

Bank Watch

Boston Private Bank & Trust Company Acquisition of Banyan Partners

This article is reprinted from *Mercer Capital's Asset Management Industry newsletter* (Q2, 2014). For a review of a prior transaction referenced in this article (Tri-State Capital's acquisition of Chartwell Investment Partners), see the Q4, 2013 issue of *Asset Management newsletter*. Both can be accessed via Mercer Capital's website at mercercapital.com.

On July 16th, 2014 Boston Private Financial Holdings, Inc. (NASDAQ ticker: BPFH), the holding company of Boston Private Bank & Trust Company, entered an asset-purchase agreement to acquire Banyan Partners, LLC, a Registered Investment Advisor (RIA) headquartered in Palm Beach Gardens, Florida with approximately \$4.3 billion in client assets. Key attributes of this deal and another recent bank acquisition of an asset manager are presented in Figure 1 below for perspective on industry pricing metrics.

Deal Analysis (in \$ Mil.)	Chartwell	Banyan	Notes / Sources
Client Assets	7,500	4,317	Approximate; Disclosed
Realized Average Fee	0.39%	0.58%	Implied Realized Fee
Revenue	25.0	25.0	Approximate; Disclosed
Operating Expense (Excl.Depr.)	19.0	18.3	Implied
EBITDA	<u>6.0</u>	<u>6.7</u>	
<i>EBITDA Margin</i>	24.0%	26.7%	
Initial Consideration	45	60	Disclosed
Earnout	15	20	"
Total Consideration	<u>60</u>	<u>80</u>	"
<i>EBITDA multiple (post-earnout)</i>	7.1x	8.2x	Total Consideration ÷ Total EBITDA
<i>Implied % of AUM</i>	0.80%	1.85%	Total Consideration ÷ Total Client Assets

Figure 1

Similar to the Tri-State/Chartwell deal earlier this year, management delineated how Banyan's attributes met Boston Private's investing criteria as shown in Table 1.

Table 2 depicts other similarities and key attributes of the Tri-State/Chartwell and Boston Private/Banyan Partners deals as banks continue to target advisors for exposure to fee income and higher margin products.

These recent deals are particularly instructive to other industry participants since, of the nearly 11,000 RIAs nationwide, approximately 80 (<1%) transact in a given year, and the terms of these deals are rarely disclosed to the public. Part of this phenomenon is attributable to sheer economics – a new white paper from third-party money manager, CLS Investments, argues that many advisors lose out financially in an outright sale of the business.

Table 1

Boston Private Criteria	Banyan Attributes
Strong Leadership Team. Must be capable of managing transition of legacy Boston Private Bank Wealth Management platform to new investment platform and driving future growth	Deep bench with proven experience founding and growing high performing wealth management companies
Focus on High Net Worth Market. Clientele that closely matches distinct private client profile of Boston Private Bank & Trust	High net worth clients account for 85% of relationships
Robust Investment Capability. Well-developed, multi-faceted open architecture / hybrid model sophisticated capabilities	Leverages proprietary and 3rd party strategies to build customized portfolios Alternatives offered through the manager of managers platform Streamlined investment process that emphasizes consistency across portfolios
Strong Organic Growth Profile. Demonstrated ability to grow organically through diversified distribution channels	2013 and YTD 2014 organic growth of AUM in excess of 15% Strong positioning in 3rd party referral channels (Fidelity and TD Ameritrade)
Scalable Platform. Must be able to fully integrate Boston Private Bank Wealth Management into newly formed company	Robust technology platform and management reporting capabilities Proven capability in integrating mid-sized wealth management companies
Geographic Overlap. Located in current or contiguous markets	~50% of AUM and 30% of employees are based in Boston
Accretive to EPS and ROATCE	4% accretive to diluted EPS and 230 bps accretive to ROATCE in year one

What We're Reading

Elizabeth Dexheimer and Leslie Picker of *Bloomberg* have an interesting article entitled "RBS U.S. Unit Seeks Valuation Up to \$14 Billion in IPO."

