M&A WORLDWIDE

FINANCIAL SERVICES
SECTOR

INDUSTRY REPORT Q2 2023

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1. INTRODUCTION

In our Financial Services Q2 Industry Group report, we look at several interesting and relevant shifts and changes in this sector over the last years.

We take a look at the impact of recent market developments from the effects of Covid 19 through to the war in Ukraine its instant effects and how this has affected Interest rates and Financial Services Worldwide.

We also look at the impact these factors have had on the Sub-sectors in the market. We identify current M&A trends and drivers and look at how this is affecting deal structures and sizes etc. lastly, we examine how deal execution and Advisors are evolving together.

2. RECENT MARKET DEVELOPMENTS[1]

2.1 COVID-19

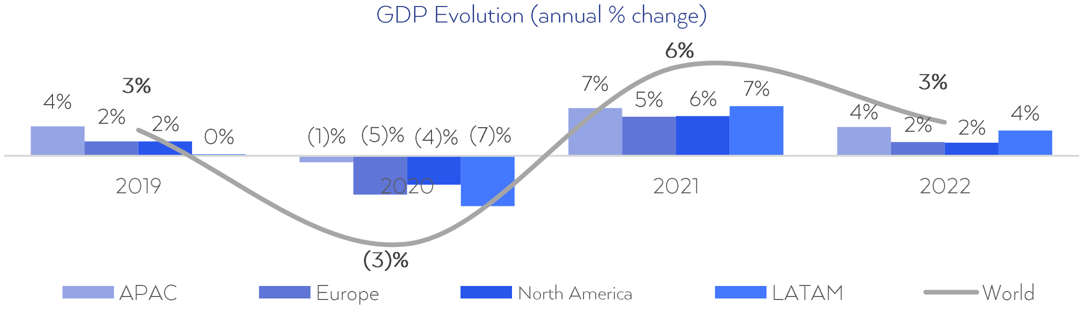
The pandemic led to a 4.4% drop in global GDP in 2020, the second largest global recession in recent history, with lockdowns radically curtailing the services sector, causing also crashes across global financial markets.
The restrictions also led to a global supply chain crisis, which led to an inflation surge, shortages of various goods and services, panic buying and price gouging.
Lastly, it also increased wealth inequality within and across countries.

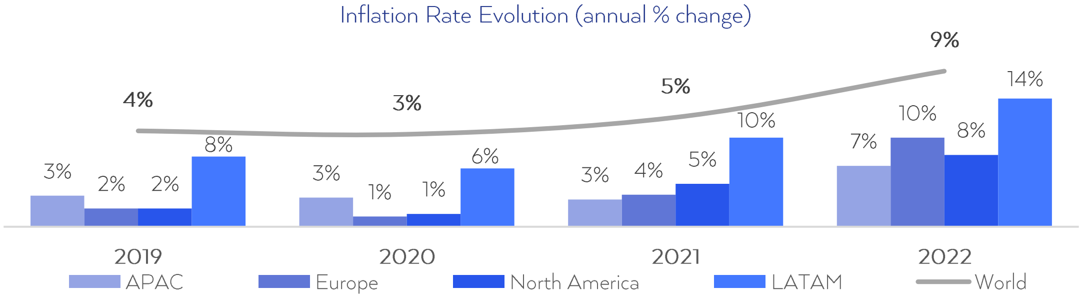
2.2 RUSSO-UKRANIAN WAR

The war exacerbated several pre-existing adverse global trends such as rising inflation, poverty, growing food insecurity, deglobalization, and worsening environment.
It is affecting the global economy via three main channels: financial sanctions, commodity prices and supply-chain disruptions.

2.3 INTEREST RATES HIKES

The hikes led to a steep correction in financial markets across all major asset classes.
However, somewhat surprisingly, their impact on the real economy seems limited thus far, with the US, EU and UK continuing to pump out positive economic data.
This may imply that the CBs have further headway to hike or at least hold current rates for longer.
However, cracks are starting to appear in the financial system as it struggles to deal with the new regime,
This may lead to increased regulatory oversight of mid-tier banks which are currently not subject to the higher standards associated with 'systemically important banks.
Global inflation is expected to fall from 8.8% in 2022 to 6.6% in 2023 and 4.3% in 2024, still above pre-pandemic (2017–19) levels of about 3.5%.





1. Sources: World Bank, IMF, BBC, EIU.

3. IMPACT ON FINANCIAL SERVICES ACROSS REGIONS

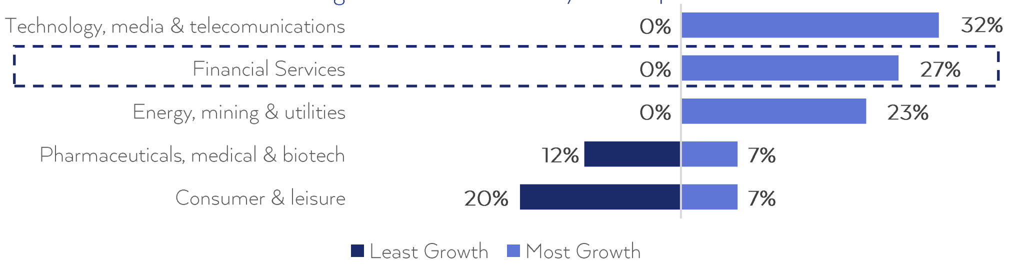
3.1 EUROPE[2]

The region was most directly affected by the war, as it relies heavily on Russian gas imports and faces security threats from the conflict.
The World Bank estimates that Europe's economic activity will remain suppressed next year, with minimal growth of 0.3% expected in 2023.
The ECB and BoE started hiking key interest rates aggressively in response to unabated inflation, which reached a 40-year high of about 11% in October 2022 in both regions.

Impact on financial services M&A:

- **Prioritizing digital initiatives**
- **Restructurings**
- **Consolidation of domestic and regional banks**
- **Disposal of non-core divisions**
- **ESG considerations**

Over the next 12 months, which sector do you believe will see the most and least growth in M&A activity in Europe?



