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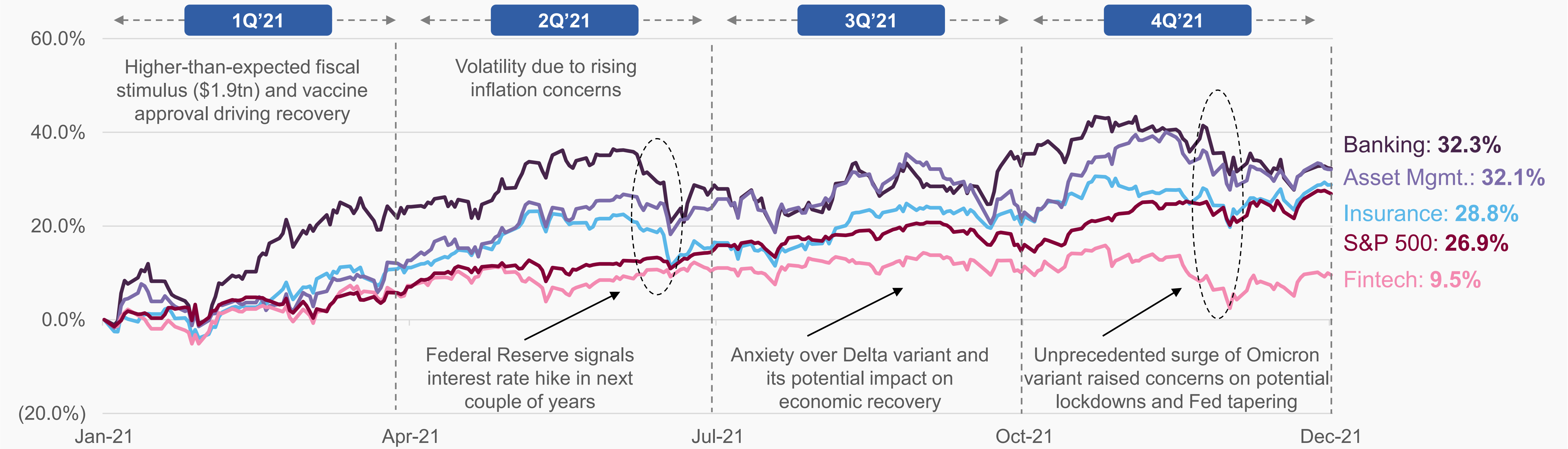
M&A and Capital Markets Activity in Financial Services Industry

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

Source: Industry Reports and General Web Searches. Share price represents the US market data, which is as of December 31, 2021. Figures in US$.

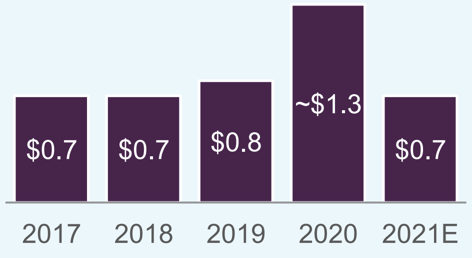
Banking has been ‘distressed’ due to weak loan portfolios and margin pressure...

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.

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

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

Banking

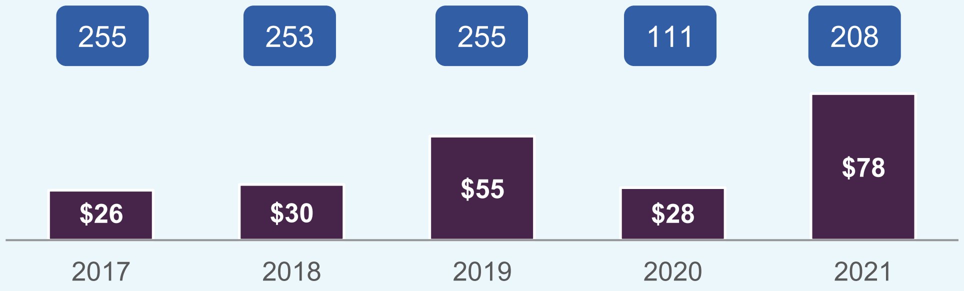
Business Outlook

- 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)



Source: Industry Reports and General Web Searches. Figures in US$. 4Q'21 data is as of December 31, 2021.