<http://mer.cr/1oZmQkl>

Brian Collins has written an article entitled "Community Banks Push Back Against Plan to Restrict FHLB Membership" (*American Banker*). *requires subscription

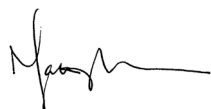
<http://mer.cr/1q8ch12>

Ken Achenbach and Michael Shumaker present, "Forming a Game Plan for TruPS" at *BankDirector.com*.

<http://mer.cr/1wefY8s>

Another recent publication titled "Advisors: Don't Sell Your Practice!" in research magazine ThinkAdvisor notes that many principals earn more in salary and bonuses than they would from the consideration they would otherwise receive in an earn-out payment over a period of time, as many of these deals are structured. In other words, returns on labor exceed potential returns on capital for many advisors, particularly for smaller asset managers that typically transact at lower multiples of earnings or cash flow. In these instances, an internal transaction with junior partners might make more sense for purposes of business continuity and maximizing proceeds. For larger RIAs, recent deals at 7-9x EBITDA suggest that buyers are willing to pay a little more for the size and stability of an advisor with several billion under management.

For more information or if we can assist you in any way, please feel free to contact us.



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Table 2

Deal Comparison	Chartwell / Tri-State	Banyan Partners / Boston Private
Acquiror Type	Publicly traded bank with private banking capabilities	Publicly traded bank with private banking capabilities
Total Consideration	\$60,000,000	\$80,000,000
Deal Structure	Earn-out (75% down; 25% based on achieving certain EBITDA targets)	Earn-out (75% down; 25% based on achieving certain EBITDA targets)
Accretive to EPS	immediately	immediately
Target Profitability	24% EBITDA Margin	27% EBITDA Margin
Recent Growth Trends	AUM growth from \$4.8B in 2011 to \$7.5B at closing	organic growth in excess of 15% for 2013 and YTD 2014
Est. Multiple of Baseline EBITDA	7.0x	9.0x
Mult. of Target EBITDA (w/earn-out)	7.1x	8.2x

Mercer Capital's Resources for Depository Institutions

The Financial Institutions Group of Mercer Capital works with hundreds of depository institutions annually providing a broad range of specialized resources for the financial services industry.

Newest Webinar



Sponsored by SNL Financial

An Overview of the Leveraged Lending Market and Bank Participation in the Market

There has been a flurry of media reports this year that regulators—especially the OCC—are intensifying scrutiny of leveraged lending and are becoming less flexible in allowing banks to interpret the guidance. Some investors have begun to raise questions whether a new credit bubble has developed, while others see opportunities for BDCs and other specialty finance companies to gain market share. In this webinar we will take a look at one of the fastest growing markets that has emerged post crisis.

View webinar on SNL Financial's site at <http://mer.cr/VRc9JV>

Webinars Available for Replay

Understanding Deal Considerations

Key issues that we see when banks combine as it relates to valuing and evaluating a combination are reviewed. This is particularly critical when the consideration consists of shares issued by a buyer (or senior merger partner) whose shares are either privately held or are thinly traded.

View replay at <http://mer.cr/bnkweb2>

How to Profit on a Distressed Transaction

Buyers have been leery of acquiring troubled banks in non-assisted deals. With a slowly recovering economy, we take a look at the opportunities and pitfalls or making an acquisition of a “turnaround” bank.

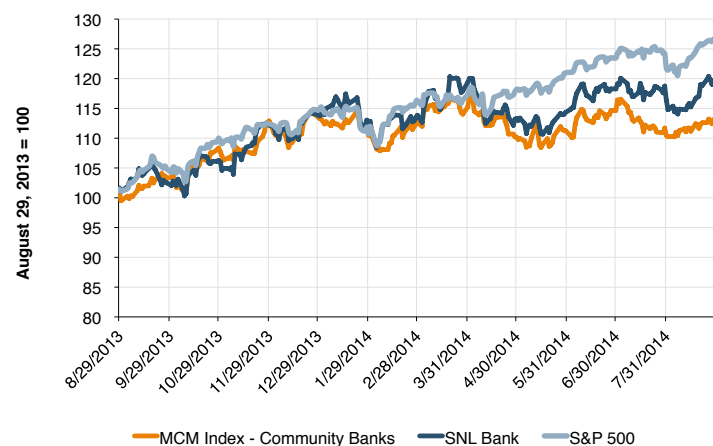
View replay at <http://mer.cr/bnkweb3>

Basel III Capital Rules Finally Final: What Does It Mean for Community Banks?

