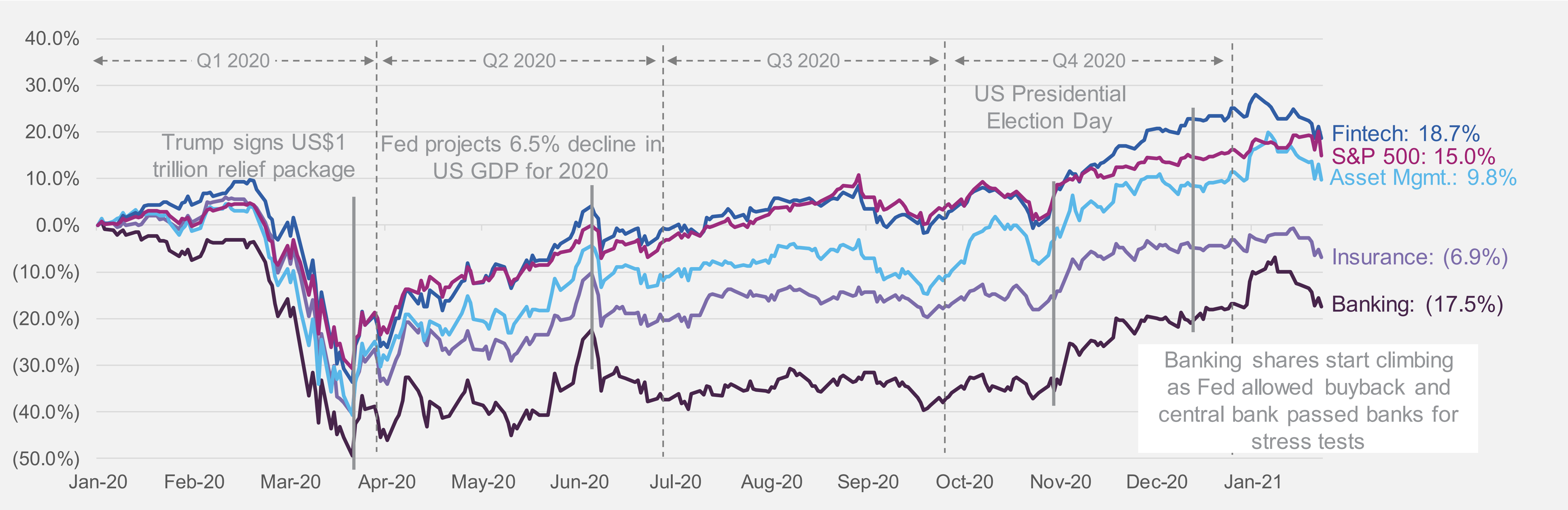
EVALUESERVE

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

2020 Update

Fintech stocks outperforming other stocks in the FIG sub-sector



- S&P 500 continues to recover after US Presidential Election day along with the support of vaccination rollout and better economic outlook.
- Fintech stocks are outperforming the S&P 500 and other FIG Group sub-sectors primarily due to strong demand for digitalization by traditional financial institutions.
- Banking stocks have suffered the most due to (a) pressure on margins and continuing low-interest rates and (b) further credit losses are expected in 2021. Banking stocks registered an upsurge in December 2020 as Fed allowed banks to resume share buybacks and the central bank passed the US banks on stress test

Source: Industry Reports and General Web Searches. Share price represents the US market data, which is as of Jan 29, 2021.

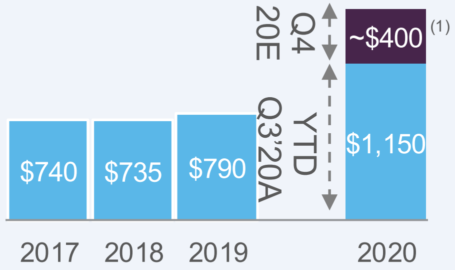
Banking remains the most affected sub-sector due to deteriorating loan portfolios and low interest rates

Banking

In 2021, global loan loss provisions could exceed the figure recorded during the great recession

- To cushion the impact of 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
  - In Q4 2020, US banks released billions from "Excess" reserves formed during 1H 2020 economic uncertainties. However, banks continue to see limited loan growth, continuously building bad debts and low rates over the next few quarters
  - S&P Global projects a ~$2 trillion in loan loss provisions in 2020 and 2021 for banks across the globe, exceeding the total amount of ~$1.9 trillion during the great recession
  - 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 share worth up to 15% of 2019 and 2020 profit, or 0.2% of the key capital ratio, whichever is lower. Also, Fed allowed the big banks to resume share buybacks in the Q1 2021 subject to certain rules; however, dividend will continue to be capped through Mar'21

