WARWICK M&A GROUP

FIG
Sector Report



Nov 2023
Issue #10

Economic outlook dampens M&A activity

Old National Bancorp's acquisition of CapStar

AU Small Finance Bank's acquisition of Fincare Small Finance Bank

Arthur J. Gallagher's acquisition of Galloway-Chandler-McKinney

A tumultuous economic outlook silences FIG dealmaking throughout 2023

November in numbers

$5.5bn	119	$98.9m
Total deal value (November 2023)	No of deals closed	Average deal value
-86.5% (YoY)	*-218 (YoY)*	*-71.16% (YoY)*

Average TEV/Revenue:	1.64x	**Average Day Prior Premium:**	10.43%
Average TEV/EBITDA:	-	**Average Week Prior Premium:**	12.34%
Most Active Buyer:	Arthur J. Gallagher	**Average Month Prior Premium:**	8.63%

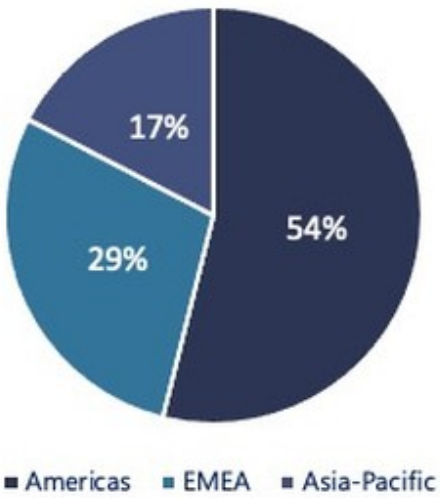
S&P Global 1200 Financials



Sectoral insight

- The financial services sector took a major hit in 2023 Largely **due to global economic instability**, including rising inflation rates, tightening monetary policies, and heightened market volatility.
- The financial services sector is significantly exposed to the need for transformation. Incumbents face an uncertain macroeconomic environment along with sustained pressure from regulators, and **growing concerns related to ESG factors**.
- These factors have contributed to a continued slump for FIG M&A, notwithstanding which, **November has seen a strong resurgence in FIG deals from previous months.**

Deal Count by Region



Sources: Capital IQ, S&P

Old National Bancorp's Acquisition of CapStar

Acquirer: Old National Bancorp

Old National Bancorp (NASDAQ: ONB), is a regional financial institution, dating back to 1834 and headquartered in Indiana, that primarily serves the Midwest United States.

Old National Bancorp is the holding company of Old National Bank, and as such has approx. $49 bn in total assets and offers a wide range of banking services, including commercial, retail, wealth management and investment services.

Market Cap:	$4.26 bn
Net Debt:	$4.27 bn
LTM Revenue:	$1.86 bn
EV/ LTM EBITDA	2.25x

Target: CapStar Financial Holding's CapStar

CapStar Financial Holdings (NASDAQ: CSTR), founded in 2007, is the operating company of CapStar, a regional bank centred in Tennessee with $3.3 bn **AUM**.

CapStar is focused on providing a wide array of services to small and mid-sized businesses and individuals across Tennessee via its 23 financial centres.

Market Cap:	$340 m
Net Debt:	$272.9 m
LTM Revenue:	$114.2 m
EV/ LTM EBITDA	2.8x

Transaction Summary

- On the 26th of October, 2023, Old National Bancorp and CapStar Financial Holdings entered into a merger agreement whereby Old National Bancorp will acquire CapStar in an all-stock transaction, whereby each share of CapStar will be converted into 1.155 shares of Old National Bancorp, valuing the deal at $344.4 m.
- This deal, expected to close in Q2 2024, brings Old National Bancorp $3.3 bn in total assets, including $2.8 bn in deposits and $2.3 bn in loans.

NASDAQ: CSTR Share Price



Announcement date:	26th October 2023
Offer per share:	$16.64
Transaction value:	$344.4 m
Implied Premium:	11.3%
Acquirer adviser(s):	Keefe, Bruyette & Woods, Stifel
Target adviser(s):	Morgan Stanley

Sources: BankingDive, BankingExchange

The Acquisition is in Line with Recent Expansion...

Rationale and Outlook

Geographic Expansion:

This acquisition follows Old National Bancorp's geographic expansion plans; Old National Bancorp entered Tennessee last year, establishing a high-net worth arm, and more recently a commercial bank and lending arm in the area, but this acquisition will enable them to achieve faster growth in the area than organically possible.

The deal provides an opportunity for rapid growth in the region by combining CapStar's established regional knowledge with Old National's broader financial services. Old National Bancorp has closed 13 acquisitions since 2011 following a growth strategy to expand into the Southeast and Midwest, especially given that CapStar's markets include 4 of the fastest growing metropolitan areas across the Southeast.

