

Taking Stock: MI something you could bank on

by Malcolm_Berko

Dear Mr. Berko: Please tell me about a bank called Marshall & Ilsley. And please tell me about its spin-off of Metavante. What will be the price and earnings of Metavante and how much will the spin-off affect the earnings of Marshall & Ilsley? Do you think Marshall & Ilsley and Metavante will be good investments? I might want to buy 100 shares of Marshall & Ilsley, which at \$30.44 is way down from its high of \$51.

E.W.

Boca Raton, Fla.

Dear E.W.: Until February of 2001 I used to think that Marshall & Ilsley Corp. (MI-\$30.44) was a funeral home in Valdosta, Ga. Then I met a member of the Marshall family who said that his great-grandfather leased space from a shoemaker in 1847 and in 1849 Charles Ilsley joined his great-grandfather in the banking business in Milwaukee, Wis. While this newfound knowledge was not on par with the discovery of penicillin or the law of gravity, it did introduce me to a classy bank stock that has increased its dividend every year since 1987. So I bought 40 shares at \$50 for my two kids and a year later MI split 2-for-1 and today they have about 91 shares (all dividends are reinvested) trading at \$30.44.

MI has 14,000 employees staffing offices in Arizona, Indiana, Wisconsin, Florida, Minnesota, Missouri, Oklahoma and Nevada and has become a superb acquisition machine. In 2001 and 2002 MI bought three banks in Minnesota and one bank in Missouri. In 2006 MI bought Gold Bank in Kansas, Trustcorp Financial in Missouri and United Heritage Bank in Florida. And this year MI will have bought Excel Bank in Wisconsin and First Bank in Indiana. These acquisitions were elegantly executed and the "fits" were as comfortable as an old shoe.

Due to unique conditions in the banking industry, MI is likely to find a few sweet deals in the coming year. Today MI has 260 branches, which have produced a long string of impressive revenue and earnings growth, vaulting MI to the 16th-largest bank in the U.S. of A. There's nothing super about MI, it's not a sparkling diamond nor does it glitter like gold. MI is just a well-run, by-the-numbers bank that enjoys good success because it practices good "bankmanship" for the community, for its customers and for its shareholders.

Metavante, which I thought was a Mexican Health Care Clinic, will be spun off this month. But to my surprise, Metavante turned out to be a data service segment of MI that provides banking and payment technologies to financial services firms and businesses. Metavante is electronic banking, consulting services, sales and service automation, image-based check and document processing, risk and compliance software, PIN, signature, credit card accounting and processing, ATM services and myriad other support services. This data services division represents 37 percent of MI's revenues and will be spun off (tax-free) one share of Metavante for every three shares of MI. Meanwhile, Warburg Pincus (one of those evil private equity firms)

will purchase 25 percent of Metavante for \$625 million so MI shareholders will end up owning 75 percent of Metavante.

Metavante Technologies Inc. (MV) has 5,500 employees, generated 2006 revenues of \$1.5 billion delivering banking and payment technologies to 9,000 financial service firms and produced a net profit of \$160 million. This spin-off will give MI a \$1.65 billion capital infusion to continue its acquisition course. The spin-off will also give MV more financial flexibility enhancing its ability to grow its business through complementary acquisitions. These MV shares will probably begin trading between \$9 and \$11 and reduce the market value of MI shares by about \$4.

Standard and Poor's recently downgraded Marshall & Ilsley and perhaps they know a few things I don't. However, on a pro forma basis, Value Line expects 2007 earnings to come in at \$2.83 vs. \$3.35 and believes MI could trade in the low \$60s four years out. Its \$1.24 dividend has an attractive 1.4 percent and could be raised next year. AG Edwards has a "hold" on the stock while Deutsche Securities rates it as a "buy." MSN's "StockScouter" ranks MI as a nine out of 10 and millions of shares are held by Northwestern, Barclays, Vanguard, State Street, T. Rowe Price, JP Morgan, Lazard, Bank of America and Growth Fund of America.

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