Sharing deal insight
European Financial Services M&A – Data Card

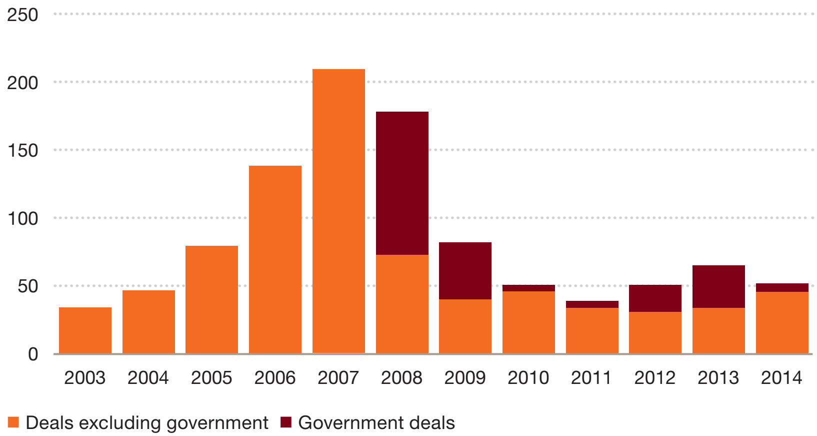
April 2015

2014 Data Card

The total disclosed value of announced European financial services (FS) M&A was €51.2bn in 2014, 21% lower than 2013's figure of €64.9bn.[1] Despite the contrast with reported all-sector European M&A growth of 60%,[2] 2014 was a positive year for European FS deal-making. Government-led transactions were less than a fifth of their 2013 value, while private sector activity increased by 33% to €45.9bn, as high as it has been since the financial crisis (see Figure 1).

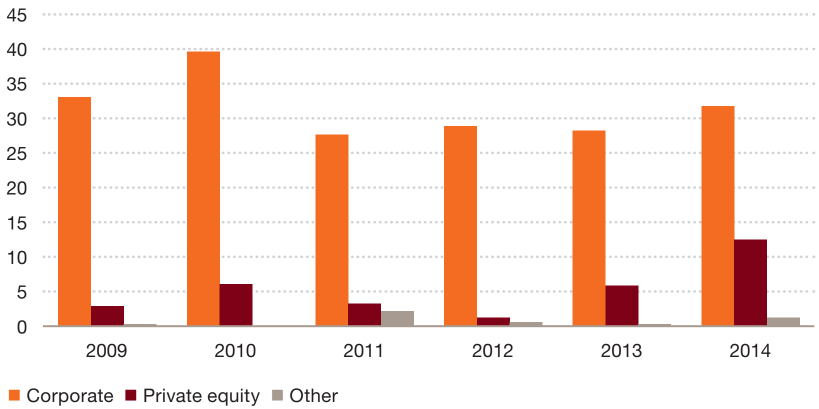
Within that total, corporate transactions grew by 13% to €31.9bn, although one deal – Aviva's €7bn purchase of Friends Life, announced just before the year end – accounted for all of that growth. More notably, private equity-led deals grew sharply, more than doubling to a total value of €12.7bn (see Figure 2). This not only reflected higher numbers of private equity deals, but also higher average values. The simple average of 2014's private equity deal values was €79m, compared with €50m in 2013 and €32m in 2012, and three of the year's ten largest transactions were private equity deals.

Figure 1: European financial services M&A total deal value (€bn), 2003–2014



Source: mergermarket, Reuters, Dealogic, PwC analysis

Figure 2: European financial services M&A total deal value (€bn) by acquirer type, 2009–2014 (Government deals excluded)



Source: mergermarket, Reuters, Dealogic, PwC analysis

1 Deal data is sourced from mergermarket, Reuters and Dealogic unless otherwise specified. For details of our analysis methodology, please refer to the information on page 7

