WARWICK M&A GROUP

FIG
Sector Report

M&A activity recovering from tumultuous year

Aon acquires NFP

Orrstown Financial Services merges with Codorus Valley Bancorp

TMX Group acquires VettaFi

Dec 2023
Issue #7

A tumultuous economic outlook silences FIG dealmaking throughout 2023

November in numbers

$23.16bn	156	$148.5m
Total deal value (November 2023)	No of deals closed	Average deal value
-12.22% (YoY)	*+25 (YoY)*	*-26.29% (YoY)*

Average Price/Earning:	7.48x	**Average Day Prior Premium:**	6.25%
Most Active Buyer (Vol):	KKR & Co. Inc. - $2.6bn	**Average Week Prior Premium:**	4.49%
Most Active Buyer(TTS):	HUB	**Average Month Prior Premium:**	4.09%

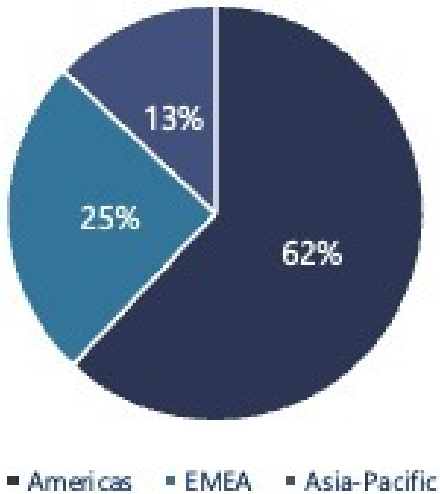
S&P Global 1200 (Financial)



Sectoral insight

- The financial services sector is rebounding after a tumultuous end to 2023. Lower anticipated interest rates and the prospect of heightened economic growth in Europe and the USA in 2024, driven by declining inflation data observed in Q4 of 2023, is fuelling increased M&A activity within the sector.
- On the other side of the world, Asia's financial service sector continue to struggle, mainly due to a volatile and unstable Chinese economy after the property crash causing weak consumer and business confidence in the economy which is reduces the FIG sector's earning in the region.
- Increase in FIG M&A activity in the EU and Americas seems to outweigh the decline in activity in Asia in late 2023 and early 2024, allowing the FIG sector to continue its recovery from the slump in 2023.

Deal Count by Region



Sources: Capital IQ, S&P

Aon Plc to acquire NFP Corp.

Acquirer: Aon Plc.

Aon plc (NYSE: AON) operates as a global professional services firm headquartered in Dublin, Ireland, since its founding in 1919. The company specializes in providing comprehensive advice and solutions to clients worldwide, with a focus on risk, retirement, and health services.

Aon's diverse offerings encompass commercial risk solutions, health and benefits brokerages, reinsurance, and corporate finance advisory services. The company is dedicated to helping clients manage risks and enhance their health and wealth outcomes.

Market Cap:	$57.98bn
LTM Revenue[1]	$13.13bn
LTM EBITDA	$4.03bn
TEV / EBITDA	16.13x
Total Debt	$12.09bn

Target: NFP Corp.

NFP Corp. is a prominent provider of advisory and brokerage services, serving companies and high net worth individuals globally. The company operates in three segments: Corporate (corporate benefits, retirement plans, and property and casualty insurance), Individual (life insurance brokerage, wealth management), and Advisor Service (independent financial advisors).

Founded in 1998 and based in New York,. NFP Corp. was bought out by Madison Dearborn, a private equity firm, in July 2013 for an equity value of $1.3bn at a 26% premium to its trading price.

FY23 Revenue[1]	$2.2bn
FY23 EBITDA	$0.6bn
EBITDA Margin	27.2%
Operating Income	$0.5bn

Transaction Summary

- Aon plc has agreed to acquire NFP Corp. from investor group comprised of HPS Investment Partners, LLC and Madison Dearborn Partners, LLC
- Aon plc will pay $6.75 billion in cash and will issue 21,966,256 class A shares (~$6.4bn worth) to acquire NFP Corp. from investor group comprised of HPS Investment Partners, LLC and Madison Dearborn Partners, LLC.
- The cash portion of the deal will be funded by a debt raise of $5bn in 2024 and the remaining $2bn cash will be funded at the close of the deal, attempting to keep the current **credit rating**
- Investors reacted negatively to the announcement of the deal with the stock tanking 12% on the 21st. The issuance of new equity will dilute the holdings of existing stockholder and delayed EPS accretion all contribute to the uncertain outlook about this deal

