

**North American Financial Services Trendspotter: Investment management deals regain momentum; banks, fintechs slump**

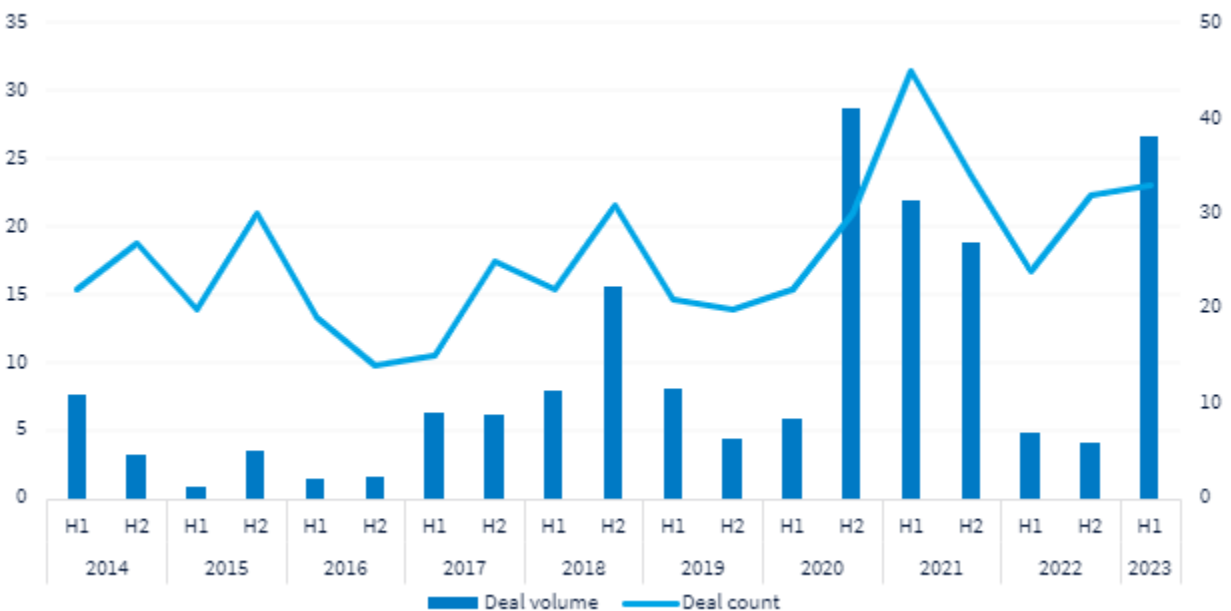
*by Calvin Trice and Deborah Balshem with analytics by Manu Rajput*

North American financial services saw an overall jump in deal volume and a surge in buyouts in 1H23 compared to the first half of 2022 as market hesitancy at the start of the year gave way to irresistible secular trends driving transactions.

Sponsors for quality properties held back on exits before the Federal Reserve eventually stabilized interest rate policy, and with it capital costs and company valuations, advisors in the sector said.

Asset managers continued to consolidate for scale, and wealth managers and sponsors jumped back into the market as soon as clarity returned to the interest rate environment.

**1H23 recorded 456% surge in NorthAm Financial Services buyouts deal volume**



On the other end of the activity spectrum, banking M&A remained slow following the collapse of Silicon Valley Bank and Signature Bank and First Republic’s receivership and sale to JPMorgan Chase [NYSE:JPM] as mid-tier banks saw deposit outflows to larger banks while facing potentially costly regulatory revisions.

Financial technology companies continued to trade at a slower clip due to depressed valuations and rising financing costs.

Macroeconomic turmoil kept private equity on the sidelines coming into the year, said Andrew Fadale, an M&A legal advisor for Milbank who often represents PE funds. However, as funds approach maturity, sponsors are forced to look for places to deploy, Fadale said.

“That necessitates transactions, and there’s a lot backed up that needs to get worked through the system,” he said.

### **Asset management**

Asset and wealth management M&A held up through market uncertainty, and 2023 brought with it momentum for larger deals, said Charles Hibbs, an asset and wealth management investment banker for Houlihan Lokey.

“There’s a good amount of pent-up supply and demand for M&A transactions in the market,” Hibbs said.

Two decades of declining fee revenues and the inability for actively managed mutual funds to outperform long-only market indices are pushing traditional asset managers to buy for scale in defensive M&A, Hibbs said.