3.2 NORTH AMERICA[3]

The region is less exposed to the direct effects of the war, but still faces spillovers from higher energy prices, weaker global demand, and supply chain disruptions.
The Congressional Budget Office in the US projects a GDP growth of 3.1% for 2023.
The Fed has rapidly hiked rates to a 15-year high of 4.50-4.75% in response to a 40-year high in inflation of 9.1% in July 2022.

Impact on financial services M&A:

- **The strong dollar** combined with strong corporate balance sheets has put US public companies in a good position to acquire companies in the UK and Europe.
- **Consolidation in mid-tier regional banks** due to fragmentation
- **Portfolio optimization:** Divesting non-core or underperforming assets
- **ESG Considerations:** Greater focus on societal good
- **Digitalisation:** The push to provide a seamless digital experience
- **Intra-state expansion:** Increasing reach to different states

2. Sources: World Bank, EuroStat, ONS, MergerMarket
3. Sources: CBO, PWC, M&T Bank, U.S. Bureau of Labor Statistics, FRED, Reuters, Cision PR Newswire, Webster Bank, Baird, GTCR, First National Bank.

3.3 LATIN AMERICA[4]

In 2022, the region's economy expanded by nearly 4%, employment recovered strongly, and the service sector rebounded from the damage caused by the pandemic.
Inflationary pressures are receding in many countries due to the early and determined efforts of Central Banks as well as lower global prices of food and energy.
However, core inflation (excluding food and energy), remains high at around 8% in Brazil, Mexico, and Chile (and higher in Colombia but lower in Peru).
Growth slowed to just 2% this year, amid higher interest rates and falling commodity prices.

Impact on financial services M&A.:

- **Buyers from the US** have an upper hand in cross-border transactions.
- **Large deals** (>$1bn) saw buyers acquiring scale or capabilities in digital trading and brokerage to build vertically integrated, digital-first wealth and asset management offerings.
- **Impressive levels of crypto adoption** over the last few years due to high inflation levels, political instability, and the lack of penetration of traditional banking services.
- **The increasing push for 'financial inclusion'** could present M&A opportunities to global players in fintech, especially payment specialists such as Visa and Mastercard.

3.4. ASIA [5]

The region is a bright spot in a slowing global economy, with growth set to accelerate to 4.7% this year from 3.8% in 2022. China and India alone are expected to contribute more than half of global growth this year.

Impact on financial services M&A:

- China Banking and Insurance Regulatory Commission (CBIRC) **removed the cap on foreign ownership** of insurance asset management companies.
- Companies wary of US-China tensions are increasingly looking towards other **Southeast Asian countries**, such as India and Indonesia, for M&A.

The Indian banking system continues to consolidate.
The Indian payments space continues to be a hotbed of M&A with fast-growing insurgents aggressively buying start-ups.
Indonesia also saw significant digitization-led M&A in the sector, most notably in insurance, banking and fintech.

4. Sources: IMF, Capstone Partners, Bain Cornell, SC Johnson College of Business.
5. Sources: IMF, Baker McKenzie, Reuters, Bain, Lexology

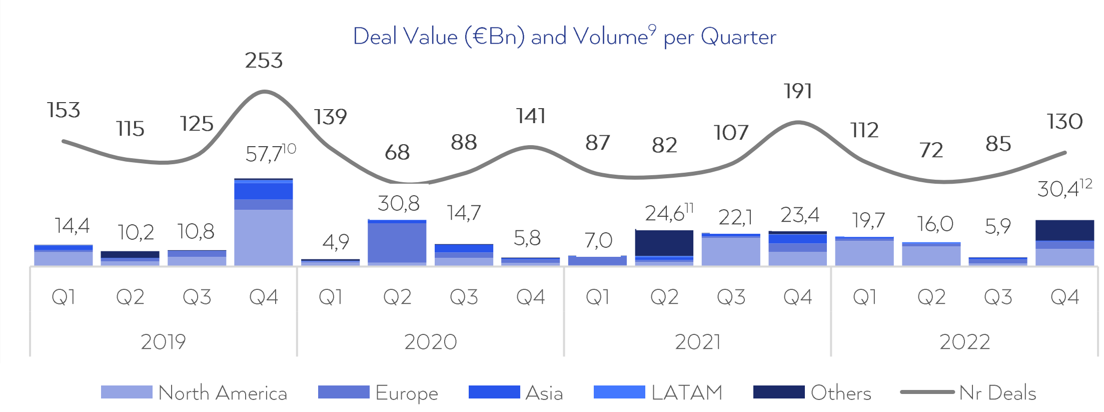
4. IMPACT ON FINANCIAL SERVICES ACROSS SUB-SECTORS

4.1 BANKING

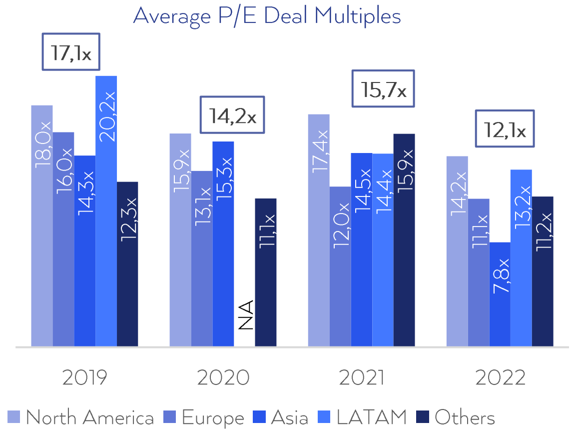
Trends[6]

