

UK Lending Sector Ownership Analysis



May 2011

Introduction



"Where I come from it's called collateral."

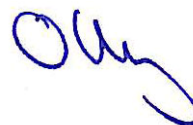
Beauty is in the eye of the beholder

At IMAS we are used to dealing with a range of companies but what is common to all of them is our clients' desire to realise optimal terms in a transaction.


Our knowledge of the whole of the UK financial services sector and our unique insight into potential overseas purchasers enables us to identify the strongest strategic fit thereby securing the best terms.

Careful planning of an exit strategy can significantly enhance the value of your business. If you would like to discuss how to maximise this, please call us.

We hope you find the report informative.



Olly Laughton-Scott



Tony Green

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Executive summary

The UK lending sector is dominated by risk bearing lenders

- There are 454 businesses (comprising over 2,000 legal entities) in the UK with an estimated capital value in excess of £5m which are active in the lending sector
 - Risk bearing lenders represent c.80% of the sector, brokers c.8% and support services providers c.12%
- Risk bearing lending has historically been and will continue to be a major component of the UK lending sector
 - Distribution/brokerage is likely to continue to be a smaller part of the overall market, remaining as a very fragmented industry with capital values largely below the £5m threshold
 - Support services are likely to grow as lenders recognise the benefits of outsourcing, both in terms of expertise and resource capacity

Overseas ownership will continue to be a major influence

- Representing c.43% of all businesses, overseas ownership is by far the most common form of ownership within the sector
 - This is led by the US with 29 controlled UK businesses, followed by Germany (15), Japan (9) and Switzerland (9)
 - Ownership is highly concentrated within the risk bearing segment, typified by international banks
- Overseas companies will continue to play an important role in the ownership of the UK lending sector
 - This is driven by the global nature of banking and the UK's position as a major hub within the financial services industry
 - Asian influence can be expected to increase as their emerging economies continue to grow

The UK lending sector is dominated by businesses of scale with more £100m+ capital value businesses than £25m-100m

- Larger capital values derive from the scale inherent in international lending businesses within the risk bearing sector and lending itself being offering typically as part of a broader array of products

Private equity has been active across the sector, but exits have been delayed by the market downturn in 2008/2009

- Private equity firms control just under 9% of the lending sector by number
- Whilst the regulatory and capital requirements may be more challenging for private equity's business model, there are more investments within risk bearing lending than in distribution and support services
 - Relative to the size of each segment, however, support services is the main focus with private equity controlling one quarter of all such businesses above £5m capital value
- Two-thirds of private equity investments have been held for more than three years, suggesting there may be considerable activity as the M&A market returns

Principal shareholders in the 60-69 age range still control over one quarter of all privately held companies

- Privately held companies are, after overseas companies, the most common form of ownership, representing c.25% of all businesses
- The average age of the principal shareholder is 54 years with relatively little differentiation by segment
- Ownership of the segment falls to only c.7% for those aged 70 and above, implying that succession or sale has been largely achieved by such time

Background and methodology

Background to this report

The UK lending sector sits at the heart of UK economic activity. Ownership within the sector has undergone some high-profile changes since the crisis at the end of 2008. With attendant regulatory imperatives, a fundamental reassessment of the relationship between risk and reward has led the industry to lower lending levels to both consumers and corporates and to raise pricing.

As part of its underlying research into ownership of the UK financial services industry, IMAS Corporate Advisors has ‘mapped’ the entire UK financial services industry including its shareholders. This process has taken over ten years to complete and has been captured in IMAS’s proprietary knowledge management system, IMAS-*insight*.

In this report, IMAS has reviewed 454 businesses which are active in the UK lending sector, analysing their activities, their capital value and their ownership structures. Within these businesses are over 2,000 related legal entities.

Methodology

The data employed in this report has been sourced from Companies House, the FSA Register as well as proprietary research undertaken by IMAS to identify businesses in the UK lending sector owned by overseas shareholders. This includes identification of non FSA-regulated overseas-owned businesses and sub-sector classifications for all firms.

