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Houlihan muscles its way into Europe's M&A elite

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The mid-market corporate finance firm has been on a five-year landgrab in Europe, culminating in the biggest acquisition in its history, writes David Rothnie

This has been a record year for European corporate finance, but no firm has grown in the region quite like Houlihan Lokey, which in 2021 transformed itself into one of region's biggest and most active corporate finance advisory firms.

Since its initial public offering six years ago, Houlihan has completed a dozen acquisitions, seven of which have been in Europe, culminating over the summer with the biggest in its history — the \$599m purchase in September of GCA, a Tokyo-listed, technology focused boutique which is known as GCA Altium in Europe.

The GCA deal has almost doubled Houlihan's banker headcount in Europe to 350, capping a two decade-long expansion in the region that began with the low-key launch of a five-strong corporate finance team in London in 2002.

For Scott Adelson, co-president of Houlihan and co-head of global corporate finance, it's a game-changer.

"If I'm self-critical, I'd say we'd been a really strong 'up and comer' pre-GCA acquisition, but still sub-scale relative to some of our peers," he told GlobalCapital. "The GCA acquisition really does change that. We're now the second most active investment bank in Europe. That's a fundamentally different position from the one we had last year and certainly five years ago."

Los Angeles-based Houlihan's roots lie in debt restructuring, where it has a leading presence in North America. It has worked on some of the biggest corporate bankruptcies, such as the 2008 restructuring of Lehman Brothers. It originally came to London to help its sponsor clients restructure their portfolios after the bursting of the dotcom bubble.

Since then, it remained largely under the radar until six years ago, when its New York IPO served as the catalyst for its global expansion.

Following its listing, the bank has made a dozen acquisitions and, in doing so, has grown from its origins as a US-based financial restructuring advisor into a global mid-market corporate finance firm that advises on M&A, equity and debt capital markets, arranges leveraged buyout financing and also executes private fundraisings for institutional clients.

Most of that growth has taken place in Europe, where the firm has swallowed up boutiques in a steady stream as it branched out by geography and sector. Unlike big investment banks, which cross-sell financing and advisory on mega-deals, Houlihan doesn't have a balance sheet and is a volume player. Its business model is based on working as many deals as possible, so it needed to build scale at pace across geographies and industries to compete with independent rivals like Rothschild, Lazard and Evercore.

"We have substantial competitors throughout Europe who have been at this a lot longer than we have, and we respect them tremendously," says Adelson. "So, in order to be able to provide our clients with the best possible service, we realised that we needed to increase our scale in the region. Over the last six years we have focused predominantly on that, because from a strategic focus standpoint we had the furthest to go in Europe."

From 20 bankers to 350

In September 2015, Houlihan had around 20 bankers in Europe when it bought McQueen, a boutique specialising in deals in the consumer, food and retail sector. Two months later it expanded into continental Europe with the acquisition of the financial advisory business of Banca Leonardo (except for the business in France, which was bought by Natixis).

More deals followed in 2018, when Houlihan acquired Quayle Munro, a 45-strong boutique renowned for its expertise in data and analytics as well as Beartooth, a funds placement business.

In November 2019, Houlihan acquired Fidentiis Capital in Spain, then in July 2021 it purchased Baylor Klein, a boutique advisory firm focused on the household, beauty and personal care sector.

Throughout its expansion, Houlihan has maintained the same senior management and Bob Hotz, co-head of global corporate finance, who joined in 2002 from UBS, has led on all of the deals. The firm's by now well seasoned corporate development team works on the integration of each of its teams.

"When it comes to making any acquisition, our primary consideration is cultural fit," explains Adelson. "That trumps any strategic benefits. The other recognition is that when we acquire a people business all we are doing is an attempt to win the hearts and minds of those individuals. Structurally there may be some incentives to keep them in place but it is still just an attempt to win hearts and minds."

Houlihan has retained senior staff from all of its acquisitions, and its European management team reflects that. Shaun Browne, who joined from McQueen, is co-head of UK corporate finance with Andrew Adams, the former CEO of Quayle Munro. Matteo Manfredi, a co-founder of Leonardo, heads up continental Europe. This trio sits on a newly-formed corporate finance executive committee, which also includes three former GCA executives — Phil Adams, Alex Grünwald and Sascha Pfeiffer — as well as Henriette Morandi, the chief operating officer for Europe, who joined from Quayle.

Game-changing acquisition

The GCA acquisition provides the clout and intellectual capital Houlihan needs to meet its ambitions in Europe. It's not only its biggest acquisition by far, but it also gives it a big global presence in one of the most important industry sectors in corporate finance — technology, media and telecoms (TMT). Around two-thirds of GCA's advisory business is technology related.

