European financial services M&A trends

H1 2018

Building a better working world

Contents

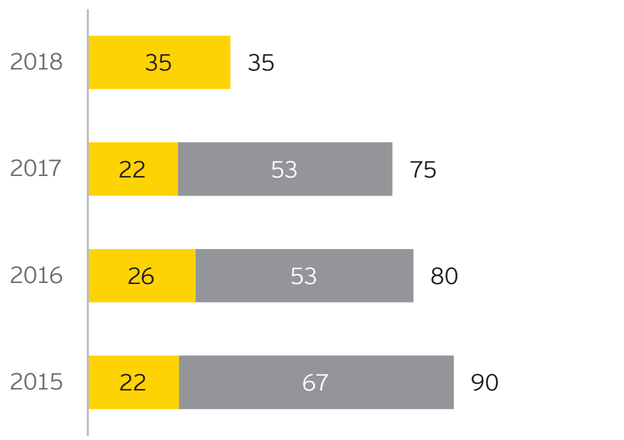
Methodology

- This publication is based on EY's analysis of ThomsonONE.com, Mergermarket and S&P Market Intelligence M&A data from 1 January 2015 to 30 June 2018. We have included selected additional transactions that were not in the databases.
- For the purposes of this publication, our definition of financial services only includes companies in banking and capital markets, insurance, and wealth and asset management sectors.
- Deals include transactions (announced or completed) where the target is in one of the three financial services sectors and in Europe.
- There is no minimum disclosed value deal threshold. Deals where less than 20% (disclosed) of the company was acquired have been excluded from this analysis.
- Joint ventures were not included.
- IPOs were not included.
- "Deal value" refers to the total value of deals with a publicly disclosed deal amount.
- The information and opinions contained in this document are derived from public and private sources that we believe to be reliable and accurate but which, without further investigation, cannot be warranted as to their accuracy, completeness or correctness. This information is supplied on the condition that none of EY, the member firms or any partner or people of any thereof is liable for any error or inaccuracy contained herein, whether negligently caused or otherwise, or for loss or damage suffered by any person due to such error, omission or inaccuracy as a result of such supply.

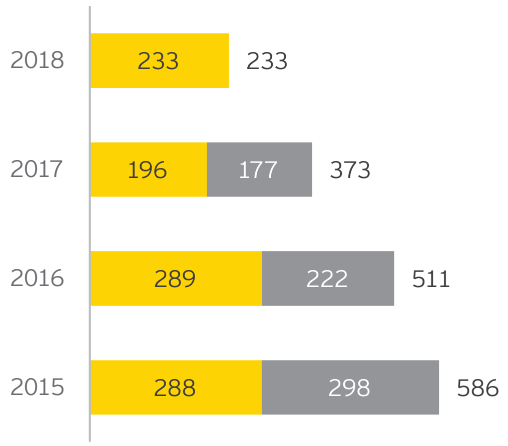
European financial services

Transactions and market overview

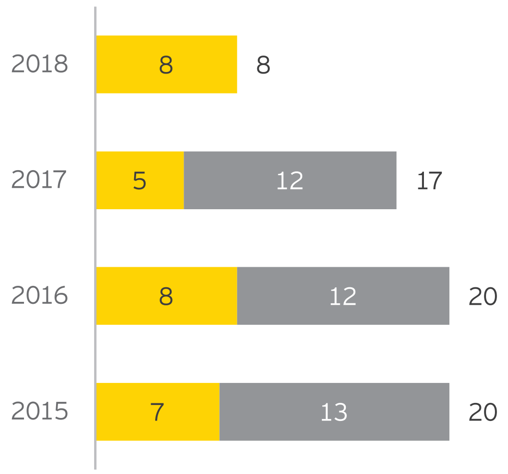
Deal value (US$b)



Deal volume (#)



Number of deals greater than US$1b



Strong deal activity in the first half of 2018, buoyed by an increase in the number of US$1b+ deals.

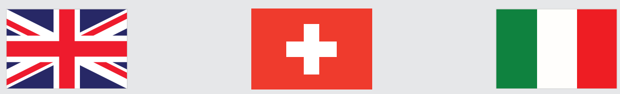
59%
increase in total value of deals, compared with H1 2017

19%
increase in total volume of deals, compared with H1 2017

8
number of deals above US$1b

- European financial services M&A activity reached US$35b in H1 2018, recording the strongest first half of dealmaking since 2015. This was mainly driven by an increase in the number of large (US$1b+) deals.
- Deal activity was particularly strong in the banking sector as discussions around mergers of large European banks continued.
- The largest deals in H1 2018 show strong appetite from non-European acquirers, particularly from the US where CME Group acquired NEX Group for US$5.7b and PayPal agreed to acquire iZettle for US$2.2b. Other non-European acquirers included Emirates NBD Bank's acquisition of Denizbank (US$3.2b) and Bermudan Group Athora's acquisition of Generali Belgium (US$668m).
- At a country level, the UK was the top target country, recording US$16.8b worth of deals in H1 2018. Notable transactions include CME Group's acquisition of NEX Group (US$5.7b), Phoenix Group's acquisition of Standard Life (US$4b), and CYBG's acquisition of Virgin Money (US$2.2b).

