



FINANCIAL SERVICES

FIRST QUARTER

2018

The Financial Services Industry Practice Group draws on the experience of CFA dealmakers, who as former business owners, CEOs, and industry professionals, have first-hand knowledge and have completed many transactions in sectors throughout the Financial Services category. Working with your local CFA representative, you can be sure that the collective wealth of knowledge is available to every CFA client.

Financial Services M&A

M&A activity for North American based target companies in the Financial Services sector for Q4 2017 included 134 closed deals, according to data published by industry data tracker *FactSet*.

One of the largest transactions of the quarter closed in November when Hartford Life & Accident Insurance Co, a subsidiary of Hartford Life Inc, ultimately owned by The Hartford Financial Services Group Inc, acquired the business and assets of the group life and disability operations of Aetna Inc for US\$1.5 billion in cash. Funding for the deal came from existing capital resources. The acquisition accelerates Hartford Life & Accident Insurance Co's strategies for distribution, digital capabilities and claim outcomes, and enhances its distribution footprint. The transaction is expected to be accretive to The Hartford Financial Services Group Inc's earnings in 2018.



Rallying along with the market, stocks in the banking sector surged in Q4 2017.

Transactional Overview

Notable closed lower middle market transactions for the period in the Financial Services sector include:

December 2017 - Crossroads Systems, Inc. acquired Capital Plus Financial LLC for US\$39.5 million in cash and stock. Under the terms of transaction, Crossroads Systems would pay US\$30.8 million in cash and issued 2,955,028 shares to the shareholders of Capital Plus Financial. The transaction would be funded from US\$24.2 million of new debt and US\$6.6 million of Capital Plus Financial's cash on hand. The transaction enhances Crossroads Systems' portfolio of financial services. Crossroads Systems is an intellectual property licensing company, that engages in developing data storage and data management technologies. Capital Plus Financial provides financial services. The firm offers personal financial literacy service. It provides a restored home in densely urban areas of Texas. The company is headquartered in Bedford, TX.

December 2017 - Smoothwater Capital Corp acquired the remaining 65.43% majority stake not already owned in Equity Financial Holdings, Inc. for CAD64 million (US\$49.7 million) in cash. Under the terms of the agreement Smoothwater Capital Corp offered to pay CAD10.25 (US\$7.95) in cash for every share of Equity Financial Holdings,



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represented a premium of 36.2% to the volume weighted average price of the shares on the Toronto Stock Exchange for the 20 trading days ending October 30, 2017. Smoothwater Capital operates as an activist investment fund company. It focuses on investing in small to midcap Canadian public companies. Equity Financial Holdings is a Canadian financial services company serving the alternative retail mortgage market. The company operates through its wholly owned subsidiary Equity Financial Trust Co., which offers residential mortgage loans on single family homes in Ontario through a network of independent mortgage brokers. Equity Financial Holdings was founded on September 14, 2001 and is headquartered in Toronto.

October 2017 - Arthur J Gallagher & Co acquired Dibrina Group for CAD66.8 million (US\$53.5 million). Under the terms of transaction, Arthur J Gallagher & Co paid CAD42.8 million (US\$34.3 million) in cash and CAD24 million (US\$19.2 million) in contingent payout to Dibrina Group. Arthur J. Gallagher & Co. is engaged in providing insurance brokerage and risk management services to commercial, industrial, institutional and governmental organizations. Dibrina Group provides human resources, employee benefits, wealth management and life insurance consulting and brokerage services. The company was founded in 1989 and is headquartered in Sudbury, Canada.

Selected Q1 Closed Transactions	
Target/Issuer	Buyers/Investors
Reel Media LLC	FFI Holdings Plc
Bluestone Capital Partners LLC	Houlihan Lokey, Inc.
American Business Lending	Gulf Coast Bank & Trust Co.
Retirement Strategies, Inc.	Genstar Capital LLC; Aquiline Capital Partners LLC
Genesis Capital LLC	Goldman Sachs Asset Management
Professional Mortgage Co., Inc.	First Tennessee Bank NA
Access Point Financial, Inc.	WCP Investments LP
Barrington Strategic Wealth Management Group LLC	Telemus Capital LLC; Focus Operating LLC

Industry Update

As driverless cars hit the road, US car-insurance premiums are projected to fall due to safer autonomous vehicles (AVs) and big declines in car ownership, according to The Wall Street Journal. Indeed, after peaking in 2023 at about \$236 billion, premiums paid to auto insurers will decline steeply to just over \$200 billion in 2036, according to Accenture and Stevens Institute of Technology. In addition to the challenge of making up for lost premium revenue, insurers are grappling with how to insure passengers and their property for the short duration of their rides in an AV. To this end, Waymo, the driverless car unit of Alphabet, is partnering with insurance-technology startup Trov to insure riders of its driverless ride-hailing service. Trov is looking to usage-based insurance, which changes in response to the customer's needs or actions, to cover riders in Waymo AVs. Trov's ability to measure risk in "micro-durations" -- such as the period when a rider swipes on and off her coverage -- appealed to Waymo. Trov's policies with Waymo, which plans to begin offering rides in its AVs in 2018 to people in the Phoenix area, will be underwritten by reinsurer Munich Re AG, the Journal reports.

Industry Indicators

- The bank prime loan rate, an indicator of financial institutions' revenue from services, was 4.25% as of the week ending December 12, 2017, up from a rate of 3.5% the same week in 2016.
- Total US revenue for the finance and insurance sector rose 6.1% in the third quarter of 2017 compared to the previous year.

Collectively, the Financial Services Practice Group provides M&A advice to independent and integrated financial services companies in all sectors of the financial services industry, including and financial and businesses that serve the financial services industry, in all aspects of and based transactions, mergers, acquisitions, joint ventures and financial resources.