Hibbs highlighted as an example Franklin Resources’ [NYSE:BEN] purchase of Putnam Investments from Great-West Lifeco [TSX:GWO] in a deal that could reach USD 1.8bn.

Traditional asset managers tend to trade in mid-single-digit to low double-digit EBITDA ranges, reflecting the challenges they face around growth and margin compression, he said.

Alternative managers are seeing strong fee structures and have enjoyed increasing net flows from investors looking for richer returns, Hibbs said.

They have trended towards offensive M&A, adding new products and investment capabilities, he noted, referring to TPG’s [NASDAQ:TPG] announced deal for Angelo Gordon as “a strong private equity platform that was missing a credit business, which they were able to add in a big way through the acquisition.”

Alternative asset managers tend to trade in the low double digits on a blended EBITDA basis but can trade much higher depending on the relative contribution of recurring management fees, investment performance and net flows, Hibbs said.

### **Wealth management**

Wealth management deal activity nearly kept the pace of 2022’s record count, said Kim Kovalski, managing director at MarshBerry. MarshBerry counted 117 announced transactions in January through May of 2023, barely missing the 120 tally for the same span last year, Kovalski noted. For asset and wealth management combined, there were 150 deals in 1H23 versus 178 deals a year earlier, Mergermarket data shows.

Private equity capital continues to pour into the registered investment advisor (RIA) space, she said. Post-pandemic reflection accelerated many advisors’ timelines to sell or partner with larger firms. The

average age of a wealth advisor ticked closer to retirement, and buyers in the market continue to add infrastructure, services and capabilities that attract smaller firms, Kovalski said.

The rising cost of debt has injected more diligence into dealmaking, with buyers focusing more on quality and talent, she said. Still, demand for the highest-quality RIAs continues to outpace supply, Kovalski added.

Valuations have mostly held up, with smaller RIAs with up to USD 2bn in assets under management (AUM) trading in the mid-to-high single digits EBITDA, mid-sized managers with AUM up to USD 10bn of AUM selling in the low to mid-teens while the largest can trade well into 20x-plus EBITDA, advisors have said.

CI Financial [TSX:CIX] sold a 20% stake in its US wealth management business to a consortium of investors for CAD 1.34bn (USD 1.02bn). The deal to a group led by the Abu Dhabi Investment Authority and Bain Capital valued the business at CAD 7.1bn (USD 5.41bn), or 25.6x annualized adjusted EBITDA.

## **Payments**

The payments sector could see an uptick in deal activity during the second half but will likely not return to the frothy days when money was cheap, said Mark Newcomer, CEO of Payscale [NASDAQ:PAYS].

Emerging technologies will continue to get investment money, but return expectations and funding costs are higher now, which has dampened deal activity, Newcomer said. The environment has forced fintech startups to maximize resources until the landscape improves, the CEO said.

“Such a scenario generates a delay in M&A activity, which is why I predict that M&A dynamics will remain subdued for the rest of the year,” Newcomer said.

Real-time payments, social payments and mobile or contactless payments have seen a surge in adoption, and will eventually drive deal activity in those areas, he said.

The regulatory landscape around emerging payment technology, especially cryptocurrencies, remains uncertain, which will play into investment and deal activity until risk and compliance requirements become clearer, Newcomer said.

## **Banks**

Bank M&A paused following the crisis and failures in the first quarter, said Philip Feigen, managing partner for law firm Polsinelli's Washington office. New regulations are working their way through Congress that will likely be more costly for community and mid-sized banks, Feigen said.

“This should spawn more deal activity in community and mid-market banks as they deal with these new costs,” he said.

The deal market for larger banks will likely remain quiet for the remainder of 2023, driven primarily by the gap in valuation expectations between potential acquirers and sellers, said Tom Collins, senior partner in West Monroe's financial services practice.

“Dealmaking in 2023 will likely be limited to transactions of necessity, prompted by liquidity pressures or opportunistic transactions,” he said.

According to Collins, regional banks will face a host of challenges – including increasingly stringent regulations, along with competitive pressure from private credit providers, non-bank fintech lenders and payment providers. This will prompt them to scale through merger-of-equals transactions and traditional acquisitions during the first half of 2024 and accelerating into 2025.

-----

***Mergermarket*** ([mergermarket.com](https://mergermarket.com)) is the leading provider of forward-looking M&A intelligence and data to investment banks, private equity firms, lenders, law firms, accounting firms and corporates around the world. Our parent company, ION, is a global leader in trading and workflow automation software, high-value analytics and insights, and strategic consulting.