

The relentless march of fintech

**Financial Institutions M&A:
Sector trends H2 2018 | Outlook for 2019
Fintech**

The digital revolution is well underway. 3 reasons why M&A shows no signs of slowing down:

Established financial institutions view fintech as the solution to operational challenges

Voracious appetite of private equity, venture capital and family-office investors

First-mover fintechs have achieved critical mass and are now seeking to capture market share inorganically

Fintech

2018 has been a transformational year for fintech M&A. Deal values and volumes have reached new heights as established financial institutions pin hopes on well-placed bets to deliver competitive edge and market share. VC and late-stage investment firms are also actively stoking the fintech fire.

Overview

CURRENT MARKET

Upward, significant

WE ARE SEEING

- Banks are vigorously embracing fintech as an enabler of financial services, with significant appetite for customer experience enhancement and risk-management technologies
- Banks are deploying multiple investment strategies, including home-grown digital offerings, direct equity investment, JVs/other partnerships, cross-border innovation consortia and accelerator programmes/dedicated VC funding support
- In the other direction, fintech businesses are now considering becoming banks themselves
- And new entrants to the market include new banks with technology as part of their core DNA
- Early testing of blockchain-based back-office infrastructure, particularly for risk management and operational efficiency; though mainstream deployment appears to be some time away yet
- Financial sponsors actively participating in fundraising and providing growth capital
- Fintechs scaling-up through successful funding rounds and expanding their repertoire of products and services
- Fintechs with critical mass deploying inorganic growth strategies
- ICOs and cryptocurrency-dealing buck the trend—polarised reaction:
 - Heralded as the vanguard of the digital revolution by governments, regulators and financial institutions in some geographies (e.g., Malta and Switzerland)
 - Scorned by market participants in others (e.g., UK), who are demanding heavier regulation
- Crypto businesses gaining scale through M&A and expanding into “traditional” financial services

KEY DRIVERS

- Established financial institutions view fintech as the solution to operational challenges:
 - The urgency to claw back customer ownership and loyalty otherwise being lost to consumer facing technologically advanced apps
 - Margin compression from “traditional” service models—banks searching for lower cost-per-customer through digital efficiencies and compliance cost management
 - Embracing changing customer utilisation models—banks investing in on-demand, interactive solutions as well as HR to operate them
 - Detection and prevention of cyber-attacks, identity fraud and money laundering
 - Tapping into new markets and distribution channels, including unbanked/under-banked emerging communities
- High levels of financial sponsor (i.e. private equity, venture capital and family-office) appetite:
 - Growing seller and regulator familiarity with financial sponsor ownership
 - Private equity dry powder—successful sponsors have enjoyed mega-fundraisings
 - Opportunities for platform investments/buy-and-build as well as interim value generation through out-licencing
 - Even late-stage investment firms (e.g., KKR, Warburg Pincus, SoftBank, etc.) have reaped rich multiples on exit
- Growing maturity of the fintech sector—first-movers capturing market share inorganically
- Support for fintech at all levels:
 - Transformative financial regulation bolstering innovation (e.g., PSD2)
 - Collaboration projects between EU governments (e.g., Declaration on the Creation of a European Blockchain Partnership)
 - Innovation infrastructure created by national regulators (e.g., Finanstilsynet’s regulatory “sandbox”)



The fintech M&A market is growing rapidly. ‘Traditional’ institutions and financial sponsors are now having to compete head on with fintechs with critical mass in highly competitive auction processes.