Top three target countries (by deal value)



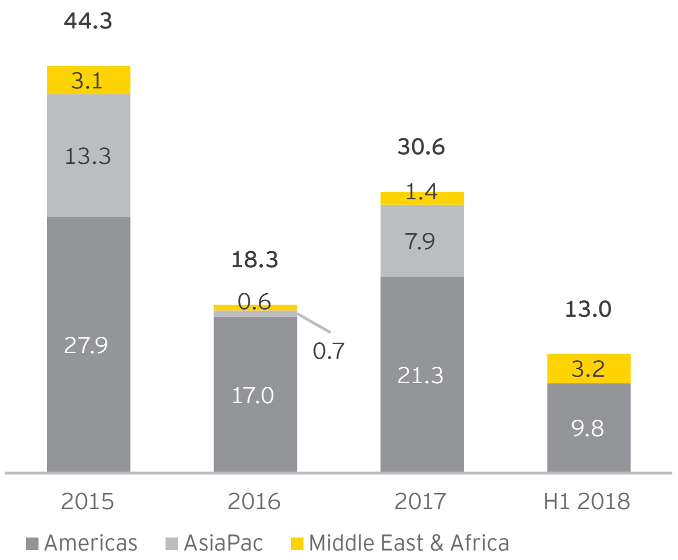
UK	Switzerland	Italy
US$16.8b	**US$3.6b**	**US$2.8b**

European financial services

Inbound and outbound deal activity

Inbound transaction values by region (US$b)

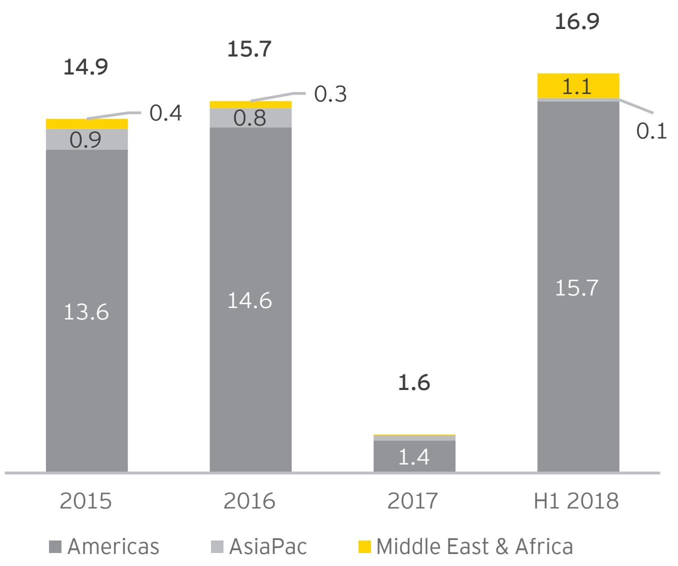
Companies outside Europe acquiring FS businesses within Europe



- European financial services targets attracted total deal value of US$13b from non-European acquirers in H1 2018. The Americas region continues to be the dominant region for acquirers into Europe, contributing 75% of inbound activity in H1 2018. Inbound acquirers in the period included CME and PayPal who are looking to increase their European footprint.
- There was a notable absence of acquirers from Asia Pacific in H1 2018, following a hive of buyer activity from that region in prior years. This may be due, in part, to the impact of the tightening of regulations in China on outbound M&A combined with increased scrutiny on non-core acquisitions.

Outbound transaction values by region (US$b)

Companies within Europe acquiring FS businesses outside Europe



- Outbound activity rebounded in H1 2018 after a quiet period in 2017 where European acquirers focused on domestic acquisitions. At US$16.9b, outbound deals from European acquirers has already surpassed levels seen in 2015 and 2016.
- The largest outbound deal was AXA's acquisition of Bermuda-based XL Group Ltd for US$15.1b.
- We expect to see more outbound activity from European acquirers in H2 2018 as the need to increase scale and expand beyond home markets still exists. EY's **18th Capital Confidence Barometer** finds Eurozone companies are optimistic about economic and capital market conditions over the next 12 months. Expectations for credit availability, market stability and valuations also signal a confident outlook. This optimism is likely to fuel dealmaking intentions.

Banking and capital markets (BCM)

Banking and capital markets

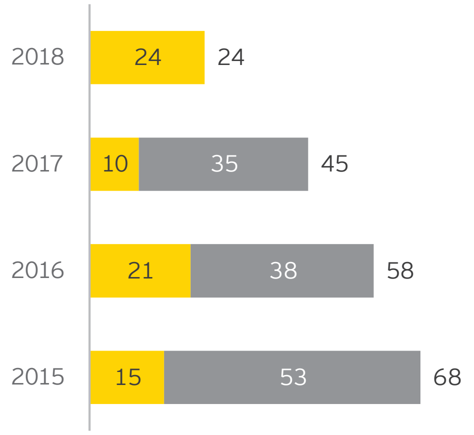
Transaction highlights

Deal value (US$b)

H1 H2

133%

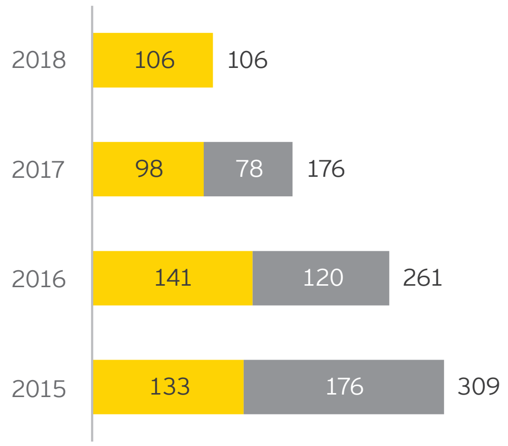
increase in total value of deals, compared with H1 2017



Deal volume (#)

8%

increase in total value of deals, compared with H1 2017



The total value of deals increased significantly to US$24b in H1 2018, mainly driven by an increase in large deals across all niches.

