



Mergers & Acquisitions

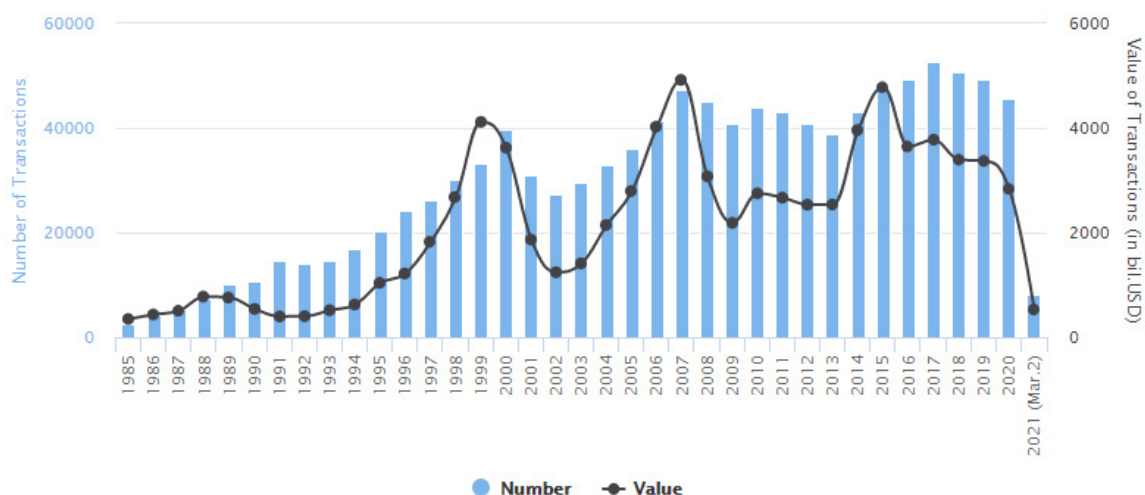
On the brink of a boom



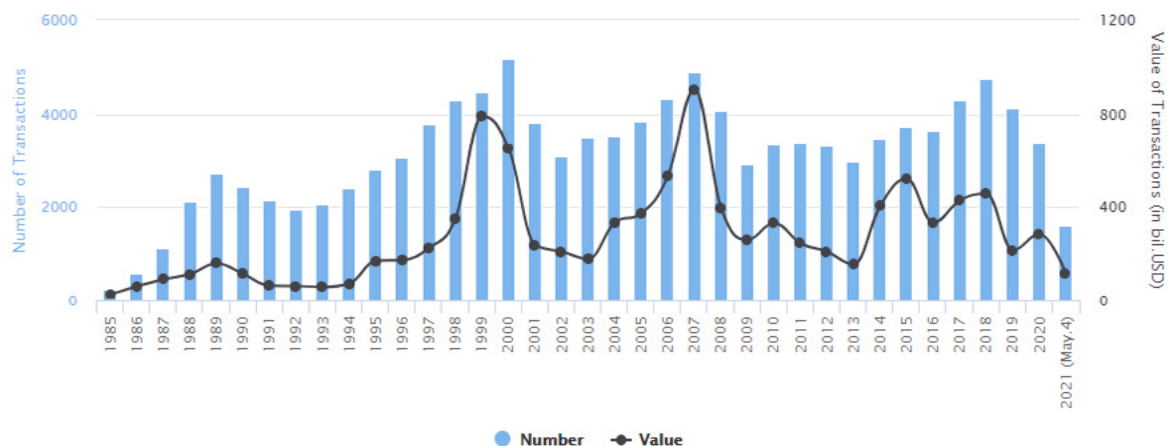
Lessons from the past

If you plot global Mergers & Acquisitions (M&A) activity over time, a very clear pattern emerges - economic downturns are followed by spikes in M&A. Focusing on the UK alone, the Institute for Mergers, Acquisitions and Alliances (IMAA) data reveals exactly the same trend: with the five increases in M&A activity (in 1986, 1994, 2003, 2009 and 2014) each linked to an economic crisis.

Mergers & Acquisitions worldwide:



Mergers & Acquisitions United Kingdom:



Source: Institute for Mergers, Acquisitions and Alliances (IMAA)¹

This raises a burning question: With the global economy ravaged by the pandemic, are we set for a new boom in M&A?

To answer that question, we need to analyse the trend and explore the correlation, and to do that, we need to examine the detail of when this happened in the past.

The 1980s

The deregulation in the 1980s, and particularly the 'Big Bang' in 1986, brought huge changes to the financial markets in London. Many of the smaller older firms were taken over by large institutions, which began to diversify and expand their operations overseas. The stock market crash of 1987 wiped around 30%² off values in the US and the UK and created even more opportunities for well-capitalised investors.

