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COVID-19: Impact on Global M&A Activity in Financial Services Industry

Q1 2020 Update

COVID-19 adversely affected the FIG sub-sectors, compelling firms to take drastic measures to mitigate long-term risks

Banking

- Suspension of dividends and share buybacks to save funds to ramp-up provisions for the likely increase in credit losses
- Growth in loans and deposits due to credit drawdowns and liquidity needs amid volatility
- US banks earned ~US$10bn in fees by processing funds under the Paycheck Protection Program
- Uncertainties in loan portfolios are hindering M&A deals
- Despite stronger capital ratios than during the 2008 recession, low-interest rate and the slowdown will challenge the sector in the near to mid term

Insurance

- Low portfolio returns, decreasing premiums, and increasing claims are weighing on growth
- Digitalization has emerged as the key focus area to support clients
- Life & Annuity insurance will witness lower premium income in the short term
- Property & Casualty insurance is witnessing declining premiums, which may continue in the long term due to slowness across industries and economies

Asset Management

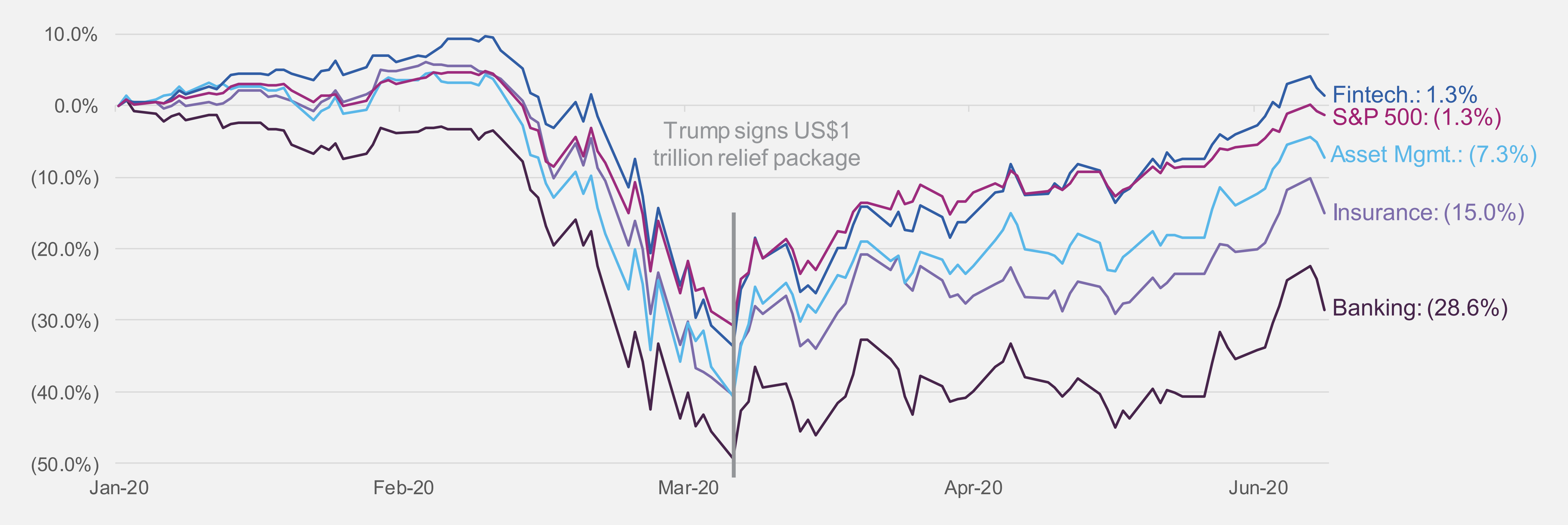
- Lower investment portfolio returns have impacted performance fees and AUMs
- Continuous market uncertainties have compelled asset managers to shift portfolio investments toward gold and treasury bonds
- Regulators are encouraging advisors to have a flexible investment approach during volatility; e.g., the UK's Financial Conduct Authority suspended the MiFID rule that requires asset managers to notify clients in case of a +10% drop in portfolio
- Recent market rebounds have eased the pressure on fees earned to some extent

Fintech

- Strong demand for digitalization has been beneficial for Fintech firms
- Neobanks are less affected as they operate without branches and have lower operating costs
- Neobanks are focusing on cost reductions for survival
- Fintechs are shifting to recurring revenue and long-term contracts, from transaction-based models, amid reduced consumer spending
- Large number of small and new players may lead to consolidation in the Industry

 Source: Industry Reports and General Web Searches.