- **European banking consolidation** continued to gain momentum, with a number of deals announced in H1 2018. These include the acquisition of Turkish bank Denizbank by Emirates NBD Bank (US$3.2b), and the acquisition of Virgin Money by CYBG in the UK (US$2.2b).
- There were a number of cross-border transactions reported in the **payments segment**, including Worldline's acquisition of SIX Payment Services in Switzerland for US$2.9b, and PayPal's acquisition of iZettle in Sweden for US$2.2b. Other smaller transactions announced during the period were ING's acquisition of Payvision for US$336m, and Visa's acquisition of Fraedom for US$193m. All these point to strong dealmaking in the Payments segment, and activity is expected to continue in H2 2018.
- **Divestments of non-core assets** continues to be a theme among the large European banks, with a number of transactions finalized in H1 2018:
  - Deutsche Bank finalized the sale of its Portuguese private and commercial client business to the Spanish lender Abanca.
  - Banco Santander agreed to sell its 49% stake in WiZink to Värde Partners, which already owns 51% of the company.
  - Standard Chartered and BNP Paribas sold their respective stakes in Vietnamese banks including Asia Commercial Joint Stock Bank and Orient Commercial Bank to separate investor groups.
- There were a number of **loan portfolio sales** announced in H1 2018, including the sale of Bradford and Bingley's UK-based loan portfolio to a consortium of buyers which included Barclays plc. Piraeus Bank sold a portfolio of non-performing loans (NPLs) with a gross book value of €1.45b to Bain Capital Credit. Allied Irish Banks also sold a €2.7b portfolio of non-performing property loans to a consortium of investors led by Cerberus Capital Management.

Banking and capital markets

Top ten transactions by disclosed deal value

1 US$5,712m

Target: **NEX Group**
UK-based interdealer broker

Acquirer: **CME Group**
US-based securities and futures exchange

Deal rationale
Geographical expansion

4 US$2,217m

Target: **Virgin Money**
UK-based challenger bank

Acquirer: **CYBG PLC**
UK-based challenger bank

Deal rationale
Domestic consolidation

8 US$604m

Target: **Nordjyske Bank**
Denmark-based lender

Acquirer: **Ringkjobing Landbobank**
Denmark-based lender

Deal rationale
Domestic consolidation

5 US$2,200m

Target: **iZettle**
Sweden-based payments services provider

Acquirer: **PayPal Holdings**
US-based payments solution provider

Deal rationale
Geographical expansion and diversification

9 US$517m

Target: **Bradford & Bingley**
UK-based loan portfolio

Acquirer: **Consortium**
Barclays Bank PLC and Pacific Investment Management LLC

Deal rationale
Financial interest

6 US$1,223m

Target: **HSH Nordbank**
Germany-based regional lender

Acquirer: **PE Consortium**
Led by Cerberus (40.3% stake) and JC Flowers (33.2% stake)

Deal rationale
Financial interest

7 US$955m

Target: **Raiffeisen Bank Polska**
Poland-based core banking business

Acquirer: **Bank BGZ BNP Paribas**
Poland-based lender

Deal rationale
Domestic consolidation

10 US$479m

Target: **Cabot Credit Management**
UK-based debt servicer

Acquirer: **Encore Capital**
US-based Private Equity (PE) firm

Deal rationale
Financial interest

3 US$2,890m

Target: **SIX Payment**
Switzerland-based payments provider

Acquirer: **Worldline**
France-based payments provider

Deal rationale
Geographical expansion

2 US$3,194m

Target: **Denizbank**
Turkey-based commercial bank

Acquirer: **Emirates NBD Bank**
UAE-based universal bank

Deal rationale
Geographical expansion and diversification

Banking and capital markets

Market trends and trading update

- Large European banks have continued to report strong transaction activity, mainly supported by **ongoing divestments of non-core assets.** Potential mergers of large European banks have emerged as a key theme in H1 2018, with rumored merger discussions of Unicredit and Societe Generale, Deutsche Bank and Commerzbank, and Standard Chartered and Barclays.
- Increasing regulatory focus[1] on **FinTech is turning into a strategic challenge for European banks.** European banks are rapidly evaluating their business models to gain or sustain their respective market shares. Investment in technological advancements is expected to bring material earning upside. Recently, HSBC announced plans to invest US$17b in areas including technology and Asia growth.
- **High levels of NPLs continued to slow down earnings for European banks.** In March 2018, the European Commission presented a package of measures to address risks related to high levels of NPLs. The package included a proposal for a directive on credit servicers, credit purchasers and the recovery of collateral; a proposal for a regulation amending the capital requirements regulation; and a blueprint on the set-up of national Asset Management Companies (AMCs).

The BCM sector traded at an average two-year forward price-to-earnings (P/E) multiple of 11.8x in H1 2018, a premium of 3% above the three-year average of 11.5x.

