

DEAL OF THE WEEK

14th September, 2020

TARGET 

 **Eaton Vance**



TRANSACTION VALUE
\$6.8 billion

 BUYER

Morgan Stanley

Equity Value/Net Income
Multiple:
23x



Industry:
Investment
Management



Transaction Advisors:
Houlihan Lokey Capital
Centerview Partners LLC



Financing
Cash and Stock
deal



TARGET'S
KEY METRICS



Revenue: **\$1.7bn**

EBITDA: **\$545m**

Equity Value: **\$6.8bn**

Net Income: **\$374m**

DEAL
DESCRIPTION



- **Morgan Stanley (MS)** and **Eaton Vance (EV)** have entered into a definitive agreement under which Morgan Stanley is to acquire EV, for an **equity value of \$6.8bn, in a cash and stock deal, at a 38% premium**
- Eaton Vance shareholders are to receive **\$28.25 per share in cash** and **approximately 0.5x of Morgan Stanley common stock**, representing a total consideration of approximately **\$56.50 per share**
- Morgan Stanley continues to appear eager to pay top dollar to strengthen the asset management group, which is its most profitable line of business this year
- The rise in the volume of investable assets is set to increase from around **\$64 trillion today to \$102 trillion by 2021**, a compound growth rate of nearly 6% for the period 2013 – 2021E
- The costs of complying with regulation is still high
- **Advisory Fees** are under continued pressure amid the ongoing push for **greater transparency and comparability**
- Asset Management Industry has seen significant changes taking place and **recognizes increasing need for scale**
- **EV's strong and differentiated platform** will benefit from product areas such as **private alternatives, liquidity, and global credit** where MS has stronger capabilities and also benefit from Morgan Stanley's (MSIM) strong international distribution and extensive global reach across 40+ countries

ASSET
MANAGEMENT
INDUSTRY



DEAL
MOTIVATION



CATALYSTS &
FNG OPINION



- With less than a week after closing **\$13bn merger with brokerage E*Trade Financial**, this deal makes Morgan Stanley's James Gorman an M&A machine. He has a clear strategy and sufficient capital to go ahead with a deal of this size
- We believe that this deal makes **strategic sense for both EV and MS** given their **complimentary product & distribution capabilities**, though deals in this industry come with integration risk
- This transaction will see the highly complementary businesses enhance client opportunities by bringing **Eaton Vance's U.S. retail distribution under Morgan Stanley's global banner**

TARGET OVERVIEW



COMPANY DESCRIPTION

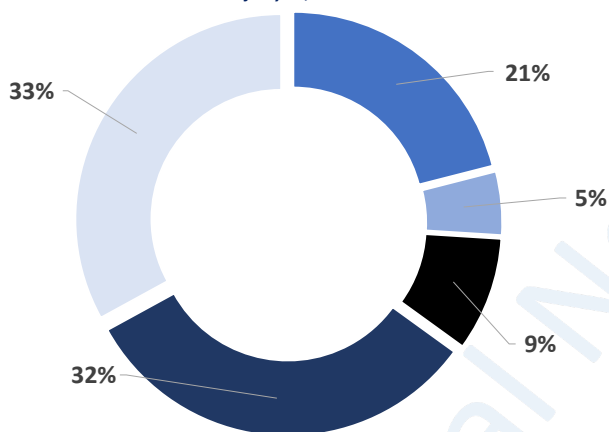
- Eaton Vance Corp. is an American investment management firm based in Boston, Massachusetts. It is one of the oldest investment companies in the United States, with a history dating back to 1924
- The company offers **investment strategies** and **wealth management services** to institutional and individual clients. It provides services and **value-added strategies through a range of investment categories**
- Its range of services include mutual funds, close end funds, and unit investment trusts to individuals and investment strategies, floating rate loans, fixed income investments, and multi-sector bonds to institutional clients
- The Company is Headquartered** at **Boston, Massachusetts, US**, and operates through a network of branch offices in Georgia, Minnesota, New York, Washington, District of Colombia and Connecticut in the US; the UK; Ireland; Singapore; Australia and Japan
- Management:** Thomas E. Faust (CEO & President), Laurie Greenwald Hylton (Chief Financial Officer), Richard Francis Froio (Chief Compliance Officer), John L. Shea (Chief Information Officer)



