



Financial Institutions Group
Investment Banking and Capital Markets Sector

U.S. MARKET UPDATE

SUMMER 2021

Introduction:

U.S. Investment Banking and Capital Markets Sector

Houlihan Lokey's Financial Institutions Group (FIG) is excited to release the inaugural edition of a new report on the U.S. investment banking and capital markets sector.

Our report comes during a particularly dynamic period in the industry. While the volatility and turbulence of 2020 created a polarized environment of “winners and losers,” virtually all segments of the market are now undergoing strong performance. For the first time in years, M&A fee pools are up Y/Y in every sector. Growth has been fueled by pent-up 2020 demand now being unleashed, the specter of capital gains tax increases and a generally bullish backdrop of record stock prices and inexpensive debt financing. SPACs completely transformed the investment banking landscape, providing a boon to bulge-bracket underwriting desks and emerging as a buyer of choice for private assets. 571 SPACs launched IPOs in the last year, representing 60% of all IPO capital raised, and steered by everyone from Bill Ackman to Colin Kaepernick. Regardless of whether proposed regulatory reform materializes, hundreds of SPACs will be seeking and consummating transactions over the next couple of years.

Just as pandemic-driven volatility was unwinding and trading volumes were beginning to decelerate, retail traders reasserted themselves as forces in the secondary market. As GameStop stock topped \$400 in late January, market-wide daily equity trading volumes overtook records set at the height of the 2008 financial crisis. Volumes have once again begun settling, but new product origination and new ways for traders to access the market should create a longer-term lift for brokers, market-makers, exchanges, and technology providers.

Buyers have taken notice of the excitement and growth in the sector. Commercial banks in particular continue seeking fee-based capital markets businesses to counteract a persistently low-margin lending environment. M&A advisory and fixed income services tend to have the strongest synergies with bank lending, with Santander's recent \$600 million acquisition of Amherst Pierpont serving as the latest example. The investment banking business model has also been targeted by SPACs, with Perella Weinberg going public via a SPAC merger, the first U.S. investment bank listing in five years.

We hope you find this report useful as you navigate new opportunities in the market, and we look forward to sharing our perspective with you.

Financial Institutions Group

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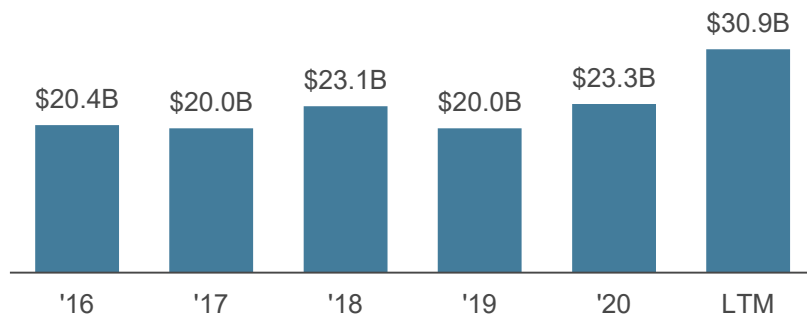
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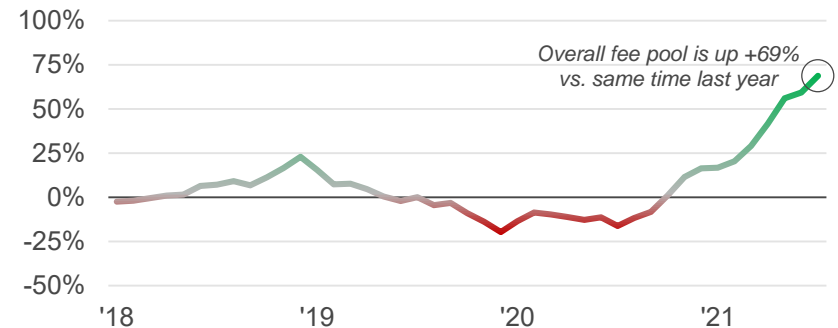
Ongoing Post-COVID-19 Boom Propels Fees to All-Time High