Aon plc (NYSE:AON) - Share Pricing



Announcement date:	20th December 2023
Transaction value:	$13.63bn
EBITDA Multiple	15x
Acquirer adviser(s):	UBS, Citi
Target adviser(s):	Evercore, TD, BofA Securities, Deutsche, Jefferies

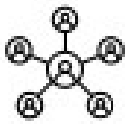
Capital IQ, Reuters, AON M&A Call Transcript [1] *Produced from FQ23' Financial Statements data valid as of 13/01/24*

The acquisition aligns with Aon's long-run strategy

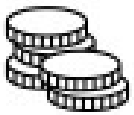
Rationale and Outlook



Demand for insurance products has remained firm in this uncertain economy and many consider insurance products to be recession-proof. NFP is a leading middle-market provider of risk, benefits, wealth and retirement advisory solutions which expands AON's presence in the fast-growing middle market segment, which is worth over $30bn.



AON's business services operating platform can provide the opportunity to NFP Corp. to enhance its distribution of its products and services, In combination with AON's significant investment in analytics it allows for NFP to efficiently deliver its services to the middle market segment.



AON will experience a $400mn loss in one-time transaction and integration costs. The market has reacted negatively with a 6% drop in AON's share price following announcement. However, the company is confident that this deal will result in $60mn in cost synergies over time and will generate more than $2.8bn in value creation from the capitalized value of expected pre-tax **synergies** and capital structure.



We expect the transaction to be dilutive to **adjusted EPS** in 2025, meaning that earnings per share will decrease in the short run eventually breaking even with current EPS in 2026. Earnings per share is expected to be accretive in 2027 and beyond, providing value to shareholders in the long-run. AON is expecting positive impacts to **free cash flow** beginning in 2026, which suggests that this is a sensible deal.

Capital IQ, Reuters, AON M&A Call Transcript

Parties involved

Buyer	Target
AON	NFP
HPS	MADISON DEARBORN PARTNERS

Private Equity Firms

Aon's United Strategy

This transaction will accelerate Aon's United strategy to set a common standard for client leadership and create client service hubs, powered by its business platform. In the process of unification, Aon expects to incur a total of $900mn in total cash charges and a further ~$100mn in non-cash charges over a period of 3 years.

These charges are associated with streamlining business operations, headcount reduction costs and technology associated costs, which will ultimately lead to greater efficiency. Aon expects that these changes will save the company $350mn annually by 2026.

Orrstown Financial Services to Merge with Codorus Valley Bancorp

Acquirer: Orrstown Financial Services

Orrstown Financial Services, Inc., founded in 1919, operates as the holding company for Orrstown Bank, providing a wide range of banking and financial services in the United States. They offer various commercial and trust services.

With its headquarters in Shippensburg, Pennsylvania, Orrstown Bank manages over $3 billion in assets and has expanded to 21 banking offices and 4 business offices across Pennsylvania and Maryland.

Market Cap:	$310m
LTM Revenue:	$130m
P/BV	1.26x
Return on Assets	1.3%

Target: Codorus Valley Bancorp

Codorus Valley Bancorp, Inc., founded in 1864 and headquartered in York, Pennsylvania, is a financial holding company with PeoplesBank as its subsidiary, serving South Central Pennsylvania and Central Maryland.

The company offers a range of community banking services, including personal banking, mortgage banking, wealth management, and real estate services. Furthermore, they are an approved Small Business Administration lender.

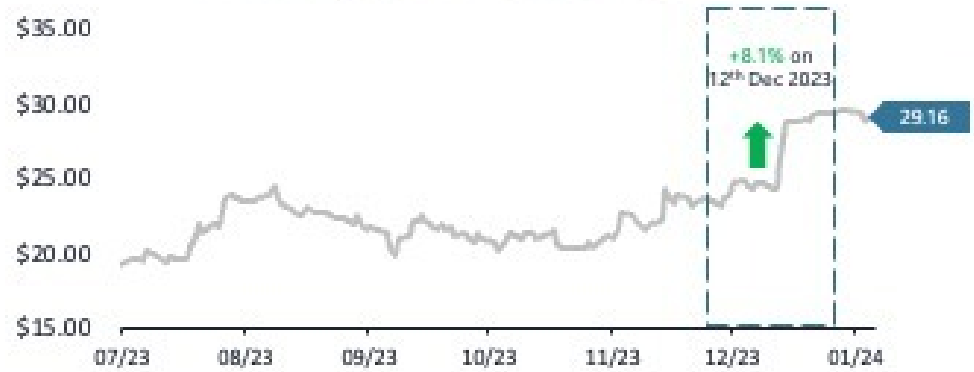
Market Cap:	$243m
LTM Revenue:	$97m
P/BV	1.31x
Return on Assets	1.2%

Capital IQ, Reuters

Transaction Summary

- Codorus Valley Bancorp (NasdaqGM:CVLY) to merge with Orrstown Financial (NasdaqCM:ORRF) in an all-stock deal worth $207mn, creating a bank with $5.2 bn in assets.
- Orrstown shareholders will own an estimated 56% of the combined company, with the remainder going to Codorus Valley Bancorp shareholders

NASDAQ:ORRF – Share Price



Announcement date:	12th December 2023
Offer per share:	$21.31
Transaction value:	$207m
Implied premium:	N/A
Acquirer adviser(s):	Keefe, Bruyette & Woods
Target adviser(s):	Raymond James & Associates, Inc.

