WHITE & CASE

Financial institutions M&A: How financial sponsors are changing the landscape in Europe

Is current interest in financial services M&A a unique and temporary phase for financial sponsors or are they in it for the long haul?

The changing landscape in financial institutions M&A

Financial sponsor activity in European financial services M&A has never been stronger. According to Mergermaket, during the first ten months of 2015, private equity buyouts accounted for 20 percent of all European M&A activity in financial services, compared to just 4 percent in 2007. Financial sponsors are investing in financial services across Europe in a way that has never been seen before.

After the collapse of Lehman in 2008, financial institutions across Europe had to restructure their business models, focus on core businesses, sell off non-core divisions, rebuild balance sheets and adapt to a new regulatory environment and tougher capital adequacy requirements.

For financial sponsors, who pre-crisis were simply unable to compete against the synergies and cheap capital that global strategic players were able to bring to the M&A table, the fallout from the financial crisis has created the perfect storm of factors. As a result, financial sponsors have now emerged as significant players in European financial services M&A.

To find out more, we polled the opinions of senior finance professionals operating across Europe to explore how financial sponsors are taking advantage of new market conditions, what assets and geographies they find most attractive, what is driving this interest and how this trend is likely to develop.

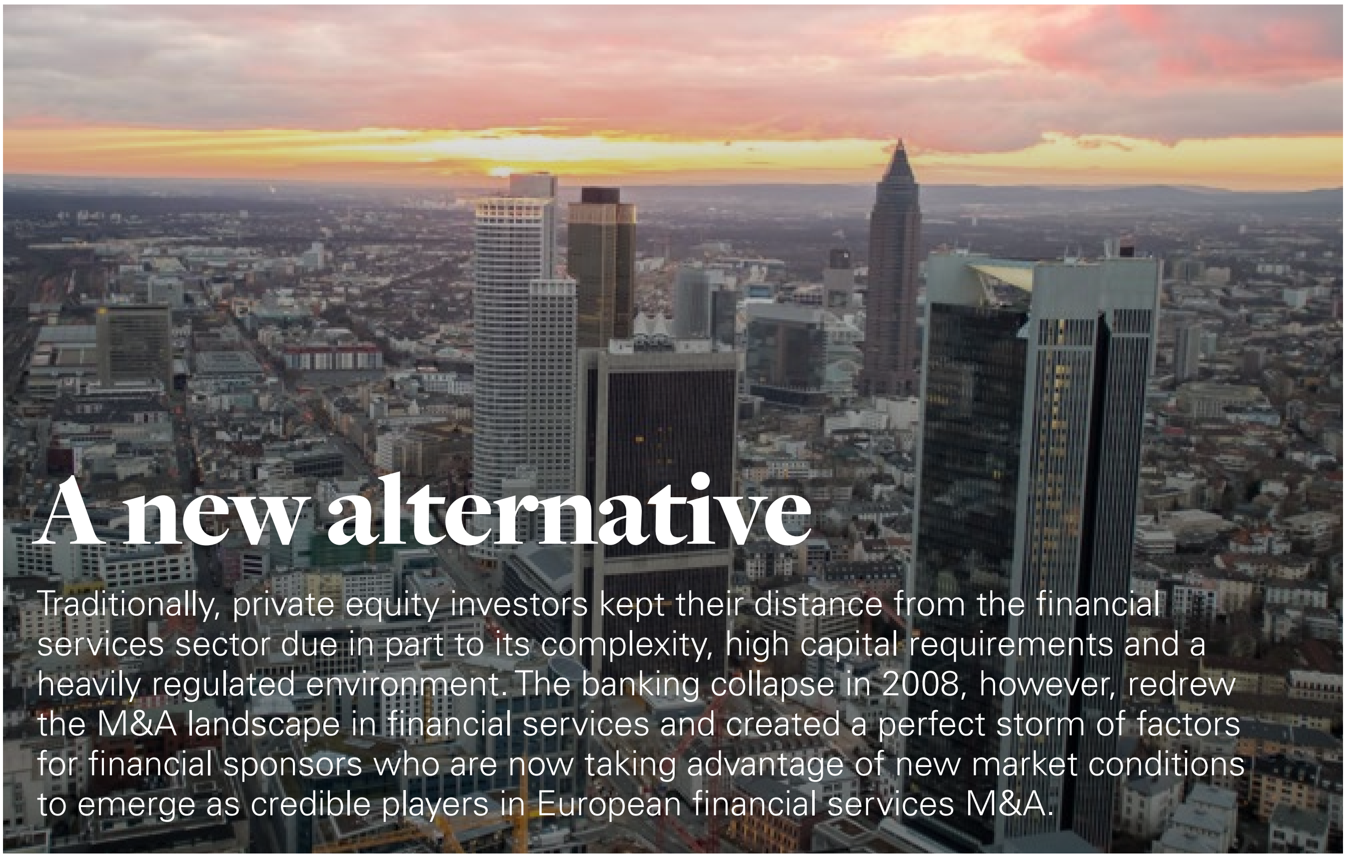
The results of the survey show specific challenges that financial services businesses face in different regions in Europe, how the disruption caused by the burgeoning fintech industry is driving change and how financial sponsors are proving themselves highly adept at managing the complexity that comes with investing in financial institutions.

One thing is certain: while the interest in financial services M&A by financial sponsors is a new trend, it is very much here to stay.

"The fallout from the financial crisis has created the perfect storm of factors for financial sponsors

Methodology

In August and September 2015, White & Case surveyed 50+ top level financial services professionals, including C-suite Executives, private equity partners, bankers and academics working in financial services across Europe. At the time of the survey, all respondents were actively involved in the financial services M&A arena. The survey comprised a combination of quantitative and qualitative questions and a series of interviews that were conducted over the telephone by appointment. All responses are anonymised and presented in aggregate.



A new alternative

Traditionally, private equity investors kept their distance from the financial services sector due in part to its complexity, high capital requirements and a heavily regulated environment. The banking collapse in 2008, however, redrew the M&A landscape in financial services and created a perfect storm of factors for financial sponsors who are now taking advantage of new market conditions to emerge as credible players in European financial services M&A.

In the years following the 2008 financial crisis, as banks, insurers and other financial institutions have had to recover and rebuild, private equity has seized the opportunity to establish itself as a substantial force in financial services M&A.

More than 90 percent of respondents in the White & Case 2015 FIG M&A Survey agree that there is a growing trend for financial sponsors to invest in the financial services sector in Europe.

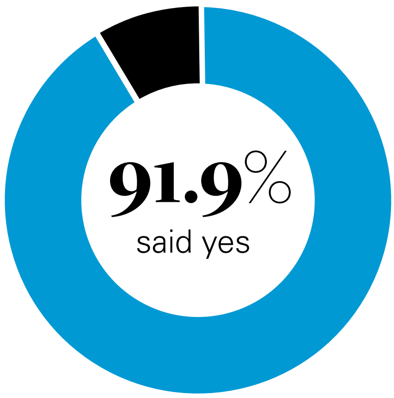
Deal figures for European buyouts in financial services paint a similar picture. According to Mergermarket, in 2015 buyout deals accounted for 20 percent of all European financial services M&A activity, the highest share of the market by financial sponsors on record. During the same period, financial sponsors invested €15.5 billion in European financial services transactions. This represents a historic high for investment by financial sponsors in financial services M&A.

