

## HANDELSBLATT

ANDREAS DOMBRET AND SCOTT ADELSON

### "A little more inflation is not a bad thing"

*The top executives at investment bank Houlihan Lokey on the outlook for monetary policy, risks in the Spacs business - and why young investment bankers desperately need a rest.*

Peter Köhler  
Michael Maisch

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The U.S. investment bank Houlihan Lokey is currently making headlines because it wants to give its employees a fully paid vacation. In an interview with Handelsblatt, Co-President Scott Adelson explains this with the "suffering of the Corona crisis" and the enormous workload of the past months.

Andreas Dombret, the bank's Independent Chairman for German-speaking countries, shows understanding for the discussion about the burden on young bankers in particular. The decisive question is whether the work is "time well spent," he stresses in the interview. Long working days should not be allowed to degenerate into "a kind of ritual without meaning."

Despite the Corona crisis, investment banking is currently experiencing a boom, from which Houlihan Lokey is also benefiting. The business with empty shell companies is also contributing to this. The so-called Spacs offer young growth companies a new, fast way to the stock market.

Adelson, however, worries that the Spacs boom has run hot. "I don't think the shell company business can sustain itself at current levels, and no doubt some Spacs will fail," the banker points out. Despite looming problems, his colleague Dombret warns against "blanket condemnation of the instrument." Read the entire interview here:

**Mr. Adelson, you've just hired Andreas Dombret, a prominent banker and ex-Bundesbank board member, to advance your business in Germany, Austria and Switzerland. But the market is essentially spread out here and in Europe. So how do you plan to gain market share?**

Adelson: We see an incredibly robust market for mergers and acquisitions right now. But that doesn't really play that big of a role for us. A lot of banks are focused on deals in the billion-euro range. We tend to be more involved in transactions below the billion-euro mark. There are always enough of these deals, even if the M&A economy is not doing so well.

**But German SMEs in particular are notoriously difficult to conquer, so how do you plan to score points there?**

Adelson: We have been growing very strongly in Europe for several years. This applies not least to Germany, and there are no signs of this momentum slowing down.

Dombret: Our core business in Germany is the industrial sector, and from Frankfurt we cover sectors such as chemicals, automotive manufacturers and suppliers, and aerospace and defense throughout

Europe. Other sectors will follow in Germany, and we are currently looking intensively for new employees.

**It might help that Houlihan Lokey is giving its bankers an all-expenses-paid vacation this year, whether it's a vacation at the beach, a ski trip or a cooking class. You also want to limit overtime for young bankers and boost pay for junior staff. Is investment banking now becoming a feel-good oasis?**

Adelson: No, certainly not. We had a very good financial year and wanted to celebrate it together. In addition, our employees have had to cope with enormous burdens in recent months. On the one hand, there was the suffering triggered by the Corona crisis and the many restrictions. In addition, there was a particularly intensive workload due to the very lively demand for our consulting services. That is why we are now rewarding our employees.

**At Goldman Sachs, young bankers have complained that the heavy workload overwhelms them. But actually, every junior employee knows what they are getting into when they join an investment bank. The apprenticeship years are extremely demanding, but bankers are rewarded when they climb the career ladder.**

Adelson: That's true, but in the Corona era it's not easy, especially for young talent. There's a lack of office atmosphere and group interaction. The greatest pleasure in investment banking is to work closely with intelligent and creative people. And that has been much more difficult in recent months because employees have been working from home.

Dombret: The decisive factor is whether or not the work is time well spent. When you work with customers and as a team to find solutions to move a difficult transaction forward after all, that can be very fulfilling, even if the work sometimes takes until the wee hours of the morning. It becomes difficult when long and very long workdays become a kind of ritual without meaning.

**Back to business: Houlihan Lokey is considered a specialist for the private capital markets - private equity, but also private debt. Mr. Dombret, as a former bank supervisor, doesn't that make you a little apprehensive? After all, many of these market-based financing offerings fall into the category of shadow banks, which many supervisors would like to regulate more strictly.**

Dombret: I've never liked the term shadow banks because it suggests that things happen here in secret, which is not the case at all. In my opinion, highly specialized providers of market-based financing are often less risky than established banks. For example, a provider that has specialized in mezzanine financing for the shipping industry for years can be assumed to have a thorough knowledge of its market niche and the associated risks, and that only institutional investors are invested here as well.