Companies have been categorised based on their principal lending activity into the following categories: risk bearing, distribution or support services. These categories are further explained on page 4.

A capital value has been assigned to each company based on the application of appropriate multiples to the most recent financial and other operating parameters available. Whilst this may be subjective, the approach has been consistently applied and companies categorised accordingly into the following broad categories: £5m to £25m, £25m to £100m, and £100m+. Businesses with a lower estimated capital value have been excluded from this report.

Where judgemental issues have arisen relating to ownership, we have sought to apply ‘substance over form’. For example, overseas intermediate holding companies are looked through to the ultimate domicile of the parent company.

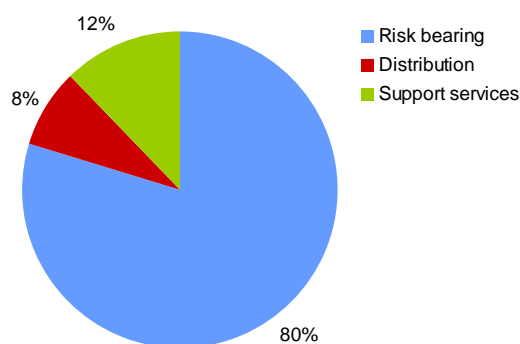
About IMAS Corporate Advisors

IMAS is a corporate finance adviser specialising in managing sales of financial services businesses in the UK. We advise owners on all stages of the disposal process, from the initial preparation for the transaction through to its completion. Having completed over 100 transactions, we use our unique and proprietary knowledge management system (“IMAS-*insight*”) that ‘maps’ the entire financial services industry in the UK, to identify the fullest possible range of buyers, both domestic and overseas.

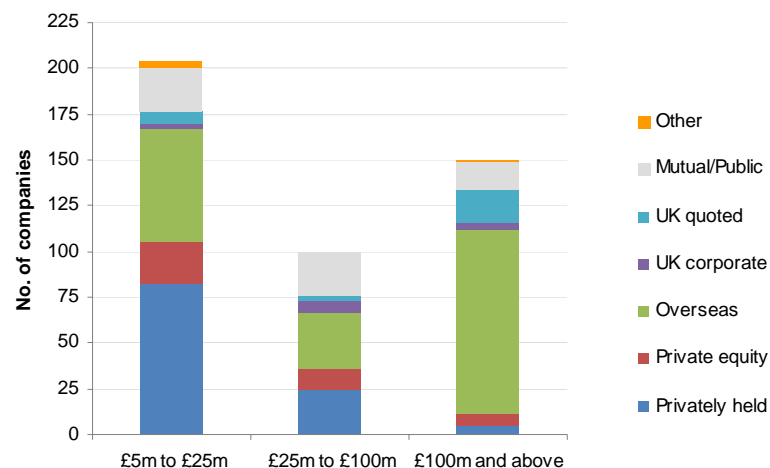
For further details please contact Olly Laughton-Scott (ols@imas.uk.com tel: 0207 444 4392) or Tony Green (tg@imas.uk.com tel: 0207 444 4394), or visit our website: www.imas.uk.com.

The UK lending sector is predominantly comprised of risk bearing lenders

The UK lending sector universe (454 businesses)



