

Osborne Clarke's 2022 Future of Financial Services Week

26 January – 3 February 2022



The future of M&A and fundraising in the financial services sector





Financial Services M&A Activities

Osborne Clarke

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Significant M&A activity across global markets

2021 YTD has seen the highest M&A activity since records began, in terms of both volume and value of deals. Key drivers include resilient economic activity in many developed markets (supported by government intervention), strong corporate balance sheets seeking to invest for growth, and unprecedented deployment of private equity capital

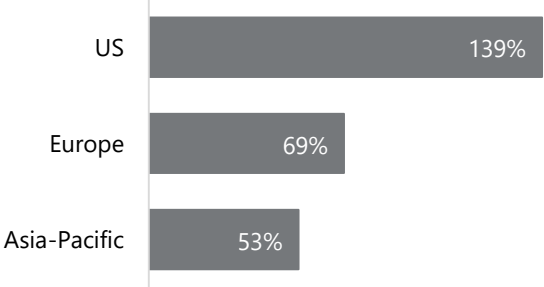
2021 has seen \$4.4tn deal value across over 45,000 transactions, and mega-deals up more than 50%

Following early-2020 Covid caution, corporates have accumulated significant cash positions and M&A is high on the agenda for most ~\$1.9tn surplus cash across S&P 500

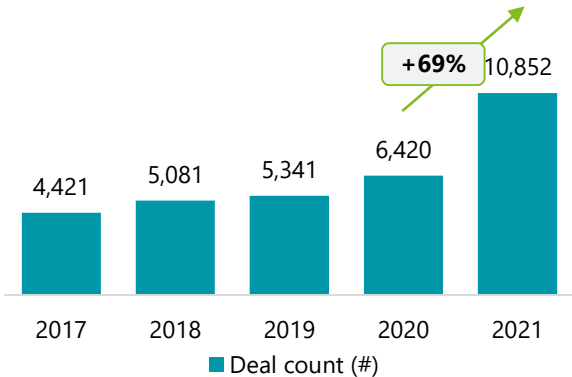
- *US and Europe both experiencing >50% increase in M&A volumes vs 2020*
- *Private equity investors are driving significant M&A activity, both standalone and through SPACs¹*
- *Sectoral shift towards financials and technology, especially for private equity*

1 Substantial growth in M&A activity across the globe...

Growth in M&A volumes (domicile of target)



2 PE highly active in 2021 YTD – representing a total deal value of \$1.4tn²



3 Portfolios shift towards defensive asset classes, plus acceleration of Technology M&A volumes

Most active sectors (M&A deal value, Q3 2021, \$bn)



+4 ppt Proportion of total global M&A value by top 3 above, versus Q3 2020

Financial services M&A trends

There are different drivers impacting each segment of financial services industry that include banks and speciality finance; insurance; wealth and asset management; FinTech and payments



Banks and specialty finance

- **Niche and specialist lending platforms & loan books have risen in value.** As such, we anticipate more M&A in this space driven by appetite for yield, with challenger banks likely to be at the forefront of the M&A trend
- **Large banks are focusing on becoming as streamlined as possible and the lowest cost to serve.** This may drive consolidation across mid-tier challengers
- Banks are looking to diversify and strengthen their adjacent market offerings, looking at segments such as wealth & insurance as means of improving income
- **The BNPL sector has been attracting significant investment as well as regulatory scrutiny.** We anticipate further M&A and the emergence of clear winners and losers



Insurance

- Low interest rates and declining legacy businesses will continue to drive **sector consolidation**
- **Specialised PEs are looking to acquire insurance companies** to benefit from equity growth, as well as asset management
- **Continued consolidation in the distribution segment,** supported by PEs, with transaction multiples continuing to rise
- **PE backed consolidators are reaching new scale** and there is a continuation of inorganic strategies being employed by the listed incumbents

Financial services M&A trends

There are different drivers impacting each segment of financial services industry that include banks and speciality finance; insurance; wealth and asset management; FinTech and payments



Wealth and asset management

- The size of the European wealth management sector remains strong, **attracting a material level of interest from PEs and strategics**
- Two key trends are:
 - **Consolidation of the financial advisory sector**, with a number of consolidators already being backed by private equity
 - **Further evolution of the B2B and D2C wealth platforms**, which are likely to trigger acquisition of technology capabilities, consolidation, and trade and private equity interest
- We observe lower levels of M&A activity in the asset management sector and anticipate the drivers to be the:
 - **Addition of new capabilities**, for example: Alternatives, Solutions, ETF, ESG
 - **Search for scale and growth** (via inorganic means) as headwinds from fees and the cost of operating business on the traditional asset managers intensify – consolidation is inevitable



FinTech and payments

- Global FinTech funding has rebounded strongly from COVID-19 lows, with a **96% increase in funding YTD 2021 (Q1-Q3) over FY20**
- FinTechs continue to raise mega rounds of funding: **94 mega deals worth \$100m+ were recorded in 2021**
- Corporate Venture Vehicle funding is increasing, with companies participating in **\$78.7bn of funding in H1 FY21 alone**
- We anticipate **continued growth in late rounds**, and **challenges for businesses with high cash burn rates** and low capital efficiency
- In payments, we expect **further consolidation amongst online payment providers**, to drive scale and to acquire additional capabilities (e.g. open banking, new **methods of payment**)
- B2B software solutions in wealth, asset management and InsurTech sectors will continue to attract **strong ARR multiples** from PE and strategic buyers. For assets with quality SaaS metrics, we observe the doubling of multiples in the past 12 months
- **Tech-enabled lenders with poor unit economics** may struggle to obtain access to funding



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