Compensation
Advisory Partners

Industry Report // 2023

Investment Banking

NEW YORK
1133 Avenue of the Americas
New York, NY 10036
Phone: (212) 921-9350
www.capartners.com

CHICAGO
200 S Wacker Drive
Suite 3100
Chicago, IL 60606
Phone: (312) 462-4500

HOUSTON
One Riverway
Suite 1771
Houston, TX 77056
Phone: (713) 559-2710

LOS ANGELES
400 Continental Blvd
6th Floor
El Segundo, CA 90245
Phone: (310) 426-2340

Key Takeaways

1. Publicly traded, advisory-focused investment banks posted outstanding performance in 2021, surging out of the COVID-19 pandemic with demand for advisory services fueled by low interest rates and high economic activity.

2. Median total pay levels for Chief Executive Officers (CEOs) increased 30% from the 2020 to 2021 performance years. Pay was up 33% for Chief Financial Officers (CFOs), and up 32% on average for other Named Executive Officers (NEOs). Pay levels at investment banking firms are highly correlated with revenue, which increased year-over-year 30% at median for the companies in our study.

3. Looking toward first quarter 2023 incentive compensation decisions, investment banks are contending with lower year-over-year revenue and profit performance and high interest rates. CAP is projecting that – on average – total compensation levels will fall at least 15% to 25% for the 2022 fiscal year.

4. CAP's study is based on a sample of 12 publicly traded investment banks with revenue ranging from $300 million to $10 billion. CAP also looked at three large, diversified financial services companies that have significant investment banking operations. These three companies – with revenue ranging from $60 billion to $130 billion – are referred to as Wall Street Banks in this report.

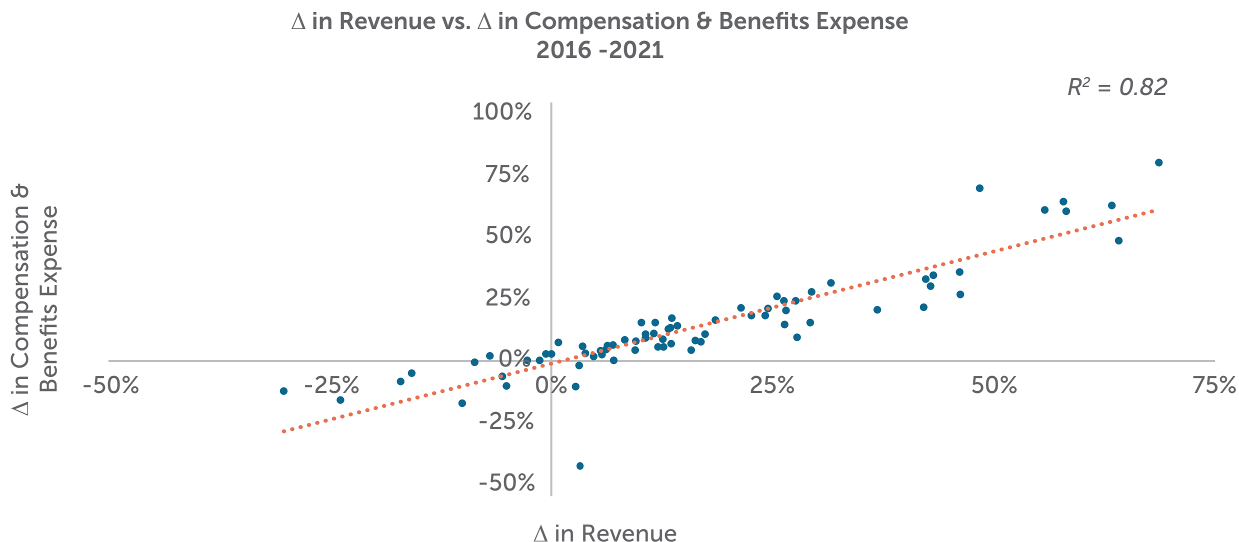
Compensation & Benefits Expense vs. Revenue

CAP expects total pay at public investment banks to decrease at least 15% to 25% for 2022, on average, versus prior year.

