

Business Environment Makes Wealth Management Companies Attractive to Banks

by Calvin Trice

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First Republic Investment Management Inc.'s pending acquisition of Constellation Wealth Advisors LLC added to a slew of such deals in the past few years.

Banks have brought wealth management companies under their tents to increase noninterest revenue streams as loan growth has remained anemic and interest rates low.

By that measure, Constellation offered a high-value target, said Steven Levitt, managing director of Park Sutton Advisors LLC.

"In general, banks are very interested in wealth management acquisitions these days because of the synergy with their business and (the) ability to achieve a pop in P/E the more fee income they have," Levitt told SNL.

First Republic itself purchased Luminous Capital Holdings LLC in December 2012 as part of the trend.

Silver Lane Advisors LLC, which is advising Constellation on its sale to First Republic announced June 17, noted the trend in a [report on the 2015 M&A outlook](#). Silver Lane said banks have struggled to benefit from the economic recovery. Aside from the low interest rates and lack of loan growth, the traditional banking model has been burdened by regulatory pressures on fees, capital requirements and compliance costs, it noted.

Wealth management firms are an attractive investment for banks needing to replace its typical revenue sources because they are capital efficient, can leverage banks' physical infrastructure and regional brand, and can achieve earnings that are stable and insensitive to interest rates, Silver Lane said.

"Relative to core bank offerings, the profitability of wealth management is attractive — with strong underlying fundamentals in large, underserved markets where banks have pre-existing customer relationships," Silver Lane said in the report.

Further, acquiring wealth management firms do not come with the regulatory burdens associated with bank-to-bank M&A, Silver Lane adviser Jeff Brand told SNL.

"A bank deal, no matter how big or small, it seems like the regulatory process is drawn out," Brand said. Banks could acquire several wealth management companies with the effort it would take to do one bank merger, he said.

Silver Lane said in the report that banks that do not manage wealth management units properly can allow them to turn into dead weight on their portfolios if they do not invest enough to grow them or sell them at a certain point of the business' maturity.

First Republic's wealth management acquisitions have been for two of the largest companies

bought out in the last three years as measured by assets under management, according to SNL data.

Some observers thought the \$115 million price tag for Constellation a bit high. Asked if the deal signifies an escalation in market value for wealth management companies, Levitt pointed instead to the seller's singular value.

"Constellation is a high-quality firm, and First Republic buying them is logical given the Luminous purchase on the West Coast and their likely desire to build out further in New York," he said.

The near future will likely bring more bank acquisitions of wealth management firms, Brand said, adding that Silver Lane is advising on one in the works.

The Federal Reserve has given no indication that economic growth could prompt an interest rate hike in the near future. Even if a hike came, it would not necessarily be a help to banks' business, especially without better loan demand or if regulatory burdens persist.

Wealth management companies will continue to lure acquisitive banks, Brand said.

"They view wealth management as a particularly attractive segment in today's environment," he said.

Banks Buying Wealth Management Firms Since 2012

Silver Lane Transactions in Orange

Announced	Buyer (Ticker)	Target	Seller	Deal Value (\$M)	Target AUM (\$M)	Deal Value / AUM (%)
06/17/15	First Republic Banc (FRC)	Constellation Wealth	CWA Holdings	\$115.00	\$4,294.1	2.68
06/02/15	Washington Trust (WASH)	Halsey Associates	Halsey Associates	NA	850.0	NA
03/19/15	Peapack-Gladstone (PFS)	Wealth Mgmt. Consultants	Wealth Mgmt. Consultants	NA	NA	NA
01/05/15	Provident Financial (PFS)	MDE Group / Acertus Capital	MDE Group / Acertus Capital	NA	1979.7	NA
10/31/14	Provident Financial (PFS)	Wealth Mgmt. Business	Suffolk Bancorp	NA	140.0	NA
09/12/14	Simmons First National (SFNC)	Talbot Capital Mgmt.	Talbot Capital Mgmt.	NA	140.0	NA
07/16/14	Boston Private (BPFH)	Banyan partners	Banyan Partners	80.00	3,729.0	2.15
07/16/14	Guaranty Bancorp (GBNK)	Cherry Hills Inv. Advisors	Cherry Hills Inv. Advisors	NA	178.5	NA
06/01/14	BancPlus	Mississippi Inv. Mgmt.	Mississippi Inv. Mgmt.	NA	140.5	NA
05/27/14	FSB Mutual Holdings	Longview Capital Mgmt.	Longview Capital Mgmt.	NA	270.0	NA
03/04/14	BOK Financial (BOKF)	MBM Advisors	MBM Advisors	NA	1,250.0	NA
01/08/14	Andorra Banc Agricola Reig.	Swiss Asset Advisors	Swiss Asset Advisors	NA	300	NA
12/19/13	Univest Corp. of Pennsylvania	Girard Partners	Girard Partners	20.00	500.0	4.00
12/11/13	Wells Fargo & Co. (WFC)	Summit Wealth Advisors	Summit Wealth Advisors	NA	300.0	NA
05/29/13	Banco de Sabadell SA (SAB)	Private Banking Business	Lloyds Banking Group Plc	12.03	1,215.1	0.99
05/08/13	Southwest Bancshares	San Antonio Capital & Trust	San Antonio Capital & Trust	8.50	200.0	4.25
04/11/13	CIBC (CM)	Atlantic Trust Group	Invesco Ltd.	210.00	21,600.0	0.97
03/27/13	Credit Suisse (CSGN)	Pvt. Wealth Mgmt. Business	Morgan Stanley	NA	13,000.0	NA
02/22/13	NH Thrift Bancshares (NHTB)	Charter Holding Corp.	Meredith Village Bank	6.20	1,500.0	0.83
11/02/12	First Republic Bank (FRC)	Luminous Capital Holdings	Luminous Capital Holdings	125.00	5,500.0	2.27
10/16/12	Natixis (KN)	McDonnell Inv. Mgmt.	McDonnell Inv. Mgmt.	NA	13,500.0	NA
10/09/12	Orange County Bancorp (OCBI)	Hudson Valley Inv. Advisors	Provident New York	4.87	271.9	1.79
10/09/12	Orange County Bancorp (OCBI)	HV Capital Mgmt.	Provident New York	5.45	NA	NA
08/19/12	BOK Financial (BOKF)	Milestone Group	Milestone Group	NA	1,300.0	NA
08/13/12	Julies Bär Gruppe (BAER)	Int'l Wealth Mgmt. Business	Bank of America	885.97	76,045.6	1.17
06/04/12	Guaranty Bancorp (GBNK)	Private Capital Mgmt.	Private Capital Mgmt.	NA	152.2	NA
04/25/12	City National (CYN)	Acebes D'Alessandro	Investor Group	100.00	4,800.0	2.08
04/12/12	Bank of Montreal (BMO)	CTC Consulting	MacAdam Consultants	20.96	581.2	3.61
03/31/12	Rhinebeck Bancorp MHC	New Horizons Asset Mgmt.	New Horizons Asset Mgmt.	NA	7.6	NA
02/28/12	Davidson Cos.	Seattle Capital Mgmt.	Seattle Capital Mgmt.	NA	863.0	NA
02/03/12	Bryn Mawr Bank (BMTCT)	Davidson Trust	Investor Group	10.50	1,000.0	1.05

NA = Not Available

Source: SNL Financial as of 06/18/2015