

SNL Blogs



Monday, February 25, 2013 8:52 AM ET

Crestview Partners a common denominator in KeyCorp's and Comerica's AM sales—and maybe SunTrust's too

By Jeff K. Davis

The timing of the [Feb. 21 sale](#) of [Victory Capital Management Inc.](#) and affiliate [Victory Capital Advisers Inc.](#) to [Crestview Partners LP](#) and management is curious since parent [KeyCorp](#) does not need capital, unlike 2008-2009 when there was discussion of selling the unit. There was similar Street talk then about [Fifth Third Bancorp](#) and [SunTrust Banks Inc.](#) selling their asset management units to bolster capital. KeyCorp's sell-side analyst commentary pointed to reallocating capital to higher return businesses, improving the efficiency ratio, using the after-tax gain to repurchase shares and other minutiae. What is striking to me is that the asset management business has a very high risk-adjusted return even without the use of leverage when compared to the commercial banking business model.

The \$246 million purchase price for Victory includes \$201 million in cash and a \$45 million note. KeyCorp will realize an after-tax gain of \$145 million to \$155 million, which implies the pretax gain is \$223 to \$238 million assuming a 35% marginal tax rate. Multiples entail 1.12% of \$22 billion of assets under management, 2.2x \$112 million of revenues and 10.3x pretax earnings of \$24 million. I derive a pretax ROE of about 25% given the implied allocated capital of \$96 million, while the pretax margin last year was 21%.

The asset management business on paper is a great business line for commercial banks. It is an extension of trust, and cross selling potential extends across a bank. Although operating margins are less than a typical bank's pretax, pre-provision margin (~20% vs. ~35%), asset management is a pure fee business that has nil credit risk, requires very little balance sheet capital and has a better growth profile than commercial banking. As a result, asset managers trade at higher P/E multiples than commercial banks. Banks with a high component of asset management revenues tend to trade above peer multiples for this reason. Victory was not a large component of KeyCorp's revenues or earnings, however.

Managing the human capital aspect of asset management operations has been tricky for many commercial banks because the DNA and compensation expectations of the personnel are not the same. Mellon Bank Corp. learned this in 1993 when it made its transformative acquisition of the Dreyfus Corp. Ultimately Mellon prevailed and today the two entities are part of [Bank of New York Mellon Corp.](#), which has \$1.4 trillion of AUM and \$27 trillion of custody assets. For those who remember when Ned Kelly became CEO of Baltimore-based [Mercantile Bankshares Corp.](#) in 2000, one of his objectives was to heavily invest in the white-shoe asset management unit that was treated as a cash cow by his predecessor as evidenced by its then high 30s pretax margin. Heavy spending and management snafus caused the pretax margin to fall to 11% in 2003 before rebounding to 26% in 2006 prior to Mercantile's acquisition by [PNC Financial Services Group Inc.](#)

More recently [City National Corp.](#), among others, has at times struggled with staffing issues in its successful wealth management unit that has \$38 billion of AUM. Not surprisingly I suppose, [Wells Fargo & Co.](#) seems to have excelled in asset management, which was invigorated with the 2004 acquisition of Strong Financial Corporation.

It may be that KeyCorp and Victory management had been working to part ways for a while. Victory moved a couple of years ago from the KeyCorp tower to a suburban location, perhaps in anticipation of a separation. KeyCorp had previously wound down the operations of Austin Capital Management, which it acquired through Victory in 2006 when Austin had about \$1 billion of AUM. Austin subsequently incurred \$186 million of Madoff-related losses.

I suspect Victory personnel chafed at KeyCorp's endless string of expense initiatives. It may be that from KeyCorp's perspective significant expenditures were needed to improve performance and grow the operation, a proposition that is more daunting post-crisis with asset management fees under pressure. Institutional and asset management fees were \$129 million for the first trailing 12 months ended Sept. 30, 2012, vs. \$149 million in 2011, \$161 million in 2010 and \$200 million in the pre-crisis year 2007; however, part of the decline since then reflects the wind-down of Austin. Also, not all of the "institutional and asset management" revenues may be sold as the KeyCorp press release references \$112 million associated with \$22 billion of AUM. Regardless, the trend is lower.

One other notable asset management divestiture by a regional bank was that of [Comerica Inc.](#), which sold its 90% interest in [Munder Capital Management](#) in 2006 for \$302 million (\$232 million cash; \$70 million 8.0% note) plus Munder's World Asset Management division, which at the time had \$16 billion of passively managed index assets. Like the Victory deal, Crestview Partners and management acquired the unit. Further, Morgan Stanley & Co. may have simply updated its analysis for Victory since it served as the financial adviser to Comerica as was the case with KeyCorp.

Pricing was unlike Victory's, but it was pre-crisis too when money market funds were not liabilities to plan sponsors and when asset managers did not face the same degree of pricing pressure as is the case today. Excluding whatever value was assigned to WAM, pricing equated to about 19x both Munder's 2005 and 1H06 annualized pretax earnings (~\$16 million) that accrued to Comerica. Grossing the purchase price up for the 10% minority interest, the implied value relative to \$25 billion of AUM (\$9 billion equity; \$6 billion fixed income; and \$10 billion cash) was 1.3%. Assigning nil value to the cash AUM, the price equated to about 2.2% of the equity and fixed income AUM.

Comerica may have sold at better time than KeyCorp, but Victory management as equity investors alongside Crestview Partners may have more upside given the lower acquisition price. Selling money management firms is tricky since much of the value resides in individuals that have the relationships with clients. It may be that the Victory deal will reinvigorate SunTrust's efforts to sell [Ridgeworth Capital Management Inc.](#). Press reports indicate SunTrust's effort to do so in 2010 failed, but were then revisited in May 2012. To date no announcement has been made. RidgeWorth Investments is the moniker for SunTrust's family of institutional asset managers. One of the more notable groups is Seix Investment Advisors, a successful corporate bond manager that SunTrust acquired in 2004 for \$300 million (1.44% of AUM). It may be that Crestview will get to bolt RidgeWorth on to Victory Capital and Munder Capital. If so, Crestview may be able to add an IPO to its potential exit strategy scenarios, or at least a dividend recap given the steady nature of asset management earnings provided assets are retained.

Published with permission.

Jeff K. Davis, Managing Director of Mercer Capital's Financial Institutions Group, is a regular contributor to SNL Financial. He can be reached at jeffdavis@mercercapital.com or 615.345.0350.