Distribution of businesses by ownership profile



Source: IMAS-*insight*, Companies House, FSA Register

Highlights

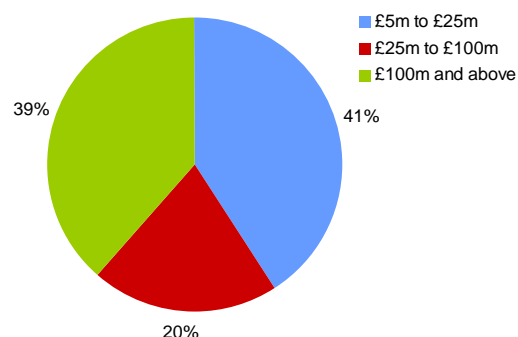
- 454 UK businesses comprise our UK lending universe with a minimum estimated capital value of £5m
 - 80% of the universe is comprised of risk bearing lenders: this segment represents companies such as banks, building societies, asset based lenders and consumer finance groups
 - 8% is comprised of lending brokers/distributors, which includes commercial finance brokers, mortgage brokers, and secured/unsecured personal finance brokers
 - 12% is comprised of support services which includes debt collectors, debt management advisory firms, and third party loan administration companies
- Ownership of the sector is diverse, but over two-thirds is controlled by either overseas companies or private individuals
 - Mutuels represent the next largest category, driven principally by the building society segment - although there are many hundreds of credit unions, these tend to be small and have been excluded from this report
 - Private equity ownership is relatively modest, reflecting the challenges posed to their business model by certain sub-sectors' regulatory and capital requirements

Implications

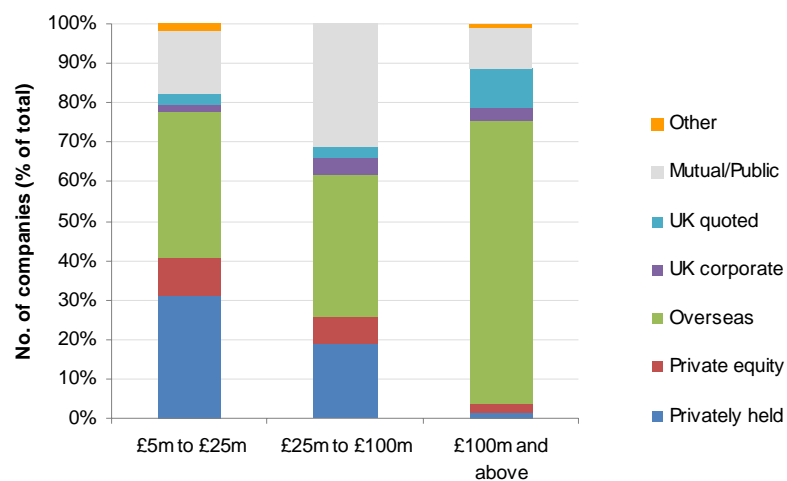
- Lending is a global business as evidenced by the extent of overseas ownership, which is driven principally by the risk bearing segment with lending often part of a broader product offering
- Over one-third of the businesses are in private ownership (either private equity or privately held), suggesting there is likely to be movement in the ownership profile in this category over the coming years

Risk bearing lenders are dominated by overseas owners

Distribution by capital value (362 businesses)



Distribution of businesses by ownership profile



Source: IMAS-*insight*, Companies House, FSA Register

Highlights

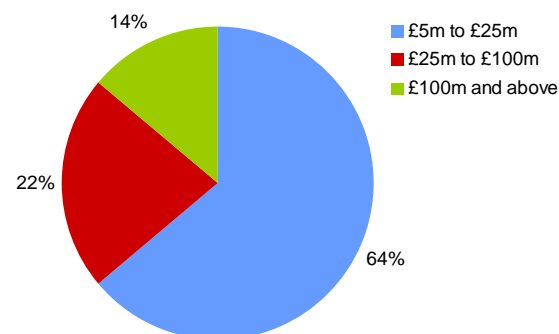
- Unusually, the number of £100m+ groups is almost as large as the smaller £5-25m groups
 - This is driven by the very high proportion of overseas owned banks in the sector
 - Such banks typically offer a broad range of services, including lending, and have significant scale as a result
- Private ownership falls relatively as capital values increase (which is to be expected) but the relative level of private ownership is the lowest within this segment
- Private equity has the largest absolute number of investments within this segment, but relative to the size of the segment, private equity has the lowest relative level of ownership within the three segments
- Mutuels are strongly represented within this segment, largely comprising building societies

