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IMAP INSIGHTS



OUR M&A PERSPECTIVE
ON THE GLOBAL
FINANCIAL SERVICES
SECTOR

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IMAP
International M&A Partners



OUR M&A PERSPECTIVE ON THE GLOBAL FINANCIAL SERVICES SECTOR

INTRODUCTION

IMAP Financial Services sector Leaders: Jonathan Dalton and Khelan Dattani share insights into the global Financial Services sector. They look at how and why the COVID pandemic affected certain geographies and subsectors more than others and the subsequent impact on deal volumes and valuations. They identify the key areas of growth and common trends driving activity across the globe and examine why the sector is becoming increasingly attractive to PE investors, pinpointing opportunities for buyers and sellers.



KHELAN DATTANI

» In the US, Financial Services M&A has been significantly hit by COVID, with the number of deals decreasing considerably. Furthermore, at its peak, deal value was down over 90% and though this has rebounded, remains lower than in 2019. In Europe on the other hand, there was not as large a dip in deal volume and though the number of deals did drop in early 2020, the market rebounded at the end of the year. At the same time, several of the subsectors have been completely insulated from the pandemic, and insurance services, insurance underwriting and asset/wealth management all remain highly active. We will also see significant capital raising activity in the market in the form of scale-ups, as well as asset managers acquiring insurers to create permanent capital vehicles.



JONATHAN DALTON

Strong businesses continue to attract buyers and should the COVID pandemic continue to worsen, quality resilient companies from the first wave are likely to achieve higher demand and valuations, as capital, be it PE or trade is unable to flow into other affected sectors, an opportunity for buoyant companies in the Financial Services sector. Underperforming sectors on the other hand, primarily balance-sheet businesses, will be the target for value-orientated buyers looking for opportunistic acquisitions. SPACs will continue to be an active player in the market, along with PE.

FINANCIAL SERVICES M&A

NORTH AMERICAN FINANCIAL SERVICES M&A VOLUMES

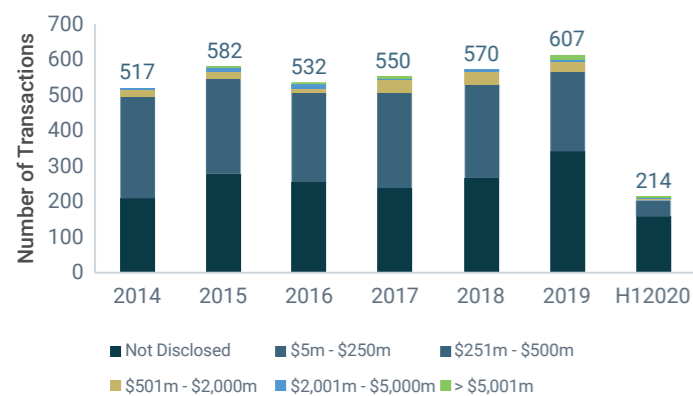
Financial Services M&A was significantly hit by COVID

» The Financial Services business, especially in North America, is very relationship orientated. Whilst technology is playing more and more of a role in these businesses, ultimately Financial Services is about advising individuals, companies and governments on money-related issues. Therefore, COVID has had a substantial impact on the relationship

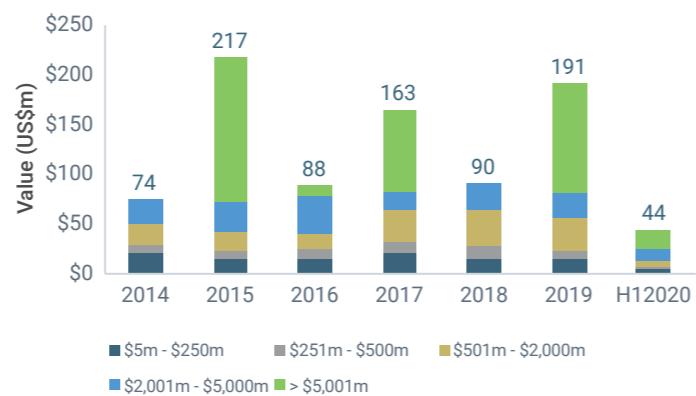
aspect of the business. Investment banking is a high-touch business and adapting to social distancing restrictions etc. has resulted in a decline in deal values and valuations, particularly for balance sheet heavy businesses, which are credit/interest-rate sensitive in this market. At the very depth of the crisis, deal values were down approximately 90%.

