

Fifth Third attempting to talk the i-bank talk

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By Joe Mantone

Bob Marcus knew ramping up an investment banking effort at Fifth Third Bancorp would have its challenges.

Marcus, the head of capital markets for Fifth Third Securities Inc., joined the company in January 2010 and was charged with building the investment banking business. He said it has always been difficult for traditional corporate banks to land investment banking assignments from their clients.

"It's just a different conversation," he said.

However, he believes Fifth Third has been able to change the conversation. "Instead of approaching our clients as a lender, we want to approach our clients as a strategic partner," he said.

Marcus said that now when Fifth Third representatives reach out to potential corporate clients, they don't just inquire about borrowing needs. They ask clients how they want to grow.

"That leads you more naturally to an investment banking conversation," he said.

To better facilitate that sort of dialogue, Fifth Third has been adding professionals to beef up its strategic advisory capabilities. During an investor presentation in February, Fifth Third Bancorp CFO Tayfun Tuzun noted that the company added more than 20 bankers with capital markets experience to partner with relationship managers who call on middle-market corporate clients.

"We have more in-depth strategic conversations and are able to offer specific solutions to their individual needs," he said, according to a transcript.

Fifth Third has continued to make hires and recently announced the addition of employees from Challenger Capital Group Ltd. who will provide capital markets and M&A advisory services. Marcus said Fifth Third did not acquire Challenger but agreed to hire the employees of the small boutique firm. He said that as the Challenger team completes its previous advisory assignments, the company will likely wind down and dissolve.

Challenger is currently led by President and Executive Director Michael Burr. Jeff Matthews is the only other managing director listed on its website. Before moving to Challenger, Burr and Matthews were both part of the mid-corporate investment banking group at JPMorgan Chase & Co. Burr joined Challenger in 2007 after serving as group head of mid-corporate investment banking for JPMorgan.

Burr spent more than 20 years at JPMorgan, helping construct its middle-market investment banking coverage model, according to a release announcing his move to Challenger. Matthews joined Challenger in 2008 after serving as South region team leader for JPMorgan's mid-corporate investment banking group, according to the Challenger website.

When Burr and Matthews joined Challenger, the company focused on not only investment banking but also private equity. For instance in 2007, Challenger announced a merger with Foxbridge Partners LLC, a Dallas-based private equity firm.

However, Challenger, which commenced business in 2004, struggled to generate a profit, and in 2010 the private equity business and investments were separated from Challenger, which then just focused on advisory. Since the separation, Challenger's financial performance has improved.

In 2013, Challenger generated net income of \$445,387 on revenue of \$2.98 million, marking the second year in a row that Challenger reported a profit after the company reported losses in each of the previous seven years, according to regulatory filings.

Marcus said that Challenger and Fifth Third have benefited from a referral arrangement, which was in place for about two years before the Challenger employees agreed to move to Fifth Third. Under the referral arrangement, Fifth Third referred M&A and strategic advisory clients to Challenger, and the advisory firm shared a portion of its success fee if the leads led to a deal. Marcus said the arrangement was successful, but "there were sometimes issues with the handoff."

Now, he believes that providing advisory services to clients will become "seamless" since the Challenger team is part of Fifth Third. "We think this is a growth business for us," he said.

Marcus, who spent about three years at Citigroup Inc. and about 12 years at SunTrust Banks Inc. before moving to Fifth Third, is also looking to grow other parts of the capital markets business. Aside from advisory and capital-raising services, Marcus' team also provides financial risk management services by helping clients take such steps as hedging interest rate and foreign exchange exposure.

Marcus said Fifth Third Securities can execute private placement of debt securities, but the company is not an underwriter of public equity. He noted the core clients of the capital markets division are middle-market companies with annual revenue of \$100 million to \$1 billion, and many do not have the need for public equity services.

"A lot of our clients are private companies and will never go public," he said.

Marcus added that the company does not currently have the desire to move into equities research or equities trading because it can prove challenging to develop successful businesses. "You don't see a lot of regional firms that are profitable across that entire business," he said.

Of course, Marcus would not completely shut the door on any of the equities businesses. "It's not something I would rule out, but it's not in our plans right now," he said.

Perhaps that's a conversation for another time. *i*