

OPINION

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**Strategic Entry into the M&A Advisory Market:
Insights from US Boutique Investment Banks for
Korea's Smaller Securities Firms**

Amid declining profitability in traditional business lines, small- and medium-sized securities firms in Korea face the challenge of identifying new growth engines. The experience of small-sized investment banks (IBs) in the US demonstrates that the entry into the M&A advisory market requires industry-specific specialization, expertise and tailored services. This suggests that the key to the success of smaller IBs lies in industry-specific expertise, high-quality professionals, customized solutions, and robust network-building capabilities. In Korea's M&A market, transactions involving SMEs and middle-market companies or startups have recently shown significant growth, presenting a promising opportunity for smaller securities firms. For a smooth entry into this market, these firms should adopt strategies, such as prioritizing specialization in high-growth industries, securing quality talent and delivering tailored solutions for clients—practices that have proven successful for US boutique IBs. Diversifying into the M&A advisory market offers not only the potential for long-term revenue generation but also the opportunity to create synergies with other IB services and wealth management. However, it should be noted that this approach requires bold investments and long-term commitments to enhance expertise and deliver tailored services. To achieve new growth drivers, they should penetrate the M&A advisory business sector and establish a strong foothold in the market.

Recently, Korea's securities firms have faced mounting challenges, including default risks in real estate project finance (PF), losses from equity-linked securities (ELS) and the imposition of stricter regulations. While large full-service financial investment firms have leveraged their capital strength and diversified business operations to maintain profitability, small- and medium-sized securities firms have suffered from the erosion of profitability in their traditional

* All opinions expressed in this paper represent the author's personal views and thus should not be interpreted as Korea Capital Market Institute's official position.

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business lines, due to the limited economies of scale and capital constraints. In this context, identifying new growth drivers has become an urgent imperative for these smaller firms.

This article examines the need for Korea's small- and medium-sized securities firms to enter the M&A advisory market. Drawing on insights from the specialization strategies and success factors of smaller US IBs, this analysis highlights that expertise and tailored client services contribute to maintaining core competitive advantages in advisory business. This finding suggests that smaller securities firms can diversify into high-value-added business operations through strategic specialization. Against this backdrop, this article explores the strategic approach required to pursue M&A advisory services.

Overview of US smaller investment banks and their strategies

In the US, an estimated 800 small- and medium-sized investment banks (IBs), often referred to as boutique IBs, are currently operating in the market. They focus on operations such as M&A advisory services, strategic financial consulting, fundraising advisory and intermediary services and corporate restructuring, rather than engaging in capital-intensive business such as equity or debt underwriting. Despite their modest capital bases, smaller IBs leverage professional senior bankers to serve middle-market companies, which are often overlooked by larger IBs. The rise of these IBs can be primarily traced back to the 1990s, driven by IT innovation and increased demand for mergers and acquisitions in new growth industries. Their growth accelerated in the aftermath of the global financial crisis when senior bankers from larger IBs founded boutique IBs.

Smaller US IBs have employed several key strategies to establish themselves in niche markets, enhance their reputation and increase market shares. The first strategy involves industry specialization. Although micro IBs tend to target local businesses, small- and medium-sized IBs adopt an industry-focused approach to build expertise. Typically, these firms specialize in one to five industries or sectors, primarily focusing on technology, media and telecommunications (TMT); healthcare; finance and fintech; energy; and consumer, foods and retail. For instance, LionTree is highly regarded for its expertise in the TMT sector, while Cain Brothers specializes in healthcare-related services. With a small but highly experienced team of senior bankers with expertise in M&A advisory services, these IBs seek to cultivate specialized knowledge and industry insights. This differentiation strategy fosters trust among SMEs in

expert guidance and value-added services offered by boutique IBs.