This merger looks set to significantly boost their position

Rationale and Outlook

Enhanced Market Presence

The merger is expected to create a stronger regional presence in both Pennsylvania and Maryland. With a combined asset size of approximately $5.2 billion and a larger branch network, the merged entity could leverage economies of scale to improve efficiency and service offerings – Codorus Valley specializes in agricultural lending and is a preferred Small Business Administration lender, whilst Orrstown Bank has more of a focus on middle-market lending.

Market Reaction

The deal comes with various risks, namely integration risk and credit-quality risks, particularly given Codorus Valley's recent credit quality struggles, with non-performing assets being a larger percentage of assets than peers. That said, Codorus Valley has tackled its legacy credit problems recently, and it is evident that the market has reacted positively to the announcement, with Orrstown Bank's share price closing at 18.8% above pre-announcement level after a week and Codorus seeing an equivalent rise of 24.4%.

Potential Overlap

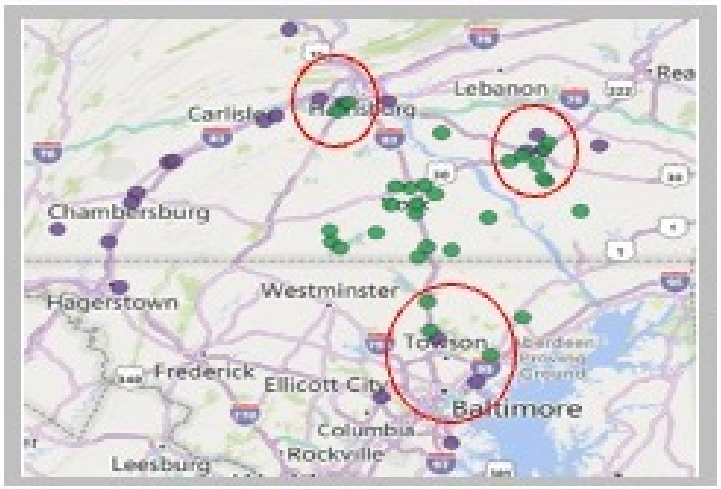
One potential challenge that may arise following the merger is related to market overlap and customer retention. Both banks have a strong presence in overlapping regions of Pennsylvania and Maryland.

This overlap might lead to branch consolidations or closures, disrupting customer relationships, job security for employees, and local community ties. Mishandling this could lead to customer attrition and damage the newly formed bank's reputation via reducing consumer trust and loyalty.

The deal places the combined firm in 12th

Rank	Pennsylvania Bank	Assets ($Bn)
1	FNB of Pennsylvania	45.6
2	BNY Mellon	30.4
3	Fulton Bank	27.2
12	Mid Penn Bank	5.2
17	Orrstown Financial	3.0
24	Codorus Valley	2.2

Geographical Plot of Branches



Capital IQ, Reuters, AmericanBanker, SPGlobal

TMX Group Acquires the remaining 78% stake in VettaFi for $950m

Acquirer: TMX Group

TMX Group Limited (TSE:X) is a Canadian financial services company headquartered in Toronto that operates equities, fixed income, derivatives, and energy markets exchange.

TMX group provide clearing facilities data products and other services. TMX group had originally made strategic investments in VettaFi in the first half of 2023 for approximately 22% of the company

Market Cap:	$8.7 bn
Net Debt:	$1.39 bn
LTM Revenue:	$2.74 bn
TEV/ LTM EBITDA	4.4x

Target: VettaFi Holdings LLC

VettaFi is the parent company of ETF Trends and ETF Database. Founded in 2005 the firm serves as a financial education and media company. It provides ETF related education delivered via multiple digital mediums. It is a private firm owned by Aretex Capital Partners.

Market Cap:	~ $1.2Bn
EBITDA	15.4x
LTM Revenue (Sep 2023):	80%
EV/ LTM EBITDA	-

Transaction Summary

- On December 13th, 2023, TMX group entered into an agreement to acquire the remaining 78% stake in VettaFi from Aretex Capital Partners for $950m. The transaction is expected to be financed with committed bank debt up to $1Bn in term loans with $600m, up to $200m and $200m.
- The deal closed on January 2nd, 2024, swiftly after its announcement.