– Hyder Jumabhoy

Hyder Jumabhoy

Partner, London
EMEA M&A Group



Guy Potel

Partner, London
EMEA M&A Group



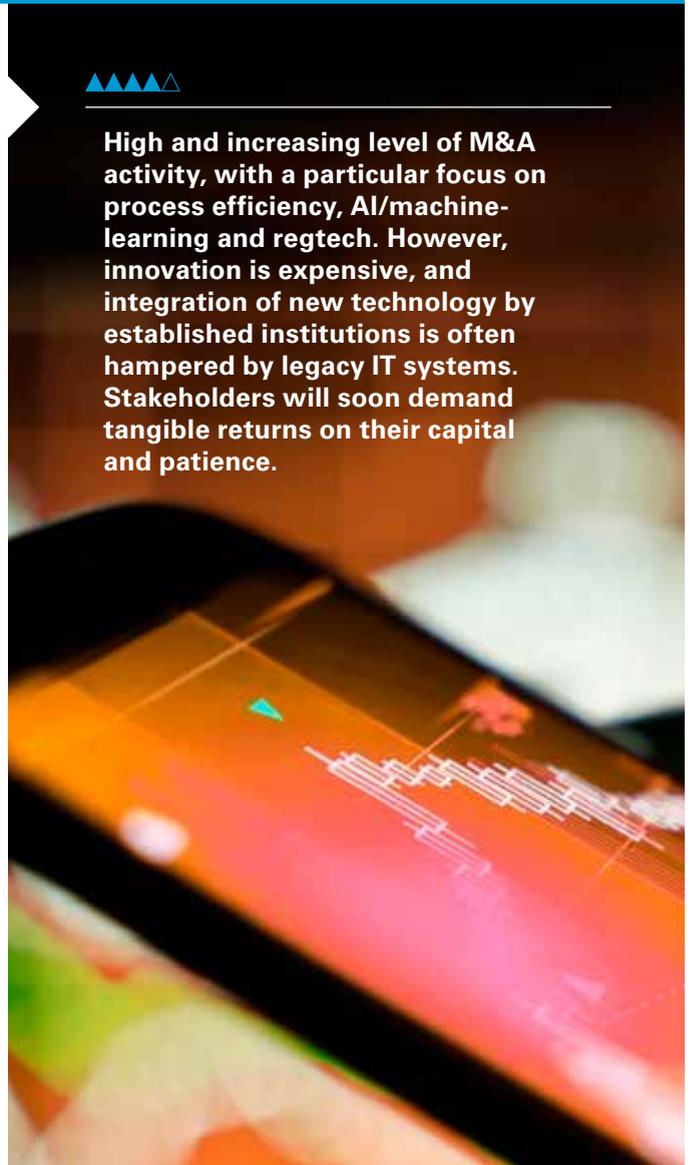
Our M&A forecast

TRENDS TO WATCH

- Banks coming under pressure from activist investors and other stakeholders to evidence tangible value from expensive innovation investments
- Growth in competition between national regulators to attract fintechs (e.g., UK, Germany, Ireland, Sweden, etc.)
- Emergence of more fintech unicorns, seeking scale and market share through M&A
- Consolidation of crypto exchanges—with >500 exchanges which remain comparatively alien to “traditional” investors; exchanges may need to consolidate to stabilise and maximise returns
- Fintech companies seeking full banking licences



High and increasing level of M&A activity, with a particular focus on process efficiency, AI/machine-learning and regtech. However, innovation is expensive, and integration of new technology by established institutions is often hampered by legacy IT systems. Stakeholders will soon demand tangible returns on their capital and patience.



Fintech—Publicly reported deals & situations

Banks believe the hype

Strategic investments:

Santander

Acquisition of Albert
(December 2018)

Barclays

Acquisition of minority stakes in Form3 and MarketInvoice
(August – November 2018)

Luzerner Kantonalbank

Acquisition of minority stake in SwissSign (October 2018)

RBS and Santander

Acquisitions of minority stakes in Vizolution (September 2018)

Société Générale

Acquisitions of Treezor and Lumo
(June – September 2018)

New business lines:

Barclays

Launch of new digital platform across cash management, trade and working capital in Portugal, Spain, France and Ireland
(September 2018)

UBS

Launch of biometric recognition pilot project (July 2018)

JVs:

Santander

Open banking JV with Moneybox
(August 2018)

Standard Chartered & Ant Financial

Blockchain cross-border remittance solution JV for Hong Kong and the Philippines
(June 2018)

Cross-border innovation consortia:

J.P. Morgan, Royal Bank of Canada, ANZ, Société Générale and Santander

Interbank Information Network blockchain payments collaboration project
(September 2018)

Bank of America, Citigroup, J.P. Morgan, Goldman Sachs, Wells Fargo, BNP Paribas & Deutsche Bank

Bond issuance technology platform (June 2018)

Investment in dedicated fintech funds:

Alfa Bank

Cornerstone investment in Corviglia Capital (October 2018)

Start-up support:

ING Ventures

€7.5 million investment into Cobase (September 2018)

Saxo Bank

Launch of fintech academy in Hainan, China, in conjunction with Sanya University (July 2018)

Danske Bank

Creation of co-working space for fintechs in Belfast HQ (June 2018)