Though there has been a global bounce back, activity remains below that of 2019-year end. The normal rate of yearly transactions of 550-600 has reduced to closer to 250-300. Smaller deals have been affected less than the mega deals historically taking place in this sector.

Deal Count - by Deal Size



Deal Values (USD million) - by Deal Size



- # of deals down from 293 in H1 2019, to 214 in H1 2020, a decline of 27%.
- Deal values fell even more; down 52% from USD91 billion in H1 2019, to USD43.7 billion in H1 2020.
- Peak to trough deal value was down over 90% and # of deals were down ~40% (Q4 2019 vs. Q2 2020).
- Deal value began to rebound in Q3 2020.



A Tale of 2 Markets

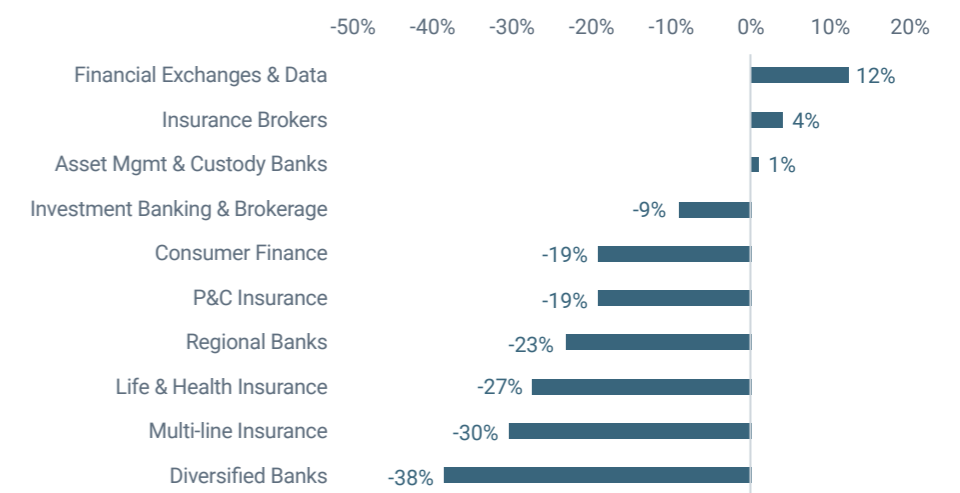
» Several Financial Services subsectors have been completely insulated from the pandemic, such as insurance, as people typically tend not to reduce their insurance purchases in a recession. Therefore, M&A is currently focused on subsectors that have performed well on the S&P 500, with valuations similar to those seen pre-COVID. Furthermore, within Financial Services, there are 2 very different markets, and indeed economies; one, high-touch relationships, such as HNW advisors, and the other, low-touch, with the latter less affected by the COVID pandemic. Whereas technology is important to both, the future of the high-touch businesses in the long-term is much greater, and the low-touch businesses, which are tech-enabled, robot advisors etc. are a short-term trend.

businesses, have been the target of value-oriented buyers looking for opportunistic acquisitions. There has also been significant activity by SPACs. Likewise, many businesses in the sectors are using the crisis as a means to grow, e.g., asset managers buying insurance companies as permanent capital vehicles.

Interestingly, many of the property and casualty insurance brokers have been so busy consolidating in that space, that they've scaled to the point there are hardly any sizeable businesses left to buy, so they have shifted into another area of the value chain they can sell. This is driving a significant amount of M&A activity.