Global Provisions for Loan Losses ($bn)



Unique revenue streams during COVID-19

- At the onset of the pandemic, many central banks reduced interest rates, which have put pressure on banks' already slim lending margins
- US banks earned ~$25bn in fees from the ~$525bn loan issuance-based Paycheck Protection Program (PPP), which ended in Aug'20. The $600bn Main Street Lending Program also generated fees for banks
- Banks with a larger reach in capital markets witnessed strong revenue and profitability – particularly in debt underwriting and secondary trading – as companies continued to focus on maintaining capital amid the pandemic-triggered uncertainties

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

(1) US banks released the "outsized provisions" in Q4'20; however, credit losses are expected to continue. Banks across the RoW are yet to announce the results.

Banking sector may take 4–5 years to reach pre-COVID-19 profitability levels

Banking

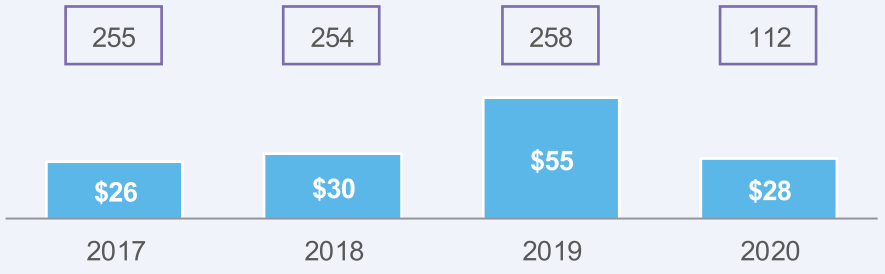
Business Outlook

- Credit losses problem to continue, likely through late 2021. Ongoing lower interest rates and credit losses are expected to hamper global revenue by $3.5tr-$4.0tr over the five years - the equivalent of more than a half year of industry revenues that will never come back
  - ➢ The global banking industry's ROE will likely take four years to recover to pre-COVID-19 levels
- The industry is sufficiently capitalized to withstand the ongoing shock. On average, common-equity tier-1 (CET1) ratios are expected to decrease from 12.5% in 2019 to ~12.0% in 2024 globally, with a low of ~11.0% in 2021. However, the ratios will likely remain well above the regulatory benchmark

M&A Outlook

- The continued uncertainties in loan portfolios weighed on the pace of global M&A activity in 2020
- M&A activity is likely to gradually improve in the near term primarily due to the need to digitize product offerings, divest non-core or distressed assets and improve efficiency through consolidation

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



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

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

Asset Management

- In 2020, low returns on investments weighed on performance fees and AUMs, particularly during the start of the pandemic
- Long-term flows continued to recover in the second half of 2020
- The rollout of COVID-19 vaccines will likely accelerate the global economy and expected to build investment opportunities for the sector
- In 2020, the value of M&A in the US was ~$200bn, tripled v/s 2019, primarily due to large size deals, E.g., $7bn acquisition of Eaton Vance by Morgan Stanley
- Deal making outlook remains strong in the near term, driven by fee pressure and focus on gaining credit, other asset classes exposure, consolidation and Robo-advisory

Insurance

- Low portfolio returns, decreased premiums, and increased claims weighed on growth and capital positions
- Lloyds expects the pandemic to result in global claim loss worth $203bn
- Insurtech remains the focus area to bring savings and efficiency using technologies
- Life and annuity is witnessing lower premium in the short term due to weak financial stability and high unemployment
- Property & Casualty insurance is witnessing declined premiums, which may continue in the long term due to economic slowdown
- M&A activity is recovering due to demand for digitalization (insurtech) and divestment of non-core assets
  - ➢ In the US, deals worth ~$10bn were undertaken during second half of 2020, compared with $3.1bn and $25mm in Q1'20 and Q2'20, respectively

