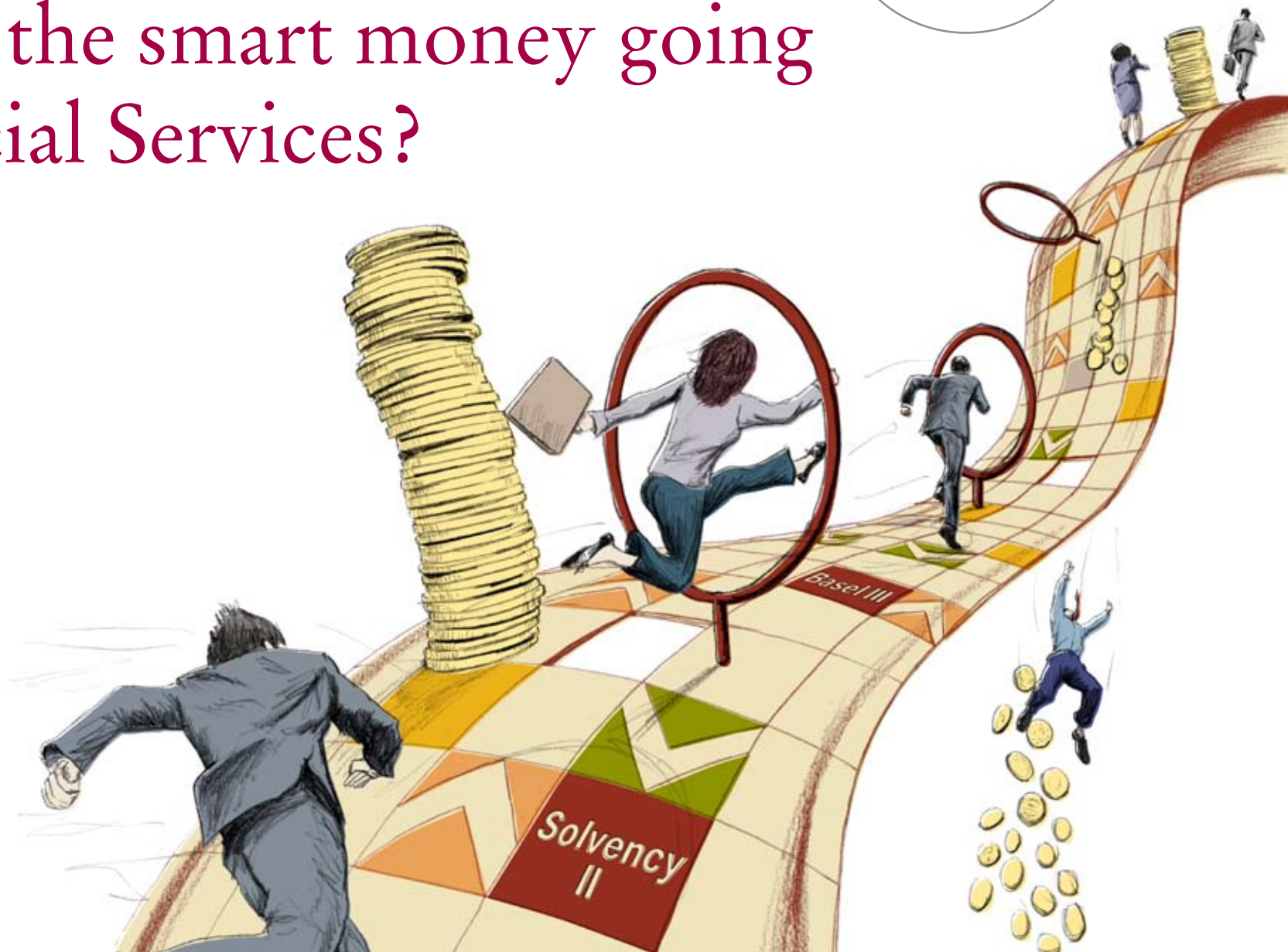


Where is the smart money going in Financial Services?



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Introduction

After three years in the doldrums, the pressure on private equity to make effective acquisitions is intense. And because of its size, the Financial Services sector cannot be ignored as a source of potential targets.

Grant Thornton's recent survey of private equity managers suggests that most are thinking of acquiring a Financial Services business in 2011 and that nine out of ten believe sector deal volumes will increase in the short-to-medium term. The majority also predict that valuations will rise.

This renewed spark was not unexpected. Financial Services companies account for 15% of UK GDP and London's position as the world's leading financial centre is likely to endure for some time, whatever noises the major banks may make about relocating. For private equity firms, Financial Services is just too big and too rewarding a market to rule out.

Exploiting market opportunities

Furthermore, the recent recession – unlike that of two decades earlier – took out a number of major players but left the legions of smaller firms largely intact. In a largely unconsolidated market, these smaller players need investment to be able to grow and exploit the opportunities of structural market change.

However, the survey shows that, beneath the allure, there are deep concerns about the sector. The global economic crisis that the Financial Services industry itself provoked is still firmly in mind, with recovery from this crisis cited as the key factor in driving future deal activity.

The medicine dispensed to avert another financial meltdown – sector regulation – is seen by some as posing as great a threat as economic failure itself. Virtually the whole UK Financial Services industry faces new directives from national, regional and global bodies, many private equity players are uneasy about the practical challenges of compliance and the knock-on effects on profit.

Complex concerns

Such broad economic and regulatory concerns are exacerbated by a more local anxiety: confusion about the nature of the Financial Services sector itself. Alongside the solid and unrivalled core of sector expertise and experience within the private equity industry, many are in the dark. The survey shows a major cause for reluctance to invest in Financial Services is the basic difficulty of understanding it.