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.

Source: Industry Reports and General Web Searches.

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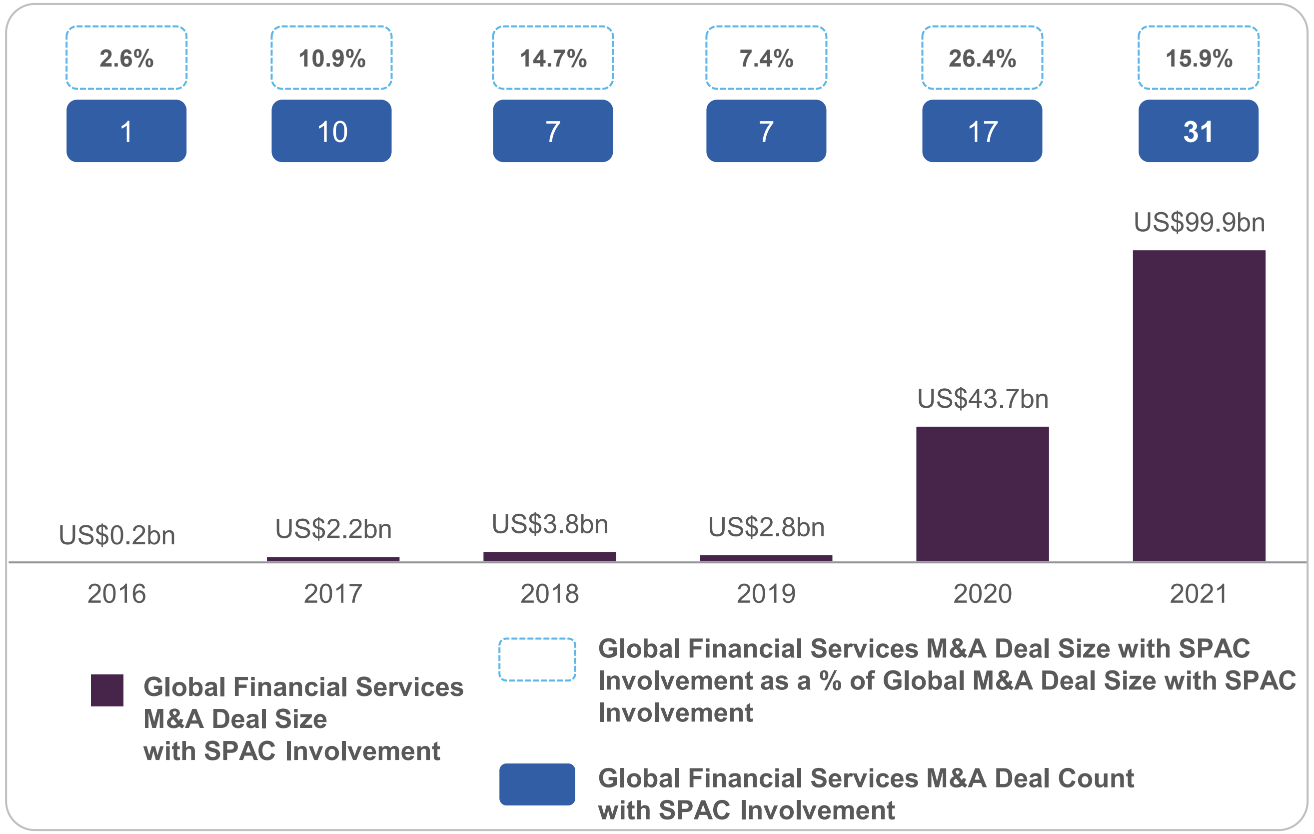
SPACs are here to stay despite recent additional regulatory scrutiny and rising redemptions

