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Royal Bank of Canada's US ambitions pay off

Once outgunned over the border, the group has won success amid a hiring spree

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When Tyson Foods launched its $8.5bn bid for Hillshire, the hot-dog maker, Royal Bank of Canada found itself facing a difficult decision.

At the point Tyson entered the fray, the battle to control America's processed food industry was sizzling. Hillshire, already the target of a bid from Pilgrim's Pride, was itself pursuing the acquisition of pickle and frozen meals producer Pinnacle Foods.

RBC, which had relationships with all four companies, had to choose who to team up with.

It was not always so. In years past, the Toronto-headquartered bank was a peripheral operator in the US M&A market, outgunned by the traditional Wall Street institutions – and more aggressive foreign rivals – when competing for deal mandates.

But the expansion of RBC's investment banking operations in the US, fuelled by an aggressive hiring spree, has been pronounced during the past five years.

So far this year, RBC has collected fees of $856.6m in the US, according to data from Thomson Reuters, more than triple the $262.4m it made in the whole of 2008 – an increase that has helped it move from having 1 per cent of the overall fee pool at the start of the financial crisis to 3 per cent today.

In doing so, it has pivoted its entire business model: as of this year, the investment bank now generates more than half of its revenue in the US.

"Having more than half of our business here in the US shows prospective employees that we are here for the long haul – that's important to someone committing their future," says Blair Fleming, head of RBC's investment bank and capital markets in the US.

Royal Bank of Canada used to be a peripheral operator in the US, but now generates half its revenue there — Bloomberg

To fuel the next phase of this growth, RBC has recently embarked on a hiring spree that is turning heads at some of the US's largest banks. During the first half of 2014 it hired 19 managing directors into its investment bank and lost only five, giving it a net gain of 14. Of the traditional Wall Street banks, only JPMorgan had a net positive MD hiring rate, while all the others declined, according to data from recruitment company Sheffield Haworth.

"Part of the proposition is that when the financial crisis occurred, we were presented with the opportunity to build out our US business and we were able to grow more quickly and more profitably than we could have otherwise," says Mr Fleming.

RBC shares the advantage of many of its Canadian peers of having gone into the crisis with relatively little exposure to the worst-hit parts of the financial system. But it was also quick to act when trouble came, selling off its money-losing retail banking operation to PNC Financial in 2011.

Mr Fleming, who took the reins of the US investment bank in 2009, says, only half jokingly, that when RBC was pitching for deal work before the financial crisis, it was often confused with Royal Bank of Scotland, the UK lender that expanded aggressively – both in the US and at home – only to be laid low by the onset of the crisis. Today, RBS is in the process of exiting a large part of its US operations, spinning off Citizens Bank through an initial public offering last month.

"The ambition is to get to keep growing the market share but in a way that is stable," says Mr Fleming. We have learnt the lesson of other banks that have come in and tried to build too quickly – it doesn't last."

He is also keen to steer away from the practice of buying out entire teams from rival banks. "We avoid it. If you bring in a whole team, it can create a them and us mentality and disenfranchise the staff."

In spite of the positive momentum, there is scepticism among rivals about RBC's ability to marry rapid expansion with best practice.

Earlier this year, the bank was rebuked by a Delaware judge who ruled it had, in its desire to profit, failed to disclose conflicts of interest when advising ambulance operator Rural/Metro Corp on its sale to private equity buyer Warburg Pincus.

RBC, which was also offering to fund Warburg's acquisition, a practice known as staple financing, was accused of pushing for a quick sale rather than seeking a higher price.

Also, although RBC has made inroads to the broader dealmaking market in the US, it still generates a disproportionate amount of its business from the energy and natural resources sector, reflecting its Canadian roots.

Mr Fleming and his lieutenants are keen to expand the bank's role in other sectors, but concede it will take time.

Processed food deals may not be core to that endeavour, but having the pick of which party to back in any transaction is a luxury banks fight hard to preserve.

In the end RBC chose to side with Tyson Foods, the successful buyer of Hillshire.