- After a brief pandemic-driven pause in 2020, M&A is expanding across all segments, with PE investors and SPACs holding record dry powder, corporate buyers benefitting from record share prices, inexpensive debt financing, and a rush to close deals ahead of potential tax hikes.
- Larger deals rebounded strongly from a steep 2020 decline, while the mid-cap space remained relatively stable through both 2020 and 2021.
- The tech sector fee pool is now ~2x pre-COVID-19 levels, with megadeals from both strategics (e.g., Microsoft/Nuance) and PE (e.g., Thoma Bravo/Proofpoint).
- Financials also saw elevated activity, led by a wave of bank and nonbank credit consolidation (PNC/BBVA, AerCap/GE Aviation, M&T/People's United, NYCB/Flagstar).

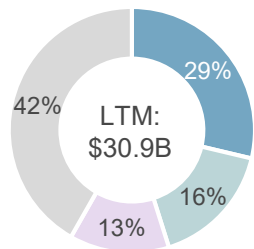
M&A Advisory Fee Pools (\$ billions)



Rolling Y/Y Fee Pool Growth

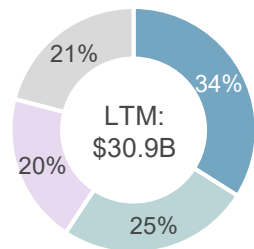


Sector Breakdown



■ Technology ■ Healthcare
■ Industrials ■ All Others

Deal Size Breakdown



■ Below \$0.5B ■ \$0.5B to \$2B
■ \$2B to \$5B ■ Above \$5B

Growth by Sector

Technology	149%
Financials	93%
Industrials	77%
Healthcare	76%
Media and Telecom	51%
Services	28%
Natural Resources	25%
Cons. and Retail	20%
RE and Gaming	8%
All Sectors	69%

Growth by Deal Size

Below \$0.5B	21%
\$0.5B to \$2B	86%
\$2B to \$5B	98%
Above \$5B	179%
All Deal Sizes	69%

Source: Refinitiv.

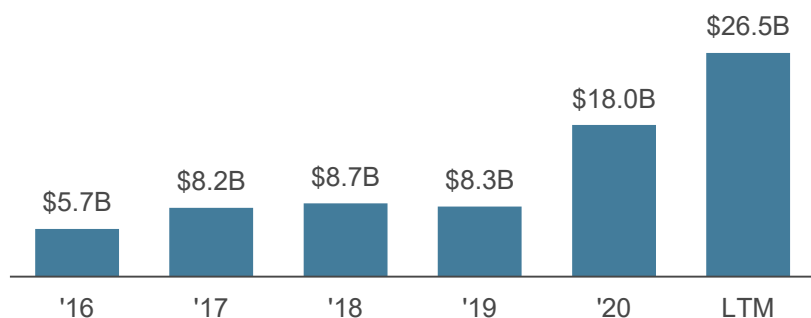
Note: Based on announcement date and includes potential fees from pending transactions.

ECM Underwriting Market Review:

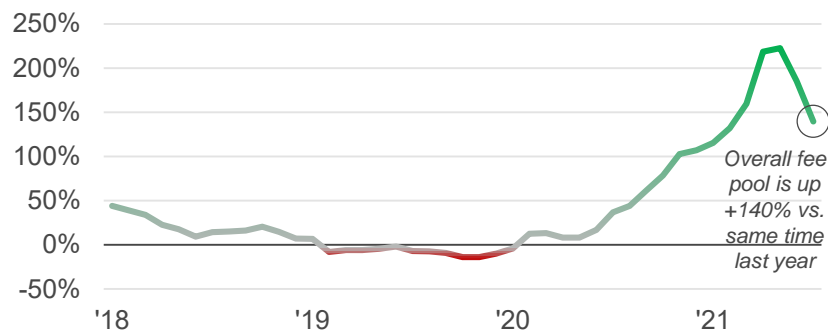
SPAC Surge Brings ECM Fees to Unprecedented Levels