Value Creation:

The acquisition leverages the strengths of both banks to optimize the customer experience, particularly given the cultural fit and community-focus shared between the banks. The deal brings Old National Bancorp specific expertise in small-to-medium sized private business banking as well as wealth management, which will complement their broader commercial banking portfolio.

Risks:

The transaction is still subject to both a CapStar shareholder vote and regulatory approval. That said, the acquisition would give Old National a top-10 deposit market-share status, indicating a strong position but unlikely to suggest market-dominance or trigger anti-trust concerns.

Old National Bancorp Recent Acquisitions

First Midwest Bank

The acquisition of First Midwest Bank, an Illinois-based bank, was valued at 200 m and closed in February of 2022. The deal positioned Old National as the 6th largest commercial bank headquartered in the Midwest.

ANCHOR BANK

The acquisition of Anchor Bank, that closed in August of 2018, was valued at 303 mn, and set Old National as the 7th largest depositor in the Minneapolis and St. Paul markets, demonstrating their moves to expand into key metropolitan areas.

UNITEDBANCORP

Old National acquired United Bancorp Inc., a Michigan based bank, in 2014 in a deal valued at 170m. The deal strengthened Old National's positioning in the Ann Arbor market and brought forth $806 m in deposits and $643 m in loans.

Sources: GlobeNewswire,Global Market Intelligence, MarketScreener, BankingDive, BankingExchange

AU Small Finance Bank to acquire Fincare Small Finance Bank

Acquirer: AU Small Finance Bank Ltd.

AU Small Finance Bank (NSEI:AUBANK) is a small, regional bank based in Jaipur, India.

AU's main operating segments include Treasury, Wholesale Banking, Retail Banking.

AU's major product is retail banking. AU has over $8.4bn in deposits as of Q2 FY23.

Market Cap:	$6,602m
Net Debt:	$641m
LTM Revenue:	$661m
Return on Assets	1.79

Target: Fincare Small Finance Bank

Fincare Small Finance Bank is a private bank based in Bengaluru, India which provides retail and wholesale banking services to companies and statutory bodies, and retail customers in India.

It offers smart banking products comprising deposit, credit, wealth, and protection solutions.

Around 60% of Fincare's assets are **microfinance (MFI)** loans and the bank is said to have strong presence in the south Indian market.

Market Cap:	$560m
Net Debt:	$332m
LTM Revenue:	$122m
Return on Assets	0.89

Sources: Capital IQ, Reuters

Transaction Summary

- AU Small Finance Bank Limited (NSEI:AUBANK) agreed to acquire Fincare Small Finance Bank Limited for $529.7m on October 29, 2023, in all-stock merger.
- Since the deal has been definitively agreed, AU SFB's shares have increased by 11.7%.



Announcement date:	29th October 2023
Offer per share:	$2.40
Transaction value:	$529.7m
Implied premium:	N/A
Acquirer adviser(s):	Ambit Private Limited, Mirae Asset Capital Markets
Target adviser(s):	ICICI Securities, Arpwood Capital

The acquisition will expand AU's market and product range...

Rationale and Outlook



This merger poses a strategic expansion into wider markets. AU small finance bank is mainly based within the north-west of India, whereas Fincare is pre-dominantly based in the south. The addition of Fincare will increase AU **SFB**'s touchpoints by 130% building its pan-India distribution network.



Organic diversification may take a long time for AU, which is the largest small finance bank in India. Fincare, which is the 7th largest, maintains that around 60% of its assets are microfinance loans. Therefore, the acquisition of a lender with dominance in the MFI markets expedites plans to diversify.



Fincare has a strong IT team of 200 people and have developed in-house development capability around process utilization, which will further add to AU's technology capabilities and complement its strong customer-facing applications.



Lending to small and marginal farmers was a gap in AU's offering. This merger with Fincare provides that capability, whilst increasing amount of MFI on AU's balance sheet to 8%. MFI has a **CAGR** of 23% over the last 10 years in India.



Fincare raised $84.1mn pre-merger in preparation for an initial public offering (IPO). AU merging with Fincare means that there is no need to go public and the capital raised is retained and is retained to be used for one-off expenses regarding integration and general operations.

