

# Market recovery set stage for increased M&A in financial services

April 13, 2011

By Adam Cancryn and Aarti Kanjani

Rising equities markets during the past seven months have lifted valuations and restored buyer confidence within the financial services sector, prompting an increase in M&A discussions during the first quarter.

Those talks have yielded just a few large deals so far, but investment bankers said the activity is an encouraging sign for an industry attempting to return to its pre-crisis prosperity.

Charles Schwab Corp. made the biggest splash during the quarter, agreeing March 21 to acquire optionsXpress Holdings Inc. for about \$1.03 billion. That helped propel UBS Investment Bank into the top spot among financial advisers, as measured by deal value. Bank of America Merrill Lynch, Credit Suisse (USA) Inc. and Morgan Stanley also finished the quarter strong, thanks to Walter Investment Management Corp.'s \$1.05 billion deal for GTCS Holdings LLC.

Securities and investments financial adviser rankings Year-to-date 2011				
2011 YTD rank	FY'10 rank	Company	No. of deals	Total deal value (\$M)
<b>Ranked by deal value</b>				
1	19	UBS Investment Bank	2	1,277.0
2	NR	Evercore Partners Inc.	1	1,032.5
3	16	Berkshire Capital Securities LLC*	3	262.8
4	15	Cambridge International Partners Inc.	1	244.5
5	NR	Keefe Bruyette & Woods Inc.	1	188.7
5	11	Sandler O'Neill & Partners LP	1	188.7
7	24	Barclays Capital Inc.	1	22.5
8	NR	New Century Capital Partners Inc.	1	7.0
<b>Ranked by number of deals</b>				
1	1	Berkshire Capital Securities LLC	3	262.8
2	22	UBS Investment Bank	2	1,277.0
3	NR	Evercore Partners Inc.	1	1,032.5
3	10	Cambridge International Partners Inc.	1	244.5
3	NR	Keefe Bruyette & Woods Inc.	1	188.7
3	3	Sandler O'Neill & Partners LP	1	188.7
3	10	Barclays Capital Inc.	1	22.5
3	NR	New Century Capital Partners Inc.	1	7.0
3	2	Colchester Partners LLC	1	NA
3	3	Macquarie Capital (USA) Inc.	1	NA
3	22	Silver Lane Advisors LLC	1	NA
3	NR	William Blair & Co. L.L.C.	1	NA

NR = not ranked; NA = not available  
 Year-to-date data are as of March 31, 2011.  
 Rankings finalized April 5, 2011.  
 \*Deal value for at least one deal is not available.  
 Based on announcement deal values.  
 Includes whole and asset deals.  
 In-house advisers are included.  
 Terminated deals are not included.  
 Includes deals with target geography as U.S. and Canada.  
 In the event advisers merge or an adviser is purchased by the parent of another adviser, SNL retroactively adjusts historical rankings to the single, highest-level adviser. If the buyer is already receiving credit for a particular deal, it will not receive additional credit following the merger.  
 Source: SNL Financial

## Securities and investments:

### Firms reposition for sustained growth

The deal environment for securities and investment firms has improved markedly, Cambridge International Partners Inc. Partner John Temple said, even if deal values are not yet fully recovered. Whereas, in 2010, many transactions were driven by a need to cut costs and streamline operations, there is now a sense that it is safe to begin to grow again.

