become leading investment bank based out of London or New York and focused mainly on profitable niches; SKA 2.0, which would provide global wealth management and business banking services; and Suisse Asset Management, which has potential to grow and compete with other international fund and wealth managers. (The outfit's transaction-specific website breaks it all down here.)

As activist investors with no more than a 0.2% stake in the bank, it's hard work convincing stakeholders that the plan warrants breaking up a storied member of the bulge bracket, but RBR says it is confident and is raising capital for the play out of the Middle East, the US, and Europe.

The Middle East angle may be critical: The Financial Times reports this morning that Bohli met with top Credit Suisse leaders and may have "toned down its demands for a break-up of the bank," pushing for a more aggressive cost-cutting program," possibly funded by a sovereign wealth fund waiting in the wings.

We recently had a chat with RBR Advisors founder and CEO Rudolf Bohli, who will be in Cairo between in early 2018 for an investor roadshow, to understand more about how they think their plan can generate 100% upside for Credit Suisse shareholders. Edited excerpts:

Let's start off with the not-terribly distant past. Can you give us some more detail on your most recent activist investment transactions, whether Gate group or GAM Holding, in terms of lessons learned and how you fund your blueprints?

I think what we learned with Gate Group is that it's very important to convince the shareholder base. In the end, whether you're a 5% or 10% shareholder — or as in the case now with Credit Suisse, you're a 0.2% shareholder — you don't own the majority of the shares and you have to convince 90-99% of the majority of those with the merits of your plan, or you have to convince the management and board. In the case of Gate Group, we were the single largest shareholder and we focused more on the management and board. As we progressed on our second campaign, I think we paid more and more attention to the shareholder base.

I think this was the natural progression of our first campaign, because [with Credit Suisse] we are an even smaller shareholder. It's unlikely that board and management will just listen to our voice, but they'll want to hear what all other shareholders are thinking. That is the reason why we came out relatively early with our plan so there could be a broad-based discussion.

So why Credit Suisse?

I think the timing is perfect for Credit Suisse. A lot of the homework has been done and the group is ready to enter the next phase. For me, right now, in Switzerland, it is just the most interesting company. Having followed all the changes in the financial industry over last 20 years, I think it's biggest opportunity by far.

You can look at it from the global perspective. Technology has disrupted many industries, but that hasn't happened yet in the banking space, and capitalizing on that is one of the key points of our plan. There is huge opportunity to grab tremendous market share if you are an early bird. So if you look at all industries — retail like Amazon or advertising with Google and Facebook — you see that the digital leaders have a much better competitive position and they manage to grab a very large market share very quickly. We think the same is possible in banking now.

I think it hasn't happened yet because of regulation, firstly, but also because of the complexity of the overall product offering. You can't come out with just a single product, when out there you have so many options in the market. What doesn't exist is a one-stop-shop-solution for banking. Nobody has properly done that yet, even though the technology is there and all the elements are there. Part of the reason is it's also very expensive; it's expensive to put everything together as a startup. Also banking customers are relatively conservative. So we think that the beauty here is that we want to combine the strengths of fintech with the strengths of a traditional brand that has a very large customer franchise.

Typically speaking, banks would have the resources to do this on their own and yet they're the largest employers of Cobol and other dead programming languages. What's the obstacle for them to bite the bullet and expect change? And how does your plan make it more likely that Credit Suisse will go down that road?

I think people in general are reluctant to change, and we are the catalysts for that change because we show up, point the finger at the problem and we make the discussion public. There is a similar example in the automotive industry. I remember German car manufacturers for so many years refused to invest in the electric car, saying it's not going to work for 20 years… Now they're coming in full force because they are forced to change. Their lunch was taken away by Tesla.

So we think the timing is perfect and the prerequisites to do this are there to take the bank digital and also shift the group's focus on the individual divisions.

Pure play institutions are actually doing much better in terms of profitability, growth, and focus than conglomerates. Conglomerates, I think, across most industries, don't work as well anymore. There's very few exceptions. You see it in terms of returns. Conglomerate banks, even the best ones, yield a Return on Equity

(RoE) that is substantially below the focused players. So JPMorgan is at 11%, Goldman Sachs is at 10%, and everybody else is below that.

Credit Suisse has never performed better than Goldman Sachs, which means the conglomerate model is not working. But if you split the business up into individual parts, you can yield much higher returns, particularly on the wealth management side, but we also believe on the investment banking side. I think the biggest discussion so far has been around investment banking and there's a bit of a Catch-22 going on there. There's resistance to floating the business, but the regulator in Switzerland asks for a lot of extra capital, which they call operational risk, yet the shareholder doesn't get any return on it.

So all we are saying is that in particular, on the whole global markets division where you have trading and sales, a lot of these things should be scaled back dramatically and they haven't been. They have not been scaled back since 2014. The number of employees has been stable, so we haven't really seen a restructuring there, yet a lot of these businesses are under tremendous pressure. So you would need a lot less people. Just to give you an example on the brokerage side: 20 years ago, you used to charge 40 or 50 basis points for trading. Today, you can make these trades for free. So the whole profit pool has actually disappeared.

