



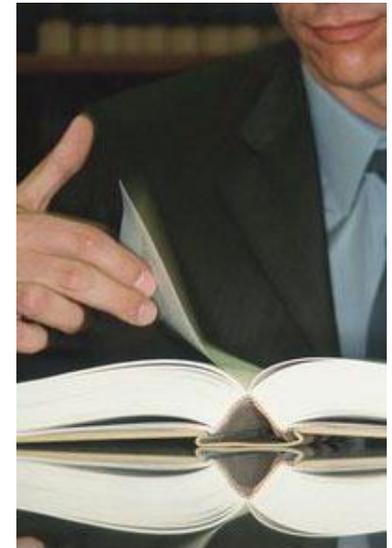
CAREER MANAGEMENT

SESSION #2: RECRUITMENT

WHAT IS INVESTMENT BANKING?

INVESTMENT BANKING IS NEITHER INVESTING NOR BANKING

- **Investment banks link companies that need money to grow with other companies, institutions or investors willing to provide them with that money via a variety of forms, be it loans, stocks, bonds or hybrid financing arrangements. The investment bank structures these transactions and is capable of bringing them to market in the case of stock and bond offerings**
- **Investment banking activities include:**
 - **Investment Banking Division (“IBD”)**
 - **Concerned with advising public and private corporations**
 - **Sales**
 - **Concerned with buying and selling products on behalf of the bank's clients**
 - **Trading**
 - **Concerned with buying and selling products for the bank itself**
 - **Research**
 - **Concerned with producing reports on valuations of financial products**



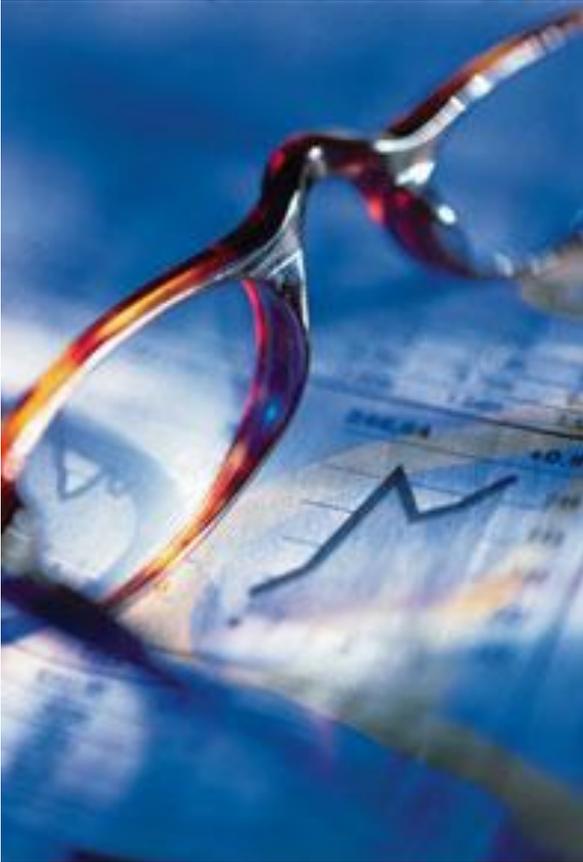
WHAT IS INVESTMENT BANKING?

INVESTMENT BANKS USE FINANCIAL EXPERTISE TO PROVIDE FINANCIAL ADVICE

- **The Investment Banking Division's purpose is to help clients:**
 - **Manage their business and investment risks**
 - **Buy other companies**
 - **Divest themselves of unwanted operations**
 - **Finance expansion into new countries or industries**
 - **Identify opportunities for clients, using its regional or industry expertise and business contacts**
 - **Raise money through bond/equity offerings**
 - **Obtain loans for financing projects**
 - **Advise them in other financial matters**



WHAT DO BANKERS DO?



- **Client service:**
 - **Build relationships**
 - **Pitch ideas**
- **Process:**
 - **Build models**
 - **Handle deal flow**
 - **Tell a company's story**
- **Provide judgment:**
 - **Know the market, industries and companies to add value to clients' decision-making process**

FRONT, MIDDLE AND BACK OFFICE

- **Front Office**

- **Corporate Finance, Sales and Trading, Research and Structuring**
 - **Involves helping customers raise funds in the Capital Markets and advising**

- **Middle Office**

- **Risk Management**
 - **Analyzing the market and credit risk that traders are taking onto the balance sheet**
 - **Setting limits on the amount of capital that traders are able to trade**