Finalized at last, the regulations provide direction for bank capital management decisions. This webinar, co-sponsored by Mercer Capital and Jones Day, reviews the final rules and assesses their impact on community banks.

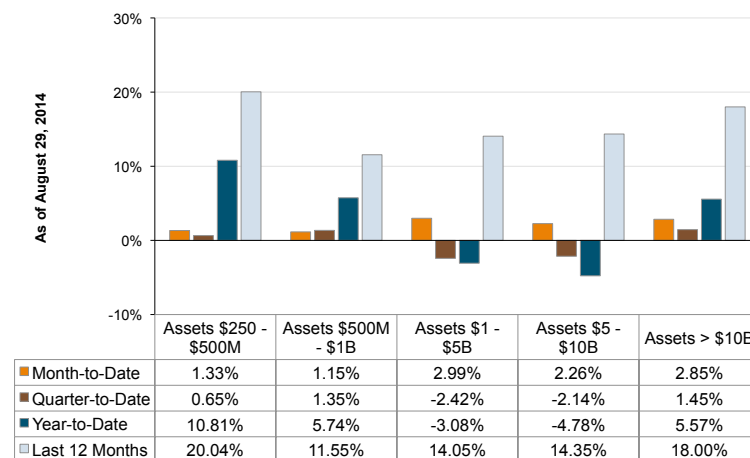
View replay at <http://mer.cr/capital-rules-webinar>

Mercer Capital's Bank Group Index Overview



Return Stratification of U.S. Banks

by Asset Size

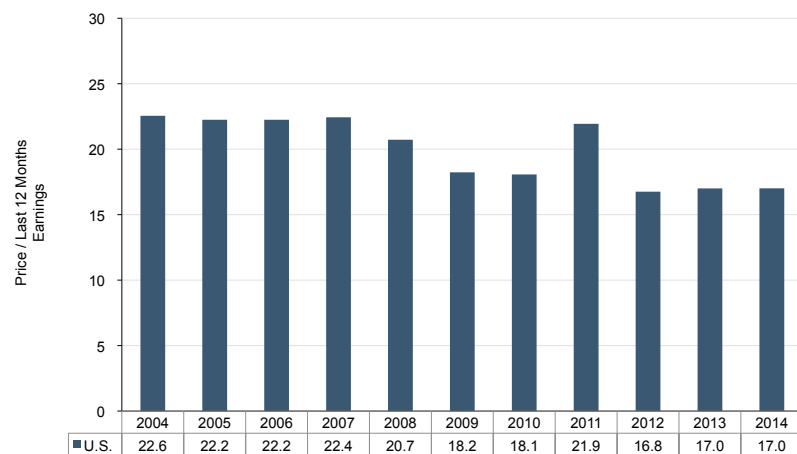


Median Valuation Multiples

Indices	Median Total Return				Median Valuation Multiples as of August 29, 2014					
	Month-to-Date	Quarter-to-Date	Year-to-Date	Last 12 Months	Price/LTM EPS	Price / 2014 (E) EPS	Price / 2015 (E) EPS	Price / Book Value	Price / Tangible Book Value	Dividend Yield
Atlantic Coast Index	2.01%	-0.92%	1.19%	9.34%	16.48	18.21	13.29	109.9%	116.5%	2.2%
Midwest Index	3.59%	-2.84%	2.82%	18.53%	13.12	13.48	12.31	110.6%	122.0%	2.2%
Northeast Index	2.53%	-2.40%	-1.04%	9.24%	14.47	14.43	12.63	119.6%	125.9%	2.9%
Southeast Index	0.64%	0.55%	-0.63%	12.98%	13.32	13.88	12.98	115.8%	118.9%	1.9%
West Index	2.27%	0.75%	1.77%	16.96%	16.39	16.62	13.94	126.5%	135.3%	2.0%
Community Bank Index	2.43%	-1.33%	-0.06%	12.15%	14.47	15.44	12.92	114.2%	124.0%	2.2%
SNL Bank Index	2.83%	1.19%	4.87%	17.70%						

