



**STIKEMAN ELLIOTT**

STIKEMAN ELLIOTT LLP

# UK Financial Services M&A: A Perspective for Canadian Investors

13<sup>th</sup> November 2013

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M&A activity	13
Fund Management analysis	20
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## Presentation objectives

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- Provide you with an overview of the UK Financial Services sector
  - Composition
  - M&A activity
- Look at the Canadian influence on the market
- Introduce you to a powerful analytical and networking tool (IMAS-insight)

# Leading players in the UK financial services M&A industry

Independent advice, backed by strong focus and culture, brings results for our clients

## Our focus

- We provide vendors of businesses with independent advice, exclusively focused in the UK financial services sector, typically in the £5m-100m enterprise value range

## Our culture

- Focus on providing bespoke process
  - Optimising client objectives (Value, confidentiality and certainty)
- Dedicated senior level attention
  - Partners typically from 'bulge bracket' investment banks
  - Partners involved in day-to-day execution / client management
- Knowledge leadership
  - Complete up-to-date mapping of the industry and market dynamics (sources: FCA, Companies House)
  - Experience and insight into key industry / sector issues
- Shared goals
  - Provision of independent conflict-free advice
  - All partners participate in profits and equity

## Key proposition

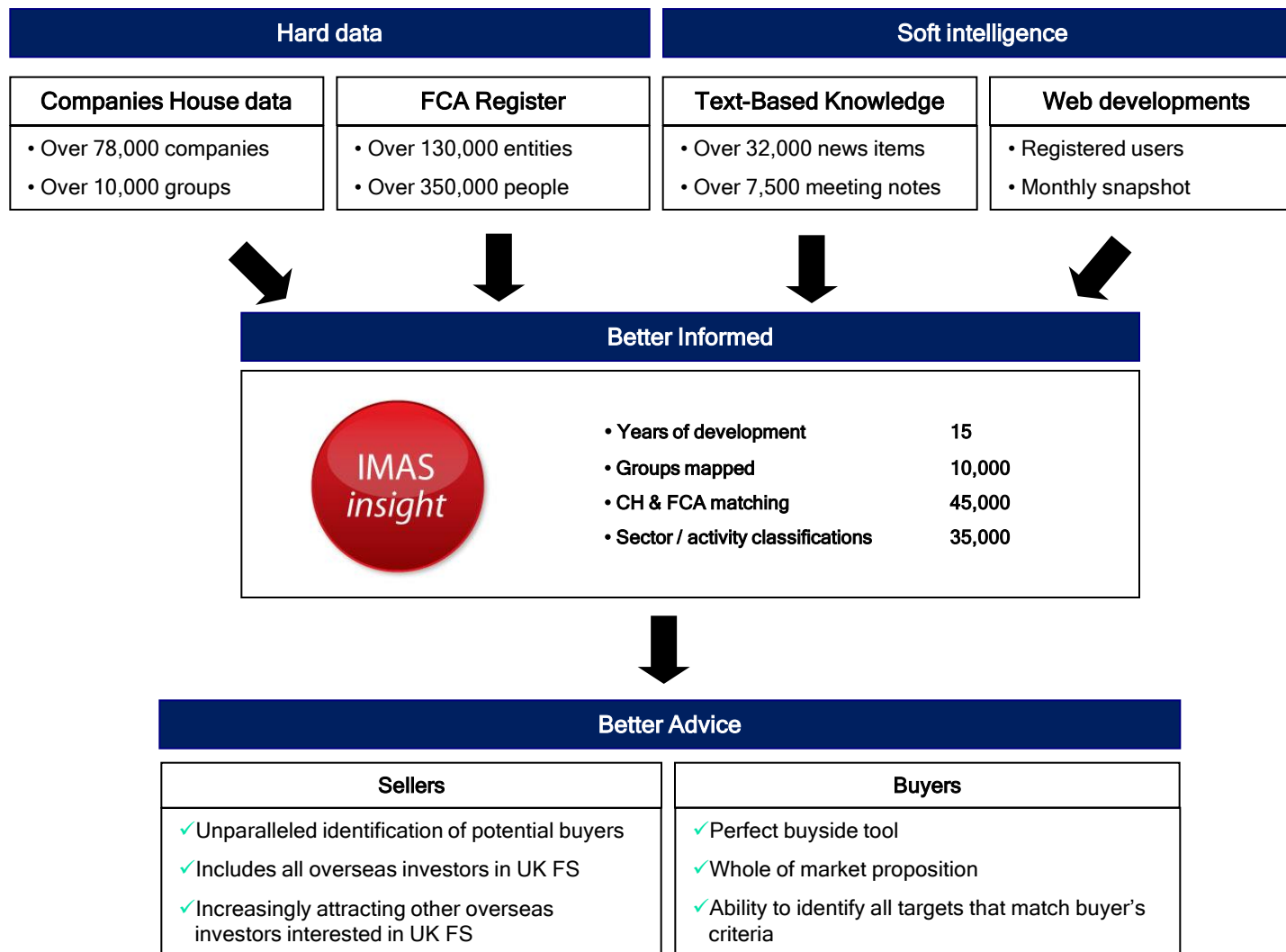
- We have an unmatched capability to identify potential buyers and sellers of UK financial services businesses

## Our results



# IMASinsight – proprietary ‘mapping’ 100% of the UK FS industry

Unique tool able to assist buyers and sellers alike



# Complete mapping enables targeting by subsector, size and ownership

We have applied our overlay – adopted by other organisations

## Lending / Distribution

Mortgage/Secured personal lending  
Other Lending Distributor  
Unsecured personal lending  
Commercial Finance Broker

## Lending / Risk

Banks: Corp. and Retail  
Banks: Representative  
Building Society  
Commercial Property Lending  
Consumer Finance  
Invoice and Receivable  
Finance/Factoring  
Leasing and Asset Finance  
Other Risk Bearing Lending  
Private Bank Lender  
Residential Mortgage Lending  
Securitisation Vehicles/SPVs  
Specialist Corporate Lending  
Premium Finance  
Credit Union  
Bridging Finance

## Lending / Services

Debt Collectors/Debt Purchase  
Debt Management  
Administration

## Support Services / Financial Technology

Data Analytics  
Payment Providers  
Technology: Insurance Related  
Technology: Investment Related  
Technology: Lending related  
Technology: Trading

## Support Services / Outsourced Services

Business Process Outsourcing  
Compliance Providers  
Corporate Services  
Credit Assessment  
Financial Research  
Fund Administration  
General  
Industry Association  
Other Financial Services  
Pension Administration  
Risk Management

## General Insurance / Distribution

Commercial Lines Broker  
General Insurance Network  
In-House Broker  
Lloyd's Broker  
Other  
Personal Lines Broker  
Reinsurance Broker  
Specialist Broker  
Underwriting Agent  
Wholesale Broker

