

HSBC Issuer Services

# Escrow solutions: Supporting the booming European M&A market



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**Laura Trimble**  
Head of Corporate Banking Origination, Commercial Banking, Continental Europe

### Key takeaways

- ◆ M&A activity in Europe has remained strong, while there is growing interest in SPACs on the continent too
- ◆ Despite the Brexit uncertainty, M&A volumes in the UK continue to be on the ascendency
- ◆ Universal banks with robust Commercial Banking businesses and escrow solutions are in an excellent position to support corporates and institutions with their M&A requirements

### Full steam ahead in Europe

The significant rise in European M&A transactions can be explained by a number of different factors. “A lot of this activity is pent-up demand caused by the pandemic. Similarly, we are operating in a sustained low interest rate environment, which makes financing remarkably attractive,” said Richard Lewis, Co-Head, Corporate Banking Origination at HSBC Commercial Banking, UK. With private equity having raised record sums of capital off the back of historic strong performance, many are now sitting on huge piles of dry powder - estimated to be in the region of around \$1.9 trillion<sup>4</sup>.

As a result, private equity managers are now coming under growing pressure from their investor clients to deploy this unspent cash. “Private equity activity is currently off the charts owing to the considerable amounts of unspent cash circulating in the industry. As such, we are now seeing more listed companies being taken private,” said Lewis. The return of political stability has also helped reboot European M&A. “In addition to the pandemic, uncertainty over Brexit and the US presidential election had an impact on dealmaking in 2020. Now we have a clearer outlook, so confidence is returning,” said Laura Trimble, Head of Corporate Banking Origination at HSBC Commercial Banking, Continental Europe.

She added that many corporates had spent the last 12 months evaluating what actions they need to take in order to respond to the pandemic.

After grinding to a spectacular halt in the first quarter of 2020, M&A (mergers & acquisitions) activity quickly bounced back despite the wider economic contraction. According to Bain & Company, global deal value topped \$2.8 trillion in 2020 in what was indicative of the industry’s resilience<sup>1</sup>. The rebound shows no sign of decelerating with \$1.3 trillion worth of deals either pending or completed so far this in 2021<sup>2</sup>. These are quarterly figures that have not been witnessed since 1980, and which are even surpassing the heights seen during the peak of the dotcom bubble.

Although a lot of this M&A is taking place in the US, activity in Europe has been buoyant too, with Q1 2021 deals totalling \$277.3 billion, a year-on-year increase of 24.5%<sup>3</sup>. Also underpinning a healthy M&A ecosystem are robust escrow solutions used as risk mitigation tools. HSBC looks at some of the dynamics currently shaping Europe’s M&A market.

#### Notes:

1. Bain & Company – Global M&A report 2021
2. Reuters (March 31, 2021) Global M&A sets first quarter record as dealmakers shape post-COVID world
3. Reuters (March 31, 2021) Global M&A sets first quarter record as dealmakers shape post-COVID world
4. S&P Global Market Intelligence (March 2, 2021) 2021 Global Private Equity Outlook



**Richard Lewis**  
Co-Head, Corporate Banking  
Origination  
Commercial Banking, UK

*“In addition to more UK companies being taken over, I expect there will be greater outbound M&A as businesses look to further diversify, deal with fundamental changes to business models and protect and optimise their supply chains”*

“Different companies are in very different positions. There are those who are unaffected or beneficiaries and can accelerate their dealmaking activity. At the other end of the spectrum are companies whose business models are fundamentally challenged. And in between, there are companies who have been affected by the pandemic but which boast strong fundamentals. As a bank, we are always looking for ways to support our clients, at every stage of their development or recovery process,” commented Trimble.

M&A activity in the UK has been strong too with deals involving either a UK investment or acquisition target reaching £25.7 billion during the first six weeks of the year, corresponding to a tripling in deal value versus the same time period in 2020<sup>1</sup>.

“We are seeing a number of overseas investors and private equity firms making strategic and financial investments in UK companies,” commented Lewis. Lewis also noted the UK’s successful vaccine rollout would speed up the country’s economic recovery, with the OECD (Organisation for Economic Co-operation and Development) forecasting GDP growth could reach up to 5.1% in 2021<sup>2</sup>.

Together with the ultra-low interest rates, Lewis said UK M&A activity was being fuelled by the continued relative low value of both the Pound and locally listed companies. “Despite Brexit, the UK continues to be a hub in Europe. In addition to more UK companies being taken over, I expect there will be greater outbound M&A as businesses look to further diversify, deal with fundamental changes to business models and protect and optimise their supply chains,” added Lewis.

### **SPAC to the future**

The global M&A frenzy has been driven by the explosion in SPACs (special purpose acquisition companies), namely shell corporations which list on a stock exchange and then merge with a private company in order to take it public.

The thinking behind SPACs is that they enable private companies to list without having to go through an onerous and expensive IPO process. SPAC activity is concentrated mostly in the US, where 522 SPACs with a combined value of \$300 billion listed in 2020 and 2021<sup>3</sup>. In contrast, there were just 10 SPAC listings in Europe with a cumulative value of \$1.3 billion during the same period<sup>4</sup>.

Although the SPAC market in Europe is much less mature, it is starting to show promising signs of growth, acknowledged Beata Frois, Director & Head of Bid Desk at HSBC Issuer Services.

