

Market infrastructure —deal-making bucking the doom and gloom of Brexit

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

Payments:

Competition for innovative technology is fierce. Financial sponsors, big banks and, of late, fashion moguls are driving increasingly high multiples for payments businesses across Europe

Stock exchanges/Clearing

houses: Transformational deals a real possibility, as leading exchanges stock up on M&A pedigree at management level

Brokers/Trading service

providers: MiFID II, market competition and capital market pressures propel the wave of consolidation across European stockbrokers

Market infrastructure: Payments

Payment services M&A retains its spark on the financial services landscape.

Overview

CURRENT MARKET	WE ARE SEEING	KEY DRIVERS
Upward, very high activity levels	<ul style="list-style-type: none">□ Financial sponsor and strategic investor-led M&A□ Market consolidation and expansion□ Regulator-encouraged market competition	<ul style="list-style-type: none">□ High demand from investors with deep pockets:<ul style="list-style-type: none">- Financial sponsors—reaping rich rewards on exit- Established banks—customer demand for personalised services from trusted financial services brands- Consumer fashion—controlling the customer journey and experience- Governments—seeking efficiency of financial market infrastructure□ Inorganic scaling-up of market players through acquisitions, vertical integration and JVs with heavyweights:<ul style="list-style-type: none">- Access to wider range of customers- Expansion of service offerings (particularly point-of-sale finance)- Cost and operational efficiency□ Organic scaling up of market players through IPOs, fund raisings and expansion into new territories/business lines□ Regulator prerogatives:<ul style="list-style-type: none">- Open-banking through PSD2- Increase competition through hand-on policing (e.g., UK Payment Systems Regulator's probe into cards sector competition)

Jan Jensen
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Whilst rumblings of an overheated market have gotten louder, M&A continues at pace. Recently, we have seen fashion brands participating in fundraisings, previously the domain of experienced PE investors.

TRENDS TO WATCH

- Continued financial sponsor interest (though “overheated market” rumblings will grow louder)
- Consolidation—fewer global but integrated service providers
- Scaling-up of IT infrastructure in response to:
 - Customer expectations (Visa, MasterCard and Revolut have already experienced IT outages)
 - Growing cybersecurity threats

Our M&A forecast

High levels of deal activity are likely to be buoyed by strong financial sponsor and established bank interest in payment services, as the Nordics and Western Europe gravitate towards becoming cashless societies.



Market infrastructure: Stock exchanges/ Clearing houses

Stock exchanges poised for strategically significant deals.

Overview

CURRENT MARKET	WE ARE SEEING	KEY DRIVERS
Upward	<ul style="list-style-type: none">□ Inorganic expansion, including internationally and through JVs□ Vertical integration, particularly exchanges investing in/acquiring clearing businesses□ Increasing investment in fintech□ “No-deal” Brexit planning—migration of activities and businesses out of London (particularly to Dublin, Brussels, Frankfurt and Amsterdam)	<ul style="list-style-type: none">□ Bolt-on acquisitions:<ul style="list-style-type: none">- Diversification into information services and post-trade services- Realisation of cost synergies through acquisition of smaller trading platforms- Investment in trade efficiency improvement technology□ Utilising M&A strategies to:<ul style="list-style-type: none">- Overcome high organic entry barriers (e.g., IP, network effect and post-trade efficiencies)- Deliver structural growth□ Banks seeking to offload liquid assets (e.g., SocGen’s and RBS’s disposal of minority interests in Euroclear)□ MiFID II resulting in stock exchanges needing to provide increased research coverage for small/medium-cap stocks (historically serviced by brokers)□ Local governments resisting foreign ownership (e.g., MOEX and WSE)

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As management teams with strong M&A pedigree take the helm of important global players, including LSEG and ICE, transformational M&A seems high on board agendas.

**TRENDS
TO WATCH**

- Possibility of transformational M&A—exchanges seeking to boost earnings through delivery of large-scale cost synergies
- Antitrust concerns continuing to need careful management to achieve successful completion of deals
- Increasing trust of DLT (particularly for settlement)
- Impact of ESMA's transitional, conditional permits granting access to key UK market infrastructure following 29 March 2019

Our M&A forecast



Transformational M&A is likely to creep higher up the agenda of the boards of larger exchanges, but antitrust concerns as well as local stakeholder resistance are likely to need careful attention and navigation



Market infrastructure: Brokers/Trading service providers

Brokers resort to M&A to combat the impact of disruptive regulation.