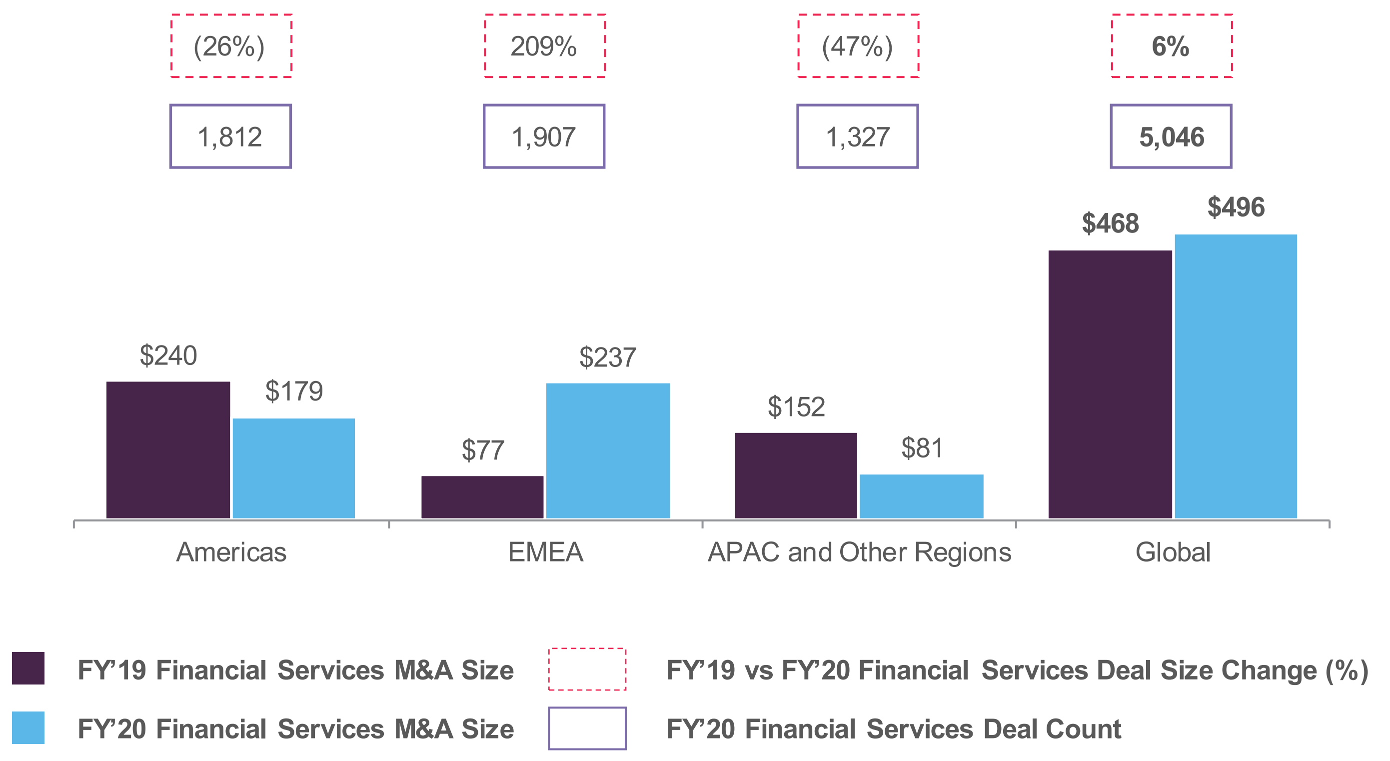
Fintech

- Strong digitalization demand has benefited Fintech firms as they partnered with traditional financial institutions to expand into new markets
- Fintech firms have shifted focus from transaction-based models to recurring revenue and long-term contracts
- PE firms / VCs invested $35bn in fintech firms in YTD Q3'20, down 10% YoY. It shows that funding supply for Fintech firms is impacted but PE firms / VCs have not lost the complete confidence on these companies
- Global fintech M&A deals increased to 245 (worth $66.8bn) in Q3'20, from 166 (the lowest since 2014) in Q2'20. The recovery is expected to continue

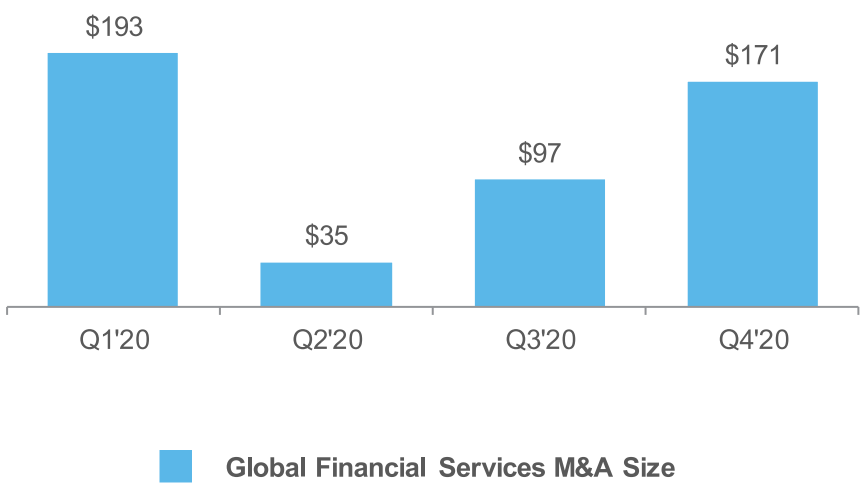
Source: Industry Reports and General Web Searches. Figures in US$.