- SPAC IPO activity dropped off considerably post-Q1 as investors reassessed deal quality, while regulators turned their scrutiny to SPAC warrant accounting and financial projections; just 13 SPAC IPOs closed in April, compared to 110 in March (activity ticked up to 29 deals in June).
- While tech assets have been heavily targeted by SPACs, startups and spinoffs have also actively pursued regular-way IPOs. The largest U.S. ECM deals of 2021 have been Asian tech IPOs; Korean e-commerce platform Coupang and Chinese ride-hailing service Didi each raised ~\$4.5 billion in their NYSE listings. However, this trend may already be unwinding as China increases regulatory pressure on cross-border U.S. listings.
- With COVID-19 piquing investor interest in development-stage biotech, healthcare fees also swelled to record heights, though the most explosive growth occurred on the PIPE/registered direct/ATM market (not captured in underwriting fee pools below), benefitting many specialist small-cap investment banks.

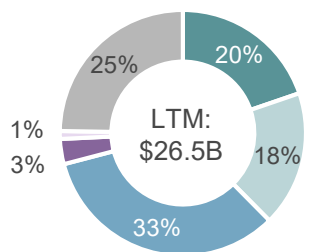
ECM Underwriting Fee Pools (\$ billions)



Rolling Y/Y Fee Pool Growth

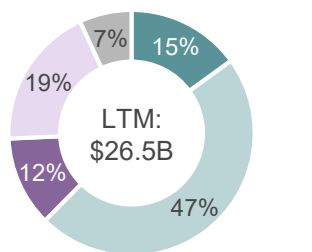


Sector Breakdown



- Healthcare
- Technology
- SPAC
- REIT/MLP
- Funds
- Other

Structure Breakdown



- IPO <\$250M
- IPO >\$250M
- Flw-On <\$250M
- Flw-On >\$250M
- Convertible

Growth by Sector

SPAC	819%
Technology	131%
Other	87%
Healthcare	46%
REIT/MLP	37%
Funds	-11%
All Sectors	140%

Growth by Structure

IPO <\$250M	292%
IPO >\$250M	429%
Flw-On <\$250M	59%
Flw-On >\$250M	32%
Convertible	-5%
All Deal Sizes	140%

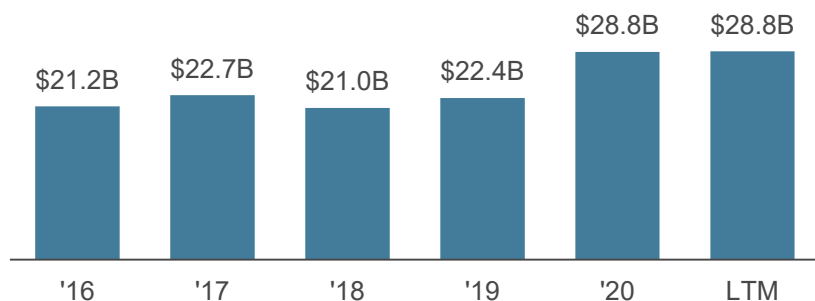
Source: Refinitiv.

Note: Deferred fees on SPAC IPOs fully recognized on IPO date.

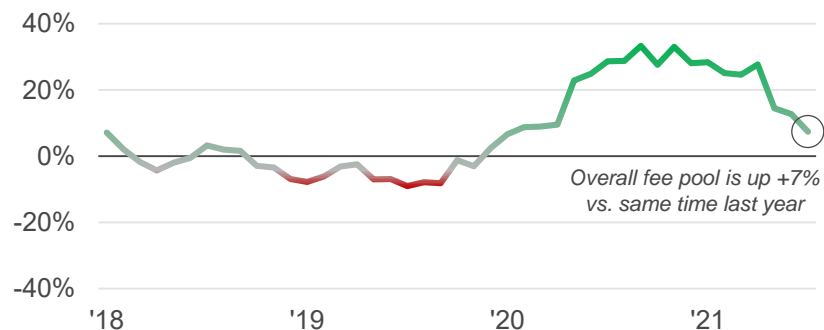
Corporate Bonds Leveling Off, While LBO Financing Grows