- Market uncertainties drove companies to avoid the traditional time-taking approach to IPOs. Instead, they are opting for SPAC IPOs
- The large volume of SPAC IPOs over the past tow years has driven the increasing de-SPAC deals in the market
- The financial services industry has continue to witness a boom in SPAC M&A amid the pandemic
- In April 2021, the SEC tweaked accounting rules to slow down the excessive speed of SPAC deals. The amount raised by SPACs plummeted from $35bn in March to $3bn in April, US$3.9bn in May and ~US$3.5bn in June
- Examples of a few large announced SPAC deals in 2021 are as follows:
  - Lionheart Acquisition acquired MSP Recovery for US$32.5bn
  - Concord Acquisition Corp. acquired Circle Internet for US$9.0bn
  - Fintech Acquisition Corp. V acquired eToro Group for US$8.8bn
  - EJF Acquisition Corp. acquired Pagaya Technologies for US$8.3bn



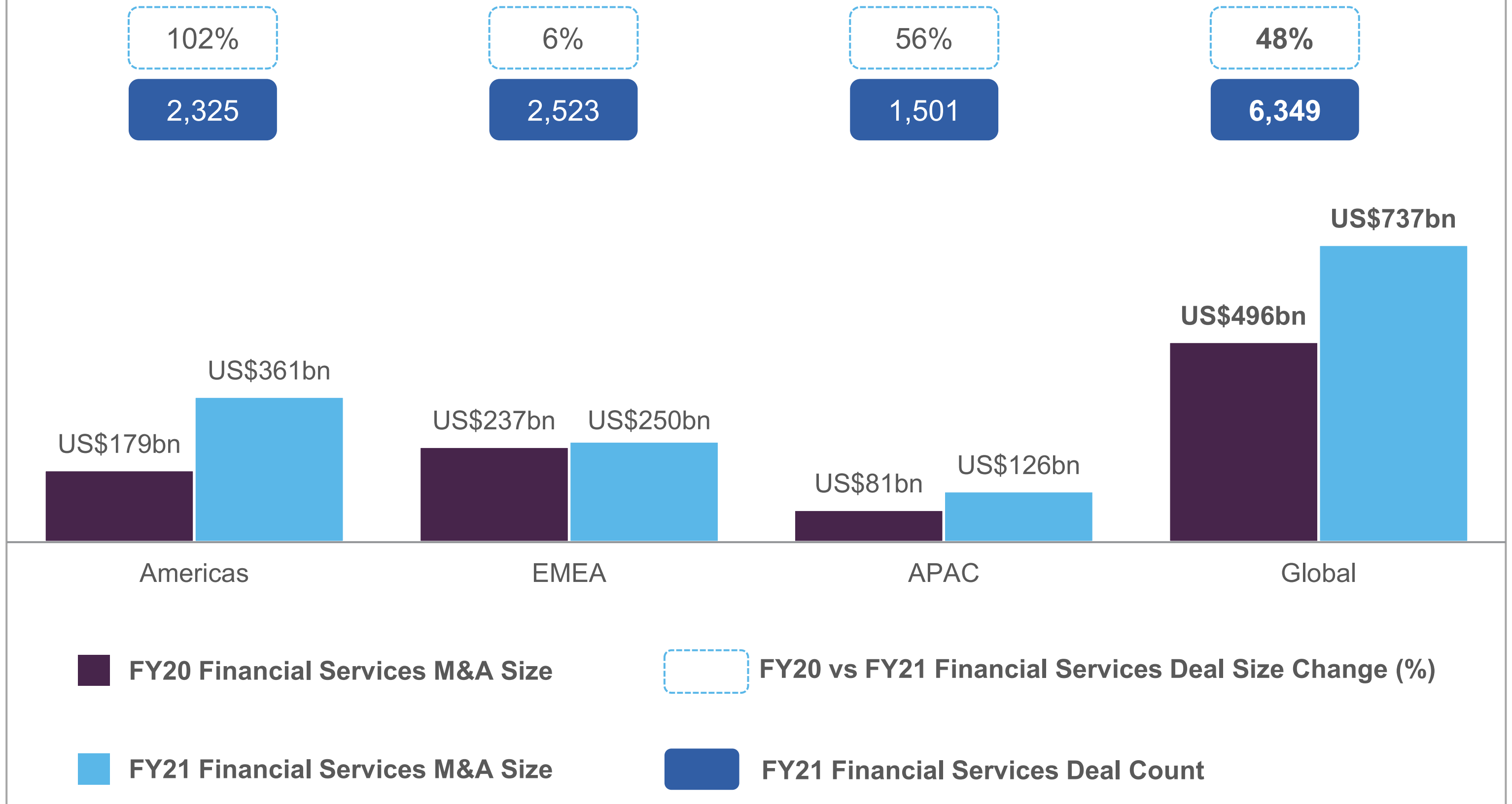
Outlook

- ✓ In 2022, we can expect to see robust de-SPAC volumes given there are more than 400 SPACs that are still looking for M&A.
