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'More risks than upside' in Liontrust acquisition of Gam

Gam's market value has dropped 80 per cent since it was first sold in 1999

By Ed Moisson | 5 May 2023

Liontrust Asset Management faces significant risks in its acquisition of Gam, with analysts saying success for the deal depends on "ambitious" cost-cutting plans.

The UK fund house yesterday agreed to buy the embattled Swiss asset manager in a SFr107m (€109m) deal that will create a firm with £53bn (€60bn) in assets under management.

However, the scale and complexity of the Gam acquisition presents challenges for Liontrust's management team, which has acquired Majedie, Neptune and Architas's UK business over recent years.

David McCann, equity analyst at Numis, says: "Unlike prior bolt-on deals that Liontrust has done, this one is much larger [and the two firms are] closer in size, meaning there is a risk of culture dilution, and we think it will be harder to align compensation structures and integrate more generally."

Analysts at investment bank Peel Hunt agree, writing in a research note: "Management has not undertaken such a large-scale integration before and needs to simultaneously take out significant costs whilst shoring up the revenue base.

"At first sight, we see more risks than upside. Execution risks are great and market conditions remain uncertain."

"In our view investor approval is not guaranteed from either set of shareholders," the analysts add.

An investor group including NewGAMe, led by French billionaire Xavier Niel, and Bruellan, says it is "contemplating not to accept Liontrust's offer".

The group, which holds approximately 8.3 per cent of Gam's issued share capital, is also considering "whether a legal challenge is warranted" to block the deal.

Philip Kalus, chief executive officer of asset management consultancy Accelerando Associates, says: "There are big risks and costs in restructuring and integration. It is hard to tell how it will go, but it is not for the fainthearted."

Liontrust's share price fell 7.5 per cent on Thursday.

The merger of the two firms is complicated by Gam selling off its third-party asset servicing business to a specialist firm.

Mr McCann says: "This complexity will all be to the cost of limited management time in our opinion, meaning there is a significant risk that the existing Liontrust business could be neglected for a protracted period."

Liontrust expects to make total cost savings of €65m "primarily via a reduction of duplicate administration costs", including savings from duplication of personnel, co-location in Gam's London office and rationalisation of other costs, such as data and technology, the firm says.

"The combined entity will benefit from economies of scale, with expected cost savings enabling Liontrust to invest in distribution, marketing and client servicing," the firm adds.

But Peel Hunt says the cost savings target is "ambitious" and "depends on revenues stabilising", adding that Gam has suffered net outflows since the first half of 2018.

Gam's net outflows of €2.7bn in 2022 were the lowest since 2018, the asset manager says.

Alexander Bowers, an analyst at Berenberg, wrote in a recent research note that the success of the merger will be "driven by the business's ability to cut operating costs, with Gam currently lossmaking".

Gam's IFRS net loss after tax totalled SFr290m in 2022, compared with SFr23.3m for 2021.

Mr McCann says: "Gam has had a very troubled past, is still heavily lossmaking, and we think significant further cost restructuring will be required."

He adds: "If the deal completes, we wish Liontrust management and shareholders the best of luck with making this work from a shareholder value perspective. We think they are going to need it."

However, Liontrust's cost-cutting plans do not extend to reducing Gam's product range, according to the latter firm's chief executive officer.

Peter Sanderson told analysts yesterday: "All the discussions I've had with Liontrust have been very constructive. We are both very excited about how our fund ranges sit alongside each other. We think they are very complementary.

"There are very good grounds for believing that the combined product range will move forward without significant change."

David Jacobs, chairman of Gam, says: "We believe that the offer from Liontrust will bring stability to our business, continuity to our product offerings and our portfolio managers, and capitalise on our geographic footprint, including our presence in Switzerland."

If the deal is approved by shareholders, it will bring down the curtain on the 40-year-old Swiss firm, with Liontrust planning to rebrand all Gam funds "as soon as possible" after completion.

Gam was founded by Gilbert de Botton in 1983 and sold to UBS in 1999, when it managed assets of $13.9bn and was valued at up to $675m. Its market value subsequently peaked at more than $2bn.

Yesterday's announcement shows that Gam now manages assets of $26.3bn and is valued at $121m.

This suggests the firm's valuation has fallen from 4.5 per cent of its assets under management to 0.5 per cent of assets over the past 23 years.

Andreas Venditti, senior analyst at Vontobel, says the fall partly reflects market-wide changes, but is "primarily" the result of problems specific to Gam.

Mr Kalus says: "Gam was widely considered as a true world-class boutique [in 1999]. Great funds, undisputed talent and a superb 'elitist' sensation. It was a top-notch name."

He says Liontrust has picked up the firm's assets and an expanded distribution footprint "for a cheap price".

Ray Soudah, chairman and founding partner of Millenium Associates, who advised on Gam's sale to UBS, says the valuation at the time "reflected market conditions".

"Sadly, I think the late founder of Gam [Mr de Botton] would have managed the firm much better," Mr Soudah adds.

Gam's senior management team says selling the firm to Liontrust is the best option available to grow the business, despite having reduced costs by 40 per cent through its turnaround plan.

Mr Sanderson says: "In my mind, it is very clear that [Liontrust's offer] was the right option and actually the only option to safely unlock value [from Gam]."

Mr Jacobs says: "The decline in markets meant that [Gam's] position became increasingly fragile, particularly with reference to the share price.

"Increasingly with clients we found ourselves spending more time talking about the company and the health of our company than the product range, and that was going to be an inhibitor for growth."