- **Back Office**

- **Operations**
 - **Data-checking trades that have been conducted, ensuring that they are not erroneous and transacting the required transfers**
- **Technology**
 - **Every major investment bank has considerable amounts of in-house software, created by the Technology team, who are also responsible for Computer and Telecom-based support**



PRIMARY GROUPS WITHIN IBD

Industry Groups

- **Consumer Products & Retail**
- **Global Industrials (“GIG”)**
- **Real Estate**
- **Energy & Power**
- **Equity Capital Markets (“ECMG”)**
- **Technology, Media & Telecom (“TMT”)**
- **Financial Institutions (“FIG”)**
- **Healthcare**

Product Groups

- **Mergers and Acquisitions (“M&A”)**
- **Leveraged Finance (“Lev Fin”)**
- **Restructuring**



◆ **Product and Industry Groups work closely to complete a transaction**

- **Industry groups handle a number of different companies within their respective industries**
- **Product groups handle the structuring and execution of a number of deals irrespective of industries**



THE ROLE OF AN ANALYST

THE ANALYST'S MAIN RESPONSIBILITIES

- **Modeling**
- **Creating Management Presentations**
- **Creating Books (i.e. CIMs, Pitches, Discussion Material)**
- **Formatting**
- **Setting up Dial-ins**
- **Entertaining the Client (i.e. if on road show)**
- **Facilitating the job of your Director and Associate**



THE ROLE OF AN ANALYST

WHAT MAKES A GREAT ANALYST?

- Great attitude (never say no, but manage your capacity)
- Reliability (books/materials on chairs prior to meetings/calls, triple-checked numbers, correct dial-ins)
- Accuracy (every possible research source examined, no typos, careful numbers work)
- Communicating with senior bankers and support staff to manage expectations
- Timeliness (deadlines, time management, parallel processing)
- Technical skills (accounting, finance and spreadsheet skills)
- Absolute intolerance for imperfection (perfect formatting, no errors, on time)
- Ability to eyeball your work and catch any unreasonable numbers at a glance
- Always footnote assumptions
- Questions? Ask fellow Analysts/Associates first
- Ask questions, but don't ask the same one twice
- No demand is unattainable, there is always a solution



ANALYST COMPENSATION

- Investment Banking is one of the highest paying jobs available to students fresh out of their undergraduate studies
- Compensation for the coming year on Wall Street for a first year analyst:

Salary	\$60,000
Signing Bonus	\$10,000
End of Year Bonus	???

- End of year bonuses are based on the overall performance of the firm, the performance of your group and your overall performance within your group
- Compensation increases dramatically after the first year. As you advance, compensation is paid out mostly in the form of an end of the year bonus



...However, per hour, an employee at Starbucks still makes more¹

Notes:

1 Excluding end of year bonus



RECRUITING: FULL TIME ANALYST

Canada

- Recruiting starts in early September
- Banks come to Western and give information sessions
- Resume and Cover Letters are typically submitted no later than the day of the info session
- The bank looks through your documents and gives you a call if they are interested
- First round interviews held in on campus
- Second round interviews are conducted in Toronto typically as a “Super Saturday”
- Offers are extended following successful second round interviews

United States

- Recruiting starts around mid September
- Only a few banks come to campus to give information sessions
- Best way in is through connections
 - Usually secures interview only
- First round interviews held on campus or by telephone
- Second round interviews are held in the NYC offices as a “Super Saturday”
- Offers extended the week following “Super Saturday”



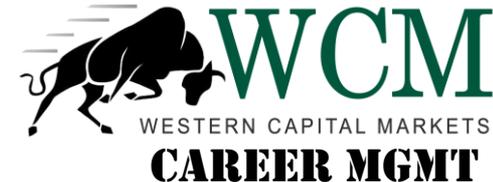
RECRUITING: SUMMER ANALYST

Canada

- **Recruiting starts in early January**
- Banks come to UWO and give information sessions
- Resume and Cover Letters are typically submitted no later than the day of the info session
- The bank looks through your documents and gives you a call if they are interested
- First round interviews held On Campus
- Second round interviews are conducted in Toronto typically as a “Super Saturday”
- Offers are extended following successful second round interviews

United States

- **Recruiting starts a little later, usually in early February**
- Only a few banks come to campus to give information sessions
- Best way in is through connections
 - Usually secures interview only
- First round interviews held in On Campus or by telephone
- Second round interviews are held in the NYC offices as a “Super Saturday”
- Offers extended the week following “Super Saturday”



RECRUITING

CANADA OR NEW YORK? (FOR US/EUR BANKS)