2 Financial Times, 22.12.14

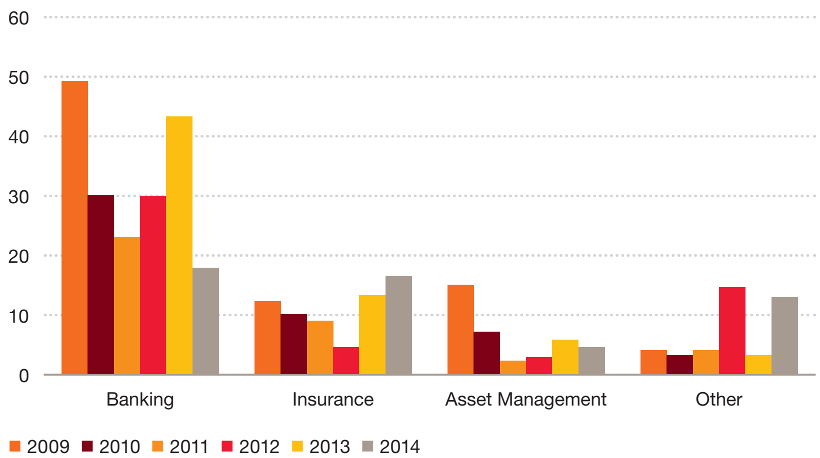
The growth of private equity transactions as a driver of M&A is also visible in the sector breakdown of total deal values (see Figure 3), which shows 'Other' transactions growing by 458% year-on-year to a total value of €12.9bn. This category includes targets in businesses such as payments, transaction banking, debt recovery and consumer lending. All are attractive to private equity buyers looking for targets offering steady cash flows, the potential for capital growth and comparatively low regulatory capital requirements.

Insurance deals enjoyed another strong year with deal values growing 25% to €16.3bn. This not only reflected Aviva's announced acquisition of Friends Life, but also M&A activity in Southern Europe spurred by Solvency II and banking disposals. In contrast, banking deal values fell by 59% to €17.8bn, their lowest total since the financial crisis. However, this is not necessarily a sign of weakness. One reason is that the European Asset Quality Review (AQR) was a major distraction for major eurozone banks, as well as a source of uncertainty for potential inbound acquirers from other regions.

Another consideration is that 2013's banking deal values were inflated by large public sector recapitalisations in Greece, Spain and the Netherlands. In contrast, 2014 saw only one major government-led deal – Portugal's €4.9bn nationalisation of Banco Espirito Santo. With public sector deals stripped out, the total value of private sector banking M&A grew slightly to €12.5bn (2013: €12.0bn).

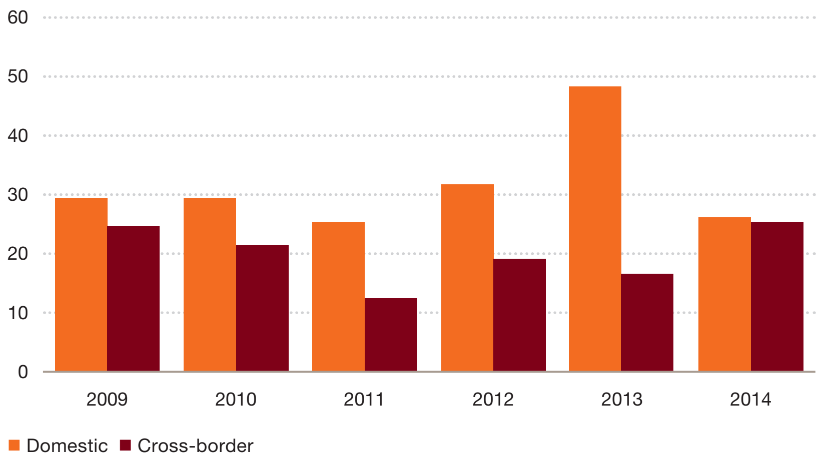
We also note that 2014 saw a marked shift in the balance between domestic deals – which have been in the ascendancy since the financial crisis – and cross-border transactions (see Figure 4).