The amount of capital available for financial services M&A has also increased materially, as has the number of firms targeting deals in the sector. In particular, new entrants with a specialised financial services focus have been gaining traction rapidly. These firms have raised more than US$13.6 billion globally over the last ten years, with an estimated war chest of US$3.6 billion in dry powder (pre-leverage), according to Preqin.

Rules and regulations

The increase in financial services M&A by financial sponsors is a new trend. Pre-crisis, alternative investors were dissuaded from pursuing financial services transactions as they typically found themselves up against strong strategic buyers who had an appetite for expansion, cheap capital and synergies in their favour.

Do you agree that there has been a growing trend for financial sponsors to invest in the FIG sector in Europe?



Source: White & Case 2015 FIG M&A Survey

Favourable market conditions are attracting a new class of investors that were previously dissuaded from deals in financial services

In response to the crisis, and in an effort to help banks recover and protect taxpayers from funding future bail-outs, regulators and governments introduced a series of measures to help recapitalise the banking system and reorganise bank balance sheets.

In addition to the constraints that these measures have placed on bank firepower, bank M&A appetite has also been weighed down by a number of fines for regulatory breaches, including rigging Libor and Forex rates and the mis-selling of financial products. According to *Reuters*, the world's 20 largest banks have paid fines totalling US$235 billion since 2008. Many banks are therefore hesitant to run the risk of inheriting these unknown liabilities through large M&A deals.

Accordingly, many financial institutions have decided (or been forced) to focus on their core businesses and raise funding by selling assets, often at lower valuation levels. Consequently, these institutions are no longer on the buy-side of M&A transactions, leaving room for new entrants to the market and (at least, until recently) creating a perfect storm of lower prices and fewer bidders.

Attractive valuations are among the main drivers for increasing financial sponsor interest in financial services.

"Given the liquidity, regulatory and restructuring pressures that financial institutions have encountered, they have had to divest assets in order to improve liquidity and free up capital. Financial sponsors will always follow activity, and financial services has been a happy hunting ground," says a partner at a leading private equity firm investing in financial services.

The fact that banks and insurers have had to focus on selling also means that financial sponsors have been ideally placed to benefit from this development as they no longer are coming up against tough strategic buyers when bidding for assets.

A broad spread

This favourable backdrop has allowed private equity to invest right across the financial services industry, from banks, asset management and life insurance through to fund administration, payment services and the rapidly growing fintech sector.

Asset management, payment services and fintech units are the sub-sectors within financial services which are generating the most interest from financial sponsors.

"The good buying opportunities that have emerged in financial services since 2008 have seen financial sponsors become more comfortable with the sector," says Professor Scott Moeller, Director of the M&A Research Centre at Cass Business School in London. "Dealmakers have seen that if they have the patience to look at the detail and get through the inordinate amount of paperwork that comes with running a financial services business, the private equity model can be very effective in this sector."

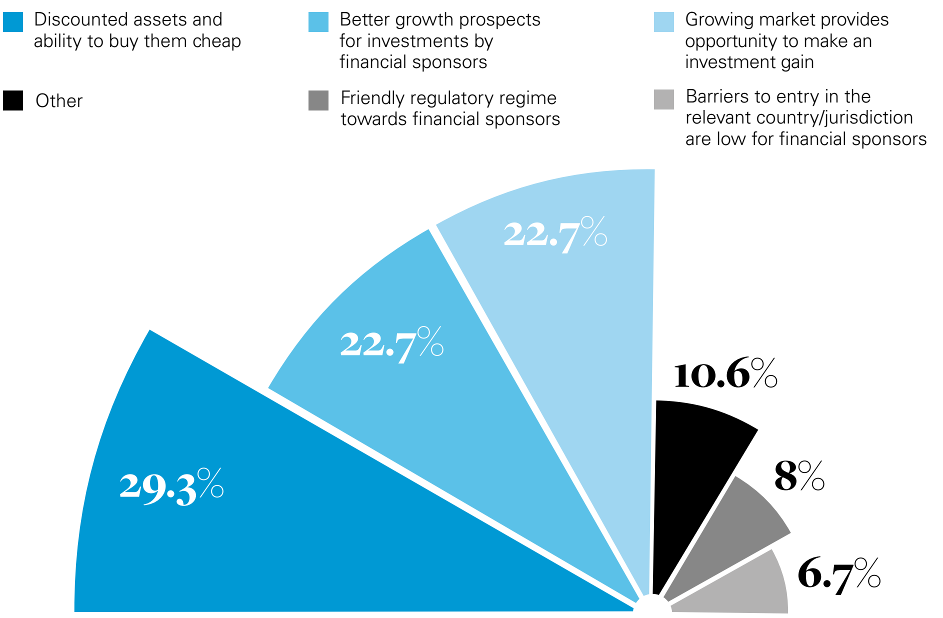
Financial sponsors that have invested in financial services transactions have generated some excellent returns. Advent International and Bain Capital quadrupled their investment in payment services company WorldPay after listing the business in an IPO valuing the company at £6.3 billion. Bridgepoint, meanwhile, more than tripled its money and delivered a 55 percent IRR when it sold wealth management firm Quilter Cheviot to FTSE 100 investment and savings group Old Mutual in a deal worth £585 million.

As financial institutions stabilise, alternative investors are well set to remain key players in future transactions in the industry.

"The banks have done the hard work and gone through the hard times. Profits in financial services companies are starting to improve and there is good visibility for financial sponsors on what they are buying," says Christoph Pfeifer, until recently the CFO of GFKL Financial Services, a German-based provider of receivables management services formerly owned by Advent and recently acquired by Permira. "This should be a good sector to invest in in the coming years."

> “Financial sponsors have emerged as credible players in European financial services M&A