Fintech stocks have outperformed other stocks in the FIG sub-sector

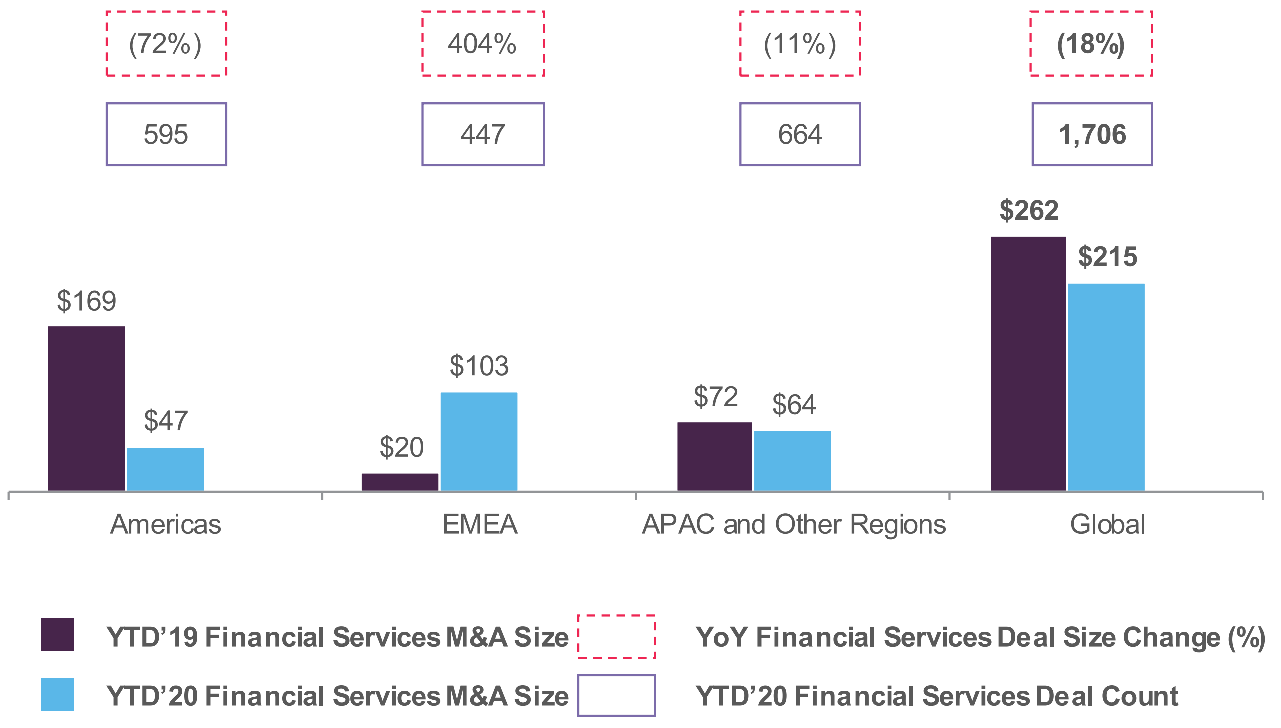


Fintech stocks outperformed the S&P 500 due to a strong demand for digitalization. Banking stocks, on the other hand, have suffered the most due to (a) existing pressure on margins due to the recent cuts in interest rates and (b) expected increase in non-performing loans due to the overall economic slowdown.

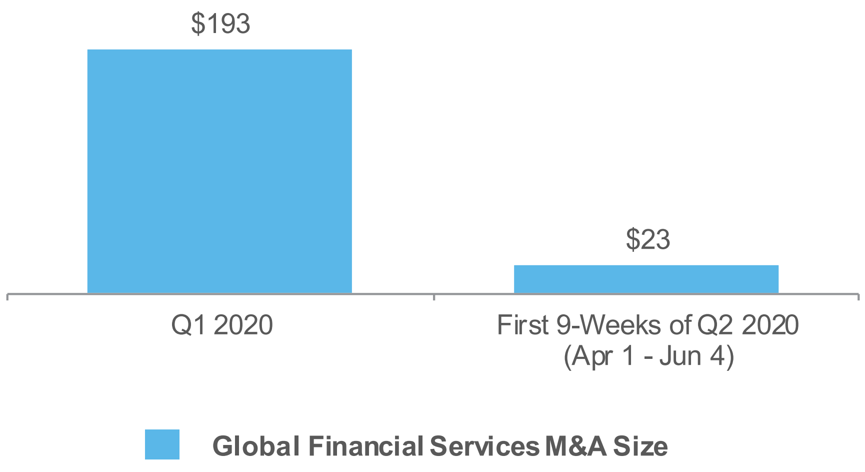
Source: Industry Reports and General Web Searches. Market data as of Jun 10, 2020.