"Forced sales at low multiples were very damaging to buyer confidence, and those have pretty well come to an end now," he told

Securities and investments legal adviser rankings Year-to-date 2011				
2011 YTD rank	FY'10 rank	Company	No. of deals	Total deal value (\$M)
<b>Ranked by deal value</b>				
1	2	Kirkland & Ellis LLP	1	1,032.5
1	5	Simpson Thacher & Bartlett LLP	1	1,032.5
3	6	Weil Gotshal & Manges LLP	1	188.7
3	NR	Willkie Farr & Gallagher LLP	1	188.7
5	1	Sullivan & Cromwell LLP	1	100.0
6	NR	Covington & Burling LLP	1	22.5
7	NR	Drinker Biddle & Reath LLP	1	18.3
7	22	Stradley Ronon Stevens & Young LLP*	2	18.3
9	15	Dewey & LeBoeuf LLP	1	7.6
9	NR	Gibson Dunn & Crutcher LLP	1	7.6
<b>Ranked by number of deals</b>				
1	23	Stradley Ronon Stevens & Young LLP	2	18.3
1	6	Seward & Kissel LLP	2	NA
3	10	Kirkland & Ellis LLP	1	1,032.5
3	2	Simpson Thacher & Bartlett LLP	1	1,032.5
3	10	Weil Gotshal & Manges LLP	1	188.7
3	NR	Willkie Farr & Gallagher LLP	1	188.7
3	1	Sullivan & Cromwell LLP	1	100.0
3	NR	Covington & Burling LLP	1	22.5
3	NR	Drinker Biddle & Reath LLP	1	18.3
3	6	Dewey & LeBoeuf LLP	1	7.6
3	NR	Gibson Dunn & Crutcher LLP	1	7.6
3	NR	Haynes and Boone LLP	1	7.0
3	NR	Morse Zelnick Rose & Lander LLP	1	7.0
3	23	Blank Rome LLP	1	NA
3	23	Duane Morris LLP	1	NA
3	NR	Finn Dixon & Herling	1	NA
3	NR	Hill Ward & Henderson PA	1	NA

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 Source: SNL Financial

SNL. "The last four months of [2010], we really started to see some strength in the equity markets, and that made a tremendous difference to both buyer confidence and seller desire to transact."

The link-up between Charles Schwab and optionsXpress illustrated that attitude shift. Previously, Charles Schwab had said it worried about adding businesses like optionsXpress because it served a different client base. But as options trading became more popular and the broader market strengthened, the firm became confident enough in its financial position to make the investment.

Cowen Group Inc. and LaBranche & Co. Inc. also brokered a large-scale deal in the first quarter. Cowen took a gamble on LaBranche despite the storied market maker's struggles, betting that its technology and personnel would help it take advantage of the market recovery and introduce new opportunities abroad. Keefe Bruyette

Temple's Cambridge International finished fourth by deal value, due to its work on Ashmore Group Plc's deal to acquire a majority stake in Emerging Markets Investors Corp. unit Emerging Markets Management LLC.

Berkshire Capital Securities LLC led all advisers in number of deals, with three.

Legal advisers Kirkland & Ellis LLP and Simpson Thacher & Bartlett LLP tied for the No. 1 spot relative to total deal value, while Stradley Ronon Stevens & Young LLP and Seward & Kissel LLP tied for the highest number of deals, with two.

### Financial technology: Private equity firms drive deal making, hungry for more

While securities and investment firms are just now ramping up their deal talks, the pipeline for financial technology companies is