## General Insurance / Risk

Captive Insurer  
Mutual/Friendly  
General Insurer  
Healthcare Insurer  
Insurer in run-off  
Lloyd's Insurer  
Lloyd's Corporate Member  
Service Company  
Non life Mutual  
Other  
Personal Lines  
Reinsurance  
Specialist Insurer

## General Insurance / Services

Assistance  
Insurance Claims handling  
Health Care Related  
Loss adjuster/Assessor  
Related Business  
P&I Club Manager  
Risk Management  
Run-off Management

## Investment / Advice

Corporate Finance  
Fund Manager  
Hedge Fund Manager  
Other Financials Advisory  
Private Client Wealth Manager  
Private Equity  
Actuary

## Investment / Distribution

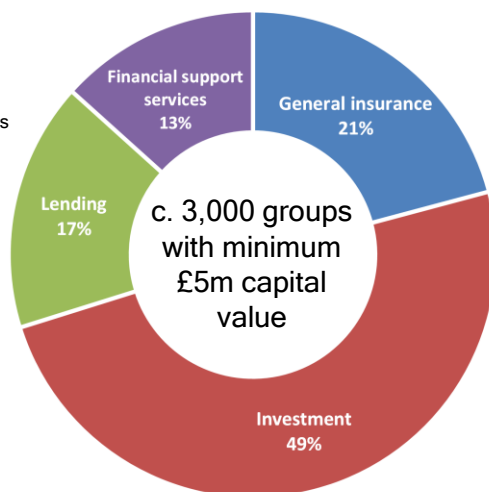
Employee Benefits  
Health Insurance  
IFA Business  
IFA Network  
Tied Adviser

## Investment / Product

Life Company  
Life Mutual  
Investment and Unit Trust

## Investment / Trading

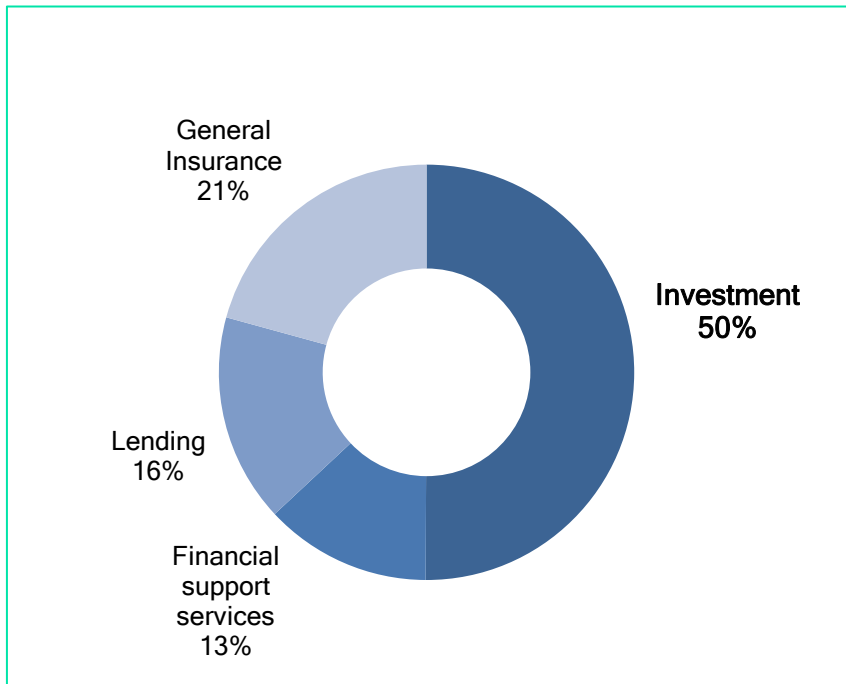
Commodity or Futures  
Broker/Trader  
Endowment Dealers  
Interdealer Broker  
Niche Traders  
Other Trading Operations  
Stockbroker  
Foreign Exchange Dealers  
Investment Bank



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## Comparative importance of sectors

### The UK Financial Services sector

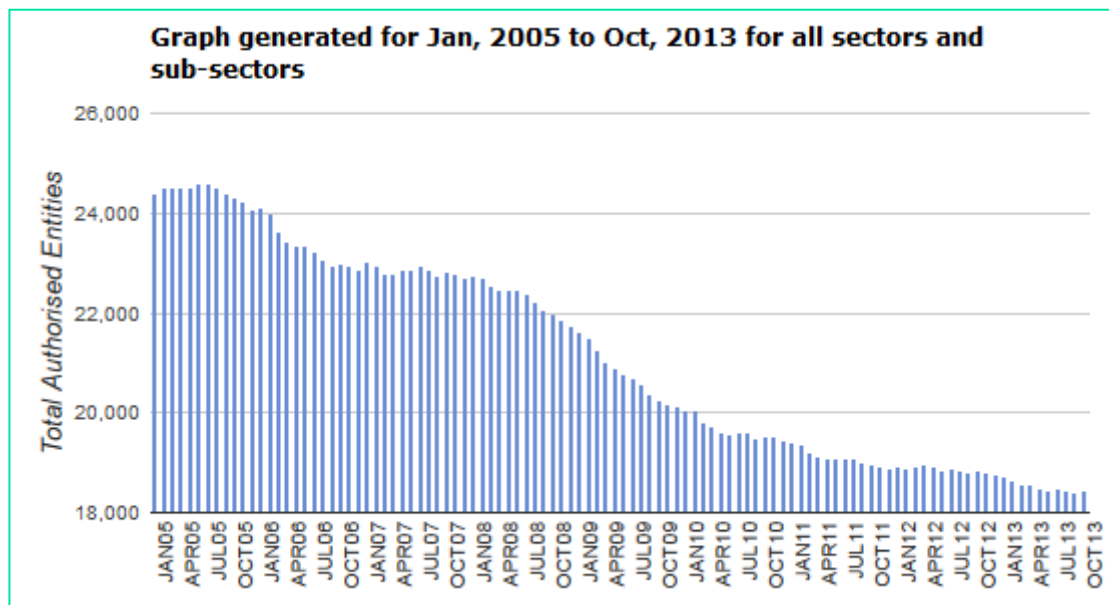


(Number of authorised entities with approximate value of over £5 million)



