Deutsche Bank AG

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Transcript

Speakers:
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Amit Goel: Barclays

Welcome and thank you for joining us today. I'm delighted to welcome Mark Fedorcik from Deutsche Bank for this Fireside Chat. Mark is the head of the Investment Bank and has spent his entire career at Deutsche, so he has seen much of the journey so far.

Before we kick off, please, can I remind you to respond to the audience poll, which should be at the top right of your screen. And if you'd like to ask a question, which we'll hopefully get to towards the end, you can also submit one at any time using the tab also on the top right. The audience poll has got six questions on key share price drivers, and we will review the responses after our chat.

So without further ado, let's get going. Thank you, Mark. The first question I've got for you is: Now being more than two years into Deutsche Bank's new strategy, what are your key takeaways from the transformation and what has changed in the investment bank? And then also, what have been the greatest challenges?

Mark Fedorcik:

Sure. Amit it's a pleasure to join you from New York. Thanks for having me.

As someone that's been here for quite some time, but also taking over the Investment Bank over two years ago, I think there's three standout changes that I've witnessed which has been different than in years past, but has also led to our performance over the last now a year and a half, as well.

Those three quite simply are: number one, we have stability of a management team. Do not underestimate having the same management team consistently driving the message quarter after quarter. We've now had that for two years.

The second thing we've had is a very clear strategy. There's no longer ambiguity which businesses you're in, which geographies you're exiting. That clear strategy matters equally to clients and employees. And having a clear strategy on the investment bank means a lot, because then it's all about going forward.

And then the third piece, which is also different, and I'm sure we'll talk about, is just the client intensity. The amount of calls we make to clients, how we drive those calls, how we measure them, I'll talk about it. But it's really those three things: stability of management team, having a clear and consistent strategy, and the client intensity, are really the three biggest factors that we've seen really the last two years than the prior five, six, seven or eight.

To answer your question on challenges, it's repeating. It's quarter after quarter, using a poor analogy, of running the same play. Deutsche Bank is now, for the first time in quite some time, to run the same play quarter after quarter. That's exactly what Ram Nayak is doing and myself in running the Investment Bank and building that consistency and credibility with not just employees, but clients and shareholders.

Amit Goel: Thank you. The Investment Bank has been a large contributor to the group's outperformance this year. How do you expect your revenues to develop going forward, and can you give us an update on how Q3 has developed so far?

Mark Fedorcik: Sure. So, stability of revenues is one of the four pillars that Ram and I talked about: revenues, cost, capital, and clients, and being able to demonstrate stability of revenues. We generated, as a reminder, which everyone knows, 9.3 billion of revenues last year in the investment bank. That was 7 billion in 2019. We will be in line with last year's revenues for the full year this year of 9.3 billion euros.

To answer your question around Q3, not surprising to a lot of the people in the fixed income markets, Q3 in July started off pretty muted for the markets in general. We saw good pickup in activity in August and we've seen it now in the first two weeks of September. We've also seen robust activity in many parts of our financing businesses and our origination and advisory businesses.

One comment that James von Moltke made back, our CFO, in June, was just talking about the run rate, what he saw, which we continue to reemphasize, of two to two and a half billion of revenues a quarter in the Investment Bank. Obviously, some seasonality can play when those quarters are, and we reaffirmed that.

Amit Goel: Thank you. Still on the topic of revenues, the sustainability of Deutsche Bank's revenues, and especially Investment Bank revenues, have been a large focus. One point of concern at the beginning of the transformation have been how you can shrink the business footprint, but at the same time, increase revenues. Why do you think the level of Investment Bank revenues can be sustained?

Mark Fedorcik: Well, you're absolutely right. We have reduced costs and we have also grown revenues from where we started out. So, the numbers speak for themselves. Now, we're going to be six to seven quarters of showing that we've been able to reduce costs in the investment bank and also grow and keep revenues flat. Just to put it in perspective, in Q3 of 2019, which is when we announced our strategy, our non-interest expense line was 1.6 billion. In Q2 2021, which we just reported, it went to 1.4 billion euros, so down 15%. So as other banks are managing their costs, we took our cost base down 15%. At the same time, Amit, we took revenues up 45%.

So, I would answer a little differently. We've been able and what Ram and I have seen is, go deeper. You don't need to be in every perimeter of the world. Be good and focused on segments of products, and services, and geographies and go deeper with those clients. We have a fantastic fixed income franchise. We have a fantastic financing businesses across commercial real estate ABS. We have some really good industry groups, but go deeper with the ones you have. So I wouldn't think of it as shrinking. Reduce costs, which we're very focused on, which we've done now based upon the numbers that we've reported, and we've shown that we can now sustain revenues and grow them by going deeper with our client base and the segments we're focused on.