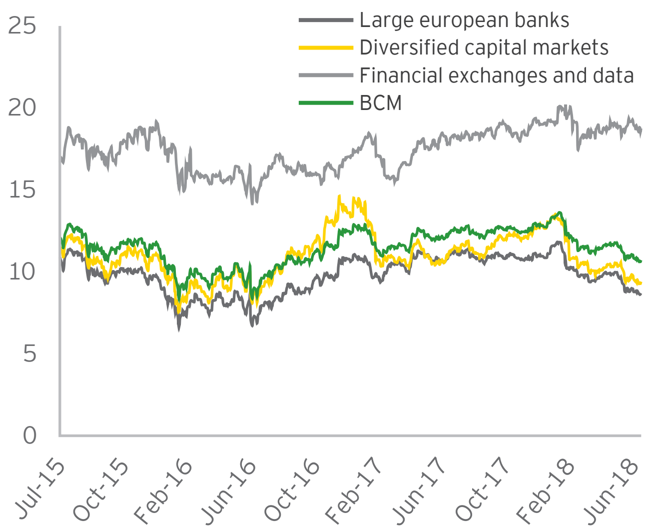
The sector is further trading at a two-year forward price-to-book (P/BV) multiple of 1.48x, an 8% premium on the three-year average of 1.37x.

The multiples reflect the continued efforts the European BCM sector has taken to strengthen capital positions and asset quality levels.

- **Money laundering** emerged as another challenge for European banks in H1 2018 with the European Central Bank (ECB) revoking licences of some of the Baltics' banks.
- **European exchanges** are seeking opportunities for inorganic growth. The segment reported two transactions – 1) CME acquired NEX, which also drew interest from Deutsche Börse and LSE; 2) Deutsche Börse acquired GTX ECN from GAIN Capital.
- Three major **IPOs** were reported in H1 2018 – UK sub-prime lender **Amigo** listed on LSE; Dutch bank **NIBC** listed on Euronext; and Icelandic bank **Arion** listed on Nasdaq Iceland.

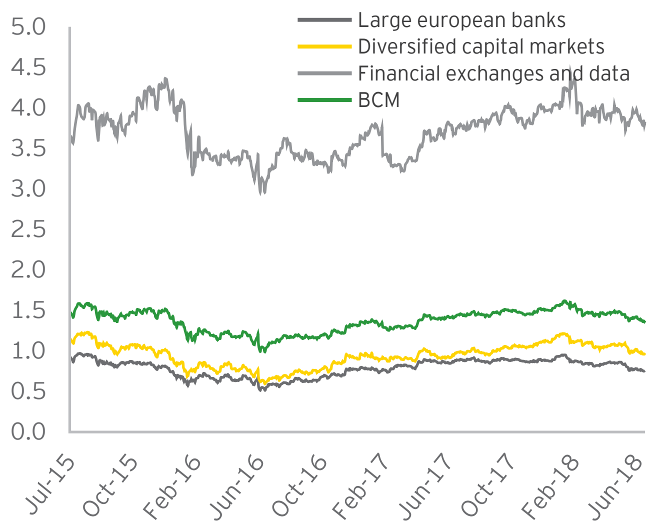
Average P/E (last three years)

FY+2 consensus estimates of selected BCM participants



Average P/BV (last three years)

FY+2 consensus estimates of selected BCM participants



Source: EY analysis, Capital IQ

[1] European Banking Authority (EBA) FinTech roadmap and ECB guide on bank and FinTech license applications

Insurance

Insurance

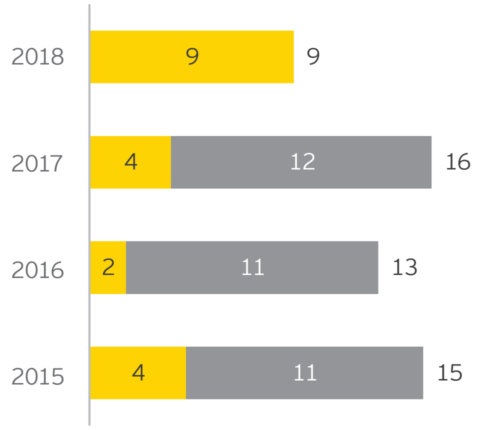
Transaction highlights

Deal value (US$b)

H1 H2

151%

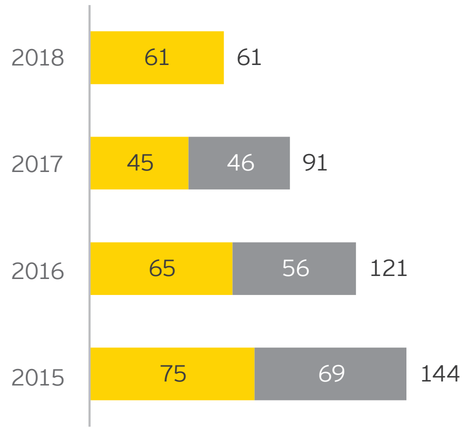
increase in total value of deals, compared with H1 2017



Deal volume (#)

36%

increase in total value of deals, compared with H1 2017



The European insurance sector witnessed strong growth in deal activity, mainly driven by a number of large deals in the UK.

