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Goldman Sachs Frying the Smaller Fish

By Karen Yang, J.D. Candidate 2021 | November 13, 2018

Goldman Sachs, one of the dominant players in mega-M&A deals, recently hosted a dinner over the summer with executives of approximately twenty private equity firms. Rather than wooing buyout industry titans that the bank normally advises, such as The Blackstone Group or KKR & Co. Inc., Goldman Sachs invited firms that focus on middle market transactions. These acquisitions range from $500 million to $3 billion in size, a far cry from the goliath deals that Goldman Sachs has used to cement its investment banking empire.

Spearheaded by John Waldron, its COO, mangers of the investment banking division review clientele to identify neglected industries that the bank can fan out to encompass. The executives seek to hire senior bankers in industries where the firm lacks a presence, extending regional offices to exert a bigger impact on local businesses. Initial inquiries reveal that Goldman Sachs has lists with about 10-15% more companies on them than those currently on the bank's roster.

The initiative is part of a targeted strategy to drum up additional clients and business. The bank plans to offer middle market companies a host of services: raising finance, selling stock to the public, or helping the companies sell themselves to larger competitors. The action in this segment of the market is rising, as smaller companies form an ever-larger portion of takeover targets. Goldman Sachs has noticed the trend, facilitating 187 deals this year, with 47% worth $1 billion or less, up from 39% the previous year.

Part of the change in strategy comes with the new change in power structure within the firm. Goldman Sachs' new CEO, David Solomon, hopes to remove the bank's reliance on volatile trading revenue. Goldman Sachs aims to hit a projected $5 billion in revenue by 2020.

This is revealing of a bigger trend within the industry. While revenue and trading took a dive after the financial crisis of 2008, both are now actively growing. 2018 has been one of the most active years in terms of hiring among senior ranks. The power structure was revamped not only at Goldman Sachs, but in a number of other high-ranking bulge-bracket banks, including Bank of America, Merrill Lynch, Citigroup, and the like. Additionally, global M&A activities have reached a new high. Amidst the flurry of transactions, the middle market now looks ripe for increased activity.