EVALUESERVE

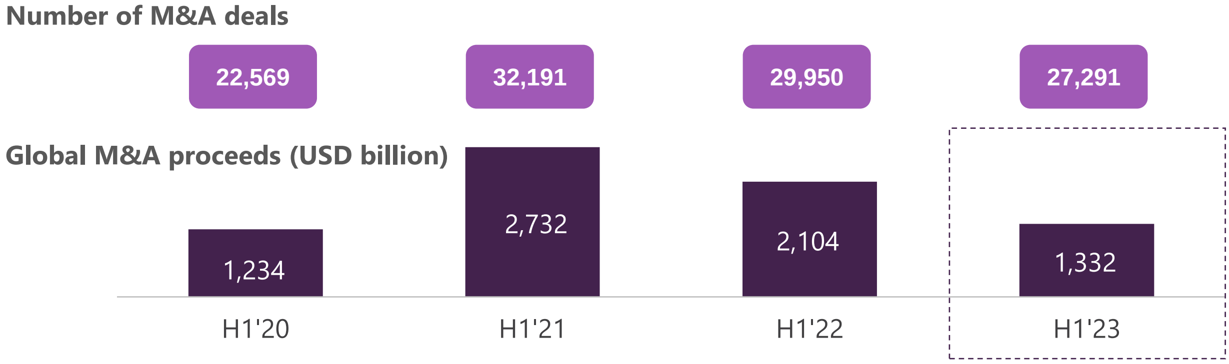
# Investment Banking Update – H1’23

# Highlights – H1’23

## Continued slowdown in M&A activity

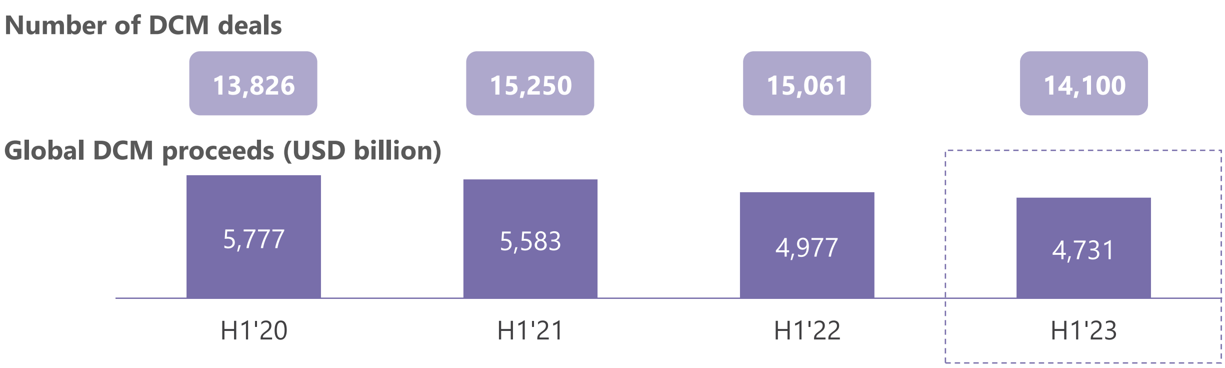
In H1’23, M&A deals across the globe declined by 37% to USD1.3 trillion, compared with last year. It was the slowest first-half period for deal making since 2020. However, deal making activity in Q2’23 increased by 33% compared to Q1’23, marking the strongest quarter for global M&A activity in last 12 months.

In terms of regional split, M&A activity in Europe, APAC, and the US was down 49%, 35%, and 45%, respectively, on a YoY basis. Growing inflation, a banking crisis, high interest rates, and a standoff over the US debt ceiling continued to weigh on M&A activity. In terms of sectoral trends, healthcare, energy and power, and technology led the mix and accounted for a share of 14% each in H1’23 deal making activity.