M&A activity in the FIG sub-sector has slowed down globally, with the Americas witnessing a 72% decline on a YoY basis

- The EMEA registered significant YoY growth in deal size due to a few large deals
- For instance, the acquisition of Willis Tower Watson (Domicile: UK) by Aon and the takeover of Sberbank's (Domicile: Russia) by the Ministry of Finance, Russia. Each deal was valued at ~$30bn
- Global M&A activity declined by 18% on a YoY basis



- M&A activities in Q2 2020 are expected to be quite low due to uncertainties related to the pandemic



Source: Refinitiv. YTD as of Jun 4, 2020. Figures in US$bn

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Most ongoing M&A deals are on track for completion; however, a few are facing regulatory hurdles

- The $9bn-deal between Covea and PartnerRe is the latest major casualty of uncertainties in the global economic outlook
- **June'20:** Blackstone lowered its takeover bid for NIBC from EUR1.4bn to ~EUR1bn. It will have to pay EUR46m to NIBC in damages if regulators do not approve the transaction or if the deal is scrapped for other reasons
- **June'20:** The EUR100mm acquisition of British subprime lender Amigo was canceled due to economic uncertainties
- **Apr'20:** The Feds extended the comment period on the Morgan Stanley and E*Trade deal, so that both parties have more time for discussion

