

PRESS RELEASE

Global wealth management M&A rebounds and result is USD487.5 billion in AuM changing hands; Scorpio Partnership launches Global WM Deal Tracker

LONDON – M&A activity in the international wealth management rocketed towards the end of 2009 as several macro factors and later industry specific drivers combined to draw the market out of its doldrums of 2008 and early 2009. According to research from Scorpio Partnership, the leading insight and business consultancy to the global wealth industry, 2009 saw a total of USD487.5 billion in private client assets under management change hands with a massive 94%, or USD457.6 billion, switching to new ownership in Q3 and Q4.

The shackles are off and “the case for access to premium value distribution channels is now on. But more sensible pricing multiples are beginning to show,” said **Sebastian Dovey**, managing partner, announcing the launch of Scorpio Partnership’s inaugural **Wealth Management Deal Tracker** service. “Like with our **Global Private Banking KPI Benchmark** solution, the Deal Tracker is going to push the border of intelligent analysis and monitoring the progress of our global industry.”

Indeed, the final two quarters and the last quarter in particular, witnessed a significant uptick in the majority of measurement metrics on an international basis. These findings include:

- A total of 31 major deals were announced in Q3 and Q4 2009, compared with just 12 for the first half of the year
- The total value of deals agreed across Q3 and Q4 2009 was USD23.2 billion compared to less than USD1 billion for Q1 and Q2 2009
- Deal values jumped from an average of USD250 million at the end of 2008 to USD2.9 billion one year later in Q4 2009

Segmenting the impact

Critically, analysis of the end result of deal making activity revealed segment and geographic differences. Among these differences were:

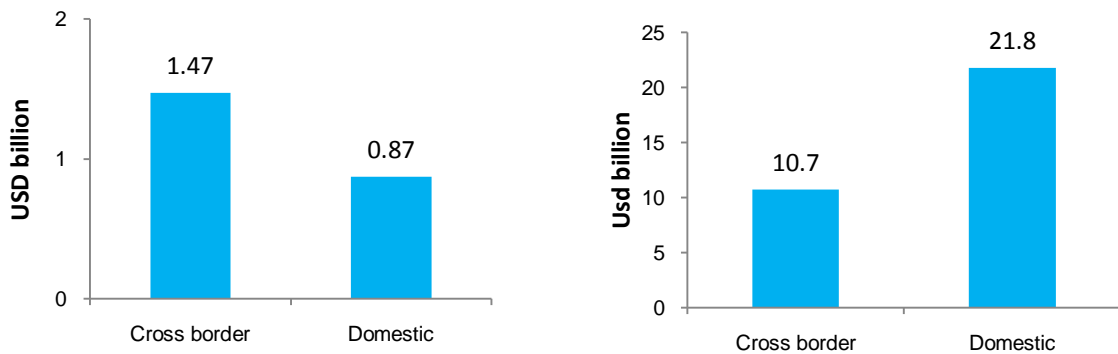
- While domestic deals were in the majority, the average price paid for a cross-border deal was almost twice as much (for twice as little assets on average) and deal premiums were mostly focused on the APAC market
- On a price to assets under management multiple, the most attractive targets through this period were the asset managers rather than the private banks

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In short, the buyers across the market are paying more for to enter markets (cross-border deals) and for asset management targets rather than private banks.

Specifically on the value of cross-border deals versus domestic, the market across 2009 paid USD1.47 billion on average for a cross-border deal compared to USD870 million for a domestic. However, in terms of the assets under management of the targets, it averaged USD10.7 billion for cross-border compared to USD21.8 billion for domestic..

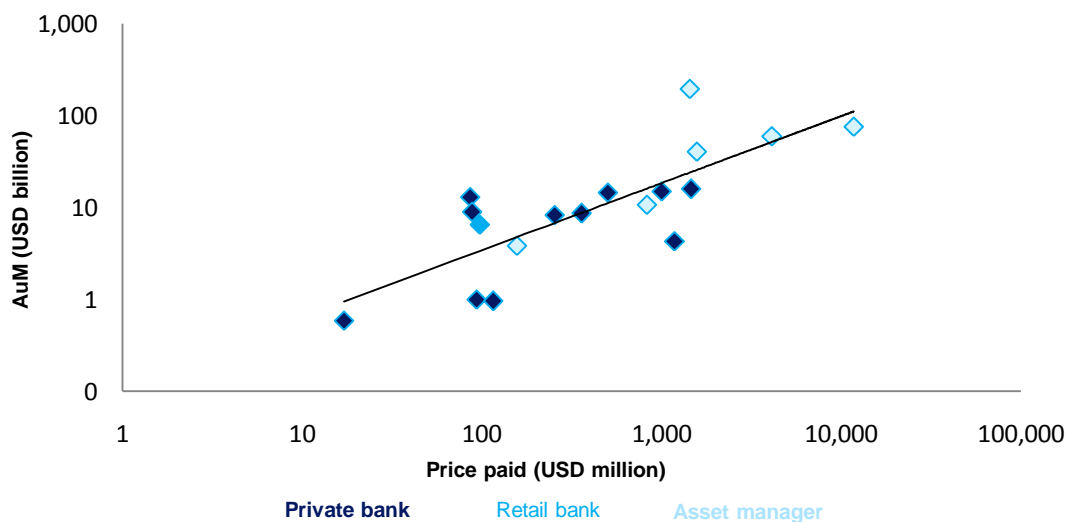
Average deal price paid and average AuM of target, cross-border versus domestic