The solution to this stumbling block is implied in the survey feedback itself: excellent sector knowledge is the primary differentiator that private equity managers say they seek in an adviser. Those firms that secure expert advice when operating in the newly regulated and post-recessionary Financial Services world appear likely to reap the greatest rewards.



Peter Allen
Partner, Head of Financial Services

What private equity investors are telling us

Our survey of private equity managers highlights a conflicting attitude to Financial Services, with apparent commitment to investment coexisting with clear concerns about the sector:

- more than two thirds say they are planning to invest in the UK Financial Services sector this year, with niche businesses the main target;
- ninety per cent predict that private equity activity in the industry will increase in the next two years, with almost two thirds believing valuations will rise;
- the most attractive fields are banking and insurance – areas in which the spinning off of non-core assets provides opportunities for private equity deals and consolidation.

However, there are strong reservations about extensive new industry regulation and the resilience of the economic recovery:

- a significant number say regulatory restrictions are discouraging them from investing in Financial Services businesses and that regulatory change is the primary challenge facing the sector;
- reflecting industry scepticism about the coming regulation, less than a third think that major directives such as new global banking standard Basel III and new EU insurance measure Solvency II will make the industry more resilient;
- many say the sector's vulnerability to economic downturn makes them more reluctant to invest;
- the sector itself remains opaque to many. A candid 30% of respondents admit they find Financial Services difficult to understand.



An insight into the Financial Services sector

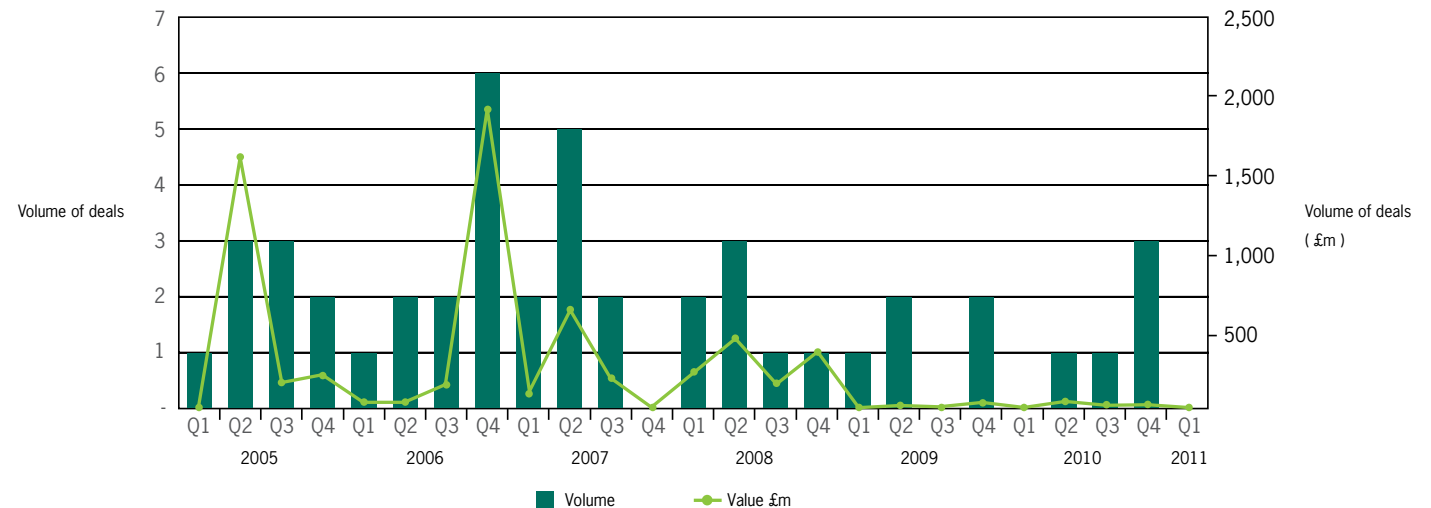
2011 could be the year when private equity activity in the UK Financial Services sector gets back into its stride.

In the first quarter of the year, the total value of all European buyouts was more than double that of Q1, 2009, according to Nottingham University's Centre for Management Buy-Out Research (CMBOR). During the quarter, UK activity dominated the European all-sector market with 44 deals, representing 36% of all European deals. The UK Financial Services sector witnessed four deals in the first quarter of 2011: one up on the first quarters of both 2009 and 2010.

Increasing deal flows

The quarter showing was, nonetheless, markedly weaker than that seen in the strong final quarter of 2010, with the 2011 Q1 total buyout market at €11bn compared to €20.2bn in the previous quarter. However, commentators suggest that the slower quarter marked a pause in the recovery, not a halt, and that a robust deal pipeline and a return to confidence – following events in Japan, North Africa and the Middle East – is likely to lead to an increase in deal flow as 2011 progresses.

Overall M&A trends in the UK Financial Services sector



2010 had, after all, shown significant year-on-year advances over the stagnant previous 12 months. Last year, there were 26 private equity-backed deals across the UK Financial Services sector, 11 more than in 2009. Their total value was £4.1bn, almost six times greater than in 2009. The fact that, last year, there were fewer withdrawn deals than for half a decade is another sign that confidence seems to be returning.