Sources: Capital IQ, Reuters, AU SFB FQ2 2024 Earnings Call

Various stakeholders involved

TA Associates Management	Private Equity Firms
True North Managers LLP	Private Equity Firms
Tata Opportunities General Partners LLP	Private Equity Firms
Vistra ITCL (India)	Private Equity Firms
Leapfrog Rural Inclusion (India) Ltd	Private Equity Firms
Fincare Business Services Limited	HoldCo

AU Small Finance Bank has agreed to acquire Fincare from the above consortium of investors. The deal has approval from both shareholders and the board of the acquirer and target, respectively. The deal is still subject to approval by the Competition Commission of India, as the deal is the first of its kind within the small finance bank space.

Cyclical nature of MFI...

This deal symbolises AU's shift in strategy towards an increased focus in unsecured lending. Analysts believe this could expose the bank to macro challenges, which it has so far managed to avoid. The microfinance segment is highly cyclical and can pose risks to the bank's solvency. The unsecured book will rise from 4% to around 11%, and AU wish to cap microfinance around 10% according to CEO Sanjay Agarwal.

Acquisition of Galloway-Chandler-McKinney by Arthur J. Gallagher & Co.

Acquirer: Arthur J. Gallagher

Arthur J. Gallagher (NYSE: AJG) provides insurance and reinsurance brokerage services to firms and organizations across the world.

The company focuses on brokerage service, which accounts for around 85% of their total revenue as per Q4 of 2022.

It also has operations in 130 different countries/region, offering services both in person and online.

Market Cap:	$54.47bn
Net Debt:	$5.93bn
LTM Revenue:	$9.21bn
EV/ LTM EBITDA	21.9x

Target: Galloway-Chandler-McKinney Insurance Agency, Inc.

Galloway-Chandler-McKinney Insurance Agency, Inc. is a subsidiary of Cadence bank that also operate in the insurance broker industry.

Cadence Insurance is an insurance brokerage business that specializes in Commercial P&C, Personal P&C, Employee Benefits, Business Solutions, and Risk Management Services.

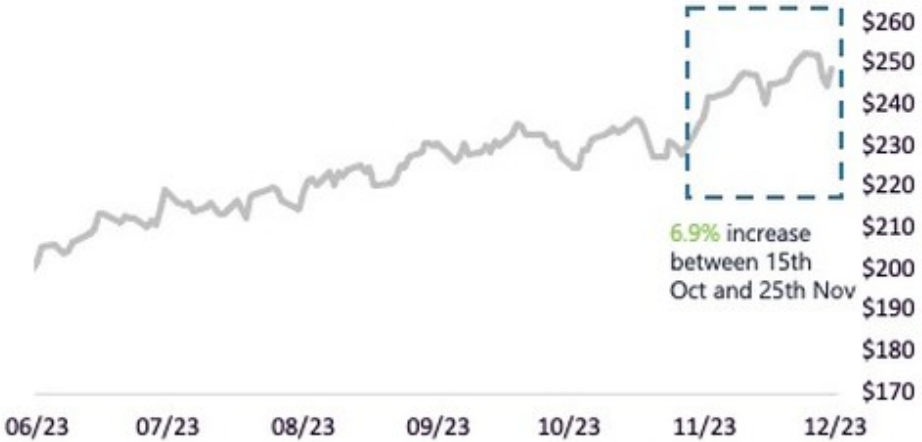
Most of its operations are in the southeast USA, with offices in 9 states.

Number of employees:	770
Net Income:	$19m
LTM Revenue:	$167m
Deal Value/ LTM Revenue	5.4x

Transaction Summary

- On 24th of October 2023, Arthur J. Gallagher announced its acquisition of the Galloway-Chandler-McKinney Insurance Agency, Inc.
- After the deal announced, Arthur J Gallagher's share price initially fell by 3.8% but then rosed by 11.3% between 20th of October the 24th of November.

NYSE:AJG Share Pricing



Announcement date:	24th October 2023
Offer per share:	N/A
Transaction value:	$904m
Implied Premium:	N/A
Acquirer adviser(s):	Morgan Stanley, EY
Target adviser(s):	Marsh, Berry & Company

Sources: Market Screener, S&P Capital IQ, Cadence bank Q3/23 Results

The acquisition will increase Arthur J. Gallagher & Co's competitiveness and market share

Rationale and Outlook

The global insurance brokerage market was valued at $259.7 billion in 2022 and is projected to grow at a CAGR of 9.3% from 2023 to 2032. This acquisition helps Arthur J. Gallagher (AJG) to secure its dominant position in the fast-growing market.

Ranked as the 4th largest insurance broker globally in 2022, AJG's acquisition of smaller businesses like Hughes Insurance Agency Inc, primarily in the US and Canada, signals its ambition to expand and compete with larger rivals such as Aon plc.

Despite its multinational presence, AJG has recently focused its acquisitions primarily in North America (N.A.). Strategically, this move makes sense as the demand for their services is stronger in N.A., driven by rising market confidence. This contrasts with the higher uncertainty in other global regions.