Canada

- Smaller, satellite offices for U.S. and European banks (e.g., UBS, JPMorgan, Morgan Stanley, Deutsche Bank)
- Toronto, Calgary, Montréal, maybe Vancouver
- Get to interact more with your MD's and may take on more responsibility at a satellite office
- Satellite offices are usually generalists and are more "Geographic Specialists" rather than industry specialists
- Risk of lay offs/shut downs of satellite offices - first offices to go
- Usually hire 1-2 summer analysts and 1-3 full-time analysts, depending on bank and year
- Will most likely work on deals concerning mining, natural resources, or commodities
- Training in New York or London (1 week for summers, 4 weeks for full time analysts)

New York

- Financial capital of the world, headquarters for U.S. banks and North American headquarters for European banks
- Industry or product specialists - may work with a team from the Toronto office if working with a Canadian company in your industry
- May not get as much interaction with MD's or VP's, but you have a larger analyst pool to turn to with questions
- Bulge brackets usually hire 50-80 full-time analysts (including summers who've gotten offers), depending on bank and year
- You will be placed in an industry group and will work on deals in that group, e.g., consumer retail, energy, TMT.
- Will train in New York at the bank's training facilities (1 week for summers, 4 weeks for full time analysts)



RECRUITING

CANADA OR NEW YORK? (CANADIAN BANKS)

Canada

- Headquarters in Toronto
- Placed in industry and product groups, but Mining and natural resources are still the largest industries in Canada, so learning how to value a mining company is crucial
- Usually hire 20 - 50 summer analysts and a very variable number of full-time analysts, depending on bank and year
- Due to the larger incoming analyst class, you have more analysts to turn to for questions
- Will usually train in Toronto

New York

- Headquarters in Toronto, usually have limited presence in New York, but have some strategic satellite offices.
- Placed in specialty groups and strategic areas. Highly linked to cross-border or US specific transactions.
- Not many Canadian summer analysts are hired, but the number of first year analysts varies from bank to bank and year to year
- Will usually train in New York

WHICH BANK? HOW TO DECIDE

- **People**
 - **You have to work with them 15-20 hours a day**
- **Culture**
 - **Conservative? Aggressive? Competitive? Collegial? Face time?**
- **General feel**
 - **Do you see yourself working here?**
- **Career goals**
 - **Where do you want to work after two years?**
 - **Location and industry**
- **Specialization**
 - **Is this bank the best in what you want to do?**



WHICH BANK?

BULGE BRACKET VS BOUTIQUE

Bulge Bracket

- **Provide a full range of investment banking services, across all major regional financial markets around the globe - the US, Europe, Asia and Latin America**
- **Very large: Incoming Full Time Analyst classes of around 100-150**



Boutique

- **Specialize in a few aspects of Investment Banking; not full service**
- **Very small relative to Bulge Brackets with fewer international offices**
- **Very small: Incoming Full Time Analyst classes of around 5-10**



INTERVIEWS: WHAT TO EXPECT

- **First round interviews**
 - **Interviews are typically conducted two on one 30-45 minutes in total**
 - **Behavioural and lots of technical**
 - **Analysts are trying to get a feel for you as a person and if you would be successful at their bank**
 - **You should try to get a feel for the company; ask about their experiences**



INTERVIEWS: WHAT TO EXPECT

- **Second round interviews**
 - **Interviews conducted by associates, directors and executive directors**
 - **Usually interviewed by 5-8 bankers**
 - **3-4 hours**
 - **More technical questions and some brain teasers**
 - **Expect even more technical (reactions under fatigue/pressure)**
 - **Behavioral questions are focused on finding out your real motivation to work in banking and to see if you will survive in the environment**



INTERVIEWS: WHAT COMES NEXT

- **Offer extended**
 - **Offers are extended with decision deadlines**
 - **If you find yourself in a position where you have been extended an offer, but are still waiting to hear back from another bank, communicate this with the recruiting staff. A bank that really wants you will be flexible**
 - **Some offers are “explosive offers” which force you to make a decision within a very short time frame (i.e. two days)**
- **Full time job offer**
 - **Requires you to finish your degree**
 - **Most don’t care about GPA once the offer has been extended**
 - **Drug test required**
 - **Training begins first week of July**
- **Summer analyst offer**
 - **Drug test required**
 - **Training/work begins first week of June (US)**
 - **Training/work begins first week of May (CA)**



INTERVIEWS:

