



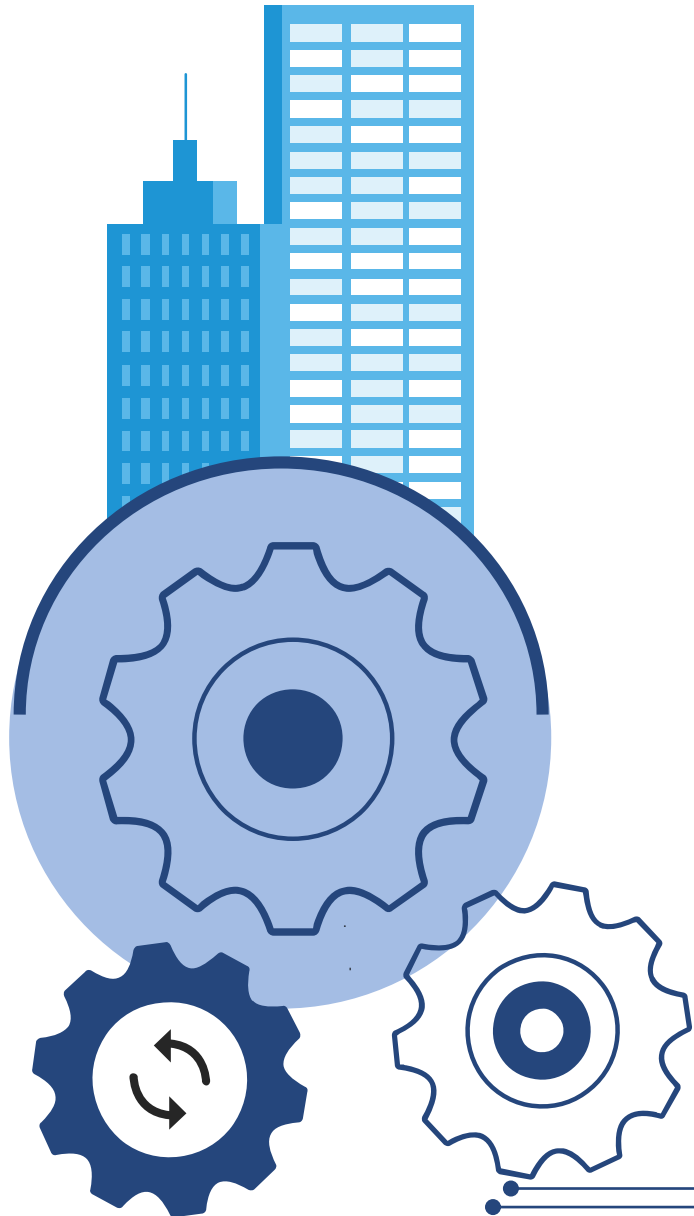
# Quarterly Investment Banking Update (Q1 2020)



May 2020

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# Key Highlights in Investment Banking



**M&A Advisory Impacted by Low Market Confidence:** Since the outbreak of the novel coronavirus, there has been a dip in overall market confidence. As a result, M&A activities are expected to slow down across sectors. In the investment banking industry, the advisory business is more susceptible to uncertain environments and we expect M&A activity to continue to be slow until there is a recovery in market confidence.



**Increase in Investment Grade Debt Issuance:** US Fed and Treasury programs have cut interest rates and reserve requirements resulting in increased fixed-rate bond issuances especially in the investment-grade bond market, as clients are trying to preserve liquidity. On the other hand, high-yield spreads have increased due to the stressed market conditions.



**Equity Capital Markets:** Revenue from equity underwriting across bulge bracket banks increased in Q1 2020. Within ECM, however, in the period, Jan - May 2020, IPO activity was down 24% globally; while global follow-on and convertibles offerings increased 26% and 9%, respectively, as compared to the same period last year.

