BUSINESS NEWS

ADT Draws Funds From State Farm, Google

By Miriam Gottfried

ADT Inc. has secured investments totaling $1.5 billion from **State Farm** and a partnership aimed at expanding the security company's customer base and improving risk mitigation for insured homeowners, the companies said.

Under the deal, which was reported earlier Tuesday by The Wall Street Journal, State Farm will spend $1.2 billion to buy 133.3 million ADT shares, or about 15% of the company. That represents a share price of $9, above ADT's Friday close of $7.21.

The closely held Bloomington, Ill., insurer will also invest up to $300 million in ADT to fund product and technology innovation, marketing and customer acquisition and will get a seat on ADT's board.

Alphabet Inc.'s Google, which previously invested $450 million in Boca Raton, Fla.-based ADT for a 6.6% stake and committed $150 million toward engineering, designing and marketing of new products, is pledging up to $150 million more for those areas.

To avoid dilution, ADT plans to use the proceeds of the State Farm equity investment to buy back up to 133.3 million shares of its stock at $9 apiece.

Home insurers, including State Farm, have long offered discounts to policyholders who have a home-security system. ADT and State Farm are hoping to go beyond that by encouraging more of State Farm's 13.7 million homeowners'-insurance customers to purchase ADT systems for leak detection and carbon monoxide and smoke detection, in addition to protection against an intrusion.

For ADT, the partnership is aimed at lowering its customer-acquisition costs as State Farm's 19,400 agents become a new channel to introduce its offerings. ADT also hopes to improve its customer retention, which currently averages about eight years compared with nearly 20 years for people who bundle homeowners' and auto insurance with State Farm.

State Farm, for its part, wants to help its customers avoid losses instead of simply handling recoveries after they occur.

"We have a chance to begin this shift for the State Farm customer from reactive and restoration to proactive protection," ADT CEO Jim DeVries told the Journal.

The two companies want to use data from Google, whose Nest hardware ADT already sells, to assist with planning for what the future of a connected home might look like.

One area of focus will be to improve leak detection, a major headache for home insurers, according to State Farm Chief Operating Officer Paul Smith.

"Water is the biggest conundrum in our industry," he said. "If we can prevent losses, it's better for everyone."

Private-equity firm **Apollo Global Management** Inc., ADT's majority shareholder, has committed to backstopping the share-buyback offer. Google has agreed not to sell any of its shares in the tender offer.

Windfall Taxes Are the Latest Hit on Europe's Banks

By Patricia Kowsmann

European banks have started to reap higher profits from rising interest rates—and governments are already starting to clamp down on them.

In Spain, the government has laid out plans to tax lenders on their rising income and use the money to alleviate higher living costs for the population. Hungary has imposed a similar measure, and the Czech Republic, where inflation is above 17%, is considering such a move. In Poland, where mortgages carry variable rates that are quickly rising, the government placed a moratorium on repayments to help borrowers.

Banks in Europe have long struggled with anemic growth and slim profit margins. Even the continent's larger lenders have market values that are a fraction of those of U.S. giants such as JPMorgan Chase & Co.

A big part of the challenge: years of negative central-bank interest rates. Subzero rates cut banks' margins on loans and made them unattractive for investors, since the lenders struggled to earn returns above their cost of capital.

Rising rates had looked like a light at the end of the tunnel. Banks are usually beneficiaries in such an environment, since they can increase the rates they charge borrowers faster than they lift payouts to depositors.

Germany's **Commerzbank** AG said it could take a revenue hit of as much as 290 million euros, equivalent to $290 million, in the third quarter from its business in Poland. Its second-quarter revenue was €2.4 billion. Spain's **Banco Santander** SA could potentially lose more than €1 billion in revenue through 2023 from Spain's and Poland's moves, according to analysts. Last year, the bank made €8.6 billion in revenue from both countries.