Amit Goel: Thank you. You've talked a lot about regaining market share. How is this progressing and have you recently gained more share, and how do you plan to take further share from here and take share from your competitors?

Mark Fedorcik: Sure. Maybe we'll start with the two big pieces of the business within the investment bank, fixed income and then origination and advisory, so we'll talk about each of them. The answer is yes. We have grown market share back. It's an important piece to look at. But what we really care about is sustaining and growing revenues and cutting costs. Market share will follow, and we have seen that.

So, let's start with origination and advisory first. From an actual revenue basis reported, we have grown six quarters in a row of year over year revenues. I think that's a pretty good accomplishment. And at the same time, if you look at Dealogic fee-based market share, year to date, we've grown market share versus last year for our global origination advisory business.

If you look at Fixed Income, for the past four quarters, our reported revenues have outperformed most of the pace of most of our selected peers. But also in market share and coalition, for the first half of this year, we were number three.

So we look at both. You have to look at revenues, because that's ultimately driving return to shareholders, but also are we growing back some share. And I agree with you, we want to continue to grow back some market share.

I'll give you one example. ESG, one of the fastest growing segments in the capital markets. When you look at all of the fees paid to banks across investment grade, leveraged finance, SSAs, we had a 2.4% market share in 2019 for all ESG products in the debt financing markets. That's over double. It's 5.1% year to date, one example of growing market share in one of the fastest growing segments.

And to answer your question, how are we doing it, this is a little example of leveraged finance. It's an area of helping clients in ESG, which is one of the most under-penetrated markets, access to capital markets by bringing them to the market. So the answer is yes, we have grown back market share. We're equally proud of the revenues, we've also performed.

Amit Goel: Thank you. You mentioned clients, and within this you mentioned in the past you see clients coming back under the new strategy. Is this trend continuing? How much is the kind of cross divisional collaboration across Deutsche also supporting your clients?

Mark Fedorcik: Sure. I think first, and maybe just to get a plug, the Moody's ratings upgrade, I think is a nice external reaffirmation, which helps clients externally see the progression of the bank. That isn't the reason the client engagement, it's another affirmation and also helps clients see the progress we're making. I would say there's two main reasons client engagement continues to accelerate. Number one, we're no longer talking about Deutsche Bank, we're not talking about us, we're talking about the clients and trying to help them. Very different than what it was 2, 3, 4 years ago, it's a change in discussion. The second, we measure on a weekly basis the number of client calls we make from senior MDs and directors to our clients. I look at it every week. The number of calls we're making and interactions is up over 25% versus last year, tracking it every week.

And that's self-fulfilling, so that's a mind-set, that's cultural. I would just say on that, Christian and James are the most client focused individuals I've seen at Deutsche Bank in quite some time. Again, going back to my first point, that consistency of management. I'd say one, we're focused on clients no longer talking about Deutsche Bank, and we track and see those numbers. I would also say within fixed income, we've launched in Europe, a new institutional coverage model using data and technology in terms of how do we interact with institutional clients in Europe on the FIC side, and the feedback has been very strong so far.

Your other question is around working with other parts of the bank and the primary interactions, a lot of our corporate clients is going to be around the corporate bank. I see it first-hand. These are clients of the bank, not of the investment bank, not of the corporate bank. The ability to bring cash management, trade finance, trust services, we do a new issue, deal, foreign exchange, deal contingent, that's the mind-set. We've got some fantastic products across fixed income and the corporate bank and delivering those to the client isn't something we are striving to do, it's something we're integrating every day in our dialogues. We've got a fantastic franchise, particularly in Europe, around our corporate banking products and services. And I mentioned a few.

Amit Goel: Thank you. The next question I've got for you, Mark, is with the global economy recovering, M&A is once again, heading towards record levels. How is Deutsche positioned here, and how are you approaching M&A? What progress have you made, and are you considering further investments? For example, in ECM, given recent market activity? So maybe a few questions in one there.

Mark Fedorcik: I'll try to address them all, thanks Amit. First, when you talk about M&A, we're talking about helping clients on the buy side and the sell side, helping our clients from an M&A perspective. You're absolutely right, we're heading to a record year of M&A volumes and fees in 2021. We expected this. It was a lot of pent-up demand, confidence has come back, plenty of capital out there to help facilitate. We have a real opportunity to grow our M&A revenues. It was always the last piece of the penetration within our origination and advisory – takes the longest time. It takes time. Deals take one to two years, it takes confidence, and we've done a number of factors and initiatives to help grow and set ourselves on pace for the next two to three years to grow our M&A revenues.