- The **life insurance segment** was particularly active, with a number of deals announced in the period:
  - **The largest deal** in H1 2018 was the acquisition of Standard Life's UK insurance business by Phoenix Group (US$4.5b). The deal will help establish Phoenix Group as a pre-eminent closed life fund consolidator in Europe.
  - In the **closed life segment**, Life Company Consolidator Group (LCCG) agreed to acquire UK-based closed life mutual insurer Equitable Life (US$2.4b).
  - Abu Dhabi Investment Authority (ADIA) announced the acquisition of a 21% stake in Pension Insurance Corporation (PIC), a UK-based specialist insurer and leading provider of bulk annuities to UK corporate schemes.
- Significant **restructuring of insurance businesses** across the globe has led to increased demand for **specialty insurers**. For example, AXA's acquisition of XL Group (US$15.1b) was the largest **cross-border transaction** in the insurance sector in H1 2018. The transaction accelerates AXA's transformation from a life and savings business toward more commercial P&C business lines. The deal also indicates a change in the reinsurance M&A landscape, with large primary carriers re-entering the reinsurance market.
- Wider sector transformation is set to drive further consolidation, increase the sales of non-core businesses, and also lead to growth-related M&A aimed at building out critical new capabilities and customer propositions. We expect continuing high levels of M&A activity across all elements of the European insurance sector in the second half of 2018.

