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FIG deals present 'once in 50 years' opportunity

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Discounted valuations for financial services providers offer potential returns that outpace all other industries, according to a new study by Corsair Capital.

Private equity investment in financial institutions represents one of the most attractive opportunities for buyout firms today, according to a new white paper from Corsair Capital.

The potential return for investing in financial services "outpaces that of any other industry" and represents a "once in 50 years opportunity", according to the study, due primarily to significantly discounted pricing for financial institutions. Corsair, which focuses on distressed opportunities in the banking sector, estimates the average valuation for such financial institutions is "0.85x book value, with an expected annual book value growth of 5 percent". A recovery mirroring the 20-year historical average of roughly 1.65x – consistent with "prior periods of more modest growth and profitability in the sector" – yields a return multiple of 2.5x after five years, the study says.

Financial institutions in the US still owe approximately \$122 billion in Troubled Asset Relief Programme money, according to the US Department of the Treasury, making them prime targets for private equity investment, according to the study.

In Europe, Corsair expects financial institutions to increase in their need for liquidity during the next 12 and 24 months, presenting similarly attractive opportunities for private equity firms.

Typical investments in US financial services providers will be limited to 24.9 percent ownership due to regulations, the study says, which translates into new equity investments between \$100 million and \$500 million. While such investments are "relatively small", according to the study, "the number of opportunities could be quite large".

Corsair had been an affiliate of JP Morgan since 1993 and spun out as an independent firm in 2006. It was founded by chairman Nicholas Paumgarten and president D.T. Ignacio Jayanti.

Other firms that focus on the sector include AnaCap Financial Partners, Stone Point Capital and WL Ross & Company, which last month acquired a minority stake in Amalgamated Bank, the only American labour union-owned bank, for \$100 million. In August, TPG Capital acquired a 30 percent holding in Danish lender Saxo Bank in a deal that valued the bank at about Dkr9.6 billion (€1.3 billion; \$1.9 billion).