

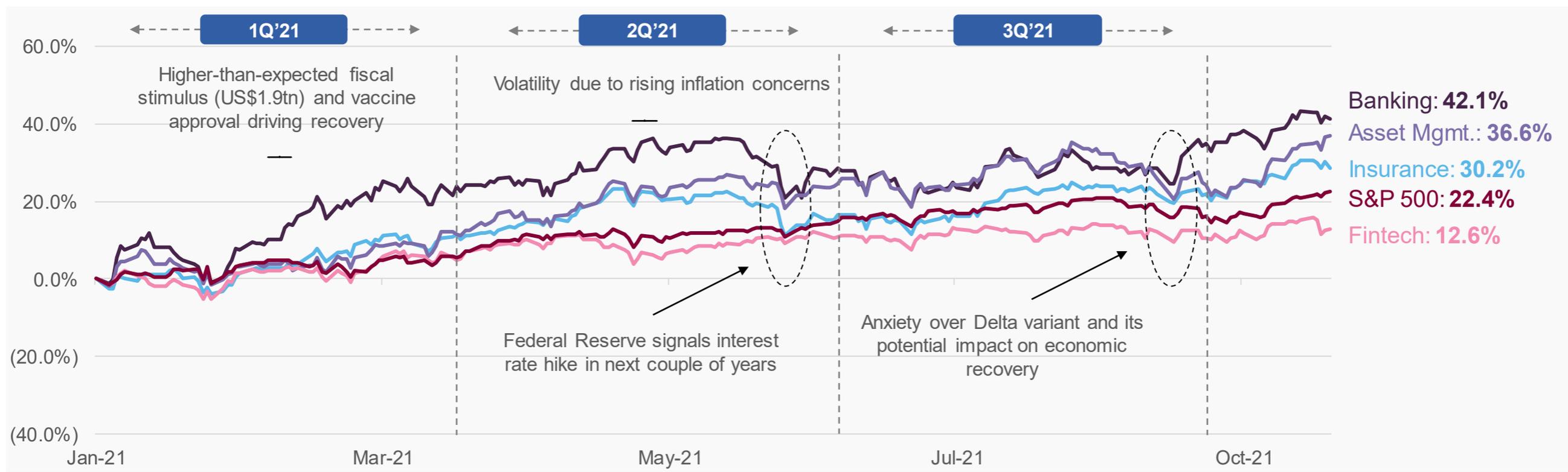
EVALUESERVE

M&A and Capital Markets Activity in Financial Services Industry

3Q'21 Update



Banking continued its strong momentum and outperformed other sub-sectors on expectations of economic rebound and rising long-term bond yields



-  In 2021, banking stocks have outperformed other stocks based on the hopes of an economic rebound and due to rising long-term bond yields, which help to boost lending profits.
-  The upsurge in asset management stocks is driven by earnings growth and increased inflow from investors in response to improving macroeconomic conditions.
-  Insurers outperformed the S&P 500 as technology-driven efficiencies enabled them to undertake longer-term business model upgrades.
-  The S&P 500 continues to recover, supported by vaccination rollout and a better economic outlook.
-  Fintech stocks underperformed S&P 500 majorly due to mixed quarterly reports and investors rotating out of technology and high-growth names into cyclical stocks

Banking has been 'distressed' due to weak loan portfolios and margin pressure however...

Banking



Regulators easing restrictions on banks but loan quality remains a concern

- To cushion the initial impact of the COVID-19-induced economic slowdown, banking firms, in agreement with regulators, capped dividends, suspended share buybacks, and altered their capital allocation plans to increase provisions for credit losses.
 - US banks continue to release billions from 'excess' reserves formed during 1H'20. However, banks are expected to continue to experience limited loan growth, new bad debts, and low rates over the next few quarters.
 - Gradual economic resumption is encouraging regulators to ease restrictions. For example, in Dec'20, the European Central Bank allowed banks to pay dividends and repurchase shares worth up to 15% of 2019 and 2020 profit, or 0.2% of the key capital ratio, whichever is lower. Also, in 1H'21, the Feds lifted the temporary limits on banks' ability to pay dividends and undertake buybacks amid COVID-19, supported by optimistic stress tests.
- In 3Q'21, the net income of US banks increased, reflecting the economic recovery and rising corporate and consumer confidence in the 'new normal' business environment.