Furthermore, three deals from last year were among the 20 highest value UK Financial Services deals of the period 2005 to 2010: Star Capital Partners, 3i Infrastructure and Morgan Stanley Infrastructure's £2.1bn acquisition of the HSBC-owned rail leasing business Eversholt Rail Group; Advent International and Bain Capital's £2.025bn bid for an 80% stake in payments business RBS Global Merchant Services, and Achilles' £844m buyout of Brit Insurance Holdings.

The long way back from Lehman

Despite such positive signs, the UK is still a long way from the frenetic Financial Services M&A activity of the period preceding the September 2008 collapse of Lehman Brothers.

In 2007, the RBS-led consortium's ill-fated acquisition of ABN AMRO at the apex of the market was the largest bank takeover in history. Financial Services was the most significant industry in terms of European M&A activity, two thirds higher than energy, the next most active sector. And total Financial Services deal value across the continent was up by around 50% over 2006, which had itself been more than 70% higher than 2005.

Private equity-backed deals played a significant part in the boom. In the UK in 2007, there were 33 Financial Services sector deals, six more than the previous year, with a total value of £5.28bn: banking deals dominated the market, although insurance and asset management total deal value grew at a faster rate. The following year saw an even higher total value of £7.831bn.



The small players: still missing

Rod Ball, of Nottingham University's Centre for Management Buy-Out Research, says the major private equity operators have returned to activity but the small players are still absent.

"The really big deals started to come back last year and that trend has continued. The mid-market is also reviving, although at a slower rate.

"However, the number of MBOs below £10m, initiated by small teams going to the bank to get a loan, have really dried up. This is bringing down the overall volume figures and is likely to take some time to rectify."



John Walker
Director
Barclays Private
Equity

A measured recovery?

John Walker, Director, Barclays Private Equity, believes the recovery in the private equity activity will continue - but at a measured pace.

“We are certainly seeing more activity. Bank funding is becoming softer and more predictable. The more that happens and the more it gets fed into management equations, the more deals will happen.

“There has not been a huge step-up in new deals, but there are more going into the pipeline and more pitches occurring, which will hopefully lead to completions later in the year. We are also seeing more realisations, so clearly there are buyers out there.

“That said, there is still a sense of caution. ‘Problem deals’ are taking longer to complete. Where there are issues, investors want them bottomed out and quantified before they act. Things remain fragile.”

The impact of the downturn

The crash, however, led to a 25-year low in global M&A deal activity. In the UK in 2009 – as limited access to debt stalled leveraged buyouts, buyers and sellers disagreed over asset values, and weakened Financial Services companies held limited attraction – sector deal value fell to £688m on the year’s 15 deals.

Financial Services suffered more than almost any other sector, according to the British Private Equity and Venture Capital Association (BVCA). BVCA figures show that between 2007 and 2009, the proportion of all UK private equity investment that went into the Financial Services sector fell from 14% to 11%. The only industry, of the UK’s ten recognised sectors, to experience a greater fall was consumer services.

The number of Financial Services companies receiving investment, as a percentage of the total volume of funded companies across all sectors, halved between 2007 and 2009.



Mo Merali
Partner
Head of
Private Equity
Grant Thornton

“For many private equity investors the financial services sector feels like home, because they themselves are a financial services enterprise. However the realities of working with and investing in businesses in this sector is certainly not for the faint hearted or for the generalist.

“Given the myriad of regulations that already exist, with the inevitability of more regulation and the technical, accounting and tax complexities in the sector the winners - whether the businesses themselves, their management or their investors, will emerge from a small group who have a deep understanding of the issues and who have been in and around the sector over the long term.

“Given the importance of London as a key player in the global financial services industry, the sector provides excellent investment opportunities and focus on the sector is only going to increase, therefore making it more competitive.”

Several factors are contributing to the sector's apparent recovery:

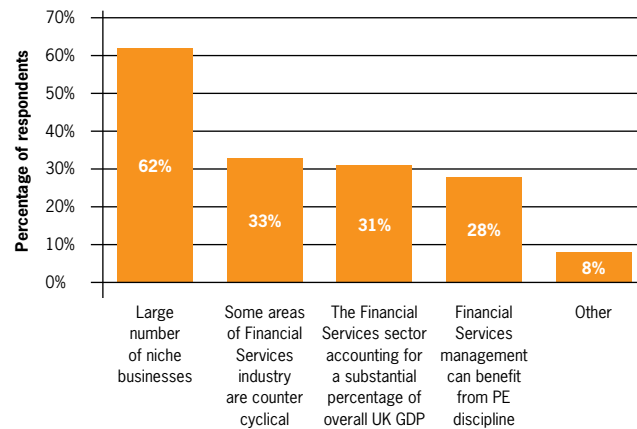
- the rising number of attractive targets as Financial Services organisations, particularly banks and insurance companies, look to simplify their operations by divesting non-core activities or non-core territories. This is partly driven by a need to meet new capital adequacy requirements, as outlined in the global standard Basel III and the EU's Solvency II, and the UK's Retail Distribution Review
- the obligation on certain state-indebted UK banks to sell off assets. For example, RBS is being obliged to divest its insurance business, which includes leading brands Churchill and Direct Line
- easier access to debt, although it still makes up a relatively low proportion of bids. Last year, sector-wide, senior debt stood at 31% of deal financing, 20% less than in 2007
- private equity companies' return to fundraising. Apax Partners, for example, is reported to be launching a new €11bn fund this year, the largest since the financial crisis
- reduced ability and interest amongst trade in acquiring new businesses – due to the impact of the financial crisis and the requirements of new regulation – leaving a more open field for private equity investors.