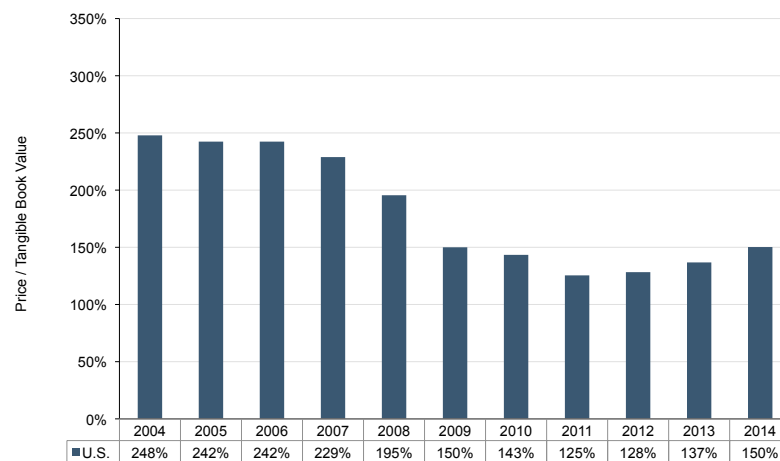
Median Price/Earnings Multiples

Target Banks Assets <\$5B and LTM ROE >5%



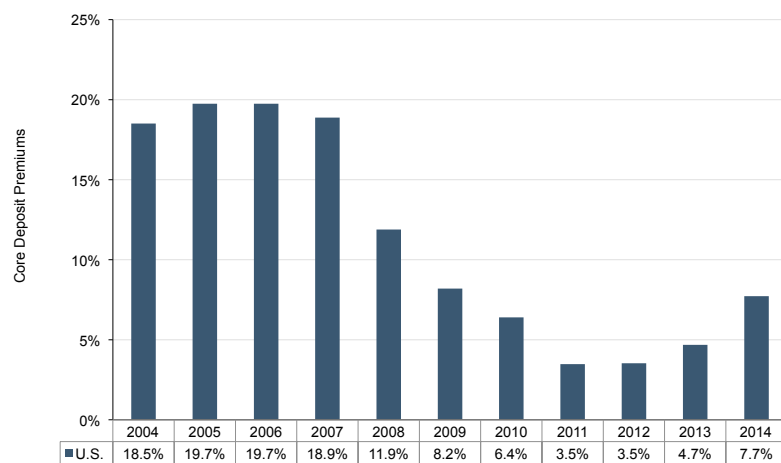
Median Price/Tangible Book Value Multiples

Target Banks Assets <\$5B and LTM ROE >5%



Median Core Deposit Multiples

Target Banks Assets <\$5B and LTM ROE >5%



Median Valuation Multiples for M&A Deals

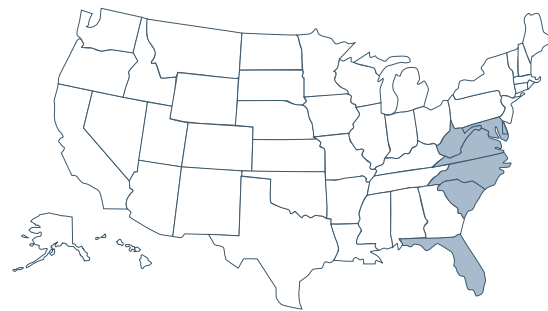
Target Banks Assets <\$5B and LTM ROE >5%, through August 2014

