

Market infrastructure —a mixed bag for dealmakers

Financial institutions M&A: Sector trends

Payments: Deal activity intensifies. Financial sponsor activity, growing buyer appetite and market consolidation drive M&A

Stock exchanges/Clearing houses: Efficiency the motivator, as operators seek scale. Prolonged low trading volatility sees trading platforms turn to M&A in response to shareholder pressure for improved profitability

Custodians: Outsourcing and digital offer options, but incumbents remain cautious

Market infrastructure

M&A in payment services is red hot, but anti-trust concerns in the trading platform space and dominant incumbents in the custodian sub-sector has meant deal activity as a whole has been uneven.

Overview



Payments

CURRENT MARKET

Upward, very high activity levels

WE ARE SEEING

- Financial sponsor-led and established bank M&A
- Market consolidation of service providers and systems operators
- Polarised reaction to ICOs and cryptocurrency dealing

KEY DRIVERS

- Consumer demand for personalised, value-added services
- Regulatory initiatives:
 - Increased competition through system operator unification
 - Open-banking facilitated through PSD2
- Rationalisation of payment infrastructure:
 - Expansion of service offerings
 - Access to new customer bases
 - Margin squeeze from intense competition (e.g., alternative payment channels and fintechs)
 - Operational capability and cost optimisation



Stock exchanges/ Clearing houses

Upward

- Regional market consolidation, with some signs of platforms favouring 'home' markets
- Inorganic vertical integration
- Increasing acceptance and utilisation of fintech
- Increasing competition in the UK clearing space

- Shareholder pressure to increase profits, given prolonged low trading volatility:
 - Achievement of economies of scale through acquisitions
 - Diversification into alternative trading tools (e.g., data provision for fixed-income and ETF products)
 - Increase of service offerings (e.g., clearing and cryptocurrency services)
- MiFID II resulting in stock exchanges providing increased research coverage for their smaller companies



Custodians

Flat

- Uptick in outsourcing arrangements, including utilisation of digital efficiency options
- Custodians with strong balance sheets expanding inorganically

- Identification of new revenue streams given low net-interest income
- Higher operating cost bases and heightened regulatory enforcement risk



The whirlwind of payments M&A gathers force. The perfect storm of growing customer demand, regulation-encouraged competition and mega-returns has got buyers and sellers transacting at record pace.

– Franck De Vita

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Our M&A forecast

TRENDS TO WATCH

- Continued financial sponsor interest
 - Consolidation—fewer global and integrated service providers
 - Increasing investment in fintech – search for:
 - Data protection and cybersecurity risk management tools (e.g., AI and advanced authentication technology)
 - More efficient and cost-effective transfer technology (e.g., instant payment processing)
 - Next-generation customer-experience enhancement tools (e.g., wearables)
 - Regulator intervention (e.g., UK Payment Systems Regulator’s new code of practice is expected in September 2018)
 - Diminishing role of traditional payment intermediaries
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- Antitrust regulators restricting mega-mergers
 - Increasing dependence on fintech (particularly AI and blockchain)
 - Possible impact of Brexit on London’s €-clearing business:
 - Diversification to clearing in foreign currencies
 - Aggressive competition between European exchanges to promote their ‘home’ markets
 - Fragmentation of European markets
 - Increasing clearing costs leading to promotion of New York as an alternative venue
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- Expansion of global players into digital asset custody services, through acquisitions and organic growth



Financial sponsor investments and exits are likely to support high levels of deal activity. Larger market participants also turn to M&A as they move to build scale in response to increasing competition and customer demand



Shareholder pressure to increase profits may force operators to seek out economies of scale and scope, making inorganic expansion a priority. However, antitrust concerns may mean that M&A activity is centred on regional consolidation and vertical integration



As cryptocurrency markets mature, custodians may look to expand into digital asset services. Deals like BitGo’s purchase of US-based digital custodian Kingdom Trust may spark similar transactions in Europe. Global players enjoy dominant positions and are under no immediate pressure to chase deals

Market infrastructure – Publicly reported deals & situations



Payments

Payments M&A is expected to increase materially in 2018*

Private equity bonanza

Deal highlight

Spectacular exits continue. Hellman & Friedman completed its acquisition of Nets for more than US\$5 billion, to merge the Danish player with Advent's and Bain's Concardis only a few months later. The deal forges a behemoth to compete with the likes of Worldpay, Inc.

Acquisitions:

SoftBank

Acquisition of 14.2% of Paytm (May 2018)

Francisco

Acquisition of Verifone (April 2018)

Equistone

Acquisition of Small World (March 2018)

Nordic Capital

Acquisition of Trustly (March 2018)

Hellman & Friedman

Acquisition of Nets (February 2018)

Disposals:

Index Ventures, General Atlantic and Iconiq

Adyen's IPO on Euronext Amsterdam, involving existing investors disposing of 13.4% of outstanding shares (June 2018)

Bridgepoint

Disposal of Trustly (March 2018)

FPE Capital and MMC Ventures

Disposal of Small World (March 2018)

Polarised reaction to cryptos

ICOs reach new heights, including Block.one's US\$4bn ICO (May 2018)

Cryptocurrencies hit an aggregate value of US\$800bn in January and slumped to US\$260bn by April**

Support:

Governments:

Sweden

Proposal for creation of e-Krona (April 2018)

Russia

Proposal for creation of "cryptorouble" (January 2018)

Regulators:

French AMF

Dedicated legal framework for ICOs, which is currently under construction and is expected to be effective from January 2019 (May 2018)

Gibraltar GFSC

Support for ICOs on the under-construction Gibraltar Blockchain Exchange (March 2018)

Swiss FINMA

Regulation of ICOs under AML laws or as securities (February 2018)