PE is particularly active in the Insurance Brokerage market, making up approximately 70% of the deal volume. The underperforming sectors, primarily balance-sheet

S&P Performance in 2020



EUROPEAN FINANCIAL SERVICES M&A

Europe is seeing very similar trends to Northern America in terms of balance-sheet and asset-light businesses. Balance sheet businesses are facing challenges not only in M&A, but also in terms of their business models, in a low interest rate environment where provisions and credit issues are increasing.

On the other hand, Europe has not seen such an extreme dip in terms of M&A volume. There has been little movement over the past 5 years, with yearly deal numbers remaining

around 150-200, though in 2020, there was a dip of almost 15%. In Q3 however, things began to rebound, closing the gap between 2019 and 2020 numbers. In the asset-light part of the market, deal volume is strong in Europe. Though it is difficult to pinpoint exactly what is driving this activity, there are some common factors; regulatory pressures, a tailwind in this sector, are driving consolidation, especially for smaller businesses. Be it asset wealth companies, BPO, fund administration or insurance brokerage, these smaller

businesses have a more onerous regulatory compliance, and a burden of cost it's impossible to contain, so M&A and the synergies gained from M&A can be a strong driver of value.

Should the COVID pandemic continue to worsen, quality resilient companies from the first wave are likely to achieve higher demand and valuations, as capital, be it PE or trade is unable to flow into other affected sectors, an opportunity for buoyant companies in the Financial Services sector.

KEY SUBSECTOR HIGHLIGHTS

- **Wealth Management** – Not so heavily impacted by PE as other sectors, yet not demonstrating the same level of growth or synergy potential as Insurance Brokering or Fund Administration.
- **Insurance Brokerage** – PE showing significant interest in this subsector which is demonstrating consistently interesting returns, due to synergies as buying small creates multiple arbitrages, as well as day-1 revenue synergy. This sector is still very fragmented so there is a high volume of companies to be acquired.
- **Fund Admin** – Most are global in nature, with primarily cross-border transactions. Has seen interesting tailwinds, including regulation, as well as the move from listed to alternative assets in the market at large, which has led to an increase in the need for administration and 3rd party administration services. Furthermore, a scarcity of assets in the market is driving demand, deal values and multiples.
- **Group Pensions & Health Benefits** – Seen a lot of activity. Many of the UK & Irish P&C consolidators for example, are selling off the Group Benefits area of the business as it is highly regulated and requires a high level of regulatory capital to be held against it.



European Financial Services M&A 2019 – Key Figures & Sector Breakdown

€132.9 bn⁽¹⁾

Total value of European Financial Services M&A in 2019 vs. EUR62 billion in 2009

548

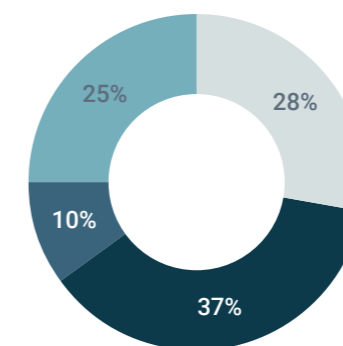
Financial Services deals in Europe in 2019 vs. 449 in 2009

7%

Financial Services share of total # of European M&A deals in 2019

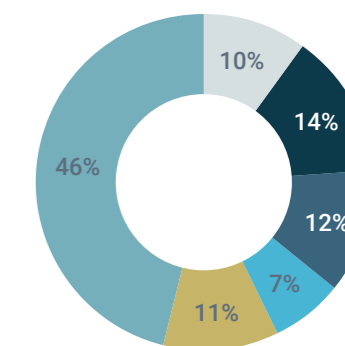
Deals (#) by Sector

- Capital Markets/Institutions
- Other
- Commercial Banks
- Insurance



Deals (#) by Region

- CEE
- France/Benelux
- DACH
- Nordic Region
- Southern Europe
- UK/Ireland



(1) Largely driven by FIS' EUR43.0 billion acquisition in Q3 of Worldpay
Source: PitchBook, White and Case

European Financial Services – Key Trends



Digitization

- M&A involving fintech companies is at record levels
- As companies come under margin pressure, technology-enhancing M&A is becoming more popular e.g. CPPIB's investment in UK-based BGL Group



