

A photograph of three business professionals in an office setting. A man in a blue plaid shirt is seated at a desk, smiling as he looks at a laptop. A woman in a dark blazer and glasses is leaning over him, looking at the screen. Another woman in a light blue blouse is seated to the right, also looking at the laptop. The background shows a modern office with bookshelves and other people working.

**Q1'22 – Earnings Review  
(Bulge Bracket Banks and  
Advisory Firms)**

# Key Observations



## Global geopolitical uncertainties had derailed overall deal activity in Q1'22 with Inflation being viewed as a double-edged sword

- The ongoing Russia-Ukraine conflict has halted overall investment banking revenues of the bulge bracket banks, down by an average of 37% YoY
- The sharp decline is in contrast to Q1'21, wherein these banks benefited from an exceptionally favourable deal-making environment supported by the release of funds previously set aside for loan losses
- Looking ahead, investors will likely focus more on prospects for banks to increase their net interest income as they benefit from higher interest rates owing to inflation
- However, investors have also voiced their concerns about a probable recession amid inflationary pressure, which might lead to higher defaults



## Advisory revenues remained strong with firms ramping up their internal pipelines and hiring of senior talent

- M&A advisory revenues across the industry showcased strong y-o-y growth primarily driven by the closure of previously announced deals from last year
- Deals activity is expected to pick up in the medium-term and long-term as companies will need to refine their core strategies to address business challenges
- With a global PE industry sitting on record dry powder, advisory firms continue to expand their capabilities, increase dialogue with clients and hire talent at all levels to broaden their coverage to better service big as well as middle-market sponsors



## ECM and DCM issuances practically came to a halt, with trading activities surprisingly acting as a bailout for the bulge bracket banks

- The capital market witnessed a highly volatile environment across all asset classes due to the Russia-Ukraine conflict, increasing concerns over recession and a changing interest rate backdrop, which weighed on primary and secondary market issuances
- A heightened level of volatility substantially increased brokerage revenue from commodities, currencies and fixed rates; however, some softness in credit / structured products across the banks partially offset the increase in revenue
- Trading activity is expected to remain high, and clients are expected to stay engaged as the dispersion of potential macro-outcomes remains high