# Number of approved entities

## A steady decline

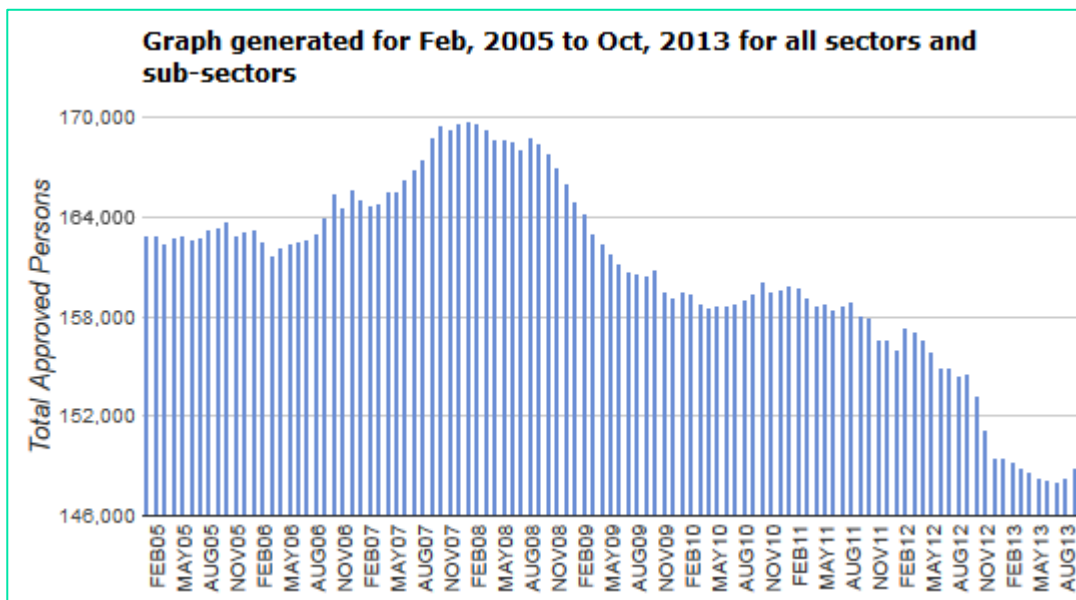


### Drivers:

- Consolidation
- Closures
- Inappropriate authorisation

# Number of Approved Persons

## A decline arrested?



Peaked in February 2008 at 169,700, now 148,876

- 12% fall
- Are we seeing a recovery?

## Ownership of the sector

### UK FS sector is international

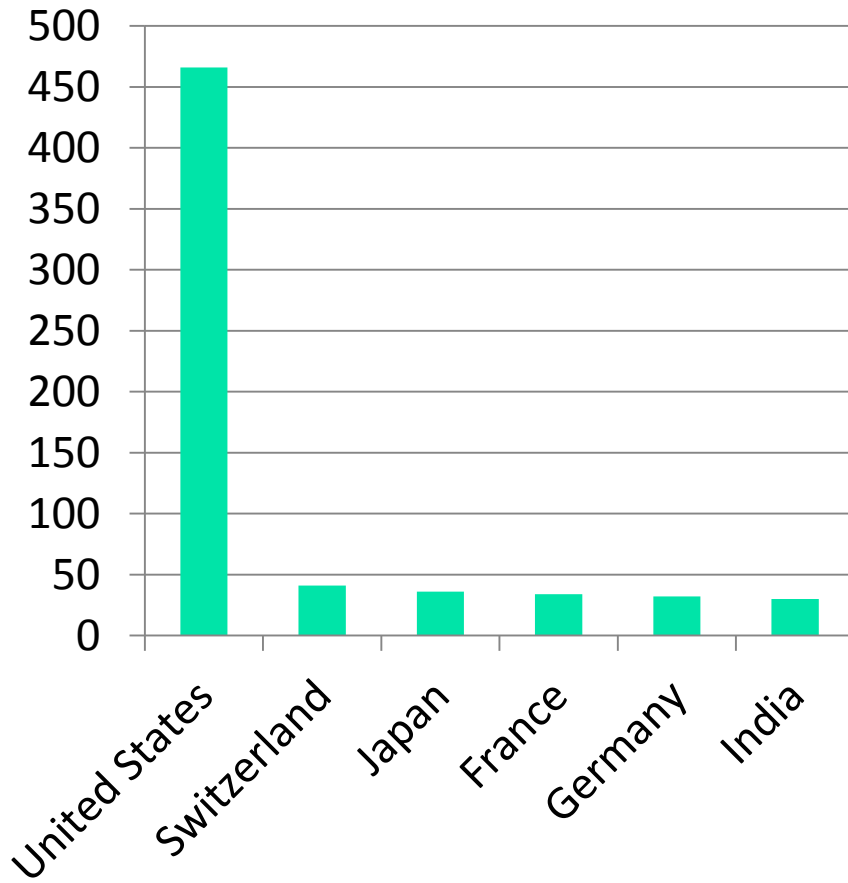
#### Ownership of the UK financial services sector

	UK quoted	Privately held	Widely held	Overseas owned	Private equity	Mutual/ friendly	Other	Total
<b>£100+ million</b>	89	88	19	276	59	39	29	<b>600</b>
<b>£25 - 100 million</b>	40	237	31	271	64	51	11	<b>707</b>
<b>£5 - 25 million</b>	29	1,000	56	440	59	152	31	<b>1,764</b>
<b>Total</b>	<b>158</b>	<b>1,325</b>	<b>106</b>	<b>987</b>	<b>182</b>	<b>242</b>	<b>71</b>	<b>3,071</b>

Source: IMAS-insight

- Overseas ownership stands at 46% for the larger entities
- Smaller companies are 57% privately owned
- Only 5% of all FS groups are quoted

## Overseas Ownership by Country in October 2013

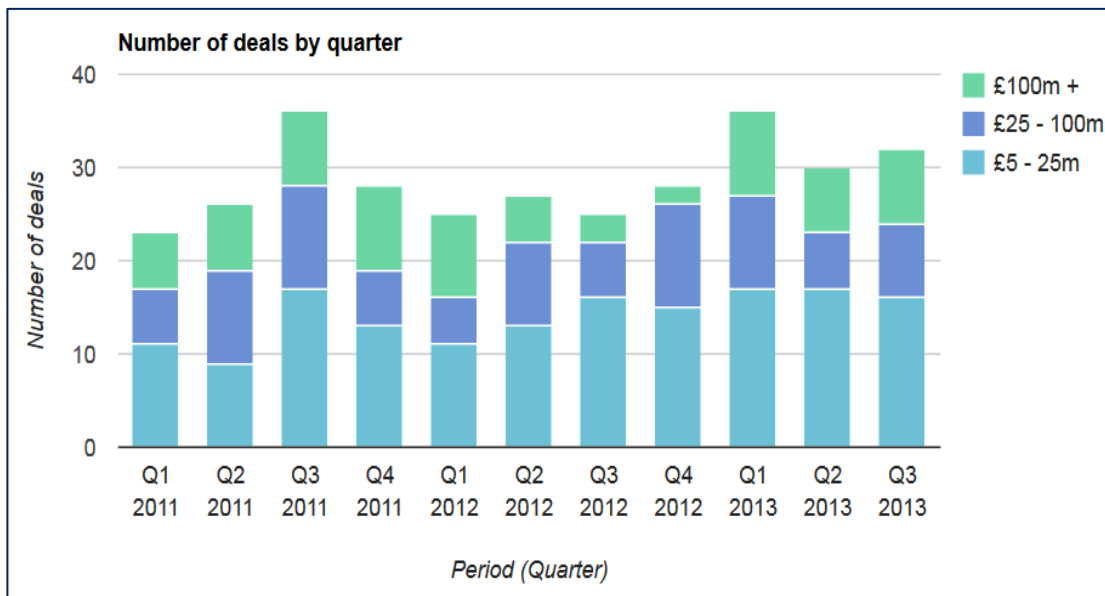


- The dominance of the US is extraordinary
- The US accounts for 47% of all overseas investment