# Global Landscape: Mergers and Acquisitions across Sectors

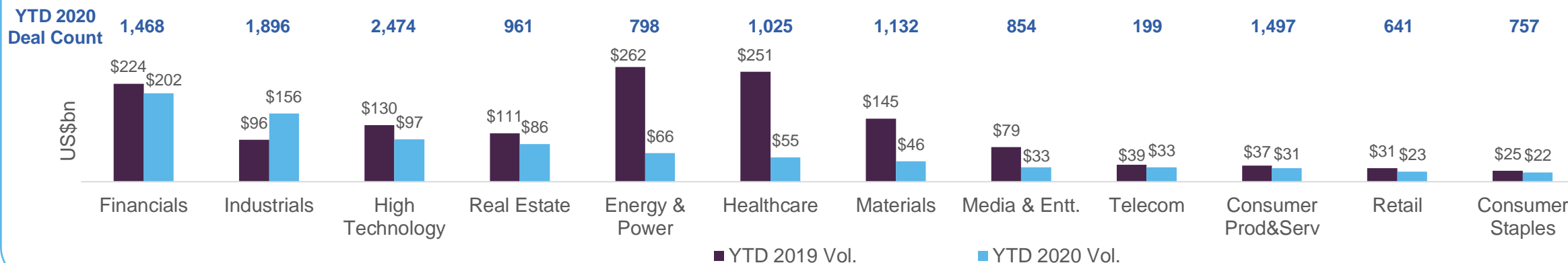


## YTD Announced M&A Volumes

M&A activity has slowed down across most of the sectors

### YoY Change in Regional M&A volumes (YTD)

Worldwide -41%      Europe +29%  
Americas -62%      Asia (ex. Japan) -7%



## Major YTD Announced & Pending Deals

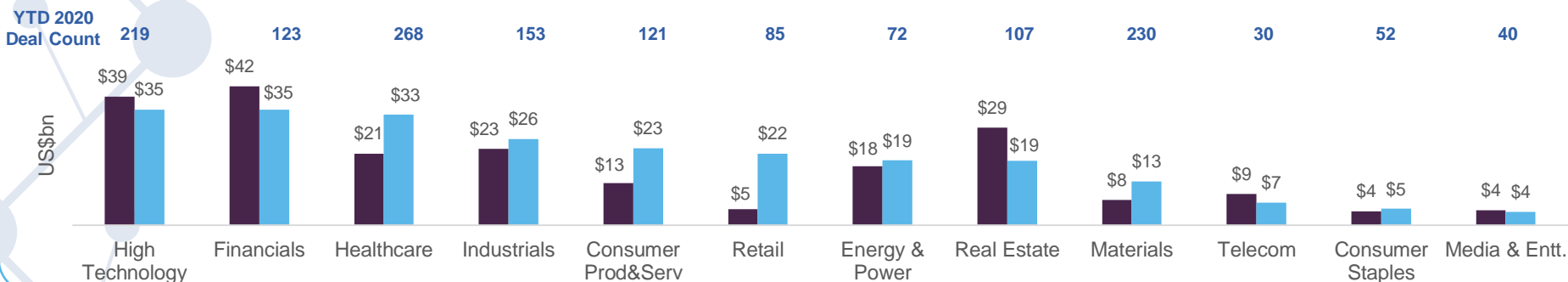
Announcement Date	Target Name	Acquiror Name	Est. Deal Value <sup>1</sup> (US\$bn)	Sector
Feb 27, 2020	Thyssenkrupp - Elevator Business	Advent, Cinven, RAG Foundation	18.7	Industrials
Feb 20, 2020	E*TRADE Financial Corp	Morgan Stanley	13.1	Financials
May 07, 2020	O2 Holdings	Virgin Media	12.6	Telecommunications
Mar 03, 2020	Qiagen	Thermo Fisher Scientific	11.5	Healthcare
Feb 27, 2020	EQM Midstream Partners	Equitrans Midstream Corp	11.1	Energy and Power
Feb 03, 2020	Ingenico Group	Worldline	10.0	Financials
Mar 09, 2020	Tesco Group- Asia Business	Charoen Pokphand Group	9.9	Retail
Feb 17, 2020	Bombardier Transportation	Alstom	8.2	Industrials
Jan 22, 2020	Capitaland Commercial Trust	Capitaland Mall Trust	8.0	Real Estate
Feb 24, 2020	Credit Karma	Intuit	7.1	High Technology

<sup>3</sup> Source: Refinitiv; YTD as of May 14, 2020  
Note: 1. Deal value including net debt of target