## Debt capital markets stooped to a four-year low

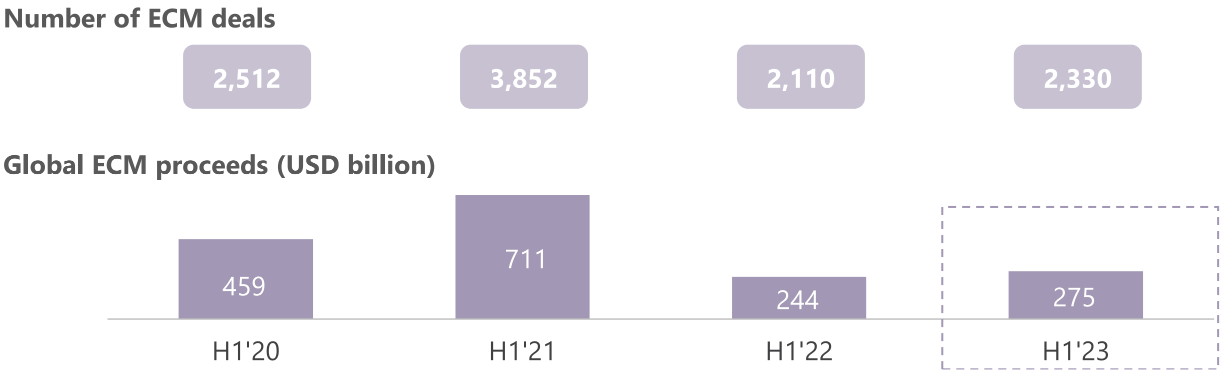
In H1’23, global debt capital market (DCM) activity stood at USD4.7 trillion, down by 5% compared with H1’22, making it the slowest opening period for DCM since 2019. Meanwhile, the number of new DCM offerings declined by 6% YoY and reached a three-year low. During H1’23, while investment-grade corporate debt issuances were flat, high-yield issuances increased by 36% on a YoY basis. Green bond issuances totaled USD270.9 billion and witnessed a second record-breaking quarter in a row. In terms of DCM activity, while media and entertainment, consumer products, and energy and power industries registered double-digit percentage increases compared with the year-ago levels, retail and telecommunications industries plummeted the most.




*Sources: Refinitiv, press releases*

## ECM activity reached a two-year high

Global equity capital market (ECM) activity stood at USD275 billion in H1’23, up 13% YoY, marking the strongest first-half period in two years. The US accounted for 26% of the overall issuances and recorded 2x proceeds compared with H1’22. China accounted for 28% of overall issuances. Global IPOs, excluding SPACs, stood at USD57 billion, down 22% YoY, marking the slowest opening period for global IPOs since 2016. Convertible offerings, which totaled USD45 billion, were up 55% YoY and accounted for 17% of ECM activity. Industrials, technology, and energy and power were the most active industries and accounted for 51% of the overall issuance of convertible offerings.




# Top five M&A deals

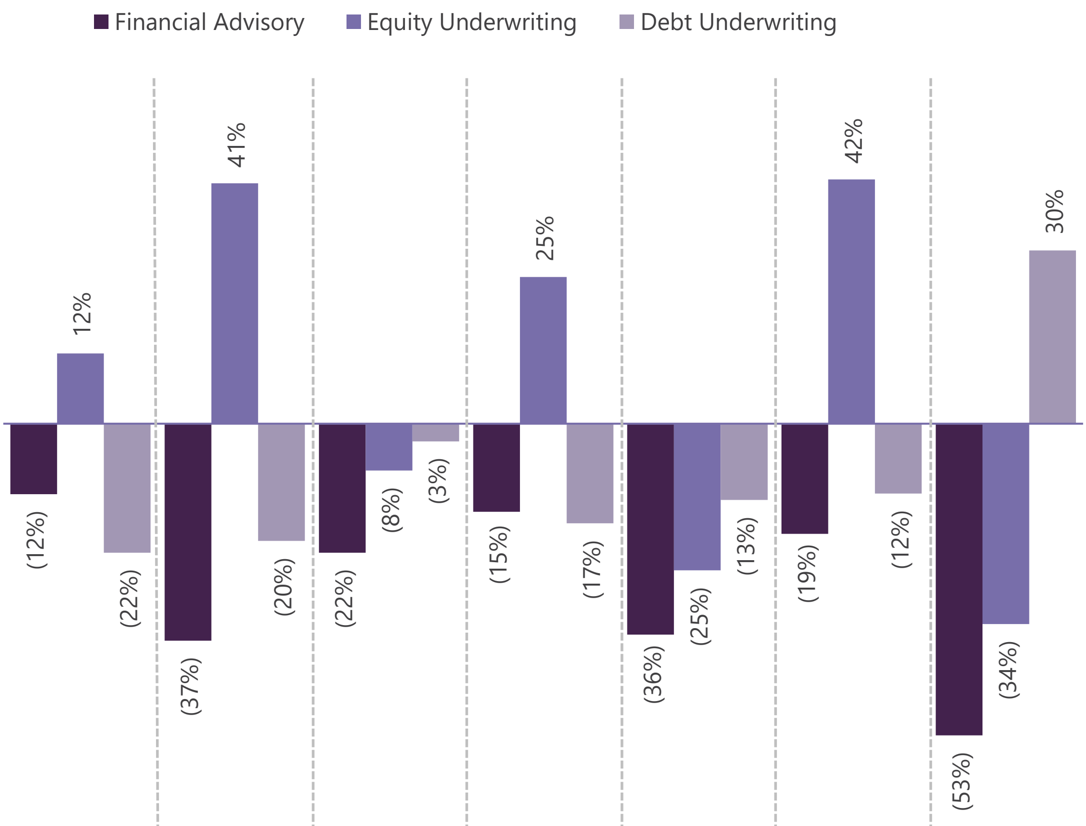
| Announcement Date | Acquirer’s Name | Acquirer’s Location | Target | Target’s Location | Value (USD billion) | Target’s Industry | Deal Type |
|---|---|---|---|---|---|---|---|
| **Mar 13, 2023** | Pfizer | US | Seagen | US | 43.8 | Healthcare | Cash |
| **May 12, 2023** | Black Spade | Hong Kong | VinFast Auto | Vietnam | 23.0 | Auto | SPAC |
| **May 14, 2023** | ONEOK | US | Magellan Midstream | US | 18.6 | Energy | Cash & Stock |
| **Jun 13, 2023** | Bunge | US | Viterra | Netherlands | 18.0 | Consumer | Cash & Stock |
| **Apr 25, 2023** | Carrier | US | Viessmann Climate Solutions | Germany | 13.2 | Industrials | Cash & Stock |