This period saw many of our big domestic banks expand their activities and their international footprint.

- **NatWest** expanded its American subsidiary — **NatWest USA** — by acquiring **First Jersey National Bank** in 1987 and neighbouring **Ultra Bancorp** in 1989. These acquisitions gave NatWest USA 285 branches throughout the North-East and around \$20 billion in assets.
- **RBS** launched the insurance firm **Direct Line** in 1985 and acquired the **Citizen's Bank** – based in Rhode Island USA – in 1988.



The 1990s and turn of the century

The mid-90s brought more consolidation, with institutions focusing on distribution and creating economies of scale.

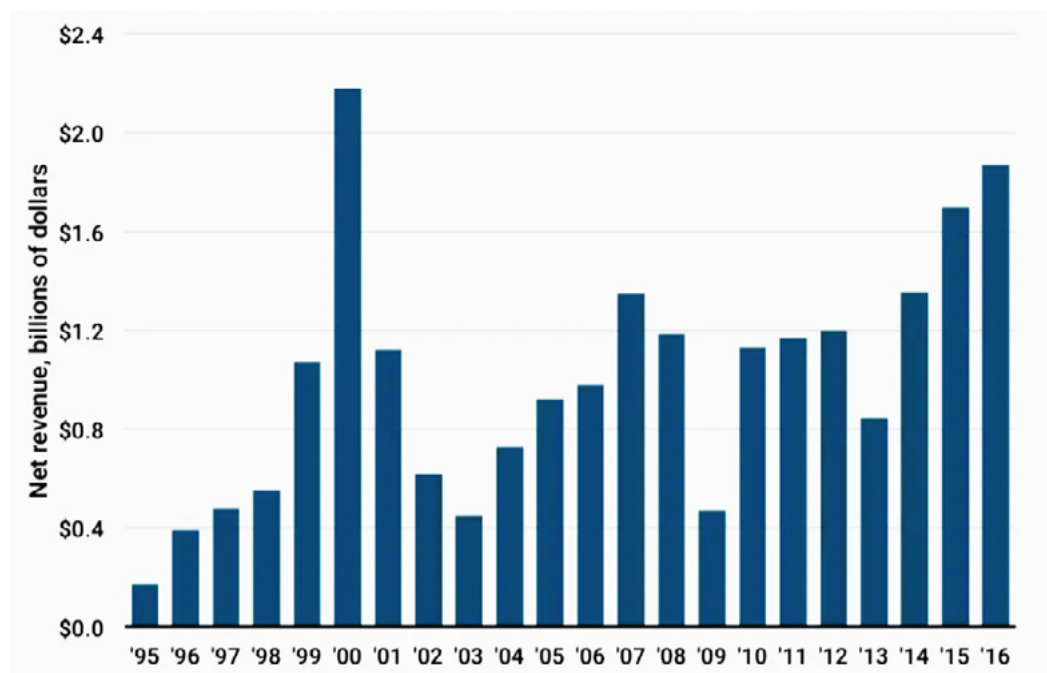
- In 1995, **Lloyds Bank** merged with **TSB**.
- After **Barings Bank** failed, it was bought by **ING** for the nominal sum of £1 – an early example of the acquisition of a distressed business.
- In 2000, **RBS** acquired **National Westminster**, after competition from the **Bank of Scotland**, which then merged with **Halifax** to form **HBOS**.

The end of the 1990s saw something of a 'tech boom' which, fuelled by the growth of the internet, also brought M&A deals. For example, in the US in 2004, the internet security company Symantec acquired data storage firm Veritas Software for \$13.5 billion, creating what was at the time, the fourth largest software company in the world.

This 'tech boom' powered the march of Microsoft, Amazon and Apple, in part by acquisition.

- **Microsoft** bought **WebTV** in 1997, later rebranded as **MSN TV**. A year later they bought **LinkExchange** and **Hotmail**, and a year after that bought **Visio**, the design and charting software business.
- **Apple** acquired Steve Job's **NeXT Computer** in 1997 for \$429 million, and the NeXTSTEP operating system replaced Mac OS in Apple hardware. Later that same year, they bought **Power Computing Corporation** in a move that removed a competitor and acquired the skills and experience of their employees. Then in 1999, they acquired graphic chip designers **Raycer Graphics**, to strengthen the 3D capabilities of Apple computers.
- **Amazon** made three strategic acquisitions in 1998: **Telebook**, **IMDb** and **Bookpages**, which at that time was the largest online bookstore in the UK.