# Global Landscape: Capital Markets Activity across Industries



## ECM Deal Volumes (YTD)



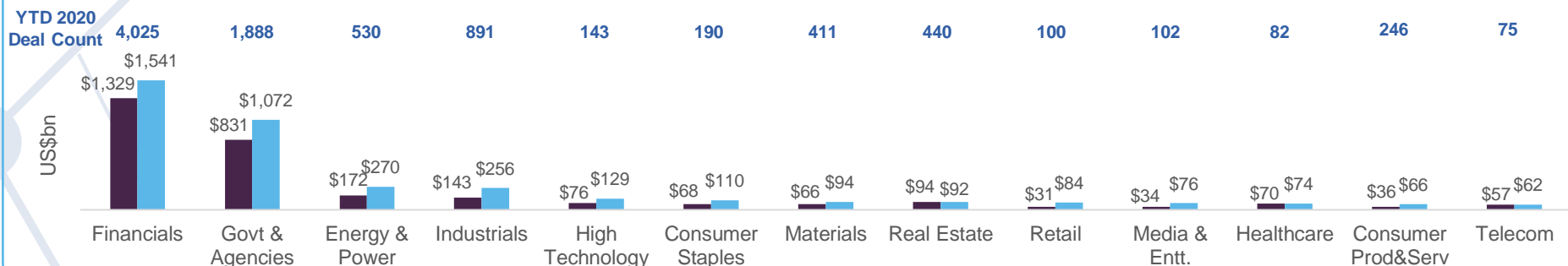
### YoY Change in Regional ECM volumes (YTD)

Worldwide +12%      Europe +10%  
Americas +30%      Asia (ex. Japan) +3%

- Significant YoY increase in ECM deals in Retail and Consumer Products sectors across all regions.
- Healthcare ECM issuances were high, driven by US and APAC regions.
- Tech ECM was up in Europe.



## DCM Deal Volumes (YTD)



### YoY Change in Regional DCM volumes (YTD)

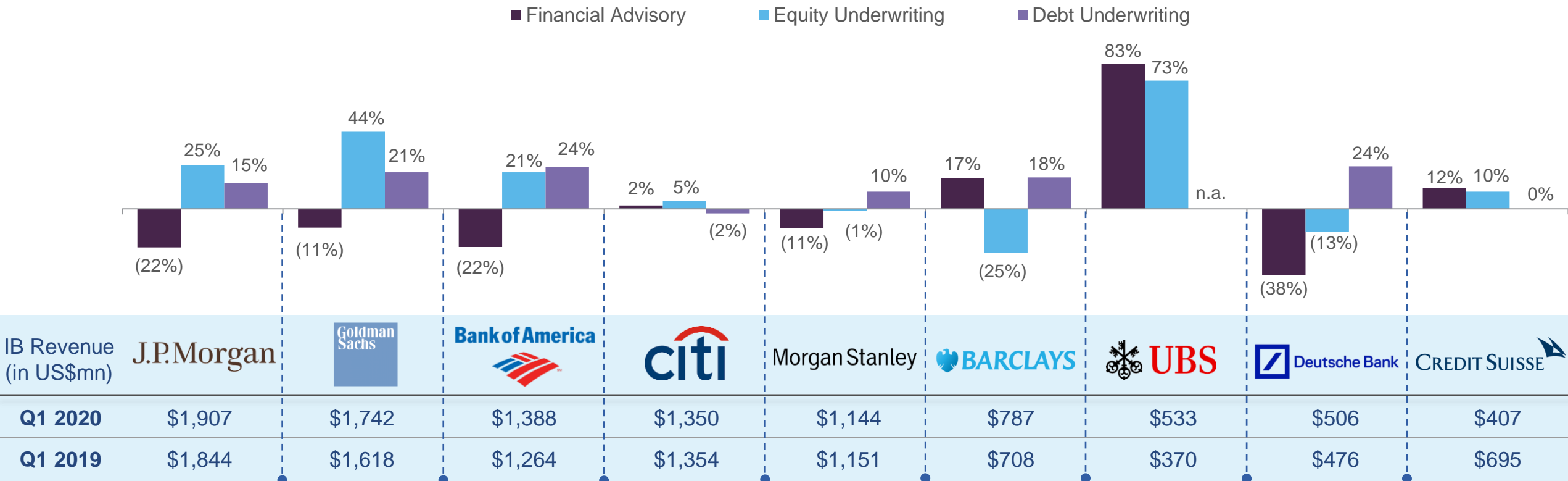
Worldwide +31%      Europe +21%  
Americas +61%      Asia (ex. Japan) +10%

- DCM issuances were high across all sectors.
- COVID-related stimulus and interest rate cuts drove a sharp increase in IG issuance since mid-March.
- High yield issuance, however, has decreased since March.