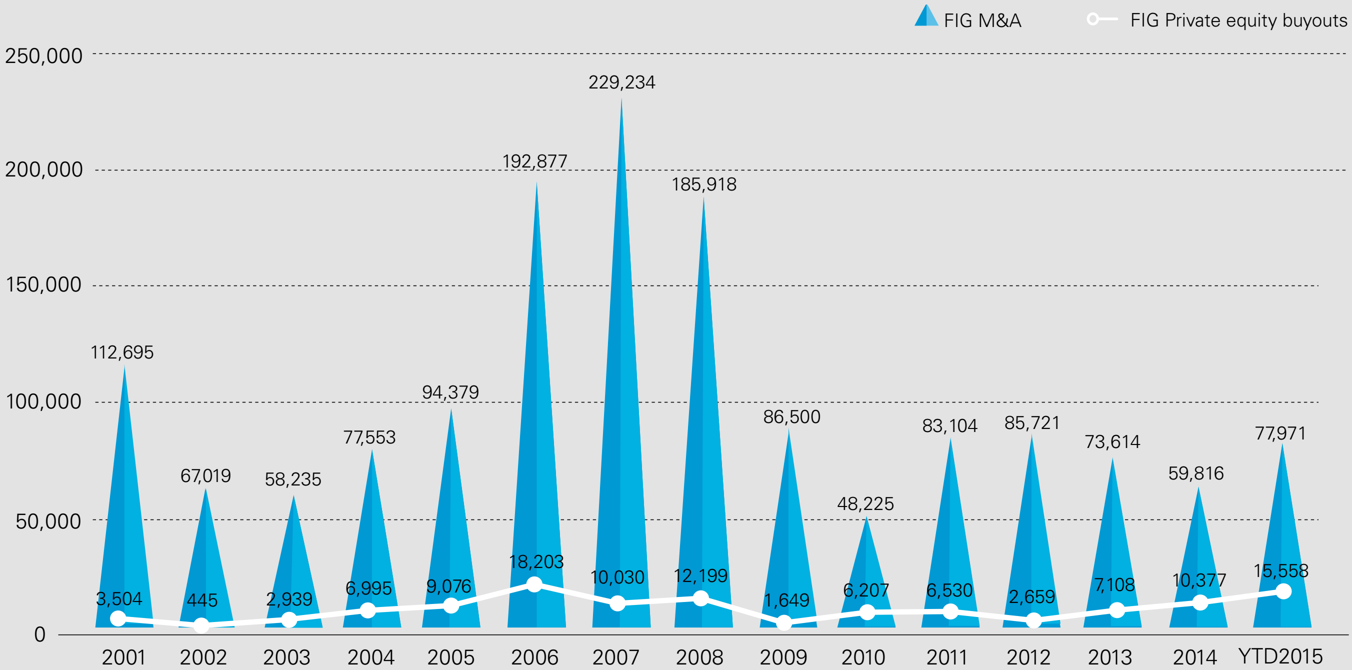
What is driving the current trend for financial sponsor investment in the European FIG sector?



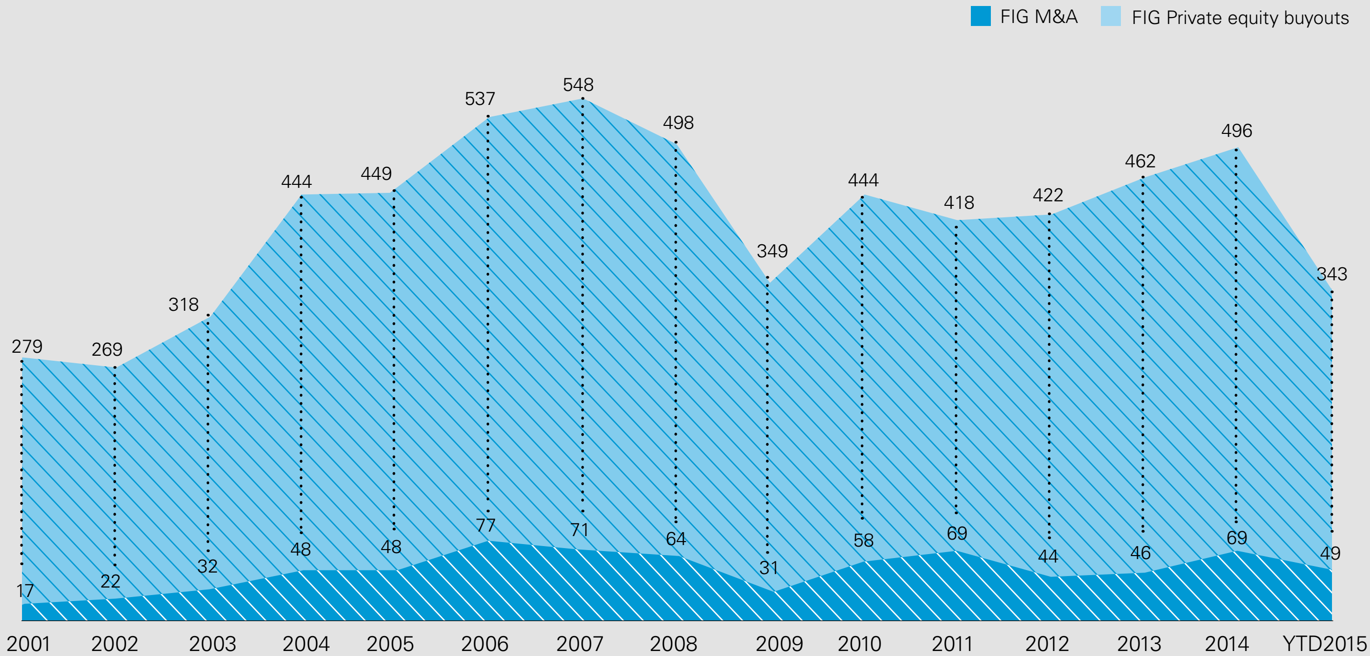
Source: White & Case 2015 FIG M&A Survey

European FIG M&A in numbers

European FIG M&A: Total activity vs. private equity buyouts, by deal value (€m)



European FIG M&A: Total activity vs. private equity buyouts, by deal count



Source: Mergermarket

Private equity buyouts in European financial services sector: Top five countries by year, by deal value (€m)

2010	
United Kingdom	4,438
Republic of Ireland	980
Netherlands	298
Poland	281
Sweden	105

2011	
France	2,226
United Kingdom	1,925
Republic of Ireland	1,389
Denmark	389
Belgium	244

2012	
United Kingdom	1,532
Italy	429
Belgium	211
Denmark	175
Spain	100

2013	
United Kingdom	2,491
Belgium	2,300
Spain	1,324
France	405
Germany	300

2014	
United Kingdom	5,267
Spain	1,406
Greece	1,332
Italy	443
Germany	435

YTD2015	
United Kingdom	5,960
Netherlands	3,700
Denmark	3,108
Italy	2,169
Slovenia	250

Private equity buyouts in European financial services sector: Top five countries by year, by deal count

2010	
United Kingdom	18
France	5
Germany	4
Poland	4
Luxembourg	4

2011	
United Kingdom	27
France	11
Republic of Ireland	7
Netherlands	6
Denmark	2

2012	
United Kingdom	16
Belgium	4
Russia	4
Italy	3
France	3

2013	
United Kingdom	18
Spain	7
France	5
Germany	3
Italy	2

2014	
United Kingdom	31
France	6
Spain	5
Italy	4
Austria	3

YTD2015	
United Kingdom	19
France	7
Germany	3
Italy	3
Spain	3

Source: Mergermarket

Notes: Based on announced deals, excluding lapsed and withdrawn bids. Based on dominant geography of target company being Europe. Based on dominant sector of target company being Financial Services. Based on private equity-backed buyouts. Includes all deals valued over USD 5m. Where deal value not disclosed, deal has been entered based on turnover of target exceeding USD 10m. Activities excluded from table include property transactions and restructurings where the ultimate shareholders' interests are not changed. Data run from 01-Jan-2001 to 30-Oct-2015. Data correct as of 20-Nov-2015.

Up to the challenge: Investing in banks

Despite bleak growth prospects for banks after the global financial crisis, financial sponsors have embraced the opportunities the restructuring of the banking sector has provided, and have proven themselves adept at managing the complexity that comes with investing in banks.

One of the most striking developments in financial services M&A following the financial crisis has been the willingness of financial sponsors to invest directly in banks.

A private equity house buying a bank would have been almost unthinkable in some markets 15 years ago, but since 2008 financial sponsor investment in banks has increased steadily. According to Mergermarket, there have been 94 banking buyouts in Europe since 2008, with an impressive total investment value of nearly €12.5 billion.

