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ABOUT EPSILON

Epsilon Acquisition Services is a Washington D.C. based mergers and acquisitions firm, providing buy and sell side advisory, research, and diligence services. The firm specializes in international and cross border transactions and boasts active clients on every inhabited continent. For more information or to subscribe to our research services, please reply to info@epsilonarm.com.

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INTRODUCTION

In every crisis, there is opportunity. It is a natural and necessary part of economic recovery that capital should move from where it may exist in excess to where it is needed and can be put to productive use. Against the backdrop of the COVID-19 outbreak, Epsilon analyzed 20 different verticals and a variety of geographic possibilities to highlight potential M&A opportunities around the globe.

INDUSTRY OPPORTUNITY: **INVESTMENT IN THE REGTECH SPACE**

Author Jeremy Smith

*"A recession would drive faster adoption of financial technology and spur further innovation in the sector… Since this value captured in lower fraud rates, higher approval rates, (and) better authorization rates drop straight to the bottom lines, **the best fintech companies will do well through a recession** while the rest of the market will see consolidation."*

- Forbes, Fintechs' Risk Taking Should Serve Them Well In A Recession, Apr 26, 2019

The opportunities in FinTech initially presented themselves during the financial crisis of the late 2000s. Since then there has been an explosion of activity in everything from capital market facing platforms to mobile payments. According to EY, global adoption of FinTech services has doubled every other year since 2016 and now stands at a rate of 64%. While the maturity and saturation of the market led to an overall decrease in in deal count in North America and Europe in 2019, deal valuation multiples continue to increase. Some subsectors actually saw significant increase in investment and deal count, and they offer ample growth opportunity within less client facing products.

Specifically, there should be **increased opportunity in enterprise-facing and back-end infrastructure solutions**. This is partially driven by the fact that infrastructure facing products have lowered the barriers to entry by: 1) lowering costs 2) increasing speed to market and 3) allowing companies to provide more bespoke products to their clients. In times of financial upheaval, this is even more relevant as banks and financial institutions look for specific cost saving solutions.

Subsectors that include these in enterprise-facing and back-end infrastructure solutions include **Financial Services, IT, and RegTech**. In Financial Services IT, FinTech companies provide core banking capabilities through software solutions and white labeling. Funding activity in this space has incrementally increased in both deal count and funding for the last few years except for 2019 where it experienced a dip. Separately, the Regtech vertical proves to be valuable as institutions look to avoid fines from regulators and protect money from fraud. In 2019 the space saw a 66% increase in VC investment year over year. Enhanced CDD/KYC (Customer Due Diligence/Know Your Customer) and fraud detection software are needed by banks of all sizes to reduce the significant amount of time and capital already spent on them.

Beyond being valuable, **RegTech expect to continue its resilience during times of economic recession**. Fraud in financial institutions account for billions of dollars in losses every year, which is only trending upwards as malicious actors become more and more sophisticated in their attacks. Additionally, NPR reported that during the last recession, financial institutions noticed a sharp uptick in fraud and a report by PwC identified this as a regularly observed trend during economic downturns. This report proved prophetic as just two days ago. CNBC noted the COVID-19 fraud attempts were eerily similar to those during the financial crisis.

While fraud at financial institutions might be the costliest for institutions, globally the amount of money laundered is far greater. The UN estimates that the total amount of money laundered each year is between 2-5% of global GDP. This is not to say institutions do not lose money from money laundering. Business Insider notes that from the financial crisis to the end of 2019, institutions were globally fined $36 billion globally for noncompliance regarding anti-money laundering, KYC, and sanctions regulations. It is expected that there will continue to be an increased investment in tools to avoid these fines in the future.

GEOPOLITICAL INSIGHTS: **SAFE HAVENS & FLEXIBLE RESPONSES**

Author Eric Miller

Governments around the world are trying to find the delicate balance between public health, safety and a functioning economy. In order to contain COVID-19, ubiquitous testing and the sourcing and analysis of real time data are critical. Once cases are identified, the clusters can be isolated, treated, and eradicated. Each country, region, and city requires a tailored and flexible response. What works in California may not in New York, Spain, or Egypt. Regardless of location it is imperative to isolate and separate older and otherwise vulnerable citizens from the rest of the population.

Despite effective “curve flattening measures” and the strategies, some countries will respond from the outbreak differently. Certain countries will provide more attractive investment opportunities once they mitigate and manage COVID-19’s impact. These countries will display more resilience and likely bounce back more efficiently and expedite their recovery due to the following traits: minimal population density, diverse population centers, strong (positive) governance, advance technology, and/or a robust healthcare infrastructure.

The countries of note to watch for are:

The Nordic Countries—**Sweden, Norway, Finland**: All three are geographically large countries relative to their population size, with population centers (capital cities) that are not experiencing massive growth. They are also leaders in regional information technology. These three countries boast relatively wealthy economies, many citizens are used to spending time on vacation outside of their primary residences and take extended breaks from work as part of their normal annual cycle and lifestyle. They all have excellent access to the internet and supplies via ports,. as well as a strong healthcare system and social programs that are prepared to handle increased and prolonged unemployment.

Chile: With the exception of Santiago, Chile has significant population dispersion. While it is probable that its cities, especially in lower income areas , will have outbreaks they are unlikely to spread beyond. As a nation, they are already vigilant. Despite being racked by recent protests they are still one of the strongest democratic governments in South America, which allows the country to navigate the crisis with the general support of the people.