The second strategy is to provide tailored services that prioritize client needs. Unlike large IBs, boutique IBs are capable of offering bespoke solutions that accommodate individual clients through close client relationships. This approach has been particularly favored by SMEs or middle-market companies, which often seek advisory partners who understand their unique needs and provide dedicated support. Many boutique IBs promote their commitment to client-centric services on websites, highlighting the ability to closely analyze clients' conditions and requirements to deliver optimal solutions.

Finally, smaller IBs employ their domestic networks as integral components of their M&A advisory strategies. Boutique IBs of a certain size seek to expand their global networks, while building strong relationships with domestic private equity (PE) firms and corporations to enhance deal sourcing capabilities. This approach reflects the growing significance of M&A advisory services based on global networks, driven by the expansion of cross-border M&A markets since the 1990s.

Stifel, Raymond Janes and Piper Sandler are mid-sized US securities firms offering both underwriting and retail services, with revenue structures and operational scales comparable to those of their Korean counterparts. These mid-sized players adopt M&A advisory service strategies that resemble those of boutique IBs.¹⁾ By leveraging experienced professionals, they provide tailored services for middle-market companies in certain industries. One distinct characteristic of these firms is their strategy of acquiring boutique IBs with an established reputation in specific industries to secure quality talent, which further enhances their competitiveness in the M&A advisory sector. In this regard, boutique IBs' M&A advisory business model is a fundamental strategy that full-service securities firms can adopt. For this reason, the business models or strategies employed by US boutique IBs can be embraced by Korea's securities industry.

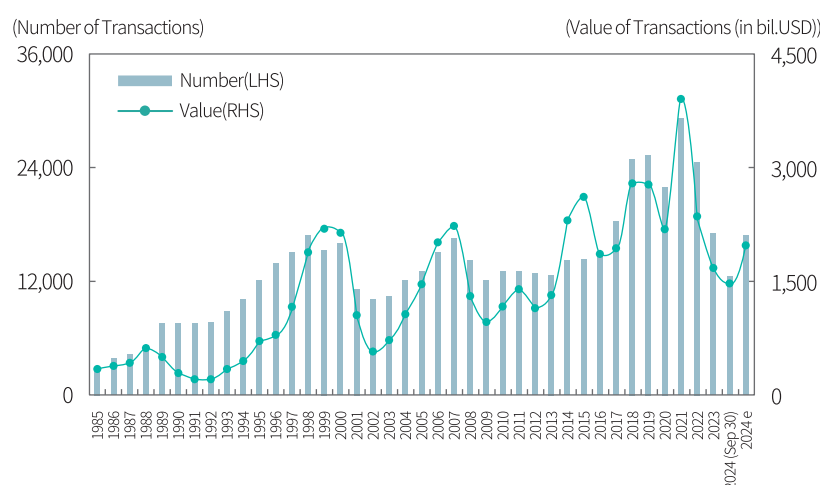
Need to enter the M&A advisory market and revenue potential

Korea's securities firms remain less confident in their entry into the M&A advisory business, often doubting the viability of their success. This skepticism stems from their previous,

1) These securities firms generate 50% or more of their IB revenues from M&A advisory services.

largely unsuccessful attempt to establish a foothold in the market. This experience mirrors the challenges faced by US securities firms in the 1970s, which struggled to overcome the perception that M&A advisory services provided by securities firms were unnecessary. Back then, companies in the US primarily relied on law firms, accounting firms and consulting firms to meet their M&A-related needs, such as legal reviews and contract drafting, financial due diligence and accounting reviews, and market research, respectively. The relatively small size and informal nature of M&A transactions at that time led to limited demand for such advisory services, prompting US securities firms to invest considerable effort into changing corporate perceptions of M&A advisory services. They distinguished themselves by building dedicated M&A teams that could deliver full-service advisory guidance, establishing reputations through high-profile deals, developing strategic defense mechanisms for hostile takeovers, and introducing financial instruments like junk bonds and financing options for acquisitions. These efforts transformed their M&A advisory services into high-value-added offerings. This demonstrates that securities firms should exert comprehensive and strategic efforts to enter the M&A advisory market and provide high-value-added services.

