Banks go on the attack as IPO competition heats up

by Lucy Burton 2014-09-01

A post-summer flotation frenzy starts today with intense competition for the next wave of deals driving bankers to new lengths to win mandates.

Europe is braced for the announcement of at least 20 planned initial public offerings in September, according to Alasdair Warren, head of European financial sponsor coverage at Goldman Sachs. He said: "We have not seen this level of post-summer IPO activity in the past six years."

Financial advisers are confident that business will remain strong into the New Year, and as well as working feverishly in the next few months to close their existing pipeline of deals, they are also busy pitching to new clients.

The level of competition is producing displays of chest-beating.

In a pitch document seen by Financial News, Rothschild spells out to potential clients how the IPOs on which it advised in the first half of this year outperformed those of its competitors STJ Advisors and Lazard.

Rothschild ranks itself top, with its IPOs rising, on average, by 7% on the first day of trading, followed by Lazard's, up by 6%, and STJ's, down by 6%. The document also highlights how common such advisers are: the list names 24 IPOs this year on which Lazard, STJ or Rothschild worked. All three advisers declined to comment on the numbers.

However, Adam Young, global co-head of equity capital markets advisory at Rothschild, said competition had "been pretty intense for some time". He added: "We've never been complacent about it."

While self-adulatory pitch documents are not unusual, banks are also using other, more unconventional tactics.

In a bid to stand out during a recent pitch at a research laboratory, bankers turned up in lab coats blazoned with the company logo, according to one person familiar with the matter. The bank is understood to have won the mandate.

Another person said: "If it's a pitch for a luxury goods company, some banks spend thousands of pounds on exclusive, glossy pitch documents. Others do role-play exercises, where one team will act as a sceptical investor and the other team will act as someone selling the business."

Success in an equities capital markets pitch can help win a bank future business.

One market executive explained: "ECM is a client creator. After an IPO, there's all kinds of things you can cross-sell afterwards. But the difficulty in a pitch is to get remembered – they are usually intrinsically boring."

Young says the tactics are part and parcel of "post-crisis pitching". He said: "The gimmicks won't win it for someone who doesn't have the capabilities. But it can help differentiate between two banks that have similar capabilities."

Others are willing to forfeit their fees to get a certain title on a deal. One senior banker at an independent adviser told Financial News that some firms are so desperate to get their name down as a book runner that they even offer to work for free.

He said: "They live and die on league tables."