- Given strong fee economics, leveraged finance tends to drive the debt financing fee landscape. Exuberance coming out of COVID-19, plunging interest rates in late 2020, and an active M&A environment combined to create an ongoing leveraged finance boom.
- The ~\$7 billion LTM high-yield bond underwriting fee pool is roughly double pre-COVID-19 levels, with yield premiums over Treasuries approaching 2007 record lows.
- On the loan side, investor appetite for new issues has never been stronger, with \$43 billion raised across 87 new CLOs in Q2 2021, representing a quarterly record.
- On the other hand, investment-grade origination has become a drag on the overall fee pool; activity in that segment peaked at the height of the pandemic as the market “played defense,” when investors shifted to safer assets and issuers rushed to fortify their balance sheets.

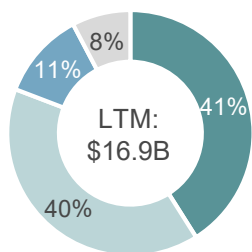
Bond and Synd. Loan Origination Fee Pools (\$ billions)



Rolling Y/Y Fee Pool Growth

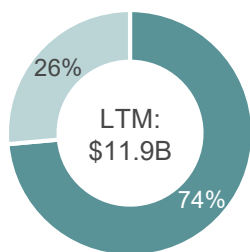


Bond Breakdown



- Inv. Grade Corp.
- High-Yield Corp.
- Structured Credit
- Agency

Loan Breakdown



- Leveraged
- Nonleveraged

Bonds by Segment

Inv. Grade Corp.	-25%
High-Yield Corp.	50%
Structured Credit	16%
Agency	5%

All Bonds 2%

Loans by Segment

Leveraged	32%
Nonleveraged	-12%
PE-Sponsored	63%
Nonsponsored	-4%

Acquisition-Related	20%
Refi/Other	15%

All Synd. Loans 17%

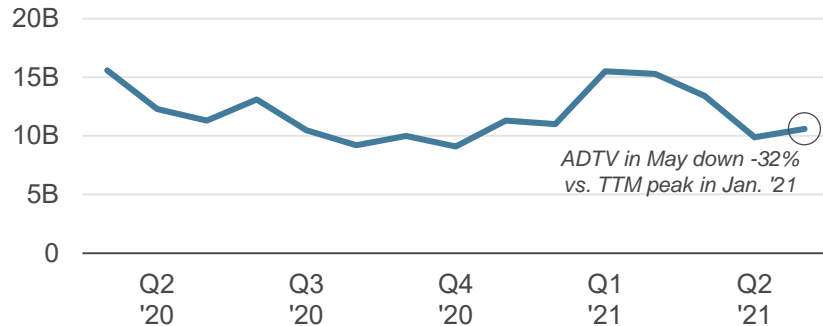
Sources: Refinitiv, S&P Global.

Note: Loan fees only include upfront arrangement fees on broadly syndicated loans; excludes directly placed loans, project finance, tax-free munis.

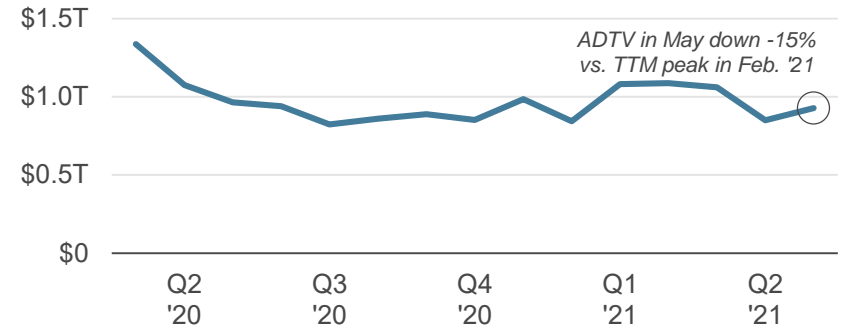
Lower Volumes and Volatility After Retail-Fueled Q1