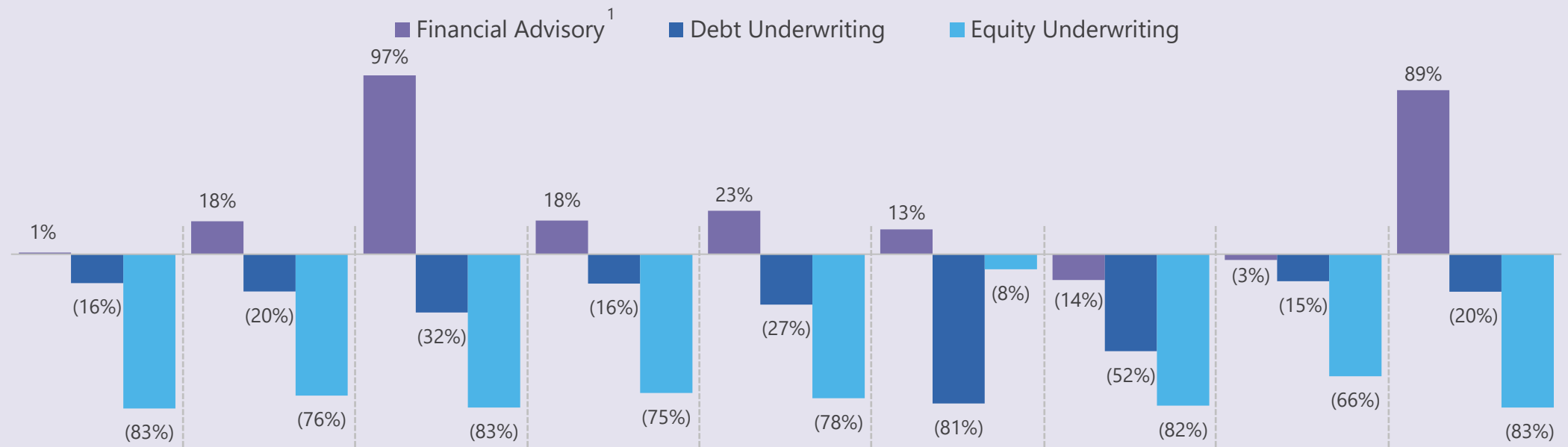


## Labour shortages and wage inflation are growing concerns in the industry

- The industry has been facing a severe talent crunch in the recent past, witnessing the highest employee attrition ever in opting out of investment banking
- Highly competitive salaries along with slightly favourable working hours in private equity have made the situation even more challenging
- This year all the banks have rolled out higher bonuses (for FY 2021) and promotions aimed at retaining top-performing talents and avoiding high employee turnover

# Investment Banks Witnessed a Sharp Decline in Business Due to Volatile Markets and the Ukraine Crisis

Q1'22 – Investment Banking Revenues and YoY Change 



IB Revenue (USD million)	Goldman Sachs	J.P.Morgan	Morgan Stanley	BANK OF AMERICA	citi	BARCLAYS	CREDIT SUISSE	UBS	Deutsche Bank
Q1'22	2,131	2,050	1,634	1,457	1,028	826	673	550	507
Q1'21	3,566	2,988	2,613	2,246	1,798	1,095	1,603	788	700

Source: Company reports and press  
 Note: 1. Financial advisory revenue growth was primarily driven by the closure of previously announced deals from FY'21

# Bulge Bracket Investment Banks' Performance – Key Highlights (1/2)



Goldman Sachs

In Q1'22, investment banking (IB) revenues were down by 40% YoY primarily due to a significant decline in industry-wide activities both in equity underwriting and in debt underwriting. The bank's M&A franchise continued its outstanding performance and participated in 115 transactions worth ~USD 385 billion. The IB backlogs are stable, and the bank expects market volatility to settle down during the year which is likely to bring some issuance back into the marketplace



## J.P.Morgan

Debt underwriting revenues declined due to leveraged finance as issuers contended with market volatility. In the equity underwriting, decline in revenues were attributable to lower issuance activities, particularly in North America and EMEA. However, advisory witnessed the best first quarter ever, benefiting from the closing of deals announced in FY'21. The bank is optimistic on the economy at least for the short term but expects significant geopolitical and economic challenges ahead due to high inflation, supply chain issues and the war in Ukraine



## Morgan Stanley

Morgan Stanley's IB revenue declined by 37% YoY to ~USD 1.6 billion in Q1'22. Advisory revenue almost doubled YoY driven by higher levels of completed M&A transactions during the period. Equity underwriting declined significantly by 83% due to lower issuances, driven by uncertain economic environments. Fixed income underwriting was also lower under the backdrop of negative bond market sentiments. However, bank's IB pipeline remains healthy which is likely to drive revenue growth in underwriting



Bank of America's IB revenue decreased by 35% YoY, as industry-wide underwriting activities retreated from record levels in Q1'21. The ongoing Russia-Ukraine war and ambiguity over the economic slowdown due to inflation weighed on business sentiments. However, the bank gained market share in some crucial areas, including moving to the number 2<sup>(1)</sup> position in midcap investment banking. Also, the bank's forward IB pipeline remains quite strong



In Q1'22, Citi's IB revenue decreased by 43% YoY due to fewer capital markets activities. However, growth in the advisory partially offset a decrease in revenue. The advisory grew by 23% YoY. Equity and debt underwritings were down by 78% and 27%, respectively. The decline was mainly due to heightened geopolitical uncertainties and the overall macroeconomic backdrop, reducing the overall activities in debt and equity capital markets. IB pipelines are healthy and loan demand is on the rise



"This year continues to test the resiliency and agility of companies looking to go public. With increased volatility in the markets and uncertainties surrounding geopolitical crises, oil prices and inflation, there is increased focus on public company readiness to give companies the flexibility to capitalize when market conditions are optimal."

