WARWICK M&A GROUP

FIG

Sector Report



Oct 2022
Issue #7

Barclays Bank UK acquisition of Kensington Mortgages

Aegon NV sells Dutch operations to A.S.R. Nederland NV

Banks benefit from high rates

Financial institutions M&A reflects capital preservation in a rising interest rate environment

October in Numbers

$21.3bn	109	$195.4mm
Total deal value (October 2022)	No of transactions	Average deal value

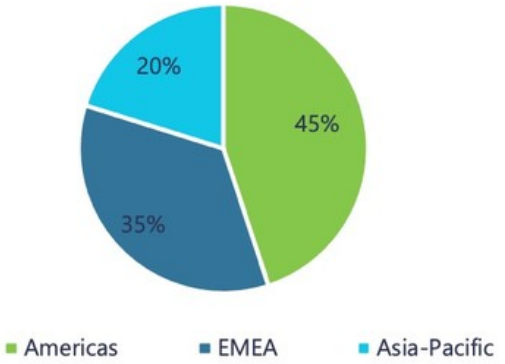
Average TEV/Revenue:	N/A	**Average Day Prior Premium:**	42.30%
Average P/E:	18.68x	**Average Week Prior Premium:**	45.59%
Average P/B:	1.68x	**Average Month Prior Premium:**	49.19%



Sectoral insight

- **Financial institutions M&A reflects capital preservation in a rising interest rate environment:** In October 2022, there were 109 transactions for a combined deal value of $21.3 billion. During a rising interest rate cycle, certain financial businesses, such as banks, do well due to widening spreads and net interest earnings power. For the others, like asset management and insurance, they place a strain on balance sheets and earnings power.
- **Asset and wealth management stay active:** The investment management industry stayed active in Europe during October in order to expand their client bases while developing a wider spectrum of asset class offering.
- **Insurance produces the mega-deals:** Insurance produces some of the largest deals in the FIG sector. The insurance ecosystem is drastically changing with an aceleration of digitization. Many insurance companies are redesigning their business and operating model.

Deals count by region



Barclays Bank UK acquisition of Kensington Mortgages

Acquirer: Barclays Bank UK

Barclays Bank UK: Barclays is a British multinational universal bank, headquartered in London, England. Barclays operates as two divisions, Barclays UK and Barclays International, supported by a service company.

Barclays UK comprises the British retail banking operations, consumer credit card business, wealth management business, and corporate banking for small, medium and large-sized businesses in the UK.

Market Cap:	£24.89bn
CET1:	13.8%
LTM Revenue:	£6.99bn
NIM:	3.01%

Target: Kensington Mortgages

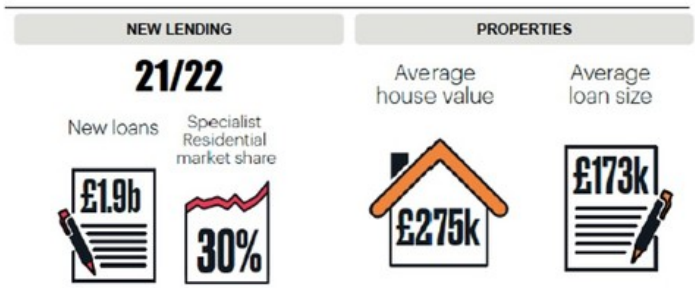
KMC is a leading UK specialist residential mortgage lender providing mortgages via brokers to borrowers with complex incomes. It uses proprietary technology, data analytics and insight to design products and make lending decisions, focusing on the self-employed and customers who have multiple or variable incomes.

The business is based in Maidenhead, has approximately 600 employees, and originated approximately £1.6 billion of mortgages in the year ended 31 March 2022.