- Trading volumes reverted to a more normalized pace as the Q1 meme-stock-driven retail frenzy transitioned from equities to crypto assets.
- Even so, the rise of retail is likely to become a longer-term trend. JMP Securities estimates that 10 million retail brokerage accounts were opened in 1H 2021, equivalent to the number opened in all of 2020. Even as \$0 commissions become the norm, retail brokers have a playbook for growth via payment for order flow, multi-asset securities/derivatives/crypto platforms, and serving Robinhood “graduates” with real-time data and advanced routing.
- Heightened 2020 volatility brought into focus the human elements of equity trading, shifting revenues from algorithmic platforms toward research-driven/high-touch trading desks.
- Fixed income never experienced the same retail influx as equities, though concerns over rising rates/inflation drove volatility and gave a temporary boost to volumes in Q1.

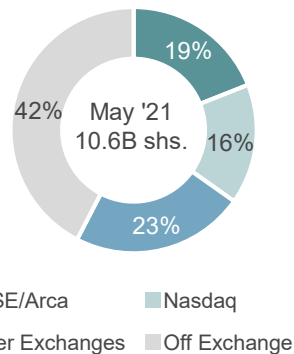
Equities Monthly ADTV (share volume in billions)



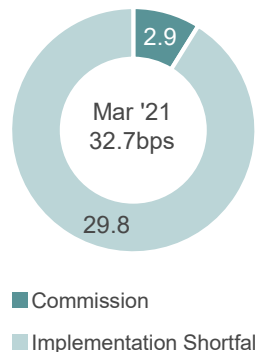
Fixed Income Monthly ADTV (\$ volume in trillions)



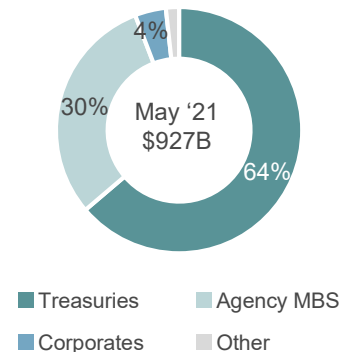
ADTV by Venue



Average Trade Cost



ADTV by Product



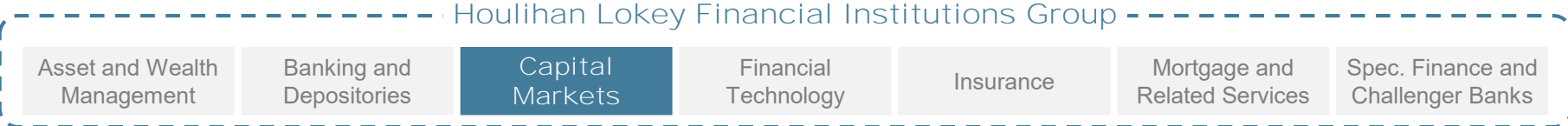
Current vs. TTM Peak

Treasuries	-6%
Agency MBS	5%
Corporates	-18%
Munis	-26%
Private MBS	-15%
Federal Agency Secs	-44%
ABS	-17%
All Fixed Income	-15%

Houlihan Lokey Capital Markets Coverage

Recent Houlihan Lokey Capital Markets Sector Transactions

- With the legacy Freeman & Co. team, Houlihan Lokey is one of the most active advisor in the capital markets space, with 15+ deals closed since 2019.
- Unmatched reputation as the “banker’s banker” on transactions in the investment banking/financial advisory sector.
- The professionals involved in every broker-dealer/capital markets transaction executed by Freeman & Co. are still leading Houlihan Lokey’s coverage today—an unprecedented 25+ years of continuity.



Transaction Pending



has agreed to be acquired by




a portfolio company of




Sellside Advisor

Equities Trading and TCA



Hammond Hanlon Camp LLC

has been acquired by



Sellside Advisor

Healthcare Advisory



Minneapolis Grain Exchange


has been acquired by




MIAMI INTERNATIONAL HOLDINGS INC.