The diffidence of trade buyers could open up prizes that may formerly have been out of reach for private equity. The large rewards may, however, require collaboration between different firms. After a period during the boom when private equity players had the funds and access to debt to go it alone, 2010 saw the re-emergence of 'club-deals': the top three M&A deals of the year – of RBS Global Merchant Services, Brit Insurance Holdings and Eversholt Rail Group – each involved different private equity firms joining together to bid.

The question remains, however, whether private equity companies are yet ready to re-enter the Financial Services market or whether – like many of the trade – they will sit it out for a while. This report suggests some likely answers.

Private equity's target sectors

What specific factors have drawn you to the Financial Services sector?



The UK's strong base of niche Financial Services companies is at the heart of private equity's attraction to the sector, with 62% of survey respondents citing it as the primary point of interest.

One private equity manager asserts: "There is more breadth to the UK financial service sector [than in the rest of the world]. There are more smaller, innovative companies."

Broadly, 'niche' Financial Services companies are either services firms or intermediaries. In the fintech services arena, for example, companies deliver specialised offerings such as payment and anti-viral software and desktop trading systems. Niche intermediaries, meanwhile, often focus on narrow areas, such as insuring thoroughbred horses or ship hulls or offering professional indemnity to specific professions.

Grant Thornton's Peter Allen says that niche is not a synonym for scarce. "There are numerous niche businesses in existence – more than enough to keep the private equity sector interested. The challenge is to find models that are extendable."

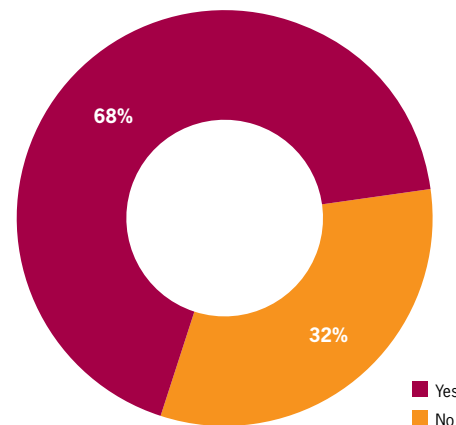
He thinks there are several reasons why niche companies are attractive to the private equity industry. "They are the 'right size,'" he suggests. "They are mainly priced in the range of tens of millions of pounds, rather than hundreds."

"This means that the 'average' private equity fund will be able to afford one as part of a mixed portfolio, or as a platform for further acquisitions."

“Niche businesses also create expectations of higher speed and higher compound growth than larger businesses. Furthermore, private equity culture isn’t about buying the everyday. Niche businesses thus suit the private equity drive to unlock non-transparent value and find things that others haven’t.”

It is this interest in niche companies that encourages more than two thirds of respondents to say they want to invest in Financial Services this year. The ratio that believes the wider private equity industry will invest in the sector this year is even higher, at 90%.

Does your firm plan to make an investment in the UK Financial Services sector over the next 12 months?



Investment management: the value of confidence

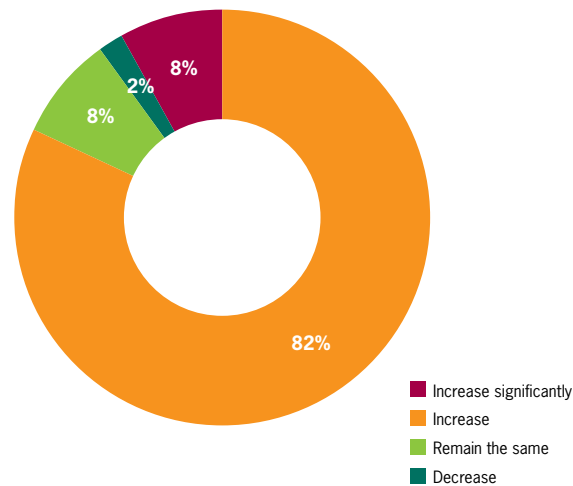
More than a fifth of survey respondents cite investment management as their preferred Financial Services sub-sector, third only to banking and insurance. Julian Bartlett, Partner, Head of Investment Management, Grant Thornton, weighs up the industry's pros and cons.

“Investors are often attracted to the investment management sector, as it is relatively transparent and carries a high quality of earnings in the form of sustainable fee income. However, although the sector offers great opportunities, there are particular risks that need to be understood.

“Most investment management firms are people businesses where confidence is everything: clients bring their money because they believe and trust in the people who will manage it. A loss of confidence can quickly destroy value.

“Investment management businesses provide geared exposure to investment markets. Many costs are fixed, while management fee income usually reflects market movements. This gearing effect can be worse for outsourced administration businesses that carry a greater degree of fixed cost.”

How do you expect private equity activity (ie deals) in the UK Financial Services industry to develop over the next 12 to 24 months?



Opportunities in sector spin-offs

Interest straddles the whole industry, although banking and insurance are seen as particularly attractive. Many of the big players in these two sectors are, of course, currently spinning off their non-core assets, to meet strategic objectives, new capital adequacy requirements and, in the case of bailed-out businesses, EU demands.

Indicative of the opportunities that such spin-offs offer for private equity, the two biggest private equity deals of last year were drawn from banking and insurance: the sale of RBS Global Merchant Services and HSBC's £2.1bn sale of the Eversholt rail leasing operation.

Ninety per cent of respondents think that such bank divestitures will be a continuing factor in deal numbers. As one private equity manager states: "Asset sales from banks and secondaries will create deal flow in the market."

When it comes to insurance, brokers are identified by respondents as the most attractive target.

