

WEALTH MANAGEMENT M&A: SINK OR SWIM?

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As sentiment among wealth managers shifts, more capital has become available and companies right-size, banks, trust companies, wealth managers, and bank brokerages that are in a strong position to expand into a new market and acquire new units, will do so. But it is also the moment when companies without the capital – and stability - will get left behind.

“If you can be bold you can make acquisitions now,” said Alois Pirker, the research director at Aite Group, in an interview last week. “If you’re weak to start out it will be hard to expand.”

Sola Akinola, a research manager of the Americas at Mergermarket, said that the U.S. financial services sector has seen a steady increase in M&A values since the second quarter of last year. Year-over-year the current quarter is up 34% by value and 21% by deal volume.

Meanwhile, a slew of recent M&A and initial public offering announcements have been made: Envestnet, a company that provides Web-based services for financial advisors, filed for an IPO worth up to \$100 million last month.

In February, Bank of New York Mellon Corp. announced a \$2.31 billion deal to acquire PNC Global Investment Servicing, a back-office services unit, from PNC Financial Services Group Inc.

“We definitely see that the capital markets are getting better,” Pirker said. “There is money available for initial public offerings and firms have more of an appetite for moving into new markets because there is more opportunity right now to grow their strategic footprint.”

He said that a number of units are being spun off by larger companies that want to reduce their footprint, giving smaller firms more opportunities in the market. Last week, for example, Citi spun off Primerica in a \$320.4 million IPO of approximately 21.4 million shares of Primerica common stock for \$15 per share. And in September Royal Bank of Canada announced it would acquire J.P. Morgan's registered investment advisor servicing business, allowing Royal Bank of Canada to gain significant traction in the RIA space.

At the same time, structures are changing. When Broadridge Financial Solutions Inc.'s sale of its Ridge business to Penson Financial Services Inc. closes later this year, it will make Penson Financial the nation's second-largest clearing firm.

“The units that are changing hands right now are really redefining the landscape as we knew it before the crisis,” Pirker said. “The time of sitting on the sidelines and watching where the crisis is going is over.”

Dan Seivert, the founder of **Echelon Partners**, said that with the Dow Jones Industrial Average close to 11,000 the deals should continue. “Buyer interest is picking up and the buyers are seeing that if the markets continue to go up that will push up valuations and they want to make their acquisitions before the market goes up too much,” he said.

Part of the shift in the wealth management space, explained Pirker, is that the larger firms like Bank of America Corp. and Wells Fargo are expanding into what is being called the universal banking model, which encompasses both the retail banking and retail brokerage space. If firms are successful at cross selling between the bank and brokerage side that creates a lot of pressure for the bank-only players and brokerage-only players to change with the times, he said. "The evolving market has pushed a lot of firms to ask: 'What does this mean for me? And do I have to buy a wealth management unit?' This obviously generates a lot of activity," he said.

Industry experts at the American Bankers Association conference in Phoenix have emphasized that now is a good time for banks to buy mid-size RIA firms with \$200 million to \$1 billion in assets under management.

Why? The principals at RIA firms are aging, these experts said, with the average age of principals increasing from 51 to 55, pushing them toward retirement age. In addition, larger RIAs have fewer exit opportunities since their firms are worth too much for their employees to purchase.

For those interested in the next big M&A moves, Pirker said to keep an eye on Barclays, which is looking to acquire in the retail banking space either inside or outside the United States. With the acquisition of Lehman Brothers Holdings' U.S. operations, Pirker said that he thinks it is likely Barclays will also look to gain a foothold in the wealth management space.

Meanwhile, Canadian banks having fared well in the crisis, are well capitalized, and are always eyeing opportunities in neighboring markets. With the Canadian dollar strong, Pirker said that he expects to see more M&A activity out of Canada.

Another to watch for is HSBC, which also made it through the crisis in one piece, although it got hit in the United States a bit. He said. HSBC is looking to grow in the United States as part of its strategic plan, "so we'll see more from them as well."

"This gives them a general estimate," he said. "It helps you getting into the ballpark. A professional valuation is usually required if you're making a deal and if you want to take it to the next step.

ABOUT ECHELON PARTNERS

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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