Overview

CURRENT MARKET	WE ARE SEEING	KEY DRIVERS
Upward, high activity levels	<ul style="list-style-type: none"><input type="checkbox"/> Market consolidation<input type="checkbox"/> Acquisitions by financial sponsors and foreign strategic investors (particularly Chinese buyers with material commodities investments)<input type="checkbox"/> Activist pressure to improve investor returns<input type="checkbox"/> Mounting tension between brokers and departing senior executives	<ul style="list-style-type: none"><input type="checkbox"/> MiFID II resulting in lower revenues and thinner margins:<ul style="list-style-type: none">- Asset managers have reduced external spend on investment research and shrunk "preferred" broker lists- Asset managers are favouring larger liquid stocks over thinly traded small/medium-cap stocks, the bread and butter of smaller brokers- Broker business models are already more sensitive as a result of specialisation<input type="checkbox"/> Increasing market competition:<ul style="list-style-type: none">- Investor appetite for new asset classes, which "traditional" brokers do not cover (e.g., crypto)- Competitors slashing trading fees to stay competitive- Commission squeeze from automated stock-trading- New market entrants offering "traditional" asset classes- Stock exchanges publishing small-cap research at heavily discounted rates<input type="checkbox"/> Macro pressures on revenue:<ul style="list-style-type: none">- Tepid IPO markets- Over-brokered market—brokers are more reliant on deal fees, resulting in fiercer competition for the same mandates<input type="checkbox"/> Local regulators encouraging domestic market consolidation

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The great broker shakeout has begun. MiFID II has driven a stake through the heart of outmoded business models. Brokers have a choice: Eat or be eaten.

TRENDS TO WATCH

- Cultural clashes hampering rapid market consolidation
- Recalibration of broker business models—ultimately, resulting in fewer but stronger market participants:
 - Leaner operational cost bases (particularly IT)
 - Diversification—revenue generation from bolt-on services and servicing a broader range of corporate clients
 - Re-focus on higher demand equity research (i.e., larger liquid stocks)

Our M&A forecast



Pace of market consolidation is likely to quicken as brokers seek scale to weather the perfect storm of disruptive regulation, increasing market competition and challenging economic conditions



Market infrastructure—Publicly reported deals & situations



Payments

A UK cash-free society looms closer as card payments in 2017 eclipse cash payments for the first time (13.2 billion card transactions vs 13.1 billion cash transactions)*

High appetite
and deep
pockets

Private equity—acquisitions/ equity investments:

Draper Esprit

Acquisition of minority stake in Form3 (*November 2018*)

Bessemer Venture Partners

Acquisition of minority stake in Previse (*August 2018*)

Third Point

Acquisition of minority stake in PayPal (*July 2018*)

CJJ Investments

Acquisition of Microgen Financial Systems (*July 2018*)

EQT

Acquisition of Banking Circle (*July 2018*)

Dunedin

Acquisition of minority stake in Global Processing Services (*June 2018*)

Institutional—acquisitions/ equity investments:

Danske Bank

DKK10 million investment in Spiir's Nordic API Gateway (*December 2018*)

Deutsche Bank

Acquisition of minority stake in ModoPayments (*August 2018*)

ING

Acquisition of minority stake in TransferMate (*July 2018*)

Institutional—JVs:

Aviva & Amazon Pay

Car and home insurance JV with Amazon Pay (*October 2018*)

UniCredit Bank & Alipay

Hungarian cashless payments JV with Alipay (*October 2018*)

Nordea Bank, Santander and Sbanken & Apple Pay

Norwegian payments JV (*June 2018*)

KBC Bank & Garmin Pay

Irish digital payments JV (*June 2018*)

High street/high fashion— acquisitions/equity investments:

H&M

Acquisition of minority stake in Klarna (*October 2018*)

High street/high fashion—JVs:

LVMH Group

SWIFT Global Payments Innovation JV with FIS (*November 2018*)

Governments:

ECB

Launch of Target Instant Payment Settlement system (*December 2018*)

Wirecard has joined Germany's "blue chip" DAX index and plans to double its revenue to >€3 billion by 2020**

Scaling up of market players

Acquisitions:

Visa

Acquisition of Earthport
(December 2018)

TransferMate

Acquisition of Devisenwerk
(December 2018)

Nexi

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

Afterpay

Acquisition of ClearPay
(August 2018)

Nets

Acquisition of Dotpay/eCard
(June 2018)

Vertical integration/ point-of-sale lending:

EVO Payments

Acquisition of ClearOne
(October 2018)

Klarna

Acquisition of Close Brothers Retail Finance unit
(September 2018)

JVs:

Marqeta

Payment cards and processing JV with Visa (October 2018)

Monzo

International payments JV with TransferWise (June 2018)

IPOs:

Escrow.com

Freelancer's plans to IPO Escrow.com (August 2018)

New licences/territories/ business lines:

Revolut

Successful grants of Lithuanian banking licence, Singaporean remittance licence and Japanese financial services authorisation, as well as launch of open-banking enterprise marketplace for business banking customers (June – December 2018)

Apple Pay

Launch in Germany
(December 2018)

Swift

Pilot of new system to speed up banks' cross-border transfers and reduce errors (December 2018)

Bancomat

Launch of Bancomat Pay (November 2018)

figo

Successful securing of German payments institution license (August 2018)

Fundraisings:

Form3

Successful US\$13 million Series B funding round, led by Graze and Draper Esprit (November 2018)

PIP

Successful €1 million angel fundraising (November 2018)

