European financial services market quiet

LONDON, UK: 2010 so far 'unremarkable' for European FS M&A activity but 'hot beds' of activity are starting to emerge, says PricewaterhouseCoopers.

The first quarter of 2010 was notable for the low number of high-value deals in the European financial services market. However, recovery is expected during the remainder 2010 with Spain and Germany emerging as potential 'hot beds' of activity, according to the latest 'European Financial Services M&A Insight' from PricewaterhouseCoopers.

Nick Page, partner, PricewaterhouseCoopers LLP commented: "The expected pick-up in financial services M&A activity has not yet materialised with deal levels remaining subdued across Europe. However, M&A volumes will experience a recovery during the year, with the ongoing restructuring of European banking a key driving force."

Overall, the value of European financial services M&A activity remained subdued during the first three months of 2010, with disclosed values amounting to €7.8bn. This is less than 10% of the €80bn recorded during the whole of 2009 and lower than any recent quarter since Q1 2009.

Banking deals were much less dominant than seen in the past, with transactions involving banking targets accounting for 46% of deal value compared to 25% for insurance transactions and 23% for asset management deals. There was a further decline in government-led activity with government-funded deals amounting to just 4% of the quarter's total deal value. By contrast, mid-market transactions continued to flow.

Looking ahead

Activity over the next few months is likely to be focused on publicly controlled banks as they seek to sell off parts of their businesses in order to meet European Commission State Aid Conditions.

Nick Page, partner, PricewaterhouseCoopers LLP commented: "The most obvious driver of M&A activity is the ongoing restructuring of the European banking sector and as a number of government-supported groups seek to comply with European Commission State Aid conditions, some attractive acquisition targets are likely to come on the market in the next few months.

"In the UK, the change of government is also likely to be a driver of M&A activity".

Beyond banking, further scale-building transactions among insurers, financial infrastructure companies and asset managers are also likely to be a prominent feature of the M&A landscape over the coming months.

Fredrik Johansson, director, PricewaterhouseCoopers LLP commented: "The coming regulatory shake up in the asset management sector has the potential to spur deal activity. UCITS IV could be a driver of consolidation and we may see service providers seeking to expand their footprint across Europe."

Further M&A activity involving private equity firms is also expected, boosted by the growing availability of debt finance, the recovery in financial services valuations and some funds' need to invest capital raised before the financial crisis.

The European markets to watch

Germany: the 'stirring giant' of European M&A activity.
• EU competition rulings and growing political pressure are adding further impetus to the resurgence of M&A in the German banking sector. Germany offers opportunities for synergies and market development that few other countries of this size can match.
Spain: the market shakeout created openings in the Spanish market:
• Spain is highlighted as one of the countries in which restructuring is likely to be most pronounced. Institutions are looking to consolidation and divestment to help strengthen margins and rebuild their balance sheets crating a range of opportunities for investment. There is also growing interest in the acquisition of non-performing loans portfolios.