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## M&A activity by volume

### M&A is a lagged indicator of confidence

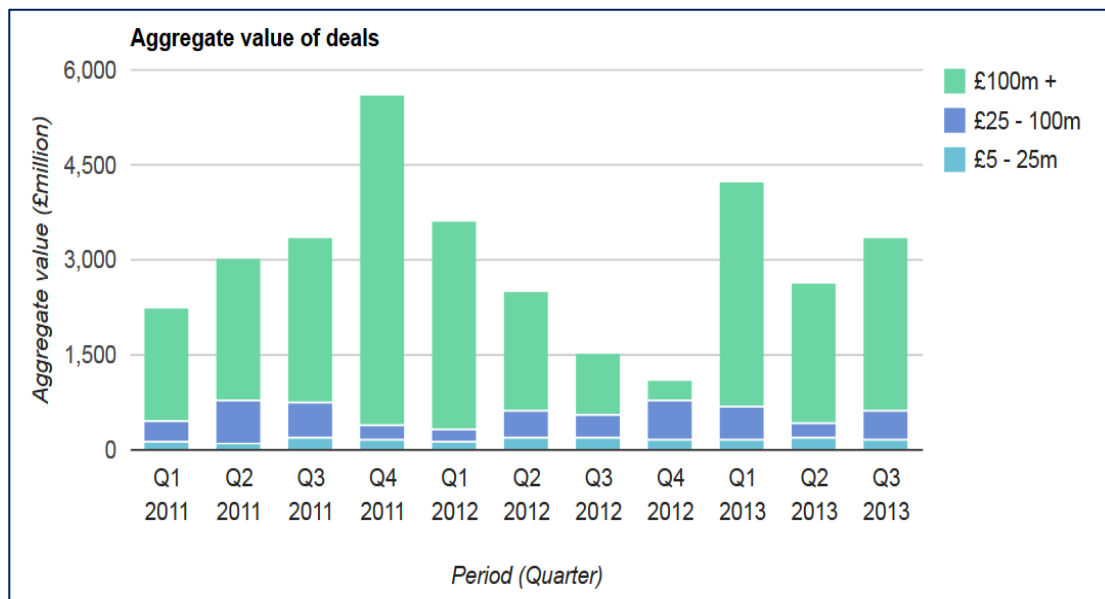


Suggests a slow rise in confidence

Current opportunities significantly increased

## M&A activity by value

Value far more volatile

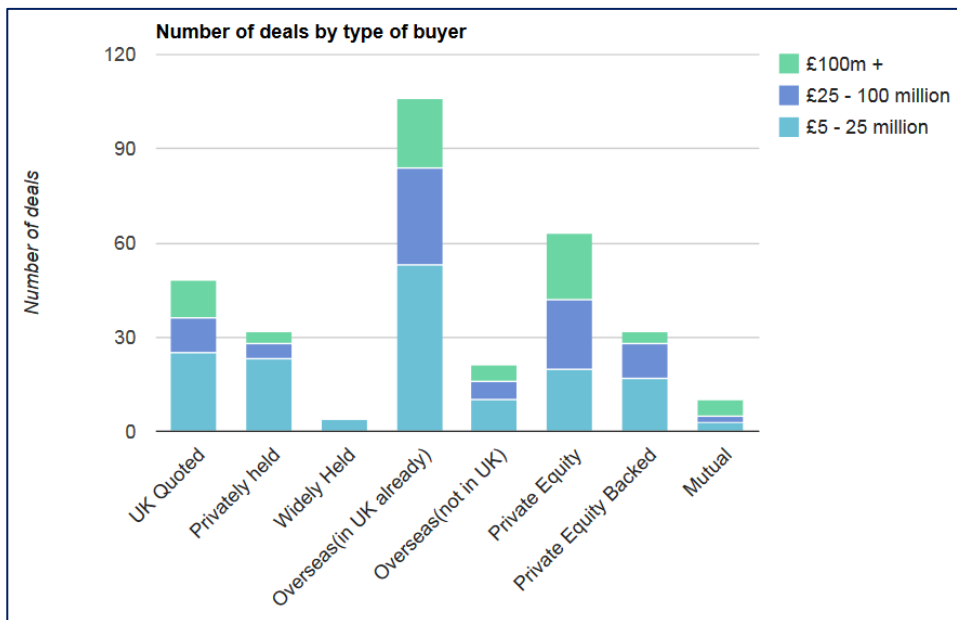


- 2011 contained a significant number of major transactions of banks and building societies shrinking their books.
- Total value of M&A in Q1-Q3 2013 exceeds that of the whole of last year by 25%

# Number of deals by type of buyer

## Overseas buyers biggest buyer group

Q1 2011 to Q3 2013



Overseas buyers predominating

- Great majority already in the UK

On a “net” basis:

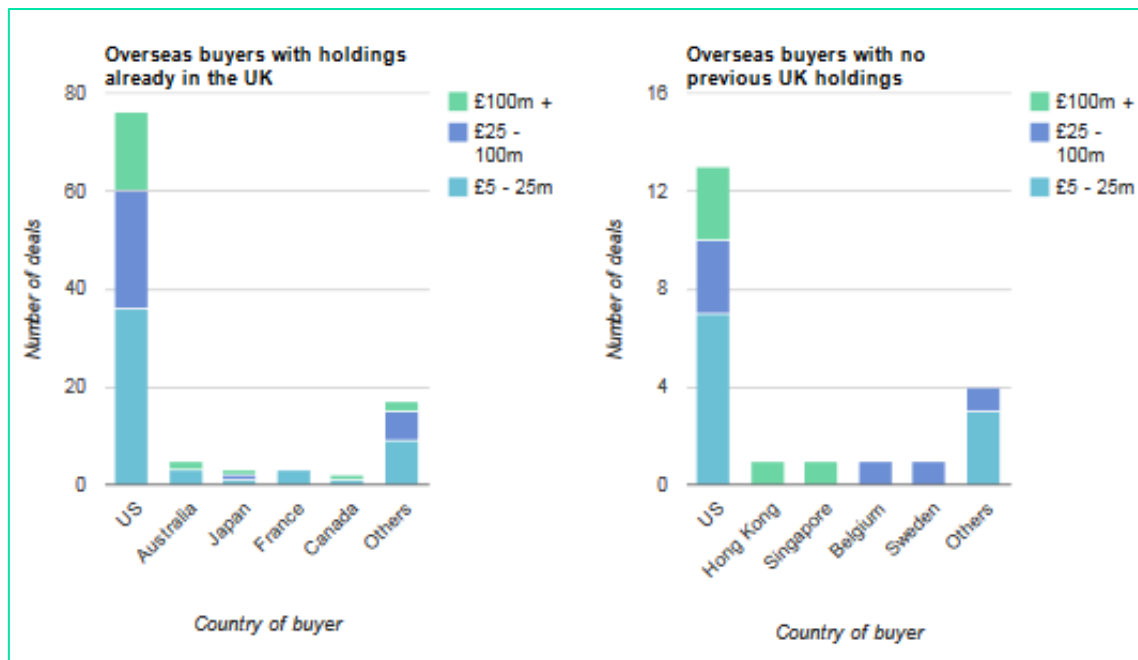
- Overseas buyers dominates
- Privately held is the biggest seller
- Quoted net zero
- PE is currently a net investor