Market Cap:	N/A
CET1:	26.5%
LTM Revenue:	£65.9mn
NIM:	2.47%[1]

Transaction Summary

- On June 24th 2022, Barclays PLC announced that Barclays Bank UK PLC has agreed to acquire UK specialist mortgage lender Kensington Mortgage Company Limited for £2.3bn. Kensington Mortgage is a portfolio company under funds managed by Blackstone Tactical Opportunities Advisors L.L.C. and funds affiliated with Sixth Street Partners LLC.
- The Transaction will be financed from Barclays' existing resources and is estimated to reduce Barclays' CET1 ratio by approximately 12 basis points assuming completion in late Q4 2022.
- Assuming completion of the Transaction occurs at the beginning of December 2022 and the KMC Mortgage Portfolio comprises approximately £2.0 billion of loans at that date, the total consideration payable by Barclays Bank UK under the Transaction agreements is expected to be approximately £2.3 billion.



Announcement Date:	24th June 2022
Transaction Value:	£2.3bn (Tentative)
Acquirer advisers(s):	N/A
Target advisers(s):	Ashurst, Freshfields

[1]For proper comparison, Barclays UK's NIM in FY 2021 was 2.52%

Barclays forays further into specialist mortgages

Rationale and Outlook

Diversification into Mortgages: The move comes amid fierce competition in UK mortgages after home purchases surged during the pandemic. As interest rates rise, banks are set to reap even more income from variable rate mortgages. This further foray into mortgages will also diversify Barclay's business model, preventing it from being too heavily weighted towards credit cards.

Digitalization: Most banks have had wide closure of physical outlets in the wake of covid, saving costs and increasing profit margins. Kensington Mortgages relies on propriety data analytics to originate its loans fully online, with top-of-the-line credit risk controls. Only 19 loans issued by Kensington Mortgages since 2010 have gone into default, with the total cumulative losses on those loans amounting to just £252,000.

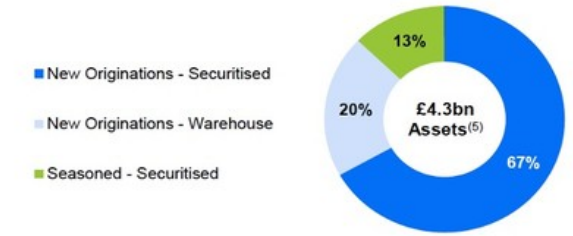
By acquiring Kensington Mortgages, Barclays will gain significant capabilities in online loan origination, with an estimated 2-2.3bn in loan origination per annum from Kensington alone. If Barclays can synergise these technologies into its main mortgage LOS, further synergies can be obtained, improving NPL ratio.

Synergies from Barclays strong funding desk: KMC complements Barclays existing UK mortgage business and broker relationships through the addition of a specialist
prime mortgage originator and the utilization of our strong UK funding base.

Historically, KMC does not hold any mortgages on its balance sheet[1]. This means part of KMC's income goes to securitizing its mortgages and paying for funding from lines of credit. Having direct access to Barclays Funding lets KMC hold the mortgages on their
balance sheet. This allows for more attractive spreads to be offered, helping origination. It also increases NIM due to tighter spreads on COF provided by internal funding.

GROUP MORTGAGE ASSETS

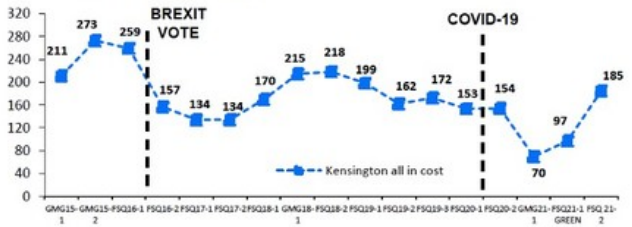
- About ~87% of Group's assets comprise loans originated since 2010