Implications

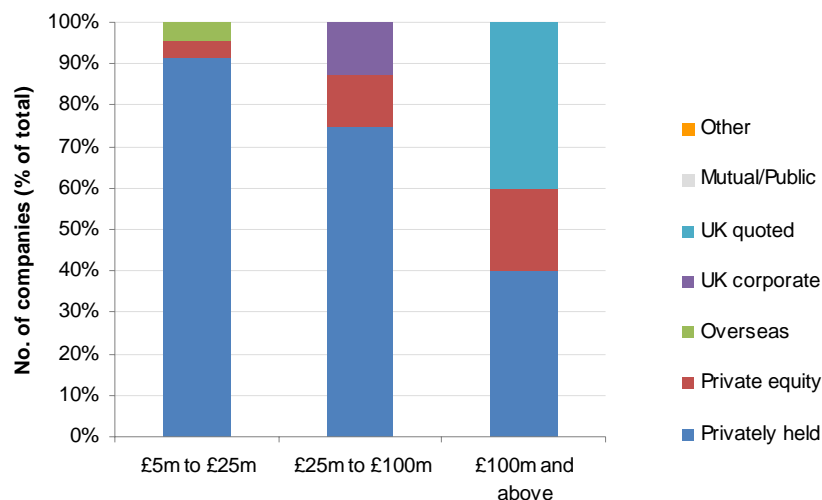
- Given the well-publicised challenges in securing funding from the main lenders in addition to increasing regulatory burdens, it is perhaps not surprising that private ownership is lowest within this segment
- Overseas companies are likely to continue to play a dominant part in the ownership of the segment, reflecting the status of the UK as a major hub within the global financial services industry and the critical mass required to be a leading participant
- Private equity have relatively few investments, reflecting the challenges that regulatory and capital requirements pose to their business model

Distribution businesses have the highest level of privately held ownership

Distribution by capital value (36 businesses)



Distribution of businesses by ownership profile



Highlights

- Smaller groups represent almost two-thirds of the universe
 - This segment is predominantly privately held, reflecting lower capital requirements compared to risk bearing lending
 - This is consistent with the distribution segment being highly fragmented as most businesses have been excluded from this report on the basis of an estimated capital value of less than £5m
- Private ownership is the most common form of control within this market, and higher than in the other segments
 - Although this wanes as capital values increase, privately held companies still account for c.40% of the largest businesses
- Private equity has the fewest investments in absolute terms within this segment
- There is little or no overseas ownership of this segment

Implications

- There are relatively few large companies within the sector, reflecting the smaller more specialised nature of some of the commercial finance brokers or mortgage brokers that comprise this segment
- The lack of overseas ownership suggests that this segment has more of a local business model (either national or regional)
- Given the extent of private ownership, both by individuals and private equity companies, it is likely that there will be movement in the ownership profile of this segment over the coming years

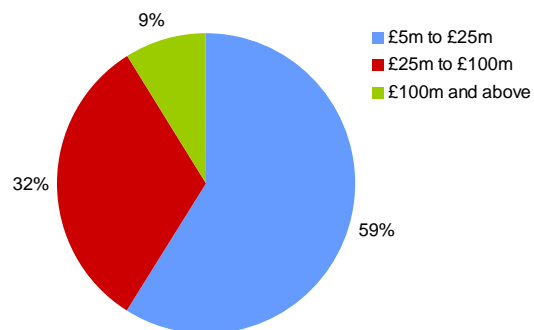
Source: IMAS-*insight*, Companies House, FSA Register