Investment banks' success depends on their human capital. As a result, the primary operating expense is compensation and benefits. Given how critical human capital is, investment banks report the portion of their revenue allocated to compensation and benefits expenses for all employees.

CAP looked at the relationship between changes in compensation and benefits expenses and changes in revenue over the last five years and – as expected – found a strong relationship between the two. The median revenue increase for the 2021 fiscal year was 30%; the median increase in compensation and benefits expenses for all employees was 23%. Changes in revenue are highly predictive of changes in pay.

The analysis found that, looking back at the last 5 years, for every 1.0% change revenue there was approximately a 0.75% change in compensation and benefits expense.



Key Financials

2021 performance was outstanding compared to the prior year, also a strong year. Like many U.S. companies, investment banks are experiencing a slowdown in 2022.

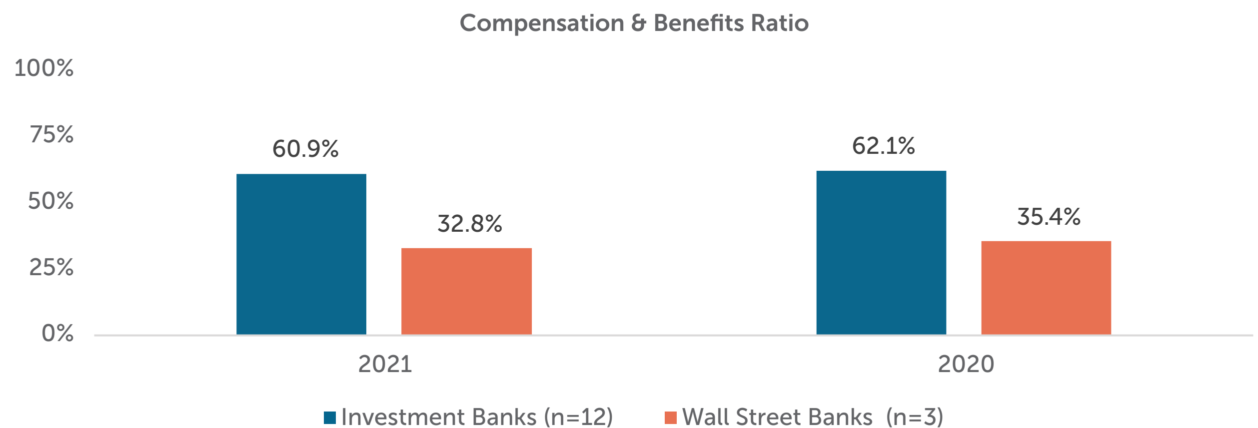
Publicly Traded Investment Banks: Financial Summary *(Median % Change from Prior Year)*			
	FY 2020	**FY 2021**	**Est. FY 2022***
Revenue	+13%	+30%	-19%
Net Income	+29%	+68%	-31%
Operating Income	+59%	+65%	-32%
Operating Margin	-0.5 pts	+5 pts	-3.2 pts
Comp. & Benefits	+15%	+22%	n/a
1-Year TSR	+ 28%	+45%	n/a

*Reflects analyst consensus estimates per S&P Capital IQ

Executive Compensation in a Human Capital-Focused Industry

Given the importance of human capital to investment banks, they report a supplemental metric in their financial statements: the compensation and benefits ratio. The ratio is calculated by dividing compensation and benefits expenses by total revenue. The investment banks typically try to manage their compensation and benefits expenses within a certain range. For the past three years, the compensation and benefits expense has generally fallen in the range of 58% to 68%.

In contrast, the Wall Street Banks are diversified financial services companies with broader business lines, including wealth and investment management, brokerage and banking. The Wall Street Banks' compensation and benefits ratios tend to fall in the 30% to 40% range.



Investment banks approach executive compensation differently than companies in general industry. While general industry practice is to target competitive pay in total and by component, investment banks calibrate total pay to annual performance using structured discretion. Structured discretion considers firm performance, as well as unit and individual performance. Revenue is the key driver of company performance.

Investment Banking Pay Model

Total pay based on structured discretion that incorporates firm, unit and/or individual performance; incentive pay allocated to cash and equity and/or deferred compensation

The resulting pay mix for investment banking NEOs is heavily weighted toward incentives, as shown below.