# Bulge Bracket IB Performance – Weak Performance of Advisory Services

Advisory revenues have seen a decline across almost all the banks. This was due to deal activity getting reduced post COVID-19 outbreak. This decline was offset by increase in underwriting revenues. Equity underwriting experienced a positive growth in first half of Q1 2020, however, towards the end of the quarter markets started deteriorating. Debt underwriting revenues picked up in March with firms raising debt to improve liquidity thereby taking advantage of lower interest rates.

## Q1 2020 Investment Banking Revenue (YoY Change)





# Bulge Bracket IB Performance in Q1 2020 – Key Highlights (cont'd)

## J.P.Morgan



In Q1 2020, regulatory delays for large deals postponed their closing, which in turn, adversely affected revenue. There was record improvement in debt underwriting. Legal expenses increased and credit costs were high due to increased COVID-19 reserves. Announced a hiring freeze in March.



Revenue from IPOs and convertible underwriting were up, while that from debt underwriting improved due to asset-backed and leveraged finance activity. Compensation expenses essentially remained unchanged and the deal backlogs have increased.



Strong performance of debt and equity underwriting drove the increase in investment banking fees in Q1 2020. The bank's market share also improved in the quarter, as it processed 9% more transactions than in Q1 2019.



Revenue from IB remained effectively unchanged. Efficiency savings offset expenses due to higher compensation, investments, and volume growth.

## Morgan Stanley



Accelerated primary offerings partially offset the adverse effect of the shelter-in-place norms and market volatility on deal revenues. Brokerage, clearing, and exchange (BC&E) costs and transaction taxes increased during the quarter.

*In the Investment Banking business, the advisory business is always a lag. So we have backlog of M&A deals that were struck earlier... But as we go longer and we continue to be in an environment where there's very, very low confidence, obviously, as you've witnessed over the last few weeks, there's been very little new M&A activity that's been initiated. During a time of low confidence, I would expect that to continue. So over time, the velocity of revenue accrual on the M&A side will slow until we get to a period of higher confidence.*

**- David Solomon, CEO, Goldman Sachs  
(April 15, 2020)**

# Bulge Bracket IB Performance in Q1 2020 – Key Highlights



Despite the shrinking global fee pool, there was an increase in advisory and debt underwriting revenue in Q1 2020. DCM is expected to remain strong.



A higher number of deals were closed in Q1 2020 as compared to Q1 2019. Fixed and variable compensation expenses were high due to restructuring and insourcing of certain activities.



Debt origination performed significantly well. IB expenses were down 15%, mainly due to front office job cuts across the bank. DB has performed well in Germany, where it generates 40% of the group's revenue.



Thomas Gottstein was appointed as the CEO in February 2020. In Q1 2020, the bank managed several IPO issuances and M&A deals. Revenue from debt underwriting was negatively impacted by mark-to-market losses.

