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Buyers Flock to Wealth Management in '07

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The speed of deal-making in the wealth management industry is expected to quicken in the new year beyond 2006's rather placid pace.

Investment bankers believe the push for greater industry-wide consolidation, combined with the growing presence of private equity firms in the sector, should fuel more transactions in the next 12 months.

"There are a lot of deals in the pipeline now, and we will continue to see a hectic pace of consolidation in 2007," says **Elizabeth Nesvold**, managing director at M&A advisory firm Cambridge International Partners[1] in New York.

Cambridge estimates the number of global wealth management deals this year stood at 40, a slight increase from the roughly 35 transactions that occurred in 2005. Furthermore, the value of M &As was on target to be relatively even with last year's sum of roughly $6.2 billion.

More than half of this year's value comes from Bank of America[2]'s industry-shaking $3.3 billion purchase of U.S. Trust[3] from the latter firm's corporate parent, Charles Schwab[4].

The combined entity will have more than $260 billion in assets under management, making it the top U.S. private bank and fifth largest overall domestic wealth management firm, according to*Barron's*.

Nesvold partly attributes this year's somewhat quiet deal-making to 2005's frenzied activity. Simply put, many firms were busy absorbing prior transactions and lacked the interest or ability to acquire new companies.

On the consolidation front, UBS[5] demonstrated its appetite for growth through acquiring KeyCorp.[6]'s brokerage, McDonalds Investments[7], and Piper Jaffray[8]'s private client business.

With the $280 million purchase of Cleveland-based McDonald Investments, UBS gained access to $30 billion in high-net-worth assets. Meanwhile, the Swiss bank acquired roughly $52 billion in assets under management with Minneapolis-based Piper Jaffray.

Industry experts saw Bank of New York[9]'s $16 billion-plus purchase of Mellon Financial[10] as a further reminder of increasing consolidation in the industry.

Although custody and asset management were the real catalysts behind the transaction, the merger will have serious repercussions on the high-net-worth advisory market. Following the deal's closure, **Bank of New York Mellon** will be the country's ninth largest wealth manager, with more than $150 billion in high-net-worth assets under management.

Another driver for M&A this year was private equity, as seen through Circle Peak Capital[11]'s purchase of Morgan Keegan'[12]s WealthTrust[13] unit for an undisclosed sum. Additionally, Focus Financial Partners[14]' partnership with venture capital firm Summit Partners[15] made the firm a formidable deal-maker in 2006, with six acquisitions under its belt.

Nesvold says, "Private equity firms have exhibited a keen interest in the space because of the demographics. They hope to capitalize on the growth that will occur naturally through the baby boomer wealth transfer in the coming years."

Research from boutique investment bank Berkshire Capital[16] supports the theory that more private equity firms are finding wealth management to be an attractive place to invest their money. While not without risk, the business model is becoming an increasingly desirable one, specifically due to healthy profit margins, the global increase in high-net-worth investors, and the fragmented nature of the wealth management industry.

"In many respects, wealth management represents an ideal arena for private equity firms," Berkshire Capital's staff notes in the third quarter report. "For one thing, unlike other parts of the asset management industry that have undergone considerable consolidation, wealth management remains highly fragmented, with thousands of firms operating worldwide and new ones being minted all the time.

"When you add in attractive profit margins and the growth in the number of wealthy individuals, the investment case becomes all the more compelling," the firm adds.

Aaron Dorr, managing director at Putnam Lovell[17], an investment bank specializing in financial services companies, considered 2006 to be a "quieter" year on the M&A front. But he expects wealth management deal-making will pick up in the new year as the market's positives become harder for buyers to resist.

"I think 2007 will be an active year for advisory firms. It is one of the most attractive areas to be in," Dorr says of wealth management.

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