– Rachel Gerring, IPO Leader, EY Americas (March 2022)

# Bulge Bracket Investment Banks' Performance – Key Highlights (2/2)



## BARCLAYS

Investment banking revenues decreased 25% YoY due to the reduced fee pool, particularly in equity capital markets, and a strong prior year comparative. Debt capital markets' income was down by 8%, outperforming the market, while the advisory business performed well, and the deal pipeline remains strong. The bank has been investing to sustain its position as the sixth-ranked global investment bank (which will help in taking advantage of the growth in the capital markets) and to help clients manage risk. The bank expects to become even stronger in debt and perform better in equity in the coming quarters



## CREDIT SUISSE

In Q1'22, the bank's IB revenues decreased 53% YoY due to a slowdown in capital market activity, the bank's de-risking initiatives, lower leveraged finance revenues due to reduced risk appetite and continued efforts towards planned exits from prime services. The Russia-Ukraine crisis led to subdued results from trading solutions, as the franchise mix has limited exposure to macro and commodity sectors. The advisory pipeline was up YoY and QoQ. CS is investing in the capital-light IB and capital markets businesses and driving growth in credit and securitised products businesses



## UBS

During the quarter, global banking revenues declined by 30% YoY, largely driven by lower capital markets revenues, compared with a 36% decrease in the overall global fee pool. Within banking, advisory revenue decreased by 3% YoY as higher revenues from M&A transactions were more than offset by a fall in other advisory fee revenues, while the global fee pool size was broadly unchanged. The market volatility impacted new issuance and deal flow in the quarter. Concerns about inflation and monetary policy response, along with the Russia-Ukraine war weighed on investor sentiments



## Deutsche Bank

Overall revenues declined in origination and advisory, but this was in line with the industry fee pool reduction. Debt origination revenues were lower due to materially reduced leveraged debt capital markets business, while investment-grade debt performance remained robust. Equity origination revenues were lower, reflecting a smaller industry fee pool and much-reduced SPAC activity. Advisory revenues were significantly higher, driven by strong levels of transaction completion on a solid pipeline. The bank undertook several important transactions across businesses, including acting as a joint bookrunner on the first ESG global bond offering by the Republic of Philippines



"We expect M&A activity in 2022 to be driven by some of the same underlying forces that we saw in 2021. While market participants are taking stock of the current geopolitical climate to evaluate their approach to M&A in the near term, we expect activity to continue apace. In some instances, our view is that activity is likely to shift away from strategic-only combinations to "self-help" transactions, and sponsor-led transactions...We believe financial sponsors' share of the M&A market in 2022 is likely to grow from 2021. This is supported by USD 2 trillion in dry powder, supportive credit markets, a regulatory environment that generally favors them, and their ability to provide solutions to very complicated problems."

– Ihsan Essaid, Global Co-Head M&A, Barclays (March 2022)

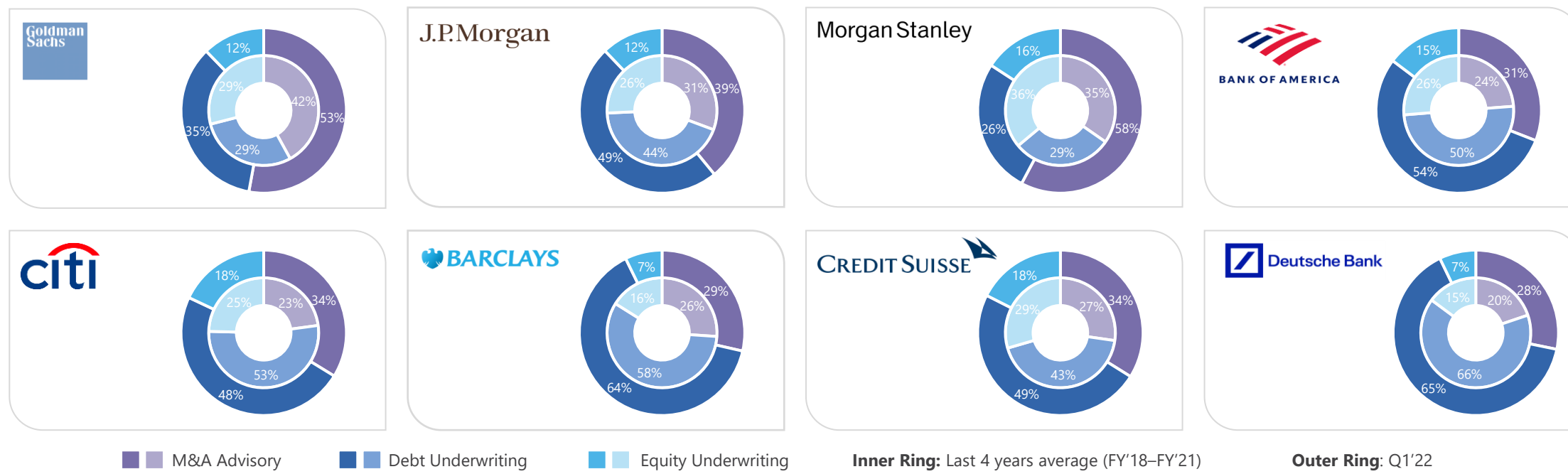
# M&A Advisory Accounted for a Higher Share in Q1'22, as Capital Market Activity Remained Muted