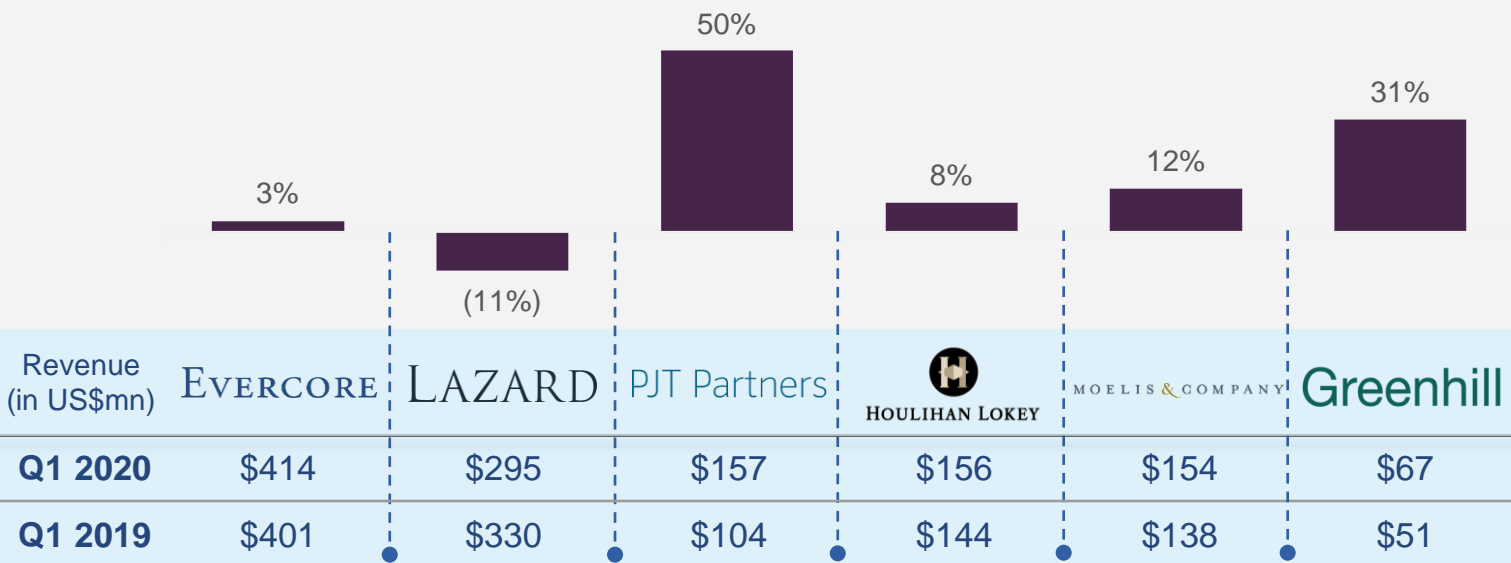
*This crisis has hit the vast majority of sectors — some will have to be restructured or completely rethought and this will lead to an increase in M&A activity as weaker players do not survive, public companies move to private and, eventually, activist investors return. This will happen in the first half of next year.*

**- Javier Oficialdegui, Co-Head, UBS Investment Bank  
(May 6, 2020)**

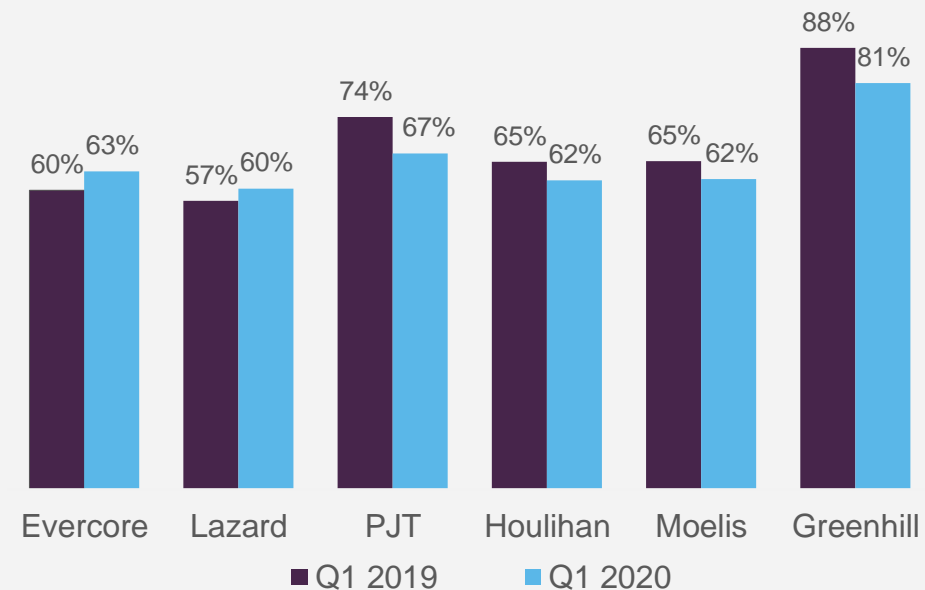
# M&A Advisory Firms – Increasing Restructuring Activity

- Advisory firms are increasingly focusing on restructuring, rescue financing, and recapitalization activities amidst lower M&A activity in the current market environment.
  - The time required to realize the revenues from these activities may be longer than expected, but it would help strengthen the existing client relations and develop new clientele.
- Many firms with complementing businesses are engaging in cross-divisional collaborations to gain synergies.

