

Canada's Investment Banks Weather the Storm

Companies in Canada are benefiting from the fact that the banks upon which they rely for capital markets coverage and mergers & acquisition advisory services are in a much stronger position than those in other markets, according to the results of the most recent Greenwich Associates Canadian Investment Banking Research Study.

"Simply put, Canada's banks are stronger than some of their counterparts in the United States and Europe because they were not as heavily exposed to the mortgage business or structured products," says Toronto-based Greenwich Associates consultant Peter Kane. "Because their balance sheets are not as loaded down with assets of deteriorating value, the banks that Canadian companies rely on for credit, capital markets services and M&A advice have not faced the same capitalization crisis that has brought the U.S. banking system to its knees."

In the United States, the landscape of banks and investment banks available to companies in need of capital and other financial services has been altered by a dramatic series of events, most notably the collapse of Lehman Brothers and the crisis-induced acquisitions of Bear Stearns, Merrill Lynch and Wachovia. Also yet to come: Stricter government regulation of the banking sector and the potential for greater Congressional influence over the business practices of banks that participated in the national rescue program.

With Canada having much earlier moved to the universal banking model (i.e., bank-owned dealers), it has not suffered from this type of forced consolidation and historic government intervention. As a result, the competitive landscape of banks servicing Canadian companies has to this point remained relatively unchanged through the crisis.

Canada's Universal Banks: M&A

Most Canadian companies used one or more of the "Big Five" Canadian universal banks as their primary providers of capital markets and mergers & acquisitions advisory services prior to the current market turmoil and these relationships are likely to persist through the crisis.

RBC Capital Markets, CIBC World Markets, TD Securities, Scotia Capital, and BMO Capital Markets are each cited as an important M&A advisor by between 30% and 42% of large Canadian companies. These banks are also closely matched in quality ratings from corporate clients. "Our research shows that companies have been quite satisfied with the quality of service provided by these banks over the past 12 months in terms of M&A specialist capability, idea flow, and execution quality, principally for domestic Canadian M&A" says Jay Bennett. "So unless there are some dramatic events yet to come in the global banking crisis, we do not expect companies to make major changes to their rosters of M&A advisors."

Equity Capital Markets

When it comes to equity capital markets, Canadian companies again rely primarily on the Big Five Canadian banks. Of these, RBC Capital Markets is viewed as delivering by far the highest quality service in equity capital markets origination, followed by BMO Capital Markets, Scotia Capital and CIBC World Markets. "These ratings take into account more than just pure equity origination quality. Because the companies participating in our research are generally well established firms with significant outstanding floats, they also take into account distribution capabilities and the quality of a bank's equity research coverage," says Jay Bennett.

Debt Capital Markets

The Big Five Canadian banks are each used by between 40% and 55% of Canadian companies for debt capital markets service, with RBC Capital Markets cited most frequently as an important provider, followed by Scotia Capital. Companies also give these two firms the market's highest ratings for debt capital markets quality.

Companies Tie Bond Business to Bank Lending

The proportion of Canadian companies reporting that they will award all forthcoming debt new issue mandates to banks that lend them money increased to 80% in 2008 from just 64% in 2007. On average, companies demand that candidates for the role of lead manager on their debt issues provide at least 27% of the company's credit, up from 23% in 2007 and 20% in 2006.

"Since all of the major fixed-income dealers in Canada are also connected to universal banks, they are all potential credit providers," says Jay Bennett. "Our research shows that companies are looking to use the leverage of relatively high-margin new issues business to get the members of this group to step up and lend."