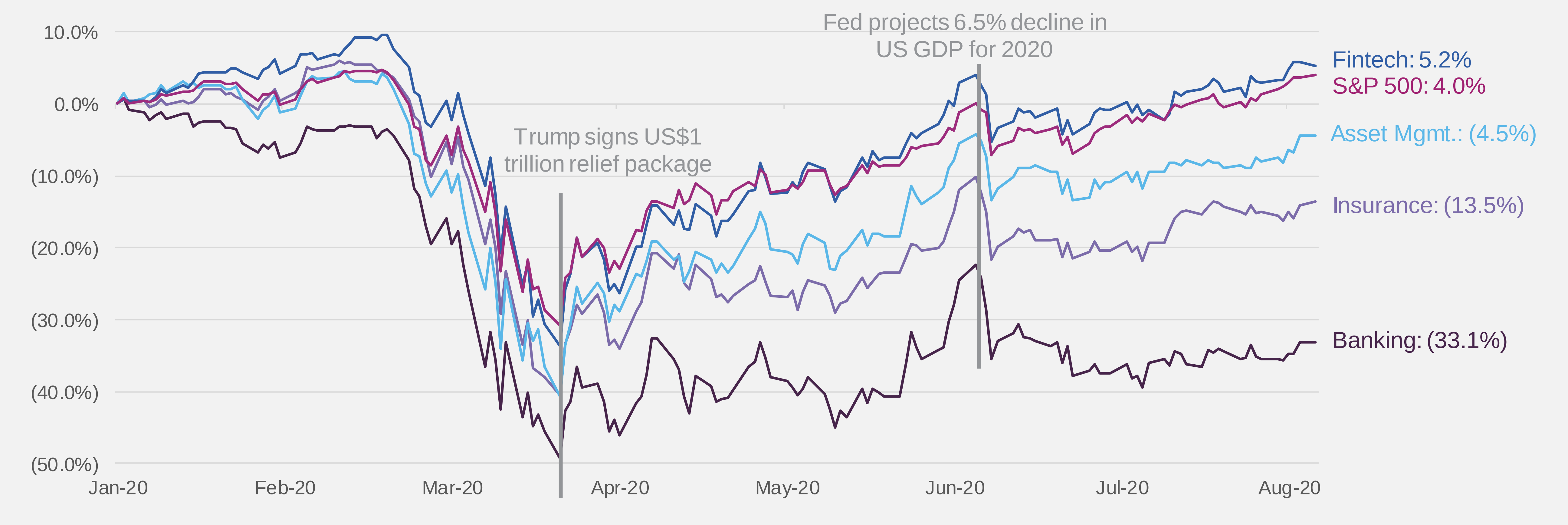
M&A and Capital Markets Activity in the Financial Services Industry

Q2 2020 Update

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 continuous increase in non-performing loans due to the overall economic slowdown.

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

Banking remains the most affected sub-sector due to deteriorating loan portfolios and lower interest rates

Banking

- The pandemic is testing the resilience of the Banking industry, which is facing its biggest challenges since the global financial crisis. Industry players have been compelled to cap dividends, suspend share buybacks, and alter their capital allocation plans to increase provisions for credit losses
- Over the last six months, 15 of the largest US banks have set aside $76bn to cover projected bad debts. Similarly, 32 of the largest European banks have set aside $63bn to cover their projected bad debts
  - In total, $139bn has been set aside as provisions for credit losses, the highest since H2’09 ($186bn), when the global financial crisis crippled Bear Stearns and Lehman Brothers
  - Between 2020 and 2022, provisions for credit losses are expected to reach $880bn across 100 US and European banks
- Low-interest rates, including a negative interest rate in the Eurozone, zero in the US, and 0.1% in the UK, are increasing the pressure on banks’ already slim lending margins
- US banks have earned ~$24bn in fees from the Paycheck Protection Program (PPP), which ended in August 2020. Under the PPP, US banks have issued $521bn in loans to over five million small businesses. A few large banks have decided to donate the profits from this program
- As per Federal Reserve, ~520 US lenders have registered in the $600bn Main Street Lending Program, which aims to uplift midsized businesses
- The number of completed M&A deals in H1’20 was half of that in H1’19. M&A activities will remain low due to uncertainties in loan portfolios. However, the need to digitize product offerings and improve efficiency through consolidation should offset the slowness to some extent
- Low-interest rates and increasing defaults are negatively affecting capital ratios. However, capital ratios are not expected to fall below the regulatory mark, at least for large banks

Source: Industry Reports and General Web Searches. Figures in US$.