FI/Fintech:

Revolut

Introduction of ripple and bitcoin cash to its trading offering (May 2018)

J.P. Morgan

Launch of crypto strategy (May 2018)

Goldman Sachs

Launch of its crypto trading desk (May 2018)

Barclays

Crypto trading JV with Coinbase (March 2018)

Scepticism:

Governments:

UK Treasury Committee

Launch of investigation into digital currencies and DLT (February 2018)

Regulators:

ECB

Proposal to ring-fence crypto trading (May 2018)

UK FCA

Confirmation that cryptocurrency-linked financial offerings are in the regulatory perimeter (April 2018)

FI/Fintechs/Tech majors:

Virgin Money and Lloyds

Bans on credit card customers purchasing bitcoin (February 2018)

Stripe

Withdrawal of support for bitcoin payments (January 2018)

Google, Microsoft (Bing), Facebook, Twitter and LinkedIn

Bans on cryptocurrency advertising (January – March 2018)

Market consolidation

Deal highlight

Ingenico has continued to be an active trade consolidator in 2018. The fast-growing global payments player also acquired Bambora from Nordic Capital in 2017***

Acquisitions:

Worldline

Acquisition of SIX Payment Services (May 2018)

PayPal

Acquisition of iZettle (May 2018)

Paysafe

Acquisition of iPayments (April 2018)

Edenred

Acquisition of Candex Solutions (April 2018)

Easy2pay

Acquisition of MyOrder (April 2018)

Linxo

Acquisition of Sharepay (April 2018)

Nexi

Acquisition of Banca Carige's merchant acquiring business (March 2018)

Mastercard

Acquisition of Oltio (March 2018)

Visa

Acquisition of Freedom (February 2018)

FairFX

Acquisition of City Forex (February 2018)

Lighthouse Network

Acquisition of Shift4 (January 2018)

Ingenico

Acquisition of Paymark (January 2018)

JVs:

BNPP, Société Générale and certain other French banks

Launch of new services by mobile payment JV Paylib (May 2018)

Mastercard

Push payments JV with Dream Payments (February 2018)

Visa

Mobile payment and loyalty app JV with Allianz (February 2018)

Mergers:

Nets & Concardis

Merger (June 2018)

B+S Card Service & Payone

Merger (May 2018)

Faster Payment & Bacs

Unification into the New Payment System Operator (May 2018)

Vipps & BankID & BankAxept

Merger (April 2018)

Institutional interest

Acquisitions/equity investments:

DNB Bank

Minority equity investment into Payr (May 2018)

Natixis

Acquisitions of Comitéo, Dalenys and a majority stake in Alter (February – April 2018)

Allianz X

US\$35m investment into GO-JEK (April 2018)

Crédit Agricole and Citi

Acquisitions of minority stakes in SETL (February 2018)

ING

Acquisition of 75% of Payvision (January 2018)

JVs:

NatWest

Cardless fast-track payments JV with Carphone Warehouse (June 2018)

Groupe BPCE

Money-transfer JV with TransferWise (June 2018)

Santander

Payments JV with Ripple using Blockchain xCurrent and RippleNet technologies (March 2018)

HSBC

Corporate payments JV with PayPal (March 2018)

Western Union

Money transfers JV with Ripple (February 2018)

E-commerce interest

Rakuten

Strategic investment in Azimo (May 2018)



Stock exchanges/ Clearing houses

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|------------------------------------|--|--|---|
| Market consolidation | New York Stock Exchange Acquisition of Chicago Stock Exchange (<i>April 2018</i>) | Euronext Acquisition of the Irish Stock Exchange (<i>March 2018</i>) | |
| Preference for home market? | London Stock Exchange London-Shanghai Stock Connect with Shanghai Stock Exchange (<i>May 2018</i>) | Deutsche Börse Aborted plans to expand its Eurex derivatives unit in Singapore (<i>January 2018</i>) | |
| Vertical integration | Deutsche Börse Acquisition of GTX ECN (<i>May 2018</i>) | Clearstream Acquisition of Swisscanto Funds Centre (<i>April 2018</i>) | Euronext Acquisition of 80% of InsiderLog (<i>January 2018</i>) |
| Digital world demands | Börse Stuttgart Debt instrument digital marketplace JV with LBBW (<i>June 2018</i>) | CME Acquisition of NEX (<i>May 2018</i>) | Deutsche Börse Blockchain securities lending solution JV with HQLAX (<i>March 2018</i>) |
| "Challenger" competition | Deal highlight ClearBank is the first UK "challenger" clearing bank in nearly 200 years and the brainchild of Worldpay founder, Nick Ogden*** | Aquis Exchange IPO on AIM (<i>June 2018</i>) | TransferWise and ClearBank Access to the UK Bank of England interbank payment systems (<i>January – April 2018</i>) |



Custodians

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|----------------------------|---|--|---|
| Rise in outsourcing | Janus Henderson Outsourcing of its US middle and back office operations to BNP Paribas Securities Services (April 2018) | Robeco Outsourcing of its custody and securities lending business to J.P. Morgan (January 2018) | |
| Digitalisation | Northern Trust Cash optimisation JV with Hazeltree (April 2018) | HSBC Securities Services Cloud-based investment management platform JV with FINBOURNE (April 2018) | Northern Trust Private equity audit blockchain JV with PwC (March 2018) |
| Growth | BNP Paribas Securities Services Acquisition of Banco BPM's depositary banking business (February 2018) | Northern Trust Acquisition of Citadel's hedge fund technology resources (January 2018) | |

* Source: Goldman Sachs Equity Research (January 2018)

** Source: Reuters (April 2018)

*** White & Case LLP acted on this transaction

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