"We remain optimistic on the U.S. economy, at least for the short term – consumer and business balance sheets as well as consumer spending remain at healthy levels – but see significant geopolitical and economic challenges ahead due to high inflation, supply chain issues and the war in Ukraine...I can't tell you the outcome of it. I hope all those things disappear and go away, we have a soft landing and the war is resolved. I just wouldn't bet at all that. I cannot foresee any scenario at all where you're not going to have a lot of volatility in markets going forward."

– Jamie Dimon, CEO, JP Morgan (April 2022)

## Change in IB Fee Composition in Q1'22<sup>(1)</sup>



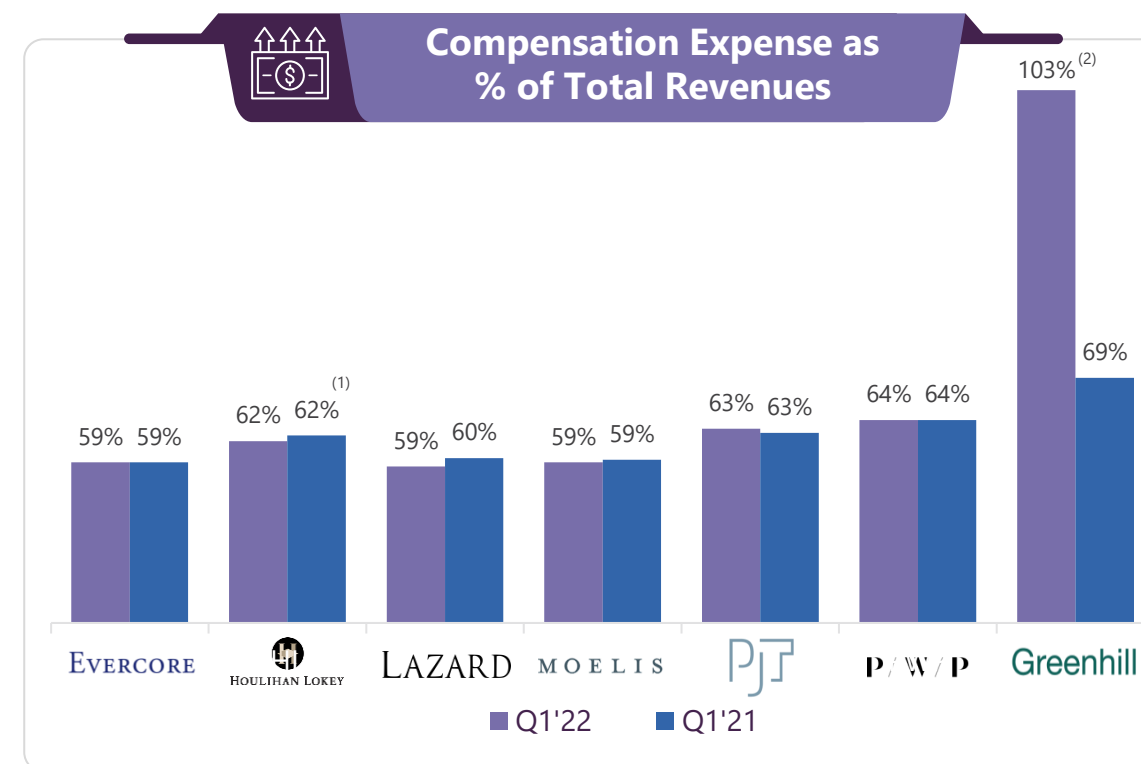
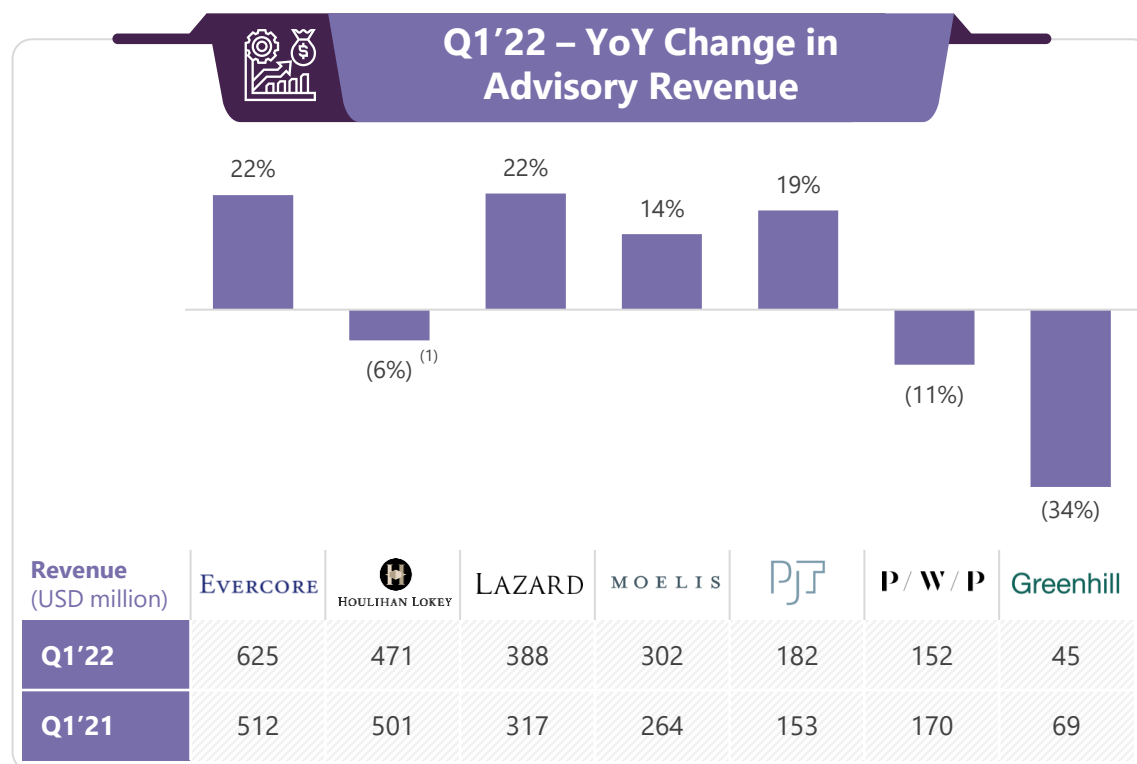
Source: Company reports

Note: 1. UBS is excluded as DCM/ECM breakdown is not available for previous years

# Challenging Macro Environment Resulted in Mixed Quarter for Advisory Firms



- In Q1'22, despite increased volatility, Evercore and Moelis witnessed their best first quarter ever, primarily driven by a high volume of completed deals
- The Ukraine-Russia conflict, inflationary pressure, supply chain constraints and growing interest rates across the globe are expected to slow down deal announcements and increase the time required for deal closures
- The fundamental themes that are likely to drive M&A activity in the medium to long term remain intact as companies are strengthening their internal teams and hiring senior executives for deal execution