Activity has been relatively widespread, with financial sponsor-backed bank investments increasing in the United Kingdom, Spain, Italy and throughout central and eastern Europe. However, although bank deals occurred across Europe, the strategic reasons for transactions have varied from region to region.

In the UK, regulators have been eager to support challengers to the dominant high street banks and halved the minimum size of capital buffers for new banks relative to their established rivals. Financial sponsors have been quick to take advantage of the favourable regulatory environment.

In March 2015, Pollen Street Capital, a London-based financial services specialist, successfully floated challenger bank Shawbrook, which was founded just four years previously, on the London Stock Exchange with a market capitalisation of £725 million. AnaCap enjoyed similar success with the £650 million listing of Aldermore, another challenger bank, in March 2015.

In Spain, however, regulators have made the consolidation of a disparate banking market the priority. Spain was one of the most overbanked markets in Europe, characterised by a large number of small, unprofitable and undercapitalised regional banks. In 2013, Apollo became the first foreign private equity firm to buy a Spanish bank when it acquired Evo Banco with a view to consolidating the market.

In Italy, banks have taken a positive view of private equity firms as partners and providers of capital. In June 2015, Advent International, Bain Capital and Clessidra Capital Partners acquired Italian banking business Istituto Centrale delle Banche Popolari Italiane (ICBPI) in a €2.15 billion deal prompted by a 2014 banking review that highlighted a need for new capital. Original shareholders have remained invested alongside the buyout firms and retained an 8 percent stake.

> “UK, Spain, Italy and CEE have all seen a rise in financial sponsor-backed bank investments

Investment in Italian non-performing loans (NPLs) is another area in which financial sponsors have played a key role in the restructuring of financial institutions. AnaCap alone has purchased €6 billion worth of Italian NPLs during the last three years, which has allowed Italian banks to direct resources to more profitable areas of business and strengthen their balance sheets ahead of the ECB stress tests. This trend is not unique to Italy, and is reflected across the whole of Europe.

In central and eastern Europe (CEE), regulators who were originally explicitly against financial sponsor ownership of banks have since recognised the need for the capital that alternative investors can deploy. Banks need support and capital in a market where strategic investors have limited firepower, and indeed many strategics are withdrawing from the region. This provides good opportunities for alternative investors who see great growth potential at reasonable prices.

In the last 12 months, Apollo Global Management and the EBRD have taken control of Slovenia's second-largest bank, Nova, after it failed ECB stress tests; the EBRD and Advent International acquired the Balkan subsidiaries of Austria's Hypo Alpe-Adria Bank, which was bailed out by the Austrian government in 2009, and JC Flowers has agreed to acquire Romanian bank Banca Carpatica (this deal had been announced but was still to complete as this report went to press).

"Regulators were conservative at first, but pragmatism has prevailed. There have been a number of banks in CEE that have been in distress, but with no strategics in the market there has been a realisation that private investors can bring capital to the table and provide institutional certainty. These assets can't be left without any direction or management. Regulators have recognised that there is no one else with the capital these banks need," says a senior FIG M&A investment banker.

One region where it has been difficult for financial sponsors to gain traction, however, is Germany. JC Flowers and Lone Star have both invested in various German banking assets, but have not enjoyed the success that firms have seen in other regions.

"Even though banking regulation in Europe is harmonised, I think financial sponsors have been surprised by the banking regulation requirements in Germany," says another experienced FIG M&A adviser. "The market conditions and framework in Germany are very different. In every village there is a state-owned bank, which makes it very difficult to compete on the pure retail banking side. Then there are the co-operative banks and private banks. Each group serves as a pillar of the German banking system and it is very, very difficult to try and operate across all three pillars, which has made it tough for private equity."

Financial sponsors that have had the courage and opportunity to invest in banks since 2008 have, on the whole, delivered good returns. According to a KPMG analysis of the UK banking sector performance, small challenger banks delivered a return on equity of 18.2 percent in 2014 versus 2.8 percent for established banks. The 2014 compound annual growth rate in loans advanced to customers by small challenger banks, meanwhile, is sitting at 32.3 percent compared to a negative 2.9 percent at mainstream banks.

The flexibility of new entrants and their use of technology have helped them to operate off a lower cost base, which in turn has boosted profits and returns. Players in Germany such as ING-DiBa, which provides an online-only account, and Fidor, which offers digital "crowd banking", in which customers discuss what products and services they want online, have been able to cut overheads by not having to pay for a physical branch network.

Private equity investors have recognised the advantages of this model. AnaCap's investment rationale for backing FM Bank in Poland is underpinned by leveraging the bank's innovative mobile and digital platforms. Pollen Street–backed Shawbrook placed strong emphasis on online banking by developing an online application process for customer accounts in partnership with specialist digital banking developer Sandstone Technology.

"Private equity investors have been quick to react to a supportive environment for new entrants and the impact that technology has had on the old banking model," says a partner at a major private equity firm which focuses on the financial services industry. "The old model of branch-based banking is no longer necessary. Banking has gone virtual and with the right technology in place, you can operate with much less real estate, a smaller footprint and lower costs."

The track record that private equity has built up in bank investments has also dispelled concerns that financial sponsors lack the wherewithal to invest in bank operations successfully.

"If you look at the day-to-day running of a bank, I am not sure how much value financial sponsors add, but what they are excellent at doing is looking at a bank and building a very clear idea of where it needs to be in five years' time and how to get to that endpoint," says a corporate financier who has worked on numerous bank deals. "What they are also very good at doing is getting the right people involved in their due diligence and choosing good management teams. I have been very surprised at the calibre of person they have been able to bring in as consultants and board members. They know how to pull the right people in."

> **"A private equity house buying a bank would have been almost unthinkable in some markets 15 years ago**

Financial sponsors are likely to continue seeing opportunities to invest directly in banks, but competition is likely to stiffen as strategics start to come back into the market. In 2015, for example, Sabadell surprised the market by acquiring the UK's TSB, while GE Capital's bank in the Czech Republic is expected to go to an IPO or trade buyer after receiving strong interest from potential buyers.

Financials sponsors will therefore have to find special situations or unique angles when investing in European banks in the future.

"For the last few years, financial sponsors have been able to operate in a limited buyer universe, but we are now at a stage that if there is a quality bank that comes to market, there will be strategics out there and they will probably win or it will go to IPO," says a senior FIG M&A investment banker. "Alternative investors will have to look at banks that are deemed sub-quality and not ready for IPO, or find small players that don't have the scale to attract strategics or have a digital or online route to market. Financial sponsors will still have chances to buy banks, but the market will become more competitive."

Fintech: The disruptive force for good

The disruption in the financial services industry caused by technological advances has created fertile ground for financial sponsors who excel at promoting innovation and investing in new, untested technologies.

Fintech is disrupting the manner in which financial services and products are delivered and sold, changing the operating model of the entire financial services industry.

According to Accenture, global investment in fintech ventures tripled from US$4.05 billion in 2013 to US$12.2 billion in 2014. Europe was the fastest-growing region in the world, with an increase in fintech investment of 215 percent to US$1.48 billion in 2014.

The rapid growth of fintech has enabled new entrants in financial services to challenge existing business models by engaging customers in new ways, and win significant market share at a fraction of the cost of traditional businesses.