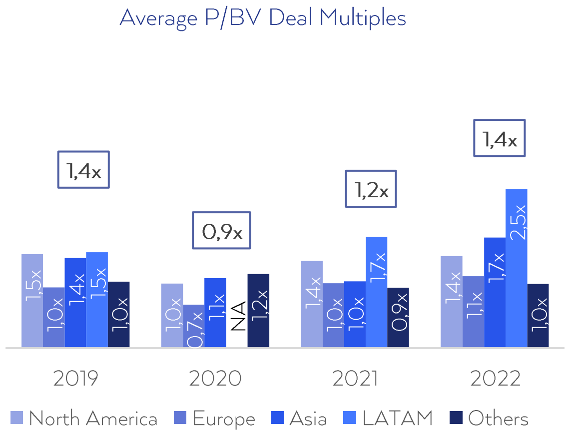
Diversification and consolidation: Incumbents need new growth engines, and disruptors need scale and capital.
• European regulators are also pushing for consolidation due to fragmentation.
•The recent failure of Silicon Valley Bank and Signature Bank may give rise to consolidation in the mid-tier, regional banks in the US and Europe.
• SVB's collapse may also slowdown M&A in the venture-backed space.
Digitalisation: Customers increasingly prefer a digital first approach, and the incumbents are under a lot of pressure to provide them with a smooth experience, especially with fierce competition from budding fintech firms.
Restructuring: Given the current uncertainty, banks are increasingly exploring right sizing their balance sheets by disposing underperforming and/or non-core assets.
• Credit Suisse Group AG (now a part of UBS) and other European banks have said they intend to spin off their investment banking arms, and some US banks may follow suit, returning to the pre-GFC stand-alone model[7].
PEs: Sponsors are increasingly looking to deploy capital in this space and using a consortia approach to manage regulatory hurdles.

Multiples[8]



6. Sources: ECB, Deloitte, TIAA
7 The GFC led to a lot of opportunistic acquisitions of smaller, independent IBs by larger groups. However, with stricter regulations now, these groups are striving for better capital efficiency and risk management by spinning off these IBs again.
8. Data obtained from a poll extraction from CIQ intelligence pertaining Financial Services deals announced between 2019-2023
9. Volume of deals considers the number of deals concluded in each specific quarter, including deals without deal value.
10. In 2019 Q4 there was a €28bn deal regarding the merger of BB&T Corporation and SunTrust Banks, Inc., now called Trust
11. In 2021 Q2 there was a €17bn deal regarding the acquisition of Samba Financial Group, a multinational banking firm based in Saudi Arabia
12. In 2022 Q4 there was a €13bn deal regarding the acquisition of Ahli United Bank B.S.C., a leading regional bank in Bahrain.

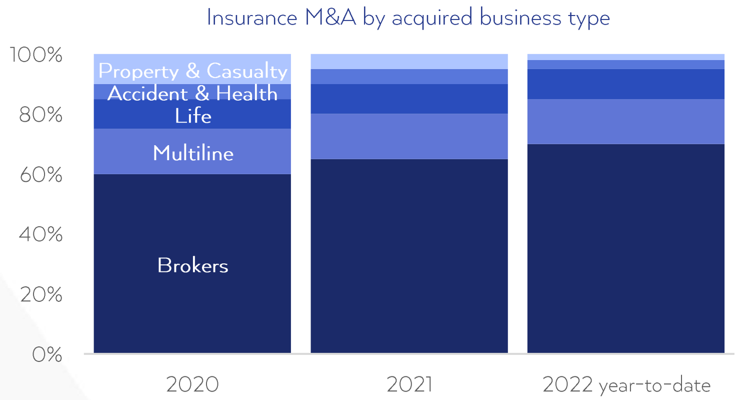




- The stock market volatility and the ensuing economic uncertainty, first due to COVID-19, and then due to the Ukraine-Russia War, has led to a noticeable suppression of P/BV multiples since 2020
- The P/E ratio was also affected. However, revenue recognition shifts have made it a less meaningful deal measurement standard [13].

4.2 INSURANCE

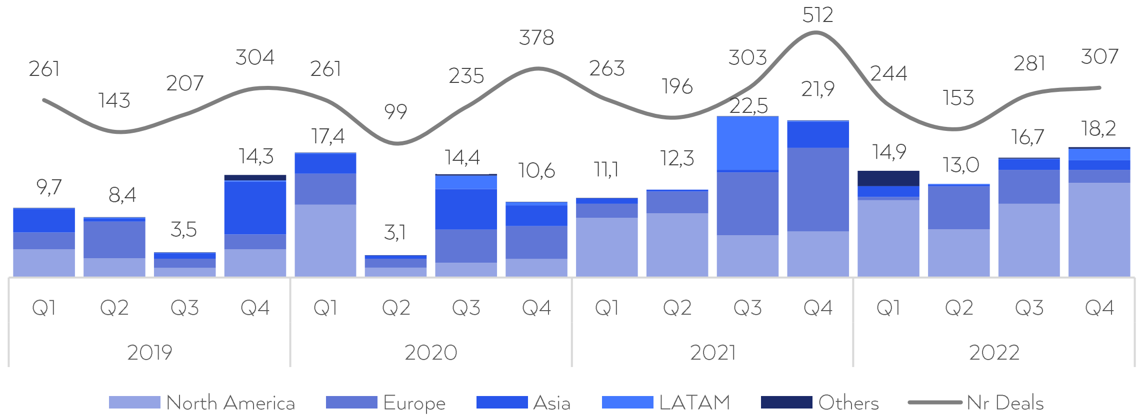
Trends [14]



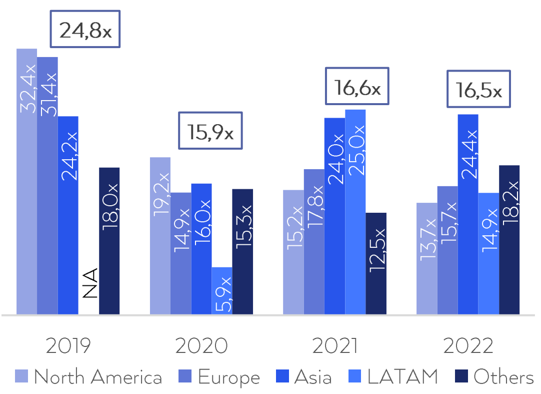
- Insurance brokers, managing general agents (MGAs), managing general underwriters (MGUs) and specialty agents continue to attract interest from incumbents and sponsors due to limited regulations, recurring revenues, healthy EBITDA margins and low capital expenditure requirements.
  - PEs are looking to consolidate mid-tier distributors onto technology platforms to benefit from economies of scale.
- Regarding insurance carriers:
- Rising rates and policy prices are attracting alternative capital such as asset managers and hedge funds back to the reinsurance.
  - The Small Property & Casualty (P&C) carriers remains fragmented and potential acquirers are in a good position to extract the value stemming from consolidation.
  - Life & Annuities (L&A) carriers have been stressed due to the pandemic and may need to get rid of underperforming or non-core products to remain viable.