Balance-sheet-light sectors

- PE funds are becoming increasingly interested in balance-sheet-light assets enabled by technology and regulatory change e.g., fund admin, insurance broking and wealth management



Vertical integration

- **Payments:** e.g., Klarna's acquisition of Moneymour (to deliver POS offerings), Worldline's USD7.8 billion acquisition of Ingenico, KKR's HeidelPay acquiring Tillhub
- **Insurance:** product producers acquiring distribution



Consolidation of general insurance broking

- Insurance companies seeking to scale up and benefit from economies of scale – Marsh's acquisition of JLT for EUR4.8 billion
- PE implementing buy-and-build strategies in attempts to roll-up the sector and establish a larger, dominant player



COVID-19 creating opportunities for the bold

- E.g. Banks acquiring bargains and otherwise unavailable assets (e.g., BNP Paribas's acquisition of Banco Sabadell's institutional depository business and Société Générale's OTC metal trading portfolios)



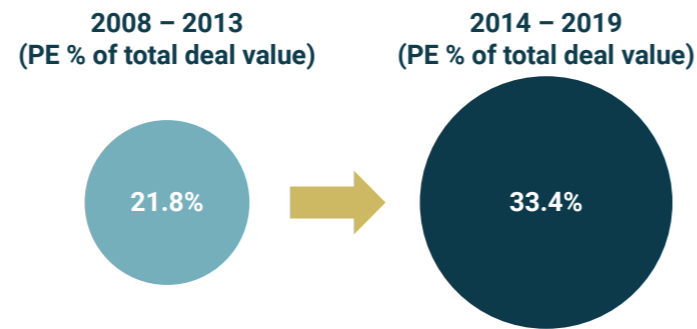
Other notable trends

- P&C run-off companies acquiring legacy liabilities in Europe
- Closed book consolidators acquiring life and annuity books
- Pension buyout specialists transferring corporate liabilities, especially in the UK
- PE firms have come back to Lloyds of London to capitalize P&C insurance platforms expecting the market to turnaround

EUROPEAN FINANCIAL SERVICES M&A – PE ACTIVITY

Status of European Financial Services PE Activity and Sectors in Focus

- Over the last decade, strategic Financial Services M&A has accounted for the majority of deal activity. However, we're seeing more and more financial sponsor capital enter the space.
- In particular, there is an increasing trend of US PE investing in European assets.
- Below highlights PE's increasing average share of European transaction value:



Sectors in Focus

Trust and Corporate Services 	Intermediation (e.g. Insurance Broking) 	Asset/Wealth Management
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Source: PitchBook

Attractive Characteristics of Financial Services to PE Investors

- High levels of recurring revenue
- Sticky client bases
- Underlying growth tailwinds: e.g. hardening insurance market, growth in private assets & outsourcing of fund admin
- Multiple expansion – European PE deals are commanding higher and higher multiples making investments more attractive on exit
- Balance-sheet-light characteristics (in certain subsectors)

Financial Services-Focused PE Investors



BUYER MIX
 A blend of PE, pure trade and PE-backed trade, the latter is very much driving demand in asset-light sectors and indeed, could be deemed the “bravest” during the COVID pandemic, having underwritten very significant

M&A strategies and continuing to deploy capital.
 Financial Services-focused PE investors tend to invest across the globe and are not limited to a narrow mandate. Unlike other sectors which

have struggled to attract US PE into Europe, for Financial Services the US is an important buyer universe, that tends to pay higher values, especially for growth wealth.

