

## RBC looks to profit amid European blues

RBC Capital Markets is beefing up financial sponsors, aiming to boost its European business during 2020, writes **David Rothnie**.

In March, Royal Bank of Canada (RBC) will mark the new decade by moving into new European headquarters at 100 Bishopsgate in London. The timing is fitting: it is almost a decade since the lender emerged unscathed from the financial crisis and announced its ambition to become a full-service investment bank in the region.

The upcoming relocation is a sign of achievement and ongoing commitment, and, taking a 10 year view, the expansion of its investment banking business has been a success. Josh Critchley has overseen much of it, having arrived in 2012 as head of European investment banking after stints at Goldman Sachs and Merrill Lynch.

Once again he sees an opportunity against a darkening backdrop. “The European fee pool in 2019 saw one of its biggest contractions since 2008, so that exposes those banks with cost base issues. We remain focused on the overall profitability of the enterprise and, with one of the highest returns on equity in the sector, RBC is well-positioned to compete with the increasingly dominant US firms,” Critchley told GlobalCapital.

On a global basis, RBC Capital Markets measures up well against its US peers, having a double-digit return on equity (RoE). According to RBC’s own analysis, in 2019, RBC Capital Markets posted a RoE of 11.4%, while in the year to June 2019 RBC was the sixth most profitable bank in terms of post-tax earnings, behind Citi, Bank of America, JP Morgan, Goldman Sachs and Morgan Stanley.

RBC’s success is built on its number

one position in Canada and a strong and growing US business, which continued to make impressive strides in 2019. Last year’s highlights included bagging a role as lead adviser on the SunTrust-BB&T merger — the biggest bank tie-up since the financial crisis. For a balance sheet bank like RBC’s, winning a lead role on an all-share merger was particularly satisfying. It pushed the firm into the top 10 by investment banking fees for 2019, according to Dealogic.

### EMEA: less hiring

RBC Capital Market’s European operations are much smaller. In its annual report for 2019, covering the fiscal year that ended on November 30, RBC said it had a “select presence” in Europe. In 2019, its business fell one place to 22nd in Europe, the Middle East and Africa, underlining its lowly status. But this underexposure may be helpful right now, given the sector’s struggles in Europe.

**“Investors will still back an equity story and stand willing to back smart M&A”**

During Critchley’s tenure, he helped transform the firm’s European investment banking operations, which come under RBC Capital Markets, from a unit focused on the group’s core strengths in metals, mining and infrastructure, to a broad-based offering that covers all industries and products, including M&A, equity capital markets and leveraged finance. He was able to attract talent from bigger rivals in the wake of the financial crisis.

Critchley took on an expanded

remit during the summer, following an internal reshuffle that saw Derek Neldner’s promotion to chief executive of the bank’s capital markets division, which includes all of its corporate finance activities, following Doug McGregor’s retirement, who officially leaves at the end of January.

Neldner was previously global head of investment banking, but RBC did not keep that structure, instead appointing Critchley head of investment banking for EMEA and Asia, and Jim Wolfe and Matthew Stopnik retaining their positions as US heads. Trevor Gardner is head of Canada.

Having overseen a period of rapid expansion in Europe, Critchley predicts less external hiring in EMEA in 2020, as the bank continues to adapt to a tougher environment. In December, RBC Capital Markets conducted a series of job cuts, but this amounted to less than 2% of total headcount in its London operations.

### Surviving upheaval

For a firm that has shown strong profitability and the sort of double-digit returns European banks envy, RBC endured its fair share of upheaval last year. It reported an 8% fall in corporate and investment banking revenues for the fiscal year ending October 31, 2019, citing a fall in M&A activity, “primarily in Europe and Canada”.

The UK is RBC Capital Markets’ biggest European market and uncertainty over Brexit has hit volumes across the board. “Headwinds were particularly strong in some of our traditional areas of strength, such as infrastructure, financials, and oil and gas, and across M&A and leveraged finance more generally,” added Critchley.

The bank was also coming off a strong 2018, particularly

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# RBC to focus on financial sponsors

<< in M&A, where it appeared to have made the transformation into a mainstream UK adviser. It had a lead role advising Melrose on its acquisition of GKN. This deal was a testament to senior UK bankers' quality, including Mark Preston, who held the relationship with Melrose, and Kevin Smith, who ran European M&A until his retirement at the end of December.

