

# Hyperion Asset Management

## Company Profile

## Macquarie Group Limited

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### ***Main Business Activities***

Macquarie Group Limited (Macquarie) is a global financial services firm with over 16,000 employees, and offices in over 30 countries. The company was founded in 1969, has an unbroken track record of profitability, and has expanded its product and service offering significantly over time. Macquarie's clients span retail customers, institutions, governments and corporates.

The company has four operating groups that are categorised as either 'Annuity-Style' businesses, generating more stable and predictable results year over year, and 'Market-Facing' businesses, that are more volatile however have historically generated attractive returns for Macquarie.

Macquarie's Annuity Style Businesses include:

- Macquarie Asset Management, which is a top 50 global specialist asset manager that is diversified across regions, products, asset classes, and investor types;
- Banking & Financial Services which is Macquarie's retail and business bank that provides a range of traditional banking and wealth management services; and
- Commodities & Global Markets which offers a range of asset finance and lending solutions. This business is also market facing as noted below.

Macquarie's Market Facing Businesses include:

- Commodities & Global Markets which provides clients with a range of risk management and capital management solutions across major global investment markets including equities, fixed income, foreign exchange, and commodities; and
- Macquarie Capital which is a full-suite investment bank offering advisory and capital raising services, research, brokerage, sales, execution, and corporate access. This business also deploys Macquarie's balance sheet alongside clients.

The above four operating groups are supported by four centralised services groups:

- 1) Risk Management which operates with an independent and centralised function responsible for oversight, monitoring, and reporting of material risks;
- 2) Legal & Governance is Macquarie's internal strategic group offering advice and risk assessment;
- 3) Financial Management for tax, treasury, corporate affairs and advisory services provided to all Macquarie operating groups; and
- 4) Corporate Operations Group encompassing the technology, operational, HR, workplace, data and transformation, and global security services provided to all Macquarie operating groups.

### ***Key Value Proposition to Customers***

Macquarie has built a market leading reputation over the past 52 years and is recognised both in Australia and internationally as a provider of "superior and expert" advice. Given Macquarie also offers a suite of traditional, as well as investment banking products and services, it can in most instances function as a one-stop shop for clients ranging in size from retail customers right through to large enterprises.

Macquarie has notable and specific strengths in the areas of, funds management, agriculture, commodities, energy, renewable energy, and infrastructure. The company is ranked first among all global infrastructure advisers and is the leading global infrastructure investment manager. Additionally, Macquarie was the number one global renewables financial advisor in FY20, and has held a market leading position across Australia and New Zealand (ANZ) in Equity Capital Markets (ECM), Mergers and Acquisitions (M&A), and Initial Public Offerings (IPO's) for many years.

Clients will opt to use Macquarie over other bulge bracket investment banks, large asset managers, and retail banks in instances where they see superior value relative to the fees charged. Value is measured by the success of executed transactions (M&A, ECM, Debt Capital Markets), outperformance of funds, and customer satisfaction levels. Macquarie has a strong track record in all, as outlined above, and has proven through numerous cycles it can compete on a global scale by servicing a broad set of clients' needs effectively.

Macquarie's ability to add value for clients is evidenced in one way by the high Return on Equity (ROE) earned across all business lines. The Annuity-Style businesses have generated 22% ROE over 15 years. The Markets-Facing businesses have generated 16% ROE over 15 years.

## ***Sustainable Competitive Advantages and Outlook***

Banking is a relationship-based business requiring high levels of trust. The Macquarie brand and reputation in itself is core to the company's competitive advantage, having taken over 50 years to build. The company's brand was further bolstered during the global financial crisis with many competitors struggling while Macquarie managed to come through the event largely intact.

The business of banking is heavily people driven therefore attracting talent is key. It is critical to hire the best employees who do the highest quality work as this results in winning the most business. Macquarie's reputation again allows it to excel with respect to talent acquisition as highly motivated people typically want to work at highly successful organisations. Macquarie is widely known as an exceptional employer with numerous data points to support this.

Another key aspect of Macquarie's competitive advantage is its demonstrated ability to rapidly adapt its portfolio and earnings mix to changing market conditions. This is largely the result of a decentralised decision-making structure that empowers employees with the greatest knowledge of a specific market, industry, or situation to act swiftly.

Furthermore, Macquarie has a strong track record of meeting clients' needs while the company's superior expertise and broad product and service offering somewhat insulates it from competitive pressures. Offering products and services across the entire financial services industry means that Macquarie can cater to most aspects of a client's banking needs. People seeking assistance with financial related matters, whether corporates or retail clients, are often happy to pay for the highest quality advice.

Two more traditional aspects of Macquarie's competitive advantage are provided through economies of scale and high regulatory related barriers to entry. We expect over time the company's competitive advantage will improve driven by ongoing strong business performance and high-quality management.

## ***Overall Company Growth Options***

Macquarie has significant long-term growth opportunities in the form of further penetration into existing markets, global expansion, and increasing the number of products and services offered. Historically Macquarie has constantly evolved and adapted with each operating segment quick to respond. Importantly, senior management and business leaders are empowered to act through an entrepreneurial culture.

Both the traditional and investment banking industries are highly fragmented, and regionally diverse. Macquarie is a formidable competitor across several industries through its four operating businesses however the company has low overall market penetration.

Growth options across the key divisions include:

- 1) Banking & Financial Services – This segment is largely geographically constrained to Australia however Hyperion estimate Macquarie has less than 4% share of personal and business credit balances in the country;
- 2) Macquarie Asset Management – Boston Consulting Group estimates there are roughly \$95 trillion of Assets Under Management (AUM) globally while Macquarie currently has \$737 billion of AUM as at 1H22;
- 3) Macquarie Capital – JP Morgan estimated there were \$105 billion global investment banking related revenues in FY20 while Macquarie Capital generated \$2.2 billion in net-operating income in FY21; and
- 4) Commodities & Global Markets – JP Morgan estimated there were \$215 billion fixed income, commodity, and currency trading related revenues generated in FY20 while Macquarie's Commodities & Global Markets operating segment generated \$4.7 billion in net operating income in FY21.

While it is highly likely every segment which Macquarie operates in will remain fragmented there is significant opportunity for market share growth across all operating businesses. Additionally, and more recently, Macquarie has outlined a number of key structural growth themes it will focus on including decarbonisation, digitalisation and, urbanisation. As has been seen historically the company has been exceptional at identifying trends early, leveraging internal expertise, and then generating significant growth. We expect this to be a key feature of the business into the future.

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