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SOUTHPAW

RBC taking a tilt at Europeans in 'third phase' of EMEA expansion

Royal Bank of Canada has ramped up its business in Europe in readiness for its bid to take on its European rivals, writes **David Rothnie**.

Since joining RBC Capital Markets in 2009 with a mission to create a new force in European corporate finance, Josh Critchley, the bank's head of European investment banking, has stuck at it. Market observers doubted he or the firm would have the appetite to sustain its efforts down the long road of building corporate finance beyond its existing niche offerings.

In fact, the project has delivered revenue growth year after year, and has attracted new staff.

Critchley's construction of European investment banking and corporate finance at RBC has passed three distinct stages. RBC started by adding personnel to its core strengths in its metals and mining and energy and infrastructure divisions. Phase two was about adding talent through product and geographic diversification, including adding corporate broking and opening or upgrading offices in Germany, France and Spain.

Now the firm is well into phase three, broadening the business so it can take on its European and US rivals.

"We've got the biggest perimeter of coverage we've ever had in terms of sector, country and product and we've got the best group of people," says Critchley. "Also the rest of the franchise is so strong we're much more credible with clients than we were four or five years ago."

The firm has hired more than 10 managing directors to its European

business in the last 12 months as it fleshes out coverage in its existing sectors and adds new industry expertise.

Two new hires are set to arrive in the coming weeks, with Chris Squire joining as a managing director in European industrials, chemicals and services from Bank of America Merrill Lynch, while Damien Grude will join from ING a new team covering telecoms infrastructure in August.

RBC is beefing up across Europe at a time when rivals are figuring out where to allocate resources in the wake of the UK's decision to leave the EU. Starting from a low base has been a benefit in this regard.

"Our expansion in Europe was already focused on the hubs of France, Germany and Spain and we'll continue to add bankers because we're underweight in all of those regions so Brexit doesn't change that," says Critchley.

RBC sees a broad European footprint as crucial, but the region's fee pool has fallen way below historical levels.

Back in 2007, Europe accounted for roughly half of the world's corporate finance fees, and it is down 30% since 2014. To Critchley, that increases the importance of having a presence across the region in order to seize on local opportunities wherever they arise.

"If you're going to be a global operation then by definition you have to be pan-European," said Critchley.

This month the bank hired Willem Ariens from Nomura to focus on the Netherlands. "It's the fourth or fifth largest fee pool in Europe so it's important to have boots on the ground,"



Josh Critchley: sticking at it is paying off

says Critchley.

Through the use of its balance sheet, RBC has tripled the number of tier one relationships it has developed with European companies, and the results are particularly evident in debt capital markets, where it has won a number of first-time blue chip clients such as BASF, Lafarge, Airbus and Deutsche Telekom.

But what is perhaps more surprising is that in the last year, half of its revenues in European corporate finance came from M&A, an achievement of which Critchley is particularly proud.

"I'm keen to lead with content in an old-fashioned advisory way," he says, "then support clients with either static or dynamic capital and give them very strong distribution across all product sets, whether it's high yield or investment grade; loans or bonds; equity or equity-linked."

The bank's rise in Europe followed that of its US business, which is bigger and longer established. In the US the bank has achieved a top 10 fee ranking and globally, the bank finished 2016 in ninth position, its highest ever.

Following the structure of its business in the US, some of RBC's recent expansion has moved along sector lines. Last June, it recruited Ed Boyce as head of European consumer and retail from Nomura, then in April this year it hired Jaime Arrastia, a former head of consumer at Barclays. A Spaniard,

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PEOPLE & MARKETS

RBC lays down European gauntlet



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Arrastia is currently based in New York, where he reports to global head Andrew van der Vord, who brought a big team with him from Arco Advisers when he joined last year.

Taking the time

Building a European corporate finance business takes time, particularly when it comes to recruiting top talent. When a bank is looking to grow quickly and assert its credentials, often recruitment is a case of simply getting bodies in seats then working out the best way to use them later.