13. Sources: Deloitte, MacroTrends ends
14. Sources: Deloitte, Bain

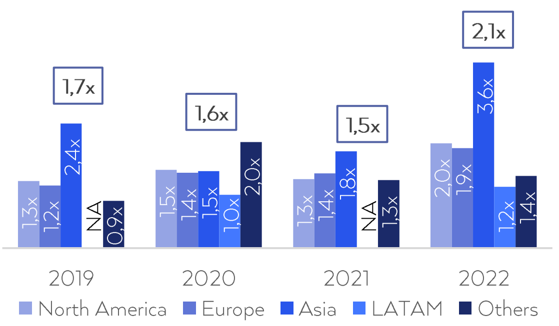
Deal Value (€Bn) and Volume per Quarter



Average P/E Deal Multiples



Average P/BV Deal Multiples



- P/BV multiples suffered a material decrease like the banking industry. However, with the increased need for life and health insurance, the industry is expected to recover quickly.
- As observed in the graph, the number of deals in the sector increased materially in 2021 due to factors such as low interest rates and the growth of digital transformation. However, things slowed down in 2022 with the increase in interest rates as well as geopolitical stressors.

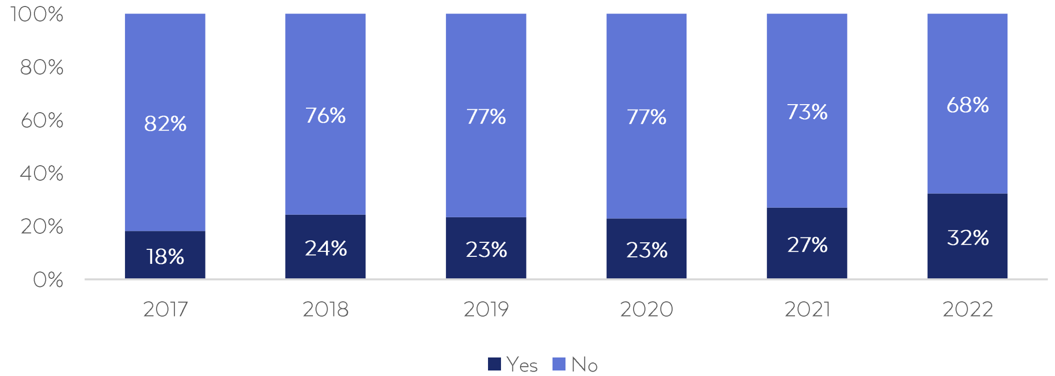
4.3 DIVERSIFIED FINANCIALS

Trends [17]

- Asset managers can succeed by scaling up or differentiating themselves, and M&A remains a crucial way to achieve both, especially with margins under pressure.
- Consolidation is happening rapidly, with many independent firms seeking exit strategies.
- Private markets, especially credit, is growing fast as conventional funding sources become more restricted and investors look for diversification

15. Data obtained from a poll extraction from CIQ intelligence pertaining Financial Services deals announced between 2019-2023
16. Sources: Deloitte
17. Sources: PWC, Deloitte, Bain, White & Case, SNL Financial, S&P Global Market Intelligence
18. IM- Investment Management: WM- Wealth Management

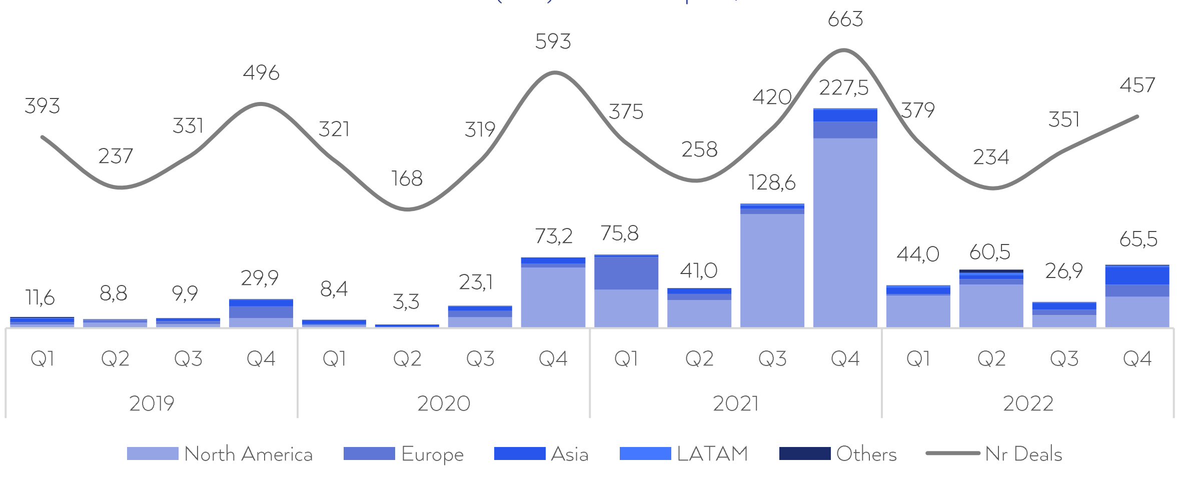
IM/WM[17] Deals with PE Involvement



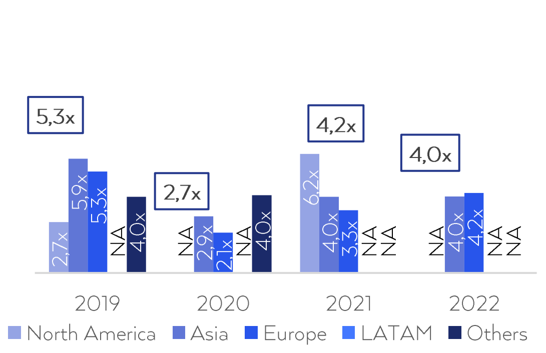
- Wealth management remains attractive due to its fee-based income, strong margins, and ability to reach wealthy investors.
- Acquiring ESG-related competencies is increasingly important.
- Sponsor-backed platforms are accelerating growth through buy-and-builds and bolt-ons.

