

What's next in investment banking?

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At Praexo, our product offering caters for a wide range of capital markets transactions, whether that be an equity, equity-linked or debt capital raise. For the purposes of this article, we have focused the discussion on an equity capital raise, and through this example wish to convey our views and convictions regarding the evolving investment banking landscape in relation to the capital raising process for successful private companies, from the pre-IPO stage up to IPO.

Augmented Advisory over Automated Advisory

In 2017, a previously unknown restaurant called 'The Shed'¹, located in south London's Dulwich neighbourhood, managed to climb its way to the top of London's competitive restaurant scene, becoming the top-rated spot in the city on TripAdvisor. It soon became apparent that the restaurant did not actually exist and was in fact nothing more than an elaborate hoax and publicity stunt, with the journalist behind the story eventually hosting customers for a single evening dinner in his garden shed. Perhaps unsurprisingly, this story illustrates just how easily online recommendation platforms can be manipulated to suit one's desired outcomes.

Palantir Technologies², a private American software company, has over the years helped to introduce big data analytics into the heart of traditional business. When it was founded in 2003, its first mission was to implement a software solution similar to that of PayPal's fraud recognition system in order to combat the threat of terrorism. In implementing this solution, Palantir knew that artificial intelligence alone would not be sufficient in defeating

¹https://www.vice.com/en_uk/article/434gqw/i-made-my-shed-the-top-rated-restaurant-on-tripadvisor

²<https://www.palantir.com/about/>

such an adaptive opponent, instead deciding to embed human analysts at the core of their product offering. In doing so, Palantir coined the term ‘Intelligence Augmentation’ (“IA”) to explain what they wanted to achieve.

Despite the many successes of Artificial Intelligence (“AI”) platforms in beating top ranked human players at chess, strategy board games such as Go or even video games³, the limitations of AI are laid bare when it comes to engaging in less defined tasks. At Praexo, we embed data at the heart of business decisions. While building our solution to help companies regain ownership over their capital raising process, we chose to use Intelligence Augmentation over Artificial Intelligence in order to push data-driven recommendations to our clients.

In practice, what this means is that we firstly use modern data science techniques to, for instance, identify relevant investors. We also select specific KPIs and themes in order to better position a company’s profile before pitching this to investors. These indicators and themes are also reviewed by our team of senior investment bankers, who provide input based on their extensive capital markets experience. When a company uses Praexo for its capital raising, recommendations from our algorithms are also back-tested in this context by our team, before being shared and communicated. This augmented advisory provides transparency to our clients and limits the biases of solutions that may have been either purely provided by humans or through algorithms.

At Praexo, we believe the future of investment banking means embracing modern techniques in order to help companies achieve their goals. We are strongly convinced that the added value of an advisor comes from tailoring each transaction to the unique profile of the company and potentially interested investors. This helps to ensure superior positioning of the company in a competitive capital raising environment. Automated, process-driven recommendations alone cannot achieve this outcome.

Communication tools that gently prepare all the participants for their future needs

Monzo⁴, Revolut, Nickel and N26.– All these so-called ‘Challenger Banks’ entered the retail market in the last 7 years and started their journey servicing their client base with mainly payments processing and current account offers.

³<https://deepmind.com/blog/article/alphastar-mastering-real-time-strategy-game-starcraft-ii>

⁴[https://en.wikipedia.org/wiki/Monzo_\(bank\)](https://en.wikipedia.org/wiki/Monzo_(bank))

These services were sometimes only available through a mobile phone app. The success of these Challenger Banks, and their ability to broaden their product offering, has spurred the development of additional modules within the retail banking market.

Likewise, the future of investment banking is driven by new digital communications tools. Many of us have experienced often unnecessary and expensive business travel, which has not always had the desired result of improved communication. The recent impact of COVID-19 has also served to highlight alternative ways in which Corporates, other stakeholders and market participants can interact and communicate with each other.