- ✓ Fintech continues to be in the most attractive sub-sector.
- ✗ The recent regulatory interventions and expected economic stability have diminished the attractiveness of SPACs, compared with traditional IPOs.
- ✗ Mixed post-deal performance, rise in the number of redemptions during De-SPACs and potential overcrowding has resulted in growing investors' doubts about SPACs' ability to deliver high-quality companies

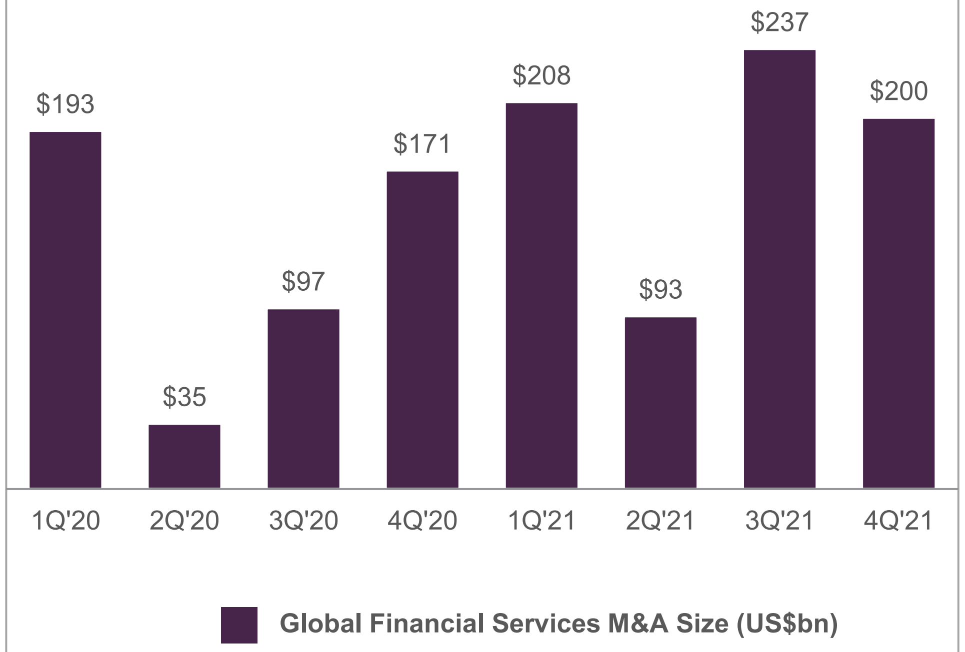
Source: Eikon. Figures in US$bn. Data as of 4Q'21 ending December 31, 2021.

Global M&A activity experienced a banner year in 2021…

- The Americas registered significant YoY growth in deal size due to a few large deals while volumes got doubled as compared with 2020
- For instance, the merger of GE Capital Aviation Services and AerCap Holdings was valued at ~US$30bn



- A slight decline in M&A activity in 4Q'21 was primarily due to expectations of rising interest rates
- Deal count continued to increase in 4Q'21 as compared to previous quarter and ~17% increase in M&A size YoY



 Source: Refinitiv. Figures in US$bn. Data as of December 31, 2021.