Fintech, the “enabler”—pushing the boundaries

Deal highlight

White & Case advised Goldman Sachs on its equity investment in JUMO, a mobile financial services platform which enables the provision of credit and savings products to customers in Africa and Asia-Pacific

Risk management:

UBS

Cross-border fund sales compliance JV with Investment Navigator (October 2018)

Tackling social concerns:

Wagestream

Launch in Ireland and UK, aimed at reducing employee reliance on high-cost credit alternatives
(October 2018)

JUMO

Successful funding round, led by Goldman Sachs
(September 2018)

Financial sponsors believe the hype

Triple P Capital

Acquisition of Contemi Group
(December 2018)

NXMH

Acquisition of Bitstamp
(October 2018)

Corviglia Capital

Launch of new
US\$500 million European fintech
fund (October 2018)

Belvoir Capital

Anchor investment in WMD
Capital (October 2018)

**Index Ventures, Balderton
Capital and Communitas Capital**

Led US\$7 million funding
round for Credit Benchmark
(October 2018)

Valar and Alven Capital

Led €20 million Series B funding
round for Qonto (September 2018)

Kinnevik

Led US\$60 million Series B
funding round for Monese
(September 2018)

Highland Capital

Successful third fundraising
of €463 million for fintech
investments (June 2018)

Scaling up

Successful fundraisings:

Credit Benchmark

Successful US\$7 million funding
round (October 2018)

Qonto

Successful €20 million Series B
funding round (September 2018)

Monese

Successful US\$60 million Series B
funding round (September 2018)

**Expanding footprints/
product lines:**

Revolut

Successful grants of Lithuanian
banking licence, Singaporean
remittance licence and Japanese
financial services authorisation
(November 2018)

Tandem

Launch of Hong Kong digital
lending offering (November 2018)

Sonect

Cash dispenser app JV with
Temenos (September 2018)

JVs:

Marqeta

Payment cards and processing
JV with Visa (October 2018)

Inorganic growth:

Advanced Blockchain

Acquisition of Nakamo.to
(December 2018)

Kirey

Acquisition of MPM Software
(November 2018)

Credit Karma

Acquisition of Noddle
(November 2018)

Fexco

Equity investment in Cambrist
(June 2018)

Finastra Group

Acquisition of Malauzai Software
(June 2018)

Top-down support for fintech continues

Governments:

Italian government

27th EU Member State to sign the declaration creating a European Blockchain Partnership (September 2018)

Regulators:

Norwegian Finanstilsynet

Launch of 2019 regulatory "sandbox" (November 2018)

French AMF

SETL to connect to Target2-Securities platform, a €1 billion ECB-run project (October 2018)

ECB

Licensing practical guide to support fintechs through the EU bank licence procedure and assessment (September 2018)

Swiss FINMA

Relaxed AML rules from 2019 for Swiss fintech licence applicants with gross revenue of <1.5 million Swiss francs (August 2018)

Polarised reaction to cryptos

ICOs/Cryptocurrencies

Global digital currency reached US\$13.7 billion in the first five months of 2018, nearly twice that of the whole of 2017*

SCEPTICISM:

Governments:

UK

Veto of trading of Royal Mint's digital gold token (October 2018)

UK

UK Parliament Treasury Committee 22nd Report on crypto-assets called for regulation of crypto markets citing multiple risks including cybersecurity, AML and lack of retail consumer protection due to price volatility (September 2018)

Regulators:

UK Financial Conduct Authority

Launch of 2019 consultation to consider ban on sale of derivatives based on cryptocurrencies (October 2018)

EU Financial Action Task Force

Licensing and regulation of cryptocurrency exchanges and encrypted wallets expected by June 2019 (October 2018)

FIs:

Wealthify, Nutmeg and Scalable Capital

Calls for regulation of cryptocurrencies (July 2018)

SUPPORT:

International trade bodies:

International Monetary Fund encouragement of central banks to issue digital currencies to combat declining use of cash (November 2018)

Regulators:

Swiss FINMA

Crypto Finance's and Crypto Fund's licences to distribute funds in Switzerland (June – October 2018)

New York State DFS

Square's virtual currency licence (June 2018)

FIs:

SIX

Support for Amun Crypto ETF's cryptocurrency index tracker, acquisition of minority stake in PassOn and construction of DLT-based cryptocurrency trading platform (July – November 2018)

SBI Group

Acquisition of 12% of Clear Markets (July 2018)