The lure of banking assets

More than two thirds of our survey respondents think that the banks' private equity ventures are the most likely to face disposal. This prediction reflects the market: the Eversholt spin-off, for example, is due to be followed by the sale of five of HSBC's management buy-out, growth capital, real estate and infrastructure investment businesses, overseeing \$8.8bn of assets.

Reflecting private equity's interest in banking – and a currently cash-straitened trade – survey respondents think that private equity acquisition of banking assets will continue. One private equity manager notes: "I would expect a lot of interest from private equity groups. We have assumed there would be a lot of money coming out of emerging markets and Chinese banks for this, but it has not happened."

Duncan Lamb
Partner
Corporate Finance
Grant Thornton
UK LLP

Overview of fintech sector

"We have seen a significant number of niche businesses growing in the Financial Services space in the last 24 months, clearly bucking the trend, and we believe this will continue, at least for the medium term. This is creating key investment opportunities, particularly for larger providers and those looking to consolidate in the sector.

"Activity in the financial services software market is being driven by the rapidly increasing burden of regulation and growing levels of outsourcing. The software industry in particular is a key growth area due to high levels of long-term earnings making such businesses attractive to both senior lenders and private equity alike."

However, despite recent significant private equity acquisition of insurance and banking spin-offs, Grant Thornton's Rupert Rawcliffe, Director, Corporate Finance, believes the major trade players are far from out of the market.

He says: "It's important not to see the recent M&A activity in the Financial Services space as an opportunity to pick up bargains, especially as there still seem to be a number of strategic buyers looking to enter the UK or European markets and pay a premium for doing so."

He cites PNC Financial Services Group's 2010 acquisition of Belgian bank KBC's asset-based lending business as a good example of this. PNC, a major diversified US Financial Services organisation, was looking for a robust platform for entry into the European market, while KBC, advised by Grant Thornton, was looking to focus on central Europe. High capital costs meant that private equity could not meet KBC's acquisition criteria.

Mr Rawcliffe cautions that, due to long lead times, even EU-imposed sales may not prove attractive ultimately to private equity. He says: "RBS, for instance, has until the end of 2013 to dispose of a controlling interest in RBS Insurance. These long lead times should, in turn, reduce the chances of financial institutions entering into 'fire sale' agreements and increase the opportunity to preserve stakeholder value."

UK deals

Across the board, intimations of deal activity are greater UK-side, with private equity managers saying they are 13% more likely to invest in the British Financial Services industry than internationally. One private equity manager notes: "Though other markets are indeed growing, we're still not confident enough to invest in the global market."

Private equity reservations about Financial Services

The private equity industry is clearly attracted to the Financial Services sector but it remains markedly cautious. As one respondent says: “Funding is coming back to the market. However, Financial Services could still be viewed as a risky place to be.”

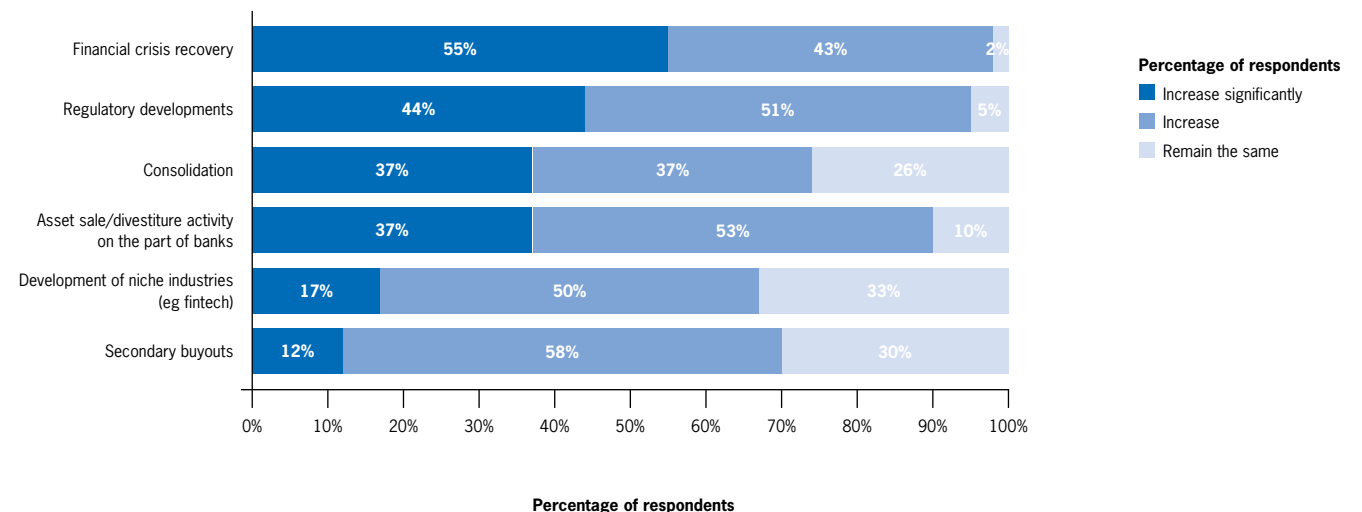
Indeed, while the stated 68% rate of private equity’s intention to buy in the coming year is significant, it is markedly lower than that shown elsewhere. Grant Thornton’s earlier private equity surveys on the Media, ICT and Support Services sectors show intention rates that are between 16 and 29 percentage points higher.

Investment concerns

Respondents are clear about the cons as well as the pros of sector investment. As indicated, two of their particular concerns are:

- the robustness of the economic recovery;
- the regulation that is facing much of the Financial Services industry. Fifty eight per cent of respondents rate this as its primary challenge, while 93% say this will be important in shaping private equity buyers’ appetite for sector businesses.

