

Private sector deals send positive signal to financial services sector despite falling values

LONDON, UK: While deal values in the financial services sector dropped off in the final quarter of last year, PwC experts believe that this decline will not change the positive trend of increasing mergers and acquisitions (M&A) activity.



Pre-released figures from PwC's *Sharing Deal Insight* report, which examines deals across the European financial services sector and is due to be published later this month, show that during 2010 deal values across the sector fell to €52 billion (about R520 billion) from €80 billion (about R800 billion) in 2009. The fourth quarter of last year showed a marked deceleration in activity, with a value of €9.5 billion (about R95 billion) - a 55% decline on the €21.3 billion (about R213 billion) recorded in the previous quarter. A slowdown in reported banking deals and sales of equity stakes was the single largest factor behind the decrease in disclosed deal values in Q4.

Nick Page, partner at PwC, said: "Last year's deals only reached just over half the value recorded in 2009 but the gathering of momentum in private sector activity, driven primarily by bank restructuring is cause for optimism. Deal values in 2009 were largely supported by government-led activity and a couple of big transactions. As banks continue to investigate options for their non-core assets, activity is likely to gather pace."

Banking deals fall

Overall banking deals fell from €49 billion (about R490 billion) in 2009 to €30 billion (about R300 billion) in 2010, but the high level of government-led transactions in 2009 makes comparison misleading. With government activity removed, banking deals grew from €11 billion (about R110 billion) in 2009 to €26 billion (about R260 billion) last year. Insurance deal values dipped slightly to €10 billion (about R100 billion) in 2010 from €12 billion (about R120 billion) in 2009, while asset management deals fell from €15 billion (about R150 billion) (a figure buoyed by the c.€10 billion (about R100 billion) acquisition of BGI) to a more modest €8 billion (about R80 billion).

Fredrik Johansson, director at PwC, said: "We believe there will be three principal factors that influence M&A in European financial services this year. A search for growth will stimulate cross-border deals, we'll see restructuring in banking and asset management in response to regulation and there will be a greater prominence of private equity as investors in the

sector. Private equity firms were bidders in three of last year's top 20 deals and their role is becoming increasingly influential."

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