In Q4’20, global M&A activity rebounded significantly and outmatched the Q2’20 backdrop impact. FY’20 had YoY growth of 6%

- EMEA registered significant YoY growth in deal size due to a few large deals
- For instance, the acquisition of Willis Tower Watson by Aon, and the takeover of Sberbank’s by the Ministry of Finance, Russia; each of these deals were valued at ~$30bn



- Market recovery and business resumption continue to drive M&A activity
- M&A activity in H2’20 gained traction vs muted Q2’20. The upside was led by SPACs involvement and a comparatively optimistic business outlook



 Source: Refinitiv. Figures in US$bn

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While most ongoing M&A deals remained on track, a few were canceled or delayed in the first nine months of the pandemic

- **Oct’20:** Crescent Acquisition and F45 Training announced the termination of their ~$850mm merger amid the pandemic-related uncertainties
- **Oct’20: The** timeline for Clene’s acquisition of Tottenham (reverse merger, valuing Clene at ~$550mm) was extended due to pending formalities (which were taking more time due to the COVID-19 pandemic). Transaction was completed in Dec’20
- **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
- **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
- **Apr’20:** Kuwait Finance postponed $7.0bn acquisition of Ahli United Bank up till Dec’20 due to Covid-19 . Later further extended the suspension

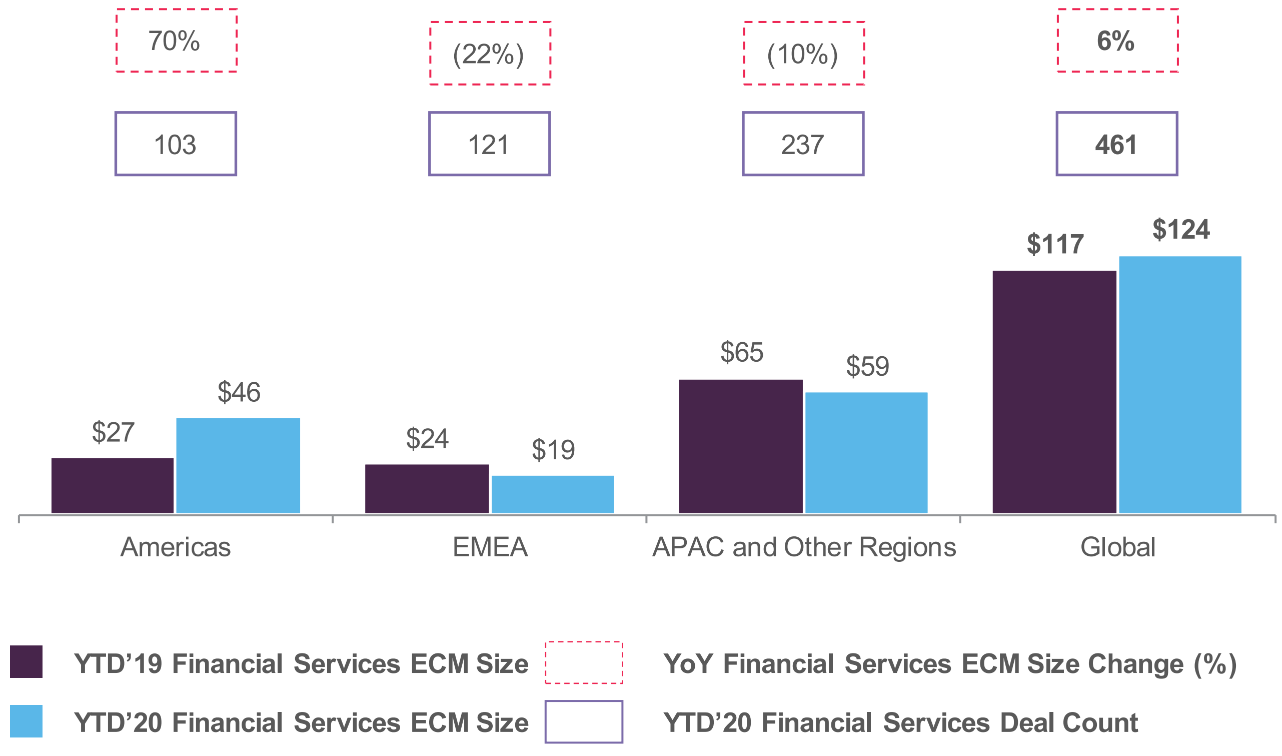
YTD: Top Pending M&As

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 in H1'21
16-Nov-20	PNC Financial Services	BBVA US Bancshares	US	Banking	$12	To close in mid 2021
5-Nov-20	Intact Financial and Tryg	RSA Insurance Group	UK	Insurance	$10	To close in a year
15-Nov-20	Nexi SpA	Nets A/S	Denmark	Fintech	$9	To close in Q2’21
7-Dec-20	SPAC: Bill Foley-backed	Paysafe Group	UK	Fintech	$9	n/a
8-Oct-20	Morgan Stanley	Eaton Vance	US	Asset Mgmt.	$7	To close in Q2’21
9-Dec-20	Imola Merger Corp	GCL Investment Management	US	Specialized Finance	$6	n/a