IMAS Corporate Advisors

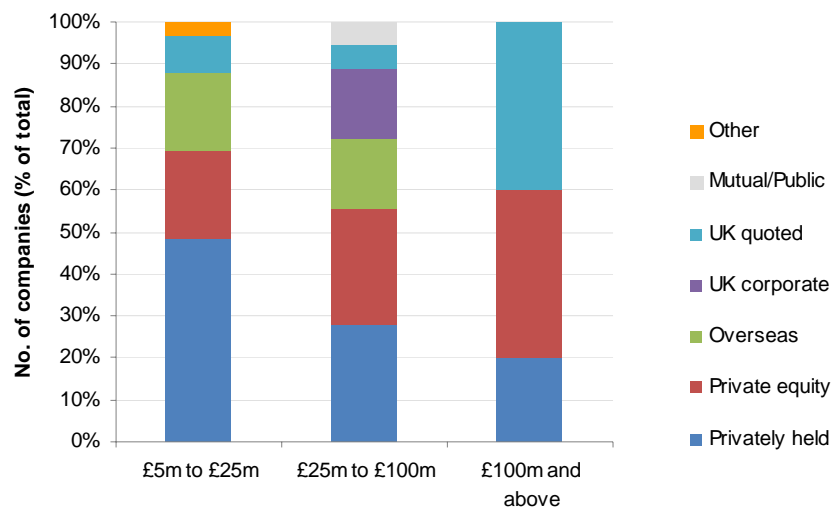
Unrivalled expertise in selling financial services businesses

Support services businesses have attracted most interest from private equity

Distribution by capital value (56 businesses)



Distribution of businesses by ownership profile



Highlights

- Smaller and medium-sized groups represent over 90% of the universe
 - Their ownership is reasonably diverse with private ownership the most prevalent form of control, but with strong representation from both private equity and overseas corporates
- Private equity interest is strongest within this segment, relative to the size of the segment

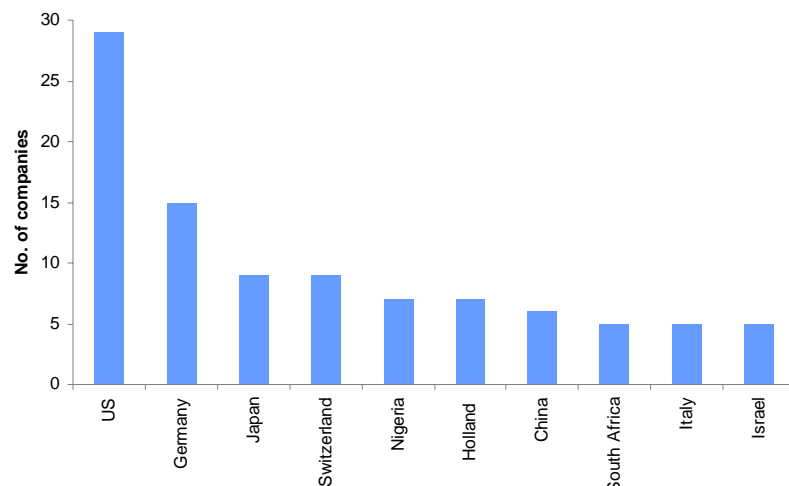
Implications

- Private equity companies are likely to remain active in this segment with significant potential to acquire smaller groups from the privately held segment
- Given the level of overseas ownership within the risk bearing segment, to which the support services groups often provide their services, ownership of the support services sector may become increasingly internationalised

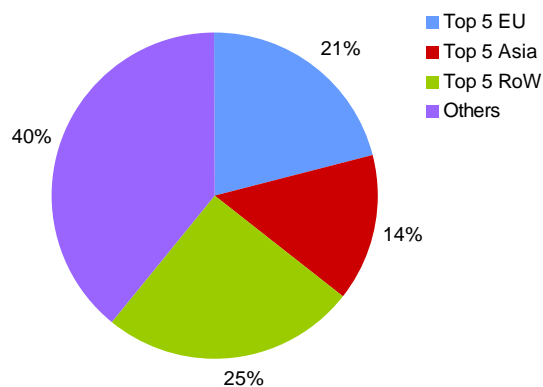
Source: IMAS-*insight*, Companies House, FSA Register

Overseas ownership is concentrated within the risk bearing sector and led by the US