Global tech M&A:



Source: Business Insider³

The early 2000s

Scale remained the focus throughout the early-to-mid 'noughties' as the world recovered from the Russian and Asian financial crisis - when the Rouble devalued and, in the four largest Association of Southeast Asian Nations (ASEAN) economies, foreign debt and GDP ratios rise from 100% to 180%.

In Financial Services, international deals increased again.

- In 2002 and 2003, **RBS** acquired the credit card and personal loans portfolios of Frankfurt-based, **Santander Direkt Bank** (which became **Comfort Cards**), and grew their **Citizens** franchise in the US by the acquisition of the **Mellon Group**. They also purchased **Churchill Insurance** and the Irish mortgages business, **First Active**.
- In 2004, **Santander** acquired **Abbey National** to gain a foothold in the UK.
- In 2007, **RBS** announced a partnership with **Santander** and **Fortis** aimed at acquiring **ABN Amro** in what proved to be an ill-fated deal for Fortis and RBS.

This phenomenon is examined by investment banker Daniel Alpert in his 2013 book, 'The Age of Oversupply'. Faced with oversupply, companies sought to improve returns by hoarding cash, conducting stock buybacks and acquiring companies. He said that regardless of the headwinds, CEOs are still expected to deliver profits to their shareholders and show a record of improvement, and that for mature firms, the easiest way to get back into growth was to acquire a start-up or to merge with a competitor. This was certainly the case in what seemed like a 'golden period' - where global growth was seen as desirable and big financial institutions joined a race to increase market cap.



2009 to 2014

In his ten years at the Treasury, Gordon Brown vowed there would be no return to boom and bust, but the perfect storm of 2007 triggered an international financial crisis that required the bail-out of some of the best known banks. The crisis also led to huge disposals by the bailed-out banks as big financial institutions sought to recapitalise.

The earlier 'golden period', now raised the question of banks being 'too big to manage'.

Of course, the financial crisis also affected smaller players. The post-crisis regulatory shake-up led to the formation of the PRA and FCA in 2013, which brought more prudent loss provisioning and the enforcement of stricter capital ratios.

In the years that followed, many smaller banks and building societies struggled, leading to an increase in M&A.

- **Santander** bought **Alliance & Leicester** for £1.3 billion and then merged it with their UK business formed from the acquisition of **Abbey** and the savings book acquired as part of **Bradford & Bingley**.
- By the end of 2008, **Nationwide Building Society** had taken over **The Derbyshire Building Society** and **The Cheshire Building Society** to create a society with assets totalling more than £191 billion, with retail deposits of £122 billion. The group had 15 million members and just over 1,000 branches. Also, in 2009, Nationwide received £1.6 billion from the Government to achieve the 'distressed' acquisition of **Dunfermline Building Society**.
- **Co-operative Bank** acquired **Britannia Building Society** in 2009 (after Britannia itself acquired **Bristol & West** in 2007).
- **Yorkshire Building Society** (YBS) and **Chelsea Building Society** merged in April 2009, giving them around 2% of the UK mortgage market. Then in April 2011, they merged with **Norwich & Peterborough** to create a combined entity with 3 million members and 224 branches.
- In 2009, **Skipton** completed a merger with **Scarborough** creating a top five building society with around 860,000 members and £16 billion of assets.
- Lastly, **Coventry Building Society** acquired the **Stroud & Swindon Building Society** in 2010 acquiring a mortgage book of £3.3 billion and increasing their total assets to £22 billion.

Transactions over this period mopped up some of the smaller mutuals and is, at least in part, reflected in the marked growth in assets amongst the top players. The extent of consolidation in the building societies sector is evidenced too by the fact that over a ten-year period only 44 out of an original 60 societies remain.

2008	Asset value (£m)	2018	Asset value (£m)
Nationwide Building Society	202,361	Nationwide Building Society	238,301
Britannia Building Society	37,216	Coventry Building Society	46,071
Yorkshire Building Society	23,032	Yorkshire Building Society	43,055
Coventry Building Society	17,364	Skipton Building Society	23,204
Chelsea Building Society	14,651	Leeds Building Society	19,390
Skipton Building Society	13,647	Principality Building Society	9,687
Leeds Building Society	10,137	West Bromwich Building Society	5,554
West Bromwich Building Society	9,196	Nottingham Building Society	4,054
Principality Building Society	6,399	Newcastle Building Society	3,698
Newcastle Building Society	5,093	Cumberland Building Society	2,577

Sources: Statista⁴ and BSA⁵

The challenges of this period presented opportunities both for specialists and speculators.