Insurance

Top ten transactions by disclosed deal value

1 US$4,500m

Target: **SL Assurance**
Standard Life Aberdeen's UK insurance business

Acquirer: **Phoenix Group**
UK-based closed life book consolidator

Deal rationale
Deepening market presence

2 US$2,369m

Target: **Equitable Life**
UK-based closed life mutual insurer

Acquirer: **LCCG**
UK-based closed life book consolidator

Deal rationale
Increased market presence

9 US$42m

Target: **Broker Network**
UK-based network of insurance brokers

Acquirer: **Nevada Holdings**
Investment holding company

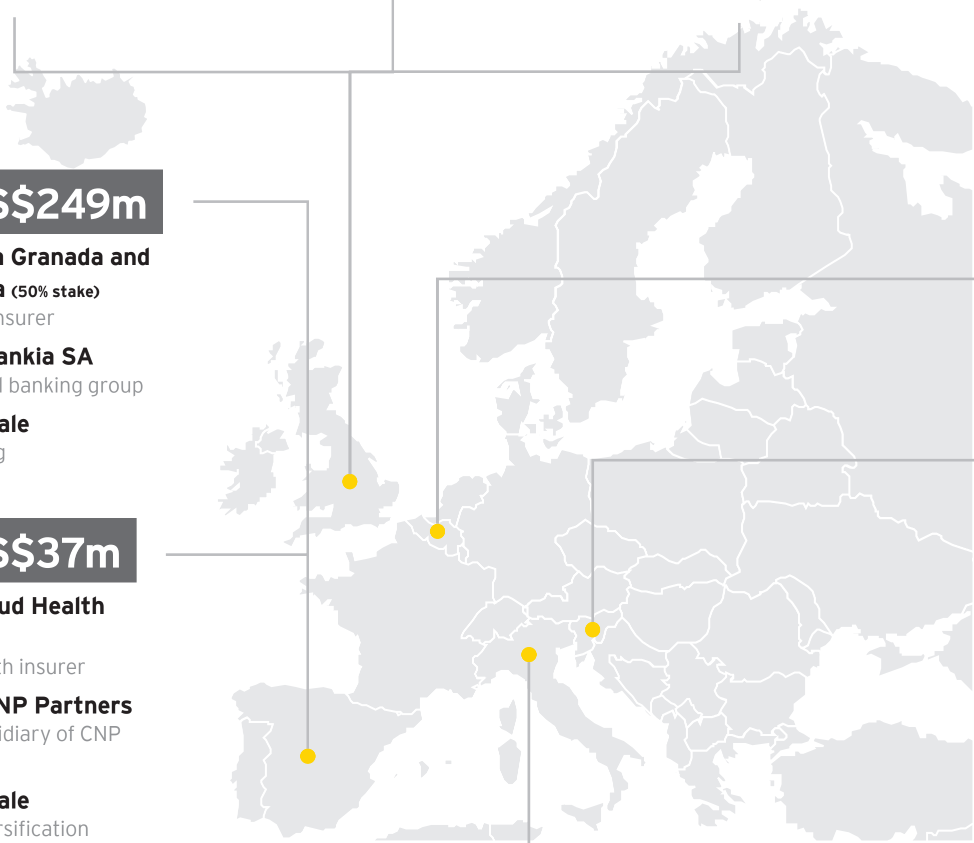
Deal rationale
Ownership consolidation

3 US$668m

Target: **Generali Belgium**
Generali's Belgium operations

Acquirer: **Athora Holding**
Bermudian (re)insurer

Deal rationale
Expand European presence



7 US$249m

Target: **Caja Granada and Caja Murcia** (50% stake)
Spanish life insurer

Acquirer: **Bankia SA**
Spanish retail banking group

Deal rationale
Restructuring

6 US$287m

Target: **Adriatic Slovenica**
Slovenian insurer

Acquirer: **Generali CEE Holding**
Generali's CEE holdco

Deal rationale
Expand market presence

10 US$37m

Target: **iSalud Health Services**
Spanish health insurer

Acquirer: **CNP Partners**
Spanish subsidiary of CNP Assurances

Deal rationale
Product diversification

4 US$469m

Target: **Facile.it Spa**
Italian insurance aggregator

Acquirer: **EQT Partners**
Swedish PE firm

Deal rationale
Financial investment

5 US$454m

Target: **Vittoria Assicurazioni**
Italian insurer

Acquirer: **Acutis Family**
Controlling shareholder

Deal rationale
Ownership consolidation

8 US$98m

Target: **Pramerica Life**
Italian life insurance unit

Acquirer: **Global Bankers Insurance Group**
US-based insurance group

Deal rationale
Geographical expansion

Insurance

Market trends and trading update

- Although European insurance stocks performed positively in 2017 due to **improved economic performance** and large-scale analyst rating upgrades, the first half of 2018 saw a reversal to some of those gains with natural catastrophes relatively benign.
- In the **life and health segment**, the low interest rate environment continued to put pressure on back books of European carriers. Although life insurers have typically resisted transformational solutions to clean up their books, there has been a shift in tone lately as LCCG agreed to acquire closed life mutual UK insurer Equitable Life (US$2.4b).
- Large European insurers are continuing to place greater emphasis on **exiting low return businesses** and, as a result, there are ongoing corporate restructuring processes and identification of non-core assets for disposal. This should fuel deal activity in the short to medium term.
- The question of **"buy or build?"** has become central to many insurance M&A decisions and will continue to underpin consolidation as well as targeted acquisition of capabilities.

In H1 2018, the insurance underwriting segment traded at a two-year forward price-to-earnings (P/E) multiple of 11.6x, marginally higher than the three-year average of 11.5x.

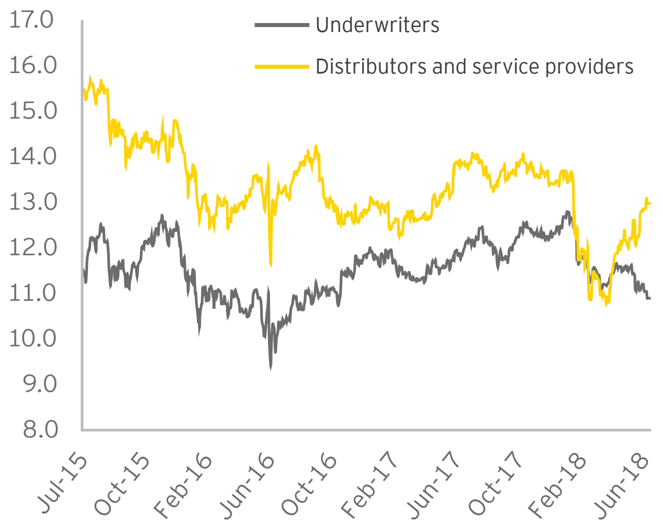
The insurance distribution and service providers segment traded at a P/E ratio of 12.2x, reflecting a discount of 8.5% to the three-year average of 13.3x.

Insurance underwriting traded at a two-year forward price-to-book (P/BV) multiple of 1.6x, a premium of 4.3% on the three-year average (1.5x)

- **InsurTech** players have continued to achieve scale across multiple risk classes. There has been a significant amount of investment from underwriters in disruptive InsurTech businesses. These investments have primarily been made via venture fund structures.

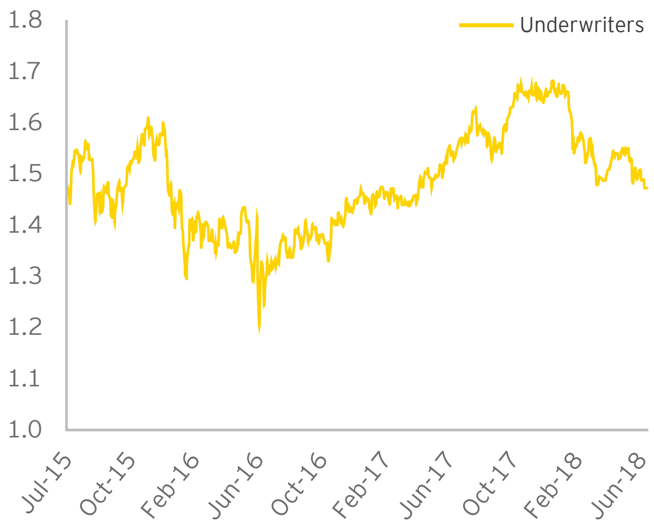
Average P/E (last three years)

FY+2 consensus estimates of selected INS participants



Average P/BV (last three years)

FY+2 consensus estimates of selected INS participants



Source: EY analysis, Capital IQ

Wealth and asset management (WAM)

Wealth and asset management

Transaction highlights

Deal value (US$b)

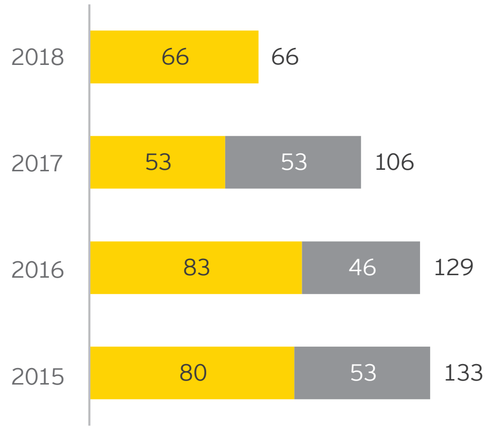
75%

decrease in total value of deals, compared with H1 2017

Deal volume (#)

25%

increase in total value of deals, compared with H1 2017



Although deal volume increased in H1 2018, deal value fell sharply with the absence of large M&A deals during the period.