# Overseas buyers

## It's the US

Q1 2011 to Q3 2013

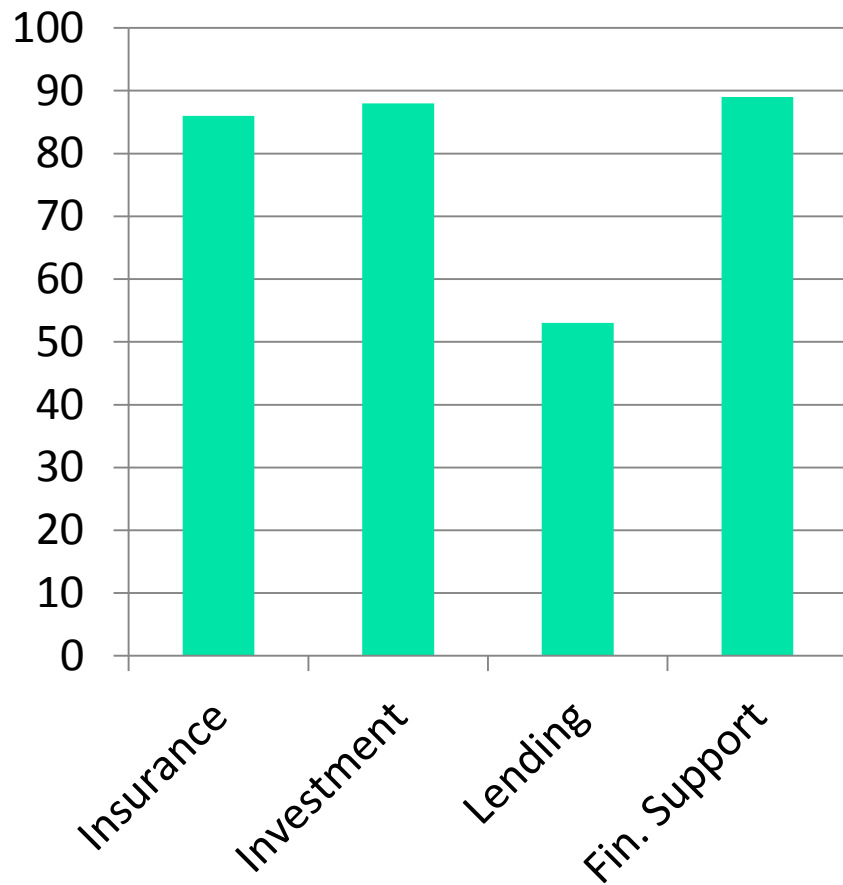


In the last three years the US has been responsible for 74% of the acquisitions by overseas companies

Canaccord made two significant acquisitions

## M&A activity by Sector

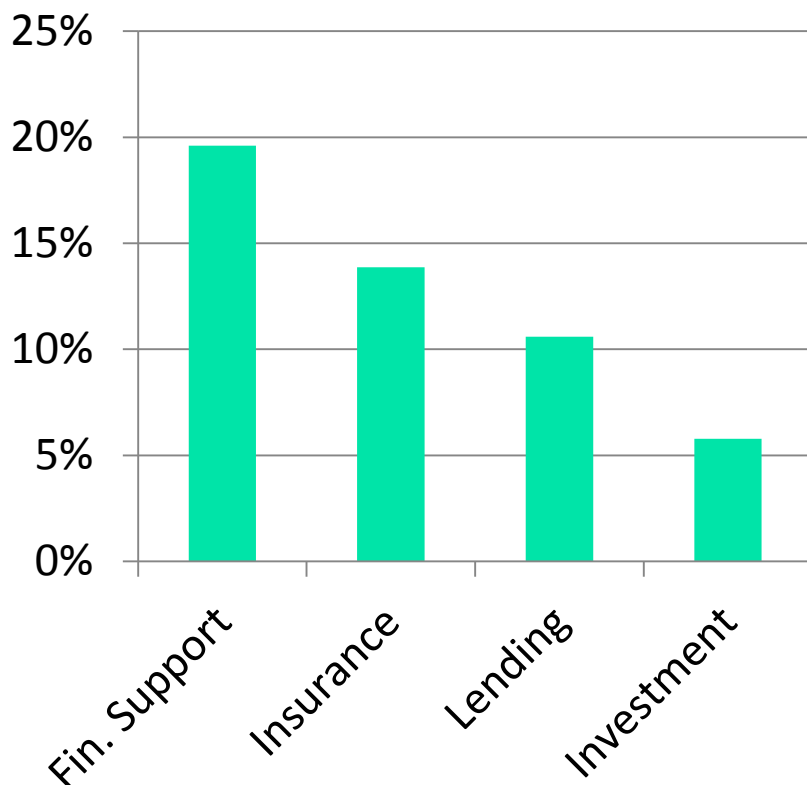
Number of deals (£5m+)  
Q1 2011 to Q3 2013



- Number of transactions by sector are similar

## Relative activity by sector varies substantially

Number of deals (Q1 2011 – Q3 2013) divided by number of Groups (Q3 2013)



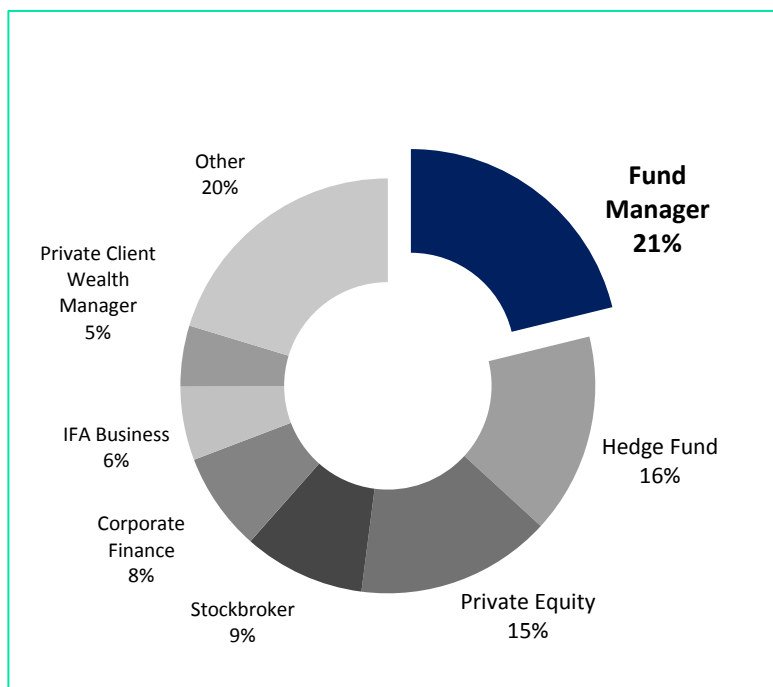
- Financial Support Services typically scalable
- Insurance is an international business
  - Driven by the need to spread risk
- Lending is driven by deleveraging
- Low level of M&A in Investment reflects a people based business