- Challenger banks acquiring a banking licence. For example, **Virgin Money** acquired a banking licence in 2010 with their acquisition of **Church House Trust** before acquiring **Northern Rock** from the UK Government in 2011.
- Joint Venture exits. For example, with **Tesco** buying their Joint Venture partner (**RBS**)'s share in **Tesco Bank** and migrating services during 2009-11 to create a wholly owned subsidiary. **Sainsbury's** achieved a similar result by unhooking **Sainsbury's Bank** from its partnership with **LBG**.
- In 2010, **Kent Reliance Building Society** was bought by **JC Flowers** — a US private equity firm — for £50 million to form **OneSavings Bank**. This transaction also provided JC Flowers the banking licence they needed to operate and expand in the UK.
- Lastly, in 2012, **Pepper**, a specialist in commercial lending & advisory, bought **GE**'s Irish mortgage portfolio for €600 million – a 60% discount on 'face value'. Pepper also took over the servicing for these customers and GE's portfolio of personal, small enterprise and auto loans.

This tumultuous time also saw banks settling some of the bets taken during the ‘age of oversupply’.

- In 2013, **RBS** completed the sale of 252.3 million ordinary shares in **Direct Line Insurance Group** — which included **Churchill Insurance** and **Green Flag** — at a price of £2.01 pence per share, raising £507 million. This sale was part of RBS’s disposal strategy, mandated by the EU, covering the sale of ‘non-core business units’.
- In 2013, **HSBC** sold \$3.2 billion in US consumer loans. And in 2017, they reduced their US mortgage presence by selling \$4.9 billion in mortgages to **Credit Suisse**. This brought **HSBC Finance’s** (a subsidiary of HSBC) mortgage book to only \$2 billion, down significantly from \$117.7 billion in 2008.
- Lastly, in 2019, **Santander Bank** sold 14 of their US branches, located in central Pennsylvania, to **First Commonwealth Bank** as they intensified their focus on their home market of Iberia, along with the UK and South America.

The crisis in the financial services sector triggered a spate of start-ups, many driven by technology. Hedge funds, private equity firms, sovereign wealth funds and institutional investors looked for opportunities to create short to medium term value.

- Investment firms taking a stake in challenger banks. **RBS Equity Finance** (later spun off and renamed **Pollen Street Capital**) bought **Whiteaway Laidlaw Bank** from **Manchester Building Society** in 2011 and renamed it **Shawbrook Bank**.
- Qatar’s national wealth fund, **Qatar Investment Authority** (QIA), bailed out **Barclays Bank** in 2008, saving them from a taxpayer bail-out along the lines of **RBS**, **LBG** and **Northern Rock**.
- In 2018, **Tandem Bank** bought **Harrod’s Bank** (also owned by **QIA**), with Tandem partially funding the acquisition through the sale of shares to QIA and **Pollen Street Capital**.



This period also saw a lot of portfolio transactions within the Financial Services sectors as companies realigned for risk, term and 'right sized' their balance sheets.

- In 2014, **Cerberus Global Investors** bought **National Australia Banks'** non-performing UK commercial real estate loan book for £625 million. This facilitated the Initial Public Offering (IPO) of **CYBG** from National Australia Group.
- In 2017, **UK Asset Resolution** (UKAR) sold another £5 billion block of crisis-era mortgages. The bank was the body formed by the Government to buy the loan books of **Northern Rock** and **Bradford & Bingley** after the two firms hit the financial buffers at the height of the 2008 financial crisis.
- In September 2019, **Lloyds Banking Group** bought **Tesco Bank's** £3.7 billion UK residential mortgage portfolio.
- In September 2020, **M&G plc** announced its acquisition of the UK Wealth Management platform, **Ascentric**, from the **Royal London Group** for £15.5 billion. The acquisition extended M&G capabilities to offer third-party discretionary fund management services, as well as ISA, Sipp and General Investment Account wrappers on a single platform.
- **NatWest** bought a £3 billion owner-occupied mortgage portfolio from **Metro Bank** at a premium, in December 2020.
- In February 2021, treasury officials negotiated the sale of another £5 billion of **UKAR's** remaining loan book to a consortium comprising **Davidson Kempner Capital Management** and **Citibank**.

From adversity emerges opportunity

Currently, we are seeing the UK economy trying to ride-out the pandemic. The success of the vaccine roll-out is bringing fact-backed hope and, in the UK and elsewhere, Governments and central banks have pulled multiple levers to support households and businesses and stimulate the economy. These are unparalleled times, of course, with record levels of central debt, interest rates close to zero, the rise of China as a superpower to rival the US and international businesses shopping for the best tax environments.

