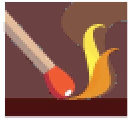


**Higher M&A prices for EM wealth managers: Scorpio**
Article published on October 18, 2012
By Heather Dale

Wealth managers with emerging markets exposure are commanding higher prices in merger and acquisition (M&A) deals amid the strong interest of global players to expand, according to recent research by London-based wealth management consulting firm Scorpio Partnership.

M&As in wealth management have maintained a steady pace in the past 21 months, with more than US$9.42 billion spent on deals involving high-net-worth (HNW) client funds globally, according to Scorpio's 2012 Wealth Management Deal Tracker, which was released earlier this month.

Scorpio based its findings on an analysis of 65 deals from the first quarter of 2011 to Sep. 30, 2012. The volume of HNW assets purchased through deals during the period in review totalled US$635 billion, which is 4% of all assets currently managed by the global wealth management industry.

The major deal-making markets were continental Europe, including Switzerland, where US$337.9 billion changed ownership. Separately, the U.K. asset transfers through M&As hit US$80.2 billion, while Asian M&As resulted in US$102.5 billion changing ownership.

The report shows the valuations benchmark is now resting at 2% of assets under management (AUM) compared with nearly double that in 2010. However, Scorpio says there are strong indicators this will continue downward to 1.5% in the next 12 to 24 months.

Emerging market businesses are commanding a premium valuation in the range of 2.7% to 3.4% of AUM, but there is little evidence to show that the values are justified by the longer-term benefits of the additional business to the bottom line, according to Scorpio.

Richard Williamson, Hong Kong-based managing director for transaction advisory services within the Asia-Pacific financial service industry at Ernst & Young, says that Asia valuation multiples in the past few years have been "significantly higher" than the Scorpio figures.

"If you look at some of the Chinese deals, the price-to-AUM percentage was in the high single digits. In Indonesia, the standard price is anywhere between 8% and 12% of AUM," Williamson says.

Ray Soudah, Switzerland-based co-founder of M&A consultancy MilleniumAssociates, believes that benchmarking against a percentage of assets is "meaningless".

"When you use this ratio, you assume that assets are yielding the same profitability. You are assuming everything is static in terms of profitability, outlook and the quality," he says. "There are many cases where 3% of AUM is cheap and 1% is expensive because the underlying is different."

**Optimal size**

Sebastian Dovey, London-based managing partner at Scorpio, says he has seen a strong interest among the top 50 market players in quickly boosting assets sourced from emerging markets as they strive to increase their international business footprint.

"This is now a race where M&A may make the difference. The mid-sized players recognise that to compete, they need to bulk up their AUM, and our expectation is the tidemark for an international

wealth management business to ride comfortably through the next decade is US$50 billion to US$70 billion in AUM."

MilleniumAssociates' Soudah disagrees with the AUM figure.

"This is a flawed statement," he says. "It assumes if you have US$70 billion, you will make a lot of money. There are firms with US$50 billion to US$70 billion in AUM [that] are losing a significant amount of money."

He points to the recent acquisition of Bank of America Merrill Lynch's non-U.S. wealth management business by Julius Baer. The unit had more than US$70 billion in assets and was losing a huge amount of money, he says.

"[Julius Baer] is firing 1,000 staff and says it's going to take three years to make [the Merrill unit] profitable," he says.

The Scorpio report says appetite for M&As is growing but the indicators are that the premium deals are for businesses with US$5 billion to US$20 billion in assets.

"This is not true," according to MilleniumAssociates' Soudah. He says the number of people willing and capable of doing deals has "collapsed".

He notes: "In general, the amount of acquirers has fallen in the last 24 months across the board."

In Asia, there are only a few players with US$20 billion in assets, according to Ernst & Young's Williamson.

"The global managers are now more flexible about entry points to expand in Asia Pacific," he says. "They are now happy to look at smaller [deals], are willing to partner with local players, and provide seeding and incubation to new managers to get around the fact that there aren't many scale targets [to buy]."

**Related Content**

- October 15, 2012 Asia managers seek "silver bullet" in tech battle
- August 10, 2012 Asia's rich giving up on private banks
- August 1, 2012 Asia driving wealth manager growth: Scorpio

For more articles like this one, go to ignitesasia.com . Ignites Asia is an information service of Money-Media, a Financial Times company.