Private Banking M&A Newsletter
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In the past decade, **the UK has gradually increased its market share as a hub for international wealth management clients**. London's differentiating factors comprise its competitive tax regime, investment management/banking expertise and all-in-one city concept appealing to globally mobile HNW and UHNW individuals. UK customers have traditionally outsourced active management of their wealth and relied on discretionary investment management, creating a favourable environment for wealth managers.

We have observed an increasing number of Swiss players looking to penetrate the domestic and international HNW/UHNWI population based out of London, in particular via M&A of established local firms. The UK private wealth management market is estimated to represent around £2.1 trillion out of which £615 billion coming from private individuals with investable assets over £0.5 million.

Whilst the consequences of the Brexit vote last June remain still uncertain,

London will remain an international finance hub with material wealth creation potential. The UK holds fundamentals likely to maintain a significant wealth pool in the country over the medium to long term. So far, UK market players have experienced limited AuM erosion. **A number of UK wealth managers have actually recorded short-term clients' inflows since the Brexit vote**, as domestic customers are increasing savings and looking for solutions and financial advice during the uncertainty period.

A difficult market to penetrate organically

The market feedback we receive suggests the UK is a particularly difficult market to penetrate organically for new entrants. In addition to being highly competitive, the market is being significantly intermediated by Independent Financial Advisors ("IFAs"), acting as independent financial planning consultants. IFAs offer general financial advice to private clients with up to £5m in size. They are a key source of client acquisition for pure-play UK wealth managers focusing on investment/discretionary management. Hence, a number of market participants have placed such intermediary relationships as a core part of their net new money strategy, in addition to direct private clients. Most UK HNW/UHNW wealth management players are operating without a banking license and deposit client funds to third party institutions, i.e. operating an External Asset Manager-like model. The defiance from customers against large retail banks, who have significantly restructured their domestic wealth management businesses in recent years, has led to the creation and rise of independent wealth management firms capitalising on conflict-free advice.

Historically very fragmented, the sector has gone through significant regulatory changes since the implementation of the Retail Distribution Review ("RDR") in 2013. RDR has been promoting fee transparency (end of retrocessions) and advice professionalism, impacting IFAs significantly. In addition, it pushes IFAs to sell discretionary management instead of funds or non-unitised investments. As a result, the vast majority of IFAs have resorted to outsource this competency to pure-play wealth management firms, whilst a number of smaller players have simply exited the market. This trend has fueled the net new money of a number of discretionary wealth managers who have experienced much higher than market growth in recent years. The extraordinary growth resulting from this trend within the discretionary wealth management industry is expected to be in the double digit range per year and should last for roughly the next 2-5 years.

The RDR has also pushed compliance and administration costs up significantly, making a strong strategic case for M&A. In order to cope with increased costs, a wave of consolidation has been taking place in the market as well as an increased in minimum client size thresholds for firms catering to HNW/UHNWI clients. On the other hand, firms servicing smaller clients i.e. below £250k are being impacted by new direct-to-customer digital propositions as well as automated robo-advice / online platforms, that are initiatives to generate profitability in the mass-affluent segment in the rising costs environment, but that require significant IT investments. Consolidation is also taking place in this segment, as evidenced by the acquisition last August of Cofunds, the UK's largest platform provider, sold by Legal & General and to be merged with Aegon's business.

2015 and 2016 has seen unprecedented increase in M&A activity in the sector, across IFAs and wealth managers alike, impacting in particular smaller firms being consolidated. Private equity investors have also been investing in the sector heavily to capitalise on growth opportunities resulting from regulatory developments, as well as to build platforms for consolidation and to develop scale synergies. Indicative valuations of selected recent transactions are included below:

Valuations of recent UK wealth management transactions

Date	Target	Bidder	AuM (£bn)	Deal value (£m)	P/AUM (%)	P/Revenues	P/EBITDA
Apr-16	Towry Holdings Ltd.	Tilney Bestinvest	9	600	6.6%	5.0x	16.5x
Jul-15	Rowan Dartington	St. James Place WM	1	35	3.5%	4.0x	13.6x
Jan-15	Ashcourt Rowan PLC	Towry Holdings	6	120	2.2%	2.9x	23.5x
Oct-14	Quilter Cheviot	Old Mutual Wealth	16	585	3.6%	4.1x	13.0x
Apr-14	Tilney Investment Management	Rathbone Investment Management	1	14	2.0%	0.5x	n/a
Apr-14	Jupiter Asset Management*	Rathbone Investment Management	2	43	2.1%	3.6x	n/a
Median					**2.8%**	**3.8x**	**15.1x**

*) Prive clients' portfolio

With median P/AuM close to 3.0% and median P/EBITDA well over 10 times on recent transactions, significant strategic premiums have been paid in the market to acquire scale. Historically, prices in the sector have been in the range of 2% to 3% of AuM. Tax transparency and legacy concerns have had limited to no impact on transaction prices in the country. Transactions in the UK are also mostly taking the shape of share deals for this reason, with asset deals being mostly used for carve-out of private banking divisions out of financial institutions with no standalone legal entity. Given the limited impact that Brexit has had on the sector so far, we expect prices to remain at these levels for the short to medium term. Deloitte Financial Advisory has advised in 2016 LGT in its acquisition of Vestra Wealth, an independent London based discretionary wealth manager with £6bn AuM.

We are currently advising on a wide range of projects in the private banking and financial services industries in Switzerland and the UK. If M&A advisory, valuations, due diligence services, post-merger integrations and restructurings could be of interest to you, please get in touch with us through the key contacts below.

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