The first was, you alluded to it, we've made some strategic hires. Individuals are in industry verticals, who have deep industry knowledge, who have good relationships with the C-suite. We've done that in Europe, in the US, in sectors like healthcare. We've done it in TMT technology, in particular, verticals and industrials, in private equity coverage as well, just to name a few. We'll continue to make selective investments in bringing people onto the platform that are complimentary to us. The second is focusing on cross-border. We clearly have an advantage. We've got great resources throughout the continent in Europe that give us insights and access, so working with clients on cross-border. Third is private equity. It's a really long standing deep relationships we have at DB, helping private equity on buy sides and on sell sides is a continuation of our strategy. Fourth is going deeper with the C-suite.

So those four factors have continued to leave us to where we're growing M&A revenues, and there'll be materially up, not surprising because the market is up. You'll continue to see our revenues up. Our market share is relatively flat, but the number I care more about is the pending transactions. That number is up significantly more than it was last time and the way the market's trending. With those four initiatives, I feel confident, this is an area we will continue to grow from a revenue perspective. One of the biggest focus is that I have with the origination and advisory.

On equity capital markets, since you mentioned it, I think we've shown that our model works. Two years ago we came out with a model, and the reason it's successful is because we have most of, if not all the ingredients, to be successful, to help our clients access the capital markets for IPOs, for follow-ons, for SPACs, et cetera.

Those are simply: We have research. We have capital we provide to them. We have industry bankers covering those clients. We have capital markets people in ECM and we've made some hires in equity capital markets over the past few weeks and months. We have sector sales, who talked to institutional accounts, and yes, we also have trading capabilities for execution, that isn't the primary focus. All of those ingredients allow us to play a role in IPO's, follow-ons and SPACs, and the model has been successful. Our revenues are and will be up significantly year over year. We have gained market share both in a SPAC, included in IPOs, and non-SPAC basis and will continue to be a focus of ours.

Amit Goel: Okay. Thank you. So maybe changing tack slightly, how are the cost reductions within the investment bank progressing, and how will you contribute to the overall group cost reduction?

Mark Fedorcik: Well, I'm glad you brought up costs. It is part of the DNA here. Let me just start by saying that management structure Ram Nayak, myself, everyone in the Investment Bank and at the senior management level views cost reduction as important as revenue production, both of them drop to the bottom line, which accrue to shareholders. That's a mind-set here, that's the journey we're on. As Christian and James explained in the second quarter of this past year 2021, we've shifted our focus to what our cost income ratio of 70% for the group for next year. We are focused on this, and that is what we'll continue to equally balance between revenue, controls, and costs. I'll just say for the investment bank, as you know, our cost income target for 2022 is 56%, which we're already in line with.

So within the Investment Bank, Ram and I did a lot of things early in 2019 and throughout 2020 to position us by headcount reductions in the front office, decommissioning of apps, workflow tools. We've done a lot to position ourselves to get to that cost income ratio of 56%, and keep that target in the investment bank for 2022. There's more work to be done. FIC re-engineering will continue to bring more cost reduction, coupled with infrastructure costs over the next one year. I want to leave you with two things. One, the management team views cost reduction as important as revenue generation, both benefit shareholders. The second message is: Within the investment bank, we've done a lot of work to position ourselves to get to our target that helps the group’s number of 70% for next year.

Amit Goel: Got it. Then at your previous investor day, you talked about four key strategic priorities: to stabilize and grow revenues, reduce costs, increase client intensity, as well as an efficient capital usage. Can you outline the progress made there, please?

Mark Fedorcik: I'm glad you brought it up because that was important to lay those four out and get everyone in the investment bank think about revenues, costs, capital and clients. There's a fifth, I'm going to talk about it at the end of the moment. But that's what we're focused on. So we're all here to stabilize and grow revenues. And you've seen it now in 2020, and again, in 2021 where we've done that and we'll continue to show that we've stabilized revenues. And as I said, we believe we'll be in line with all of last year's revenues. From a cost perspective, I talked about the cost reductions already of what we've accomplished so far. We will continue doing that by reducing costs on a quarterly basis. And we'll continue to try to do that into 2022.

The last two are as important because it drives both client intensity and reference. I mean, our job is to call clients. And I always say, if you're not calling them, someone else or your competitors probably is. And that mind-set of making more calls and more visits as things are opening up, we're seeing the numbers as I referenced up 25% versus last year, particularly in origination and advisory. And that was a good number last year.