Financial Services M&A Landscape Recap

M&A Expectations

- Insurance services, insurance underwriting, asset/wealth management remain active
- Significant capital raising activity in the market in the form of scale-ups that involves acquiring an existing platform and adding significant capital
- Asset managers acquiring insurers to create permanent capital vehicles

Drivers for Buyers and Sellers

- Strong businesses continue to attract buyers
- Marginal businesses do not have good prospects to trade

Transactions, Valuations & Trends

- Deal multiples in certain sub-sectors such as Insurance Distribution and Services are not impacted
- Interest sensitive and credit sensitive businesses are severely impacted in terms of multiples and lower earnings

Due Diligence, Transaction Structure & Risk Sharing

- Greater use of earnouts to account for the uncertainty
- Debt markets continue to work for good businesses
- In-person meetings remain important to supplement virtual due diligence

IMAP TRANSACTIONS – FINANCIAL SERVICES

Selected IMAP Transactions

Further Global
Private equity investor
UNITED STATES

Acquired Majority Control of Business Operations

AA

Insurance broker and roadside assistance
IRELAND

IMAP
ADVISED ON SALE OF COMPANY

Brown & Brown INSURANCE
6th largest independent insurance brokerage in the USA
UNITED STATES

Acquired 100% of Business Operations

SPECIAL RISK INSURANCE MANAGERS

One of Canada's largest independent specialty P&C managing general agents
CANADA

IMAP
ADVISED ON SALE OF COMPANY

IndiaRF
A Piramal Enterprises & Bain Capital Credit Partnership
Asset reconstruction company
INDIA

Acquired the Debt Obligations of Indian Steel Company from

State Bank of India

Financial institution
INDIA

IMAP
ADVISED ON DEBT OBLIGATION TRANSACTION

BPER: Banca Popolare di Sondrio
Listed Italian-based commercial banks
ITALY

Acquired a 39.99% Stake

ARCA SGR

Leading Italian asset management company
ITALY

IMAP
ADVISED ON SALE OF COMPANY

HOUSATONIC
Growth-oriented private equity firm focused on investing in recurring services companies
UNITED STATES

Acquired Majority Control of Business Operations

Maxi Money Services

International money transfers and bill payment services
UNITED STATES

IMAP
ADVISED ON SALE OF COMPANY

Irish Life
Largest life assurance company in Ireland
IRELAND

Acquired 100% of Business Operations

apt workplace pensions

Provider of corporate pension administration
IRELAND

IMAP
ADVISED ON SALE OF COMPANY

iA Financial Group
Insurance and wealth management
CANADA

Acquired 100% of Business Operations

PPI

Insurance marketing
CANADA

IMAP
ADVISED ON SALE OF COMPANY

FNZ
Fintech company specialized in providing investment platforms to financial institutions
UNITED KINGDOM

Acquired 100% of Business Operations

IPSI PARTNERS IN LIFE

Provides third party administration solutions to global life and pensions companies
IRELAND

IMAP
ADVISED ON SALE OF COMPANY

GBG Insurance Without Borders
Provider of insurance to international schools
UNITED STATES

Acquired 100% of Business Operations

CAA CLIFFORD ALLEN ASSOCIATES

Private secondary school student insurance
UNITED STATES

IMAP
ADVISED ON SALE OF COMPANY

GRP Global Risk Partners
Leading independent insurance intermediary
UNITED KINGDOM

Acquired Majority Stake of Business Operations

crotty INSURANCE

Commercial insurance broker
IRELAND

IMAP
ADVISED ON SALE OF COMPANY

iA Financial Group
Insurance and warranty products and services for individuals and groups
CANADA

Acquired 100% of Walker Group's B2B Warranty Businesses

Diamond Kote. W3 Solutions

Warranties and related products for auto, consumer electronics and appliances
CANADA

IMAP
ADVISED ON SALE OF COMPANY

Technolease
Financial leasing
EGYPT

Acquired a Minority Stake in

COMIC

Insurance services
EGYPT

IMAP
ADVISED ON PURCHASE OF COMPANY

ABOUT IMAP

INTERNATIONAL MERGERS & ACQUISITION PARTNERS

Consistently ranked among the Top 10 middle market M&A advisors worldwide

450+

TEAM OF IMAP PROFESSIONALS WORLDWIDE



ENTREPRENEURIAL SPIRIT

- IMAP is a partner-driven, client-focused and independent M&A advisory.
- Senior experience and hands on involvement in deals – 230 Senior Transaction/Transaction Advisors.
- Worldwide IMAP team comprising 450+ professionals.

