



How RBC Capital Markets plans to become a global leader in M&A banking

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Derek Neldner's colleagues at RBC Capital Markets worked on dozens of landmark deals over the past 12 months, including the biggest Canadian takeovers in energy, mining and financial services.

Yet when the chief executive officer at the country's largest investment dealer – a division of Royal Bank of Canada – listed the most important achievements from his first year on the job, he highlighted a transaction that never made headlines. He pointed out that in July, RBC Capital Markets advised General Motors Co. when the automaker partnered with California-based EVgo to build 2,700 electric-vehicle charging stations across the United States.

For Mr. Neldner, the relatively small deal ticked two big boxes.

Working with Detroit-based GM demonstrated that RBC Capital Markets is evolving from being just another lender in a crowded U.S. market into the coveted role of strategic adviser to the bluest of blue-chip American companies. For Mr. Neldner, it was also a tangible sign of success in his firm's international expansion strategy.

Bulking up in the U.S., Europe and Australia – markets where RBC Capital Markets competes with Wall Street's biggest dealers and home town banks – is the single biggest challenge facing the 47-year-old CEO. There's no easy path forward: Banks based in Japan, Britain, Switzerland and Germany have tried to elbow their way in, too, making big loans to clients in a bid to win more of their business. These banks have blown up. By focusing on having his bankers in the boardroom, helping negotiate deals, Mr. Neldner said, "We move from being a financial partner to being a trusted adviser, with a relationship that goes across our clients' needs."

In addition, working with EVgo, owner of one of the largest U.S. vehicle-charging networks, deepened the investment bank's expertise in building sustainable businesses. Toronto-based RBC Capital Markets is stepping up its commitment of people and capital to environmental, social and governance, or ESG, opportunities. Mr. Neldner

said: “We think it’s the right thing to do, but there’s also a huge commercial opportunity around ESG, and our clients are laser-focused on its importance.”

While RBC Capital Markets is the largest Canadian-headquartered investment dealer, it ranks only among the top 20 banks globally when it comes to adviser work on takeovers or equity and fixed-income underwriting. Mr. Neldner’s goal is to steadily climb the ranks. He said RBC Capital Markets plans to continue hiring talent from European and Wall Street rivals as part of its strategy to deepen client relationships.

Mr. Neldner is an Alberta native – his father is the former CEO of Telus – and he took the top job last fall, just before the pandemic hit. His first leadership challenge was a doozy. An organization built around face-to-face interaction between bankers and clients, and traders who sit elbow to elbow at terminals, had to suddenly learn to work remotely. Mr. Neldner said the transition played out smoothly, a tribute to the firm’s culture and technology.

In a virtual interview from a home office decorated with northern landscapes, Mr. Neldner said RBC Capital Markets leaders “kept it really simple” when setting priorities for the firm’s 7,900 employees. In WebEx calls and virtual town halls, the CEO said, “We kept coming back to two points: First, support your clients, and second, support your colleagues and take care of yourselves.”

Simple worked. As fixed-income and stock trading volumes soared and business clients made what Mr. Neldner called “unprecedented requests” for credit, the investment dealer earned \$2.7-billion in fiscal 2020, up 4 per cent from 2019, and accounted for 24 per cent of Royal Bank of Canada’s overall earnings.

A deluge of demands for lines of credit and other business loans in the early stages of the pandemic gave the investment dealer an opportunity to cement important relationships. But the pandemic also prompted Mr. Neldner and his team to make tough calls by turning down credit requests, disappointing those customers. The investment bank’s corporate loan book ballooned by 22 per cent to \$101-billion at end of April, then declined to \$87-billion by October, the bank’s financial year-end.

“We were trying to be balanced and thoughtful, recognizing we wanted to support as many clients as we could, but we couldn’t be everywhere, either due to capacity constraints or risk appetite,” Mr. Neldner said. He added RBC Capital Markets’ priorities were backing long-time clients, while also stepping up for businesses in countries and sectors where the bank wants to expand, such as U.S. and European health care and technology companies.

With COVID-19 vaccines now rolling out, the CEO wants to turn these virtual links into personal relationships. “I’ve had the question many times through the year: Are you anxious to get your team back in the office?” Mr. Neldner said. “And my answer is: Yes, but I’m more anxious to get my teams in our clients’ offices.”

To equip those teams with answers to questions around ESG issues, Mr. Neldner recently promoted Lindsay Patrick. For the past two years, she ran RBC Capital Market's sustainable finance group; she was previously an executive at Merrill Lynch in Britain. Now, she's the dealer's head of strategic initiatives and all things ESG-related, reporting to the CEO.

Bringing ideas that incorporate ESG themes to corporate clients is winning mandates for RBC Capital Markets. In early December, the investment bank advised Italian energy company Eni on a US\$544-million investment in wind farms. The Canadian firm also worked for France's Total, another oil and gas company, when it acquired Scottish wind farms in June.

At the same time, oil and gas companies are still major RBC Capital Markets clients – the firm advised Cenovus Energy Inc. on its recent merger with Husky Energy, the biggest deal in Canada's oil patch. The bank has been a staunch supporter of energy producers and the investment bank faces a major challenge in helping guide those companies through a difficult transition to cleaner, greener methods.

Mr. Neldner, who ran RBC Capital Markets' energy business from Calgary for several years, said ESG "is an area where we can differentiate ourselves, if we're smart, and build the business with both our corporate clients and our asset management clients."

Mr. Neldner expects the postpandemic landscape to be dominated by deals, as companies and private-equity fund managers take advantage of low interest rates and a rebounding economy. "It's been a difficult year for everyone, it took everyone locking arms to get the business through it," he said.

As he prepares for his sophomore season as CEO, the head of the country's largest investment bank says, "We anticipate significant M&A activity in the year ahead."

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