Digitalization demand has encouraged growth in Fintech; however, operating performance is impacted in Insurance and Asset Management sub-sectors

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
- Sector has slowed its acquisition pace until more is known about the impact and duration of the pandemic

Asset Management

- Lower investment portfolio returns have impacted performance fees and AUMs
- Continuous market uncertainties have compelled asset managers to shift portfolio 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
- M&A in 1H'20 were $19.7bn, +47% YoY
- Deal making is expected to be strong during remained of 2020, driven by fee pressure and focus on gaining credit and other asset classes exposure

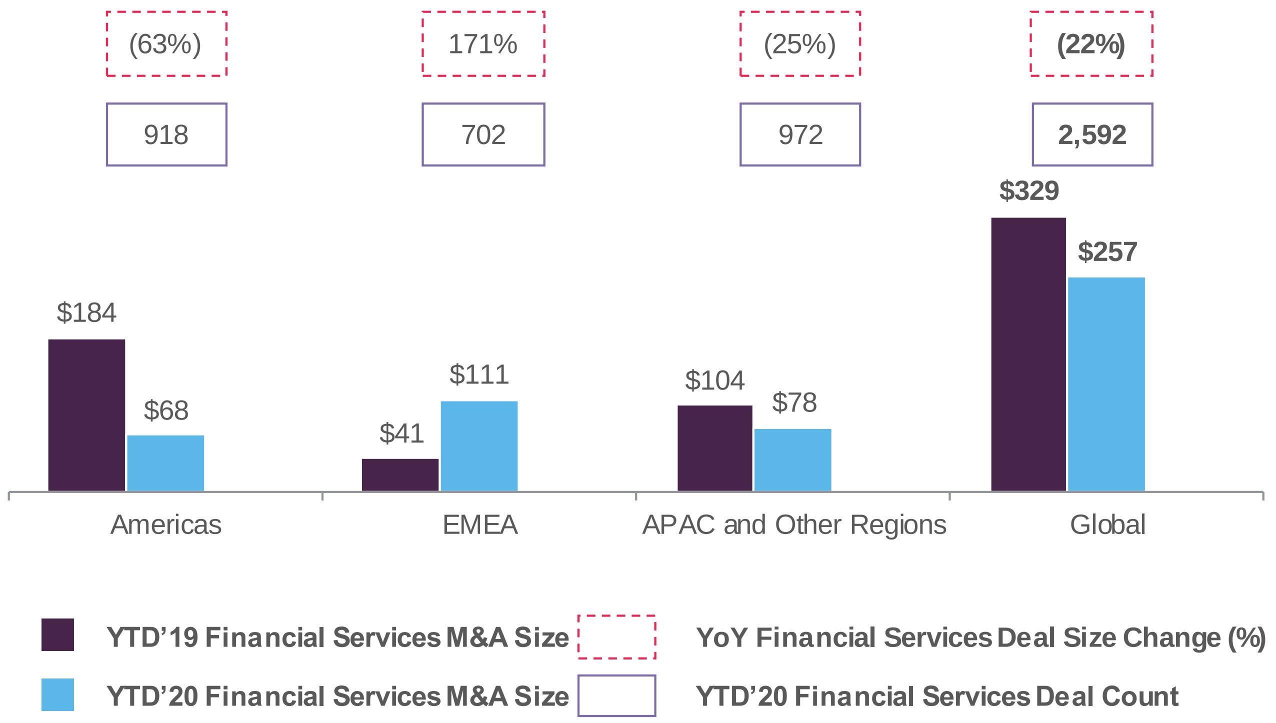
Fintech

- 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
- Survival needs of a few small and new players may lead to industry consolidation. The need to accelerate digital transformation will encourage M&A activities