*Sources: Refinitiv, press releases*

# Unfavorable market continues to create headwinds for global investment banks

In H1’23, investment banking revenues of all major investment banks declined due to globally weak market conditions that led to a sharp fall across all areas of business. A halt in deal-making amid heightened fears of a recession, rising inflation, restrictive policies of major central banks and US debt ceiling standoff were the main reasons for the decline. Going forward, market performance is expected to be better due to pent-up M&A demand and a strong pipeline, provided the macro environment is stable.

## H1’23 investment banking revenue and YoY change




| **IB revenue** (USD million) | J.P.Morgan | Goldman Sachs | Morgan Stanley | Bank of America | Citi | Barclays | Deutsche Bank |
|---|---|---|---|---|---|---|---|
| **H1’23** | 3,211 | 3.010 | 2,612 | 2,375 | 1,386 | 1,357 | 672 |
| **H1’22** | 3,700 | 3,943 | 2,999 | 2,585 | 1,833 | 1,518 | 769 |

*Note: Revenue for Deutsche Bank and Barclays were converted into USD using the exchange rate as on June 30, 2023*
*Revenue for Deutsche Bank reflects revenue from Origination & Advisory services*

*Sources: Refinitiv, press releases*

# Bulge bracket investment banks – Performance highlights

J.P.Morgan

J.P. Morgan's investment banking (IB) revenue was up 11% but IB fees were down 6% YoY in Q2'23. The dip can be attributed to lower advisory fees, which slipped 19% on a YoY basis. Underwriting fees were down 6% for debt but up 30% for equity due to more positive momentum in the last month of Q2'23. The bank expects encouraging capital markets activity in H2'23.

Goldman Sachs

Goldman Sachs' IB fees declined by 20% YoY in Q2'23, primarily due to significantly lower net revenue from the advisory business. The dip can be attributed to a significant decline in industry-wide completed M&A transactions. However, it was partially offset by significantly higher net revenue from equity underwriting, which reflected a surge in industry-wide M&A volumes. Bank expects that global markets and banking business can deliver mid-teens returns through the cycle 2023**.**

Morgan Stanley

Morgan Stanley's Q2'23 IB revenue was flat compared with a year-ago period. Revenue from advisory decreased from year ago, due to a lower volume of completed M&A. Revenue from equity underwriting increased due to higher follow-on and convertible offerings. Revenue from fixed-income underwriting increased YoY in Q2'23, driven mostly by investment-grade bond issuance, where corporates and financials took advantage of constructive markets in May and June, respectively. The bank witnessed positive client activity during the quarter and expects the current encouraging conditions to continue in the medium term and 2024.