Financial technology financial adviser rankings				
Year-to-date 2011				
2011 YTD rank	FY'10 rank	Company	No. of deals	Total deal value (\$M)
<b>Ranked by deal value</b>				
1	3	Bank of America Merrill Lynch*	2	169.6
1	2	Credit Suisse (USA) Inc.	1	169.6
3	NR	Morgan Keegan & Co. Inc.	1	48.0
4	10	William Blair & Co. LLC	1	37.0
5	NR	Martin Wolf Securities LLC	1	15.1
<b>Ranked by number of deals</b>				
1	1	Bank of America Merrill Lynch	2	169.6
2	4	Credit Suisse (USA) Inc.	1	169.6
2	NR	Morgan Keegan & Co. Inc.	1	48.0
2	3	William Blair & Co. LLC	1	37.0
2	16	Martin Wolf Securities LLC	1	15.1
2	12	Macquarie Capital (USA) Inc.	1	NA
2	2	Morgan Stanley	1	NA
2	16	StoneRidge Advisors LLC	1	NA
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Financial technology legal adviser rankings				
Year-to-date 2011				
2011 YTD rank	FY'10 rank	Company	No. of deals	Total deal value (\$M)
<b>Ranked by deal value</b>				
1	34	White & Case LLP	1	48.0
1	46	Wilmer Cutler Pickering Hale and Dorr LLP	1	48.0
		Gunderson Dettmer Stough Villeneuve Franklin		
3	NR	& Hachigian LLP	1	37.0
3	NR	Kilpatrick Townsend & Stockton LLP	1	37.0
<b>Ranked by number of deals</b>				
1	20	White & Case LLP	1	48.0
1	20	Wilmer Cutler Pickering Hale and Dorr LLP	1	48.0
		Gunderson Dettmer Stough Villeneuve Franklin		
1	NR	& Hachigian LLP	1	37.0
1	NR	Kilpatrick Townsend & Stockton LLP	1	37.0
1	2	Debevoise & Plimpton LLP	1	NA
		Skadden Arps Slate Meagher & Flom LLP & Affiliates		
1	4	Affiliates	1	NA
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& Woods Inc. and Sandler O'Neill & Partners LP acted as financial advisers on the transaction.

Temple said he expects the deal pace to continue to accelerate, especially as the valuation gap closes between buyers and sellers.

"In 2009 [and] 2010, the market sort of locked up, because sellers were not prepared to sell at a time when both their revenues, profitability and multiples were down," he said. "Even if they haven't returned to 2007 levels, they are certainly back within spitting distance."

After UBS, Evercore Partners Inc. placed second among financial advisers in total deal value.

about to burst. Despite just a few mid-sized transactions in the first quarter, according to SNL, Martin Wolf Securities LLC President Martin Wolf said the deal appetite is "as high as we've seen."

Wolf, who said he is close to brokering a near-\$100 million deal and has "two or three others" in progress, told SNL that he has heard a lot of acquisition chatter from companies looking for a technological advantage over their competitors.

"The value for many of these companies is the first-mover advantage," he said. "In the space that we're in, in terms of financial services [IT companies], they're fast-growing and high-margin, and some of these guys have proprietary tools."

Much of the interest in the financial technology sector has come from private equity firms, Wolf added. Their strategy is to purchase a number of companies, then bundle them to create a more full-service firm.

Among private equity firms, Stone Point Capital LLC unit Cunningham Lindsey Group Inc. acquired GAB Robins North America Inc.'s loss-adjusting business, while Parthenon Capital Partners unit AmWINS Group Inc. bought Oakwood Software Insurance Solutions LLC.

Wolf said the main selling point for acquirers has been the recurring revenue that financial technology companies can generate.

"You've got growth, you've got IT, you have recurring revenue. ... You're in a strong position," he said. "We always measure the activity based on how many people are left at the altar, and there are more bidders today than there are sellers."

Bank of America tied with Credit Suisse in terms of deal value at \$169.6 million but advised on the most deals, with two.

Among legal advisers, White & Case LLP and Wilmer Cutler Pickering Hale and Dorr LLP tied for the highest deal value, while none advised on more than one transaction.

### Specialty finance: Cautious optimism as firms monitor GSE reform debate

If there is one sector hesitant to jump back into the fray, it is specialty finance. But firms can be forgiven for being less than en-

thusiastic about M&A, Nomura Holdings Inc.'s James Kern said, given the prolonged effect the financial crisis had on the securitization market.

"The trend is improving, but we're still not at a point where people are willing to pay significant premiums over book value," he told SNL. "That's just a function of people still being a little skittish as to the recovery and the ability to fund business models."

Kern, Nomura's head of global finance and specialty finance investment banking for the Americas, said companies want to see the market's momentum continue a little bit longer before committing to large investments. Also, unlike other parts of the financial services industry, there is still a significant valuation gap between sellers and acquirers, making it difficult for potential partners to progress past a certain point.