This was true of Barclays in the early phase of its corporate finance efforts, when it admitted it built Europe in a hurry so it could show its clients it had a global offering.

RBC has tweaked its offering as it has developed. “FIG is now one of our most successful franchises but in its first iteration we couldn’t quite work out where we had an advantage,” says Critchley. “We changed the leadership and Oliver Hearsey had a very clear view that he wanted to be across a limited number of verticals.”

These areas are market infrastructure, specialty finance, including challenger banks, wealth and asset management, and insurance.

The result has been impressive. In financial infrastructure, its biggest client is the London Stock Exchange, while it has worked on seven of the last nine IPOs in its subset of specialty finance, including the flotation of Metro Bank, one of the best-performing EMEA IPOs of the last 18 months.

As a result of this FIG activity, it now has nine corporate brokerages in the FIG sector. The bank also won bookrunner roles on the rights issue of Credit Suisse and Deutsche Bank, mandates that continued to raise its profile.

Big name wins

These wins are part of a broader push in broking, which comes under the

remit of European ECM and corporate broking head Darrell Uden. The business has showed strong overall progress, picking up 14 clients in the last 18 months. That includes five broking clients in healthcare, including Clinogen, while in retail it won the broking of Jimmy Choo following its IPO after it recruited Will Smith as a director from Bank of America Merrill Lynch in November 2015.

The bank has also overhauled natural resources following the departure last September of Nick Taylor, who joined from Deutsche to run its combined natural resources practice.

Critchley hired Taylor from Deutsche Bank in Hong Kong, where he had built up his roster of relationships with Asian corporates, but that didn’t help when trying to gain traction in European boardrooms. When Taylor left, Critchley separated natural

“We’re much more credible with clients than we were four or five years ago”

resources into metals and mining, led by Richard Horrocks-Taylor, and oil and gas, led by Martin Copeland, a M&A banker recruited from Evercore in February 2016. “We’ve never had to retrench,” says Critchley. “From a perimeter perspective I feel we’re 85% of what we need to be and it gives us the scale to compete properly and be properly diversified in terms of risk.”

Strong at the core

While building out in new sectors such as retail and consumer, healthcare and TMT, RBC has also ensured it retained its position in areas where it was already strong.

“Infrastructure remains our strongest business, whether it’s power and utilities, transport, social or communications,” says Uden.

He points to the bank’s role leading a £385m fundraising as broker to 3i Infrastructure, the largest follow-on in that space for the whole of 2016.

Meanwhile, it has also won Easyjet and Stagecoach as corporate broking clients. Uden says: “We’ve continued to build out from a personnel perspective in line with the broader IB sector business and that has paid dividends across ECM and corporate broking.

RBC’s European expansion is carefully orchestrated, coordinating sector and product coverage on a global scale.

The bank has a strong corporate derivatives and equity-linked offering in the US, so in January 2016 it launched a similar offering in Europe with the appointment of Philippe Dischamps from HSBC.

It runs its leveraged finance business on a global footing and in March promoted Ed Dickinson to run it in Europe after previous head Paul Brady relocated back to New Zealand. Global alignment is the watchword in DCM.

“Our aim is to give the best advice,” says Sean Taor, head of European DCM and syndicate. “We are currency-agnostic so it makes no difference to us whether the client does a deal in Toronto, Sydney or London. It is about finding the best solution for the client.”

RBC sailed through the crisis of 2008 so it has enhanced its reputation while most established rivals have suffered through fines and misconduct issues. Meanwhile, its number one status in its home market of Canada provides a solid base for its international expansion.

With such a stable footing, it’s no surprise that the bank intends to kick on from here and soon wants to be breathing down the necks of Barclays, Deutsche and Credit Suisse.

“We were able to take advantage of dislocation among our rivals in the second phase of our build-out. In this third phase, it’s morphed into something else as we attract talent on our own merits,” says Critchley.

The bank doesn’t have aspirations to displace the American firms but it now believes it is capable of competing head-to-head globally with its European peers. ■