In payment services, for example, companies and technologies such as PayPal, Apple Pay, Stripe, Marqeta and Skrill, which CVC Capital Partners and Investcorp sold for €1.1 billion in April 2015, have revolutionised the way that payments are made, and provided consumers and businesses with digital services that are convenient and easy to use.

The expansion of price comparison websites for insurance, mortgages, loans and bank accounts serves as another example. Financial services companies used to sell their products through brokers and branch networks, but the rise of price comparison websites has turned that model on its head. The price transparency, speed of purchase and choice offered by the aggregator websites have proved popular with consumers and sparked strong growth. These providers initially started out focusing on car insurance but have been able to add personal insurance, travel insurance and home insurance to their platforms and even expanded into other financial products such as mortgages, personal loans and investments, helping to support growth in revenues without additional expenditure. Revenues at price comparison websites such as London-listed MoneySuperMarket have grown by more than a fifth through the downturn. Germany's Verivox, which delivered a 15-fold money return for its backer Oakley Capital, and Chiarezza in Italy and MisterAssur in France, which are both backed by specialist financial services firm BlackFin, have delivered a similarly strong performance.

Taking over from the old guard

While banks continue to provide loans and bank accounts to most consumers, and have updated their delivery of services to include mobile and online banking, there are parts of the market that banks have vacated in the immediate aftermath of the financial crisis. New opportunities are now open for entrants who have stepped in to fill the vacuum with low-cost, technology-focused business models.

JC Flowers, for example, recently participated in a €82.5 million funding round for Berlin-based Kreditech, which provides banking services for customers who don't have credit histories.

Digital crowdfunding and peer-to-peer lending platforms have emerged to provide financing for small companies that previously would have turned to banks. Funding Circle, a peer-to-peer lender founded in 2010, has processed more than £1billion-worth of loans to 12,000 businesses since its launch. Funding Circle recently acquired Zencap, a German peer-to-peer lending platform backed by Berlin-based technology incubator Rocket Internet. Zencap has operations in Germany, Spain and the Netherlands and has originated more than €35 million worth of loans since its launch in March 2014.

In areas like foreign exchange, meanwhile, where banks pushed up fees and widened spreads in order to boost flagging profits, independent providers have stepped in, too. Currencies Direct, which is backed by Palamon Capital Partners and Corsair Capital, and Moneycorp, which Pollen Street Capital sold to Bridgepoint for £212 million, have focused on offering competitive rates, strong customer service and digital delivery platforms to win business from individuals and small and medium-sized enterprises. In July 2015,

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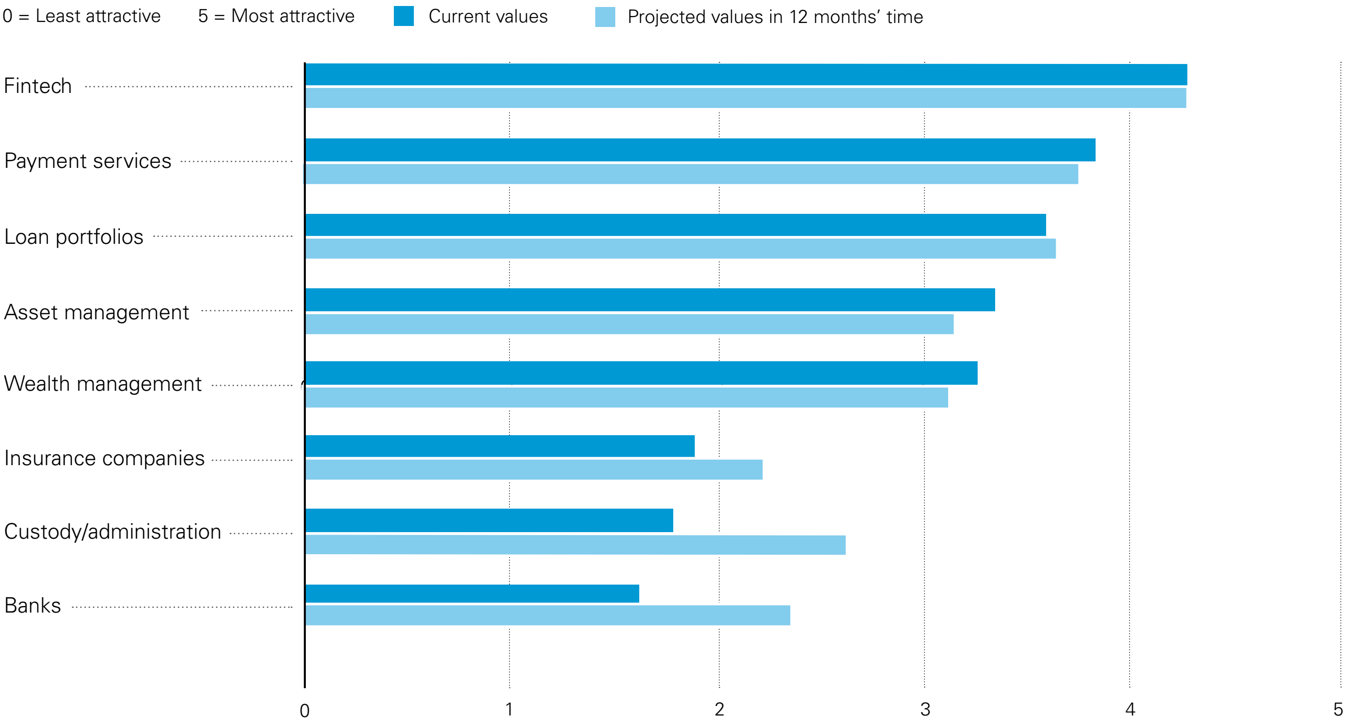
Rapid growth of fintech has enabled new entrants to challenge existing business models in financial services

Asset/target attractiveness index



Source: White & Case 2015 FIG M&A Survey

Deutsche Börse agreed to acquire German web-based currency trading platform 360T, which was backed by Summit Partners, in a transaction worth €725 million. The deal made 360T the most valuable fintech company in Germany, according to the Deutsche Börse deal announcement.