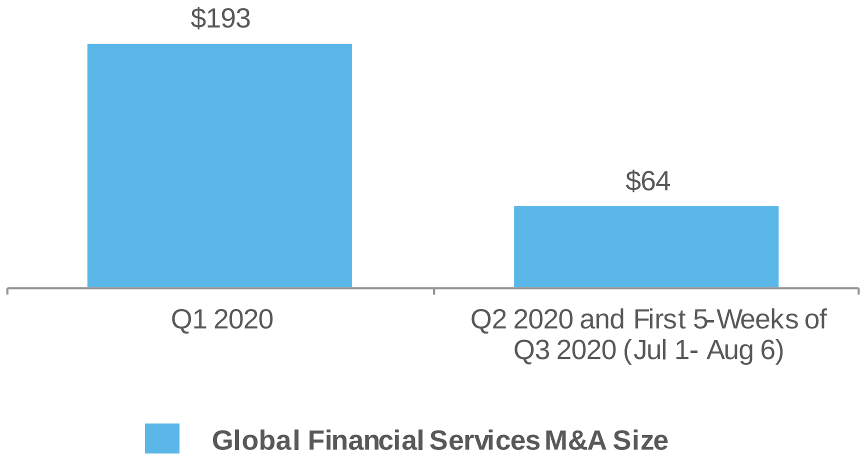
Source: Industry Reports and General Web Searches. Figures in US$.

M&A activity has slowed down globally, with the Americas witnessing a 63% decline on a YoY basis

- 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 22% on a YoY basis



- M&A activities in Q3 2020 are expected to continue to be quite low due to uncertainties related to the pandemic



 Source: Refinitiv. YTD as of Aug 6, 2020. Figures in US$bn

While most ongoing M&A deals are on track for completion, a few are facing cancellation and regulatory issues

- **Aug’20:** AXA called off the deal to sell its Life Europe business to PE firm Cinven due to the economic crisis created by the Covid-19 pandemic
- **Jun’20:** Ally Financial withdrew its $2.6bn deal to acquire CardWorks amid the current market uncertainties and economic distress
- **Jun’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 the deal is scrapped for other reasons. NIBC has accepted the new bid
- **Jun’20:** The EUR100m acquisition of British subprime lender Amigo was canceled due to economic uncertainties
- **May’20:** The US$9bn-deal between Covea and PartnerRe is one of the biggest deals that got canceled due to global economic outlook uncertainties
- **May’20:** Texas Capital and Independent Bank Group called off their $3.1bn merger deal