Multiples[19]

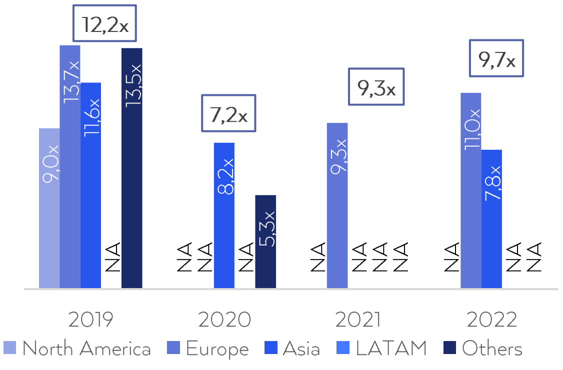
Deal Value (€Bn) and Volume per Quarter



Average EV/Revenue Deal Multiples



Average EV/ EBITDA Deal Multiples



19. Data obtained from a poll extraction from CIQ intelligence pertaining Financial Services deals announced between 2019-2023

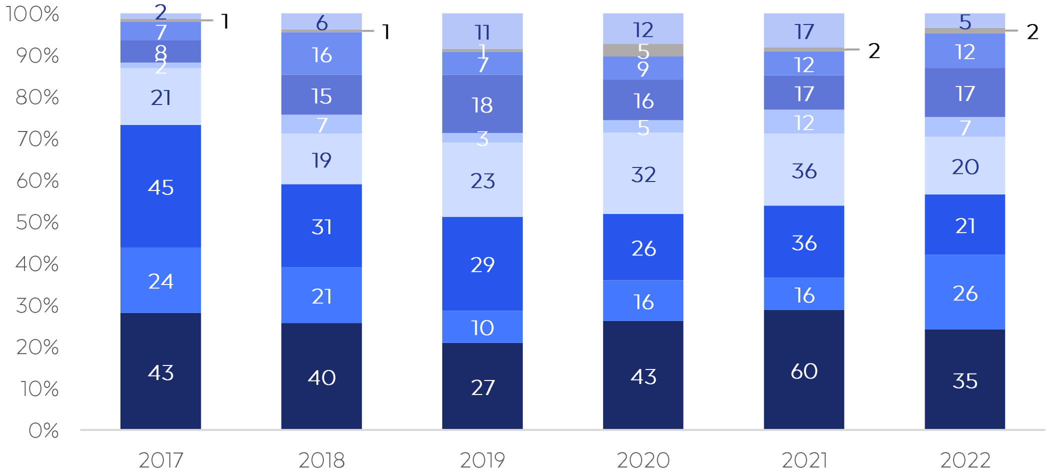
• Although there was a steep decrease in both multiples in 2020, the deal volume continued to grow.

4.4 FINTECH

Trends[20]

• The aggressive push for digital transformation has made this one of the hottest areas for M&A across all sectors.

Fintech Deals by Sector



BankTech

- Traditional banks and private equity firms will look to acquire neobanks in 2023.
- Banks can boost their banking-as-a-service offerings through M&A.

InsurTech

o Embedded insurance creates vertically integrated businesses and PEs are expected to consolidate InsurTechs.

WealthTech

o Digital models can boost returns up to 35% due to negligible variable costs, driving appetite for M&A.

o There is an uptick in demand for offering-related and tech platform-related deals.

Payments

o Consolidation is urgent in the Buy Now, Pay Later space due to upcoming tighter regulations.

o Independent software vendors in Europe and UK are integrating payments into their platforms, creating opportunities for M&A.

20. Sources: SNL Financial, S&P Global Market Intelligence, Akin, Bain, Deloitte.

Crypto

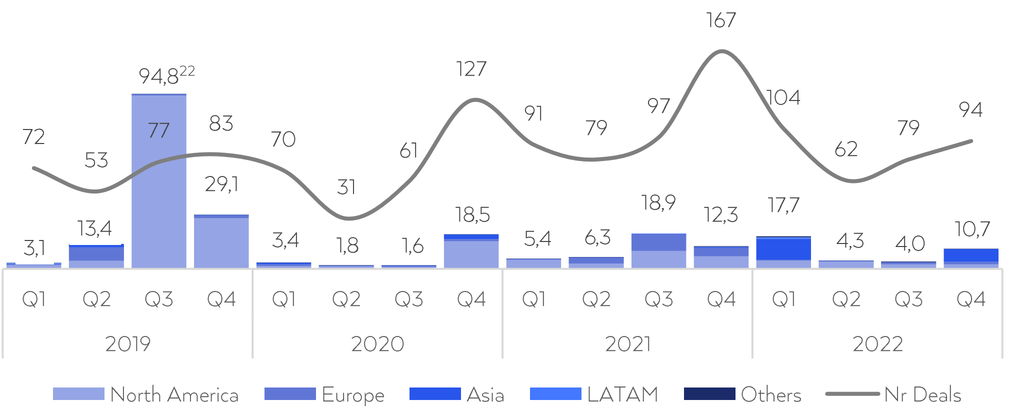
- o Consolidation will occur in the crypto space due to the failure of major firms.
- o Multinational banks may look to acquire companies in the stablecoin space to bolster their presence in underbanked regions.

Infrastructure players such as KYC, AML and fraud detection will continue to be in demand as digital transactions increases.

