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Lead Left Interview – Brad Raymond

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This week we chat with Brad Raymond, Head of Investment Banking at Stifel Financial. Stifel provides strategic advisory services globally, as well as raising public and private debt and equity. Clients are served by more than 400 bankers at Stifel and its owned companies including KBW and Miller Buckfire.

The Lead Left: *Brad, thanks for making time. How should the market be viewing Stifel's brand today?*

Brad Raymond: Our vision is to be the best full-service investment bank targeting middle-market companies. To us, full-service means covering all sectors, all products, and all geographies relevant to the middle-market.

A decade ago Ron [Kruszewski] and Victor [Nesi] began to assemble an institutional business through a combination of strategic acquisitions, and group and individual hiring. Their goal was to cover every relevant sector in the U.S. economy. Today, we're pretty much there.

We now offer bulge-bracket-like capabilities to a constituency that often has been overlooked and underserved by the biggest investment banks.

The bottom line is our clients come first – always. That's our unrelenting commitment, and we stake our reputation on it. We tailor our process according to the goals and objectives of each client and have fostered a culture of providing clients with superior advice, not necessarily the easy answer.

TLL: *Talk about the products you're targeting.*

BR: Eight years ago, we mostly sold, small, private companies, and co-managed equity offerings. About 20% of our offerings were book-run. Today our book-run share is approaching 70%. We've made enormous progress moving up the food chain. We've also significantly expanded the breadth of our equity capital markets offering. For example, we now have full teams dedicated to 144-As, SPACs, convertible securities and private placements.

Along the way we've made several key acquisitions, including Eaton Partners, a global placement agent and the Barclays private wealth business. Both of these additions give us tremendous distribution into different types of investors such as sovereign wealth funds and family offices.

So, we've clearly moved up on the equity side. Our average fee has doubled, and we've expanded the services we bring to clients.

The same is true of our advisory business, the majority of which now includes public companies. Last year we did over $300 million of advisory revenue. While the largest part of our advisory business is sell-side M&A, a significant portion of our advisory includes buy-side work, activist defense, and restructuring. In addition, a large piece of our-sell side business includes public companies we have underwritten. We believe there is a substantial connection between our equities and advisory business.

TLL: *How much of that is non-US focused?*

BR: About 30% of our advisory business is now cross-border, up from next to nothing eight years ago. We have significant equity and debt distribution capability in Europe as well.

TLL: *And what size companies are you targeting? And is there a global component?*

BR: Our biggest focus is on companies between $100 million and $2 billion in value. In terms of geography, being global is a key part of being a full-service provider. While we still drive a majority of our revenue in the U.S., we have gone from 25 to 350 people in Europe. The fastest growing part of our investment banking business is in Europe. We also have teams dedicated to the Chinese, Japanese, and Latin American markets. We don’t want to be a global bank by traditional standards, but we are well positioned to service clients wherever they may be or wherever their needs are. Stifel offers a global perspective of market dynamics developed from broad industry relationships.

TLL: *It seems like a lot of your growth can be attributed to a successful acquisition and integration strategy.*

BR: We care a lot about culture. Most of our professionals aren’t originally from Stifel. We look for skill sets different from ours, and we say let’s see how you can best help us. We love when different ways of thinking penetrate through the entire organization. We let things germinate a bit. That’s a big part of the reason we have enjoyed strong retention rates. It’s incredible to think that 15 of the 17 CEOs related to acquisitions we’ve made are still with us.

TLL: *What are the interesting trends you’re seeing now?*

BR: The balance between public and private financings has shifted significantly. Private equity is an important driver of activity and has become a meaningful alternative to going public. For example, in 2010, the typical software company going public might have had a run rate of $40 million [revenue]. Today if it’s less than $100 million it’s considered too small by many owners and CEOs to IPO, and as a result the time to a public event is significantly longer now. (By the way – we do not fundamentally believe that the $100mm mark is true.) The significant increase in private capital has driven these changes. In addition, companies have many more capital options today than ever before. Eight years ago, no one lent to software companies. Now many traditional lenders are attracted to predictable recurring revenue, and it’s common to recap those businesses at 6-7 times multiples.

TLL: *What are the hot sectors Stifel focuses on?*

BR: There are three sectors where we are seeing significant activity: financial institutions through KBW, technology, and healthcare. That’s where we have our strongest market share and longest histories.

In technology, there are two big drivers. First is innovation around consumerization of technology such as Uber and Airbnb. Venture capital funded those businesses. The business efficiencies created by cloud computing are incredible. There’s been an enormous amount of wealth creation as a result.

Secondly, financial sponsors -private equity and growth equity firms- have put an increasing amount of capital to work in technology. There are teams designated to those communities. Of course, the debt capital markets have helped. But firms like Thoma Bravo, Vista, and Insight Venture Partners, have transformed the landscape. The number of tech companies publicly listed has declined, in part due to take privates and pre-emptive PE activity, and in part due to activism.

To be continued the week of Mar 26

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