Financial Advisor

Exchanges



has been acquired by




Sellside Advisor

Chemicals Advisory


Project Grail-UK

Sellside Advisor*

U.K Generalist Advisory



has been acquired by




Sellside Advisor*


Aerospace and Defense Advisory



has been acquired by



the parent company of



Sellside Advisor*

Clearing and Mini-Prime



and its wholly-owned subsidiary



have been acquired by



Sellside Advisor*

Fund Placement Advisory



has acquired



Buy-side Advisor*

Full-Service FIG Investment Bank



a portfolio company of



has received a minority investment from

Undisclosed Investor Group

Sellside Advisor*

FX Liquidity Platform




has been acquired by




Sellside Advisor*

Technology Advisory




has been acquired by




Sellside Advisor*

Diversified U.S. and European Advisory




has been acquired by




Sellside Advisor*


Fixed Income Brokerage



has been acquired by



a subsidiary of



Sellside Advisor*

Diversified Consumer Advisory

*Selected transactions were executed by Houlihan Lokey professionals while at other firms acquired by Houlihan Lokey.

Case Study: Trade Informatics

Houlihan Lokey Advises Trade Informatics on Its Sale to Abel Noser

- On April 30, 2021, institutional equities TCA and systematic trading solutions provider Trade Informatics agreed to be acquired by Abel Noser, a portfolio company of Estancia Capital Partners.
- Leading asset managers and asset owners rely on Trade Informatics' unique software suite to analyze explicit and implicit trading costs and automatically implement cost-optimized trading strategies.
- The transaction enables both parties to cross-sell complementary services into their respective client bases, springboards Trade Informatics' analytics into new asset classes, and scales up the combined universe of trading data.
- The transaction reflects the growing interest of private equity investors in the capital markets space, an area traditionally dominated by strategic buyers.
- The transaction is expected to close in the third quarter of 2021, subject to customary regulatory approval.

Transaction Pending



has agreed to be acquired by



a portfolio company of



Sellside Advisor

Case Study: Hammond Hanlon Camp

Houlihan Lokey Advises Hammond Hanlon Camp on Its Sale to Fifth Third Bank

- Healthcare services investment banking advisory firm Hammond Hanlon Camp (H2C) was acquired by Fifth Third Bank on December 31, 2020.
- The transaction was launched and completed in its entirety throughout the COVID-19 period; even during peak pandemic, the process was highly competitive with interest from a range of investment and commercial banks.
- Despite limited opportunity for travel and face-to-face meetings, Houlihan Lokey ensured both sides were confident in cultural fit and integration plans.
- Fifth Third Bank offers H2C lending opportunities, commercial banking capabilities, a wider network of sponsor relationships, and a platform for expanding coverage within the broader healthcare sector.
- Houlihan Lokey navigated complex tax, timing, and confidentiality issues to meet H2C's goal of closing by year-end 2020.



Hammond
Hanlon
Camp LLC

has been acquired by



FIFTH THIRD
BANK

Sellside Advisor

Case Study: Minneapolis Grain Exchange

Houlihan Lokey Advises the Minneapolis Grain Exchange on Its Sale to Miami International

- In December 2020, Miami International Holdings Inc. (MIH) announced the acquisition of the Minneapolis Grain Exchange (MGEX).
 - MGEX, established in 1881, is one of the oldest trading venues in the United States and is a designated contract market (DCM) and derivatives clearing organization (DCO) with a traditional focus on agricultural products and futures contracts.
 - MIH is the holding company of the Miami International Securities Exchange (MIAX), MIAX PEARL, and MIAX Emerald, three fully electronic options trading exchanges, and the controlling owner of the Bermuda Stock Exchange.
- This acquisition significantly diversifies MIH's product and service offering with attractive benefits to both existing and new member firms. The transaction also:
 - Provides MIH with a well-established futures platform, allowing it to control its own product ecosystem by listing both options and futures on new products exclusive to MIH exchanges.
 - Provides resources to scale and strengthen MGEX's current offering, creating innovative new products to drive top- and bottom-line growth on MIH's rapidly growing platform.

The MGEX logo features the letters "MGEX" in a bold, blue, sans-serif font. A stylized blue swoosh or arc is positioned behind the "X", curving from the top right to the bottom right.

