SEP 07

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What the collapsed $1.4 billion Wealthfront deal means for UBS

Article

The news: UBS' planned $1.4 billion takeover of US robo-adviser **Wealthfront** has fallen through, and will impact its plans for digital expansion and growth in the US.

- The Swiss bank and Wealthfront announced that they had mutually agreed to terminate the merger, but that UBS would buy a $69.7 million note convertible into Wealthfront shares. No reason was publicly provided for the deal's abandonment.

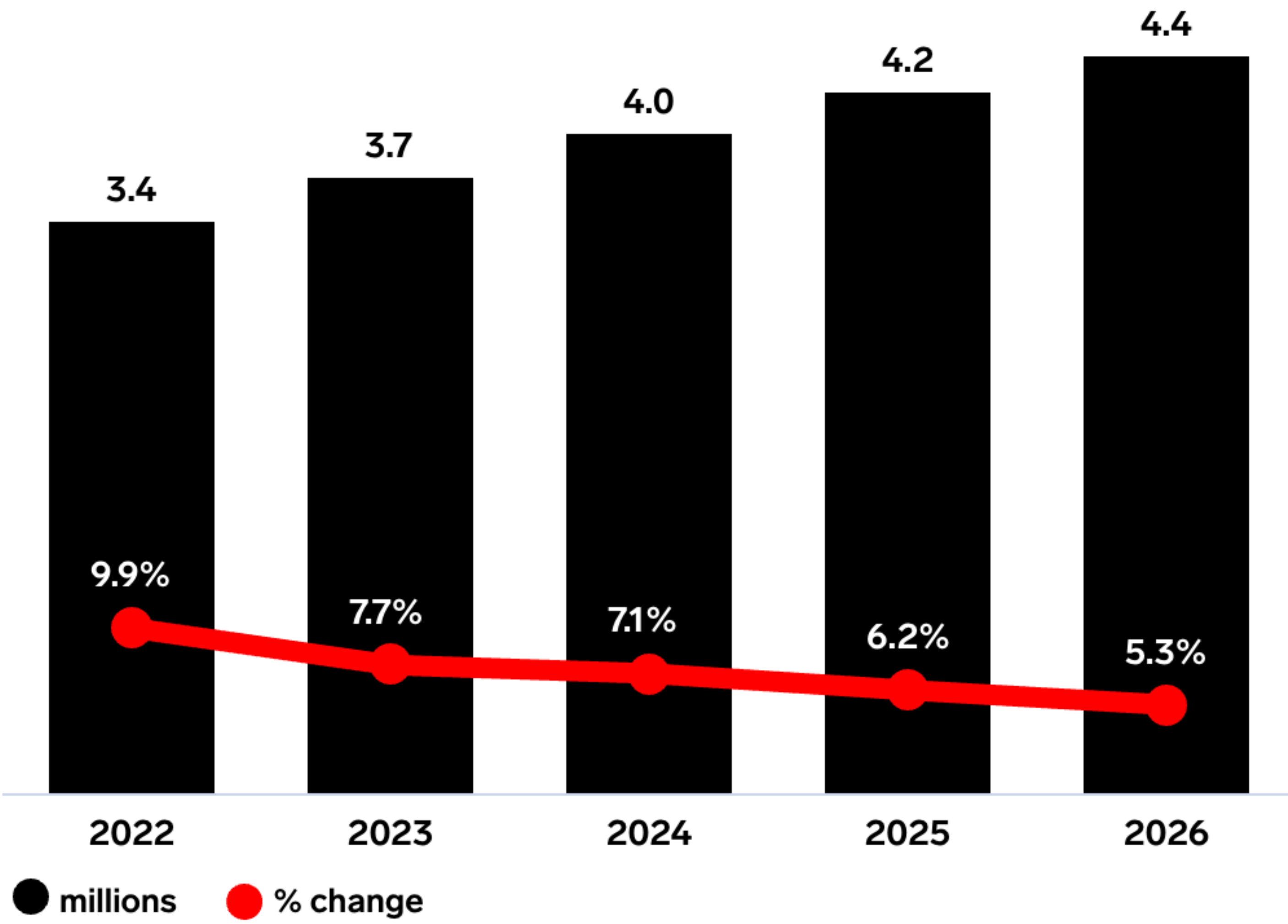
- UBS had announced in January that it planned to buy Wealthfront to grow its US business and "broaden the firm's reach among affluent investors."

What are the downsides?

1. The deal's failure will require a course change from **UBS CEO Ralph Hamers**, who painted the marque acquisition as a centerpiece of the bank's new digital offering. Hamers and UBS will have to find other ways to grow the digital technology and omnichannel experience it would have acquired through Wealthfront.
2. The deal was also a strategic move to future-proof the bank, giving it access to millennial and Gen Z consumers who will form a larger proportion of wealth management clients as their **baby boomer parents hand over an estimated $30 trillion to $68 trillion to the younger generation**. UBS will fall behind rivals if it doesn't focus on attracting younger customers rather than its traditional client base of older, wealthy consumers.
3. A disappointing Q2 for UBS is part of a wider trend of discouraging results for Swiss lenders as fears of a recession hamper dealmaking for European investment banks. The bank's Wealthfront acquisition would have helped it push into the US, **minimizing the impact of economic uncertainty in Europe** on its business.

Robo-Advisor Account Holders and Penetration

US, 2022-2026



Source: eMarketer, July 2022

InsiderIntelligence.com

Are there any positives?

1. The [dealmaking climate has changed]() dramatically since the start of the year. Projections for record deal counts have been replaced by a gloomier outlook, with looming recessions forcing banks to take more cautious approaches. UBS' failed

merger may be **part of a more prudent approach**, which could be required as it adjusts to harsher market conditions.

2. The **use of robo-advisors by investors in the US will dramatically slow over the next year**, per Insider Intelligence's forecast. Surging inflation means people have less disposable income to invest with a robo-advisor, raising concerns for Wealthfront's growth prospects for the remainder of the year.
3. Tech valuations have dropped in recent months. This, combined with worsening forecasts for robo-advisors, may have led to **fears at UBS that its agreed-on $1.4 billion price tag for Wealthfront was too high**. If so, UBS may believe expansion into the US and wealth management could be done more cost-effectively.

The big takeaway: UBS' original plans to use Wealthfront to expand in the US and give it access to a large pool of younger customers made sense. The news that it's abandoned this strategy could be a sign that it wants to pursue these goals through a different means or that it's put plans on hold, as it reacts to bleaker market realities. Other major lenders may also reassess expansion plans in response to a harsher outlook.