Many public investment banks offer add-on long-term incentives based on multi-year performance. Performance-based plans for the CEO and NEOs are favored by shareholders and proxy advisors.

CEO

CFO

Other NEOs

■ Base Salary ■ Current Cash Incentive ■ Deferred/Long-Term Incentive

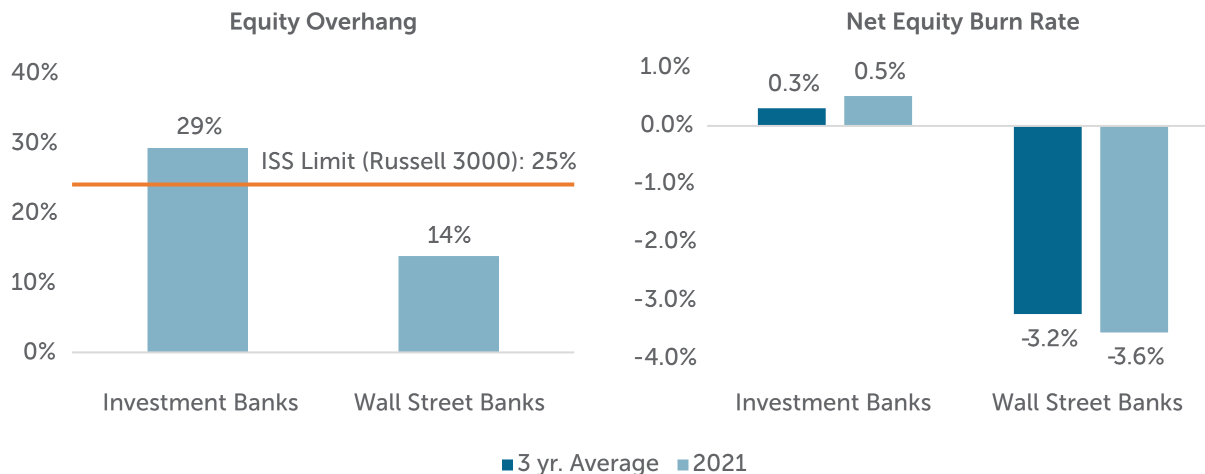
Key Compensation Metrics

Investment banks tend to grant more shares as a percent of common stock outstanding compared to other industries because of the human capital-focused nature of the business and the prevalence of granting equity deep in the organization. These companies often focus on "net burn rate" when reviewing annual equity use.

For the investment bank sample, median equity overhang exceeds the ISS acceptable "excessive dilution" threshold. The ISS threshold does not consider the unique industry factors that cause higher overhang in the investment banking industry.

Equity Overhang measures potential shareholder dilution, calculated as shares outstanding and shares available for grant under equity compensation plans divided by common stock outstanding.

Net Equity Burn Rate, shown below, which can also be referred to as Net Burn Rate, measures shareholder dilution from equity awards made in a particular fiscal year, calculated as the difference of shares granted and forfeited or repurchased under equity compensation plans, divided by common stock outstanding.



Looking Ahead

- On average, incentive pay based on fiscal year 2022 performance is expected to fall at least 15% to 25% given projected declines in 2022 financial results

- Further cost-cutting and headcount reductions are expected in Q1 2023 given the projected decline in results for the 2022 performance year; however, some investment banks have signaled their commitment to maintaining staff through the downturn in results

For questions or more information, please contact:

Bonnie Schindler
Principal
Bonnie.Schindler@capartners.com
847-636-8919

Matt Vnuk
Partner
Matt.Vnuk@capartners.com
212-921-9364

Louisa Heywood
Senior Analyst
Louisa.Heywood@capartners.com
646-568-1160

About the Sample

Investment Banks

12 publicly traded, advisory-focused investment banks:

- Cowen
- Evercore
- Greenhill & Co.
- Houlihan Lokey
- Jefferies
- Lazard
- Moelis & Company
- Perella Weinberg
- Piper Sandler Companies
- PJT Partners
- Raymond James
- Stifel

Wall Street Banks

Supplementary group with significant investment banking operations

- Goldman Sachs
- JPMorgan Chase
- Morgan Stanley