Regions	Price / LTM Earnings	Price / Tang. BV	Price / Core Dep Premium	No. of Deals	Median Deal Value	Target's Median Assets	Target's Median LTM ROE (%)
Atlantic Coast	19.98	1.56	9.2%	5	51.60	312,005	9.19%
Midwest	19.12	1.57	7.8%	38	52.00	135,720	8.94%
Northeast	17.90	1.79	11.2%	7	77.77	370,261	8.36%
Southeast	13.99	1.60	6.9%	20	66.49	218,429	9.27%
West	17.31	1.28	4.1%	11	57.00	359,964	8.52%
Nat'l Community Banks	17.02	1.50	7.7%	81	56.40	221,343	8.96%

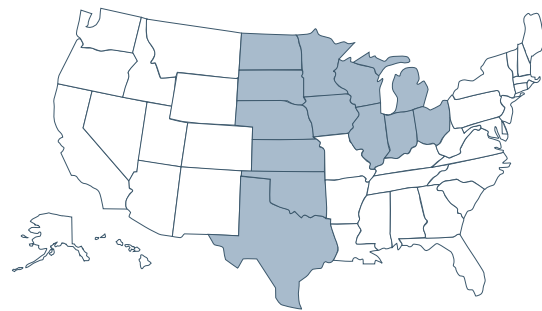
Source: Per SNL Financial

Mercer Capital's Regional Public Bank Peer Reports

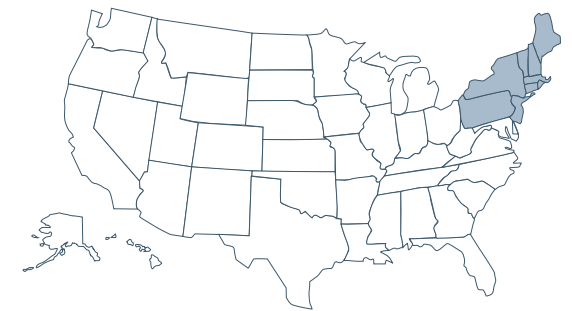
Updated weekly, Mercer Capital's Regional Public Bank Peer Reports offer a closer look at the market pricing and performance of publicly traded banks in the states of five U.S. regions. Click on the map to view the reports from the representative region.



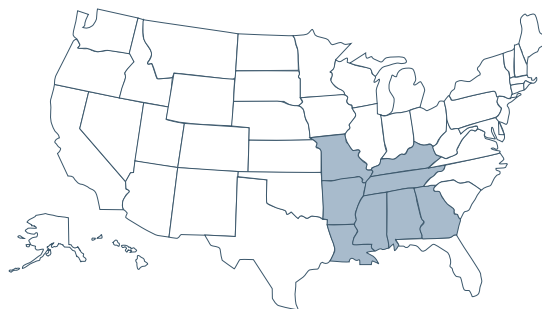
Atlantic Coast



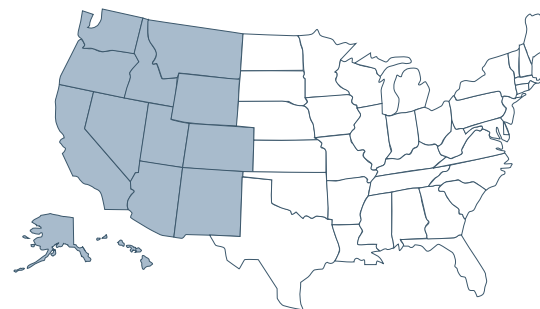
Midwest



Northeast



Southeast



West

Mercer Capital

Financial Institutions Services

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Mercer Capital pairs analytical rigor with industry knowledge to deliver unique insight into issues facing banks. These insights underpin the valuation analyses that are at the heart of Mercer Capital's services to depository institutions.

Mercer Capital is a thought-leader among valuation firms in the banking industry. In addition to scores of articles and books, *The ESOP Handbook for Banks* (2011), *Acquiring a Failed Bank* (2010), *The Bank Director's Valuation Handbook* (2009), and *Valuing Financial Institutions* (1992), Mercer Capital professionals speak at industry and educational conferences.

The Financial Institutions Group of Mercer Capital publishes *Bank Watch*, a monthly e-mail newsletter covering five U.S. regions. In addition, Jeff Davis, Managing Director, is a regular contributor to SNL Financial.

For more information about Mercer Capital, visit www.mercercapital.com.

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