We all try to do the first three by keeping a disciplined approach to capital, particularly our risk weighted assets. And we've driven the performance last year in revenues of the nine three and what we're going to do this year again, by keeping growth RWA flat. When you exclude inflation, regulatory overlays, we've kept it flat, which means we're being more disciplined and efficient with the capital we have and Ram Nayak and I look at that capital within the investment bank and we can dynamically move it around to the best businesses that deliver the highest returns that fit our footprint.

The fifth piece I want to mention is controls. We want to be a boring, recurring, stable investment bank, and I'd love to see the bank as well. And in order to do that, Amit, you have to have good controls. And people need to be thinking about that all the time. Obviously KYC, obviously Reputional Risk, thinking about transaction monitoring.That mind-set of: ‘Okay, it's one thing to say, let's go after a client in revenues’ but then it's another to say: ‘Is this the right client of the firm? Have we done all the right things internally to make sure it's valid?’ That control feature is also equally important, which drives those first four and is parallel to those.

And I'd say from Ram and myself, that's also another cultural change that we've continued to do: Controls matter. Because that'll make us a boring, repeatable investment bank and sustaining those revenues.

Amit Goel: Got it. And so maybe, changing tack again, in May you hosted a Sustainability Deep Dive, reflecting the sustainability and more broadly ESG as an important part of Deutsche Bank strategy. Can you elaborate on the recent progress made here in the investment bank? What role does ESG play for you overall and for your clients? I know you alluded to one example earlier.

Mark Fedorcik: Sure. I'm glad you brought it up. And I encourage, if you have not seen the May Sustainability Deep Dive, that we hosted just a few months ago, I encourage you to do it. There was a lot of content and disclosure given out by different businesses.

But you're absolutely right. ESG and sustainability is not just important for clients. It's equally important for employees. They care about it probably as much, so we're doing it for both, because we're passionate about it. And ESG within the investment bank is not just helping clients raise capital. I referenced the Dealogic market share data of 2.4% to 5.1%. That is an external validation that we are growing market share, helping clients raise capital and doing more of it. But it's more than that. It's helping advise them on their capital structures, their sustainability ratings, it’s going back to M&A helping them advise them on how to evolve their business models over time.

So the ESG approach within the investment bank, clearly, one of the targets we set out back in the investor day was volume targets around financing. And we accelerated those from 2025 to 2023 and we're well on track to exceed those targets.

Second target was the one I mentioned: grow market share. We've exceeded the market share targets I outlined of growing up by 50 basis points. But I did want to leave you with, it's a much broader discussion. It's around the capital structure, advising them on sustainability ratings, evolving their business model over time. It's one of the fastest growing segments in the capital markets I mentioned.

Amit Goel: Okay. Thank you. And on a similar topic, I mean, did the culture in the investment bank change with the new leadership team, and how do you foster diversity within the investment bank?

Mark Fedorcik: It is a journey you keep working at. I don't think any of us are going to say done by any means because we still have a lot more work. Not because we've done anything wrong. It's that culture is something you keep working at every day. And going back to my opening comments, it's one, we have to keep running the same play over and over and over. And that's been part of our success over the past now two years – it is the consistency.

The three main elements of I'd say the cultural changes within the investment bank. And I've alluded to some and I'll go deeper on others. First is the client centricity and intensity. That is just a cultural element now of client-focused every day and bringing a lot of intensity to calling those clients.

Number two is collaboration and over communication. Words we hear all the time. But when you start thinking that this is not your client, but the bank's client, you start thinking about why don't I call the corporate bank? Should we do the trust services on that deal? Have I tried calling them on the cash management? Should I bring a deal contingent to that transaction? Over collaboration and communication is the second cultural change that Ram and I have been bringing to the investment bank. It's not your client, it's the bank's client. Let's bring the full weight of the firm to it.

Third, and probably the most important because it leads to the best ideas and leads to the best energy is diversity, equity and inclusion. We will continue to focus on three main areas. One is: Let's continue to recruit and bring more people into this bank that don't look like me. We're black, Latino, gender diversity bring more diverse individuals into this bank through recruiting. Grad recruiting, lateral hiring. And we've seen good progress at our graduate levels so far. We doubled the number of individuals who were black a year ago versus this year. So we will have a real focus on bringing in diverse individuals from recruiting.

Second is development. You just can't bring diverse individuals into a bank and then hope they develop. So creating mechanisms at the VP level up to the MD. And we have a lot of them to help them be successful and get exposure.