Upon this acquisition, the seller of Galloway-Chandler-McKinney, Cadence Bank, will have its insurance executives joining AJG's operation. Integrating their businesses to help AJG to expand their market in Southeast America states by making the firm as their 'Preferred insurance broker', and so supplying clients for AJG in the future as a $1.7bn regional commercial bank.

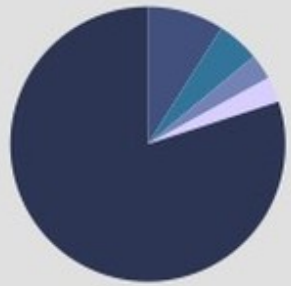
The acquisition of a small company with $7.2 million in LTM revenue by AJG is unlikely to encounter anti-competition issues given its significant empire valued at $54.5bn. However, with AJG's recent announcement of acquiring 7 similar companies between 15/10/23 and 1/12/23, the second-largest insurance brokerage firm's expanding market share may raise concerns about potential anti-competitive actions in the future to the CMA.

Arthur J. Gallagher has already announced to or acquired:

43%

Percentage of Growth in the Insurance Industry Generated by North America

Insurance % Market Share Globally



Sources: A.M. Best, PR Newswire, Morgan Stanley 2024 Outlook podcast, Reuters, Seeking Alpha, CNBC

We selected 4 deals with potentially the biggest impact on the industry...

November 30th, 2023 — **$550m**

MIZUHO

Have acquired:

Greenhill

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

Comment: Mizuho's acquisition of Greenhill, a major U.S. M&A advisory firm, for $550 million represents a strategic expansion of Mizuho's footprint in the American financial market, enhancing its capabilities in investment banking and advisory services.

The acquisition is a crucial step for Mizuho in achieving its growth targets in areas like M&A advisory and equity underwriting, marking a significant shift in the bank's strategic focus.

November 18th, 2023 — **~$13bn**

PLAID

is Preparing for IPO

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

Comment: The US fintech startup is valued at $13 billion in 2021, offering services to link bank accounts with various applications, including online mortgage lenders.

Following a failed merger with Visa in 2021, the company garnered investments from renowned banks like JP Morgan and Goldman Sachs.

In preparation for an upcoming IPO, the company has recently appointed its first CFO, according to statements from the founders and co-founder.

November 12th, 2023 — **$355m**

روابـي القابضة
Rawabi Holding

Reached an agreement to acquire a stake in:

BURGAN BANK

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

Comment: Al Rawabi United holding company has agreed to acquire a 52% stake in Burgan bank A.S from Burgan Bank K.P.S.C on November 12th, with the deal expected to close in the next few weeks

The transaction will have a positive impact on Burgan Bank's capital ratios, while reducing impact of Turkish Lira volatility on Burgan Bank's financials.

The move by Al Rawabi United has consolidated their position as a major player within Regional banking and financial services in the Middle East.

November 29th, 2023 — **~€4.9bn**

nrb Národní Rozvojová Banka

Reached an agreement to acquire:

ČESKÁ EXPORTNÍ BANKA

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

Comment: Národní rozvojová banka's acquisition of Česká exportní banka represents a major strategic expansion, enhancing its capabilities in export financing and economic development.

With government approval, this acquisition signifies a pivotal shift in the Czech banking landscape, potentially increasing competition and efficiency in the sector.

This deal reflects a growing trend in the consolidation of financial institutions in Central Europe, with NRB set to become a greater force in the region's industry.

Sources: Capital IQ, MergerMarket, Company Disclosures.

Glossary

Assets Under Management (AUM): The total market value of the assets managed by a financial institution on behalf of its clients.

Compound Annual Growth Rate (CAGR): a financial metric that provides a smoothed annualized representation of the rate of return on an investment or the growth of a business metric over a specified period. By mitigating the impact of fluctuations, CAGR offers a more consistent and understandable measure of the overall growth trend.

Microfinance (MFI): a financial service that provides small loans and basic financial services to individuals, especially in developing countries, who lack access to traditional banking. Its primary aim is to empower low-income individuals by enabling them to start or expand small businesses and improve their economic circumstances. Microfinance institutions often use group lending models to support entrepreneurs who may not qualify for traditional bank loans.

Small Finance Bank (SFB): a specialized institution typically in India aimed at promoting financial inclusion by providing essential banking services to underserved sectors such as small businesses and low-income households. Regulated by the Reserve Bank of India, SFBs focus on priority lending to sectors like agriculture, operate in specific regions to enhance local development, and play a vital role in extending formal banking services to those with limited access to financial resources.

The Team



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