Announcement date:	13th December 2023
Offer per share:	-
Transaction value:	$948m
Implied Premium:	-
Acquirer adviser(s):	Evercore, Wilmer Cutler LLP
Target adviser(s):	Barclays, Ropes and Gray LLP

Sources: Capital IQ, Bloomberg, TMX group, TSX

The Acquisition Aligns with TMXs new strategy of Digital Diversification

Rationale and Outlook

Diversification and growth in new markets

TMX Group, traditionally focused on exchange services in Canada, might view the acquisition of VettaFi as an opportunity to diversify into the growing ETF market. This move could open new revenue streams and growth opportunities in a sector that has seen increasing popularity among both retail and institutional investors.

Value Creation

TMX Group's existing services could be significantly bolstered by the data analytics and market insights provided by VettaFi. VettaFi specialises in ETF tools, including those in blockchain and cryptocurrency themes, aligning with TMX Group's strategic expansion into digital assets following SEC approval of Bitcoin ETFs.

Risks

Diversifying into bitcoin ETFs, whilst potentially extremely lucrative, poses some inherent risks. The modern world is still adjusting to digital currency as a new medium of exchange. Consequently, while a Bitcoin ETF has been recently approved there remains regulatory challenges that need to be navigated carefully.

VettaFi Is A Big Player In The ETF Industry





Sources: Capital IQ, TMX group, Bloomberg

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

Dec 12, 2023 — **$550m**

KKR

Is negotiating to acquire stakes in

COTIVITI

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

Comment: KKR is looking to buy a 50% stake of the health care technology company Cotiviti from the fund manager Veritas Capital, expanding its assets in the health care sector as a part of their investment strategies.

For Veritas Capital, this deal will help them convert a successful investment to a full cash return to Veritas' investors.

The structure of the acquisition will leave Cotiviti roughly half-owned by KKR and Veritas.

Dec 20, 2023 — **~$13bn**

GENERAL ATLANTIC

Is engaging in talks to acquire

actis

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

Comment: The US private equity firm General Atlantic is looking at a potential acquisition of the infrastructure fund manager Actis which would diversify General Atlantic's investment strategies and add assets the company. Contributing to the preparation of its future IPO.

General Atlantic is known for backing large and fast-growing technology and consumer companies like Alibaba as their main investment strategies, this deal marks a potential step to diversify its investments.

Dec 20, 2023 — **~€6bn**

WARBURG PINCUS

Reached an agreement to acquire

altice

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

Comment: The global private equity firm Warburg Pincus is working with former Lloyds Bank CEO, Horta-Osório to acquire Altice's Portuguese telecom assets.

Altice has been actively selling its assets to relieve pressure from higher interest rates and their $60bn debt load, including a sale of major stakes in their French data centre to Morgan Stanley in November 2023.

The move by Warburg Pincus would expand their investment portfolio further in the technology and telecom sector, following their acquisition of T-Mobile's Netherland Business at €5.1bn.

Dec 21, 2023 — **~£700m**

The co-operative bank

Is proposing a bid to acquire

COVENTRY Building Society

Stage of the deal: ○○○○○ **Chance of success:** Low

Comment: The Co-operative Bank's acquisition of Coventry Building Society would represent a major strategic expansion of its services in mortgage services and products in the UK.

Coventry Building Society states that "no certainty that any transaction will occur" indicating the deal is still in its early stages and may not go through.

M&A involving banks has been historically challenging, due to the difference in financial reporting methods and software system, the entities often face trouble in merging their IT system and balance sheet.

Sources: Capital IQ, FT

Glossary

Adjusted EPS (Earnings Per Share): is a metric that excludes one-time or non-recurring items from a company's earnings calculation, offering a more accurate measure of its ongoing profitability. It provides a clearer view of the company's core operational performance by eliminating extraordinary items.

Credit Rating: assess the creditworthiness of individuals, companies, or governments. They are expressed through letter grades (e.g., AAA, BB) and represent the likelihood of the entity meeting its financial obligations; higher ratings indicate lower risk, while lower ratings suggest higher risk of default

Free Cash Flow (FCF): is the cash generated by a company's operations that is available for distribution to its investors, expansion, or debt reduction. It's calculated by subtracting capital expenditures from operating cash flow and represents the cash a company has after maintaining and expanding its business.

Synergies: refer to the additional value or benefits that result from the combination of two companies. These synergies can arise from cost savings, increased operational efficiency, or enhanced revenue opportunities

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