FINANCIAL METRICS

Ending Assets under Management (AuM) : **\$507.4bn**

As of July 31, 2020



- Open-end funds
- Private funds
- Individual separate accounts
- Closed-end funds
- Institutional separate accounts

Financials

(USD millions)	Oct-18A	Oct-19A	Oct-20E
Revenue	1,692.4	1,683.3	1,721.0
% growth		(0.5%)	2.2%
EBITDA	581.7	554.8	545.9
% margin	34.4%	33.0%	31.7%
EBIT	556.7	531.1	525.4
% margin	32.9%	31.6%	30.5%
Net Income	381.9	400.0	374.8
% margin	22.6%	23.8%	21.8%

Transaction Metrics

- The company's AuM grew by **13.2%** to **\$507bn** in 2020 from **\$497bn** in 2019
- The growth reflected net inflows of **\$23.9bn**, which represented an **internal growth rate of 5% in managed assets**

Development hypothesis

- Eaton Vance reported a **strong financial performance**, which may have increased investor confidence. This may have a positive impact on its **growth prospects** and **improve its ability to create value for shareholders** with positive operating cash and fulfill obligations towards the creditors
- The company is expected to report a revenue of **\$1.72bn** as compared to **\$1.68bn** in the previous year
- EV reported **operating margin of 32%**, which was higher than the **US Asset Management industry operating margin average of 21% for the FY2019**

Risks

- The company's **over-dependence on the US** to generate its revenue could be an area for improvement as it generated **96% of its revenue in the US**

ASSET MANAGEMENT INDUSTRY

- Particularly in the US, the **Asset management sector is highly competitive**. Some of the major providers consist of Federated Investors, Franklin Resources Inc, Charles Schwab Investment, Geode Capital Group LLC, and BlackRock Inc, among others
- Many larger financial services firms are suffering from the **low rate environment in their more capital intensive/net interest income generating businesses** (banks, insurance), and a **well-executed asset management acquisition can provide an ROE accretive avenue of growth**
- Being an asset management service provider, companies are often at the **risk of regulatory scrutiny and client litigations**



BUYER OVERVIEW



Morgan Stanley

INVESTMENT COMPANY DESCRIPTION

- Morgan Stanley is one of the **leading global financial services** companies founded in 1931 and comprised of three distinct organizations: **Institutional Securities, Wealth Management and Investment Management**
- Morgan Stanley Investment Management (MSIM) employs a wide array of strategies through five distinct business lines: **Solutions & Multi-Asset, Real Assets, Active Fundamental Equity, Private Credit & Equity** and **Fixed Income**
- Total AuM (as of October 2020): **\$665bn** across all MSIM businesses
- Founded in 1975 in New York City, MSIM has a presence in **42 countries**
- **Morgan Stanley Private Credit & Equity** specializes in buyouts, debt-refinancing, consolidation, recapitalization, carve-outs, acquisitions, mezzanine debt, middle market, growth equity, later stage and emerging growth investments
- The Private Credit & Equity division is comprised of five teams: **MS Capital Partners, MS Expansion Capital, MS Energy Partners, MS Private Equity Asia, MS Tactical Value Investing**

TOP MANAGEMENT



- Sack, Aaron (Head of MS Capital Partners)
- Moon, John (Head of MS Energy Partners)
- Chung, Pete D. (Head of MS Expansion Capital)
- Chou, Chin (CEO of MS Private Equity Asia)
- Teixeira, Pedro (Co-Head of MS Tactical Value Investing)