Source: Scorpio Partnership

Furthermore, buyers were also paying higher multiples by business type, preferring to pay a higher sum in terms of the price to assets under management multiple for asset managers rather than the private banks.

Asset managers clinch higher P/AuM multiples than private banks



Source: Scorpio Partnership

Notably, the big deals involving asset management as a component are typically in businesses where the primary market incorporates retail and upper retail alongside a smattering of HNW business. This is about scale, and the price paid also reflects the speed of market entry by acquisition rather than building a business from scratch.

Furthermore, the APAC focus on many of the asset manager deals has accentuated the multiple. Undoubtedly deals in APAC attracted significant higher pricing than targets based in Europe, highlighted by the strategic opportunity for wealth managers to expand into the next frontier and market for the industry.

For private banks, fetching a lower multiple based on their size, there is some assumed limitation around business models. In essence, the private banks are a pure play distribution channel zoned on one market segment, and often with a higher personnel cost base which can put off acquirers.

The drivers of activity

Igniting this big return to deal activity, the report highlights three macro market primary drivers as the key actions that forged the international wealth management market's return to activity. They are not unique to the world of wealth management but their impact to the sector has been immense.

THREE MACRO MARKET PRIMARY DRIVERS

- The market's rebound from the downturn, general increased levels of confidence
- Government interventions, first bail-outs, then forced divestitures
- The re-entry of financing in the capital markets

These macro drivers began to have an impact in wealth management by the spring of 2009, offering the sector the "green shoots of hope" for a deal making recovery. Critically, the globally coordinated government-led interventions, the subsequent demands for asset disposals, and the re-entry of financing for acquisitions and deals, forged an environment for the re-entry of certain sector specific drivers that the industry leaders and others wishing to enter the market had had to hold back on.

FIVE SECONDARY SECTOR SPECIFIC STRATEGIC DRIVERS

- Focus on cross-border deals into markets of opportunity, particularly APAC
- Consolidation and requirement for scale in domestic markets
- The increasing burden and expectation of regulatory environments
- Ensuring access to distribution, particularly offshore going onshore
- Government led attacks on offshore jurisdictions and the business model of offshore

These five factors, enabled by the three macro drivers, kicked in later in 2009 as the market began to re-engage with deals that fitted with the strategic re-orientation of their business models. So, from a buyer's perspective, the constraints faced in the previous market environment such as a lack of liquidity to finance deals began to recede. Deal making was back on the table.

"The international wealth management market was heavily constrained through the downturn. It was not until the market and government forced disposals that deal making was on the table", said, **Stephen Wall**, director at Scorpio Partnership.

ABOUT THE SCORPIO PARTNERSHIP M&A DEAL TRACKER

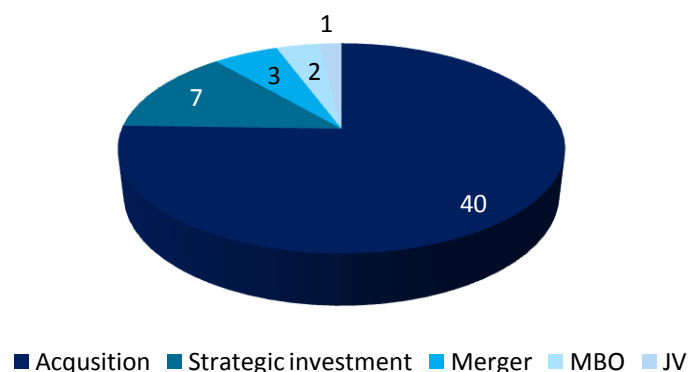
Building an ongoing examination of the relevant deal activity in the global wealth management market

The report is the first published work from the Scorpio Partnership team looking specifically, and in detail, at the deal making activity in the international wealth management market. Our intention is that this research will be undertaken on a regular basis – possibly annually – to deepen the industry insight into the M&A market activity surrounding wealth management. Our plan is for the Deal Tracker to be a complement to our annual Global Private Banking Benchmark report.

In this first edition we have identified a total of 53 wealth management related deals that have taken place between the period Q3 2008 and mid-Q1 2010. In our view, the deals deemed relevant were those where the business rationale for the transaction was to support a strategy focused on wealth management – defined as a financial services business providing financial solutions for individual investors where the investor typically has a total net investable worth in excess of USD1 million.