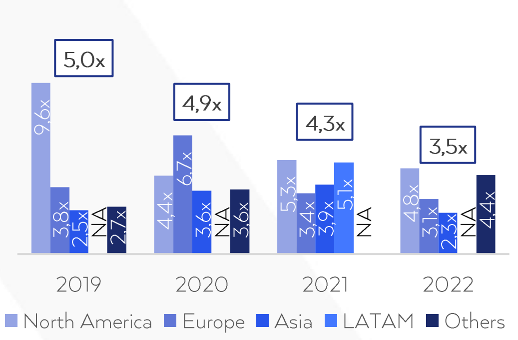
Multiples[21]

- Fintech boasts of elevated multiples due to a combination of tech-adjacent business models and the massive digitalisation pull-forward bought on by COVID-19.
- While the multiples have cooled off a bit from their highs, the structural demand for digitalisation stays firmly in place, providing a floor to valuations.

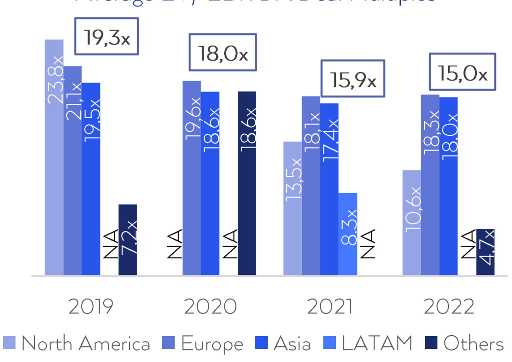
Deal Value (€Bn) and Volume per Quarter



Average EV/Revenue Deal Multiples



Average EV/ EBITDA Deal Multiples

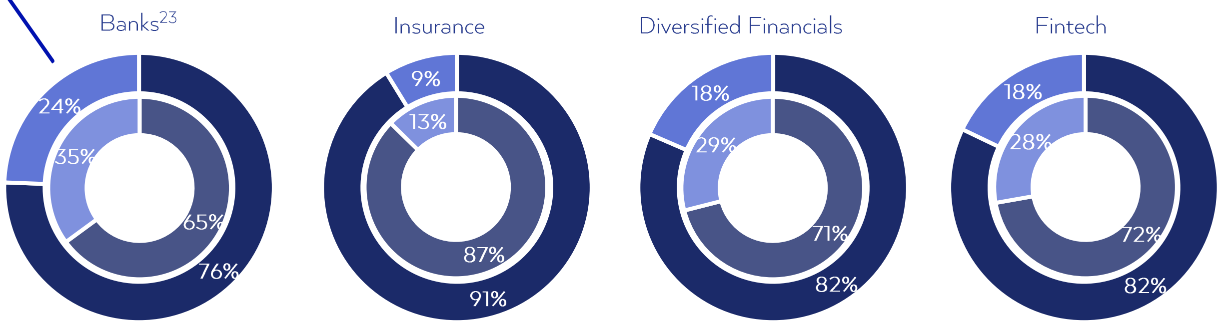


21. Data obtained from a poll extraction from CIQ intelligence pertaining Financial Services deals announced between 2019-2023.

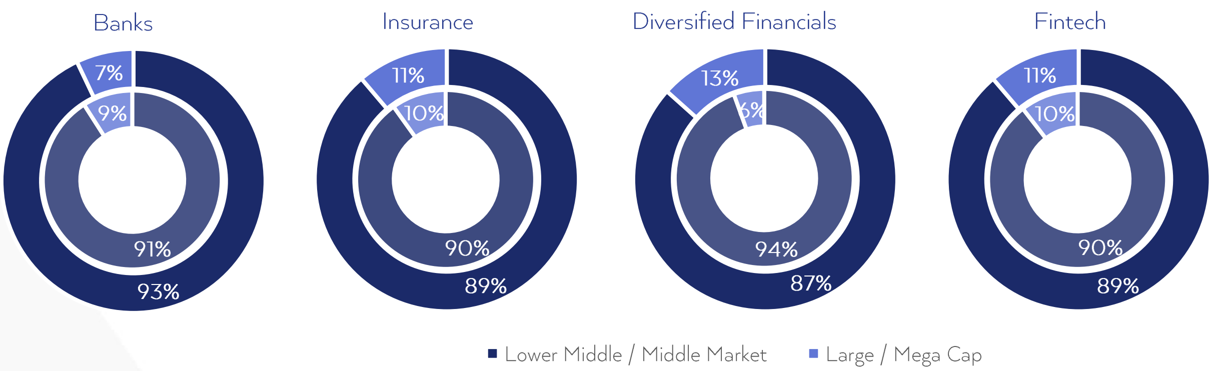
5. M&A TRENDS AND EVOLUTION IN DEAL STRUCTURES

5.1 MAJORITY VS MENORITY DEALS

- Strong preference for majority deals across all sub-sectors, with an ~80% share of overall deals in our analysis.
- The trend has gotten stronger from 2019 to 2022, as can be seen from the graph below.

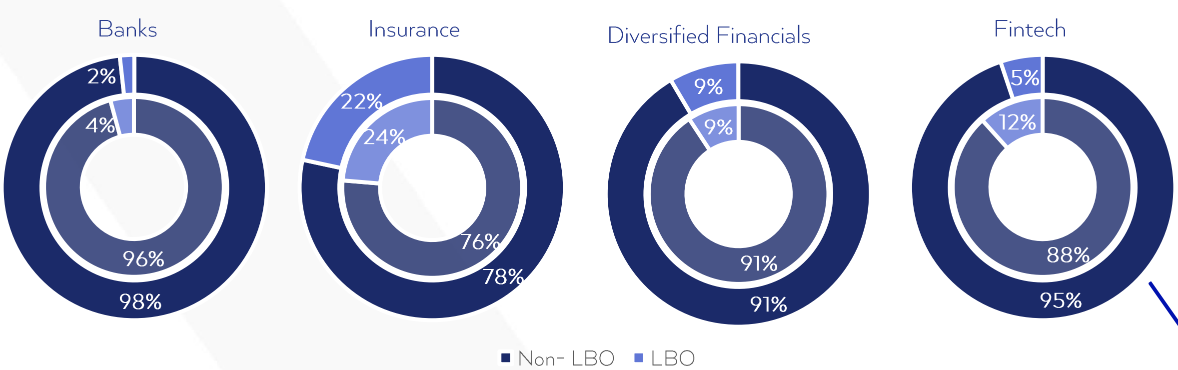


5.2 DEALS SIZES [24]



- There was no major shift regarding deal size in the past few years, with middle and lower middle market accounting for ~90% of all deals across all sub-sectors.
- However, from 2021 to 2022, megadeals (>$5bn) fell by ~75%, with the overall average deal size also shrinking marginally.