BANK OF AMERICA

In Q2'23, Bank of America's IB revenue increased by 7% YoY, reflecting a strong performance despite a sluggish environment that dragged down fee pools by 20% YoY. Revenue from the advisory business, debt underwriting and equity business declined by 23%, 25% and 23% YoY in H1'23 respectively. The dip in revenue can be attributed to sluggish industry activity and a continued fall in the investment banking fee pool.

citi

Citi's IB revenues declined by 24% YoY in Q2'23 as heightened macroeconomic uncertainty continued to impact client activity. Revenues from its advisory, equity underwriting, and debt businesses declined by 36%, 25% and 13% YoY in H1'23 respectively. With strong pipeline, the bank expects client activity to improve. However, a rebound in IB has yet to materialize as the macroeconomic conditions seem to be same quite challenging.

BARCLAYS

Barclays' IB fees were down 11% YoY in H1'23, due to the reduced fee pool across Advisory and Debt capital markets, partially offset by an improvement in Equity capital markets. Bank expects that capital and liquidity will remain strong and whilst profitability will reduce from the exceptional levels of the last couple of years for capital markets and investment banking, it will remain sound due to improving income from other businesses and lower litigation and conduct costs.

Deutsche Bank

In 1H'23, revenue from Deutsche Bank's origination and advisory decreased by 13% while businesses grew strongly by 25% in Q2'23 on a YoY basis. The debt origination business gained from the non-recurrence of leveraged lending markdowns in Q2'22 and reflected a partial YoY recovery in LDCM market share. The upside more than offset the YoY declines in revenues from the equity origination and advisory businesses. Revenue from the advisory business was significantly low during the quarter, reflecting a lower fee pool and underperformance.

# Advisory firms struggle due to challenging market conditions

In H1'23, most major advisory firms witnessed a decline in revenue in line with investment banks, barring PJT and Greenhill who bucked the trend and posted gains in the period. Most advisory firms acknowledged the increased risks associated with the current geopolitical, economic, inflationary, and market scenarios; however, they were cautiously optimistic about deal making for remainder of 2023 and heading into 2024.

### H1'23 advisory revenue and YoY change


| Revenue (USD million) | Houlihan Lokey | Evercore | Lazard | Moelis | PJT | P/W/P | Greenhill |
|---|---|---|---|---|---|---|---|
| **H1'23** | 416 | 837 | 618 | 368 | 492 | 297 | 121 |
| **H1'22** | 419 | 1,201 | 795 | 545 | 368 | 303 | 81 |

*Note: Houlihan Lokey's fiscal year ends in March.*

## M&A advisory firms – Performance highlights

### Houlihan Lokey

Houlihan Lokey's revenues were down 1% YoY in Q1'24 primarily due to a decrease in the number of closed transactions, which was driven by softness in the M&A markets. However, the restructuring business continues to benefit from higher interest rates and a fast-approaching debt maturity wall. Since this restructuring cycle is not the result of

*Sources: Refinitiv, press releases*

a one-off crisis, company continue to expect Financial Restructuring to achieve elevated revenues over the next couple of years.

## EVERCORE

Evercore witnessed a 35% dip in advisory fees in Q2'23 on a YoY basis. The downside can be attributed to a decline in revenue from large transactions during H1'23. As many as six senior managing directors have committed to join the firm's advisory business. This is expected to strengthen its coverage in European telecommunications, technology, sponsors, industrials, business services, and real estate industries. The firm's private capital advisory and fundraising businesses experienced some challenges but are active, especially in the continuation funds and private equity fundraising areas. A slowdown in M&A activity weighed on its global advisory business but the company expects increased momentum in client activity.

## LAZARD

In H1'23, Lazard's financial advisory revenues decreased by 22% YoY. This is due to relative to an overall market decline of approximately 50% in M&A completions globally. Despite these challenges, company remain actively engaged with clients in both Europe and the U.S., and private capital advisory, primary and secondary capital raising group, delivered a strong first half.

## MOELIS

Moelis' Q2'23 revenue was down by 26% YoY, due to fewer transaction completions compared with the prior-year period. During the quarter, it recruited 19 managing directors so that it can focus on multiple areas of strategic importance including technology, industrials, M&A, capital structure advisory, capital markets, private funds advisory, and regional coverage in France.

## PJT

PJT's Advisory revenues increased by 34% YoY in H1'23, principally due to an increase in restructuring revenues. Revenues in strategic advisory business rose modestly in the quarter relative to year ago levels and were essentially flat for the six-month period compared to the prior year. This contrasts favorably with overall year-to-date global M&A activity, which significantly declined year-over-year. Despite the low levels of M&A activity year-to-date, the headwinds that have dampened M&A activity have begun to die down. It remains a matter of when not if the market backdrop begins to spark a resurgence in M&A.