At Praexo, we believe that the design of these communication tools should go a step further. They should not only seek to fulfil the current development stage objectives of companies, but also seek to prepare all parties involved for the potential of further capital raising rounds to come in future. This philosophy is embedded in our feedback and financial modelling tool which acts as a bridge enabling both the company and investors to continuously and better communicate between the late series rounds and ultimately the IPO.

As a company develops and goes through several capital raising rounds, the pool of capital providers tends to evolve as do their expectations, with investors expecting more detailed and frequent communications. Issuers in turn, also benefit from this increased level of communication. As Praexo provides more in-depth financial reports, the company moves closer to the disclosure and transparency requirements of a listed market, while investors gain more insight into their equity investments. By being more exacting on investor feedback, the issuer is able to have a much better and clearer view of investors' expectations and considerations regarding the equity story and key performance metrics. Ultimately, this means investors can better pilot and control their investments.

With Praexo, a company is able to work continuously with its investors on an online and interactive financial analysis tool, and can quickly adapt to the changing expectations of investors. The dynamic nature of these interactions boosts confidence between all parties and promotes a genuine price discovery process unlike the often static and one-way communication in a traditional capital raising process. In addition, our platform offers an efficient way to select and compare the company with defined listed peers. Although the development stage of a private company can sometimes make comparisons with listed companies a difficult exercise, we have proven that this can be easily overcome. We have formulated the output on our dashboard, in conjunction with input from our senior banking team to display data in the most appropriate context, in order to support the road map of the issuer beyond

the current capital raising round and towards the IPO.

An advisory practice in line with the latest innovations in trading and post-trade services

The future of investment banking is intimately interconnected with new innovations which are forthcoming from other market participants and which are complementary to the existing service offering.

The digitisation of the shareholder registers of private companies is seen as a goal for the next decade. Technologies such as blockchain are seen as an enabler of this. Blockchain experiments will serve to have a much broader impact if what is currently being experimented in the Decentralised Finance⁵ (“DeFi”) space proves applicable to a broader scale. In Europe, we have seen regulation evolving not only at a pan-European level but also with initiatives at national level.

At Praexo, our ambition is not to develop a share register as such. While we consider the capital raising process in a more holistic way, our fair-allocation process is being built in such a way that it could fit perfectly into a blockchain system. Thanks to our algorithms, this process assigns shares to investors based on a pre-defined set of criteria. Should an issuer wish to work with one of the blockchain platforms proposing issuance of assets, the company can utilise Praexo to raise funds backed by the tokenised assets up to the book building phase and thereafter transition to the blockchain platform. Furthermore, the issuer can then manage its investor relations programme through Praexo while leaving the register, settlement and more generally the post trade function on the blockchain platform.

Our mission statement for the Future of Investment Banking

A new generation of investment banking professionals, recently graduated from university and equipped with new technologies and techniques, will herald an era of change in the sector. Data science courses and coding are now commonplace, widespread and easy to access. This new generation of professionals are also self-taught in digital communication tools.

⁵these can be used as introduction to the topic <https://blockonomi.com/what-is-decentralized-finance-defi/> and in French blockchainpartner.fr/wp-content/uploads/2019/06/Open-Finance-Etude.pdf

The transition to new investment banking services will be shaped by new bankers bringing in their way of working and life expectations. At Praexo, we have the ambition to accelerate this transition with the tools we build for issuers, investors and advisors alike.

Guillaume Moinet, CEO of Praexo, founded the company and brought together bankers and IT professionals on this project, with the conviction that the advisory business of investment banks can be significantly improved by introducing new practices. Our aim is to roll out an augmented advisory model to promote transparency and a more quantitative approach towards rounds of funding. We also aim to prove that digital tools not only improve processes but can also be designed to educate and prepare all participants for future financing rounds. Finally, we strongly believe that the timing and fit of our work perfectly complements the current evolution of the banking sector: virtual roadshows, the digitisation of trading venues, exchanges and back-office processes and the evolution of the post-trade chain.