Overseas ownership by country



Distribution of overseas ownership



Source: IMAS-*insight*, Companies House, FSA Register

Highlights

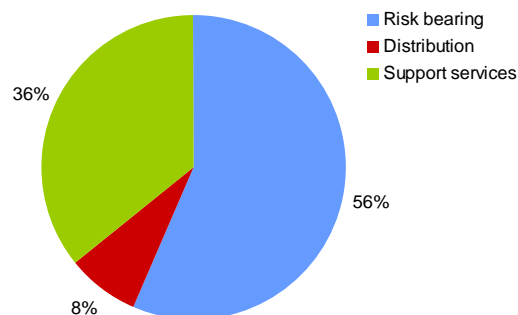
- Overseas ownership is the most prevalent form of ownership, representing c.43% of the UK lending sector above £5m capital value
- The US has by far the largest representation amongst overseas owned UK businesses, representing c.15% of the overseas owned universe
 - This compares to the next largest overseas owner, Germany, which controls c.8% of the universe
- The largest 15 overseas countries with interest in the UK lending sector comprise 60% of the overseas owned universe
 - Asian interest is relatively modest, with Japan the largest controlling c.5% of the universe

Implications

- It is likely that overseas ownership will continue to play an important role in the ownership of the UK lending sector
 - In part, this is driven by the global nature of banking and the UK's position as a major hub within the financial services industry
- Currently Asian ownership is modest, but this is likely to change as the emerging economies of China and India (and others) continue to grow and seek outlets for their cash balances

Two-thirds of private equity investments have been held for at least 3 years

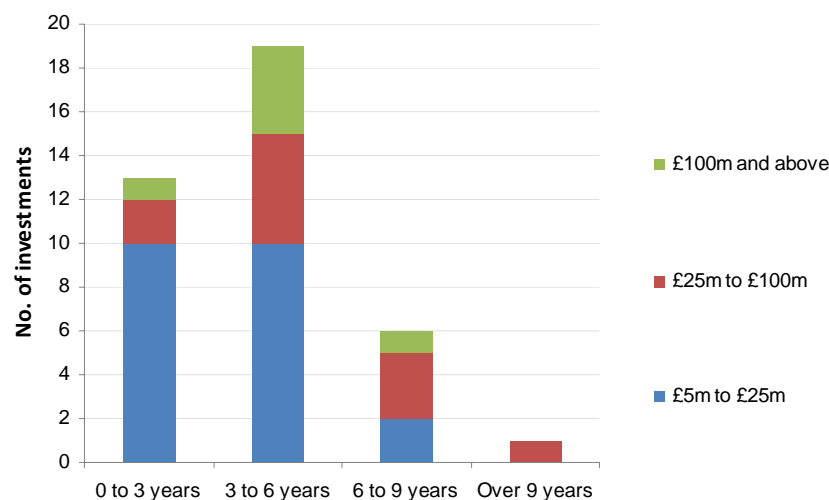
Distribution of investments (39 businesses)



Highlights

- In absolute terms, private equity investments are greatest within the risk bearing sector
 - Relative to the number of groups within each of the segments of the UK lending sector, however, support services has the greatest level of private equity ownership
- There is a high proportion of investments which have been held for more than three years, representing c.67% of the total
- There are more investments in the lower mid-market of £5-25m than in both the other size categories
 - Similarly, new investments made within the last three years have been predominantly made at that end of the market

Aged analysis of investments



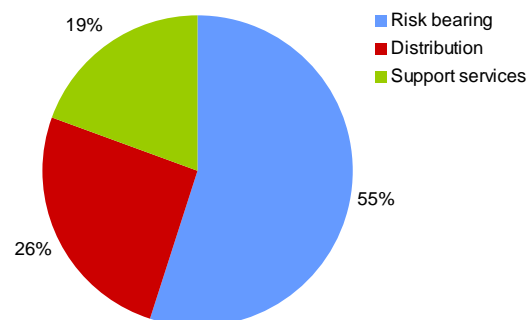
Implications

- Private equity investments held for between 3-6 years represent almost half of all investments, suggesting that exits may have been delayed
 - This is not surprising given the recent economic background and buyers' difficulty in raising finance
- Given a typical hold period for private equity investments of 3-6 years, it is highly likely that there will be a number of exits as the M&A market returns and credit conditions ease