Global Provisions for Loan Losses (US\$ trillion)



Unique revenue streams during COVID-19

- To strengthen revenue options, many banks have turned their attention towards fee income as the primary driver of growth, while others are focusing on economies of scale and inorganic growth through M&A.
- Banks are investing heavily in mobile engagement as well as digital platforms. Digital account opening activity is increasing faster than ever.
- A rise in loan demand in 3Q'21 compared with that in 2020 has improved banks' turnover while falling interest rates have allowed them to gain heavily on their bond portfolios, making way for higher revenue growth.

...it remains on track to reach pre-COVID-19 profitability aided by the prospects of strong economic recovery and an earlier-than-expected interest rate

Banking



Business Outlook

- Business growth in the banking space is improving in accordance with declining infection rates, advancing vaccinations, and gradual reopening of economies.
 - With big-tech businesses such as Google, Amazon, and Apple gradually including financial services solutions into their portfolios, the revenue and market share are gradually shifting from the banking industry to other industries.
 - Digital platforms are expected to become the preferred and dominant business channels for the banking industry, according to KPMG.
 - The Federal Reserve has announced that it will begin tapering the pace of its asset purchases from US\$120bn to US\$105bn per month, starting with the withdrawal of last year's emergency pandemic support.
 - On the funding side, as government aids decline and lockdowns are lifted, household deposit inflows are anticipated to decrease further.



M&A Outlook

- In 2021, the banking sector experienced a surge in M&A activity, indicating the sector's eagerness to grab potential strategic and growth opportunities.
- M&A activities are expected to continue in the near term, primarily due to a growing focus on increasing scale and efficiency to support profitability and streamline business models.
- According to S&P Intelligence, US banks will likely undertake M&A worth ~\$60bn in 2022.

Count and Value of US Banks' M&A Deals (in US\$ bn)



Asset management, insurance and fintech on path to strong recovery



Asset Management

- During the start of the pandemic, low returns on investments weighed on performance fees and AUMs. However, sustained market recovery since 2H'20 has increased the returns on investment and eased the fee pressure.
- The rollout of COVID-19 vaccines has acted as a 'booster shot' for the global economy. This continues to generate investment opportunities for the sector as evidenced by a large uptick in deals in 2021.
- A total of 32 money management deals took place in 3Q'21, compared with 15 in the prior-year period.
- The outlook for deal-making remains strong for the remainder of the year, driven by consolidation and focus on gaining credit, exposure to other asset classes and robo advisory.



Insurance

- Lloyds had initially expected the pandemic to result in global claim loss worth ~\$203bn.
- Insurtech continues to be an attractive idea to generate savings and efficiency using technology.
- The ongoing demand for digitalisation (insurtech) and the divestment of non-core assets continue to drive M&A.
- Given the potential for improvement and the prospect of attractive returns in insurance, private equity and principal investors are actively competing for investments.
 - A total of 317 insurance deals were announced during the third quarter, compared with 255 in the prior-year period.
 - According to S&P, insurance carriers' M&A activity seems poised to at least double in 2021, marking one of the strongest years in the last quarter-century.



Fintech

- A strong demand for digitalisation has benefited fintech firms as they have partnered with traditional financial institutions to expand into new markets.
- Following a record-breaking 2Q'21, global fintech private market deal activity remained elevated in 3Q'21, with YTD'21 fintech funding already surpassing the 2020 level.
- In 2H'21, fintech firms increased their participation in M&A and IPO activities, primarily driven by growth and consolidation in the sector.
 - In 1H'21, many fintech firms (Bakkt, eToro, etc.), personal finance start-up companies (SoFi, etc.), and neobanks (MoneyLion, etc.) went public via the SPAC route.