How important will the following factors be in driving private equity activity in the UK Financial Services sector?



Significantly, almost two thirds believe such factors will challenge almost all Financial Services sectors.

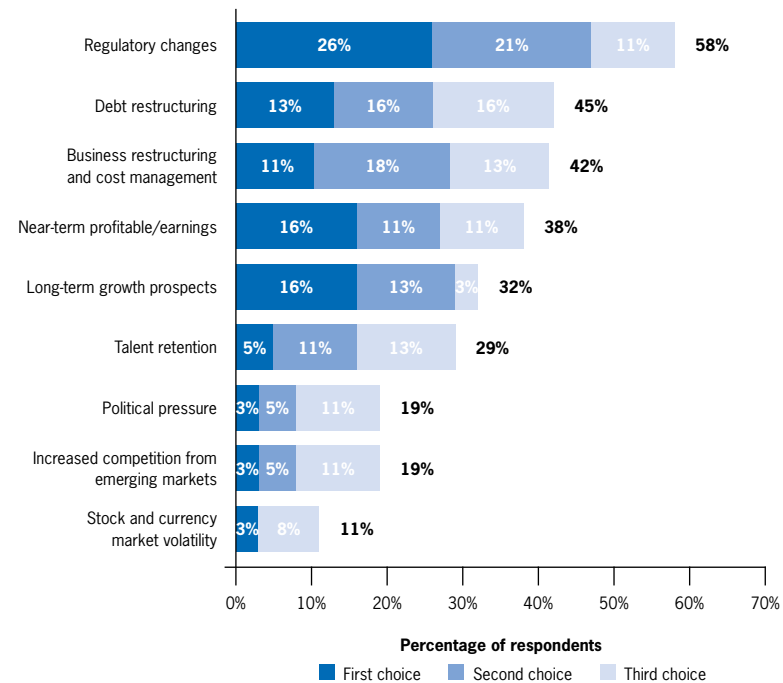
Future regulation and the fate of the economy are, of course, both unknowns. The global impact of the civil unrest and natural disasters of the early part of 2011 show how economic forecasting must be ready for the unexpected. And, while there has been much discussion about current regulatory changes, no one knows for sure how well organisations will manage compliance, how smoothly new corporate governance requirements will evolve, how regulation will affect business and how consumers will respond.

Grant Thornton’s Peter Allen points out, however, that not all Financial Services sub-sectors are equally affected by continuing economic turbulence.

“Some Financial Services businesses are not vulnerable to macro-economic factors,” he says. “Loss adjusting is an example: buildings will always burn down.

“However, a huge chunk – such as lending businesses, investment managers and those reliant on housing transactions – are. If the economy remains choppy over the medium to long term, as seems likely, a significant number of Financial Services businesses will find it difficult to make money.”

What will be the primary challenge facing Financial Services companies in the next 12 months?



Regulation: opportunity or threat?

This current swathe of regulation – both international legislation, such as banking’s Basel III and insurance’s Solvency II, and UK-specific rules, such as the investment industry’s Retail Distribution Review (RDR) – is changing radically the way Financial Services companies do business and manage their balance sheets.

Respondents – and the wider industry – are divided on whether regulation is a threat or an opportunity.

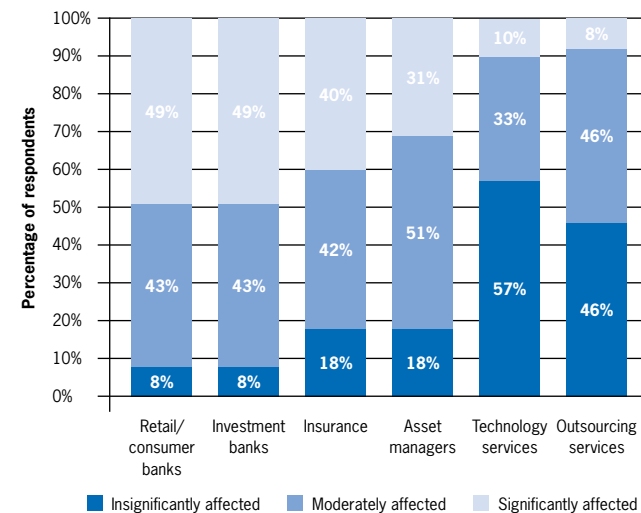
It is, undeniably, severely testing for many financial businesses, which have to find the time, money and expertise to implement the changes as well as learning to live with a more intrusive regulator.

“The FSA has moved from ‘light touch’ regulation to more intensive regulation,” comments Jon Sperrin, Director, Grant Thornton Financial Services Group.

“They have become pre-emptive, intervening before problems or signs of weakness occur. This has led to a huge increase in the cost of building regulatory requirements into business as usual.”

Our survey respondents are well aware of these challenges: more than half feel that meeting new capital requirements and providing effective risk management will be particularly difficult hurdles for Financial Services companies. Disclosure requirements, cross-border regulation and management/governance are also significant concerns. One private equity manager observes: “Risk management will be a difficult area. Many financial institutions still have sub-optimal risk management practices which have not kept up with the pace of development of financial instruments.”

How much will these sub-sectors be affected by expected regulatory changes, such as higher capital adequacy requirements and disclosure requirements?



Towards consolidation

Grant Thornton's Jon Sperrin stated that general insurance businesses are under particular pressure. "Insurance businesses are facing significant costs as a result of complying with the increasing burden of UK regulatory requirements. There will be some who will need to consolidate, as businesses will no longer be profitable in its current form."