Smith stepped down after an eight year stint at the firm, where he raised its profile and moulded a UK team with clear expertise in public M&A. As a 30 year M&A veteran with deep knowledge of UK public takeovers and an ability to originate deals, Smith will be hard to replace. It is a sign of how far the franchise has come that RBC may look internally, as well as externally, for Smith's successor.

One internal name in the frame is Andrew Congleton, who joined from Deutsche Bank in 2015. Another is Alex Thomas, a managing director in the M&A department who has been with the firm for nine years. Thomas has a strong track record in industrials and advised on the GKN acquisition.

RBC could also conduct an external search. One banker said the route the firm takes could provide insight into its thinking and ambitions for European M&A. When Smith joined in 2011 there was a real sense of momentum and a desire to challenge the status quo. Now, after several years of contracting fee pools and with banks under continuing pressure to cut costs and boost returns, the emphasis is on getting the best out of its existing strengths.

## Boosting sponsors and lev fin

RBC will aim to develop a wider financial sponsors

effort this year to reflect the growing opportunity in private capital. In 2018, the bank hired Graham Tufts from HSBC as part of a plan to expand its leveraged finance business and this prompted a string of other hires.

"In 2020, the bank is looking to deploy resources in specific areas by product and sector in these markets [ie, these market conditions]. You have to double down on the things you're good at," said Critchley. Pragmatism rightly betters ambition, but there is room for growth.

Last year, Tufts hired fellow former HSBC banker Florent Cassabois in Paris to work on financing for French-based sponsors. He will work alongside Eric Meyer, who runs investment banking in France. RBC runs its financial sponsor coverage efforts on a regional basis; in Europe it is jointly overseen by Tufts, in his role as vice chairman, and Ed Dickinson, who is head of financial sponsors and leveraged finance in the region. The bank is bolstering the team further by adding Craig Campbell, another former HSBC banker who is to join at the end of February.

The push is an attempt to capture the shift of capital from the public to the private realm, which is a trend that all banks are grappling with. RBC sees an opportunity to bring its sponsor and capital markets capabilities closer together to harness this shift.

According to Darrell Uden, the bank's London-based co-head of global ECM, IPO market volumes over the last decade peaked in 2014. Since that peak, volumes have fallen by 30% in the US and by 60% in Europe. With the rise of private capital, it is more important than ever to gain access to the likes of private equity, venture capital and



RBC is moving into 100 Bishopsgate in London this year, a signal of commitment to Europe

family offices. "Investors will still back an equity story and stand willing to back equity raisings for smart M&A."

Uden's team has its tail up after excelling in a difficult climate. "We've made good progress in corporate broking and have had one of our best years in ECM, rising to 10th in UK equity from 16th in 2018, and doubling our market share from 2% to 4%," said Uden.

In May, RBC acted as sole bookrunner and sole sponsor to Greencoat UK Wind on the acquisition of wind farms from SSE and its subsequent £375m equity capital raise — the biggest by a European renewable infrastructure fund. It also worked as lead financial adviser and corporate broker to Charter Court Financial Services on its all-share combination with OneSavings Bank.

Critchley and Uden want to ensure that the bank's Canadian clients are well served in Europe — especially given the wall of money being deployed by Canadian capital providers — and to help European companies tap into pools of liquidity in the US.

"We have globalised our ECM offering and that increases cross-border flows in a world where companies are seeking

more overseas listings," said Uden. In ECM, Uden runs Europe, Michael Goldberg runs the US, and Nitin Babbar runs Canada.

As well as the move to new premises in London, RBC has been building its post-Brexit presence in Europe. "We've doubled our space in Frankfurt and Paris, have a strong business in Madrid, and have a licence and an office in Benelux," said Critchley.

RBC's European development over the last decade contrasts with European rivals' restructuring and retrenching, while US banks increased their dominance in the region.

In another decade, RBC will still occupy a selective but significant place in European investment banking. Critchley's medium-term ambition is for a top 10 ranking in Europe, and with RBC's balance sheet that should be a yardstick to measure success.

RBC's culture is steeped in pragmatism and consistency, which are becoming increasingly highly priced qualities across the industry. As banks perhaps become more utility like in their returns, RBC could burnish its appeal as a long-term bet.