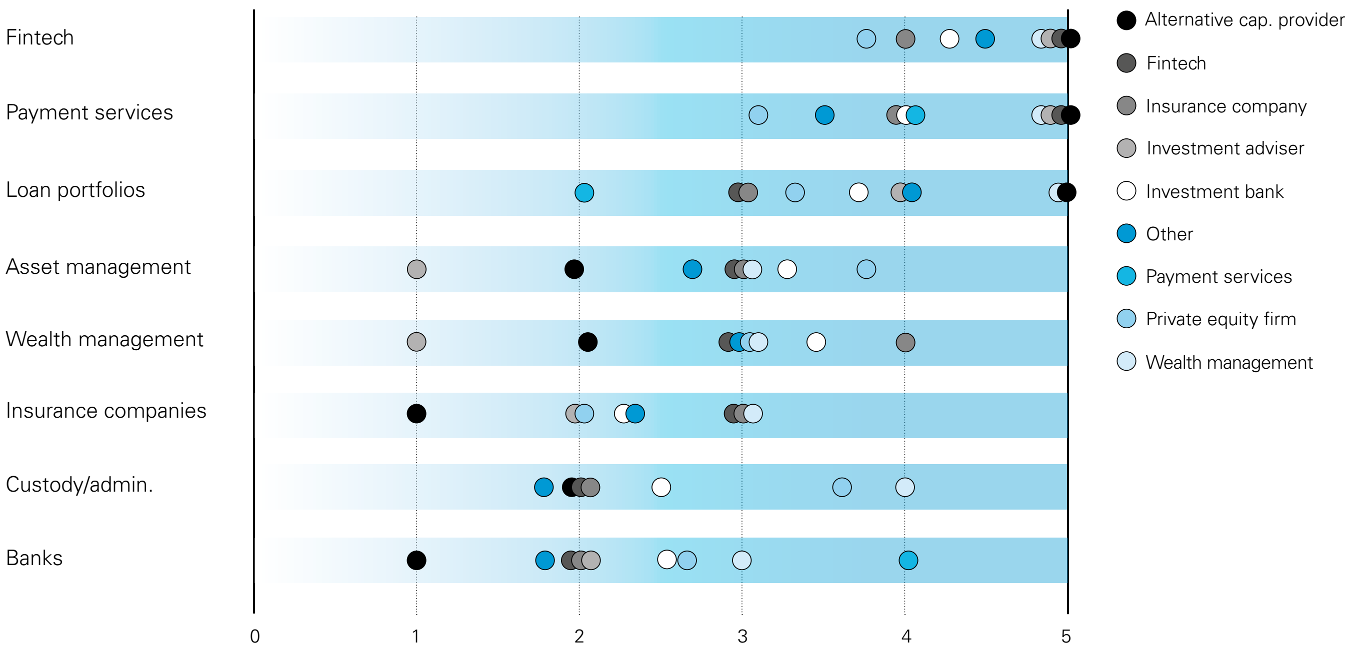
Fintech companies haven't had to worry about legacy issues in the way that banks have had to. They have been able to bring new ideas to market quickly as they do not have to negotiate the bureaucracy of large financial institutions, where decisions tend to take longer and are often subject to more internal hurdles. Fintech companies also benefit by avoiding the same degree of regulatory burdens and capital requirements that other financial institutions face.

Before the financial crisis, banks were in a position to use their vast networks to provide and cross-sell a wide range of financial services to customers. The model has now fractured. Banks continue to provide a diverse range of services, but in certain business areas, such as payment services, they now have to

Projected asset/target attractiveness index in 12 months' time*

0 = Least attractive   5 = Most attractive

*Broken down by respondent company type



Source: White & Case 2015 FIG M&A Survey

compete against players such as PayPal.

Banks themselves, having observed the successful business models deployed by fintech companies, have recognised the importance of improving the way they use and develop technology, and are investing in fintech, too, in order to achieve this.

Deutsche Bank has reduced its dividend to invest in its technology systems, and has outlined plans to open innovation hubs in London, Berlin and California in an effort to improve the way it uses technology. Santander, meanwhile, has launched a US$100 million fund for similar strategic reasons. This fund will invest in companies that are working on the digital delivery of financial services, online lending, online systems to distribute financial investment products and big data analytics. Commerzbank is doing the same by investing through its CommerzVentures and Main Incubator divisions.

"Fintech companies have disrupted all aspects of the financial services industry. Technology has enabled new companies to reach customers in new ways at a lower cost. Financial sponsors have noticed the trend and have been quick to jump on the train," a senior FIG M&A adviser says.

The attractions of fintech to financial sponsors are obvious. Fintech businesses are growing rapidly, can win large portions of market share for relatively low cost and, crucially, can be scaled up quickly and exited for good multiples.

Further, alternative investors have been ideally placed to fund these companies as they have a higher risk threshold to new concepts relative to established financial services businesses and are in a better position to provide the required resources and experience to what are still young companies that professionalise and manage growth. The large amount of capital that private equity firms have at their disposal also means that they have been an obvious place for fintech companies to turn to when financing is required. A supportive regulatory environment has also helped encourage financial sponsor investment. In the UK, for example, the FCA has launched a fintech unit which has a specific remit to support start-ups in the fintech space. The unit has developed the idea of a "regulatory sandbox" in which fintech regulation will be approached on a case-by-case basis and new technologies can be tested in the market.

"New players are coming into the market with a broad spectrum of different ideas and business models, which is where financial sponsors are strong and able to provide capital," says a director at a private equity-backed financial services company.

> "Fintech companies benefit by avoiding the same degree of regulatory burdens and capital requirements that other financial institutions face

Don't believe the hype

Fiduciary assets may not be the most obviously attractive business units within financial services, but steady profits and the opportunity for consolidation are enough to keep financial sponsors interested.

Some of the most noteworthy deals by financial sponsors in the financial services sector since the credit crisis have been in the trust and custody services and fund administration market.

Blackstone listed Dutch trust administrator Intertrust in October 2015 in an IPO that valued the business at €1.3 billion, and in 2014 Warburg Pincus and Singaporean sovereign wealth fund Temasek teamed up to take a 50 percent stake in Santander's global custody business, in a deal valuing the entity at €975 million.

The strong interest and large investments from financial sponsors in this sub-sector, however, have come as something of a surprise: there is significant downward pressure from companies who have had to trim their own cost bases and put pressure on the providers of fiduciary services to lower prices, turning their services into low-margin commodities. There is faster growth on offer in the fintech sector, as well as a larger number of deal opportunities coming to market in banking, asset management and debt.

Yet despite the pressure on pricing that some providers have had to manage, custody and administration services continue to tick the boxes for financial sponsors.

A predictable play

There is a steady flow of assets coming to market as financial institutions refocus on their core business and sell non-core divisions.

> "Fiduciary services have steady, predictable revenue streams and can deliver attractive economies of scale

Fiduciary services have steady, predictable revenue streams and can deliver attractive economies of scale if more business is run through existing infrastructure.

"On the surface these companies look like very boring businesses, but if we were in the middle of the Californian gold rush, these would be the people who made their fortunes by selling shovels and wheel barrows," says Professor Scott Moeller, Director of the M&A Research Centre at Cass Business School. "Earnings are constant and because there is so much focus on fintech, multiples are moderate. There is no hype in this part of the market. Everyone might be looking for the next Uber, but somebody still has to make the cars."

Private equity investors have also seen the opportunity to consolidate what is still a fragmented space. JTC, a fund administration company backed by mid-market investor CBPE Capital, for example, has made five bolt-on acquisitions since 2010, expanding its client base and geographical reach.

Increasing regulation across the financial services market has also helped to boost business for administrators. Ipes, a specialist fund administrator focusing on private equity clients and backed by Silverfleet Capital, has seen its assets under administration grow to more than US$50 billion as clients look for outsourcing support to manage compliance with AIFMD, FATCA and Dodd-Frank legislation.

Finally, mirroring the trend in other areas of financial services, alternative investors have seen the opportunity to apply new technologies and processes to the management of large portfolios of assets under administration, which has facilitated cost reduction and further economies of scale.

A pan-European opportunity

Many commentators consider that the growing trend of financial sponsor investment in financial services is limited to a handful of countries in Europe. Deal data, however, show that investors with an appetite for banks and other financial services assets have a wider geographical appetite.

Rising financial sponsor interest in financial services investments is a genuinely Europe-wide trend. Although the United Kingdom has been at the top of the league tables for private equity buyouts in financial services by deal volume and value in each of the last five years, Denmark, Italy, Spain, Belgium and Greece have each at some point recorded more than €1 billion worth of financial services buyouts in a single year, according to Mergermarket.