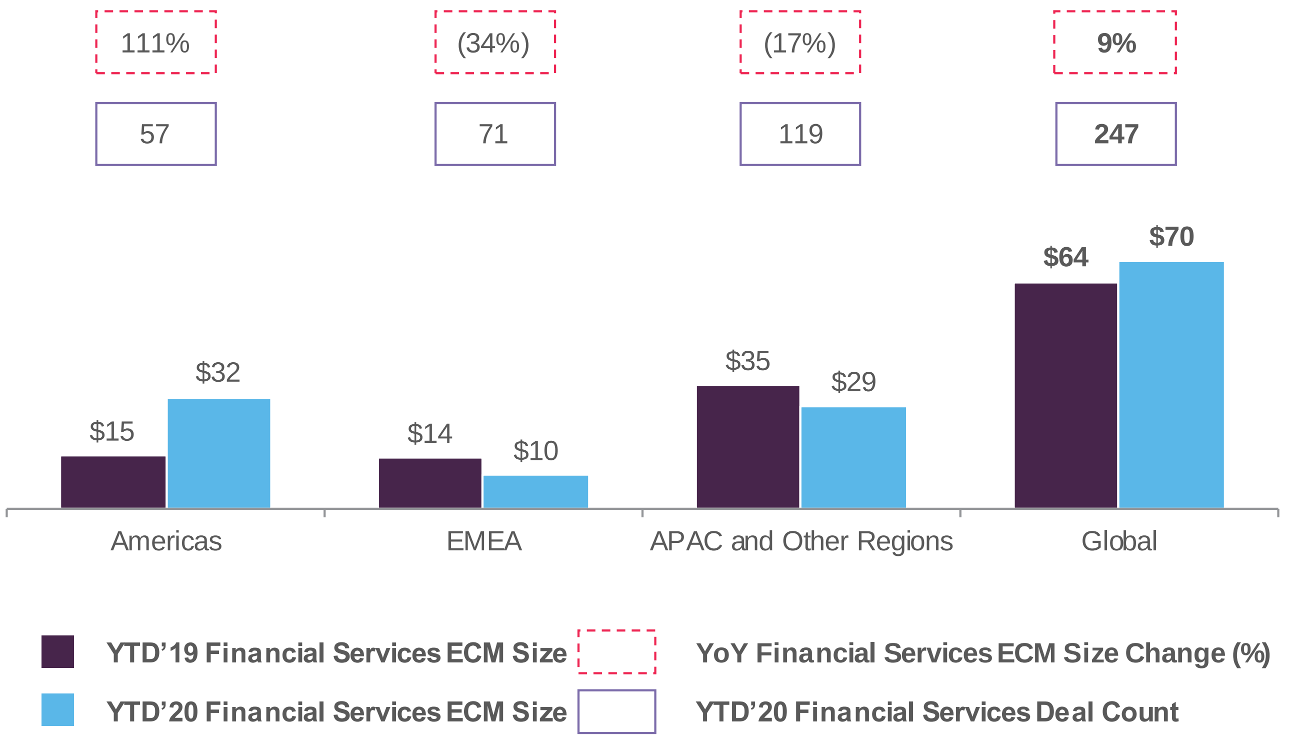
YTD: Top Pending M&As

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
25-Jun-20	National Commercial Bank	Samba Financial Group	Saudi Arabia	Banking	$15	To close after 4 months and over
20-Feb-20	Morgan Stanley	E*TRADE Financial Corp.	US	Banking	$13	To close in Q4'20; regulatory delays
12-Jul-20	Churchill Capital Corp III	MultiPlan	US	Asset Mgmt.	$11	To close in Oct’20
3-Feb-20	Worldline	Ingenico Group	France	Fintech	$10	To close in Q3'20
8-Jul-20	KKR	Global Atlantic Financial Group	Bermuda	Insurance	$4	To close in Q1’21
7-Jul-20	The Allstate Corporation	National General Holdings	US	Insurance	$4	To close in early 2021
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
29-Jul-20	Rand Merchant and Sampo Oyj	Hastings Group	UK	Insurance	$2	To close in Apr’21

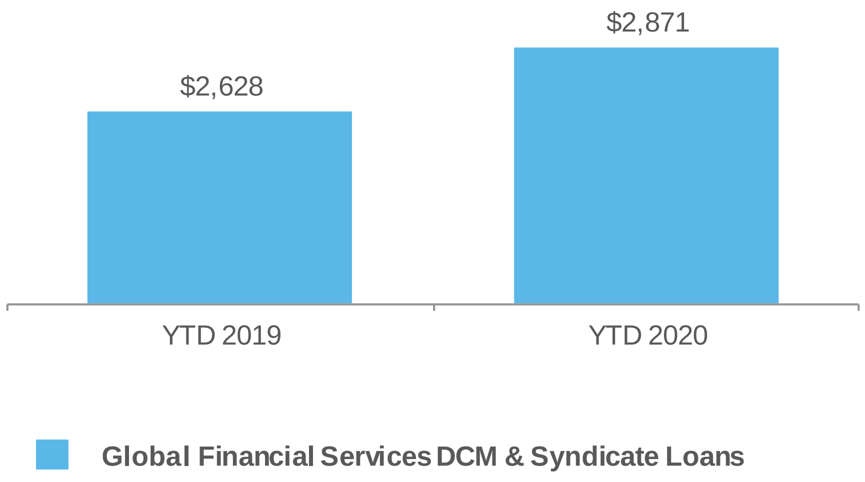
Source: Company Press Releases. Data as of Aug 10, 2020.

Since the outbreak of COVID-19, the debt capital market has gained traction, while the equity capital market has witnessed a mixed performance across geographies

- On a YoY basis, the equity capital market in the Americas continued its strong rally but trailed in the EMEA and APAC
- In YTD'20, ECM activity increased primarily due to follow-on and convertibles offerings; however, growth was slightly offset due to decrease in global IPOs



- 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 Aug 6, 2020. Figures in US$bn

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. ~$521bn PPP (ended in August 2020) in the U.S.

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