Figure 3: European financial services M&A total deal value (€bn) by subsector, 2009–2014



Source: mergermarket, Reuters, Dealogic, PwC analysis

Figure 4: European financial services M&A total deal value (€bn), Domestic vs Cross-border, 2009–2014



Source: mergermarket, Reuters, Dealogic, PwC analysis

Figure 5: Top 20 European financial services M&A deals, 2014

Month	Target company	Target country	Bidder company	Bidder country	Deal value (€m)
December	Friends Life	UK	Aviva	UK	7,008
August	Banco Espirito Santo	Portugal	Banco de Portugal	Portugal	4,900
March	Nets Holding	Denmark	Advent, Bain, ATP	UK, US, Denmark	2,282
July	Lindorff	Norway	Nordic Capital	Sweden	1,985
July	Banca della Svizzera Italiana	Switzerland	Banco BTG Pactual	Brazil	1,236
May	Travelex UK	UK	BRS Ventures & Holdings	UAE	1,234
July	Catalunya Banc	Spain	BBVA	Spain	1,187
July	Nationale Suisse (81%)	Switzerland	Helvetia	Switzerland	1,180
February	BRFkredit	Denmark	Jyske Bank	Denmark	1,007
January	Fidelidade, Multicare, Cares (80%)	Portugal	Fosun International	China/Hong Kong	1,000
January	F&C Asset Management	UK	Bank of Montreal	Canada	936
July	GlobalCollect Services	Netherlands	Ingenico	France	820
August	Barclays Bank SAU	Spain	CaixaBank	Spain	800
October	Quilter Cheviot	UK	Old Mutual Wealth Mgmt.	UK	738
June	GE Money Bank	Sweden	Santander Consumer Finance	Spain	700
January	Altamira Asset Management	Spain	Apollo, Canada Pension Plan	US, Canada	664
February	Aktiv Kapital	Norway	Portfolio Recovery Services	US	642
June	TSB Banking Group (35%)	UK	Initial Public Offering	UK	569
January	Standard Bank (60%)	UK	ICBC	China	560
September	Direct Line (Italy and Germany)	Italy, Germany	Mapfre	Spain	550
				Subtotal	**29,998**
				Other	21,228
				Grand total	**51,226**

Source: mergermarket, Reuters, Dealogic, PwC analysis

The decline in domestic deal values is arguably a return to normality after the numerous government-led banking rescues of 2012 and 2013. More interesting is the 52% pickup in cross-border transactions to a total value of €25.3bn. This reflects two major factors:

- Growing cross-border activity within Europe. Firms seeking growth and diversification expanded their foreign operations by acquiring units deemed subscale or non-core by other European institutions.
- Increasing inbound M&A. Private equity acquirers played an important role, but 2014 also saw significant corporate deals involving acquirers from the US, Canada, China and Brazil. Taken together with 2013's major inbound deals from Venezuelan and Japanese bidders, this suggests that Europe remains a key strategic target for financial firms in other regions.

A review of 2014's 20 largest deals (see Figure 5) and other announced transactions allows us to examine the year's M&A trends in greater detail. We see the following themes, some of which we have already touched on, as among the most important:

- **The continuing and growing influence of private equity bidders.** Private equity (PE) -led deals were widespread. Although the UK remained the most active market for PE transactions, Scandinavia saw two deals valued at €2bn or more, and PE transactions valued at more than €200m were also recorded in Austria, Ireland, Italy, Portugal and Luxembourg. PE firms were particularly active in the payments' sector, illustrated by the acquisition of Nets of Denmark by Advent, Bain and local firm ATP (for €2.3bn), and BRS Ventures' purchase of Travelex for €1.2bn.

  Debt recovery firms were also popular targets. Deals included Nordic Capital's acquisition of a majority stake in Lindorff for €2.0bn, Apollo's purchase of Altamira from Santander (€664m), and two mid-market US to UK transactions.

- **European insurance consolidation.** Continuing the deal confidence seen in 2013, acquirers appeared increasingly willing to balance the benefits of expansion and diversification against their concerns over the possible effects of Solvency II. Aviva's blockbuster €7.0bn acquisition of Friends Life led the field, but other markets including Germany also saw life insurance run-off deals. Helvetia's acquisition of Nationale Suisse for €1.2bn was another big domestic transaction.