White & Case's FIG M&A Survey respondents, when asked to rank the most attractive European territories for FIG M&A on a scale of 0 to 5, ranked most regions between two and four, suggesting that there are opportunities across all European regions.

"The UK has been a busy financial services M&A market, and that can create the perception that there is not that much activity in other parts of Europe, which is not the case," says a partner at a leading European private equity firm.

Across Europe, the factors that have opened up financial services dealmaking to sponsors have been broadly the same. Banks and insurers have had to rebuild balance sheets and focus on their core business, which has sparked a waive of asset sales at attractive valuations. This has also meant that buyout firms have been able to source and conclude deals without much competition from strategics.

Building across Europe

As alternative investors have gained a foothold in financial services, they have moved to take advantage of a reshaped financial services industry in Europe to apply strategies that have worked in one European market to others.

Cinven, for example, banked a 4x money return from its sale of closed-life policy manager Guardian Financial Services to Admin Re for £1.6 billion in September. The firm is currently executing the same strategy with German closed-life platform Heidelberger Leben, which it acquired for €300 million in partnership with Hannover Re. The business has subsequently purchased a €220 million closed book from Skandia Group as Cinven appears to be following the same steps it did with Guardian, where it supported four bolt-on acquisitions, prior to exit.

Financial sponsors have also seized opportunities to take advantage of the business areas vacated by domestic institutions and build up local businesses into pan-European players.

Permira merged Germany's GFKL, a receivables management business acquired from Advent, with the UK's Lowell Group, which was backed by the Ontario Teachers' Pension Plan, to create a pan-European credit management business with a leading

> **Factors that have opened up financial services to sponsors have been broadly the same across Europe**

market position in the two largest European financial services markets, Germany and the UK.

"Private equity firms have taken a long-term outlook. They have made acquisitions of local companies and then focused on building these companies into pan-European platforms through buy-and-build strategies," says Christoph Pfeifer, until recently the CFO of GFKL.

Investment in fintech has been similarly spread across Europe. In 2014 the UK and Ireland led the way, with fintech investment in these countries totalling US$623 million, according to Accenture. However, the Nordics with US$345 million of investment, the Netherlands (US$306 million) and Germany (US$82 million) have also proven fruitful for fintech investors. Deutsche Börse's recent (2015) €725 million acquisition of the German online currency platform 360T is just one example of the vibrancy of the fintech sector across Europe.

"Fintech has been a very exciting area and there have been pockets of innovation emerging right across Europe. Shoreditch in London has been the most active but there are groups coming up with some exciting ideas in Munich, Berlin and Amsterdam," says Professor Scott Moeller, Director of the M&A research centre at Cass Business School.

Different strokes

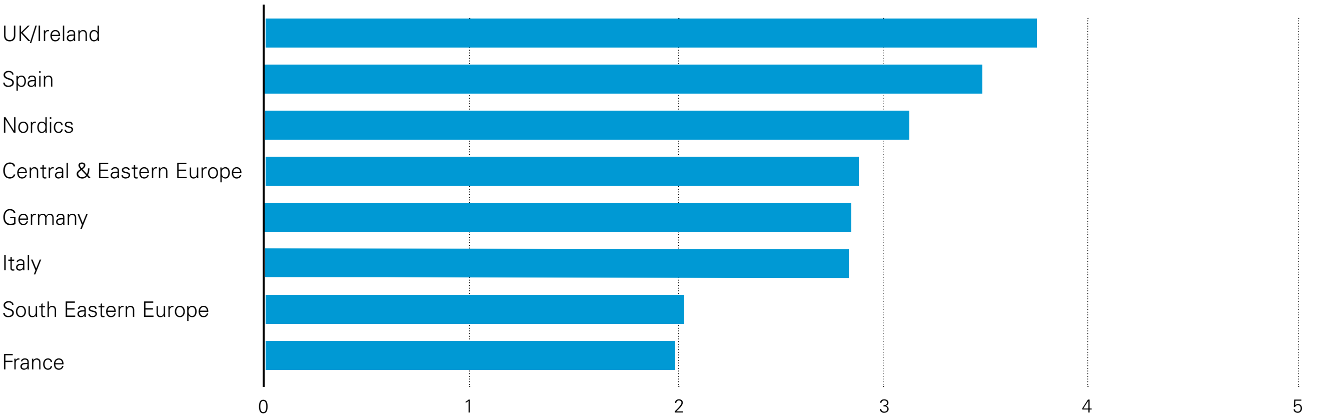
There are also examples of how the wider macro trends that have changed all European financial services have had different impacts on different markets.

In the UK, for example, the government has focused on increasing the number of banks in the sector in order to encourage competition and mitigate against the systemic risk of one of the dominant high street banks failing. Regulators were also keen to introduce more competition. This has opened up opportunities for financial sponsors to invest in a new group of challenger banks that have come to market, including Shawbrook and Aldermore, which were backed by Pollen Street Capital and AnaCap, respectively.

In Spain, by contrast, the financial crisis has prompted the opposite response from regulators, as the country was served by a disproportionate number of local savings banks that were left vulnerable after the financial crisis as markets shrank. Spain has since

Jurisdiction/territory attractiveness index

0 = Least attractive   5 = Most attractive



Source: White & Case 2015 FIG M&A Survey

encouraged a consolidation of its banking market in order to make banks more robust and cost-efficient. Apollo's acquisition of EVO Banco serves as an example of financial sponsors also playing a role in helping Spain's banks to restructure by buying up portfolios of real estate loans and non-core units.

In central and eastern Europe, governments have been more interested in finding investors simply to shore up struggling banks. Regulators, although initially reticent to allow financial sponsors to control bank assets, have since recognised the necessity of bringing in new investment at a time when strategic investors are still cautious on M&A and reluctant to attempt rescues of ailing rivals. Examples include Apollo Global Management and the EBRD taking control of Slovenia's second-largest bank, Nova; the EBRD and Advent International acquiring the Balkan subsidiaries of Austria's Hypo Alpe-Adria Bank; and JC Flowers' purchase of Romanian bank Banca Carpatica (this deal had been announced but was still to complete as this report went to press). AnaCap has backed Equa Bank in the Czech Republic and FM Bank in Poland.

The German banking market, by contrast, has been tougher for financial sponsors to break into. Lone Star and JC Flowers have both invested in German banks, but on the whole alternative investors have had less success than in other European countries.

Germany's Federal Financial Supervisory Authority (BaFin) has always been concerned that financial sponsors would not be able or willing to support banking holdings in a financial crisis. As a result, the regulatory bar has been set very high for financial sponsors that want to invest in German banks, and BaFin will only allow such deals to go ahead if the capitalisation of a target bank is beyond doubt. BaFin has set very strict terms for authorising the business plans financial sponsors have for banks. For fintech banking businesses, BaFin has also been reluctant to allow regulatory carve outs for particular groups. Online banks, for example, still need to meet rules that require banks to meet all customers in person.

Structurally, the German banking market has also been challenging, as the German model is built around the three pillars of local state-owned retail banks, co-operative banks and private banks. It has been difficult for investors to expand portfolio companies across these business lines.

