

SENIOR CONSULTANT

The Voice of the Investment Management Consultant

Merrill Lynch Acquires Midland Walwyn

Stephen C. Winks

Merrill Lynch, in a continuation of its worldwide acquisition strategy, has entered into an agreement to acquire Midland Walwyn, the third largest brokerage firm in Canada. Midland Walwyn is the fastest growing brokerage firm in Canada, having grown from \$6 billion in assets in 1990 to \$42 billion today. It is the only major Canadian firm not owned by a Canadian bank and thus has had the reputation of being the most nimble and entrepreneurial of the major Canadian brokerage firms. The independence of Midland Walwyn and its ability to execute a clear vision of growth within a brokerage culture attracted brokers, investment bankers and analysts who were uncomfortable within an increasingly disengaged banking culture. Midland Walwyn's choice to remain a brokerage firm and to be assimilated in banking culture is consistent with Merrill Lynch's stated objective of remaining independent of the banking industry.

Merrill Lynch chairman and CEO, David M. Komansky, said, "This is an excellent strategic fit for Merrill Lynch and reflects our continuing effort to deliver superior products and services to clients in local markets throughout the world. We're creating an exceptional organization that will enable Canadian investors to access global opportunities and bring Canadian corporations broad distribution of their securities both domestically and globally." Midland Walwyn's chairman and CEO, Robert B. Schultz, said, "The combination with Merrill Lynch is an excellent fit. It will provide our clients with greatly expanded product offerings, as well as maximize value for shareholders and offer career opportunities for our employees. As consolidation proceeds within the Canadian banking sector, the Merrill Lynch-Midland Walwyn combination will have scale, product and distribution breadth, as well as the global capabilities to be the premier financial services firm for Canadian investors and issuers alike."

The new firm will be called Merrill Lynch Canada and will do business as Merrill Lynch. Midland Walwyn has 116 retail offices in Canada with 1,300 financial consultants, while Merrill Lynch has four

offices in Canada, primarily engaged in investment banking activities. Combined, the new firm will rank first in mergers and acquisitions advisory, second in debt underwriting, third in research and fourth in equity underwriting. The new firm is within striking distance of overtaking Nesbit Burns (Bank of Montreal) as the second largest Canadian firm and has already set its course on being the largest brokerage firm in Canada, which would mean overtaking RBC Dominion Securities (Royal Bank of Canada). With the Bank of Montreal being acquired by the Royal Bank of Canada, Merrill Lynch Canada is assured of being the second largest firm in Canada in the near term.

Midland Walwyn marks the seventh international brokerage firm that Merrill Lynch has bought or created within the last six years. It now has leading brokerage firms in Spain (F.G. Inversiones Bursatiles), England (Smith Newcourt), Italy (Carnegie Italia), South Africa (Smith Borkum), Australia (McIntosh Securities, Ltd.), and Thailand (Phatra), with Japan opening 30 branches to employ 2,000 former brokers at Yamaichi Securities. That, in concert with Merrill Lynch's estab-

lished retail presence in South America and its investment banking presence worldwide, has made it an increasingly global financial services firm. This is further supported by Merrill Lynch Asset Management's recent acquisition of Mercury Asset Management in London and its recent entry into the Japanese Unit Trust (mutual fund) market. Merrill Lynch has wisely focused on building its worldwide distribution franchise through acquisition which otherwise would be extremely difficult, given the differences in culture, regulations and capital markets.

Merrill Lynch Asset Management will play an important role in this global strategy. Midland Walwyn Asset Management under the direction of Sue Debarno and now Victor Dodig has grown dramatically to over \$3 billion in just a few years with their Atlas Funds. With the merger, Merrill Lynch Canada will likely become a factor in Canadian asset management.

Midland Walwyn will also gain access to advanced portfolio management and investment management

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consulting technology, which has not been fully developed at the broker level in the Canadian market. This will give Midland Walwyn an extraordinary competitive edge in empowering its brokers to compete on the basis of the value they add. Because this technology is preemptive to traditional brokerage technology, it could be the catalyst that would allow Merrill Lynch Canada to favorably compete with its bank-owned competitors and emerge as the leading firm in the Canadian market.

The culture battle within Merrill Lynch Canada will be whether they use technology to build their business with the preemptive investment counsel or do they focus on building their proprietary Atlas Funds and focus on product distribution? In the U.S., asset management and product distribution is the dominant philosophy. But in Canada, where technology can be such a powerful tool to gain marketshare, we may see the triumph of technology. This would also be true of every market in which Merrill Lynch is building marketshare.

Though building an objective investment process, which uses the most discerning criteria in selecting investment managers seems inconsistent with building a proprietary asset

management firm, in Canada, there is an opportunity to do both. The cost structure of mutual funds in Canada is at least 50 basis points higher than U.S. funds, while the cost to manage the funds is actually lower at 25 basis points versus 50 basis points in the U.S. The opportunity to drive down fund administration costs could make Merrill Lynch Canada's proprietary mutual funds sensationally successful while also serving the needs of the investment management consultant through working with the best Canadian managers in a sub-advisory relationship. Canada also has yet to create appropriately priced index funds, which should be a massive product in the institutional and investment management consulting markets. Whether Merrill Lynch Canada uses preemptive technology, predatory pricing or both to build its business, the opportunity to build its franchise into the dominant brokerage firm in Canada is exciting. The Canadian market will never be the same. As David Komansky of Merrill observes, "This transaction is a 'hat trick.' It's good for our clients and employees, it's good for our shareholders, and it's good for Canada." ■

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