Despite the effort involved, many respondents are sceptical as to whether the mass of national, regional and international legislation will prove worthwhile. Less than one third think that Basel III and Solvency II will make the industry more resilient in the long term. One respondent comments: "The costs related to complying with Basel III will just be passed on to consumers."

However, some commentators believe regulation offers the Financial Services and private equity industries as many opportunities as it does threats.

Peter Allen gives two areas where regulation is opening up opportunities for both companies and potential private equity acquirers.

"If you have a business model that is more robust to regulatory change – and, for example, a lot of firms are saying they are RDR-proof at the moment – you could be very well placed. Additionally, the changing regulatory scene offers opportunities for niche companies that advise on regulation."

Patrick Storey, Senior Partner, Grant Thornton Financial Services Group, believes the wave of regulation will engender a more resilient Financial Services sector.

"The more proactive stance of the FSA is separating the wheat from the chaff. It is a two-edged sword: regulation is increasing the cost of running a business and taking a product to market but the businesses that survive are stronger," he says.

For the private equity sector, meanwhile, non-core divestments and businesses prompted by regulation to sell up or consolidate present fresh opportunities for acquisition. In the IFA sub-sector alone, industry surveys suggest that between 10% and 30% of players may leave the market. As one survey respondent says: "Insurance companies will focus on where they should deploy their capital. The regulatory changes will force them to sell their books and assets and focus on underwriting, as this is their primary business."



Regulatory round-up

For the UK Financial Services industry, the global downturn added further regulatory weight to an already heavy burden of new legislation.

Before the crash, the focus was principally on: planning and implementation for the major European insurance directive, Solvency II; conduct of business issues, in particular, mis-selling investigations into pensions and mortgage sales, preparing for business model changes arising from the Retail Distribution Review, and dealing with assuring and documenting 'Treating Customers Fairly'.

The financial crisis heralded significant new responsibilities, in three main areas:

- governance: regulators' concerns over the ineffectiveness of boards in preventing major failures increased the focus on: board effectiveness and governance structures, controlled functions, remuneration policies and procedures, due diligence reporting to audit committees, and internal audit effectiveness and resourcing
- client money: regulators have focused heavily on client money issues, notably in insurance, asset management and the broker dealer sub-sector
- banking structures: changes to capital, leverage and liquidity requirements have been driven by the new global banking standard Basel III and related policy.

Focus on exit plans

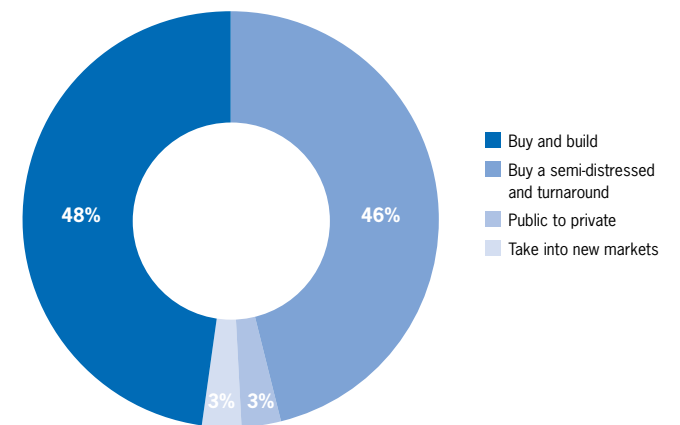
Private equity may have picked up significant recent prizes, such as RBS Global Merchant Services and HSBC's Eversholt train leasing business, but private equity managers think that trade will reassert its bid dominance.

Almost half of survey respondents see the trade as the most likely acquirer of their future company sales. Just 3% see a secondary buyout as the most likely exit. One private equity manager says: "It's harder to say when trade buyers will be back in acquisition mode, however, they are the natural exit route due to the lower cost of capital."

Philip Secrett, Grant Thornton Partner, Capital Markets, says this strong preference for trade exits is to be expected at such an uncertain time. "Financial investors can price risk but dislike uncertainty and will sit on their hands until the resilience of the Financial Services sector, and the likely impact of legislative change, is better understood.

"With greater visibility will come a more evenly distributed view of likely exit routes where private equity and IPOs will feature more prominently, albeit with trade remaining the first choice to capture valuation upside from synergistic benefits."

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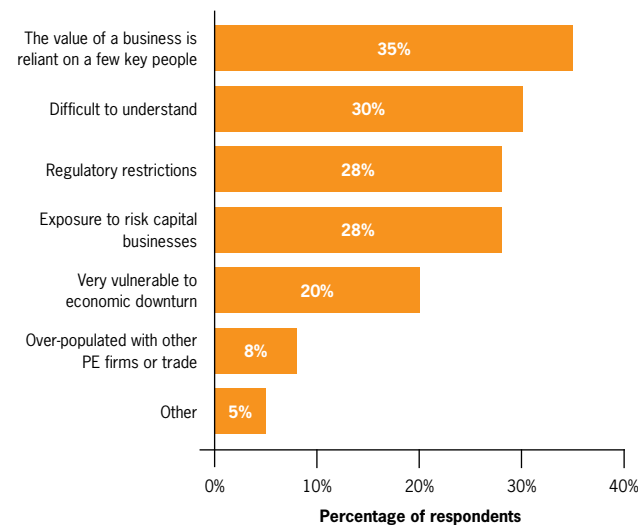
Decoding complexity

Expert knowledge is critical to deal making in the Financial Services sector – arguably more so than in any other industry. Notwithstanding current regulatory and economic uncertainty, the sector itself can be baffling – as indicated by the fact that 30% of our respondents cite the difficulty of understanding the sector as the second most significant factor inhibiting investment.