In Germany and the Netherlands, in addition to recapitalising banks, a main area of focus has been the life insurance industry. Low interest rates, put in place after the crisis in order to keep economies moving, have left life funds vulnerable as they offer generous return guarantees that many believe are unsustainable in the current low interest rate environment. Many of these policies have lives of more than 30 years, even though life insurers typically do not hold assets of similar duration.

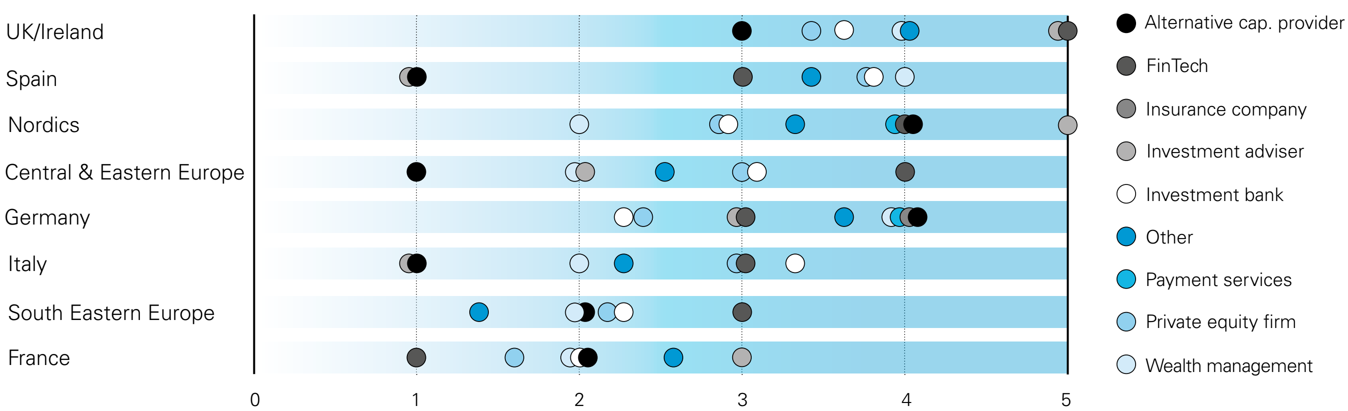
Notwithstanding BaFin's generally conservative approach, it has allowed financial sponsors to invest in life insurance companies, provided that buyout investors will only be tolerated if they take a long-term view and do not force through shorter-term investment horizons. This is a sign that, although the regulator is watching developments in the life insurance sector closely, it does recognise that financial sponsors can offer a solution to the pressures on life insurance funds. With the ECB now in charge of clearance for bank acquisitions in Europe, it will be interesting to see whether this will lead to a more favourable approach towards financial sponsors.

Every country within Europe has had to deal with the impact the liquidity freeze has had on its financial institutions. The challenges may differ from country to country, but the results from the White & Case FIG Survey and financial services M&A figures suggest there is a broad recognition that financial sponsors have a role to play in reshaping and refinancing the continent's financial services sector.

Jurisdiction/territory attractiveness index*

0 = Least attractive   5 = Most attractive

*broken down by respondent company type



Source: White & Case 2015 FIG M&A Survey

Outlook: What does the future hold?

Historically, financial sponsors approached financial services investments with caution. Since the financial crisis, however, things have changed, creating valuable opportunities for financial sponsors to invest in a sector that traditionally has been dominated by strategic players.

As market data and the results of the White & Case 2015 FIG M&A Survey show, the volume and value of financial sponsor investments in European financial institutions have increased dramatically since the 2008 banking crisis. The plethora of new regulations and reorganisation of bank balance sheets have created a rich source of deal flow for alternative investors during an extended period when strategic players have withdrawn from the M&A market.

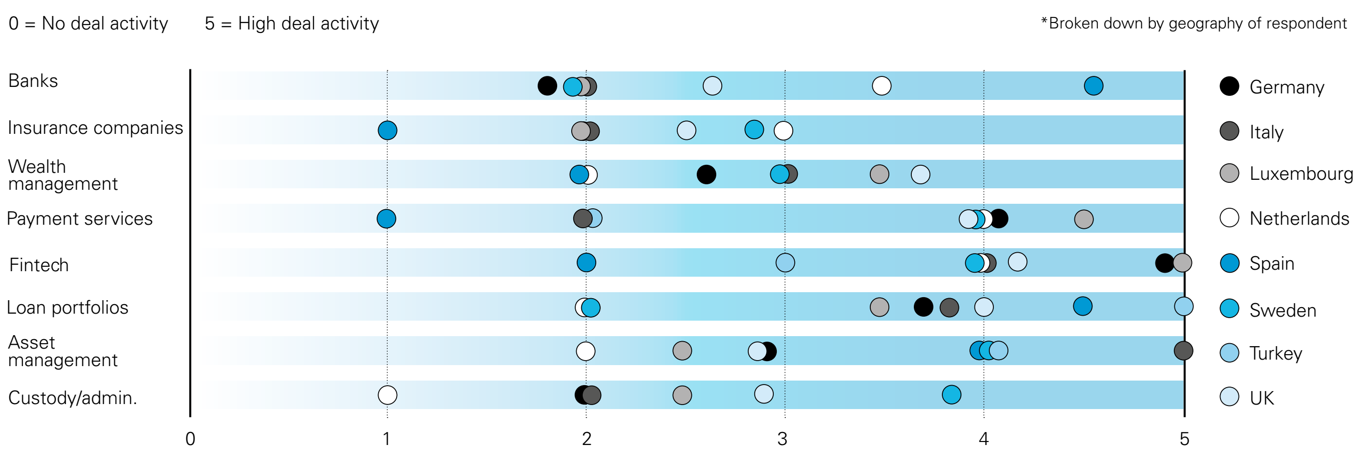
However, as strategic players are beginning to return, it seems unlikely that financial sponsors will continue to have the same unfettered access to well-priced financial services deals.

So the question facing financial sponsors now is whether the period since the credit crunch has been a unique and temporary phase, or whether financial services will continue to supply attractive investment opportunities in the long term.

Our view is that this is not a temporary phase. Without a doubt, opportunities for financial sponsors in the European financial institutions M&A market will continue to evolve over the next few years:

- Despite the expected recovery of strategic players, financial sponsors who have already established a strong presence in the financial institutions market will hold their ground, and will gain more. Having exploited the strategics' post-downturn malaise to build their portfolios and learn how to run banks, financial sponsors are in it for the long haul.
- Bank restructuring still has a long way to go before the market settles. Savvy investors will continue to find opportunities in the disruption. Consolidation of smaller banks, sell-offs of non-core assets and the retreat of banks from some sectors—such as private wealth, custody and administration services—all lay fertile ground not only for recovering strategics, but also for financial sponsors.
- In fintech, the sky is the limit. The fintech boom is only beginning, and financial sponsors will continue to expand their fintech commitments for the foreseeable future.
- Stress-test pressure on European banks will spark a wave of NPL sell-offs across Europe, especially in central, eastern and southern Europe, as banks shore up their balance sheets. NPLs (and the services associated with them) offer alternative investors an attractive point of entry that may be overlooked by strategic players.

Projected asset/target attractiveness index for the next 12 months*



Source: White & Case 2015 FIG M&A Survey

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