  Bancassurance generated several transactions during the year, especially in Southern Europe. CNP Assurances invested €290m in a 51% share of a new pan-European joint venture with Santander Consumer Finance, and Zurich acquired the insurance business of its Spanish partner Banco de Sabadell for €107m. In contrast, other deals saw insurers retreating from bancassurance in Spain, Italy and Portugal. One example saw Barclays take control of its collaboration with CNP for €453m.

  The year also saw several significant cross-border transactions including Mapfre's €550m acquisition of Direct Line's operations in Germany and Italy, and Allianz's €440m purchase of Unipol's P&C unit Milano.

- **Inbound corporate acquisitions from outside Europe.** US-based PE houses were not the only buyers from the Americas to invest in European FS targets during 2014. One corporate buyer was Banco Pactual of Brazil, which boosted its wealth management capabilities with the €1.2bn acquisition of Banca della Svizzera Italiana from Generali.

  Chinese companies made major European acquisitions for the second year running. Banking giant ICBC took control of Standard Bank's UK operations for €560m, and made another acquisition in Turkey. In Portugal, conglomerate Fosun acquired the previously nationalised Fidelidade and its related insurance operations from Caixa Geral de Depositos for €1.0bn. Insurance group Anbang made two complementary acquisitions in Belgium, buying Delta Lloyd's Belgian bank for €219m and insurance broker Fidea for an undisclosed sum.

- **Domestic banking consolidation in selected markets.** Russia generated more FS deals than any market except the UK, during 2014. Banking was the dominant sector, but the majority of deals were between private companies and deal values were rarely disclosed. Spain saw further in-market consolidation including BBVA's agreement to acquire Catalunya Banc from the FROB rescue fund for €1.2bn. In Denmark, Jyske Bank led the field, adding property lender BRFkredit to its recent acquisitions for €1.0bn. Italy also saw a number of mid-market banking transactions during 2014.

- **Divestment of non-core banking businesses.** Subscale banking operations continue to change hands, especially retail units in non-core markets. One example was Santander Consumer Finance's acquisition of GE Money Bank in Sweden for €700m. Another cross-border deal saw Credit Mutuel acquire Portuguese consumer finance unit Banif Mais from Banco Internacional do Funchal (€410m). British banks were among the largest sellers. CaixaBank acquired Barclays' Spanish retail and corporate banking business for €800m, while Lloyds raised €569m through its IPO of a 35% stake in TSB Banking Group.

- **Interest in digital business models.** The year saw a number of significant M&A transactions involving online and other digitally focused targets. French payment specialist Ingenico's acquisition of Dutch e-commerce payment specialist GlobalCollect for €820m was one of 2014's larger deals. Alternative investment firm Varde Partners acquired a 51% stake in Bancopopular-e com for €510m, while BNP Paribas took control of German online securities broker DAB Bank for €354m.

- **Asset management consolidation in the UK and throughout Europe.** The UK was the leading driver of European asset management M&A during the year, building on several major transactions in 2013. Bank of Montreal's inbound acquisition of F&C Asset Management for €936m was the year's largest deal. Domestic transactions included Old Mutual Wealth Management's acquisition of Quilter Cheviot (€738m) and Standard Life's agreement to buy Ignis Asset Management (€467m). A number of other European markets including Germany, Switzerland, Spain and Turkey also saw significant asset management deals announced. One of the largest was Zuricher Kantonalbank's acquisition of local rival Swisscanto for €300m.

Looking Ahead

What about the outlook for 2015 and beyond? We see a number of reasons – both 'push' and 'pull' – to be hopeful that 2014's improvement in M&A will continue.

To begin with, the need for economies of scale, capital efficiency, risk diversification and revenue diversification mean that the long-term strategic rationale for consolidation within all subsectors of European FS remains strong. There is still a significant need for banking restructuring across Europe, particularly in comparatively fragmented markets such as Spain, Germany and Italy.

Furthermore, PE firms in Europe and elsewhere continue to hold significant available funds to put to work in an environment where interest rates remain low and debt is accessible.