ANGEL GARCIA/BLOOMBERG NEWS

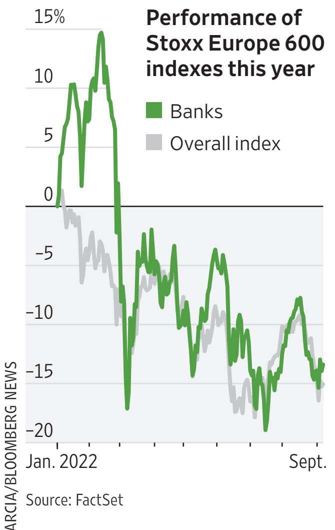
Santander could potentially lose revenue from Spain's and Poland's moves, analysts say.

"The first thing that worries me is that the sector is stigmatized," Santander Chief Executive Officer José Antonio Álvarez said after the Spanish plan was unveiled. "Regardless of who is affected by the tax, inflation cannot be fought with taxes."

Shares of banks in both Spain and Poland fell after the plans were unveiled.

In other areas too, European governments are acting quickly when judging companies to be earning abnormally large profits. The U.K. has said it would introduce a windfall tax on energy companies, and Spain is imposing a similar levy as well as the new tax on banks. Such regulatory risk for investors helps explain why returns on European stocks have long lagged behind those on their U.S. equivalents.

Investors should consider lenders as like utility companies, providing relatively low but stable returns in forms of dividends, said Marco Troiano, head of financial institutions at ratings firm Scope Ratings.



Source: FactSet

"Profitability in the sector is pretty much regulated by the government," following the global financial crisis, Mr. Troiano said, adding that while banks are being punished now, they received state support in the pandemic and other crises.

Skyrocketing inflation is forcing the European Central Bank and other monetary authorities to increase interest rates. In turn, those higher borrowing costs are further squeezing families and companies as they contend with soaring prices. As governments step in with relief measures, they are tapping banks for money and relief for borrowers.

Spanish Prime Minister Pedro Sánchez told Parliament in July that given big banks were already starting to benefit from interest-rate rises, they should be taxed. Under the plan, which needs to be approved in Parliament, Madrid expects to get €1.5 billion in each of 2022 and 2023 by imposing a 4.8% charge on banks' net interest income and net commissions.

Spain's lenders, such as **Banco Bilbao Vizcaya Argentaria** SA, said they are being unfairly punished for conducting normal banking business.

"What is extraordinary is negative rates, not positive rates," BBVA CEO Onur Genç said as he presented the bank's second-quarter results, adding that banks would cut lending because of the measure.

He has estimated a yearly revenue hit of €250 million from the measure.

In Germany, Commerzbank said it would consider legal action against the Polish measure, which allows mortgage holders to suspend payments for eight months through the end of 2023. Other banks with a presence in Poland affected by the moratorium include Dutch lender ING Groep NV and France's BNP Paribas SA.

Railroads Reverse Years of Streamlining to Speed Freight

By Esther Fung

BELLEVUE, Ohio—U.S. freight railroads are adding back locomotives and reopening idled "hump" yards, reversing years of decluttering as they seek to reduce service delays.

Several humps—where trains are broken down, reassembled and sent to their next destination—were recently reactivated by **Norfolk Southern** Corp and **Union Pacific** Corp. They were among operations that had been significantly curtailed in the industry's yearslong push to operate more efficiently by using fewer trains and holding them to tighter schedules.

The streamlining helped cut costs and boost profits, lifting shares and valuations of major operators. Regulators and some customers say they also made railroads more vulnerable to service disruptions, which have increased during the pandemic amid a shortage of workers.

In late August, shortly after Norfolk Southern reopened the hump in a rail yard in Bellevue, Chief Executive Alan Shaw grinned when he heard the high-pitch screeching of brakes that were calibrating the speed of individual railcars rolling down the hill.

"It's a beautiful sound. The sound of technology," said Mr. Shaw, who took over in May. In the yard, "dwell" time, or the time a railcar spends waiting in a terminal, has been reduced by around 8% since the hump was reactivated, easing some burdens on staff in yards in Indiana and southern Ohio. The Atlanta-based railroad reopened another hump in Macon, Ga., in July.