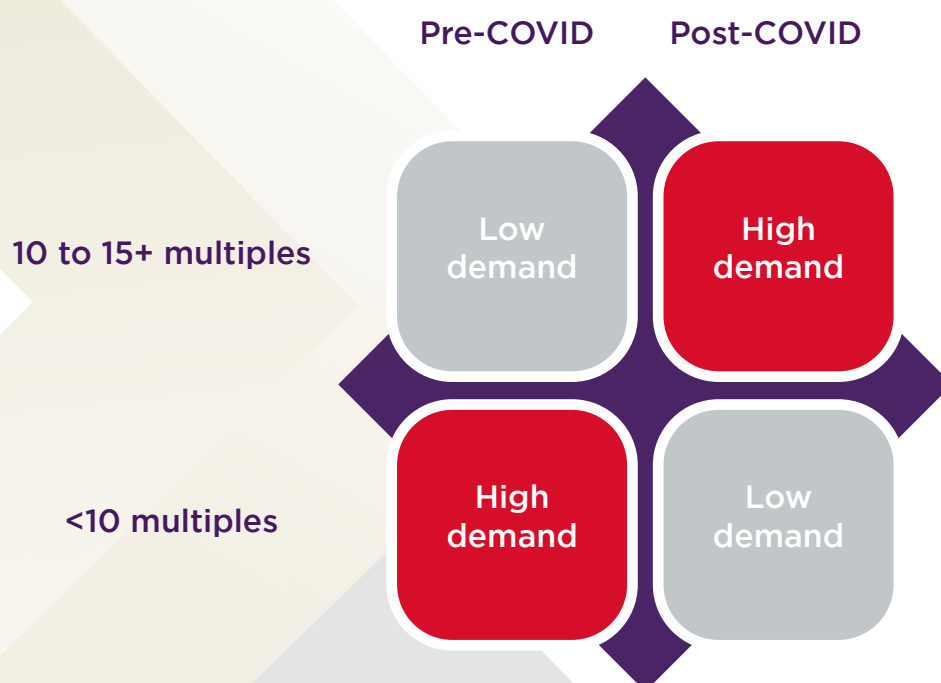
For the UK, it is all of this, plus Brexit. Despite all of the Government-backed measures, the 'locked-down' UK economy shrank by 1.5% in the first quarter of 2021⁶, with unemployment rising by 4.9%⁷.



Trading performance

COVID-19 has changed trading performance and many business models, and this will flow through to the market valuation (typically, a multiple is applied to historical earnings - EBITDA).

However, importantly, where the pandemic has materially changed trading, this will have created a short-term disparity between seller's and buyer's valuations and expectations.



Private equity prominence

Another emerging theme is the prominence of private equity, as the top ten US private equity fundraisings reached a combined total of almost \$80 billion. Also, private equity buyouts in the UK grew to a highest quarterly deal-count, creating a new Mergermarket record in the first quarter of 2020, with a total spend of £20.5 billion across 132 deals⁸. This trend has continued into 2021 and the pace of dealmaking which, according to Dealogic, has not seen since 2007. This has resulted in 113 UK deals at a combined value of £23.3 billion so far this year⁹.

Private equity firms have now spent at least £10 billion in the UK¹⁰, in six of the last eight quarters and, after a sizeable decrease in the first half of last year, private equity exits have now increased considerably. Of the ten largest PE-related transactions in 2020, eight were exits. In contrast, in 2019, only four of the top ten PE deals were exits.

The total exit value for 2020 reached \$314 billion – up 14% on the year before¹¹.

Wealth and asset management

Elsewhere, the wealth and asset management sector is highly active with IFAs, Wealth Managers and investment platforms all in play, with some sizeable moves having already been made.

- In March 2019, the private equity firm **Epiris** acquired the **IFG Group** – parent of **James Hay** and **Saunderson House** – and then built on this transaction in May 2021 by acquiring the **Nucleus investment** platform in a £144.6 million deal. This created an independent adviser platform with about £45 billion of assets under administration (AUA).
- In March 2021, **Royal London** acquired a 30% stake in later-life lending and product specialists, **Responsible Life** and **Responsible Lending** – together, the **Responsible Group** – predicting that later-life lending will become a “core part of financial planning”.
- Then in April 2021, **Canaccord Genuity Wealth Management** entered into an agreement with **NatWest** to acquire its private client investment management business **Adam & Company**, with £1.7 billion of assets under management (AUM) for £54 million.
- And finally, in May 2021, **Mattioli Woods** bought **Maven Capital Partners** for £100 million, plus **Ludlow Wealth Management** for around £43.5 million. These are strategic transactions that aim to integrate asset management, financial planning and employee benefit services for personal and corporate clients.

