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Asset Manager Transaction Review – 1H 2017

Smaller Transactions Drive Increased Deal Volume

Asset Management Investment Banking Group

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Transaction activity in the asset management sector increased in the first half of 2017 over the levels in recent years. There were 98 transactions announced globally in the first six months, up 27% from the first half of 2016. With transaction activity essentially equal in each of the first and second quarters, this was the busiest first half of the year since 2008, and the pace signals an active second half of the year.

Despite significant anticipation of large-scale consolidation in the asset management industry, the most pronounced trend thus far in 2017 has been a high volume of small acquisitions. 62% of deals have involved sellers with AUM of less than $3 billion, including 42% with less than $1 billion. As a result, the median transacted AUM of $1.5 billion was the lowest since the second half of 2014. The number of mid-size transactions, involving managers of between $3 billion and $10 billion in AUM, was consistent with previous years in the first half of this year and large, transformational deals (AUM >$100 billion) continue to be highly episodic. In total, AUM of $1.2 trillion transacted in the first half of 2017.

The large volume of small transactions was driven largely by an uptick in integrating private client transactions, with aggregators such as Focus Financial Partners and Mercer Advisors in the U.S. and Old Mutual Wealth Management in the U.K. being among the most acquisitive. Median AUM across private client deals was $550 million versus $1 billion+ historically owing to the increasing number of roll-up acquisitions. Aggregator activity is expected to remain strong as the universe of buyers has continued to expand and includes banks, which are now having a pronounced effect on deal volume.

Asset managers continued to dominate the buyer landscape in the first half of 2017. They represented more than 50% of buyers, consistent with the past several years, and were active acquiring retail, institutional, and private wealth management firms. Broker-dealers stepped up activity in the first half of the year, acquiring more managers in the first half (4) than they did in the entirety of 2016. The most notable deal involving a broker-dealer buyer was Raymond James Financial acquiring diversified manager Scout Investments ($27 billion AUM) from UMB Financial for its Carillon Tower Advisers asset management subsidiary. Acquirers of all types continue to be selective and focused in their deal-making activities, particularly in the traditional asset manager space. The ongoing question regarding the future of active management, as evidenced by the persistently challenging flow environment and fee pressure, have resulted in greater scrutiny from buyers, which are looking for predictable growth or cost synergies to enhance scale and underwrite the risk of client attrition.

Alternative asset managers represented a slightly increased share of acquisition targets in the first half of the year with 37% of total transaction volume. Notably, a meaningful jump occurred in private equity targets, which represented 53% of alternative deals versus 29% in 2016. This increase in private equity activity included a variety of transaction sizes and types. The most notable were the blockbuster SoftBank Group acquisition of Fortress Investment Group ($70 billion AUM) and the initial public offering of Hamilton Lane ($40 billion AUM). Acquisitions of minority stake investments in private equity managers by dedicated investment vehicles continued in the first half, with active buyers including Neuberger Berman's Dyal Capital Partners and Goldman Sachs' Petershill Fund. Activity in other areas, such as hedge funds and real estate managers, was on par with previous years.

Sales of independently owned businesses represented 76% of announced deals, higher than the 67% figure in 2016 and a substantial increase from the low of 52% in 2013. Improved performance in the markets has lifted profits for asset managers over the past few years, which in turn has encouraged employee-owned businesses to seek liquidity and/or strategic partnerships to facilitate future growth. That said, the industry's largest deals were dominated by large corporate sellers rather than independents.

Cross-border activity was more muted in the first half of 2017 with only one in five deals being cross-border versus one in three in 2016. The most notable cross-border trend was Asian buyers acquiring stakes in leading U.S. managers such as HNA Capital's acquisition of a 24.95% stake in publicly-traded OM Asset Management ($240 billion AUM) from Old Mutual plc and Mitsui's purchase of an interest in real estate manager CIM Group ($19 billion AUM).

As we look forward to the remainder of 2017, we expect robust market performance, albeit with more volatility as uncertainly around tax reform and healthcare loom, will help sustain asset manager profitability and thus steady deal flow for the remainder of the year. Price dispersion between premium businesses and run-of-the-mill opportunities will continue across all sectors of the asset management industry.

In the retail and institutional sectors of the market:

- We expect sellers will seek potential buyers that can deliver the most meaningful growth opportunities, particularly in distribution resources.
- We believe increasingly selective buyers will look for high-quality targets that offer differentiated investment strategies, as asset flows continue to be concentrated on managers with a distinctive value proposition as organic growth among active managers remains elusive.

- We anticipate opportunities to achieve cost synergies and increase efficiency will be more common in deal structures than ever before as sellers and buyers alike face increasing fee pressure and margin declines.

In the private wealth management segment:

- Consolidation is well underway and we expect another busy half.
- Given the sector's barbell with only a handful of large players and hundreds of small wealth managers, we expect activity to remain most robust at the lower end of the size range.

In the alternative segment:

- We expect minority stake buyers will continue to remain active, particularly in the private equity space, as independently-owned businesses seek a degree of liquidity for their owners while still maintaining control.
- We believe private credit and real asset capabilities will remain in high demand by both strategic and financial buyers, given increased investor allocations to those asset classes.
- We anticipate hedge fund deal activity will remain suppressed as a dearth of strategic buyers combines with near-term uncertainty regarding investment performance, asset flows, and fee pressure.

The largest global asset management transactions in the first half of 2017 were:

- Merger between Aberdeen Asset Management ($372 billion AUM) and Standard Life ($342 billion AUM);
- Old Mutual plc's sale of a 24.95% stake in OM Asset Management to HNA Capital US ($240 billion AUM);
- Focus Financial Partners' majority stake sale to an investor group led by Stone Point Capital and KKR (Estimated at $100 billion AUM);
- Fortress Investment Group's sale to SoftBank Group ($70 billion AUM); and
- Hamilton Lane's initial public offering ($40 billion AUM).

In the first half of 2017, Sandler O'Neill was the top financial services M&A advisor by number of deals, advising on 36 transactions with an aggregate deal value over $12 billion.[1]

[1] Source: SNL Financial, includes all U.S. financial services transactions announced from 1/1/17 – 6/30/17. Rankings exclude terminated transactions and self-advisory roles.

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