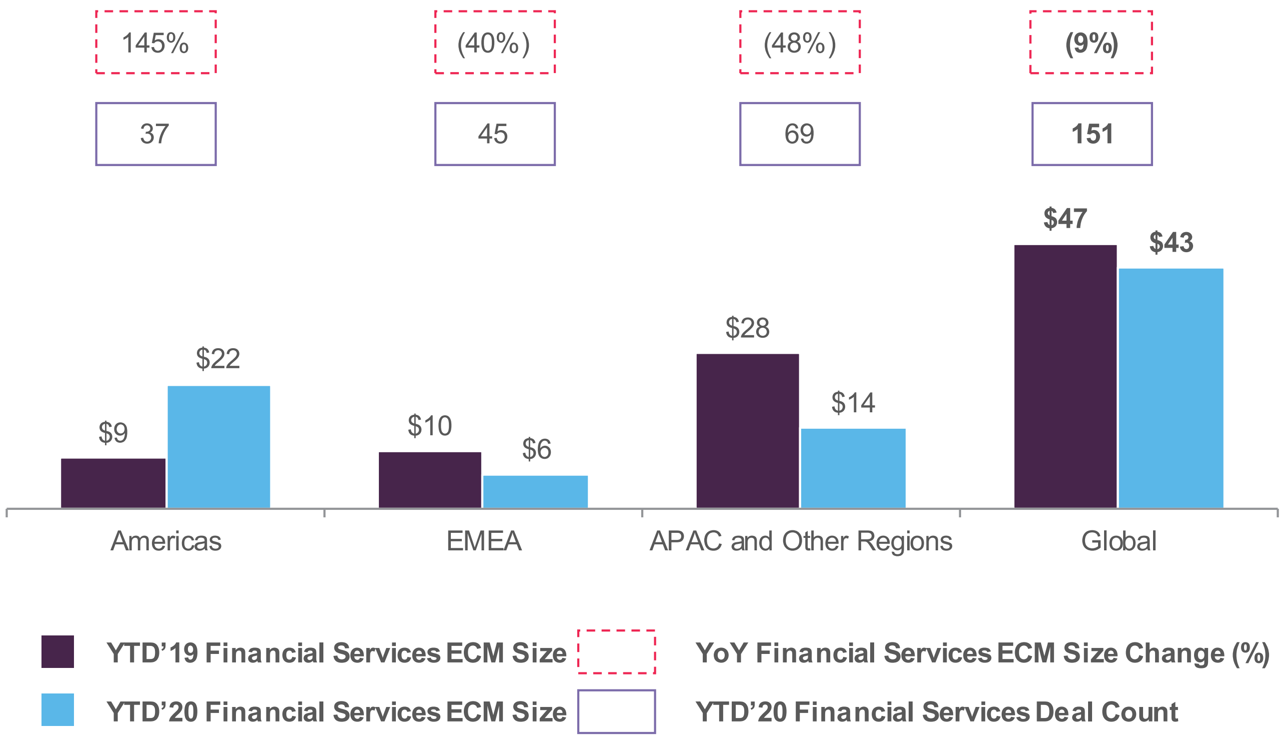
YTD: Top Pending M&As

Ann. Date	Acquirer	Target	Target's Domicile	Target's Sector	Txn. Value (US$bn)	Expected Timeline
9-Mar-20	AON	Willis Tower Watson	UK	Insurance	$30	To close in H1'21
20-Feb-20	Morgan Stanley	E*TRADE Financial Corp.	US	Banking	$13	To close in Q4'20; regulatory delays
3-Feb-20	Worldline	Ingenico Group	France	Fintech	$10	To close in Q3'20
3-Apr-20	Beijing Chengfang Huida	Bank of Jinzhou's Assets	China	Banking	$6	Upon approval completion
17-Feb-20	Intesa Sanpaolo	Unione di Banche Italiane	Italy	Banking	$5	To close in Q4'20
18-Feb-20	Franklin Resources	Legg Mason	US	Asset Mgmt.	$5	To close in Q3'20
10-Apr-20	KB Financial	Prudential Life Ins. of Korea	South Korea	Insurance	$2	To close in Q4'20
12-May-20	KKR	Colonial First State Investments	Australia	Asset Mgmt.	$2	To close in H1'21
7-Feb-20	Uniqa Insurance Group	AXA's Poland, Czech Republic and Slovakia operations	Poland	Insurance	$1	To close in Q4'20

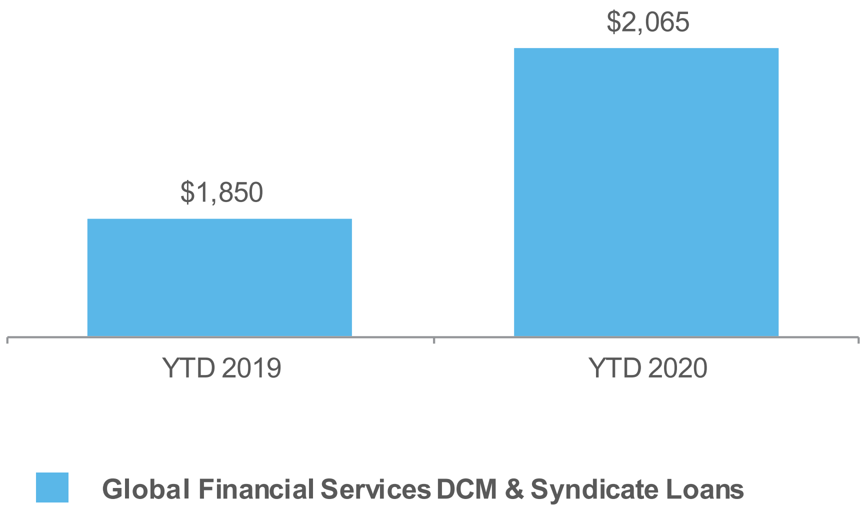
Source: Company Press Releases. Data as of Jun 10, 2020.

Increasing activities in the debt capital market even after the COVID outbreak

- The Americas continues to be strong in terms of equity capital market, but the EMEA and APAC continue to trail on a YoY basis
- In YTD'20, ECM activity was affected primarily due to a decrease of ~25% in global IPOs; however, follow-on and convertibles offerings grew ~25% and ~10% YoY, respectively



- The high flow of DCM in 2020 is fueled by increased debt raising after the COVID outbreak
- A few issuers, specially with good credit rating, made opportunistic use of prevailing lower coupons



Source: Refinitiv. YTD as of Jun 4, 2020. Figures in US$bn

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M&A momentum has reduced in the short term, but is expected to rebound across all sub-sectors in the medium to long run

Factors Affecting M&A in this Sector & their Positive and Negative Influence

Factor	Influence
Economic Upheaval	Pressure on organic growth and capital appreciation, and lower valuations, will act as catalyst for M&A × Current scenario makes it difficult to value assets and close deals in the short term × Cross-border M&A deals are less likely due to trade disputes and economic uncertainties
Regulatory Environment	Global regulatory and tax conditions have been favorable × Increased due diligence may slowdown the execution process. E.g. work-from-home compliance, cybersecurity, privacy, data protection, and accounting regulations
Technological Changes	Digital transformation is necessary for frauds management, cybersecurity and digital client servicing. M&A remains the quickest way to build these capabilities
Sector Dynamics	Partnerships will promote better efficiency ratios, technological transformation, treasury operations, and cross-selling Increasing regulatory and digital transformation costs, and thin margin will drive consolidation × Difficult to ascertain right M&A targets amid uncertainties around economy and consumer behavior
Financial Market Support	The credit market is active, unlike 2007–2009 financial crisis PEs / VCs, with $2 trillion dry powder globally may target surviving firms Governments continue to infuse money. E.g. ~$350bn Paycheck Protection Program in the U.S.

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