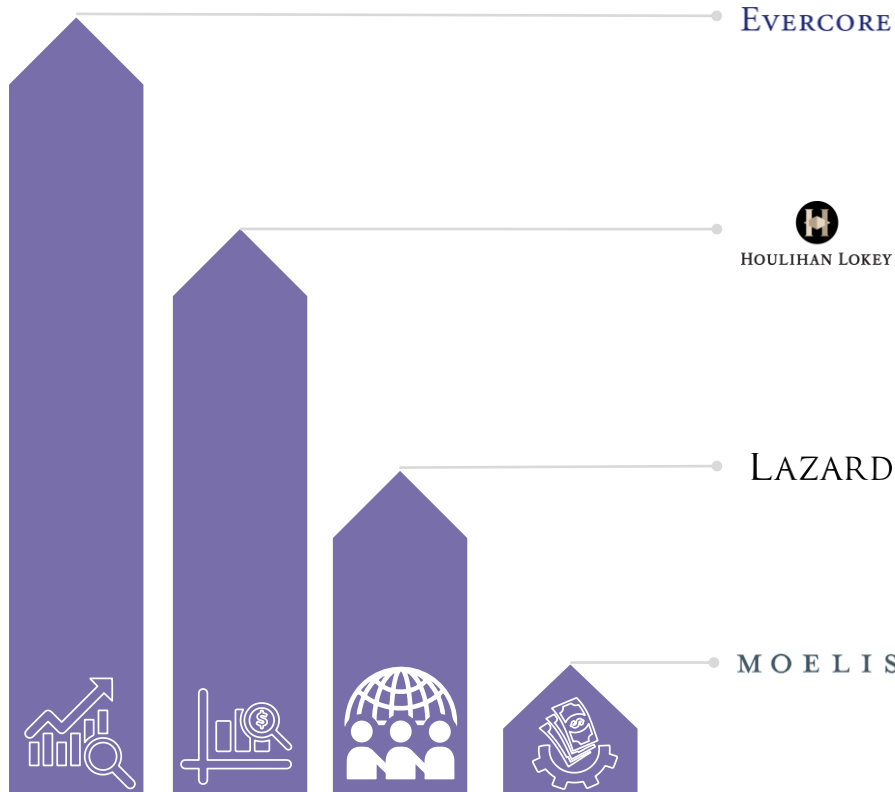


Source: Company reports

Note: 1. Houlihan Lokey's fiscal year ends in March. The advisory revenue data and compensation ratio are calculated for the three months that ended in March

2. The high compensation expense ratio is a result of low revenue in the quarter

# M&A Advisory Firms' Performance – Key Highlights (1/2)



EVERCORE

Evercore registered the highest-ever first-quarter revenue and earnings in Q1'22. Advisory fees stood at ~USD 625 million, up 22% YoY, reflecting a high volume of completed transactions in sectors such as TMT, healthcare and industrial. The upside was driven both by corporate and sponsor clients. Underwriting revenue was primarily affected by a surge in volatility and macro headwinds that weighed on issuers. In Q1'22, two senior MDs joined Evercore's advisory team. The company is also expecting two more senior MDs, focused on technology, to join in 2022. Evercore expects innovation and new disruptive business models to drive multiyear M&A decision making



HOULIHAN LOKEY

Houlihan Lokey's revenue for the quarter ended Mar'22 decreased by 6% YoY to USD 471 million. Revenue from corporate finance was down by 7% YoY, due to a slow down in deal closings driven by geopolitical uncertainties and concerns about higher inflation and interest rates. During the quarter, the firm completed 25 financial restructuring transactions compared with 35 transactions a year ago; however, its average transaction fee on closed deals increased during the period. As of May 2022, Houlihan Lokey witnessed high new deal activity in both corporate finance and FVA, along with strong momentum going into FY'23. In April'22, it promoted 29 employees to Managing Director. The board has replaced its USD 250 million stock repurchase program with a new USD 500 million program

LAZARD

In Q1'22, revenue from Lazard's financial advisory division increased by 22% YoY, reflecting a continued momentum, particularly across Europe and North America. Lazard's engagements with clients have remained robust and activity is at historically high levels despite heightened geopolitical risks, inflation concerns and supply chain challenges. For the restructuring business, deal activity continued to be low, but there was some increase in the level of dialogues with clients. Lazard continued to grow its financial advisory team by promoting high-performing employees and strategically hiring people with rich experience. It expects to continue using excess free cash flow for share repurchases

MOELIS

Moelis recorded its highest-ever first-quarter revenue in Q1'22 with a 14% YoY hike, primarily driven by continued strength in M&A activity with higher average fees earned. The upside in adjusted compensation and benefits expenses is primarily attributable to a larger bonus expense accrual in 2022, on the back of meaningfully higher revenues. The firm added 17 MDs in 2022 through internal development and external hiring. It has hired an MD in Europe to strengthen its foothold in the business services sector