…with an uptick in high-profile deals across sub-sectors indicating a broad-based M&A recovery before heading into 2022

Key Themes Driving M&A Recovery

- Diversified revenue streams
- Innovative solutions
- Shareholder value generation
- Digital one-stop-shop
- Efficient ownership structure
- Strong regional partnerships
- Fintech Wave
- Resilient cash flow

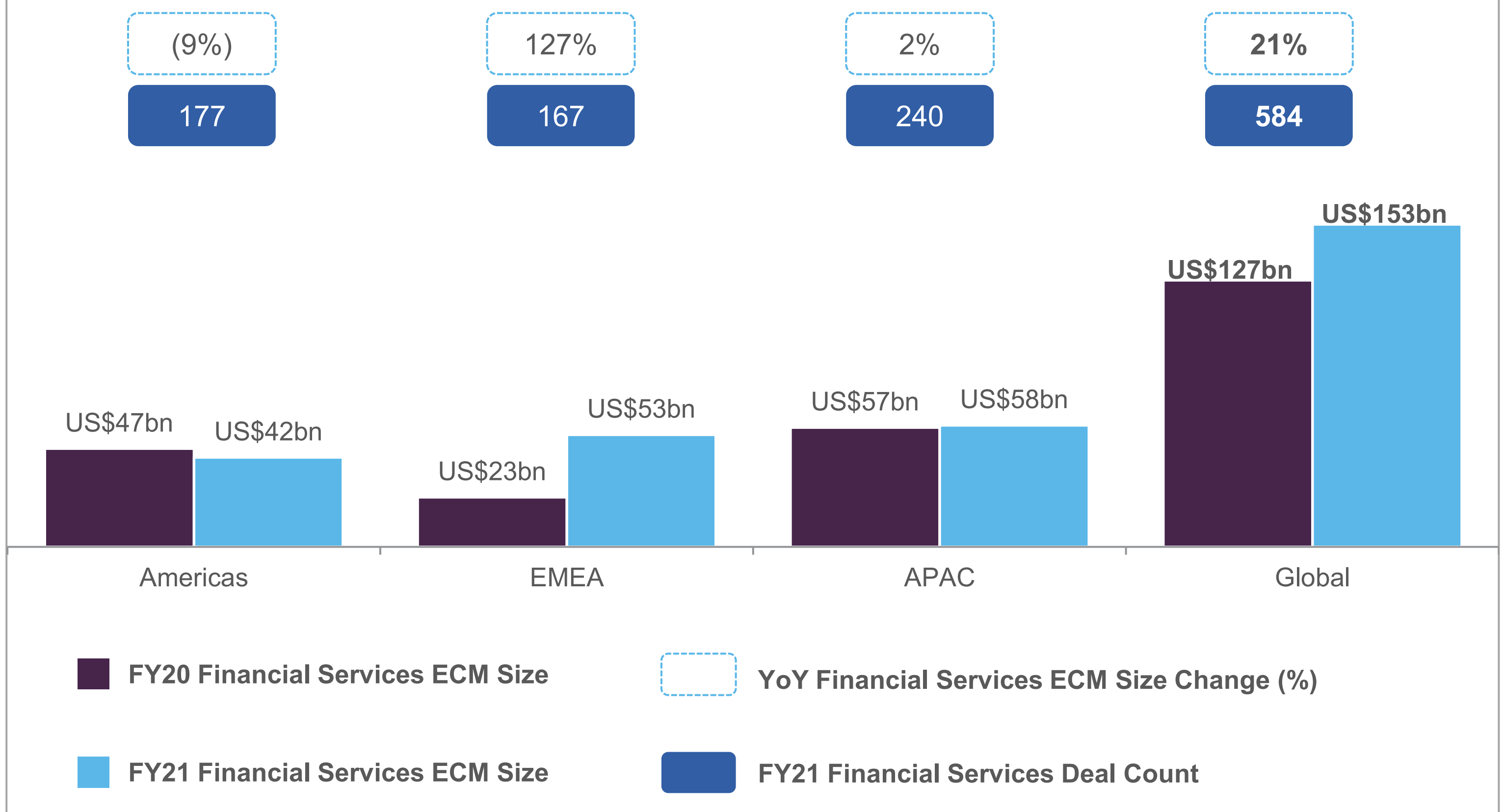
Top 'Big Ticket' M&A Announced in 2021

Ann. Date	Acquirer	Target	Target's Sector	Deal Value (US$bn)	Advisors
12-Jul-21	Lionheart Acquisition Corp II	MSP Recovery	Insurance	$32.5	Keefe Bruyette & Woods, Stifel Nicolaus & Co., Nomura
10-Mar-21	AerCap Holdings	GE Capital Aviation Services	Specialized Finance	$31.1	Goldman Sachs, Evercore, PJT Partners, Morgan Stanley, Citigroup
2-Aug-21	Square	Afterpay	IT Services	$27.1	Goldman Sachs, Qatalyst Partners, Lonergan Edwards & Associates, Highbury Partnership, Morgan Stanley