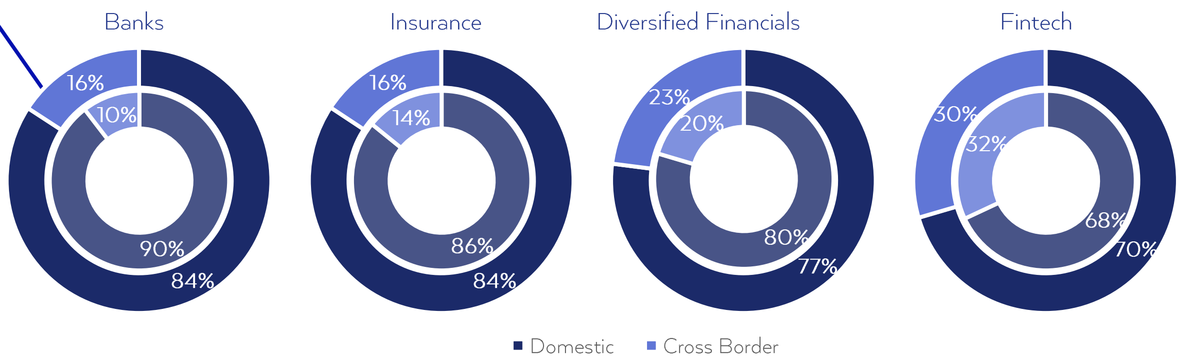
5.2 SPONSOR BACKED DEALS [25]



23. Inside doughnuts refer to 2019 values whereas outside doughnuts refer to 2022 values
24. Sources: PWC; Large Cap >= 0.5Bn; Inside doughnuts refer to 2019 values whereas outside doughnuts refer to 2022 values
25. Sources: Reuters, Bloomberg; Inside doughnuts refer to 2019 values whereas outside doughnuts refer to 2022 values

- After a blockbuster 2021, the leveraged buyout market cooled off in 2022 due to a rapid rise in borrowing costs.
- Banks were also stuck holding the debt from large transactions such as Musk/Twitter and Vista Equity/Citrix, which further hindered the underwriting of new issuances.
- Financial Services saw a ~40% decrease in LBOs in the US from 2021 to 2022.

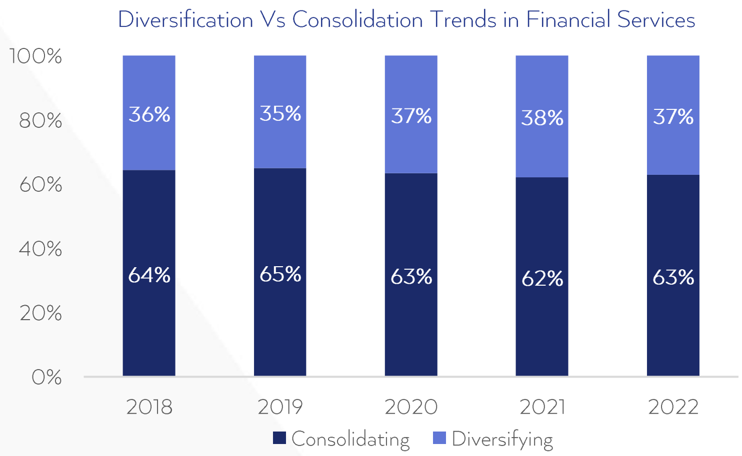
5.4 DEALS FOCUSED ON GEOGRAPHICAL EXPANSION[26]



- Cross-border deals saw a slight uptick from ~18% in 2019 to ~21% in 2022.
- As digitisation continues to break geographical barriers, this trend is here to stay.

5.5 DEALS FOCUSED ON CONSOLIDATION AND DIVERSIFICATION[27]

- As a fairly fragmented field, especially at the mid-tier and regional level, enhancing economies of scale via consolidation continued to be a priority for financial services providers, with a about 63% share of deals from 2018-2022.



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25. Sources: Reuters, Bloomberg; Inside doughnuts refer to 2019 values whereas outside doughnuts refer to 2022 values
26. Sources: MergerMarket, RSA, Allianz; Inside doughnuts refer to 2019 values whereas outside doughnuts refer to 2022 values
27. Sources: Intuit

• However, the need to boost digital capabilities, access fast-growing emerging markets, and gain ESG-related competencies, amongst several others, will ensure that diversification-focused M&A continues to chug along as well. For example, Goldman Sachs' acquisition of GreenSky in September 2021 for $2bn; or the acquisition of Credit Karma by Intuit for $8.1bn.

5.6 USE OF EARNOUTS AND/OR CONTIGENT PAYMENT ON DEALS[28]

• As a fairly fragmented field, especially at the mid-tier and regional level, enhancing economies of scale via consolidation continued to be a priority for financial services providers, with a about 63% share of deals from 2018-2022.
• The share of deals from 2018-2022 with earnouts and/or contingent payments remained steady in our data across all sub-sectors.
• However, the need for bridging widening valuation gaps was more apparent when looking at market-wide, industry-agnostic studies..