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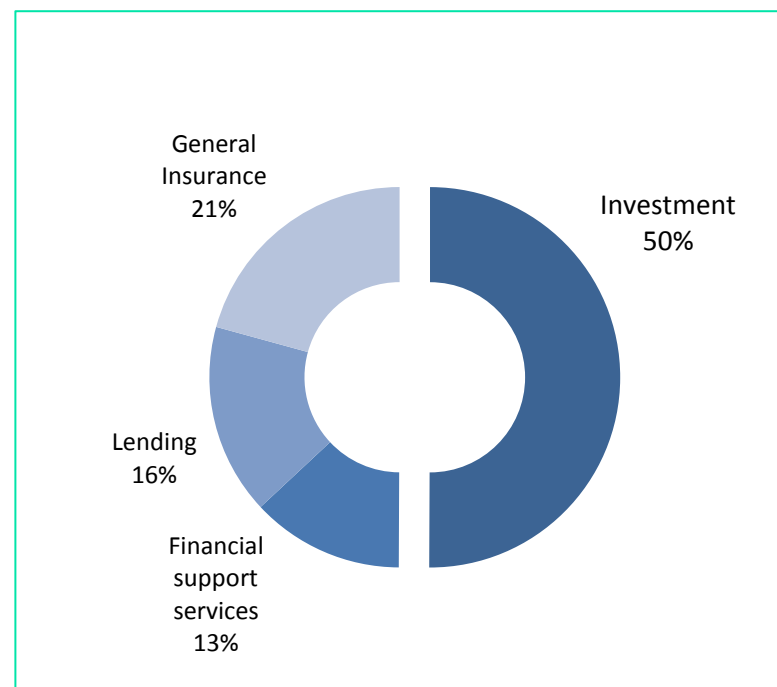
# UK Fund Management largest Sector/Activity

Fund Management businesses represent some 10% of UK financial services

### Investment sector



### All financial services

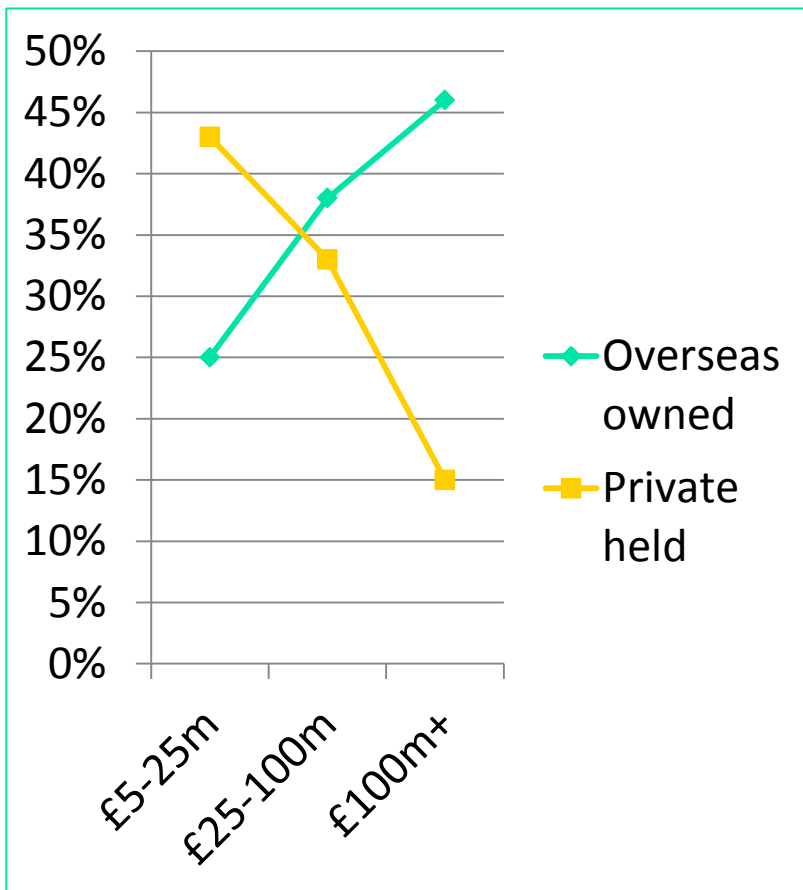


(Number of authorised entities with approximate value of over £5 million)

