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Financial services experience a surge in cross-sector M&A

KPMG International

The rise in deals involving non-traditional buyers reflects sector convergence and a push for diversification and efficiency.

A new breed of buyer is shaking up the global financial services M&A space. Since 2012, the proportion of acquirers from outside the sector has risen by two-thirds to 15 percent — and is set to increase further.

And a growing number of these buyers are from Asia — particularly China — representing about 40 percent of the total deals involving non-financial services bidders in 2017. Other major Asian buyers are from Japan and South Korea, while US non-financial services firms have also been active.

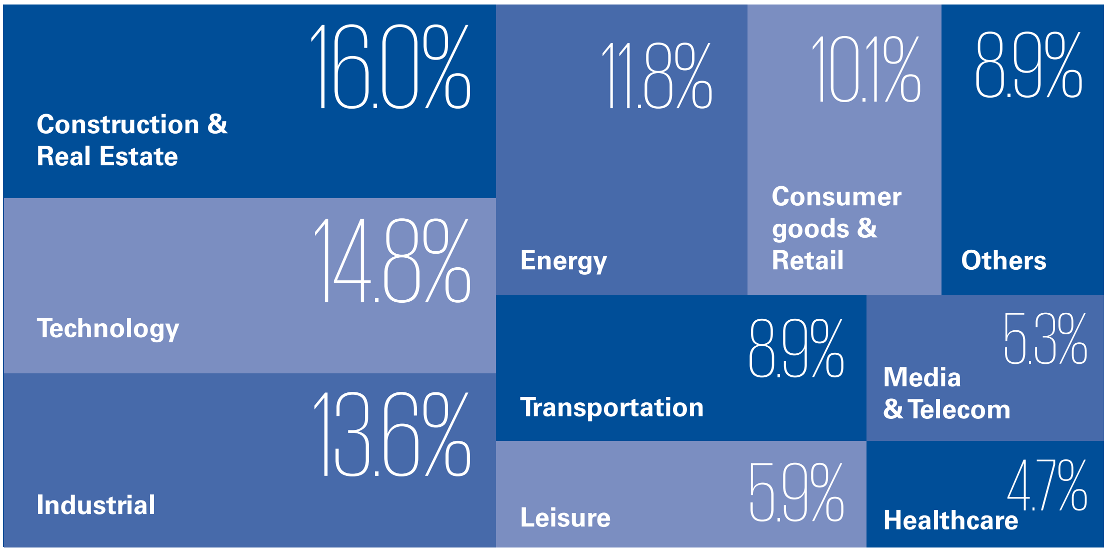
Many of these new, cross-sector acquirers are conglomerates, often from the construction and real estate, industrial, technology and energy sectors. Amongst the main targets are rental and leasing, asset management, retail and commercial banking. Additionally, a few Chinese non-financial services family offices or POEs (privately-owned enterprises) are acquiring European banks to get an EU license.

Investors have a range of motives for venturing outside their traditional industries and into financial services. While most are keen to increase their exposure to the financial sector, some see the possibility to cross-sell banking and other financial services products and services to their existing clients. A few players — notably capital intensive businesses with high working capital needs — see banks and other financing companies as a source of low-cost, rapid finance, and are also targeting leasing companies to develop their risk management capabilities and to generate cost efficiencies for internal support functions.

Convergence is influencing the financial services deal market

Possibly the most interesting, emerging deal rationale comes from sector convergence, as the lines between financial services and an increasing number of industries become blurred.

Estimated share of different sectors converging into financial services.*



** Size of each block indicates approximate market share of the relevant sector. Other sectors include agriculture, automotive, biotech and utilities.*

Source: Mergermarket

Some construction and real estate companies, for example, are seeking financial services businesses to gain an in-house funding source. Like Tangshan Tianheng's (a building materials giant) acquisition of Shenzhen Zhengxin Investment Management. Various non-financial services firms are also considering sector-related leasing firms, with German logistics provider VTG AG acquiring Nacco SAS[1] (a France-based rental and leasing company) in order to extend its service value chain.

Technology companies are an integral part of the convergence narrative and they too have their eyes on prized financial assets. Japanese giant SoftBank's US$3.3 billion purchase of US-based Fortress Investment Group[2] diversifies the former's asset management business and brings additional investment expertise.

Select technology players are also interested in fintech businesses to access the capability to better service financial services firms. Witness SAP's acquisition of Camilion Solutions[3] or Accenture's acquisition of Mortgage Cadence, with the latter strengthening Accenture's mortgage business process outsourcing (BPO) services[4]. More recently, SS&C Technologies Holdings acquired CommonWealth Fund Services, a Canada-based fund administrator[5]. The transaction will enable SS&C to expand its footprint in Canada and strengthen its business internationally.

Meanwhile, North American services firms are eying the financial services market for potential acquisitions. Aon Hewitt[6] bought Townsend, a US-based provider of investment management and advisory services, to expand its investment resources and know-how. And Genpact acquired LeaseDimensions[7], a US-based lease and loan servicing provider, to boost its commercial lending and leasing ability.

Various healthcare companies have started looking at health insurance companies as a way to horizontally integrate. Recently, we witnessed some high-value strategic deals between medicare and health insurance firms. At the same time, leisure and media companies are showing interest in financial services for diversification and to achieve additional income stream.

New horizons bring new challenges

Those buyers unaccustomed to the highly regulated world of financial services are likely to encounter a steep learning curve, as they attempt to maneuver the complexity of compliance. They may find that help is needed to keep abreast of constantly unfolding regulations, to avoid fines and reputational damage.

Indeed, with the exception of the larger Chinese conglomerates, a substantial proportion of non-financial services buyers are relatively inexperienced in M&A overall, and may require a degree of hand-holding to progress through the entire deal cycle to a successful integration and separation.

From a cross-border perspective, the other major challenge facing acquirers is the talent gap; in particular retaining (or recruiting) people with the skills and experience to navigate China and other foreign markets, to help address the inevitable differences in practices and cultures — and the conflicts that can ensue. Such problems are compounded in cross-sector M&A.

With fintech erasing the lines between financial services and other industries, and industrial and construction firms re-evaluating their value chains, we expect the trend in cross-sector deals to continue. As always, the winners are likely to be those that can realize value quickly through careful targeting and incisive execution, and who appreciate the importance of careful integration, especially when managing conflicts between foreign delegates and local management.

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[1] *VTG acquires NACCO Group, World Cargo News, 3 July 2017.*

[2] *SoftBank to buy Fortress Investment Group for US$3.3 Billion, China Daily Asia, 15 February 2017.*

[3] *SAP Expands Insurance Offering With Acquisition of Camilion, SAP press release, 7 March 2013.*

[4] *Accenture Completes Acquisition of Mortgage Cadence, Accenture press release, 1 August 2013.*

[5] *SS&C Closes Acquisition of CommonWealth Fund Services, PR Newswire, 13 October 2017.*

[6] *Aon to acquire leading real estate investment advisor Townsend Group; extending leadership position in investments, AON Hewitt press release, 1 September 2017.*

[7] *Genpact acquires LeaseDimensions, monitor daily, 13 March 2017.*

How can KPMG help?

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