The combined effort will give Houlihan a global TMT team of more than 225 bankers across nine global locations, outgunning the biggest banks.



“We were sub-scale in technology investment banking in Europe. In one fell swoop we are now the most active tech adviser in the world, adding to already being the most active PE adviser in the world,” says Adelson.

But The GCA acquisition is not just about adding tech-focused investment banking expertise. Adelson says it also taps into a theme that has accelerated during the pandemic as companies in all industries have automated their operations.

“Technology touches every single sector, so we are now able to combine our industry expertise with a tech know-know and that, combined with our geographic reach and mid-market focus, represents a powerful proposition.”

As a result of the deal, Houlihan has also inherited 14 bankers in industrials and a further 30 across business services, healthcare coverage and financial sponsors.

Organic support

At the same time as it has been racking up the acquisitions, Houlihan has also been actively adding talent and growing organically. This month, the firm hired three bankers from Royal Bank of Canada — managing director James Ireland, senior adviser Guy Mullin-Henderson and director James Sutch. This trio will work in the business services sector team in London, which has been further expanded with an 11-strong team from GCA.

It was the second big hire that Houlihan made from RBC in 2021. In April, it launched a European healthcare team led by Paul Tomasic with Andrew Murray Lyon. In the same month it also launched a European oil and gas team with the appointment of Jeremy Low from RBC's rival, BMO Capital Markets.

Alongside advisory, Houlihan's European corporate finance business includes a capital markets group which provides fundraising advice and services across debt and equity.

Debt capital market is run by Anthony Forshaw, who joined from Deutsche Bank in 2016, and the equity capital markets advisory team was established in 2020 with the hiring of William Marshall from Rothschild. Houlihan added another big name to the ECM team, Steven Taylor, the former head of European ECM at Macquarie, in February.

Sticking to its guns

The expansion has not distracted Houlihan from its core strategy as an independent firm focused on mid-market transactions.

“We have never deployed capital and have no intention of doing so in the future,” says Adelson. “I can never say never but in terms of this management team, it’s unlikely.” That means Houlihan sees its natural competitors as Rothschild, with whom it is fighting for the crown of the world’s most active M&A house, Moelis & Co, Evercore, Greenhill and Lazard, although they all have their slightly different business mixes which makes direct comparisons tricky.

But one thing is clear: M&A activity is on course for a record year, and that means specialist boutiques are enjoying a fee bonanza. In the three months to September 30, Houlihan grew the most in its peer group with corporate finance revenues excluding financial restructuring climbing 259% to \$388m. By contrast, Rothschild’s global advisory revenues grew 77% to around \$520m, while Evercore produced revenues of \$708m, a rise of 162%. Lazard’s third quarter revenues rose by a quarter to \$382m.

Given the record amount of M&A activity in 2021, bankers are wondering whether revenues have peaked. There are sound reasons to expect a decent year for M&A in 2022, as corporates accelerate their growth plans. And as long as financing remains cheap and available, private equity firms will continue to be active.

The natural evolution for any M&A house is to work on bigger and bigger deals, thereby earning bigger fees and attracting higher calibre talent. In 2020, Houlihan increased its average fee per deal to \$2.9m, up from \$2m, but it is adamant it will retain its mid-market focus, and sets a \$1bn threshold for deal size which it believes gives it room to grow while protecting against a potential downturn.

Adelson’s rationale is compelling.

“In strong M&A markets, there are between 35,000 and 40,000 deals announced every year. In bad markets, that falls to 25,000,” he says. “Between 95% to 98% of them are below \$1bn in value. Most of our brethren are focused above \$1bn. You have everybody fighting for that same 2%-5%. That’s fine. We’re targeting the remaining 98%.” Room to grow

The GCA acquisition could add more than \$180m in revenues as well as more bodies and sector expertise. Houlihan’s acquisition-driven expansion is yet to falter, and even if volumes turn down next year, Adelson will still be targeting the most active part of the market, as mega-deals are the first casualty of an M&A downturn.

“We are now an organisation that is really positioned with critical mass extremely well throughout most of Europe. We have a lot of growth still to go.”

Then of course, there’s the counter-cyclical financial restructuring business.

Even so, the mid-market seems to be becoming more competitive, with big banks like Goldman Sachs and Bank of America setting up mid-market teams and focusing more on private M&A.

But Adelson is unmoved. In a career spanning 35 years, he’s seen this movie before — the likes of Goldman are built for mega-deals, so the mid-market is likely to be a temporary side project.

“We’re mid-cap focused and that is a differentiator,” he says. “I would argue that if a bulge bracket bank and us are competing for something, there’s a distinct possibility one of us is in the wrong room.”

By sticking to its mid-market strategy, Houlihan has put itself in the right place at the right time.

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