

Mergers and acquisitions: how to value a wealth management bank

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Combination transactions require the institutions concerned to be valued. A common method consists in expressing the price as a percentage of assets under management, with multiples that vary according to the quality of the client base, profitability, inherited risks and market conditions.¹ This method reflects the fact that the value of an institution lies first and foremost in its client base and in the future revenues it will provide.

The acquirer must nevertheless analyse several elements. The quality of the client base determines the stability of revenues: a long-standing, diversified and tax-compliant client base is worth more than a concentrated or risky one. The retention of managers determines whether assets will remain after the transaction. Inherited risks, in particular foreign tax and criminal proceedings, non-compliant assets and relationships with politically exposed persons, can considerably reduce the value or require guarantees from the seller. The costs of integrating systems and organisations must be estimated.

The process of prior verification, or *due diligence*, therefore concerns compliance as much as the figures. Acquirers examine client files, anti-money laundering procedures, pending disputes, decisions of the authorities and the culture of the institution. Contractual warranties and price adjustments linked to the retention of assets are frequent.

Worked example. A bank managing CHF 4 billion is put up for sale. An acquirer offers a price representing 2 per cent of the assets, i.e. CHF 80 million, with an adjustment if the assets retained twelve months after the transaction are below CHF 3.5 billion. Due diligence reveals that part of the assets comes from clients whose tax compliance is not documented. The acquirer demands a warranty from the seller covering any penalties and reduces its offer to 1.5 per cent, i.e. CHF 60 million. The figures are fictitious and illustrate the effect of inherited risks on value.

1 Notes

1. Laurent Pellet (Lombard Odier) and Philipp Fischer (Oberson Abels), “Gestion de fortune : décryptage des transactions de M&A” (Wealth management: decoding M&A transactions), Allnews, 3 July 2024: the valuation methods used include net assets plus a goodwill calculated on a multiple of assets under management, revenue multiples and EBIT or EBITDA multiples, the authors noting that “the methods of setting the price are limited only by the creativity of the players”; the parameters adopted depend on the type of client base, profitability and risk profile, as well as on the acquirer’s expectations regarding the retention of assets after the transaction; practice makes use of deferred payments calculated on post-sale profitability and of clawback clauses tied to the retention of assets over a set period. ↩

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