“We are in discussion with multiple SPACs now, which are being established in Europe,” she continued. European regulators are also beginning to take a much keener interest in the whole SPAC phenomenon. “The UK’s Financial Conduct Authority (FCA) has recently announced a consultation on potentially reforming the listing process for SPACs,” commented Giovanni Fenocchi, Global Head of Issuer Services at HSBC.

Notes:

1. City AM (February 15, 2021) £25.7 billion in deals: Strongest M&A start of the year in two years
2. OECD – Economic Outlook
3. Reuters (March 29, 2021) How the American SPACs rocket has failed to take off in Europe
4. Reuters (March 29, 2021) How the American SPACs rocket has failed to take off in Europe





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**Beata Frois**  
Director & Head of Bid Desk,  
Issuer Services

### Escrow as an enabler

Escrows play a fundamental risk mitigation role by safeguarding assets on behalf of two counterparties to an M&A transaction.

“Given the volatility we are seeing in the market, organisations are turning to escrows as a way to reduce their risk during the M&A process and to expedite deal execution,” said Fenocchi.


Applications for the escrow product are numerous, for instance they can be used in a variety of scenarios such as pension funds deficits, decommissioning of windfarms/solar fields or deposits for sporting events. As an experienced service provider of this multifaceted product, HSBC Issuer Services is in an especially strong position.

The bank’s robust balance sheet, excellent credit rating and geographical footprint have helped it secure mandates from risk conscious corporates during this difficult period. Simultaneously, Trimble emphasised that many clients are looking to rationalise the number of counterparties they work with and one way they can do this is by engaging with universal banks which can offer a full end to end service.

“Commercial Banking and Issuer Services teams collaborate regularly and complement each other accordingly. By working cohesively with each other, it allows both businesses to deliver an excellent service to clients,” said Fenocchi.

### Case studies

- ◆ In 2020, HSBC Issuer Services provided an escrow for an Austrian Commercial Banking client during the acquisition process of a German company. Rights issue proceeds have been held in escrow with Issuer Services for several months awaiting completion of the merger.
- ◆ Last year, HSBC provided an escrow to hold bond proceeds relating to the recapitalisation of the joint venture between Virgin Media and O2, pending regulatory approval of the JV. HSBC was also the lead arranger during the financing process.
- ◆ In 2021, HSBC provided escrows to facilitate the acquisition by a UK multinational of a Chinese consumer healthcare business. Share proceeds totalling RMB800 million were held in escrow while regulatory approval and filings were completed. A further RMB 200 million was separately held as a holdback escrow for a period of three years.



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**Giovanni Fenocchi**  
Global Head,  
Issuer Services

Leading banks are also adapting rapidly to the fast changing market environment. “Versatility is vital. With more clients taking an interest in SPACs, HSBC Issuer Services has responded by developing a dedicated SPAC working group to look into SPACs even further. This will help us deliver even more value to our clients,” said Fenocchi. Simultaneously, COVID-19 has forced providers such as HSBC to transform their business models but in a way that does not disrupt client operations. Contingency plans were successfully implemented while Frois highlighted the bank was quick to introduce digitalisation – most notably e-signatures. Frois noted client service levels had remained consistently strong during the pandemic - adding that many of the digitalisation initiatives implemented by Issuer Services during COVID-19 would stay in place permanently.

Despite the challenges being caused by COVID-19, M&A activity is breaking all sorts of records, something which has been fuelled by the growing investor appetite for SPACs. Forward-thinking universal banks which meet the evolving demands of clients will flourish as we emerge from this crisis.

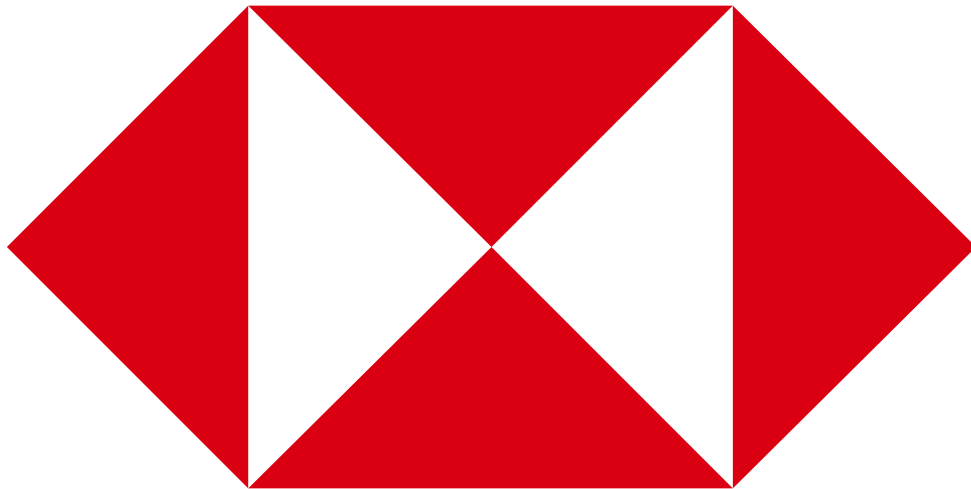
#### Related articles:

- ◆ [Unleashing the power of Escrows in times of uncertainty](#)
- ◆ [2021 Key trends to watch in Corporate Banking](#)
- ◆ [Supply chain challenges: Corporates source alternative ways of mitigating risks](#)

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