**As a result of the ongoing boom in the markets, new financing instruments are constantly emerging. These include the so-called Spacs, through which companies can go public quasi through the back door. The business with these initially empty shell companies, which are only later filled by a merger with a target company, has experienced a real boom. Now there have been the first difficulties in the USA. Do you see serious problems coming for the Spacs?**

Adelson: It's mainly the very low interest rates that make alternative ways of raising capital possible, and Spacs are part of that trend. I don't think the shell company business can sustain itself at current levels, and no doubt some Spacs will fail. But that doesn't mean the instrument itself has no utility.

## **What can Spacs do that could not be achieved through a normal IPO?**

Adelson: In the U.S., companies are not allowed to make forecasts about their future growth in a traditional IPO. With an IPO via Spacs, things are different because the target companies are not merged with the Spac until after the initial listing. This opens up the opportunity for a whole new class of young, high-growth companies to be placed on the stock market.

Dombret: Given the boom in the U.S., I'm not surprised that regulators there are taking a close look at the issue. And in Germany, after the scandal surrounding Wirecard, people are asking themselves whether they want to lower the barriers to a stock market placement even further. But Spacs serve an important function. In Europe, too, they can help close the financing gap that often opens up for growth companies before they are ready for a normal IPO. Of course, not every single Spac will be successful, but one should be careful not to condemn this instrument across the board.

## **But the Spac machine has started to sputter, and the follow-up financing, in which investors provide additional capital once again after the merger with a target company, is no longer working properly.**

Dombret: Of course, the quality of individual Spacs can vary widely. One indication that investors should pay attention to is the trading volume immediately after the launch of the shell company. If the volume is very high, the suspicion is that the proportion of speculative investors is high. If, on the other hand, only a few shares change hands, this tends to indicate a stable investor base with a longer-term orientation.

## **In view of the many shell companies that now have to look for suitable merger partners: Won't there be a shortage of target companies?**

Adelson: Target companies are plentiful. It may be difficult to find the right candidates and convince them to merge, but Spacs certainly won't fail for lack of interesting target companies.

## **One trigger for the cooling of the Spacs economy is the much stronger price fluctuations on the stock markets again. Do you anticipate problems for other markets?**

Adelson: I'm a notorious optimist, so you'll get an optimistic answer from me. The world is still at war with the pandemic, and in fact the situation is most comparable historically to the two world wars. After the end of these catastrophes, the world economy has developed very well. This is partly because of the enormous sums of money that were put into reconstruction, and partly because of psychology. When people are able to live their normal lives again, that will trigger euphoria and a boost in consumer spending.

Dombret: At the moment, volatility on the markets is mainly coming from the technology sector, which is suffering from the expectation of rising inflation rates and rising interest rates. However, a significant part of the price fluctuations we are seeing at the moment are of a more short-term nature. Overall, I would expect interest rates to remain very low by historical standards for quite some time.

## **Many investors do not seem to be so relaxed about this. In Germany, the Bundesbank considers inflation rates of four percent possible by the end of this year.**

Adelson: Governments have borrowed heavily to fight the pandemic and certainly have no interest in rising interest rates. From that perspective, a little more inflation is not a bad thing. Except for bond

investors, actually all other groups have an interest in continued low interest rates with a little higher inflation.

Dombret: A not insignificant part of the higher inflation rates is due to higher energy and food prices. My firm expectation is that central banks will continue to look through this development for some time and focus their assessments on core inflation.

**Let's come back to your German business: What does it actually mean in very concrete terms for your team if Mr. Dombret is going to take on an important role? We are thinking, for example, of the head of the restructuring business in Germany, Austria and Switzerland, Ansgar Zwick.**

Adelson: Ansgar retired at the end of May. We are grateful to him for his development work. And at the same time, we are glad that in Andreas Dombret we have found a personality who will provide committed and knowledgeable support for our two activities - advising on mergers and acquisitions and advising on restructurings.