PE lessons for financial services dealmaking

After stepping into the space vacated by traditional banks and strategic investors following the financial crisis, private equity has established itself as a force to be reckoned with in financial services dealmaking. Roger Kiern, Patrick Sarch, Gavin Wei and Hyder Jumabhoy from global law firm White & Case explain.

Private equity groups have not traditionally been big players in financial services dealmaking, yet a rapidly changing industry has forced these firms to step up. The likes of Cinven have deep industry experience and have been able to leverage this to compete in a highly regulated sector against formidable strategic competition from strategics.

Figure 1: In 2015, for the first time ever, private equity firms accounted for almost a fifth of financial services M&A deals, far higher than the average over previous years.

The financial crisis provided an unprecedented window of opportunity for private equity firms to gain a foothold in the financial services space. Fine and Aziz concluded in their work that private equity firms rose to the challenge and met the needs of an industry in transition.

Figure 2: The combination of generalist and specialist PE firms have also invested in building up strong internal financial services capabilities and completed M&A deals. In 2013, for example, General Atlantic completed the sale of EBRD’s stake in Sava Nova, as well as EBRD and Advent International’s investment in Slovenia’s second-largest bank, Nova, reflecting a broader trend of PE firms playing a bigger role in financial services dealmaking.

Figure 3: PE firms are the only serious buyers for distressed financial institutions from failing, regulators have recognised the role of PE in financial services and have also appreciated the favourability of the regulatory reform. PE firms are the only serious buyers for distressed financial institutions from failing, regulators have recognised the role of PE in financial services and have also appreciated the favourability of the regulatory reform.

Regulations such as the Solvency II and leverage ratio rules have made PE firms even more attractive to buyers, as it is possible to use fund leverage to increase the overall size of deals.

Figure 4: European FIG M&A in numbers

The financial crisis provided a unique opportunity for private equity firms to gain a foothold in the financial services space. The likes of Cinven have deep industry experience and have been able to leverage this to compete in a highly regulated sector against formidable strategic competition from strategics.

Figure 5: European FIG M&A: Total activity vs. private equity buyouts, by deal count

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