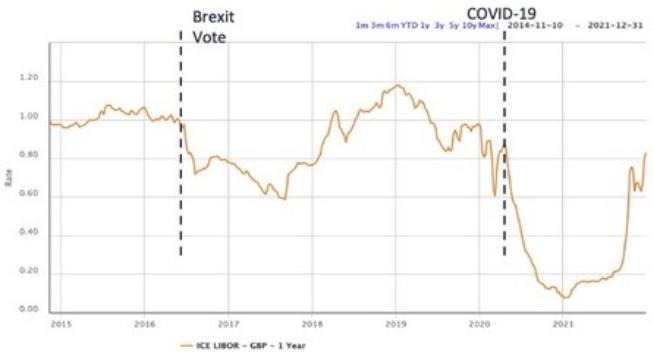


Source: Kensington Mortgages as of March 2022

COST OF FUNDING (bps) (PLACED BONDS ONLY)

- Stable cost of funding[1] in an uncertain outlook where markets are volatile
- WAL of our funding is 2.5yrs assuming call is exercised (WALs of FSQ21-1 & FSQ21-2 are higher at 4.5 yrs)





[1]Mortgages held on balance sheet are due to pending securitisation via biannual finsbury square MBS placements

Aegon NV sells Dutch operations to A.S.R. Nederland NV

Acquirer: A.S.R. Nederland NV

The history of A.S.R. began in 1720, but the foundations of its current organisation were laid in 2000 with the merger of Fortis AMEV and the ASR Group.
A.S.R. is the Dutch insurance company for all types of insurance such as products covering non-life, life and income protection insurance, group and individual pensions, health insurance, travel and leisure, funeral insurance, and mortgages. A.S.R. also invests in developing and operating real estate.

Market Cap:	€6.64bn
P/E:	18.60x
EV/ Revenue:	1.20x
EV/ LTM EBITDA	7.2x

Target: Aegon NV

Founded as Scottish Equitable in the UK over 190 years ago, the Aegon Group is now an international financial services company offering investment, protection, and pension solutions.

Aegon is developing a strategy focused on three core markets (US, UK, and Netherlands) with four growth markets (Spain, Portugal, Brazil and China).

Market Cap:	€9.38bn
P/E:	7.60x
EV/ Revenue:	-1.15x
EV/ LTM EBITDA	22.1x

Transaction Summary

- On 27 October, Aegon combined its activities in the Netherlands to the insurer A.S.R. for €4.9 bn with the aim of creating a leader in the Dutch pension, life, and non-life insurance sectors.
- Aegon, the Dutch insurance company, will receive a 29.99% strategic shareholding in A.S.R with associated governance rights. as well as €2.5 billion in cash from the transaction, which it intends to return €1.5 billion in capital to shareholders.
- The transaction, which would establish a major competitor to the top Dutch insurer NN Group NN.AS is subject to the approvals by the Dutch Central Bank, the European Central Bank and the Dutch Authority for Consumers and Markets. The merger is expected to be completed in the second half of 2023.

A.S.R. Nederland NV share price



Announcement date:	27th October
Closing date:	The second half of 2023
Transaction value:	€4.9bn
Acquirer advisers:	UBS, Rothschild
Target advisers:	JP Morgan, Moelis & Co

Customers, stakeholders, and employees will benefit from this merger

Rationale and Outlook

- Insurance has become an important segment of money investment because people are living and working longer. Thus, they want to invest their money in the best possible way to meet future contingencies.
- The merger has enabled Aegon to fulfil their challenge of increasing the dividend per share from €0.25 to €0.30, and A.S.R to boost its dividend by 12% to €2.70 per share for the year.
- This will create a market leader in the Dutch pension sector, creating attractive propositions for customers. Indeed, the company is well placed to take advantage of the opportunities offered by the forthcoming pension reform.
- Achieving significant synergies by combining the two companies' closed individual life portfolios into one platform while having greater scale in the origination and administration of Dutch mortgages
- Becoming the market leader in disability insurance and the third biggest non-life insurer, providing clients with a more competitive product offering.

Important information for both companies

AEGON

Aegon will have the right to nominate two candidates to the supervisory board of A.S.R. - one non-independent and one independent member. The non-independent member has a positive vote on the supervisory board of A.S.R. on certain matters, depending on the size of Aegon's stake.

