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Jupiter's acquisition of Merian seen as 'opportunistic'

By Dawn Cowie18 February 2020 Comments (0)

Jupiter Asset Management's "opportunistic" and "inexpensive" bid for Merian Global Investors was "well timed" after a tough year for both firms.

Yesterday Jupiter agreed to pay £370m (€444m) for Merian, with £29m in net debt and the latter's shareholders taking a 17 per cent stake in the enlarged business.

The combined firm will have an estimated £65bn in assets under management.

Large outflows from core strategies have led to a slump in the value of Merian since it completed a management buyout in June 2018.

The active manager, formerly known as Old Mutual Global Investors, was valued at about £600m at the time of the MBO, which was backed by private equity firm TA Associates. Jupiter's management buyout from Commerzbank in 2007 was also backed by TA Associates.

Merian had outflows of €9.9bn in 2019, of which €7bn related to its Global Equity Absolute Return fund, according to Morningstar data.

Jupiter's outflows slowed to €3.3bn in 2019, having totalled €4.7bn in 2018, excluding funds of funds.

David McCann, analyst at Numis Securities, says the acquisition is opportunistic and "looks inexpensive".

"I suspect there were a number of factors making this deal opportunistic, including [Merian's] debt and the unexpected fall in [assets under management]," he says.

Jonathan Miller, director of UK manager research ratings at Morningstar, says Merian's "change of direction" from management buyout to being acquired in 18 months is "somewhat surprising".

“Andrew Formica made a number of acquisitions while chief executive officer of Henderson and he has already put this strategy to work after less than a year as CEO of Jupiter,” Mr Miller adds.

Meanwhile, Mr McCann says the main challenge of the deal will be avoiding “too many revenue dis-synergies” and “stemming the outflows”.

Analysts at Jefferies say that while there are “some defensive characteristics” to the transaction, which the market has “tended to dislike in asset management [mergers and acquisitions]”, there is also “a more compelling strategic rationale”.

This rationale is that the deal “reinforces” Jupiter's core UK mutual fund franchise and “dilutes” the concentration of assets under management in its largest funds.

UBS agrees that the overlap between the two firms is “strong”, increasing the potential of cost synergies.

However, analysts at the Swiss bank add: “The combined entity [will] be heavily dependent on UK investors and do little to diversify Jupiter's product range or client base.”

“Generally, we are not in favour of M&A among asset managers, but we will await more details,” UBS says.

Jupiter’s acquisition rationale document makes clear that the combined firm will be no more geographically diverse than it is now, with 75 per cent of assets coming from UK clients.

Mr McCann estimates that there is £10.4bn in assets under management in areas where Merian brings new exposure to Jupiter.

These include systematic equities, systematic alternatives, which includes the GEAR fund and other alternatives, such as gold and silver funds.

He estimates that there is £26.1bn in assets under management in areas where Merian is not present. This includes value, growth and thematic equities as well as multi-asset and multi-manager funds.

Mr McCann says the deal will bring together “two culturally aligned firms with greater combined scale, especially in a UK retail context”.

He says there is “lower product overlap than might be anticipated” and is mainly found in UK equities, which has been a major source of outflows for asset managers in recent years.

“The deal should broaden the product mix and reduce concentration,” Mr McCann adds.

Jupiter and Merian say the acquisition will benefit clients of both firms by “building one enlarged business with greater scale, enhancing its investment capabilities, financial resources and ability to develop new strategies”.

Darius McDermott, managing director at Chelsea Financial Services, says senior managers at Merian probably thought Jupiter’s approach was “well timed” given the increasing cost pressures on the firm.

He is reassured by the support from Merian’s senior fund managers for the deal and their commitment to stay at the enlarged Jupiter with equity stakes.

Following the deal, key Merian management shareholders – who run around 87 per cent of the firm’s assets – will collectively own 1 per cent of the enlarged share capital of Jupiter.

“Assets come quickly and go quickly” but asset managers still face substantial fixed costs relating to the “compliance and risk machinery” that still have to be met if a firm’s asset base shrinks, Mr McDermott says.

Markus Ruetimann, CEO of consultancy Hardy London, says the need for scale across portfolio management, fund distribution and operational support functions could drive more opportunistic acquisitions in the UK.

“The war for direct or indirect access to retail and wholesale investors is likely to intensify,” he says.

Mr Ruetimann says this could lead to further consolidation along the lines of the Jupiter and Merian deal, and collaboration, such as Schroders' partnership with Lloyds, is likely in the coming months.

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