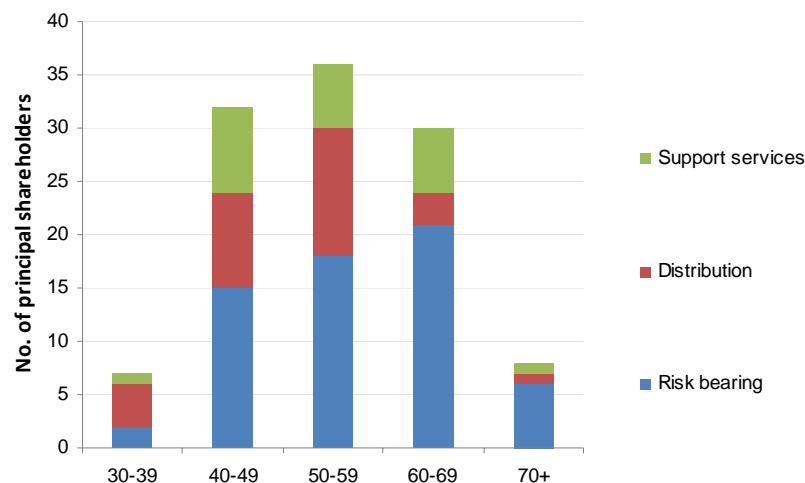
Source: IMAS-*insight*, Companies House, FSA Register

Principal shareholders in the 60-69 age range still control over one quarter of all privately held companies

Distribution of businesses (113 businesses)



Age analysis of principal shareholder



Source: IMAS-*insight*, Companies House, FSA Register

Highlights

- There are more privately held risk bearing businesses than distribution and support services businesses in absolute terms
 - However, c.81% of all distribution businesses are privately held, far higher than in risk bearing and support services
- The age of the principal shareholder within privately held businesses tends to be in the 50-59 years range
 - On average, risk bearing is 56 years, distribution 51 years and support services 53 years
- Age ranges are normally distributed peaking at 54 years
 - Principal shareholders begin to exit by the age of 60, reflecting a fall in the ownership level of 36 principal shareholders in the 50-59 age range to 30 in the 60-69 age range
 - However, by the age of 70, most principal shareholders have transitioned their ownership

Implications

- There are relatively few principal shareholders under the age of 40, suggesting it takes time to build businesses with capital value in excess of £5m or succession planning does not translate into material share ownership for the next generation until the founder is older
- Principal shareholders tend to consider their exit options in their 60s with the result that ownership of the business has changed by their 70s

About this report

All base data for this report has been sourced from Companies House and the FSA Register with further analysis undertaken by IMAS Corporate Advisors to provide a breakdown by business activity, geographical spread and legal structure using its proprietary knowledge management system, IMAS-*insight*.

If you would like to view further IMAS reports, including FSA quarterly review reports, please go to downloads at www.imas.uk.com.

About IMAS

Founded in 1992, IMAS is a corporate finance adviser with unparalleled expertise in selling companies across the UK financial services sector. We have completed over 100 transactions since inception.

IMAS's principals all have extensive experience in working for major UK financial institutions. IMAS combines in-depth knowledge and understanding of the specific issues affecting the financial services sector with our corporate finance experience to provide our clients with discreet, experienced and independent advice.

In addition, IMAS-*insight* allows us to present a range of options to our clients that would otherwise be unavailable. For further details, please contact us or visit our website: www.imas.uk.com.

About IMAS-*insight*

IMAS-*insight* is IMAS's proprietary knowledge management system that 'maps' the UK financial services industry, analysing over 40,000 UK financial services businesses and over 300,000 FSA registered individuals.

IMAS-*insight* provides us with detailed knowledge and insight into individual sectors within the UK financial services industry, including the participants within them as well as financial and other trends. We use this proprietary knowledge to help our clients achieve their strategic objectives.

Summary data derived from the underlying analysis on IMAS-*insight* can be viewed at www.imas.uk.com.

Contacts for further information

If you are interested in buying or selling in the UK financial services sector and would like to increase the range of options available to you, please contact:

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IMAS - Selected Closed Transactions

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