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February 18, 2008

Smart Wealth Management Operators will Benefit from Tougher M&A Landscape

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The temptation to consider merger and acquisition activity as a major tool for business expansion, through acquisition, and/or for strategic core focusing, via disposals, will always be a key consideration for wealth managers be they small or large, private or publicly held.

And involvement in M&A can also be a macho power statement for more acquisitive, ambitious groups.

This year the highly fragmented wealth management faces one of the most challenging environments it has ever seen in terms of external economic and market pressures. These problems will be compounded by internal constraints, such as capital inadequacy and "gun shy boards" which are unwilling to take significant "good-will" investment risks in what is, after all, simply a people business.

Revenues have already fallen by some 10-20 per cent in the first month of 2008 calculated on a static assets under management basis. Asset values, which in the past generated lucrative fee income, have been impacted significantly by declining markets, presenting a stark reminder to wealth managers that they are not completely in control of revenue streams.

The good old days of making money by just sitting pretty and hiring relationship managers to steal competitors' clients are gone, at least for the next few years. It is even conceivable that despite hiring sprees that some firms are undertaking, they will still end 2008 in a negative delta position compared to a normalised 2007.

Given the anticipated 20-30 per cent decline in revenues this year it would require a massive quantum of people hires and client acquisition to attain sufficient net new money to compensate for this likely deficit. It is no wonder that financial stocks of wealth managers have declined as well, although some have been impacted more than others.

The onset of declining revenues in the first half of 2008 will reveal a very specific divergence of M&A strategies between" talk and action" and" talk and inaction "players.

The largest number of M&A transactions globally will take place in one of three main regions, namely the US, the UK and, of course, Switzerland. For the time being, these three wealth management centres contain the largest number of firms capable of conducting or being targeted by M&A activity.

But wealth management firms' propensity to buy, and publicly declare buying intentions, is far greater than their propensity to sell or declare selling intentions.

Many firms wanted to buy others when prices were at a peak (Q2/Q3 2007), but there were few willing sellers then. When prices were at a low in 2001/2002, there were few interested buyers despite the increased number of willing sellers and potential bargains were not seized at the bottom of the last cycle.

Although prices are not expected to collapse in the same way this year as they did previously, the evidence does suggest a repeat of history. This illogical and irrational behaviour will re-emerge as the norm in the forthcoming cycle, with few notable, and commendable, exceptions.

Those firms which have strong management and leadership (for instance UBP, EFG, Sarasin and Julius Baer) and those which are clearly committed to the wealth business segment as a core business area (like UBS, CSG and Merrill Lynch) will defy its ups and downs.

The very slow decline in non-listed wealth management prices and valuations, provides an opportunity for smart firms to dispose of non-core units without delay if they are going to survive the choppy M&A sea of 2008.

Those firms hungry for new clients through acquisition deals should remain vigilant and put into place attractive incentive schemes to ensure that they retain relationship managers in the firms they are acquiring and maximise the value paid for goodwill.

Time and again experience shows that integrated mergers of wealth management firms have paid off when people are well taken care of and clients protected.

Despite the "toppiness" of recent valuations, integrated simulations remain financially justifiable. Expect a pick up of deal activity towards the end of 2008 and into 2009 as talk turns into action once more.

[Millennium Associates Ag, is the only independent Swiss based M&A advisory firm to the global financial services industry, with particular focus on US, UK and Switzerland.]

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