Previse

Successful US\$7 million Series A funding round, led by Augmentum Fintech and Bessemer (August 2018)

PPRO Group

Successful US\$50 million funding round, led by PayPal (July 2018)

Survival of the fittest

Plynk

Entry into liquidation
(June 2018)

Regulatory intervention

UK CMA

Concerns over PayPal's acquisition of iZettle (November 2018)

Swiss Competition Commission

Probe of Aduno, Credit Suisse, PostFinance, Swisscard and UBS over a suspected boycott of Samsung and Apple payment solutions (November 2018)

UK FCA

Application of its "principles for business" to payment services firms (August 2018)

European Commission

Payment service providers operating in multiple EU Member States to appoint central contact points to ensure domestic AML compliance (August 2018)

UK Payment Systems Regulator

Launch of investigation into cards sector competition (July 2018)

UK FCA

Payment service providers to handle complaints from victims of push-payment scams in compliance with UK FCA rules (June 2018)

Swedish Sveriges Riksbank

Launch of enhanced supervisory interest in payment systems (June 2018)



Stock exchanges/Clearing houses

Inorganic growth

Acquisitions:

Euronext

Acquisition of 50.6% of Oslo Børs VPS and launch of all-cash takeover offer for outstanding shares (*December 2018*)

SIX

Acquisition of remaining 75% of SECB Swiss Euro Clearing Bank (*September 2018*)

Fexco

Acquisition of Thomas Global Exchange (*August 2018*)

London Stock Exchange

Acquisition of additional 15% of LCH (*October 2018*)

Horizontal cooperation:

SIX & Clearstream

Fund processing JV (*June 2018*)

International expansion

Deutsche Börse

Launch of its European Energy Exchange in Singapore (*November 2018*)

London Stock Exchange

Shanghai-London Stock Connect JV with Shanghai Stock Exchange (*September 2018*)

Digital world demands bolt-on acquisitions

Euronext

Acquisitions of 78% of Commcise and 97.3% of FastMatch (*August-December 2018*)

Deutsche Börse

Successful testing of Project BLOCKBASTER securities and cash settlement using blockchain (*October 2018*)

Nasdaq

Acquisition of Cinnober (*September 2018*)

London Stock Exchange

Acquisition of 16% of Acadiasoft (*June 2018*)

Banks seeking returns

Société Générale

Disposal of 2.05% of Euroclear (*November 2018*)

Commerzbank, Deutsche Bank and Nomura

Disposal of minority stakes in LCH (*October 2018*)

"Challenger" competition

NEX Exchange

Acquisition of majority stake by Oliver Hemsley (*July 2018*)

Aquis Exchange

AIM IPO at £73 million valuation (*June 2018*)

Regulatory intervention

Bank of England

Launch of UK Money Markets Code (*September 2018*)

ESMA

Non-EU trading venues could be required to comply with tick-size regime under MiFID II (*June 2018*)

Brexit contingency planning

Euronext

Migration of Irish equities settlement business from London to Belgium (*December 2018*)

Deutsche Bank

Migration of 50% of euro clearing activities from London to Frankfurt (*July 2018*)

London Stock Exchange

Application for trading licences in the Netherlands (*July 2018*)

Depository Trust & Clearing Corporation

Proposals for Irish hub (*July 2018*)



Broker-dealers/Trading service providers

EU regulators have cracked down on the €1 trillion CFDs market, hitting the biggest players including IG, CMC Markets and Plus500***

High investor appetite	Financial sponsors: Atlas Acquisition of 20% of Kepler Cheuvreux (June 2018)	Strategic investors: Banca Generali Acquisition of NEXTAM Partners (November 2018)
Market consolidation to achieve economies of scale & scope	Deal highlight White & Case advised Natixis on its acquisition of a 5% stake in Oddo BHF, as the two groups seek to develop a market-leading player in equity research and sales operations covering continental European equities	Scope: AllianceBernstein Acquisition of Autonomous (November 2018) TP ICAP Acquisition of Axiom Group (November 2018) Interactive Investor Acquisition of Alliance Trust Savings (October 2018) Natixis Acquisition of 5% of Oddo BHF (June 2018) Scale: Alantra Partners Acquisition of 49% of Access Capital Partners (December 2018) AJ Bell LSE Main Market IPO at £675 million valuation (December 2018) Kepler Cheuvreux Acquisition of IFE Mezzanine (November 2018)
Mounting pressure	"Challenger" competition: Bitcoin Group Acquisition of Tremmel Wertpapierhandelsbank (November 2018) Trading 212 Launch of unlimited commission-free share trading in UK and Germany (September 2018)	You Invest Launch of low-cost digital trading platform by J.P. Morgan (August 2018) Revolut Launch of commission-free share trading service (June 2018) Activist pressure: Cenkos/Crystal Amber Pressure to explore sale options (July 2018)

* Source: *Financial Times*, June 2018

** Source: *SNP*, September 2018

*** Source: *Financial Times*, September 2018

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