Minneapolis Grain Exchange

has been acquired by



Financial Advisor

Houlihan Lokey Financial Institutions Group

2016–2020 M&A Advisory Rankings Global Financial Institutions Transactions Under \$1 Billion⁽¹⁾

Rank	Advisor	Deals
1	Houlihan Lokey	56
2	Barclays Capital	54
3	Morgan Stanley	52
4	Goldman Sachs & Co. LLC	49
5	J.P. Morgan Securities LLC	48
6	BofA Securities, Inc.	45
7	KPMG LLP	44
8	Piper Sandler & Co.	43
9	Credit Suisse (USA), Inc.	38
10	Raymond James & Associates, Inc.	36

No. 1 Ranked M&A Advisor to nondepository financial services companies cumulatively over the last three-, five-, seven-, and 10-year periods.

- One of the largest, most experienced, and most active FIG teams of any independent investment bank.
- 65+ dedicated FIG/fintech professionals based in New York and London, with additional offices in Miami and Los Angeles.
- Exceptional momentum with 150+ completed transactions since 2019.
- Deep domain knowledge and entrenched relationships with marquee clients across every sector of financial services.
- Long-term, relationship-driven approach to clients with senior participation on all engagements.
- Conflict-free, independent advice hired for our intellectual capital and sector expertise by the industry's highest-profile clients despite no lending relationship.

Sector Expertise

- Asset and Wealth Management
- Banking and Depositories
- Capital Markets/Broker-Dealers
- Financial Technology
- Insurance
- Mortgage
- Specialty Finance

Product Capabilities

- M&A Advisory (Buy-side and Sell-side)
- Private Capital Markets (Debt and Equity)
- Financial Restructuring
- Illiquid Financial Assets
- Board and Special Committee Advisory
- Valuation Services
- Fairness Opinions

(1) Source: SNL Financial; rankings based on number of deals and exclude depository transactions.

The Leading Independent, Global Advisory Firm

Houlihan Lokey is the trusted advisor to more top decision-makers than any other independent global investment bank.

HLI
LISTED
NYSE

1,500+
Employees

23
Locations

~25%
Employee-Owned

\$5+ Billion
Market Cap

>\$1 Billion
Annual Revenue

No
Debt

Corporate Finance

2020 M&A Advisory Rankings All U.S. Transactions

	Advisor	Deals
1	Houlihan Lokey	210
2	Goldman Sachs & Co	172
3	JP Morgan	132
4	Evercore Partners	126
5	Morgan Stanley	123

Source: Refinitiv (formerly known as Thomson Reuters)

No. 1 U.S. M&A Advisor

Top 5 Global M&A Advisor

Leading Capital Markets Advisor

Financial Restructuring

2020 Global Distressed Debt & Bankruptcy Restructuring Rankings

	Advisor	Deals
1	Houlihan Lokey	106
2	PJT Partners Inc	63
3	Lazard	50
4	Rothschild & Co	46
5	Moelis & Co	39

Source: Refinitiv (formerly known as Thomson Reuters)

No. 1 Global Restructuring Advisor

1,400+ Transactions Completed Valued
at More Than \$3.0 Trillion Collectively

Financial and Valuation Advisory

2001 to 2020 Global M&A Fairness Advisory Rankings

	Advisor	Deals
1	Houlihan Lokey	956
2	JP Morgan	876
3	Duff & Phelps	802
4	Morgan Stanley	599
5	BofA Securities Inc	542

Refinitiv (formerly known as Thomson Reuters). Announced
or completed transactions.

No. 1 Global M&A Fairness Opinion
Advisor Over the Past 20 Years

1,000+ Annual Valuation Engagements

North America

Atlanta
Boston
Chicago
Dallas
Houston
Los Angeles

Miami
Minneapolis
New York
San Francisco
Washington, D.C.

Europe and Middle East

Amsterdam
Dubai
Frankfurt
London

Madrid
Milan
Paris

Asia-Pacific

Beijing
Hong Kong
Singapore

Sydney
Tokyo

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