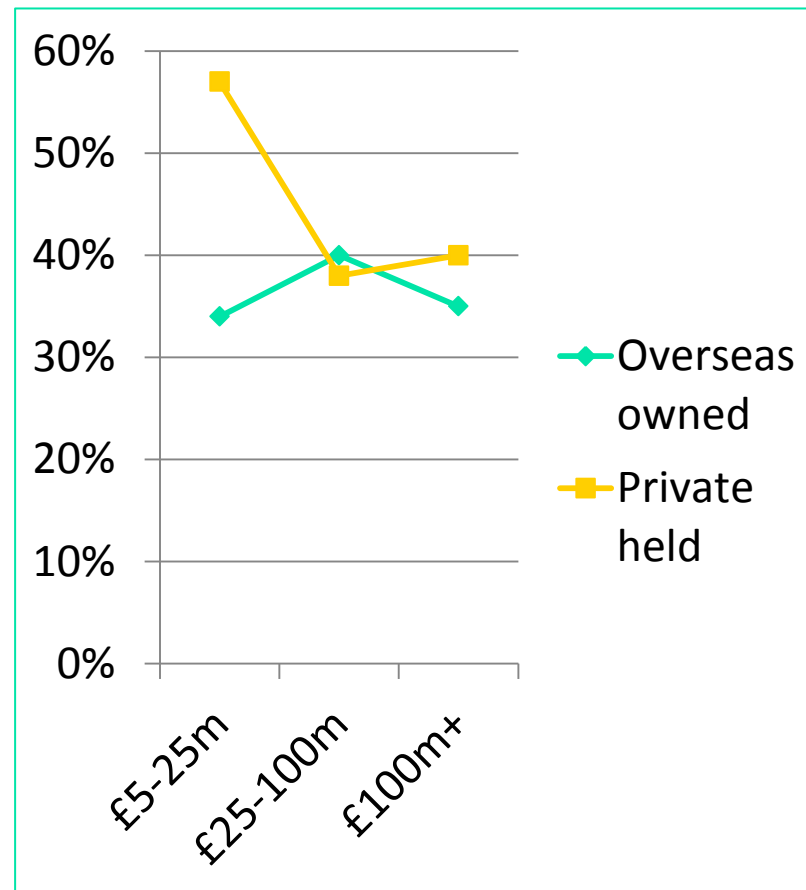
# Overseas Ownership

Fund Management overseas ownership does not increase with size

## Whole of UK Financial Ownership



## UK Fund Management



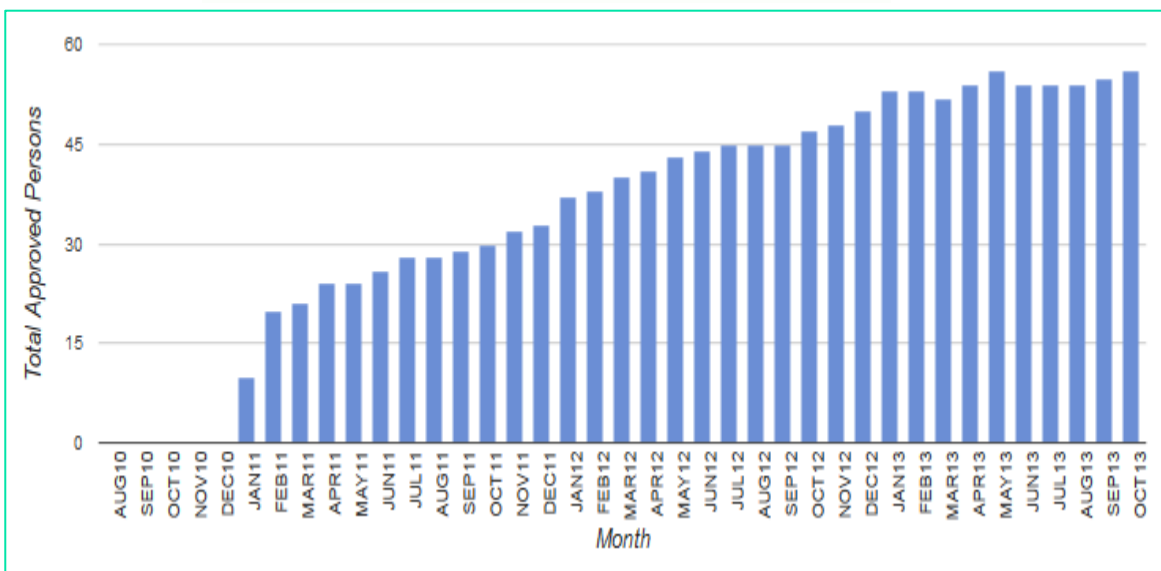
## Overseas ownership not driven exclusively by M&A

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- Of the 3000+ FS businesses, **32%** are overseas owned
- Of the 321 Fund Management businesses, **36%** are overseas owned
- This is despite M&A activity in Investment to be markedly lower than other sectors
- Overseas companies enter the UK financial services both by **acquisition** and by building **greenfield** operations

# The UK Fund Management Industry

London provides a deep talent pool for greenfield operations



Source: IMAS

Why?

- Distinct culture – build not buy
- Ability to attract new customers
- Talent pool available



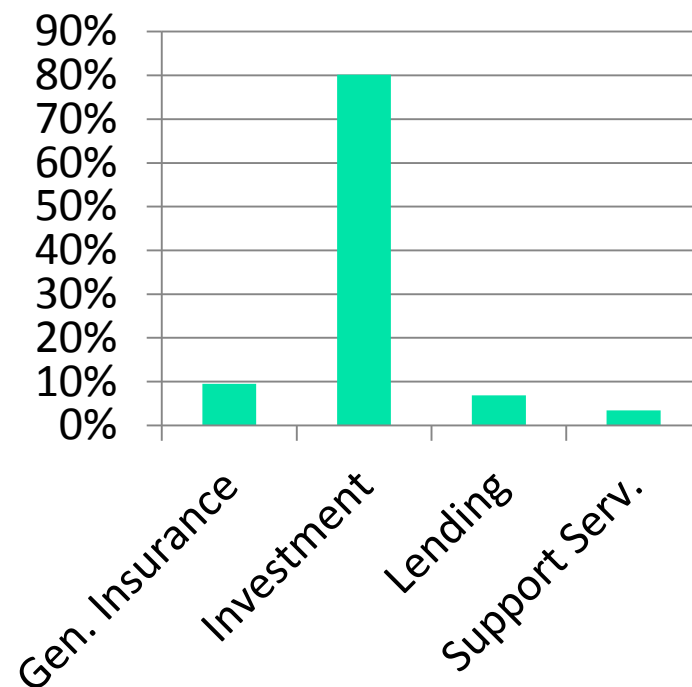
# Analysis on newly authorised entities

## New Authorisations

(Q1 2011 to Q3 2013)

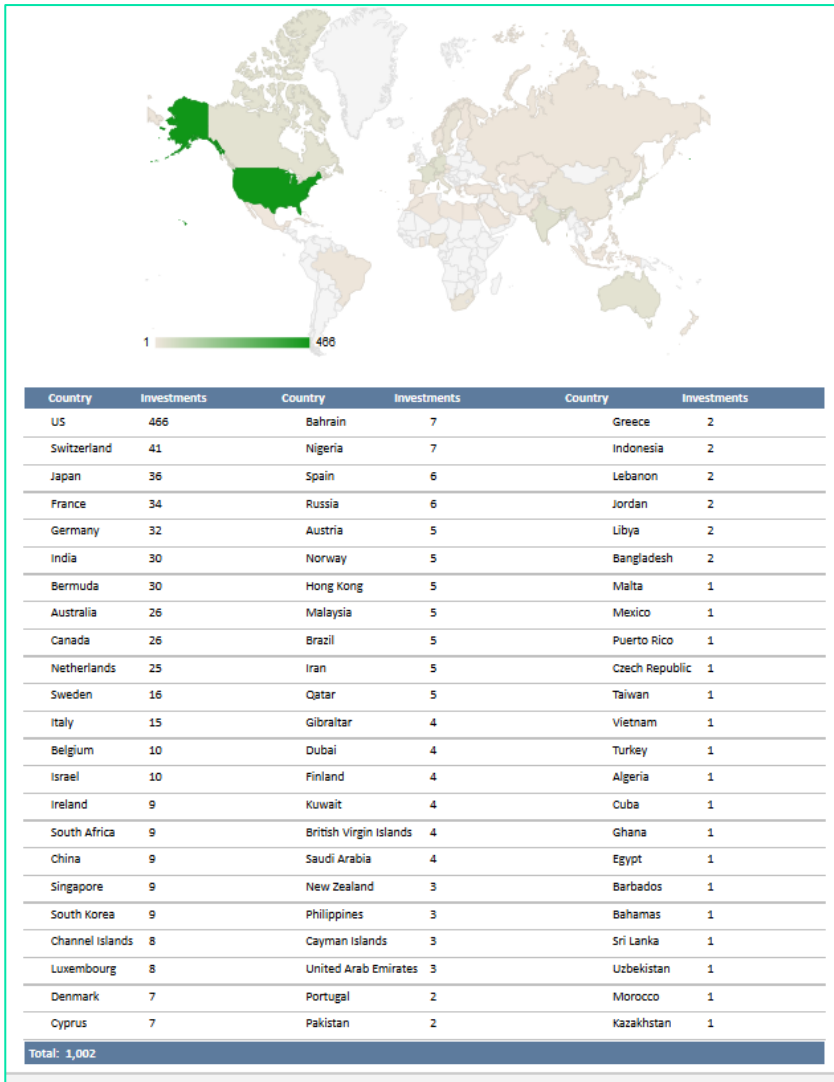
- All entities 2853  
(majority IFA)
- Overseas owned 117
- Of which:
  - US owned 58 (50%)
  - Switzerland 10
  - Australia 7
  - Bermuda 4
  - Canada 4
  - Netherlands 4
  - Brazil 3
  - India 3

## Newly authorised overseas owned entities by activity



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# How important an investor is Canada?