Some firms are also looking to narrow their strategic focus and are offloading assets to do so.

- **SLA** has agreed to sell their name and residual life & pensions business to **Phoenix Group**. This takes things much further than the original strategic partnership between Phoenix and SLA – that committed both to a 10-year asset management partnership. The deal will allow Phoenix to control its own distribution, marketing and brands, and focus the strategic partnership on using SLA’s asset management services in support of Phoenix’s growth strategy.
- And as **HSBC** continue to shift focus to Asia, it is looking to sell assets in the US and Europe. They are also currently in talks to sell their French retail network to **Cerberus** and to shift over \$100 billion of risk-weighted assets to Asia.
- Lastly, **Aviva** has sold eight businesses across France, Italy, Asia (to name a few), in order to focus on its key markets of the UK, Ireland and Canada. These sales are expected to raise £7.5bn, with Aviva claiming that it plans to return excess capital to shareholders¹².

Fintech acquisition

Large incumbents have recently been acquiring more fintech companies.

- In 2020, **American Express** acquired **SoftBank**-backed **Kabbage**. Here, Amex has said it has “millions” of small business customers and the addition of Kabbage’s loan and other financial services tools shows that it plans to double-down on that sector with much broader offerings.
- Also, in 2020, **Macquarie** bought Australian data centre firm **AirTrunk** for \$2.1 billion.
- And in February 2021, **Equifax** acquired **AccountScore** to bolster capabilities such as Open Banking and insights. Integration of these data companies will enable customers to take advantage of new technological features allowing for more automated identity and verification (ID&V) and more inclusive credit scoring.

Value chain buildouts

There are also examples of value chain buildouts by incumbent banks to operate across savings, loans, pensions and investments – spanning self-service to advice.

- In February 2020, **Morgan Stanley** bought **E-Trade** for \$13 billion in a bid to tap into online traders and supplement its traditional full-service-advisor-driven model with E-Trade’s direct-to-consumer, digitally-driven offering. The move also added E-Trade’s US stock plan business to Morgan Stanley’s Shareworks, helping the bank to push its workplace offering through online brokerage and banking capabilities.
- There is also speculation that **Lloyds Banking Group** is eyeing-up **Embark**, to buildout their asset management business after their well-publicised dispute with **Standard Life Aberdeen**. Asset managers **BlackRock**, **Franklin Templeton** and **Legg Mason** all hold minority stakes in Embark, as does the platform technology firm **FNZ** – which also provides services to Embark. Embark only took over **Zurich**’s adviser platform in 2020.

Consolidation

We are seeing consolidation in the asset management sub sector too, which increasingly operates with an international rather than national or regional focus.

- Although **Aegon** agreed the acquisition of **Cofunds** for £140 million in 2016, the migration was only completed in 2019. At the time, the deal made Aegon the largest advised platform provider in the UK, with combined AUA of around £86 billion. This also signposts the trend towards consolidation enabled by low-cost platforms driving down client portfolio charges.
- In August 2020, **Franklin Templeton** bought **Legg Mason** for \$4.5 billion, making Franklin one of the top twenty asset managers in the world, with around \$1.5 trillion of AUM.
- **Liontrust** bought **Architas** – **Axa Group**’s multi-manager business – for £75 million in July 2020, in a deal that increased their total assets to £26.8 billion and helped diversify their fund range. As a result, Architas’ target risk portfolios and risk profiled, income-generating and specialist funds will be rebranded as Liontrust products. Discussing the deal, John Ions, the Liontrust CEO said, “by offering both risk profiled funds and target risk portfolios, we will help advisers meet their suitability requirements”.
- Lastly, in March 2021, **Morgan Stanley** purchased **Eaton Vance** for \$7 billion. Eaton Vance held \$500 billion in assets with the deal creating a \$1.2 trillion asset management division. The deal also furthers Morgan Stanley’s presence in institutional investing, wealth management and investment management.

Making it happen, making it work

At the same time, of course, history tells us that M&A is not easy and that the promise of a union does not always translate into early success. There are many examples of deals that have just not worked out for the best.

Flawed strategy or misjudged speculation

Businesses can overpay for innovation or new product lines. They can also be exposed when the market fails to embrace their bright new thing, or simply turns in a different direction. Berkshire Hathaway has an incredible record, but even Warren Buffet – the Oracle of Omaha and probably the world's most celebrated stockpicker – can call it wrong and dumped their holding in airlines mid-pandemic, just months after increasing their stakes. Softbank have also frequently flipped recently acquired stakes in chip makers, like Arm, and mobile phone operators, like Sprint.