20-Dec-21	BMO Harris Bank	Bank of the West	Banking	$16.3	BNP Paribas, JP Morgan, Goldman Sachs, Morgan Stanley
8-Jul-21	Concord Acquisition Corp.	Circle Internet Financial	Fintech	$9.0	Financial Technology Partners, Citi, Cassel Salpeter & Co., Cowen, Golman Sachs
28-Oct-21	Covea SGAM	PartnerRe	Speciality Insurance	$9.0	Goldman Sachs, Barclays, Rothschild & Co., JP Morgan
16-Mar-21	Fintech Acquisition Corp V	eToro Group	Brokerage	$8.8	Houlihan Lokey, Goldman Sachs, Citi
23-Jul-21	Permanent tsb	Ulster Bank (Retail SME & Asset Finance Business)	Banking	$8.6	Goldman Sachs, Rothschild & Co., Morgan Stanley
15-Sep-21	EJF Acquisition Corp.	Pagaya Technologies	FinTech	$8.3	UBS, Barclays, Duff & Phelps, JP Morgan
9-Jul-21	Far Peak Acquisition Corp.	Bullish Inc	FinTech	$8.1	Jefferies, Duff & Phelps

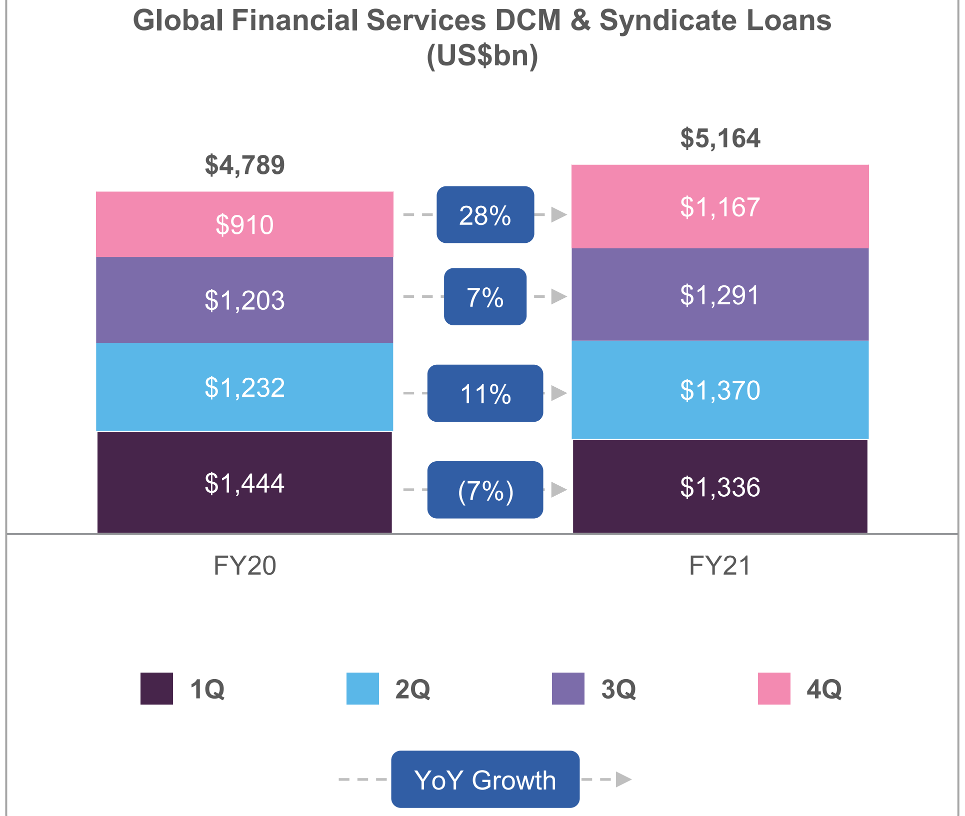
Source: Company Press Releases. Data as of December 31, 2021. Figures in US$bn, unless otherwise noted.