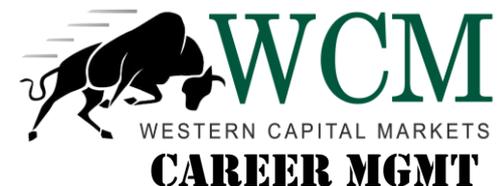
INTRO TO BEHAVIORAL QUESTIONS

- **What is Investment Banking?**
- **Why do you want to do Banking?**
- **What did you do to prepare yourself to the interview?**
- **What are the main points on your resume that you would like me to notice?**
- **Tell me an example of a time you were part of a team**
- **What role do you usually assume in a team?**
- **How do you handle a problem with a teammate?**
- **What makes you a better fit than the other applicants?**
- **What is your greatest weakness/strength?**
- **What is your favorite/least favorite course at Western?**
- **What is your favorite website/pastime/sport/food/place?**
- **Would you rather be the average player on the best team or the best player on the average team?**
- **What has been the greatest risk you took in your life?**



INTERVIEWS: TECHNICAL QUESTIONS

- Which has a higher Beta, an airport or an airline?
- Walk me through the financial statements. How do they relate?
- What is the FCF? How is it different from the cash flow statement?
- How do you get the beta of a private firm?
- What is WACC and how do you derive it?
- What is the difference between P/E, P/S?
- What is PEG?
- What is an LBO? Can you explain it to me?
- What are deferred taxes?
- If a company with a higher P/E acquires a company with a lower P/E, is this an accretive or dilutive merger?
- Why would an acquirer be willing to pay a premium to the current trading price?
- What method of valuation would result in the highest value?
- What is minority interest?
- Can you walk me through a cash flow statement?



GUARANTEED TECHNICAL QUESTION:



How would you value a company?

THREE GENERAL WAYS TO VALUE A COMPANY:

- 1) Discounted Cash Flow
- 2) Public Comparables Analysis (Relative Valuation)
- 3) Precedent Transaction Multiples + ratios

For each method, interviewees should address:

- Basic overview (why this method is used)
- How it's practically used (mechanics)
- Pros & cons of method

DCF – OVERVIEW

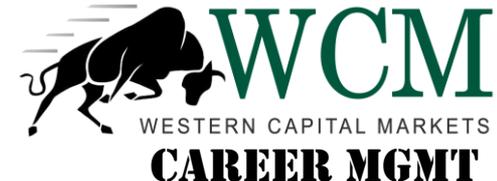
- DCF is the method of valuation that allows for the most flexibility (and possibly precision) in coming up with the intrinsic value of a firm
 - The DCF method that we use is FCFE (you might know it as WACC method, but refrain from calling it this...)
- Mapped on many assumptions
- Based on future expectations of a firm's cash flows (numerator), and the risks associated with those cash flows (denominator)

DCF – BASIC STEPS

- First determine $WACC = D/V * R_d (1-T) + E/V * R_e$
 - Effect of capital structure
 - Use target (optimal) D/E ratio
 - Beta \rightarrow CAPM
 - $R_d (1-T) \rightarrow$ discuss importance of tax shield
- Mechanics of FCFF
 - $FCFF = EBIT(1-T) - CAPEX + NCC \pm \Delta NWC$
 - Explain that CAPEX and NWC are all cash sources/uses that don't affect EBIT, therefore we must adjust.
- Analyze historical performance to come up with future set of assumptions (COGS, SG&A, R&D, “DEP”, “CAPEX”, “NWC” as a % sales)
 - Therefore, we need to use revenue as a driver, and determine its growth from year to year during our explicit forecast period (5-10 yrs)

DCF – BASIC STEPS (CONT'D)

- Determine FCFF's each year using assumptions driven off of revenue
- Determine TV at last year of forecast period
 - 2 methods
 - Growing perpetuity
 - » Assumes constant growth rate (2-3%) – not really used
 - Terminal multiple
 - » Assumes an exit multiple of an operating metric like EBITDA or FCFF, to determine a value for the enterprise at that point in time
- Bring everything back to present value at WACC



DCF – BASIC STEPS (CONT'D)

- Now we have the value of the enterprise
(Enterprise Value = Net Debt + Equity + Minority Interest)
- In order to determine Equity value, we must first subtract Net Debt & Minority Interest
- At this point we have Equity Value
 - Divide by Shares Outstanding to obtain PPS
- Sensitivity analysis provides for flexibility in model
 - WACC / Growth Rates / Terminal Multiples

DCF – PROS AND CON

👎 Too many assumptions

- The model only as good as your assumptions

👍 Allows for flexibility

- Firm can improve margins over time
- Industry outlook can change, and DCF model can reflect that

PUBLIC MARKET COMPARABLES (RELATIVE VALUATION) – OVERVIEW

- Relative Valuation is a reality check to see how investors in the marketplace are valuing similar companies like the one in question
- Public Market Comparables (EV/Sales, EV/EBITDA, P/E) are used to determine typical public market valuation with respect to certain operating metrics