47

YEARS OF M&A EXPERIENCE IN THE MIDDLE MARKET



MIDDLE MARKET FOCUS

- Sell-side advisory for primarily privately held companies and spin-offs from large groups.
- Strategic acquisitions for international corporates.
- "Sweet –spot" Transaction Values \$20 – 250 million.
- Strong PE and Family Office Coverage.

60+

OFFICES IN 43 COUNTRIES



GLOBAL REACH

- Proven cross-border advisory practice.
- Global sector & project teams across 15 sector groups.
- Leveraging local knowledge and corporate access in all relevant international markets.

\$12.5bn

CLOSED DEAL VALUE 2020



EXECUTION EXPERIENCE

- IMAP has closed over 2,100 transactions valued at \$90 billion in the last 10 years.

GLOBAL PERFORMANCE 2020

218

M&A TRANSACTIONS

\$12.5bn

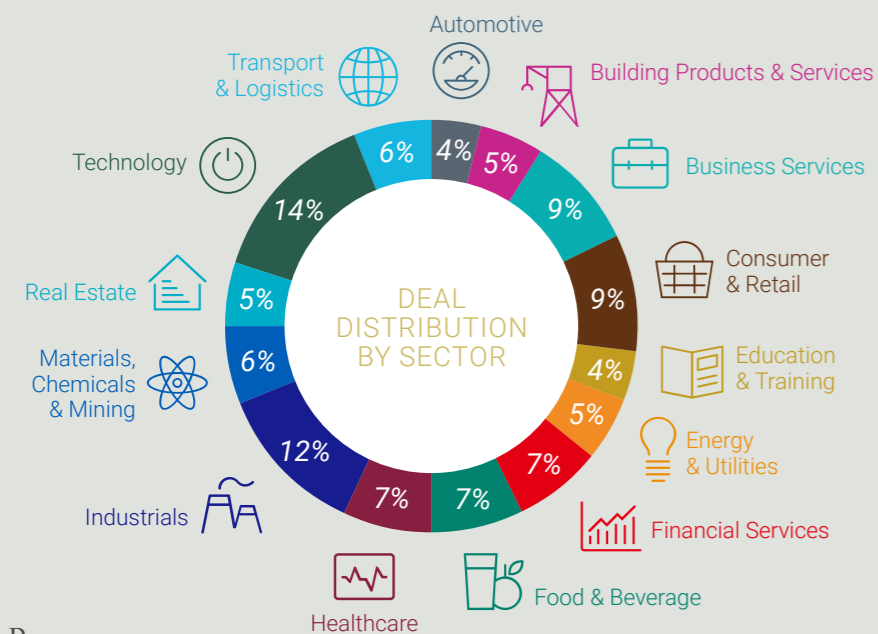
TRANSACTION VALUE

30%

CROSS-BORDER DEALS

6th

IN THE WORLD



GLOBAL PERFORMANCE

- 1 PwC
- 2 KPMG
- 3 Deloitte
- 4 Houlihan Lokey
- 5 Rothschild
- 6 **IMAP**
- 7 EY
- 8 Oaklins
- 9 Goldman Sachs
- 10 Lazard

Ranking based on number of transactions closed in 2020. Undisclosed values and values up to \$500 million. Source: Refinitiv and IMAP internal data.

GLOBAL REACH

Our cross-border experience extends across Europe, the Americas, Asia and Africa

450+

PROFESSIONALS WORLDWIDE

43

COUNTRIES

60+

OFFICES



North America

U.S.A.