A.S.R.

Aegon will give considerable risk management capabilities to A.S.R. and will expedite the deployment of a partial internal model for calculating the combination's Solvency II capital needs..

A.S.R. will be the main brand while leveraging the strong Aegon brand in the pension and mortgage sectors three years after the completion of the acquisition.

We selected 4 deals to watch with potentially biggest impact on the industry…

October 27th, 2022 — **N/A: exp H1:2023**

CREDIT SUISSE

Nears sale of U. S. securitised product unit to:

APOLLO PIMCO

Stage of the deal: ○●●○○ **Chances of success:** **Medium**

Comment: Credit Suisse aims to further its strategic restructuring and reducing U. S. exposure by selling its "attractive, market-leading" Securitised Products Group (Koerner, CS CEO) to private capital group Apollo and global bond manager Pimco.

The intended intended offloading of the New York-based division – which packages risky debts and loans to sell them as asset-backed securities – is a significant step towards closing a capital hole of $4.5bn and focusing on "core franchise" products. The deal would represent an ongoing strive for non-bank and private asset-backed lending.

October 27th, 2022 — **+$1bn (exp H1: 2023)**

nuveen

Reached an agreement on the acquisition of:

Arcmont ASSET MANAGEMENT

Stage of the deal: ○●●●○ **Chances of success:** **High**

Comment: U.S investment manager Nuveen – owned by pension fund TIAA – acquired a controlling interest in leading European private lender Arcmont Asset Management to "access TIAA's balance sheet" and "propel" its private capital business (A. Fobel, CEO).

As alternative asset managers have stepped in to fill the void left by banks amid post-GFC regulation, Arcmont has focused on private equity lending, raising $26bn since 2011. Nuveen aims to combine Arcmont and private debt and equity specialist Churchill Asset Management in a credit-based unit with over $60bn assets under management.

September 6th, 2022 — **$3.4bn (exp Q4:2022)**

AFCO Insurance Premium Finance

Reached an agreement on the acquisition of:

BankDirect CAPITAL FINANCE

Stage of the deal: ○●●●○ **Chances of success:** **High**

Comment: AFCO Credit Corporation, owned by sixth-largest U. S. insurance brokerage firm Truist Financial Corporation, entered an all-cash, definitive agreement to purchase BankDirect Capital Finance (of Texas Capital), a nationwide premium finance company.

BankDirect is a high-quality lender that has achieved 0.01% of net charge-offs over the last year. The firm's loan portfolio yield, 3.8% in Q2:2022, has been enhanced by the 39% variable-rate loans. The $3.4bn value represents an 8.5% asset premium over the $3.1bn loan portfolio, enhancing AFCO's insurance and risk management capabilities.

November, 2022 — **N/A**

M BDO

Considering deals with private equity funds

Stage of the deal: ○○○○○ **Chances of success:** **Medium**

Comment: Capital from private equity buyout funds is fuelling an M&A boom in the North American accounting industry, attractive due to stable cashflows.

Since EisnerAmper sold a majority stake to TowerBrook Capital in 2021 to fund several acquisitions, three other firms – Citrin Cooperman Schellman and Charry Bekaert – have followed. With labour and technology input costs rising sharply, accounting businesses are seeking economies of scale and service diversification. Hence, Metron, BDO and Grant Thorpon are eyeing private equity cash to raise investment funds.

Glossary

Net Interest Margin: The difference between the income that a bank receives from loans extended and the income that it has to pay on its borrowed money, this is a key measure of retail banks profitability

CET1: Common Equity Tier 1 is a component of Tier 1 capital that covers liquid bank holdings such as cash & stock. The CET1 ratio compares a bank's capital against its assets.

Economies of scale: cost advantages companies experience when production becomes efficient, as costs can be spread over a larger amount of goods. Economies of scale can be both internal and external. Internal economies are caused by factors within a sing company while external factors affect the entire industry.

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