The investment bank needs to be independently listed in order to be sustainable. You cannot cross-subsidize this business forever. It's a win-win situation because, in the end, it's an Anglo-Saxon business. The big business happens in New York and then to a lesser degree in London and they run the show so they should also have the primary listing. Also the regulator here in Switzerland doesn't really like it. So it's a win-win situation, and it frees up the group to focus on wealth management and to leapfrog really into the 21st century with a digital bank.

Is it fair to say that we're at an inflection point for the global banking industry where more than one player is going to have to go through this or face being eaten by fintech?

Yes, I believe so. Because the barriers to entry have been lowered in many verticals. You have fintech gaining a lot of momentum very fast and you can see that the large conglomerate are not getting the returns they're used to having in the past. And they put 80-90% of their IT spending into legacy solutions. So that cannot continue. There needs to be a point where this breaks, and I believe we have a huge first mover advantage here.

How has reaction been to your bid?

People are always reluctant at the start. They'll tell you that your plan is unrealistic. But that's fine. We are patient, we are happy to go through the plan in detail.

Also, the news kind of leaked and came out in bits and pieces, so at the start people didn't have the whole plan in front of them. The discussion so far has not really focused on the plan. I think that's what our mission is, really, to put the plan center stage and explain each of the elements, because someone who first thought it to be a plan with no merit might reconsider. They [banking investors] are all conservative investors. They take their time and they don't want to be rushed and I think that's good. It's a large organization, so the decision should not be rushed.

That was part of our idea to make the plan public, so the large shareholders could discuss it with management, and if management is convinced and they have the backing of large shareholders, I think they're also more willing to push with the board, and the board typically is more conservative, as boards in general tend to be.

How do you get the conversation recentered on the plan as opposed to on your or your size?

A first you discuss it and then you just press the repeat button. Then of course our aim is to raise a bit more capital to strengthen our position.

Where are you looking to raise that capital?

We're definitely open to the Middle East. We think there's a lot of smart investors in the Middle East. Of course we are looking in the US as well and we tried to of course in the home market. I don't think the Swiss will be first to invest though because they are very conservative. But they will definitely chip in once they see the

momentum.
It's a very attractive proposition because the biggest risks are out of the way and the bank has been recapitalized, the litigation issues have been resolved, and the cost cutting has started. So we believe there is very little downside. On the other hand, if you can transform the business, there is huge upside. We think we can double the share price within 18-24 months.

From a mercenary point of view, why would I pay fees to you guys when I could just go buy a share tomorrow and tag along for the ride?

I think for a small shareholder, that's fine. They'd probably say so what, right? But I think we are also addressing the more strategic investors. They want to have somebody on the ground; a local guy they can trust so that things are actually implemented and not only announced. So I think that that's our role, or that's how we would like to see it.

What are the first signposts on the road that suggest you're on the right track? What should observers be looking for at this transaction unfolds?

I believe it could happen fast. Because a lot might happen behind closed doors. So, I would jump on board now. There was not a lot of management reaction here. They haven't said a word, and rightly so. Because it is true they are in the midst of a three-year plan. We don't say stop the three-year plan we just have to have something new. Because the three-year plan may get you RoE of 6-7%. I don't believe they'd get much higher and that's not well-positioned.

You've spoken with management previously? What was reaction like?

Yes, we've spoken to management. Overall very friendly. We believe that the CEO is ideally suited to pull off such a transformation of the group because he's an outsider. He's neither an investment banker nor a private banker.

What questions are prospective investors asking?

The biggest pushback we get is so far still the size of our position, and that was to be expected. As we are going to be raising some assets, I think these questions will get a bit quieter. Then there is still skepticism about whether you can list in a US investment bank. There has been a lot of comments that it's impossible. But it's worth a try.

Can you confirm that you are looking to raise something in the range of a CHF 1 bn?
Yes, that's what we said, yes.

You talked earlier about how to get to a certain point in your career and you want to be more hands on and you want to be more active in terms of pushing to create value for your co-investors, key partners and people in your fund. But how do you get there in the first place? You guys have a research background.

I started my career first in treasury in what today is UBS and then I spent five years on the sellside as a research analyst before I founded RBR in 2003. So I think it's always been research driven and now I think it's a bit more implementation.

How did your research background inform your strategy?
The investment case has to make sense. Then when it comes to activist investment you also need to have a plan and you need to have a path to success. But there's also never just a straight path to success so you have to stay flexible and be willing to take alternative routes.

Would you guys ever see yourselves doing activist investment in MENA or do you think the landscape out here could lend itself in that way to other players who might be interested in pursuing it?

There is always a local component to activism. Sometimes the outsider sees something completely different, but you’ll always also lose certain things like the local network, the understanding of the people, the subtleties. So I think us coming to the Middle East would be a little bit like the proverbial elephant in the porcelain shop. Europe is our playground.

Why is activist investing a dirty word among our colleagues in the business and financial press?

I think people don’t like the fact that you put the spotlight on the problem. The activist is someone who comes in and says that something isn’t working. Indirectly you’re also saying that the long-term investor isn’t doing his job and that’s why they are also very reluctant to associate themselves with you even though you create value for them. But it’s a group thing. The activist is a little bit outside of the group.

Also, there’s activism and then there’s activism. The guys who are just storming in to ask for share buybacks and higher dividends… I don’t’ find that very creative. I think it’s there’s more support than used to be, so that is good news.

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