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Renaissance Head Says He Diversified in Time

By The Moscow Times

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Stephen Jennings, CEO Renaissance Group **Denis Grishkin**

ST. PETERSBURG — Investment banking faces a shakeout, and only large commercial players and boutiques offering outstanding service will survive and prosper, the head of Renaissance Group said.

Investment banks are undergoing wrenching change as weak financial markets force companies to pull back on raising capital and striking deals, cutting the flow of fee income that had formed the lifeblood of the business.

"The industry will end up with a barbell of a small number of these enormous, essentially commercial banks, which have investment banking operations," Renaissance chief executive Stephen Jennings said.

"On the other end, you will have much smaller, more entrepreneurial, primarily private businesses, and the accent will be on relationships, reliability, high levels of service, entrepreneurialism, which harks back to an earlier era. The killing zone will be in the middle," he said.

Global mergers and acquisitions activity, a driver of investment banking fees, fell 25 percent worldwide in the first half of 2012, according to Thomson Reuters data. Global equity fundraising, including initial public offerings and secondary offerings, fell 25.8 percent in the period.

"The last thing you want to be right now is a pure-play investment bank," said Jennings, who co-founded Renaissance in 1995 and now presides over a business that stretches from Moscow through sub-Saharan Africa and Asia. "The investment banking industry globally is hugely oversized; it has been a massive bubble. It probably was one of the best industries to be in and now is one of the worst."

The New Zealander has diversified Renaissance so that only 20 percent of its value is in the investment bank; other parts include consumer finance, asset management, real estate and wealth advice. The bank is doing better now financially than it was a year ago, he said.

"The key is who can strategically reposition themselves for what is a vastly different world," Jennings said.

Renaissance's investment banking unit, Renaissance Capital, has cut 12 percent of its investment banking staff globally, with 40 staff dismissed in Moscow, a source familiar with the situation said last month.

Costs are now at a level appropriate for current market conditions, Jennings said. "The global banks have to cut and consolidate, but for them it takes longer and it is harder to do. We can cut a product line and a country and make decisions to invest."

This is not the first tough period Jennings has navigated through. In the 2008 financial crisis, he sold half of Renaissance Capital to Mikhail Prokhorov, who, he said, was a "very good shareholder to have, particularly in such difficult markets."

"I am very comfortable with the relationship. We have been through a lot in the last four years," Jennings said.

Prokhorov's Onexim Group bought a stake of 50 percent minus one share in Renaissance Capital, while Renaissance Group owns the rest.

While it is hard to predict when IPO activity will recover, Jennings said he saw M&A increasing as Russian industry, such as the steel sector, restructures to spin off transportation and logistics operations.

"I would say the M&A pipeline we have now is as good as we have seen in quite a number of years," said Jennings, citing the transport sector, rail and telecoms area as promising for deals.

Evraz put its Evraztrans unit up for sale this week, joining a sector trend to shed non-core operations.

Apart from a handful of large situations, such as a shareholder dispute at British oil major BP's Russian venture TNK-BP and the recent restructuring of mobile operator MegaFon, M&A in Moscow has had a quiet year.

The government's industrial strategy has yet to take shape following the return of Vladimir Putin as president, with some officials calling for a resumption of privatization efforts and others seeking to tighten state control over energy. It seems very likely that the state is going to consolidate assets in certain industries," Jennings said. "In other industries I think we will see more privatization. Over time some of these really big state entities [will see] partial privatizations."