PRIVATE EQUITY STRATEGY



- The Private Equity & Credit division focuses on **multi-sector investments** globally, oriented mostly towards the **North American and Asia-Pacific** markets
- It targets investments between **\$5m and \$300m** in companies with enterprise values between **\$50m and \$1bn**, and an EBITDA between **\$8m and \$100m**

LATEST PRIVATE EQUITY FUNDS RAISED



Fund Name	Investment Type	Launch Date	Status	Size (\$m)
North Haven Infrastructure Partners III	Private Equity	19/12/2019	Final Close	5 500
North Haven Tactical Value Fund	Private Equity	12/12/2018	Final Close	1 400
North Haven Thai Private Equity	Private Equity	09/11/2018	Fully Invested	440
PMF Integro Fund I	Impact/FoF	17/05/2017	Fully Invested	125
North Haven Capital Partners VI	Private Equity	09/01/2017	Final Close	1 500
North Haven Infrastructure Partners II	Private Equity	03/03/2016	Fully Invested	3 600

RECENT DIRECT INVESTMENTS

•NON - EXHAUSTIVE



Date: **05/2020**
Revenue: **N/A**



Date: **11/2019**
Revenue: **\$475m**



Date: **01/2019**
Revenue: **N/A**



Date: **01/2020**
Revenue: **\$42m**



Date: **08/2019**
Revenue: **\$94m**










Date: **01/2019**
Revenue: **N/A**



INDUSTRY OVERVIEW

COMPARABLE TRANSACTIONS



Transaction Date	Target Company	Target Country	Bidder	Enterprise Value (\$m)	Revenue (\$m)	Revenue Multiple	EBITDA (\$m)	EBITDA margin	EBITDA Multiple
February '20	LEGG MASON GLOBAL ASSET MANAGEMENT	US	 FRANKLIN TEMPLETON	4 650	2 895	1.6x	682	23.2%	6.8x
October '18	 OppenheimerFunds™	US	 Invesco	5 714	1 400	4.1x	n/a	n/a	n/a
March '17	 Aberdeen	UK	 Standard Life Aberdeen	4 634	1 275	3.6x	424	33.2%	10.9x
October '16	 JANUS CAPITAL Group	US	 Janus Henderson GROUP PLC	3 775	1 027	3.6x	320	31.1%	11.7x
Average						3.2x		29.2%	9.8x
Median						3.6x		31.1%	10.9x

Just a few days following the **acquisition of E*Trade**, the electronic trading platform, Morgan Stanley continues to **expand its presence in the asset management industry**. Upon completion of the **largest acquisition** made by an asset manager in the past five years, Morgan Stanley Investment Management **will manage over \$1.2 trillion in assets**.

AVERAGE MULTIPLE WORLDWIDE



US & CANADA
11.3x
(949 deals since 2015)

LATIN AMERICA
5.1x
(38 deals since 2015)

EUROPE
10.1x
(589 deals since 2015)

AFRICA & ME
5.8x
(42 deals since 2015)

ASIA PACIFIC
6.4x
(389 deals since 2015)

Total # of deals since 2015: **2,065**



Fee compression, shrinking ranges of products and rising regulation costs have fueled consolidation in the European and US asset management industries. **Mega-deals** in these regions are not uncommon, and **large asset managers** are increasingly seeking targets with **strong reputations occupying niche industry segments**.

APPENDIX & DISCLAIMER



APPENDIX



Company

- [Eaton Vance Corp.](#)
- [Morgan Stanley](#)

Further Readings

- PR Newswire, 07/2020: [Eaton Vance Corp. Reports June 30, 2020 Assets under Management](#)
- Barrons, 10/2020: [Eaton Vance Deal Presages More Money-Manager M&A](#)
- Business Insider, 10/2020: [Why Morgan Stanley's \\$7 billion bid for a storied asset manager gives it a leg up on rivals and signals more deals to come](#)
- Reuters, 10/2020: [Morgan Stanley to buy Eaton Vance for \\$7 billion in investment-management push](#)

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