23. Inside doughnuts refer to 2019 values whereas outside doughnuts refer to 2022 values
24. Sources: PWC; Large Cap >= 0.5Bn; Inside doughnuts refer to 2019 values whereas outside doughnuts refer to 2022 values
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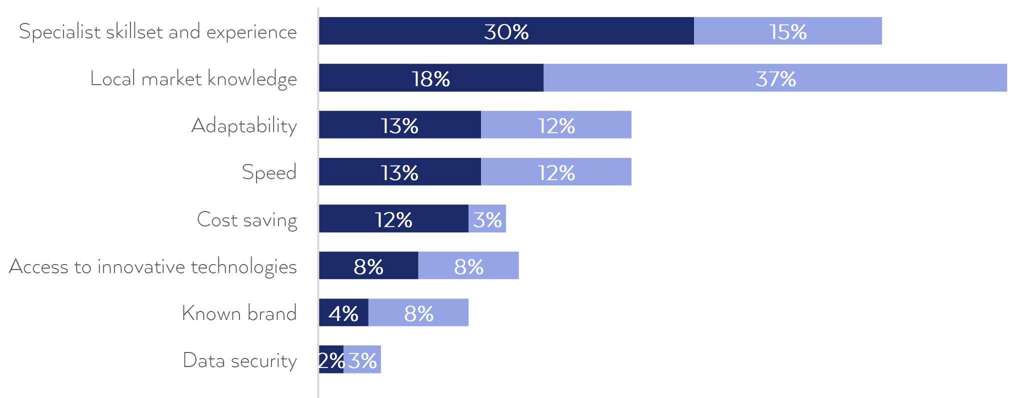
26. Sources: MergerMarket, RSA, Allianz; Inside doughnuts refer to 2019 values whereas outside doughnuts refer to 2022 values
27. Sources: Intuit
28. Sources: Morrison Foerster

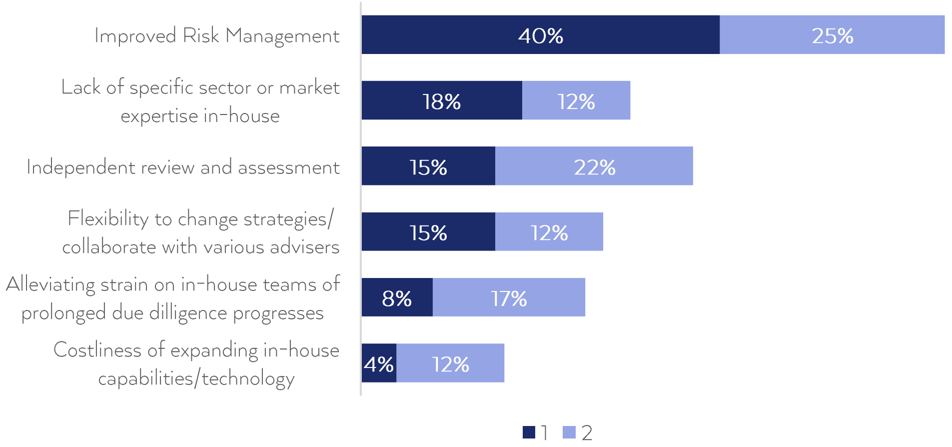
6. M&A EXECUTION AND ADVISERS EVOLVE TOGETHER

6.1 IMPACT ON DEAL EXECUTION AND ROLE OF ADVISERS[29]

What are the most important factors to consider when choosing a third-party adviser?
(Select top two and rank 1-2, where 1=the most important factor)



What are the most important factors driving your engagement with third-party advisers?
(Select top two and rank 1-2, where 1=most important factor)



Due diligence and valuation

- Deeper, more holistic screening, incorporating any geopolitical, regulatory and ESG concerns.
- Also, a greater emphasis on supply chains and IT infrastructure resilience, given recent global struggles and the increasing prevalence of remote work.
- Increased anti-trust scrutiny for large deals.
- Changing role of advisors: More comprehensive due diligence and valuation offerings, accounting for the rapidly evolving competitive, regulatory, and geopolitical landscape,

29. Sources: BBC, Bloomberg, MergerMarket

Deal structuring and financing

• Greater preference for earnouts, escrows, reverse break fees, deferred or staggered payments and contingent payments for bridging valuation gaps and aligning incentives post integration of firms.
• Rising rates have also necessitated tapping into a wider pool of capital providers, including private equity firms, hedge funds and asset managers.
• The demand for creatively structured financing solutions has also gone up to better manage the economic uncertainty.
• Sponsors still keen on making deals will reduce leverage or eliminate it altogether, with an eye on recapping them later after interest rates ease.

  o Changing role of advisors: Creative deal structuring and financing solutions aimed at a more equitable sharing of risk and reward for all parties involved. Advisors also need to deepen their contacts and provide clients with solutions for all parts of their capital structure.

Digital transformation

• Greater emphasis on digital transformation as a source of competitive advantage and value creation in M&A.

  o Changing role of advisors: Helping companies with their digital transformation, whether it is to modernize their IT infrastructure, or to bolster their product offerings by helping them identify and evaluate digital targets or acquirers, assess digital capabilities and synergies, and integrate digital assets and operations.

Cultural integration and ESG

• Greater focus on cultural assessment and integration planning due to increasing differences in work culture between firms, especially when it comes to things like work from home/office and attitude towards ESG and stakeholder welfare.

  o Changing role of advisors: Greater focus on cultural integration as the pandemic has altered the work culture of firms, with some choosing to continue with pandemic era setups while others return to office. A cohesive view on issues such as ESG is also critical to the success of the transactions.

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24. Sources: PWC; Large Cap >= 0.5Bn; Inside doughnuts refer to 2019 values whereas outside doughnuts refer to 2022 values
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27. Sources: Intuit
28. Sources: Morrison Foerster

LATEST TRANSACTIONS

GERMANY 2022	PORTUGAL 2022	PORTUGAL 2022
Amauris Invest GmbH	Undisclosure	Undisclosure
Asset Management	Equity Fund Raising	Equity Fund Raising
Lingohr & Partner Asset Management	Iberis Equity Partners	3xP
Sell-Side	Buy-side	Sell-side

CHINA 2022	ARGENTINA 2022	USA 2022
Arc Group	Advent International	Northern Lights Acquisition Corp.
Financial Advisory	Payment Services	Cannabis-focused commercial lending platform
Norient	Prisma Medios de Pago S.A.	Company Name
Buy-Side	Buy-Side	Buy-Side

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FINANCIAL SERVICES SECTOR

INDUSTRY REPORT 2023

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Asia & Australasia China / Hong Kong / India / Japan / Malaysia / New Zealand / Singapore / Thailand / Vietnam