In considering the complexity of just one area, general insurance, Grant Thornton’s Jon Sperrin says: “The size, scale and diversity of the general insurance sector – with, for example, the mix of UK and international markets, Lloyd’s of London market and insurance company markets all doing different things – can be overwhelming.

“Even with a steady state the regulatory environment is complicated. An unsteady state makes it all the more difficult.”

What factors have made you reluctant to invest in Financial Services businesses?



Regulation does not, of course, just involve meeting sector rules today, it is also about being held to account for legacy issues. For the mortgage and general insurance industries, which have only been regulated since the mid-2000s, such legacy issues are still being unearthed. This poses another concern for possible buyers.

As Patrick Storey says: “It is difficult to know what you are buying with a company, as the mis-selling scandals have shown. It can be difficult to quantify that sort of legacy risk. We are going through a period of skeletons falling out of cupboards and regulation provides more cupboards in which to look.”

Unexpected ‘skeletons’ are not the only reason why private equity buyers need to be well informed – and wary – before they leap. Grant Thornton’s Rupert Rawcliffe says private equity should be selective when looking for opportunities in the Financial Services space.

“Private equity may find it hard to compete with strategic players when it comes to buying capital or loan-based Financial Services assets, compared to people-based ones such as advisory businesses. The development of the former depends on committing large amounts of capital going forward for growth at relatively low yields. In addition, a strategic buyer will have stronger market knowledge in specialist areas.

“I think private equity is more likely to prefer services-based, low-capital opportunities as opposed to capital-intensive assets.”

With such complexity it is not surprising that 60% of survey participants consider ‘excellent sector knowledge’ the most important requirement when selecting a financial adviser, with a further 25% considering it very or somewhat important. Price is considered the most important criterion by just 9%.

It is interesting, given such perceptions, that a large number of respondents do not routinely call on expert advisers. Only four out of ten always use external advisers for financial due diligence, 28% for commercial due diligence and 18% for buy-side M&A advice.

Reflecting on this finding, Jon Sperrin cautions: “Know what you are buying. If you do not have genuine industry knowledge and expertise, internally, make sure you use external advisers that do. You really do need someone who knows exactly where to look to find the skeletons in the cupboard.”



John Walker
Director
Barclays Private
Equity

The private equity view

John Walker, Director, Barclays Private Equity, is a strong advocate of taking up external due diligence advice.

“We virtually always use advisers for financial and commercial due diligence,” he says. “The rare exception would be when we were investing in a small bolt-on acquisition to an existing business, where we were confident that existing management knew the sector so well that external insights were not necessary.”

Mr Walker believes that the current wave of new legislation increases the need to seek expert advice.

“I sit on the board of an FSA-regulated lending business and the influence of the authority over the last 12-18 months has been huge. Previously, it was much less thorough and intensive. I would say that any firm looking at an FSA-regulated firm now should seriously consider robust due diligence.”

Conclusion: Clear messages for private equity and trade

The headline findings of our survey – that private equity firms have a powerful interest in the Financial Services sector but are mindful of its many challenges – offers a clear message for Financial Service businesses and Private Equity firms.

For corporate finance advisers, the survey confirms that clients see real value in our strong sector knowledge.

For managers or owners of niche Financial Services businesses who believe that private equity money or expertise could add value to their company, now is the time to move. The 40 private equity firms that participated in our survey are keen to make investments – and the market as a whole has billions of pounds at their disposal. After a relatively fallow period, more than two out of three are interested in your kind of business: now is the time to act.

For private equity managers, as our respondents indicate, Financial Services is a challenging and complex sector, facing the dual uncertainties of major new regulation and an uncertain economy. But it is also an industry that offers outstanding opportunities for reward, with significant numbers of companies in lucrative sectors that could grow exponentially with an injection of private equity capital and expertise. It is well worth the effort.



About us

About Grant Thornton

Grant Thornton UK LLP is a leading financial and business adviser with offices in 25 locations nationwide. Led by over 200 partners and over 4,000 of the profession's brightest minds, we provide personalised assurance, tax and specialist advisory services to over 40,000 individuals, privately-held businesses and public interest entities.

Our market-facing business units are supported by relevant sector specialists who share their expertise and insight across our firm, resulting in an agile and innovative environment. We're flexible to respond to our clients' increasingly discerning requirements and meet the challenges posed by our rapidly changing marketplace.

We strive to speak out on issues that matter to business and are in the wider public interest. We focus on being a bold and positive leader in our chosen markets and within the accounting profession.

About Grant Thornton Financial Services Group

Our commitment to the Financial Services sector ensures that our multi-disciplinary client service teams consist of highly specialised professionals with extensive Financial Services experience. We combine deep technical expertise and market understanding with an appetite to work with our clients to achieve their ambitions.

Methodology

During the early months of 2011, Remark, the research and publications arm of The Mergermarket Group, canvassed the opinions of 40 private equity practitioners with experience of investing in the UK Financial Services sector. Respondents were asked to give their opinions on a number of issues, including the impact of the economic downturn on the Financial Services sector, the complexity and increasing regulation of the sector, as well as their firm's area appetite for investment in the sector going forward. All answers were confidential and the results have been reported in aggregate.

The deal data in this report is accurate up to the end of April 2011.

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EPI715