RELATIVE VALUATION – BASIC STEPS

- Determine the target company's EPS, EBITDA, or Sales for current year and possibly forward year (using analyst estimates)
 - Always use recurring income
- Determine the set of comparable companies (comp universe) and their trading multiples (based on recurring figures!)
 - Similar companies based on industry, size, business model, risk, capital structure – anything you can control for
- Multiply average industry multiple by current or forward performance to determine the **relative value** of the firm

RELATIVE VALUATION – PROS AND CONS

- 👍 Stock prices are determined by relative values
- 👍 Don't have to make assumptions that are necessary for DCF
- 👎 Not a gauge of *intrinsic* value
 - Only values companies if they were valued the same way as their peers
- 👎 Often difficult to find exact comparables
 - Can use sum-of-the-parts valuation, which is a weighted-average of each division under specific industry multiples

PRECEDENT TRANSACTIONS – OVERVIEW

- Value of a company if it were to be taken over by another company (i.e. take-out value)
- Precedent transaction values should always yield higher values than relative valuation
 - Historical take-over premiums are 20-30%
- Not relevant if company is under some scenarios (company is family-controlled and not looking to sell, etc.)

PRECEDENT TRANSACTIONS – BASIC STEPS

- Find historical take-overs in industry
 - Again, look for similar size if possible, and most recent first
- Try to cover at least one economic cycle in terms of precedent transactions, as some take-over premiums might reflect a take-over boom in an industry
- Multiply relevant multiple (P/E, EV/EBITDA, EV/Sales, etc.) by company's figure to obtain firm's value in event of a take-over

PRECEDENT TRANSACTIONS

PROS AND CONS

- 👍 Often very relevant, especially for undervalued firms
- 👍 Often used when firm is selling off a division
- 👎 Only useful if firm will consider takeover
- 👎 Precedent transaction values are often higher than intrinsic value (reflect over-payment in precedent transactions)

CURRENT EVENTS

- Interest in Finance will be tested during the interview
- Be prepared to discuss current events that you are following and able to respond to questions
 - Case: Bank of America (BAC) deal to acquire Merrill Lynch & Co., Inc. (MER) [September 2008]
 - Case: Fannie Mae (FMN) and Freddie Mac (FRE) [September 2008]
 - Case: American International Group (AIG) [September 2008]

INTERVIEWS: YOUR TURN

- **Have questions prepared**
 - **Ask about a recent deal**
 - **Their job in particular**
 - **Ask about something they mentioned in the interview**
- **Don't ask about salary**
- **Ask when you can expect to hear back from them**
- **Thank them for their time**
 - **They are doing in addition to their normal work load**



INTERVIEWS: GENERAL TIPS

- **If you already have an offer from another firm, let the interviewers know**
- **Don't be cocky or pretend like you know everything about banking. Bankers, especially analysts, find this extremely aggravating and can see through it**
- **Relate your past work experience as much as you can to the job you are applying to**
- **Don't forget to email them after your interview and thank them for their time**
 - **Do this within 24 hours; the sooner the better**
- **Wear formal business attire, even if you know the work environment is business casual. Do not over dress (i.e. don't wear a \$2,000 suit and a \$400 Hermes tie)**
- **Research the firm before you go to the interview. It is always good to know the firm's most recent transactions**



GENERAL INTERVIEWING TIPS

- Take the time to think about the question before you answer it
 - The last thing you want to do is go on a tangent or talk too much
- If you don't know the answer right away, walk through your logical thinking process
- Always try to work out the problem. Don't say I don't know!!
- Don't stress & keep your cool
- Be confident & comfortable
- Always have questions to ask them
- Don't be cocky or pretend like you know everything about banking. Bankers, especially analysts, find this **extremely** aggravating and can see through it
- Don't forget to e-mail them after your interview and thank them for their time



GENERAL INTERVIEWING TIPS (CONT'D)

Tell me about yourself ...

- Have a story (1-2 minutes)
- Logical flow
- Progression
- For everything you did, explain why (i.e. I chose business school because I've always been fascinated about what makes a good business)
- Be convincing that I-banking is what you want



GENERAL INTERVIEWING TIPS (CONT'D)

Why I-banking?

- Many good answers
 - Suggestions
 - Being able to learn a boatload in a short amount of time
 - Being surrounded by intelligent people willing to teach
 - Interest in financial markets
 - Like to work on projects and see rewarding results (even see it in the paper ...)
 - Intense environment, fast-paced, pressure
 - Anything else that suits you ...