"People are willing to enter deals. The question is finding the right one," he said.

Specialty finance financial adviser rankings				
Year-to-date 2011				
2011 YTD rank	FY'10 rank	Company	No. of deals	Total deal value (\$M)
<b>Ranked by deal value</b>				
1	7	Bank of America Merrill Lynch*	2	1,045.0
1	8	Credit Suisse (USA) Inc.	1	1,045.0
1	6	Morgan Stanley*	2	1,045.0
4	NR	Durham Capital Corp.	1	95.3
4	22	Gleacher & Co. Securities Inc.	1	95.3
<b>Ranked by number of deals</b>				
1	8	Bank of America Merrill Lynch	2	1,045.0
1	5	Morgan Stanley	2	1,045.0
3	14	Credit Suisse (USA) Inc.	1	1,045.0
3	NR	Durham Capital Corp.	1	95.3
3	14	Gleacher & Co. Securities Inc.	1	95.3
3	14	Beekman Advisors LLC	1	NA
3	3	Keefe Bruyette & Woods Inc.	1	NA
3	NR	Nomura Securities International Inc.	1	NA
3	NR	SunTrust Robinson Humphrey Inc.	1	NA
3	14	Wells Fargo Securities LLC	1	NA

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1	1	Simpson Thacher & Bartlett LLP*	2	1,045.0
1	NR	Willkie Farr & Gallagher LLP	1	1,045.0
3	NR	Scott & Kraus LLC	1	149.4
4	7	Andrews Kurth LLP	1	95.3
4	NR	Meadows Collier Reed Cousins & Ungerman LLP	1	95.3
4	1	Schulte Roth & Zabel LLP	1	95.3
7	NR	Kleinberg Kaplan Wolff & Cohen PC	1	65.0
7	NR	Robinson & Cole LLP	1	65.0
7	NR	Shipman & Goodwin LLP	1	65.0
10	NR	Strong & Hanni	1	0.7
10	43	Troutman Sanders LLP	1	0.7
<b>Ranked by number of deals</b>				
1	21	Simpson Thacher & Bartlett LLP	2	1,045.0
2	21	Willkie Farr & Gallagher LLP	1	1,045.0
2	NR	Scott & Kraus LLC	1	149.4
2	21	Andrews Kurth LLP	1	95.3
2	NR	Meadows Collier Reed Cousins & Ungerman LLP	1	95.3
2	21	Schulte Roth & Zabel LLP	1	95.3
2	NR	Kleinberg Kaplan Wolff & Cohen PC	1	65.0
2	NR	Robinson & Cole LLP	1	65.0
2	NR	Shipman & Goodwin LLP	1	65.0
2	NR	Strong & Hanni	1	0.7
2	9	Troutman Sanders LLP	1	0.7
2	21	Cleary Gottlieb Steen & Hamilton LLP	1	NA
2	9	Kirkland & Ellis LLP	1	NA
2	9	Latham & Watkins LLP	1	NA
2	NR	Taylor English Duma LLP	1	NA

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Kern said he could see an increase in deals involving mortgage servicers over the long term, once government-sponsored enterprise reform is settled and Fannie Mae and Freddie Mac begin their anticipated phase-out.

“There’s a lot of people spending time around trying to understand and develop these around what the new business model will be,” he said, adding that major activity in the sector is still a long way off.

Bank of America, Credit Suisse and Morgan Stanley all advised on Walter Investment’s deal for GTCS, resulting in a tie for those with the highest deal value, at \$1.05 billion. Bank of America and Morgan Stanley both finished with two deals, tops for the quarter.

Simpson Thacher & Bartlett led legal advisers as the only firm to advise on two transactions. It was equaled in total deal value by Willkie Farr & Gallagher LLP. Both advisers also worked on the Walter Investment deal. *i*