Major banks, insurers, pension funds and sovereign funds from outside Europe also have surplus funds to invest. Many are relatively new to investing in European FS and we expect 2014's inward investment flows to continue, particularly from markets such as China, the Middle East and Canada.

Regulatory change is also likely to remain a key driver of M&A. This reflects several factors:

- The full impact of the European AQR has yet to be felt. Now that the process is over, we expect to see a backlog of transactions emerge from the pipeline. In addition to bank mergers and portfolio deals, the disposal of owned insurance units and other captive businesses is highly likely.
- The advent of a single European supervisory mechanism for the largest banks should help to provide a more level playing field for M&A.
- Many insurance groups, particularly in Southern Europe, are still assessing the potential operational and capital impacts of Solvency II, due to enter force in January 2016. Disposals and other M&A are almost certain to be a strategic option for firms seeking to meet the new requirements at this relatively late stage.

Lastly, we note that the past two years have seen steady growth in European mid-market FS transactions (see Figure 6). This implies that 2014's recovery in private sector deal values reflects growing momentum across the M&A spectrum, not just a handful of high-profile deals.

Figure 6: Mid-market financial services M&A deals, 2012–2014

	2012	2013	2014
Number of deals valued at €250m – €999m	21	31	42
Number of deals valued at €100m – €249m	23	35	35

Source: mergermarket, Reuters, Dealogic, PwC analysis

Of course, we are all too aware that deal confidence can evaporate as quickly as it appears. At the time of writing, geo-political concerns such as the direction of oil prices, Russia's involvement in Ukraine and the possibility of a Greek exit from the eurozone seem the most likely sources of volatility and uncertainty. That suggests that the development of European FS M&A during 2015 will owe as much to politicians as it will to business leaders.

Methodology

This data card is not intended to provide a record of completed transactions. It includes FS deals:

- reported by mergermarket, Reuters and Dealogic;
- announced during 2014, and expected to complete;
- involving the acquisition of a >30% stake (or significant stake giving effective control to the acquirer); and
- acquisitions of Europe-based FS targets where a deal value has been publicly disclosed.

Our analysis excludes deals that, in our view, are not 'pure' FS deals involving corporate entities, or entire operations, e.g. real estate deals and sales/purchases of asset portfolios where the disclosed deal value represents the value of assets sold.

Figure 7: European financial services deals – half-yearly summary

Deal value in € billions	H1 2012	H2 2012	FY 2012	H1 2013	H2 2013	FY 2013	H1 2014	H2 2014	FY 2014
Asset management	0.5	2.0	2.4	4.1	1.8	5.8	2.1	2.0	4.2
Banking	10.4	19.5	29.9	31.7	11.6	43.3	4.7	13.2	17.8
Insurance	2.0	2.3	4.3	6.0	6.9	13.0	4.2	12.1	16.3
Other	9.3	5.1	14.4	0.9	1.9	2.8	7.5	5.4	12.9
Total deal value	**22.2**	**28.9**	**51.0**	**42.6**	**22.3**	**64.9**	**18.5**	**32.7**	**51.2**
Corporate	17.0	11.9	29.0	13.2	15.1	28.3	10.7	21.2	31.9
PE	0.2	1.1	1.3	1.2	4.8	6.0	7.2	5.5	12.7
Government	4.5	15.6	20.1	28.2	2.0	30.2	0.0	5.3	5.3
Other	0.5	0.2	0.7	0.0	0.4	0.4	0.6	0.7	1.3
Total deal value	**22.2**	**28.9**	**51.0**	**42.6**	**22.3**	**64.9**	**18.5**	**32.7**	**51.2**
Domestic	8.9	22.7	31.6	33.9	14.4	48.3	5.5	20.5	26.0
Cross-border	13.4	6.0	19.4	8.6	7.9	16.5	13.0	12.3	25.3
Total deal value	**22.2**	**28.9**	**51.0**	**42.6**	**22.3**	**64.9**	**18.5**	**32.7**	**51.2**

Source: mergermarket, Reuters, Dealogic, PwC analysis

Note: may contain rounding errors

About this report

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