

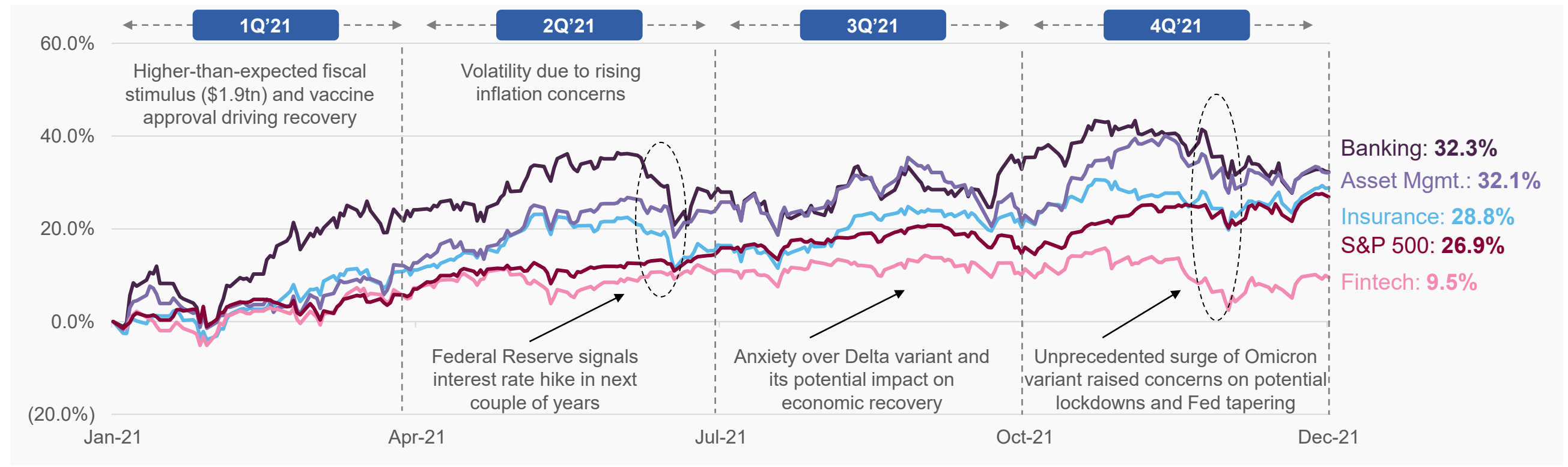
EVALUERVE

M&A and Capital Markets Activity in Financial Services Industry

FY'21 Review



In 2021, the Banking sector exhibited a strong recovery and outperformed other sub-sectors on the expectations of economic rebound and rising long-term bond yields



- Banking stocks have outperformed other stocks based on the hopes of an economic rebound and due to rising long-term bond yields, which has helped in boosting 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...

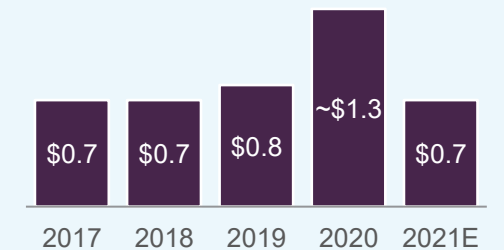
Banking



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 have continued to release billions from their 'fortress' reserves which they built during 2020.
 - Economic resumption encouraged regulators to ease restrictions. For example, 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.
 - Strong asset prices and economic recovery meant that banks' provisions for nonperforming loans were lower than expected however, some losses were deferred, as over two-thirds of the risk costs are expected to be in corporate loans, compared with less than 50% in the 2008–10 financial crisis (as per McKinsey)

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 2021 compared with that in 2020 has improved banks' turnover while falling interest rates had allowed them to gain heavily on their bond portfolios, making way for higher revenue growth.

...however, it remains on track to reach pre-COVID-19 profitability aided by the prospects of strong

Banking



Business Outlook

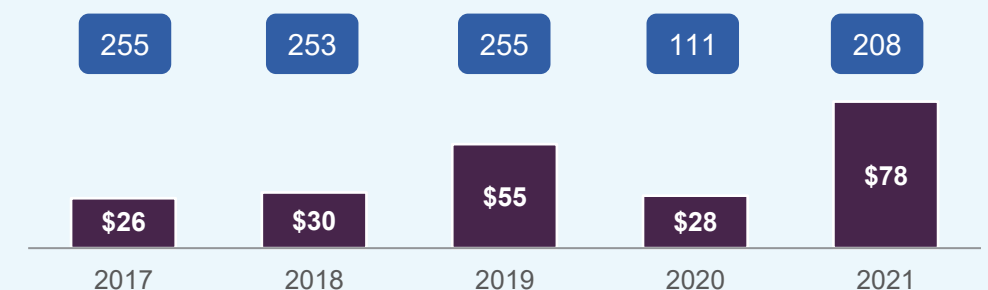
- Business growth in the banking space is improving in accordance with declining infection rates, advancing vaccinations, and gradual reopening of economies.
 - With big-tech businesses such as Google, Amazon, and Apple gradually including financial services solutions into their portfolios, the revenue and market share are expected to gradually continue their shift 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.
 - In December 2021, the Federal Reserve announced that it will begin tapering the pace of its asset purchases by US\$30bn per month, as a result it will stop adding to its balance sheet by March 2022, rather than by mid-2022 as previously forecasted.
 - Low short-term rates are expected to keep margin suppressed however, a more pronounced rebound in non-interest income aided by higher trading revenue and fee-based businesses may lead to an overall growth in revenue streams in 2022.



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.
- Unlike other industries, regulators in most countries are in favour of building local banking champions as scalability seems to be the best answer to manage margin compression.
- 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)



While asset management and insurance sectors are on path to a strong recovery, the fintech wave rages on as they continue to re-set customer expectations



Asset Management

- Strong market recovery during the year has increased the returns on investment and eased the fee pressure.
- The rollout of COVID-19 vaccines has acted as a 'booster shot' and continues to generate investment opportunities.
- A total of 296 money management deals took place in 2021, highest level since 2000 (as per PricewaterhouseCoopers).
- Private equity investments continued to rise in 2021 showcasing the long-term attractiveness of the sector
- Traditional active managers are expected to collaborate to scale-up in order to fund new capabilities such as ESG and boost distribution.
- The outlook for deal-making remains strong in 2022, 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 ~US\$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 384 insurance broker deals were announced during the fourth quarter, compared with 298 in the prior-year period.
 - There were 46 transactions involving underwriters announced with an aggregate value of US\$15.6bn in the 4Q'21
 - Cross-border M&A to account for majority of the deal volume driven by favorable economics and demographics



Fintech

- A strong demand for digitalisation has benefited fintech firms as they have partnered with traditional financial institutions to expand into new markets.
- Fintechs are catching up with banks in valuation, and already capture 3%–5% of banking revenues in the US and the UK (as per McKinsey)
- Post a record-breaking 2Q'21, global fintech private market deal activity remained elevated in 3Q'21, with funding 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 2021, many fintech firms (Bakkt, eToro, etc.), personal finance start-up companies (SoFi, etc.), and neobanks (MoneyLion, etc.) went public via the SPAC route.