STREETWISE

Macquarie Capital Markets Canada shuts sales, trading and research divisions

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The dealer will retain staff in its investment banking, corporate advisory and commodities-trading operations.

DAVID GRAY/REUTERS

The Canadian capital-markets arm of Australia's Macquarie Group Ltd. is shutting its institutional equity sales, trading and research businesses across the country amid a lengthy slump in resource-related financings and deals.

Staff from the three units were told of the decision Monday morning, and top leaders were informed late Friday, according to people familiar with the matter. The majority of the cuts were made in Toronto, with some in Calgary.

Total job losses were not disclosed, but a person familiar with the business who isn't authorized to speak to media said between 50 and 80 positions are likely affected. The exact figure will depend on how many affiliated positions, such as back-office roles, are eliminated.

Macquarie Capital Markets Canada will retain staff in its investment banking, corporate advisory and commodities trading operations.

"Macquarie remains committed to Canada, with more than 100 staff working across commodities trading and hedging, corporate finance and advisory, cash equities execution, futures, asset management and equipment leasing," the bank said in a statement.

"We will continue to provide domestic cash equities execution services and access to our global execution platform," the bank added.

There has been a prolonged stagnation in energy deals and activity in Canada, particularly for small and mid-sized companies. Historically, energy deal-making has been a major driver of Macquarie's revenues here.

The energy downturn, which began in late 2014, has taken a major toll on the independent brokerage business, as equity offerings and merger and acquisition activity tailed off. In the aftermath, investment dealers owned by the big Canadian banks have gradually acquired more market share.

Investment banks of all sizes have also been struggling to make money from equities sales and trading, after that market was disrupted by high-frequency, or computerized, trading at the start of the decade.

Macquarie largely built its business in Canada through acquisitions. In 2007, the Australian bank bought Orion Securities for $147-million, which gave it a mining and energy equities business. Two years later, it acquired Tristone Capital Inc., the Calgary-based boutique energy dealer founded by the late George Gosbee, for $105-million.

Shortly after, it purchased Blackmont Capital to tack on a retail brokerage arm and add wealth-management services.

As it grew, Macquarie recruited top research analysts in sectors such as banking, real estate and pipelines, betting that research coverage, coupled with strong sales and trading desks, would drive investment-banking deals. The hope was that research coverage would help make up for the fact Macquarie could not lend to major Canadian clients as easily as the big domestic banks could. (Lending tends to drive investment-banking activity.)

To add extra heft, Macquarie hired Stanley Hartt as its chairman in 2009. Mr. Hartt, who died in 2018, had previously served as chief of staff to prime minister Brian Mulroney, and later became chairman of Citigroup Global Markets Canada.

Yet Macquarie started to suffer in Canada during the slump in mining deals after the commodity supercycle started to crash in 2011. Amid the changing business outlook, the dealer started scaling back. Most notably, it sold its retail brokerage arm, known as Macquarie Private Wealth, to Richardson GMP in 2013.

Around the same time, Macquarie decided to change its focus in Canada, deciding that its strategy to compete directly with the big Canadian banks was not working. Instead, it would aim to be a boutique dealer here, with a large global bank behind it.

It has been an uphill battle since. Given Macquarie's acquisition history, the dealer was best known for oil-and-gas deals, but its outlook has suffered since the energy crash in 2014. Although there have been some large oil-and-gas deals since, the investment banking revenues these transactions generated largely flowed to the big Canadian banks.

Boutique investment banks, meanwhile, have struggled. Stonecap Securities, Octagon Capital and Salman Partners are among those that have shut down. In 2016, GMP Capital Inc. bought energy boutique FirstEnergy Capital for $99-million, and the operation has since been forced to shed staff as business has remained slow.

Equity financings in the Canadian oil patch totalled just $1.6-billion in 2018, compared with $5.7-billion in 2017 and about $12-billion in 2014, according to Sayer Energy Advisors. Even in the boom years, however, the boutique players saw little of the action.

The story was similar for mergers and acquisitions, the Sayer stats show. The enterprise value of deals in the sector came in at $11.9-billion in 2018, down from $43.5-billion in 2017 and $49.4-billion in 2014.

There has been little energy financing and deal activity so far this year.

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