The revenue size and growth trajectory of US M&A advisory services offer valuable insights for Korea's market. In the US, the proportion of M&A advisory services remained at approximately 30% of total IB revenues throughout the 2010s, recently rising to the high 40% to low 50% range. Compared to ECM and DCM segments, which have contributed in the low-to-mid 20% range, the M&A advisory services segment serves as a key revenue driver for IBs. The US M&A market witnessed a boom in the 1980s driven by the rise of hostile takeovers and junk bonds. Over the past four decades, however, its growth has been further fueled by industry restructuring focused on new growth sectors like IT, biotechnology and energy and the increase in cross-border M&A deals.

Figure 1. Growth of the M&A advisory market in the US

Korea's M&A market has also shown steady growth in recent years. According to The Bell, the size of Korea's M&A advisory market grew from KRW 22 trillion in 2013 to KRW 90 trillion in 2021, reaching around KRW 70 trillion during 2022-2023. The number of M&A transactions also climbed from 150-200 annually in the 2010s to over 250 starting in 2021. This expansion has resulted from factors, such as the divestiture of non-core business lines by large corporations, increased M&A transactions involving startups or small innovative companies in new growth sectors, and active market participation of PE firms. The proliferation of cross-border M&A amid global market competition for technological innovation has further accelerated market growth. Alongside the surge in large-scale transactions, M&A activities targeting SMEs and middle-market companies or startups have become prominent, which represents a promising area where smaller securities firms can compete effectively with larger rivals. Currently, Korea's small-scale M&A advisory market is largely dominated by domestic accounting firms. However, securities firms can outperform accounting firms in key areas, including funding and financial solutions, strategic valuation based on market analysis and investor demand, and collaboration with PE and venture capital (VC) firms. By offering these diversified services, they can establish themselves as key dealmakers in transaction and negotiation processes. As seen in the US M&A market, Korea's securities firms have significant potential to successfully enter the M&A market, leveraging their capabilities and strengths.

In addition to serving as a high-value-added revenue source, M&A advisory services can create significant synergies with other IB operations and asset management activities. Advising

on critical corporate events establishes a foundation for long-term client relationships, which could lead to additional services, such as financial planning for executives and business owners, corporate succession planning, and family office services. Boutique IBs like Lazard or Evercore exemplify how M&A advisory services can be integrated with asset management.

Conclusion: Strategic paths for smaller securities firms entering the M&A market

The prevalence of specialized IBs in the US underscores the necessity of adopting specialization strategies to thrive in the M&A advisory market, rather than implying that all of them are successful IBs. This suggests that specialization is not just an option but a prerequisite for establishing a presence in this market. Korea's securities industry has traditionally prioritized standardized IB services to efficiently deliver corporate finance solutions across all sectors. As a result, IB services have relied more on capital strength than on creative, expert-driven solutions. Expertise-based advisory services, such as high-value-added offerings, not only contribute substantially to revenue growth but also deliver significant social value to the market. As key drivers of Korea's economic growth, growth-oriented SMEs require specialized and tailored services offered by securities firms. In this regard, smaller securities firms' entry into the M&A advisory business sector based on expertise is crucial for enhancing both their profitability and the social value of small-scale IB services.

To thrive in the M&A advisory market, smaller securities firms in Korea should adopt industry-specific specialization strategies. First, they should target high-growth industries such as healthcare, IT and renewable energy to build deep expertise and secure a competitive edge in the market. Second, it is necessary to attract high-quality professionals with strong reputations to enhance trust in their specialized services. As repeatedly emphasized throughout this article, professional personnel are key to maintaining competitiveness in the M&A advisory market. Third, smaller securities firms should offer tailored solutions that prioritize client needs. In summary, a smooth entry into the M&A advisory market requires long-term efforts and resources, including industry-specific specialization, high-quality professionals, bespoke services, robust networks, and sustainable partnerships. By committing to these bold and long-term strategies, they can penetrate the M&A advisory business sector and secure sustainable revenue streams.