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## Post-City National, big buyers could look closer at banks like Boston Private

By Kiah Lau Haslett

Reported interest in [Boston Private Financial Holdings Inc.](#) and [First Republic Bank](#) indicates where other large financial firms could look to acquire wealth management platforms and reveals that the specialty business line could become a sought-after target in big-bank M&A.

Before [Royal Bank of Canada](#) announced it would [acquire City National Corp.](#) on Jan. 22, it had reportedly explored the possibility of buying Boston Private and First Republic, according to a Feb. 5 article in *The Wall Street Journal*. Interest in wealth management units owned by banks may have finally gathered enough momentum to reach the biggest financial institutions, according to several analysts and deal-makers. Banks such as Boston Private and First Republic may become potential targets for large institutions that want to augment net interest income with reliable fee income and a desirable, sticky client base.

RBC announced it would pay a [reported \\$5.4 billion](#) to acquire City National. SNL calculates the deal value at \$5.33 billion, which translates to a price that is 262.1% tangible book value and 22.9x last-12-months earnings. Based on [SNL data](#) looking at price-to-tangible book ratios, it is the most expensive large U.S. bank deal announced since the financial crisis. The acquisition [offers](#) RBC strong wealth management and commercial lending businesses, as well as exposure to an affluent client base in key geographies.

According to the *Journal*, RBC had initially valued Boston Private at around \$2 billion before deciding the valuation was too high and that it was more interested in a wealth management platform as opposed to a private banking platform. RBC spokeswoman Rina Cortese told SNL in an email that the bank does not comment on rumors or speculation. The article said investment bankers pitched Boston Private to RBC and Toronto-based [Canadian Imperial Bank of Commerce](#), and that the bank was on a list of potential acquisitions for CIBC. It noted it is not clear whether CIBC ever reached out to Boston Private about a potential deal; spokeswoman Caroline Van Hasselt told SNL that the bank had no comment.

The premium RBC initially assigned to Boston Private is not "realistic in this current environment," wrote BMO Capital Markets analyst Lana Chan in a Feb. 5 report. She pointed out that a \$2 billion price tag is double the bank's current market cap and a "steep" 4.3x tangible book. She wrote that she would expect Boston Private to "command a lower take-out value" compared to City National because of its relative size and anticipated smaller benefit to rising short-term interest rates.

"That said, if we applied [City National's] take-out multiples to [Boston Private], we come up to a range of \$15-\$17 per share," she wrote.

The *Journal* article also stated that RBC looked into buying First Republic before deciding on City National. Selling First Republic could allow management to better serve customers because they would no longer have to worry about regulatory restrictions on growth and capital, wrote Morgan Stanley analyst Ken Zerbe in a Feb. 6 report. He pointed out the bank has slowed growth to prepare to cross the \$50 billion-in-assets mark, and would only be allowed to grow loans 15% if designated a systemically important financial institution after it crosses.

"As part of a larger organization, [First Republic] would be able to focus solely on what it does best, which is serving its clients, rather than spending time figuring out how to constrain balance sheet growth and comply with incremental regulatory burden of crossing over \$50 [billion] organically," he wrote.

He added that investors viewing the bank as a potential takeout target could price in an M&A premium into the stock and provide additional upside. First Republic had no comment for SNL, according to spokesman Greg Berardi at Blue Marlin Partners.

Wealth management acquisitions have been a "hot target" for the last two years, and momentum has finally reached some of the largest players in the North American financial space, said James Abbott, a partner at Seward & Kissel LLP. He said interest in the space has moved up the chain, from small deals and rollups to now a hefty deal with a considerable premium. The City National deal follows the re-entry of larger banks into the M&A game, with the pending [acquisition](#) of Lititz, Pa.-based [Susquehanna Bancshares Inc.](#) by [BB&T Corp.](#)

"I think the bigger M&A market opened up, and I think it started with the smaller deals because they were available and buyable, and maybe people didn't want to splash out with their own deal," Abbott said. "But now people are more confident to go ahead and do a big deal."

Deal activity accelerated in 2014. Investment bank Silver Lane Advisors counted 47 acquisitions of registered investment advisers and trust companies by banks, "nearly double" the total in 2013 and 18 in 2010, according to a 2015 outlook report. The report adds that banks are "uniquely positioned" to combine wealth management with banking and capitalize on the opportunity it offers.

Some of those smaller deals in recent years included ones done by First Republic and Boston Private to expand their wealth management offerings or footprints, said Silver Lane managing director Jeffrey Brand. First Republic [acquired Luminous Capital Holdings LLC](#) in 2012 for \$125 million in a deal where Silver Lane advised the buyer. Boston Private's most recent whole-bank [deal](#) was in 2007 for Bellevue, Wash.-based [Charter Financial Corp.](#); the bank then shifted to targeting asset managers, announcing five acquisitions since 2007. Management called its [most-recent](#) deal, the 2014 acquisition of [Banyan Partners LLC](#), a "game changer" following the announcement. President and CEO Clayton Deutsch said the company is now seeking "a catalyst

or a bit of a transformational deal," according to the [transcript](#) of the bank's fourth-quarter 2014 earnings call.

Wealth management offers banks predictable fee income that is impervious to interest rates, can translate into higher stock valuations, and grows the company without the need for capital. Additionally, wealth management clients are targets for cross-selling banking services, and greater wallet share can translate into stickier clients, Brand said.

"All reasons why you see in a public market, all else being equal, the larger public asset managers trade at a premium to the similar-sized banks," he said.

When it comes to an acquisition, a significant-sized wealth management unit at a bank could merit its own valuation and push the price higher. But Brand suggested that banks with premium wealth management units may be selling themselves short when it comes to differentiating their offerings. He said there is a "lack of appreciation" in the investment community for these business lines, one partially to blame on banks who fail to expound the benefits and offerings of wealth and asset management to potential investors or buyers. He said executives are not transparent or uniform when discussing the business units, which could obscure its attractiveness and potential.

"Is it a trust asset where you're acting as custody, and it's really assets under management, or are you really managing that money on a discretionary basis and charging the full 1%?" Brand said. "Part of the job when you're looking at acquiring a company is discerning what type of asset management unit they have and what are the possibilities of the unit. If you're achieving 30% to 40% margins, which is possible in those units, then it's higher than typical banking business and garners a valuation."

The acquisition of City National by RBC has recharged interest in the space, leading to "a lot" of activity and dialogue surrounding these units and bestowing a "premium" on their value, he said. Part of the renewed interest could be the unexpected nature of the acquisition that has caused would-be buyers and sellers to look closer at RBC's rationale and City National's price. City National had "earned the right" to remain independent, but found an acquirer who could maximize shareholder value.

"If you asked me a month ago 'Would RBC be buying City National?' I would say 'There's a very, very low probability,'" Brand said.

The next big-bank buyer could very well be a foreign bank looking to enter a more attractive market to diversify, or a nonbank financial company, Abbott said. He also noted that insurance company [New York Life Insurance Co.](#) has indicated interest in the wealth management space through previous acquisitions. New York Life has acquired three asset managers since 2010 and has another [deal](#) pending for Financial Development Holdco LLC. He added that banks with wealth management units could be an area of interest for private equity companies.