13-Dec-20	Huntington Bancshares	TCF Financial Corp	US	Banking	$6	To close in Q2’21

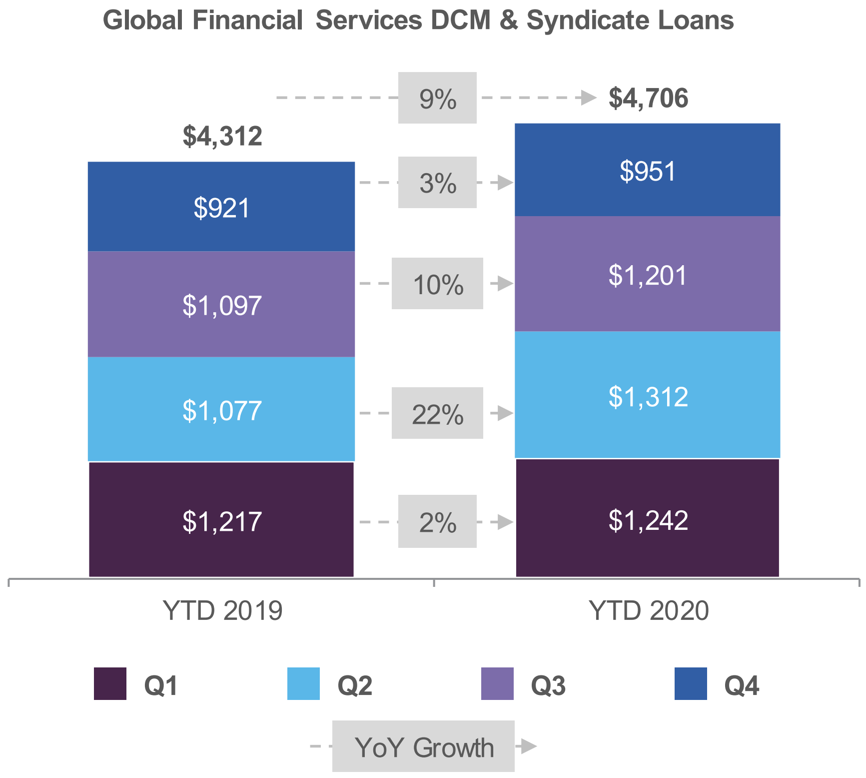
Source: Company Press Releases. Data as of Jan 31, 2021. Figures in US$bn, unless otherwise noted.

Debt and equity capital markets gain traction as companies continue to capitalize amid pandemic driven prolonged economic uncertainties

- On a YoY basis, the equity capital market (ECM) in the Americas continued its strong rally, while the EMEA market trailed
- In YTD'20, ECM activity increased (driven by strong growth in Q3 / Q4 2020), primarily due to follow-on and convertible offerings, along with mixed IPO performance in the FIG industry



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



 Source: Refinitiv. YTD as of Dec 17, 2020. Figures in US$bn.

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M&A momentum, which slowed down in the first few months of 2020, is on a recovery path

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

Economic Upheaval

- ✓ Pressure on organic growth and capital appreciation, and lower valuations, to act as catalyst for M&A
- ✓ The importance of environmental, social, and governance (ESG) factors in M&A decision-making is increasing, especially in the backdrop of the COVID-19 pandemic
- ✗ 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 political and economic uncertainties

Regulatory Environment

- ✓ Global regulatory and tax conditions have been favorable
- ✗ Increased due diligence to 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 to promote better efficiency ratios, technological transformation, treasury operations, and cross-selling
- ✓ Increasing regulatory and digital transformation costs, and thin margin are driving 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 with ~$1.4 trillion dry powder globally are expected to target surviving firms
- ✓ Governments infused money. E.g. ~$525bn PPP (ended in August 2020) in the U.S.

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