- **Market consolidation** activity continued with a number of small-to medium-sized deals announced in H1 2018. Selected deals include Oddo BHF's acquisition of Frankfurt-Trust Investment and Federated Investors' acquisition of Hermes Fund Managers.
- Large **European banks continued with restructuring and disposals** of their WAM operations. Key transactions include: Banco BPM's disposal of Aletti Gestielle; Nordea's disposal of its Luxembourg-based private banking business; and AXA's disposal of AXA wealth management. More recently, Commerzbank agreed to sell its EMC business to Societe Generale. In restructuring, Julius Bär acquired the remaining stake in Kairos Investment Management, and UBS merged its US and international wealth management divisions.
- **Financial sponsors remained acquisitive** as French PE firm Eurazeo acquired a 70% stake in rival Idinvest Partners; Dragon Capital acquired Investcapital; and Endeavor Catalyst and Fondazione di Sardegna invested into Moneyfarm.
- The **digital agenda** emerged as an area of focus in H1 2018. The opportunities offered by new technology, as well as the threat from innovative competitors and start-ups, are driving transformation plans, and helped to drive deal activity in H1 2018. Invesco acquired the UK-based advisor-focused digital solutions provider Intelliflo; Standard Life Aberdeen formed a digital fund management services JV with Virgin Money; and Schroders acquired a minority stake in robo-advisor Welnvest.
- **Inbound interest** into the European WAM sector during H1 2018 originated from the Americas and Asia Pacific regions. Fosun Group acquired Guide Investimentos; Federated Investors acquired a 60% stake in Hermes Fund Managers; and Brookfield Asset Management acquired a 25% stake in LCM Partners.