Insufficient due diligence

Deals will also go wrong when the acquiring businesses fail in their due diligence and simply do not understand the operational complexity of a merger, or the commercial risk of the deal. In 2008, RBS's disastrous acquisition of ABN Amro unravelled very quickly as bad debt provisions and write-offs mounted up, and after the Dutch state rescued ABN in 2008, it led to RBS writing off £16 billion worth¹³ in bad debt mainly due to loans given out by ABN.



Complexity

Complexity can often lead to challenges when businesses try to integrate. As an example, the Santander acquisition of Abbey was fraught with difficulties: the technology platform needed to be replaced; Abbey's wholesale bank needed to be wound down; the life division was wounded by capital requirements and was sold off to Resolution; and the retail bank needed a complete overhaul. During an integration process, which lasted several years, 10,000 staff lost their jobs and for many years, the bank was rated among the worst for customer service. Also, huge capital expenditure was needed to implement 'Partenon' – the transformational IT platform imported from Spain.

Interestingly though, viewed from here and now, rather than there and then, the acquisition is seen as a success because Santander UK ended the process in good shape and strong enough to be able to capitalise on other banks' misfortunes after the 2007/08 banking crisis.

A further example of complexity hampering transactions, is when RBS had to scrap the carve-out of W&G, which was given as a sanction by the European Commission (EC). The EC approved the Alternative Remedies Package, which in response to RBS's proposed W&G divestment plan, encourages competition in the market for banking services to small and medium-sized enterprises. Despite this, RBS had to write-off £345 million in separation costs⁶⁵ as the legacy IT cost challenges and specific requirements of multiple customer segments proved too much for them to bear. As the RBS Board stated at the time, “the risks and costs inherent in the programme are such that it would not be prudent to continue with this programme.”

Elsewhere, TSB's ‘one and done’ migration to the Sabadell platform caused long-lasting failures, directly affecting customers, rather than being managed more judiciously through a phased migration.

Lastly, the merger of Aberdeen Asset Management and SLA resulted in its market value plummeting from around £13 billion in October 2017 to just short of £6 billion¹⁴. Darius McDermott, managing director of Chelsea Financial Services, has said that the main issue with the SLA union was size. He said that with big companies, with multiple funds and products, it takes time to integrate different cultures, and different investment platforms¹⁵.

Different cultures and legacy systems seem to be a large hurdle for companies to overcome when dealing with a merger.

Culture

Mergers also fail due to the cultural differences of the merging businesses, like when AOL acquired Time Warner for around \$165 billion – one of the largest mergers in history. Many thought the cultures were similar, but the President of Time Warner post-merger said it was, “beyond my abilities to figure out how to blend the old media and the new media culture.” Mixing cultures proved their biggest hurdle – one they were never able to clear – and as a result, the businesses brought together for wedded bliss, now live separate lives.



The appetite is still there

But despite all these obvious challenges, the upsides of M&A can be great, and companies such as JP Morgan have said recently that they are fully alert to M&A deals. Or, as their Chief Executive Jamie Dimon put it, “the line is open” for new deals.

Lessons from history

It is important to consider the lessons from history, and how trusted partners in a deal can stop history repeating itself.

- Financial, Cultural and Operational due diligence is key to draw out any potential areas of disconnect, and where extra consideration is needed up-front.
- Aligned to this, there is a need for a thorough assessment of underlying conduct and prudential risks – to consider issues that could have a detrimental effect on customer or regulatory remediation. These issues are crucial from a financial cost perspective and because of reputational risk.
- Businesses should also carry out technological and systematic risk assessment — to develop a clear understanding of how these components fit together and what the 'end-state' architecture will look like. In reality, this may present a degree of complexity but can certainly be addressed if issues are identified and analysed upfront.
- As with any change, and in particularly those that are large enough to be considered transformational, it is vital to have a clear vision and strategy – coupled with a detailed roadmap for delivery.
- Also, an implementation roadmap should detail the planned approach to migration - whether as a phased approach or a 'big bang'. This needs careful thought and detailed planning to make sure that key systems, processes, and people are considered at every stage of the integration.
- Any merger or acquisition should be underpinned by a carefully thought-out and clearly defined Target Operating Model (TOM) – that includes the desired short, medium or long-term view of business and the extent to which core business areas or functions are fully, or partially, integrated. Shared Services functions are often the most viable option and can achieve additional benefits of improving efficiency, maintaining quality, and managing costs.
- After the initial due diligence phase, businesses often underestimate or overlook the complexities of cultural change and people engagement planning. People are such an important part of any organisation and it is vital to have them onside during, and after, any transition. People do not like change at the best of times, and they like it even less when it feels forced on them — especially when jobs are at stake.
- Lastly, it is vital to have a clear communication plan — both upfront and ongoing. This is essential to engage internal and external stakeholders and to manage their specific, often different, expectations along the way.