YoY Change in Advisory Revenues for Q1 March 2020



Compensation Expense as % of Total Revenues





# M&A Advisory Firms – Key Highlights

## EVERCORE



In Q1 2020, Evercore recorded its second-best first-quarter revenue ever driven by the closure of previously announced deals. Revenue from equity underwriting has decreased substantially since mid-February. Active restructuring business continues to be its key strength during these difficult times.

## LAZARD



The firm reported an increase in revenue from European M&A deals; however, it was negatively offset by a decline in completed deals in the Americas. The firm experienced increased activity in its restructuring, sovereign advisory and capital advisory businesses.

## PJT Partners



In Q1 2020, the firm witnessed a surge in revenue from the restructuring and strategic advisory divisions, as it had cleared its backlog of announced deals. PJT hired three new bankers in the quarter and expects recruitment to slow down in the next quarter.



## HOULIHAN LOKEY



Revenue increased in quarter ending March 2020 driven by closure of 84 deals and was partially offset by decrease in average transaction fee. Starting March, M&A activity declined although restructuring business has picked up pace.

## MOELIS & COMPANY



An increase in both number of completed deals and average fee per deal drove revenue. Moelis continued to grow organically by promoting five employees to MD levels and appointing four MDs (specializing in consumer goods, oil & gas, and private equity) in the US.

## Greenhill



The strong performance of European M&As boosted revenue in the quarter. Comp expense increased by 21% owing to headcount growth as well as an increase in incentive compensation. Plans to maintain discipline in adding future headcount, while still being open to strategic senior level hiring.

*Financial sponsors will also be looking for opportunities. And there is clearly so much dry powder in the equity side that when the leveraged finance markets are open and when there's a predictability to it, one could easily see those companies, both -- those sponsors, both large and small, being -- looking at deals up and down the size spectrum. So those are the participants that will be involved.*

**- John Weinberg, Chairman, Evercore  
(April 22, 2020)**

# Outlook

We believe the impact of this pandemic would last for quite some time and result in prolonged uncertainty in the market. Recovery in the investment banking industry is also dependent on various external and uncontrollable factors such as directives from health departments and government policies.



The recapitalization of highly levered companies will likely drive equity issuances, as well as de-levering of assets, which in turn, will augment M&A activities.

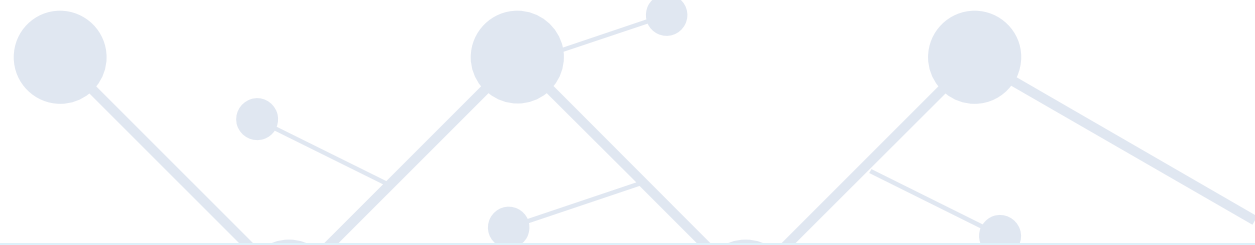


Firms with diversified capabilities beyond M&A advisory (restructuring, capital markets advisory, etc.) are likely to perform better in other than advisory business; however, these efforts may not be enough to address the near-term weaknesses in the M&A advisory industry.



Recruitments have stalled across many banks, with JP Morgan announcing a firm-wide hiring freeze at the end of March. Although many banks have pledged not to cut jobs in 2020, the situation may change going forward. RBS has laid off 130 employees in its IB division, while DB abruptly ended its earlier announced plan to hold the job cuts as part of its restructuring efforts.

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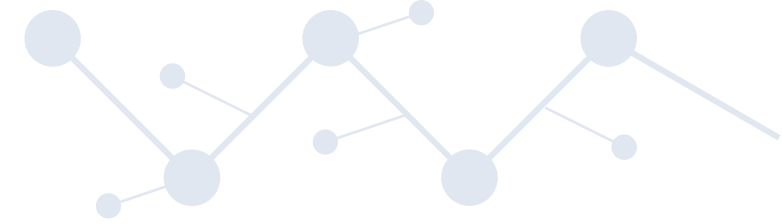
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