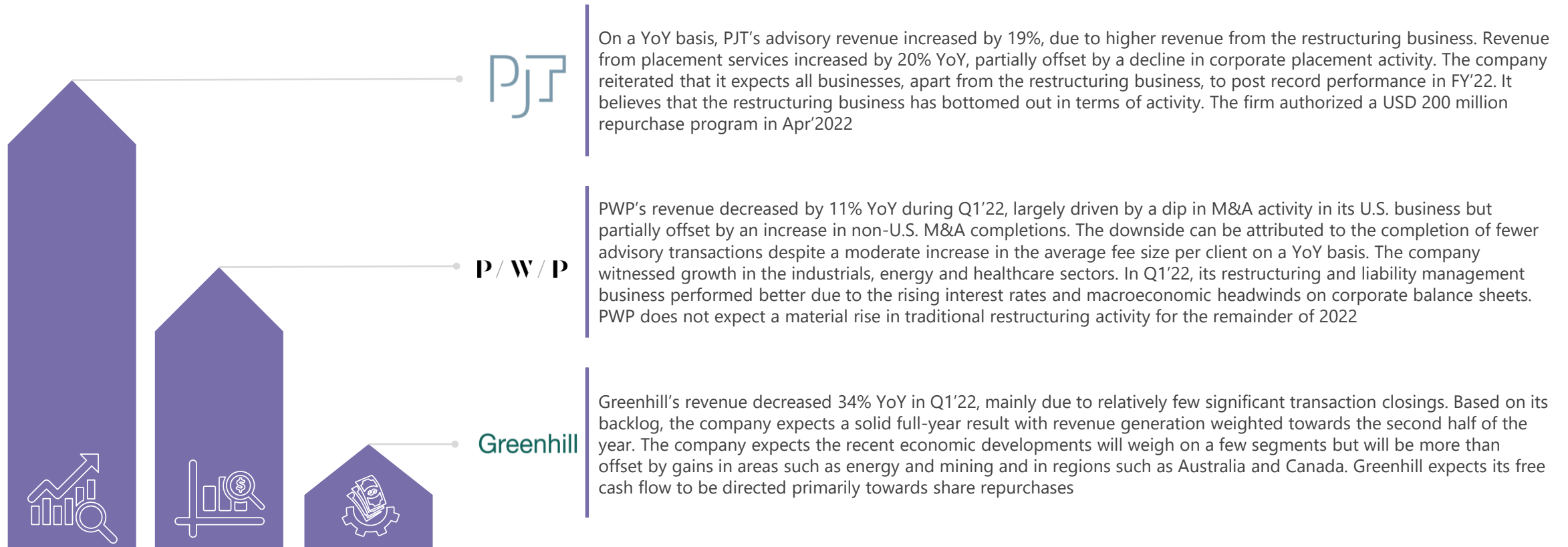


"The war in Ukraine has increased uncertainty on a global basis, resulting in capital markets volatility and wide-ranging strategic questions for corporate leaders...However, even with this recent uncertainty, the fundamental themes that drive M&A activity in the intermediate to long term are still in place. Rates are still low from a historical perspective, markets are accessible, and CEO confidence remains high...We also anticipate increased activity with respect to the evolving energy transition landscape, ESG-related drivers and increased private equity activity as sponsors invest record levels of accumulated capital. Notably, private equity dry powder now exceeds USD 3.4 trillion, and sponsors continue to focus on numerous ways to put this money to work."

– John S. Weinberg, Chairman & CEO, Evercore (April 2022)



# M&A Advisory Firms' Performance – Key Highlights (2/2)



"There continue to be a number of catalysts for M&A activity globally. Technology is driving strategic activity and market cap across every sector. We are observing significant flows into alternatives with investors focused on private equity, driving activity for both M&A and capital raising. The energy transition is an increasingly important factor influencing strategic decisions and one that we believe is going to increase in significance in the future. And lastly, we believe infrastructure is a sector that will be transformative and will emerge as central to M&A and strategic advice, both in the immediate and longer term."

– Kenneth Marc Jacobs, Chairman & CEO, Lazard (April 2022)

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**Thank you**