Boston
Chicago
Dallas
Denver
Detroit
Greenville
Greenwich
Houston
Los Angeles
Naples

New York
Philadelphia
Richmond
San Diego
San Francisco
St Louis
Tampa
Washington DC

Canada

Toronto
Vancouver

Latin America

Argentina
Brazil
Chile
Colombia
Mexico
Peru
Panama

Ivory Coast
Mauritius
Morocco
Nigeria
Senegal
South Africa

Asia

China
India
Japan
Thailand

Europe

Belgium
Bosnia & Herzegovina
Croatia
Czech Republic
Finland
France
Germany
Hungary
Ireland
Italy
Netherlands
Poland

Portugal
Russia
Serbia
Slovakia
Slovenia
Spain
Sweden
Turkey
United Kingdom

IMAP GLOBAL SECTOR COVERAGE FINTECH & FINANCIAL SERVICES

CANADA



ANDREW KEMPER
Partner
Capital West Partners
Vancouver, Canada
andrew.kemper@imap.com

CANADA



BRENT WALKER
Managing Director
Morrison Park Advisors
Toronto, Canada
brent.walker@imap.com

PORTUGAL



GONCALO VAZ BOTELHO
Managing Partner & CEO
Invest Corporate Finance
Lisbon, Portugal
goncalo.botelho@imap.com

IRELAND



JONATHAN DALTON
Head of Corporate Finance
Key Capital
Dublin, Ireland
jonathan.dalton@imap.com

FRANCE



FRANCK CEDDAHA
Managing Partner
Degroof Petercam France
Paris, France
franck.ceddaha@imap.com

GERMANY



PETER A. KOCH
Managing Director
IMAP M&A Consultants AG
Mannheim, Germany
peter.koch@imap.com

ITALY



DANIELE SOTTILE
Managing Partner
Vitale & Co.
Milan, Italy
daniele.sottile@imap.com

POLAND



PIOTR CHUDZIK
Managing Partner
Trigon,
Warsaw, Poland
piotr.chudzik@imap.com

USA



DAVID FRANCIONE
Managing Director
Capstone Headwaters
Boston, USA
david.francione@imap.com

USA



KHELAN DATTANI
Managing Director
Capstone Headwaters
Washington DC, USA
khelan.dattani@imap.com

MEXICO



GILBERTO ESCOBEDO
Partner
Serfidor Partners
Mexico City, Mexico
gilberto.escobedo@imap.com

BRAZIL



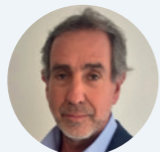
TOM WASLANDER
Managing Partner
Brasilpar
Sao Paulo, Brazil
tom.waslander@imap.com

COLOMBIA



MAURICIO SALDARRIAGA
Partner
Inverlink SAS
Bogota, Colombia
mauricio.saldarriaga@imap.com

PERU



CARLOS A. GARCIA
Founder & Managing Partner
SUMMA Asesores Financieros
Lima, Peru
carlos.garcia@imap.com

ARGENTINA



MARIO HUGO AZULAY
Partner
Mario Hugo/FS Partners
Buenos Aires, Argentina
mario.azulay@imap.com

MOROCCO



ABDELLATIF IMANI
Partner
Ascent Capital Partners
Casablanca, Morocco
abdellatif.imani@imap.com

EGYPT



KHALED EL GHANNAM
Chairman
Intelligent Way Capital Partners
Cairo, Egypt
khaled.elghannam@imap.com

SOUTH AFRICA



EDMUND HIGENBOTTAM
Managing Director
Verdant Capital
Johannesburg, South Africa
edmund.higenbottam@imap.com

HUNGARY



MARTON MICHALETZKY
Managing Partner
Concorde MB Partners
Budapest, Hungary
marton.michaeltzky@imap.com

CROATIA & SEE



GORAN POPOVIC
Partner
IMAP Southeast Europe
Zagreb, Croatia
goran.popovic@imap.com

INDIA



ASHUTOSH MAHESHVARI
Managing Director
IMAP India,
Mumbai, India
ashutosh.maheshvari@imap.com



Report Contributors



KHELAN DATTANI
Managing Director
Capstone Headwaters – IMAP USA
khelan.dattani@imap.com



JONATHAN DALTON
Head of Corporate Finance
Key Capital – IMAP Ireland
jonathan.dalton@imap.com

Contact:

IMAP, Inc.
Balmes 151, 1st floor
08008 Barcelona – Spain
T. +34 936 026 710

www.imap.com

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