Wealth and asset management

Top ten transactions by disclosed deal value

2 US$350m

Target: **Hermes Fund Managers**
UK-based asset manager

Acquirer: **Federated Investors**
US-based asset manager

Deal rationale
Domestic consolidation and product diversification

6 US$159m

Target: **Speirs & Jeffrey**
Scottish wealth manager

Acquirer: **Rathbone Brothers**
UK-based wealth manager

Deal rationale
Creating cost and revenue synergies

8 US$56m

Target: **Virgin Money UTM**
UK-based pension business

Acquirer: **Aberdeen Standard Investments**
UK-based asset manager

Deal rationale
Product expansion

10 US$25m

Target: **APAM Ltd**
UK-based real estate investment manager

Acquirer: **Catella AB**
Swedish property and fund management service provider

Deal rationale
Product strengthening

5 US$201m

Target: **Ipes**
Channel Islands-based fund administration provider

Acquirer: **Apex**
Bermuda-based independent fund administrator

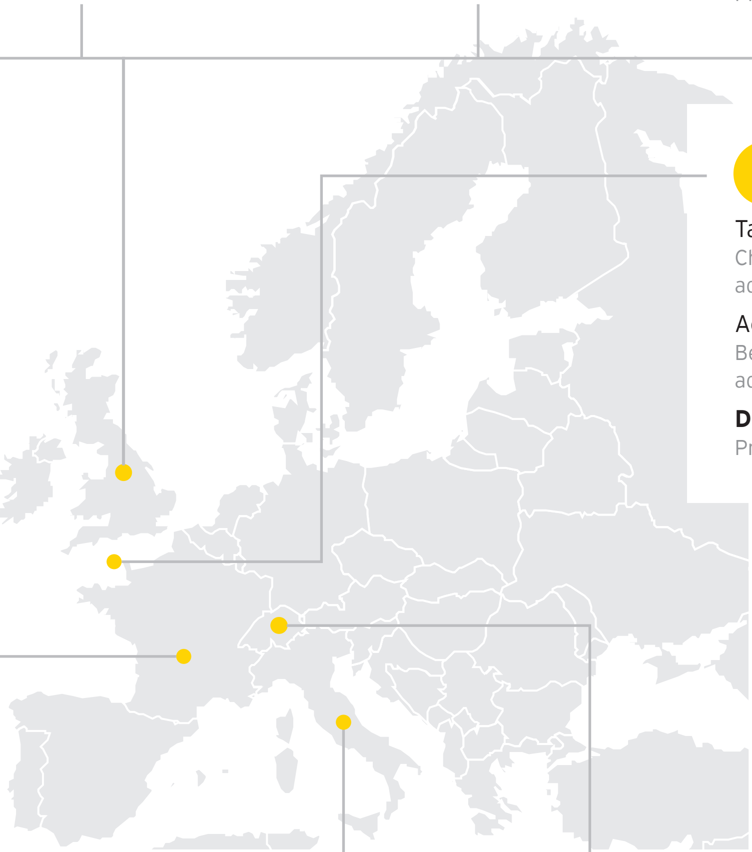
Deal rationale
Product strengthening

3 US$286m

Target: **Idinvest Partners**
French private equity firm

Acquirer: **Eurazeo SA**
French private equity firm

Deal rationale
Product expansion



4 US$246m

Target: **Banco BPM's depositary banking**

Acquirer: **BNPP Securities**
French custodian service provider

Deal rationale
Deepening market position

7 US$114m

Target: **Kairos IM SpA**
Italian wealth manager

Acquirer: **Julius Bär**
Swiss private banking group

Deal rationale
Geographical expansion

9 US$32m

Target: **LB (Swiss) Investment AG**
Swiss fund services business

Acquirer: **LLB**
Liechtenstein-based bank

Deal rationale
Product and geographical expansion

1 US$706m

Target: **Notenstein La Roche Privatbank AG**
Swiss private bank

Acquirer: **Vontobel Holding**
Swiss private bank

Deal rationale
Domestic consolidation

Wealth and asset management

Market trends and trading update

- Organic growth in AuM was variable across European asset managers due to volatile market performance in all asset classes during H1 2018:
  - The market downturn led to a large drop in global equity outperformers.
  - Meanwhile, alternative income assets including infrastructure, real estate and illiquid credits, are attracting interest from institutional investors.
- The volatile and difficult capital markets resulted in smaller wealth and asset managers consolidating into larger peers.
- A number of IPOs were completed in H1 2018, Deutsche Bank floated its asset management unit, DWS on Deutsche Boerse (US$1.8b); Old Mutual's wealth management unit Quilter listed on LSE (US$3.7b); Fund administrator JTC listed on LSE (US$338m) and IntegraFin, the parent company of UK investment platform Transact, listed on LSE (US$249m).
- Managers are focusing on technological advancements including process automation, building and buying digital capabilities. While technology is disrupting traditional business models, disruption will also create opportunities for traditional firms to partner with, or even acquire new start-ups.

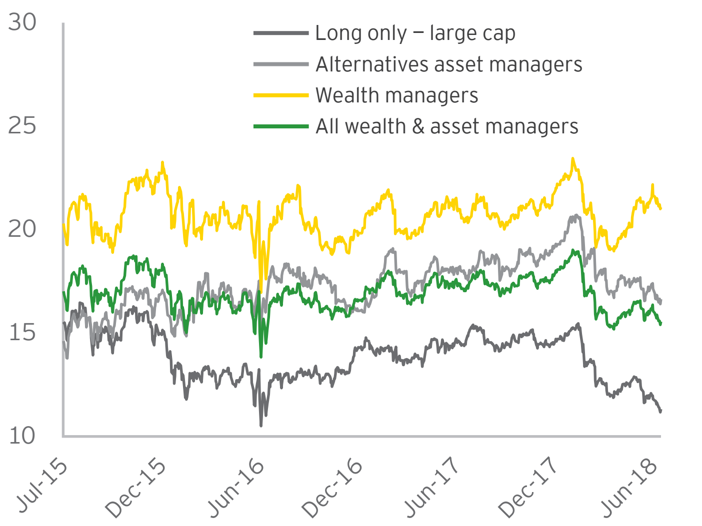
Despite the stronger than expected net inflows, earnings upgrades and M&A announcements, European wealth and asset managers traded at a two-year forward price-to-earnings (P/E) multiple of 15.6x in H1 2018, which corresponds to a discount of 10% on the three year average of 16.9x.

Based on a two-year forward P/E, the valuation of long-only large-cap asset managers, alternatives asset managers and wealth managers during H1 2018 contracted by 22.6%, 14.5% and 5.9% respectively.

From an EV/AuM and EV/Revenue perspective, alternative asset managers remained at the top, with increased European and global capital flows into alternative assets driven by investors' search for yield in a low interest rate environment.

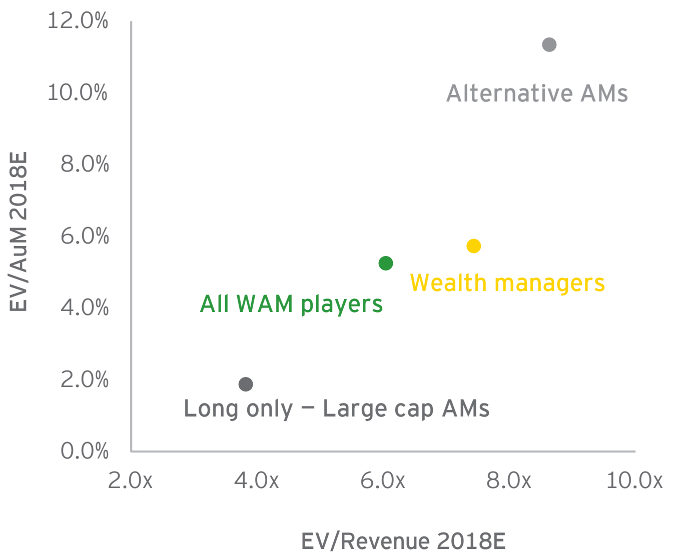
Average P/E (last three years)

FY+2 consensus estimates of selected WAM participants



Valuation by sub-segments

For selected WAM participants



Source: EY analysis, Capital IQ, Company filings

European financial services transactions coverage

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- Financial due diligence
- Valuations and business modeling
- Operational and transaction integration
- Transaction tax
- Transaction real estate
- Restructuring and distressed assets
- Data analysis
- Balance sheet optimization
- Loan portfolio solutions
- Capital debt advisory
- Initial public offering support

People

Our projects are resourced centrally to ensure transaction teams are comprised of individuals with the best experience and recent credentials regardless of location.

We have people who are dedicated to each of our sectors and who are experienced in the sub-sectors and niches within those sectors:

- Banking and capital markets
- Insurance
- Wealth and asset management
- FinTech

Locations

- We have over 500 dedicated financial services transaction professionals, in key cities across Europe.
- We also have strong links with our other financial services-focused transaction teams in Africa, Middle East, India, the Americas, Asia Pacific and Japan.

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Recent publications

Global Banking and Capital Markets M&A themes, 2018

Global Insurance M&A themes, 2018

Global Capital Confidence Barometer, 2018

Global Divestment study, 2018

UK Bridging market study, 2018

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