P / W / P

PWP's reported H1'23 revenues were essentially flat YoY. Last quarter was the first in five, where company delivered a year-over-year increase even as global M&A market volumes continue to decline in the same period. Mergers and acquisition activity were modestly up period-over-period but was offset by lower financing and capital solutions revenues due to certain large fee events in the year ago period.

Greenhill

Greenhill's revenues increased by 49% YoY in H1'23. The increase principally resulted from larger transaction completion fees and an increase in retainer fees. The firm has announced the recruitment of two new Managing Directors. Derek Deas and Manish Nehra both are currently Managing Directors at Credit Suisse will join us as Managing Director focused on Oil & Gas and Industrials M&A sectors respectively.

# The road ahead

## Well-capitalized companies to make bold strategic moves

During the global financial crisis in 2008–09, numerous industry-defining deals positioned acquirers for faster, more profitable growth out of the downturn. Likewise, in the current situation, companies with a strong market position, high cash on hand, and large debt capacity will have the upper hand in executing transactions in their core businesses. Nearly every sector has a few cash-rich market leaders that stand to gain. Energy, industrials, and technology stand out as industries in which the top players have solid balance sheets and can make bold moves. Companies with strong balance sheets and an experienced M&A track record will be best positioned to complete the largest transformational deals and generate profit in the long run.

## Pressure on valuation to present opportunities and roadblocks

Uncertainty regarding the cost and availability of capital, and the overall macroeconomic outlook will likely cause dealmakers to make more conservative valuations. Strategic buyers hoping for a steal deal will find increased competition from financial buyers. Lower valuations make corporate separations more likely, especially for high-value assets trapped inside larger corporates. Companies that have a valuation overhang due to mispriced assets in their portfolio will seek to spin off or sell parts of their businesses to unlock value for their shareholders. Companies exploring the pathway to a potential IPO will not only face problems related to a bearish market and volatility but also have to acknowledge that the valuations they got from private investors in the last couple of years have not quite caught up with the change in market sentiment yet.

## Rise of activist campaigns

Following a brief decline during the pandemic, shareholder activism rebounded to pre-pandemic levels in 2022, despite volatile markets, depressed share prices, and macroeconomic uncertainty. The US and APAC

*Sources: Refinitiv, press releases*

witnessed the maximum activity in this space. Depressed market valuations can encourage prominent activist investors to launch new proxy fights, which in turn can boost M&A volumes in the coming quarters. It seems shareholder activism is likely to increase further due to the presence of many companies with components (non-core assets that can be sold / spun off; accumulated cash that could be better deployed for stock buybacks; etc.) that are favored by activists.

## Prevalence of small-to-midsized deals to continue

Historically, small-to-midsized deals (valued at less than USD500 million) have made up the bulk of global M&A activity. It is expected to continue in FY'23 as well. These deals are usually easier to complete than megadeals, given their relatively lower risk, low reliance on financing, and less regulatory scrutiny. However, regulators may show more tolerance for large consolidation deals in sectors that have struggling assets (banks in Europe, telcos in developing economies, etc.). In FY'23, so far, only a few mega deals have taken place due to heightened scrutiny from different groups of regulators across the world.

## Financial sponsors to deploy capital due to high levels of dry powder

In the last decade, private equity firms have become more specialized in industries and sub-sectors, which has helped them to make investment decisions with a higher degree of confidence in how their businesses might perform in different market cycles. The confidence, along with the availability of a record amount of uninvested capital, can help drive more M&A activity despite choppy debt financing markets. The availability of high levels of dry powder can provide flexibility and the ability to take advantage of opportunities; however, it can also create pressure on firms to deploy funds and may lead to overpaying for acquisitions.

## Separation and divestitures could reshape portfolios

Down cycles and the current economic uncertainties will likely push most companies to accelerate strategic reviews and re-evaluate their portfolios. Divestiture could become more common as it can help fund new investments. The trend of spin-offs may also drive consumer products businesses, as quick sales unlock capital and enable the leadership to focus on specific businesses. In 2022, advisory firms remained resilient primarily because of restructuring activity, which is likely to remain at elevated levels, going forward.

*Sources: Refinitiv, press releases*

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