Andreessen Horowitz

Raise of US\$300 million fund to support cryptocurrency projects (June 2018)

Market participants seeking scale

Bitcoin Group

Acquisition of Tremmel Wertpapierhandelsbank
(November 2018)

trade.io

Acquisition of Primus Capital Markets
(November 2018)

Bad publicity

Financial.org

Closure of all investors' US\$ accounts and conversion of balances to its new cryptocurrency, FOIN, which cannot be withdrawn until 2019, following UK FCA sanction (June 2018)

Patrick Sarch

Partner, London
Co-head of Financial Institutions
Global Industry Group
T +44 20 7532 2286
E patrick.sarch@whitecase.com

Gavin Weir

Partner, London
Co-head of Financial Institutions
M&A Group
T +44 20 7532 2113
E gweir@whitecase.com

Prof. Dr. Roger Kiem

Partner, Frankfurt
Co-head of Financial Institutions
M&A Group
T +49 69 29994 1210
E roger.kiem@whitecase.com

Ashley Ballard

Partner, London
EMEA M&A Group
T +44 20 7532 2128
E aballard@whitecase.com

Guy Potel

Partner, London
EMEA M&A Group
T +44 20 7532 1969
E guy.potel@whitecase.com

Hyder Jumabhoy

Partner, London
EMEA M&A Group
T +44 20 7532 2268
E hyder.jumabhoy@whitecase.com

Darragh Byrne

Partner, Stockholm/Frankfurt
EMEA M&A Group
T +49 69 29994 1433
E darragh.byrne@whitecase.com

Tomáš Jíně

Partner, Prague
EMEA Financial Regulatory Group
T +420 255 771 111
E tjine@whitecase.com

Marcus Booth

Partner, Dubai/London
EMEA Private Equity Group
T +971 4 381 6291
E marcus.booth@whitecase.com

Jan Jensen

Partner, Stockholm
EMEA Private Equity Group
T +46 8 506 32 375
E jan.jensen@whitecase.com

Hugues Mathez

Partner, Paris
EMEA M&A Group
T +33 1 55 04 17 20
E hmathez@whitecase.com

Franck De Vita

Partner, Paris
EMEA Private Equity Group
T +33 1 55 04 15 75
E fdevita@whitecase.com

Leonardo Graffi

Partner, Milan
EMEA M&A Group
T +39 020 068 8370
E leonardo.graffi@whitecase.com

Michael Immordino

Partner, Milan/London
EMEA Capital Markets Group
T +39 020 068 8310
E michael.immordino@whitecase.com

Stuart Willey

Partner, London
EMEA Financial Regulatory Group
T +44 20 7532 1508
E swilley@whitecase.com

Julia Smithers Excell

Partner, London
EMEA Financial Regulatory Group
T +44 20 7532 2229
E julia.smithers.excell@whitecase.com

Paul Saltzman

Partner, New York
US Financial Regulatory Group
T +1 212 819 8258
E paul.saltzman@whitecase.com

Laura Durrant

Partner, London
EMEA Litigation & Investigations Group
T +44 20 7532 2225
E laura.durrant@whitecase.com

whitecase.com

In this publication, White & Case means the international legal practice comprising White & Case LLP, a New York State registered limited liability partnership, White & Case LLP, a limited liability partnership incorporated under English law, and all other affiliated partnerships, companies and entities.

This publication is prepared for the general information of our clients and other interested persons. It is not, and does not attempt to be, comprehensive in nature. Due to the general nature of its content, it should not be regarded as legal advice.

Attorney Advertising.
Prior results do not guarantee a similar outcome.

© 2019 White & Case LLP

We do not accept any liability in relation to this Report or its distribution by any person. This Report has been prepared exclusively using information in the public domain. We have not independently verified the information relied on for the purposes of or contained in this Report. Accordingly, no representation or warranty or undertaking (express or implied) is made, and no responsibility or liability is accepted by us as to the authenticity, origin, validity, accuracy or completeness of, or any errors in or omissions from, any information or statement contained in this Report or in or from any accompanying or subsequent material or presentation.

We are neither giving nor purporting to give any assurance as to the likelihood of any transaction. Furthermore, this Report does not, and is not intended to, constitute an offer or invitation to any person to purchase any securities of any nature whatsoever. This Report is provided on a non-reliance basis and is not intended to be exhaustive or to constitute legal advice or any nature whatsoever. We do not accept any responsibility, express or implied, for updating this Report.