And then third is around dialogue. Dialogue happens in many ways. I have a speaker series where I bring outside speakers in pretty much every month, diverse candidates to talk about the challenges they see in their business, what we can learn from them. And we'll keep focusing on recruiting, development and the dialogue.

And I'll tell you again, this is something back to my first comments. You have to do it over and over and over. So the culture has come a long way. Ram and I by no means are resting on where we are, but it's about client intensity over collaboration and increasing diversity within the bank. And I've talked about the controls.

Amit Goel: Thank you. And so I guess we've spoken a lot about what's been happening and what's currently happening maybe a question a bit more onto the future.

So I guess my question is what's in your thinking in terms of what comes next for the investment bank, and maybe we can even broaden it, not only just for Deutsche Bank, but also the broader IB landscape?

Mark Fedorcik: You may not like this answer, what comes next. I want it to be boring and repeatable every quarter with sustainable revenues. And I'm not half joking there. I mean, what Ram and I are focused on is reducing cost and playing our role there. Focusing on the perimeter that we've established two years ago around our revenue footprint, going deep with those clients and doing it quarter after quarter. And of course, there'll be moments when you look at the perimeter a little bit and make some adjustments, and it's really to become a boring repeatable bank where we don't have surprises other than on the upside. And we're on our early parts of that journey, but by no means are we done yet.

Amit Goel: Okay, thank you. I'm going to have to think about what I write about then, but very good. So just a reminder for the audience, if you want to complete the poll on the top right, because we'll turn to that shortly, I will just check the responses. Okay, so we'll run through.

The first question was what would cause you to become more positive on Deutsche Bank shares? And the options were positive revenue surprises, greater cost savings, better asset quality, or stronger capital/higher dividends pay-outs. I mean, the predominant answer was positive revenue surprise, with a few people responding on capital, but actually nobody said greater cost savings or better asset quality for interest.

Question two, what do you expect to be the biggest influence on Deutsche Bank's revenues in the coming 12 months? So here the options were volumes, pricing, policy rates, or fee and commission. And the predominant answer here was the fee and commission income, with some people stating volumes. But again, policy rates was not seen as a key factor.

Number three, how do you think about Deutsche Bank's cost development versus expectations? And here the options were likely to beat, likely to meet, likely to miss, and not sure. And actually, again maybe this is not such a surprise, but the likely to beat came out on top followed by likely to meet expectations.

Question four was, how do you see Deutsche Bank positioned on capital and dividends? The options were upside surprise when distributions resume from lower capital requirements, and then second was upside surprise from better earnings in future years, third was downside surprise from RWA price cyclicality, fourth was downside surprise from weaker earnings, and fifth was a downside surprise from increasing regulatory requirements. And here actually, the main answer was upside surprise from better earnings in future years, so it seems like there's some positive bias. Only a minority said downside surprise from weaker earnings.

Question five, how do you see Deutsche Bank positioned on ESG? The options were above average, below average, in line with average and fourthly, not sure/haven't taken an ESG view yet. And actually nobody said below average. The answers were either in line with average, above average, or not sure/haven't taken a view at this stage.

And then question six, which is a bit more Deutsche Bank specific, do you believe the improvement in the Investment Bank performance is sustainable? Option one, yes as customers return to the group and funding costs remain better, number two, yes because the broader Investment Bank environment will remain favourable, number three, no because costs will begin to tick up whilst revenues normalize, and number four, no because the group will find it harder to compete with US banks in the future. So here a bit of a split response. So the two main answers were, yes as customers return to the group and funding costs remain better, but also number four, no because the group will find it harder to compete with US banks in the future. And there was a minority that also said yes, because the environment will remain favourable. I don't know, Mark, if you've got any thoughts or comments on any of those responses.

Mark Fedorcik: Folks are a lot smarter than I am, so I'm not going to comment on any of that other than to reiterate, Amit, first thank you for having me. I appreciate it. I really do want to reiterate right where I started, which goes back to what Ram and I and the whole investment bank are focused on. But don't underestimate the stability of a management team having a clear strategy two years in a row now. And you overlay the client intensity with that, people take it for granted, but having those two things is allowing us to now run a recurring play over and over, and you're seeing the results from it, from a revenue side and a cost side that I referenced.

Amit Goel: Okay. Thank you. It also looks as though we don't have any specific audience questions at this point in time, or at least I've not received them. So I'd just like to say again, thank you very much Mark, and enjoy the rest of this event and today, and thank you to our audience members as well for joining us for this presentation.

Mark Fedorcik: Thank you Amit, appreciate it.

Disclaimer

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