By geography, while we looked internationally to cover the full market place of deal activity within the sector, with the exception of most deals taking place onshore in the US, the majority of the deal coverage, a function of activity in most cases, took place in the European onshore market. Figures 2 and 3 show the break down in numbers by acquirer and vendor.

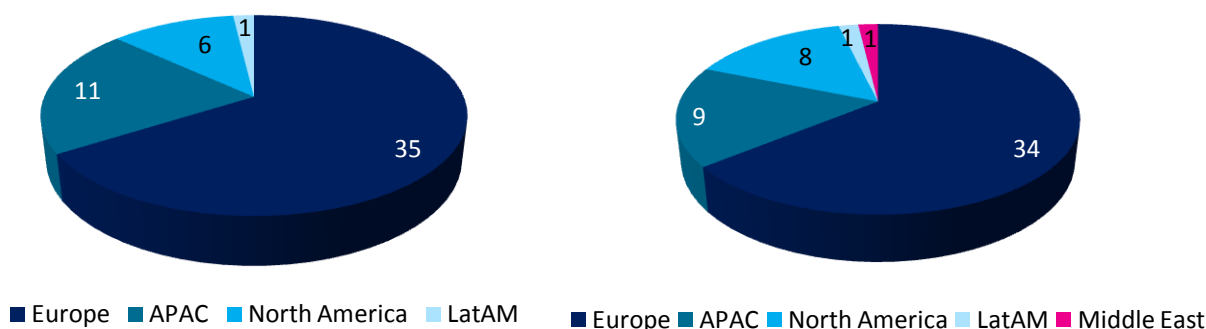
The deals by type



Source: Scorpio Partnership

The types of deals undertaken in wealth management have been varied. In terms of the breakdown of the 53 deals covered in this work by their deal type, the vast majority – 40 – were straight out acquisitions. The remaining 13 deals were split: 7 strategic investments, 3 mergers, 2 MBOs and 1 joint venture (JV).

The deals by geography – acquirers and vendors



Source: Scorpio Partnership

By geography, the report analysis examined deals across the global market. However, it is worth noting that for north America the focus has for the inaugural report been on the major market transactions and it is acknowledged that there will a considerable number of domestic US transactions – particularly among the investment advisory community and smaller banks (we are currently exploring whether we can collaborate with a US advisory firm to develop this further). However, they have fallen outside the scope of the analysis here as our primary intention has to be to develop an assessment of the trends in wealth management M&A across the global markets.

The intention of the M&A Deal Tracker is to capture the key market data covering the defining deals over the period, whether domestic or cross-border. In terms of the inclusion of deals, it should be noted that we have analysed a number of deals where the transaction has been announced although at the time of publication of this report the deal has not completed.

Overall, our aim is to develop a deeper, data-led, understanding of the trends in the M&A activity for global wealth management. To support this, we look in depth at the trends impacting deal activity and seek to uncover variances between different models and not just in terms of pricing. In short, our aim is to evaluate the drivers for deal activity in global wealth management. Critically, these factors will in our view influence future thinking and the strategic orientation of the landscape.

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FOR FURTHER INFORMATION PLEASE CONTACT:

Scorpio Partnership
Stephen Wall, Director
+44 (0)20 7811 0125
stephen@scorpiopartnership.com

Filip Karadaghi, Analyst
+44 (0)20 7811 0128
filip@scorpiopartnership.com

NOTES TO EDITORS

About Scorpio Partnership

Scorpio Partnership is the leading insight and business consultancy to the global wealth industry.

The firm specialises in understanding the wealthy and the financial institutions they interact with. We have developed four transformational disciplines – **SEEK**, **THINK**, **SHAPE** and **CREATE** – each designed to enable business leaders to strategically assess, plan and drive growth. The solutions Scorpio Partnership develops regularly win awards for its institutional clients and help them financially profit.

Our disciplined teams leverage expertise in:

SEEK

- Client research
- Advisor research
- Market mapping
- Company/Intermediary research
- Brand identity audits

THINK

- Product/Service development
- Business case development
- Concept solutions
- M&A diligence
- Brand identity development

SHAPE

- Market entry solutions
- Media and Event solutions
- Training and Education solutions
- Sales & Marketing campaigns
- Brand identity solutions

CREATE

- Campaign management
- Change management
- Strategic marketing
- M&A implementation
- Specialist consulting

Scorpio Partnership has conducted more than 300 global assignments across wealth for institutions in the banking, fund management, regulation, IT and technology, insurance and charity sectors.

Scorpio Partnership has been voted best global consultancy to the wealth management industry for the three consecutive years*. The firm is independent and owned by management.

For more information go to www.scorpiopartnership.com

*Wealth Briefing