Predicting the future

In this time of the pandemic, and the resulting economic slowdown, we expect to see higher levels of M&A activity and many more forced sales of distressed assets.

This is on top of other trends present pre-COVID — notably digitisation and consolidation in pursuit of economies of scale. These issues move the goalposts for investors.

Add to this the fact that, according to PwC, companies have, “an accumulated war chest of more than \$7.6 trillion in cash and marketable securities”¹⁶, which predicts a big surge in deals after the pandemic. Also, the London Stock Exchange quotes that IPOs have accounted for 43% of total capital raised across Europe in the year to date¹⁷. This might suggest the larger companies are preparing to acquire weaker companies, or they are preparing for issues that may interrupt their revenue stream in the future. In addition to all of this, of course, interest rates remain at record lows.

In Q1 2021, there have already been 25 IPOs in London, raising an aggregate £7.2 billion¹⁸. And in 2020, high-growth tech and consumer internet companies accounted for 40% of the capital raised on London’s markets¹⁹. This momentum has increased in Q1 2021, with 10 IPOs raising £3.2 billion²⁰. These include the Danish online review platform Trustpilot — £1 billion market capitalisation — and the food delivery company Deliveroo, which became the largest admission on the main market since 2013. Interestingly though, Deliveroo fell by 30% on its debut, leading to a full £1 billion being shaved off its value after their market capitalisation briefly exceeded £8 billion.

The pandemic has also seen the increased use of technology, with the consumer sector experiencing many more customers switching their spending online. As a likely consequence of this, there has been a lot of capital raised in the consumer and technology sectors — to fund deals or Capex. This activity has included the IPOs for iconic footwear company Dr Martens (£1.48 billion capital raised); the online auction firm ATG (£300 million capital raised); the international gifting platform Moonpig Group (£540 million capital raised); and the personalised fashion marketplace, Lyst (£60 million capital raised).

Finally, the increasing popularity of Special Purpose Acquisitions Company (SPAC) is likely to increase acquisition activity further. As at March 2021, 258 global SPAC IPOs had come to market, compared with a total of 256 for the full-year in 2020²¹. SPACs simplify and speed up the deal process, with a SPAC deal taking, on average, 3-6 months compared to a regular

IPO often taking up to 18 months to finalise. For example, one upcoming SPAC deal is for the banking app Dave, which involves a \$210 million investment from Tiger Global Management with further investment from Wellington Management and Corbin Capital Partners.

To look ahead, in the Financial Services sector, we expect to see certain dominant themes, many of which expand on the evidence already available.

- Inorganic R&D acquiring innovative companies, their intellectual property and key personnel.
- Acquisition of distribution and particularly IFA and wealth businesses — to gain control of clients and their AUM. Here, to justify the M&A overheads, the most attractive targets will be those with AUM of c.£1 billion or more.
- Further consolidation of mid-size banking players — **Co-op, Metro Bank, TSB and Virgin Money** — and possibly some of the building societies, although these are less likely targets unless the deal is triggered by distress.
- Large Financial Institutions acquiring technology firms — fintech, regtech and insurtech — as a means to digitise, improve effectiveness and lower their cost:income ratio.
- Hedge funds, private equity houses and institutional investors looking for distressed assets at a discount, or to build out their portfolios with similar or complementary entities.
- Portfolio acquisitions — both of distressed assets (to potentially include business interruption loans) and by big banks, particularly those that are ring-fenced, to use surplus funding from the savings balances built up by many customers during the pandemic.

We also anticipate more ‘strategy plays’ — either to simplify the sprawling behemoths, or to build the value chain for strategically important business lines. This will build strength across digital distribution, data management, to diversify interest and fee income and to control the levers for them to optimally manage their balance sheet. Here, for example, the majority of banks decommissioned their bancassurance and IFA arms post-the Retail Distribution Review and the FCA issuing many hefty fines to punish mis-selling and other compliance failures. Many of these banks will be considering entering partnerships or, again, building out their value chain by acquiring asset managers or investment platforms. These deals will effectively rebuild their savings-to-investment continuum and capitalise in the substantial growth in savings balances during 2020 and 2021.

Finally, there is also a question as to whether we will see a weakening correlation of the UK to global economy and deal trends on the back of deglobalisation during, and after, the pandemic, and as a result of Brexit. On Brexit though, we will make no rash predictions. On Brexit, only time will tell.



Get in touch

If you would like to discuss any aspect of the topics which we have covered, then please get in touch with a member of our Financial Services team.



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