Canada is the 9<sup>th</sup> largest investor with 26 investments

- 15 investments behind No2 Switzerland

Also Canadian companies behind a number of start-ups (see above)

## Canadian Firms larger than US firms

Significant difference in the number of larger firms as % of total

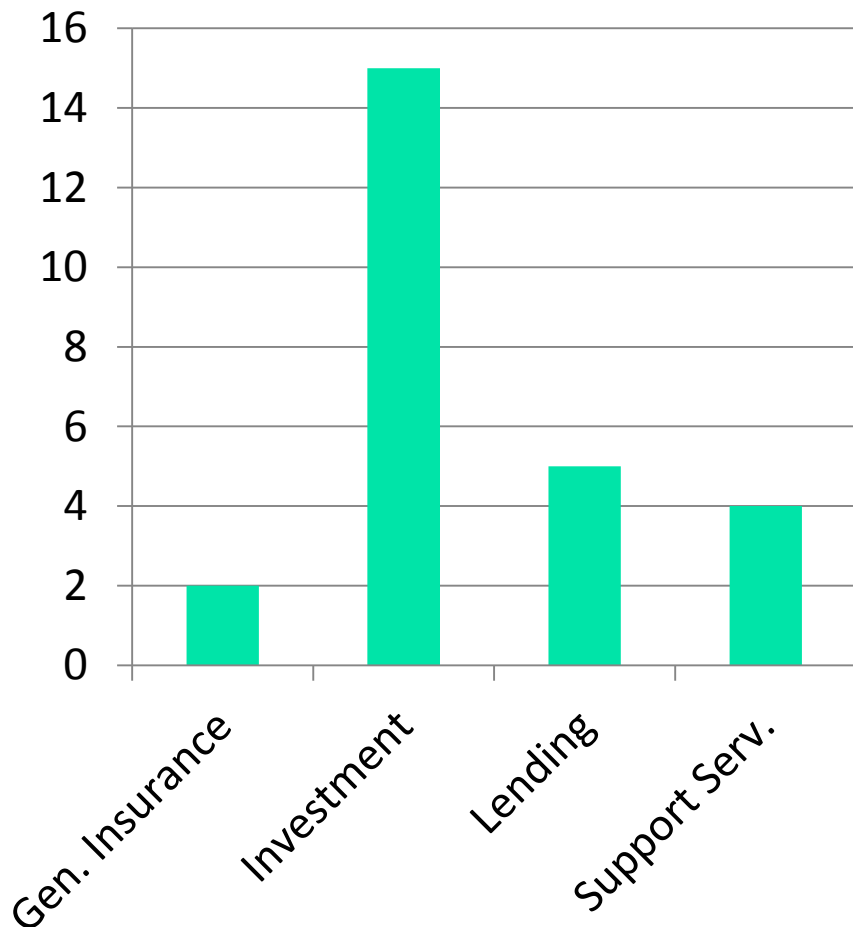
Value of Business	Canada	United States
£5m to £100m	59%	71%
£100m +	41%	29%

In absolute terms Canada's number of UK groups owned is some 6% of the US total

Canadian investments on average are significantly larger

## What Sectors are Canadian Companies invested in?

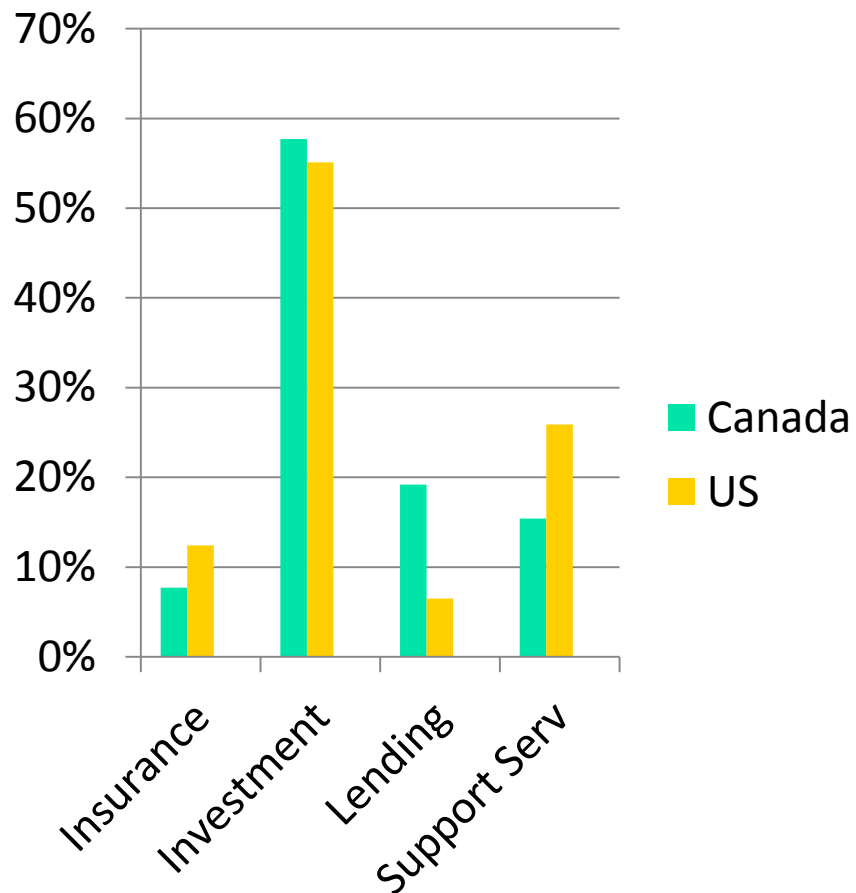
Clearly focused on one sector



- Heavy emphasis in Investment Sector
- 57% for Canadian companies
  - 50% for financial services sector

## Contrasting Canadian and US Investment Profile

Significantly different in lending and support services



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## Conclusions

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### The market and Canadian Companies

- UK financial services is highly international
- Overseas involvement continues to increase
  - US dominant position continues
- Start-up by overseas companies is significant
  - Especially in certain sectors
- Canadian Companies have a major foothold in the UK
  - Especially in investment sector
- Canadian Companies are also entering the market with Greenfield operations