Bloomberg Law

bloombergindustry.com

Latham Duo Navigate Corporate Debt Surge At Home, Eye Tech IPOs

Ian Schuman (left) and Marc Jaffe (right) Courtesy of Latham & Watkins

The capital markets practice has been a rare bright spot for some Big Law firms during a global pandemic that's been a major drag on other lines of firm business.

Blue-chip companies have issued record levels of debt this year, while riskier junk bond sales have surged since the U.S. Federal Reserve pledged to support them in late April. The market for initial public offerings is coming back from a plunge in March and April.

Latham & Watkins' 450-lawyer capital markets practice saw a 25% bump in revenue in the first quarter this year compared to 2019, according to the firm.

Bloomberg Law spoke with the firm's corporate practice chair, Marc Jaffe, and capital markets practice leader, Ian Schuman about handling that surge. The attorneys also discussed working from home, "virtual" IPO roadshows, what risks lie ahead for corporate finance, and what will happen if Chinese companies are de-listed from U.S. exchanges. Jaffe also predicted the coronavirus crisis will exacerbate the gap between the strongest Big Law firms and the rest of the field.

The interview has been edited for clarity and length.

Bloomberg Law: Capital markets have been on a roller coaster ride this year. Investment-grade debt issuance is running at a record pace. Junk bond sales were non-existent for three weeks in March, and then May saw nearly $44 billion sold, the third-most on record, according to Bloomberg. All while your firm is working remotely. How have you managed that workload on a human level while working apart?

Marc Jaffe: It was initially awkward. But not surprisingly, very quickly it became familiar and workable. Law firms and lawyers and especially here at Latham and our capital markets group, we feed off of working together. The beauty of a big law firm and a big practice group is having lots of people right on your floor that you bounce ideas off of and collaborate with. Now, there is lots of reliance on technology. It's not just Zoom, which I think we're all getting sick of at this point— other than those who own stock in Zoom. It's every flavor of collaborating, editing documents live on Google Docs. I participated in a 60-person kick-off meeting on Zoom yesterday.

BL: What was that like?

MJ: A little bit unwieldy. I don't like people who don't put their face up and block the video. I like to see who is actually paying attention. But that deal kicked off well and it will go on schedule. It is amazing how quickly things adapt. That deal, by the way, if things don't change soon, will likely have a Zoom-based road show. I have a couple of deals being marketed completely through Zoom meetings, and we have seen it work effectively.

BL: Some bankers are urging clients to get cash while they can. Bank of America analysts have said as little as $200 billion in investment-grade debt will be issued in the second half of the year. That would be about one-fifth of the activity from the first half of the year. What do you think the risks are for capital markets in the second half of the year?

Ian Schuman: The risk is, for one, we are operating in an environment where there is a lot of capital. And part of that is because of the initiatives the U.S. Federal Reserve and other central banks have put in place to add liquidity to the market. The risk from a Covid-19 perspective would be the situation getting markedly worse or not improving over time. And a lot of companies who thought they were financing to bridge a certain period of time end up being thrown off because the duration of the pandemic could last longer than anyone would expect.

But we are this busy without a lot of M&A activity. And why is M&A important to capital markets? Because a lot of what we do is to fund M&A. And to the extent the IPO market picks up, it is going to get even busier. But if this big pool of capital starts to dry up, become more expensive, or the risk tolerance for investors retreats, then you'll see a slowdown. But I don't see that on the horizon. I see things picking up.

BL: Initial public offerings are a big-ticket item for capital markets practices. They were very slow in April but recovered somewhat in May. Does your practice give you any indication that the atmosphere for new public listings is getting better?

MJ: I have some bad news for Ian. Ian and I represent a company called Vroom, which is an online used car retailer. And Ian and I were hoping Vroom would be the first tech IPO out of the gates since the pandemic hit. But we also represent Shift4, which is a tech-enabled payments company. Both are out there publicly and are hoping to price deals in the next week. But here is my bad news for Ian: I represented the banks on ZoomInfo's IPO, and it went out on Wednesday. So him and I are not part of the first deal.

IS: You promised me.

MJ: I'm sorry. But I have another tech company looking to go next week. Everyone is bullish about these consumer-facing tech companies. And our teams are incredibly busy. We have seen virtual road shows. There is a lot of speed to market. We may start seeing a hybrid of virtual and inperson road show meetings. The work is picking up in a meaningful way.

BL: What's the most creative presentation tactic you've seen on these virtual roadshows?

MJ: People spend a lot of time on virtual backgrounds. People overthink it and they've done moving ones. I think they just become a distraction. I use the scene from "The Office" with Stanley sitting outside my window. But the amount of time spent on virtual backgrounds has been unexpected. Who knew those creative investment bankers had that skill set?

BL: There is talk in Washington about de-listing Chinese companies that don't allow U.S. access to their financial audits. U.S. Securities and Exchange Commission Chairman Jay Clayton called a bill passed in the Senate a "sensible" approach. Do you think that's "sensible," and what do you think its impact would be on Chinese listings in the U.S.?

IS: I don't want to comment on its sensibility. But the big U.S. firms, Latham being part of that group, have for years had a monopoly, so to speak, on that work. Firms like Skadden, Davis Polk, Simpson Thacher, and Cleary, represent clients on those IPOs coming out of Asia into the United States. And it is yet to be determined what that means for those deals in that market in particular. To the extent it shuts down altogether, it would for that niche market disproportionately impact U.S. law firms. We have our eyes on it. It's an important and lucrative thing we do and we will see what happens.

BL: Latham has an active private equity practice. What role will all the capital that private equity funds have amassed play during the recovery?

MJ: A lot of these firms, and not just the big boys, have over the last five or six years refocused their business and become a source of private capital and private credit. It was massive before Covid-19, and in our view it will continue to be massive. There are giant pools of money in these firms that will be put to use but not just in the traditional LBO sense. We think these firms are going to be an important part of the financing ecosystem. They are today and they will continue to be post-crisis.

And we think that as there is greater stability in the market, dealmaking will come back. And it will come back with a vengeance. I don't know if it's this summer or the fourth quarter. But that activity will come back in a big way and we are ready for it.

BL: The coronavirus crisis has exacerbated extremes in a lot of ways. Do you think it will have that effect for law firms? Will the firms that handle this period the best pull away from the pack?

MJ: There is going to be a sharper distinction between winners and losers among law firms that comes out of this. And what I do think is that the law firms like Latham that have built up market dominance in some of these important practice areas, as well as firms that have a global presence, will be the winners. Since I joined Latham 27 years ago, it's been remarkable to see how we've evolved from serving clients on individual transactions to becoming long-term partners that support their entire life cycle—from startup to IPO, to life as a public company with needs spanning regulatory, finance, M&A, litigation, restructuring, and more. Firms that have made those investments and continue to invest in building out top-tier, cradle to grave capabilities will be well-positioned to thrive as we come out of this.

BY ROY STROM

To contact the reporter on this story: Roy Strom in Chicago at rstrom@bloomberglaw.com
To contact the editors responsible for this story: Rebekah Mintzer at rmintzer@bloomberglaw.com; Tom P. Taylor at ttaylor@bloomberglaw.com