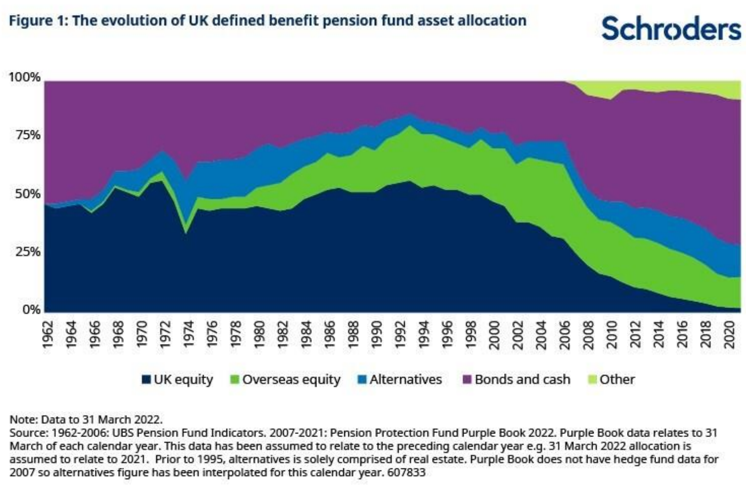
VSA Dispatch from the Cornish Lair July 2023

Our Dear Leader has retreated to his Cornish Lair to escape the "noise" of the Market and to consider the future of the investment banking and broking industry without distraction.

He tells us that he needs to think about the last 20 years of de-equitization, the potential impact of AI on the industry and what the future for stock markets looks like and thus, the future of investment banking. These are big questions that are sometimes better thought through whilst walking along the beach.

The de-equitization in the UK has been widely written about and has resulted in a massive shrinkage of the number of companies listed in London. Pension fund exposure to listed equities has fallen from about 40% in 2000 to a mere 2% now and this means that the major source of capital for industry and commerce has shrunk by 95%. As far as investment banking is concerned, very few industries could survive with that size of shrinkage of their main market. It is also hugely damaging to the UK Economy as a huge source of growth capital is no longer available to companies. The good news is that it can't really get any worse unless they totally shut the stock market down, which is unlikely. In fact, because the issue has become so critical it does appear that the UK Government is now starting to take action to reverse the trend and to get pension funds investing in equities again. It is unlikely to reach 40% again anytime soon but even if it just went back to 10% that would be a 500% increase in the capital pool and would almost certainly lead to a bonanza for the Investment Banking and ECM players in London.



Due to the weak state of UK industry in recent years, many international players retreated to their domestic markets or didn't make investment into London that they would have liked to have done. Andrew believes that the Deutsche Bank acquisition of Numis is the first sign of this also being reversed with international players expected to come back to London. Whatever your views on Brexit, what it didn't create, despite many forecasting that it would, was a mass exodus of bankers and brokers out of London to mainland Europe. Other geopolitical events though have caused turbulence in global market directions and in that respect the USA is where deals are heading. More so than Asia and this is why Andrew has been spending more and more time in the USA. It also has the advantage that deal sizes tend to be significantly larger in the US.

The fact that VSA has a very strong focus and expertise in Transitional Energy is also interesting to the US as with the Inflation Reduction Act a lot of money is available there and deals are being struck. Andrew believes that VSA has a unique capability in the US in Transitional Energy over its much bigger competitors as it came to the sector from a Mining background whereas in the US there are basically very few mining analysts as there isn't really a Mining Sector and so knowledge of critical and battery metals is limited. This provides VSA with a different perspective when looking at the sector and this is why Andrew is starting to form some close relationships with mid-tier US investment banks. He says he intends to keep talking to others to try and find a partner who really needs and appreciates this expertise. VSA is well known in London for its deal flow and fundraising capabilities across the Transitional Energy chain from Mining, Batteries, EV motors, inverters and software and e-mobility, less so on Solar and Wind as they have become a very mature part of the value chain.

This doesn't mean that Andrew is ignoring China and the VSA office in Shanghai, which he still feels is important as again, very few competitors have this ability to do business in China.

This emphasises again the global nature of commerce. One area that VSA has expanded rapidly into is that of Consumer Brands. Having advised on the £216m acquisition of the stake in Lush Cosmetics, we see considerable scope for the development of brands internationally.

Like many other firms, VSA is doing more and more M&A and advisory work which also means deal sizes are significantly increasing such as the Lush deal. VSA is currently working on a handful of “£100mn+” deals in various sectors and although they can never be guaranteed and tend to take time to transact, the rewards can be very significant.

Andrew has also been thinking about the future of AI in the industry. VSA decided 12 years ago that secondary equities trading was going to become a loss-making part of the industry, and so we avoided it. We have been proved right. Andrew has a view that going forward, Research which has already diminished, will diminish further as with AI an investor can find out everything about a company in minutes. This is why VSA is focussed on Corporate Finance and ECM as these are very unlikely to be replaced soon and require unique skills and an understanding of markets and a breadth of relationships.

Andrew will be leaving his Cornish Lair and be headed to the USA for 2 weeks at the end of August to move some of his deals and thoughts forward and so the team at VSA are preparing for a busy Autumn!

Andrew Monk, Chief Executive Officer | T: +44 (0)20 3005 5001 | E: amonk@vsacapital.com
Andrew Raca, Head of Corporate Finance | T: +44 (0)20 3005 5004 | E: araca@vsacapital.com