Closing humps was a signature move of the late Hunter Harrison, the railroad veteran who transformed four of North America's major railroads during his career and pioneered "precision schedule railroading." The strategy aims to cut costs in part by minimizing inventory and weeding out unnecessary and time-consuming processes.

Hump yards have artificial hills which long trains are pushed over so that gravity helps send individual or coupled cars down different tracks to where they are then reassembled and sent to their next destination. Most of the major freight railroads idled a portion of their hump yards in recent years.

Similar to airline hubs, humps are efficient at transporting a large volume of goods to different destinations. But just as you don't want more than one layover as an airline passenger, Mr. Shaw said, the same goes for shipping freight.

Some analysts and investors say hump yards often increase congestion and are a waste of money, especially for less complex routes.

The Bellevue yard, which stretches 6 miles wide, is currently using 48 of the 80 tracks to classify cars to 37 destinations across the country, sorting shipments including motor vehicles, coiled steel, sand and liquefied petroleum gas.

In the early months of the pandemic, the hump was idled because of declining volumes, and the yard reverted to flat-switching, or the use of locomotives, to sort railcars. When demand picked back up, railroads had to figure out how to handle railcar switches with fewer workers.

A hump yard can process more cars with the automation of switches, and at Bellevue, the yard crew can now handle around 1,900 cars daily, up from 1,200. This eases switching operations in other yards, allowing workers there to be redeployed to operating trains.

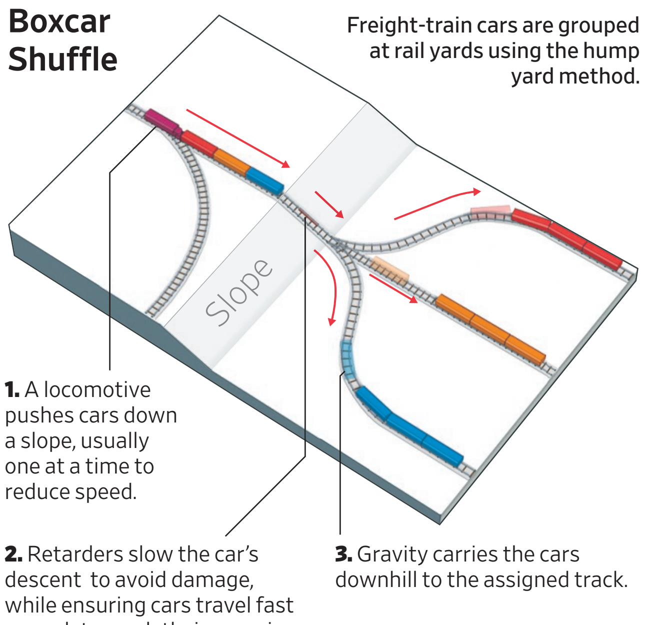
There was some excitement among the crew at the northern Ohio rail yard when the hump reopened. "It took 11 hours to handle the cars. Now it's closer to six," said Floyd Hudson, vice president of transportation at Norfolk Southern.

With the two recently reactivated humps, Norfolk Southern now has six working humps and five idled ones.

Union Pacific said it recently reopened the hump in Fort Worth, Texas, to reduce switching operations in its West Colton, Calif., yard, freeing up the West Coast facility to expand other operations including moving cargo by rail and truck.

Boxcar Shuffle

Freight-train cars are grouped at rail yards using the hump yard method.



1. A locomotive pushes cars down a slope, usually one at a time to reduce speed.

2. Retarders slow the car's descent to avoid damage, while ensuring cars travel fast enough to reach their groupings.

3. Gravity carries the cars downhill to the assigned track.

Sources: Journal of Transport Literature, Analysis of rail yard and terminal performances, Marin Marinov; Leonardo Di Giovanni; Giulia Bellisai; Julian Clevermann; Anastasia Mastellou; Diogo Victória; Lalka Deleva; Norfolk Southern Corporation