Both Equity and Debt Capital Markets gained further traction in 2021 aided by favorable market conditions and record-breaking M&A volume

- On a YoY basis, equity capital markets (ECM) in Europe continued its rally, while ECM in the Americas trailed slightly given the record activity in 2020
- In FY21, overall ECM activity increased primarily due to SPAC IPOs and follow-on offerings. The traditional IPO space witnessed a mixed performance



- The syndicate loan market grew by 34%, while the Debt Capital Markets (DCM) grew by 4% vs 2020
- Total volume increased sharply in Q4'21 backed by strong growth in syndicate loans (46%) and DCM (26%) YoY



 Source: Refinitiv. YTD as of December 16, 2021. Figures in US$bn.

With the pandemic-driven hiatus coming to an end, the record M&A activity momentum across sub-sectors will likely continue in 2022

Key Factors Influencing M&A Activity

Economic Upheaval

- ✓ Pressure on organic growth and capital appreciation, as well as lower valuations to act as catalysts 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.
- ✓ Vaccination drives are expected to boost economic recovery. However, the growth is expected to be uneven due to limited vaccination and pandemic control-related challenges in most developing and underdeveloped economies.
- ✓ Cross-border M&A deals surged in 3Q'21, with the US accounting for 38% of the deals so far in 2021.

Regulatory Environment

- ✓ The global regulatory and tax conditions have been favourable.
- ✗ Increased due diligence will likely slow down the execution process, e.g., work-from-home compliance, cybersecurity, privacy, data protection and accounting regulations.

Technological Changes

- ✓ Digital transformation is necessary for fraud management, cybersecurity and digital client servicing. M&A remains the quickest way to build these capabilities.
- ✓ Technology to remain at the forefront of corporate strategies to build market position especially in the current Fintech wave.

Sector Dynamics

- ✓ Partnerships can promote better efficiency ratios, technological transformation, treasury operations and cross-selling.
- ✓ Rise of domestic champions, challenger bank M&A, focus on deleveraging balance sheets and reconfiguration of operating models.
- ✓ Increased regulatory and digital transformation costs and thin margins are driving consolidation in the market.
- ✗ Difficulty in ascertaining the right M&A targets amid uncertainties around the economy and consumer behaviour.

Financial Market Support

- ✓ The credit market is active, unlike during the 2007–09 financial crisis.
- ✓ Private equity firms to continue to deploy their dry powder in life insurance and annuities and payments sub-sectors.
- ✓ Many governments have invested money in the market to fuel economic recovery

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About the Authors

Arjun Paul
Manager
Corporate and Investment Banking LoB

Arjun has over 7 years of experience in working as part of investment banking offshore teams

Arjun.Paul@evalueserve.com

Ayan Singh
Senior Business Analyst
Corporate and Investment Banking LoB

Ayan has 3 years of experience in working as part of an investment banking offshore team with focus on the financial services industry

Ayan.Singh@evalueserve.com

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