

YALE  
SOM  
*Finance Club*

# Intro to Investment Banking

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What is Investment Banking?

September 11 2019



Yale SCHOOL OF MANAGEMENT  
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1. What do Investment Banks do?
  2. What is the typical Investment Banking Hierarchy?
  3. What are the differences between Bulge Brackets vs Boutiques?
  4. Macro Trends & Sources
  5. The Role of the Federal Reserve
  6. Time Value of Money
  7. Deals
  8. Feedback

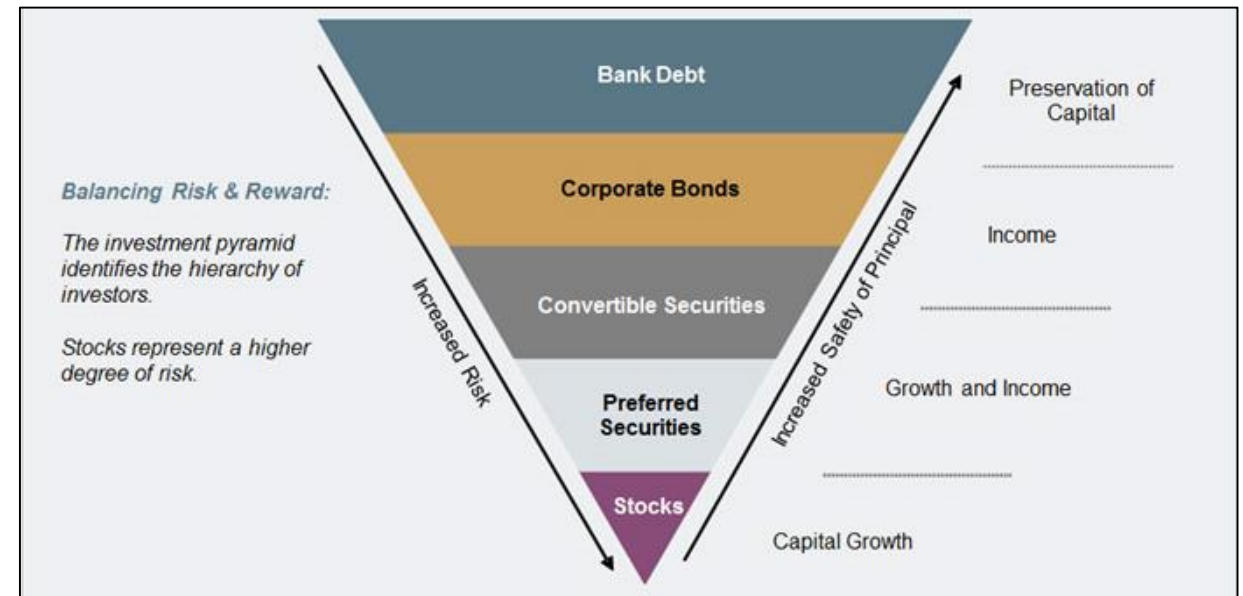
# What is an Investment Bank?



- Investment banks advise clients on transactions:
  - **M&A Advisory:**
    - Acquisitions, mergers, joint ventures
    - Corporate restructurings
    - Recapitalizations, spin-offs, divestitures, leveraged buyouts
    - Takeover defenses, shareholder relations
  - **Financing:**
    - Originate, structure and execute equity offerings, debt issuances and derivative products
- Boutique firms often focus exclusively on M&A advisory & restructuring
  - Applicants should research each firm prior to the corporate presentation



- Companies can finance their operations via issuing Equity or Debt. As an investor, holding Debt is less risky than holding equity, given that Debt holders have Seniority over Equity investors during potential Bankruptcy scenarios
- **Types of Debt:**
  - **Revolving Credit Facility:** is a line of **credit** that is arranged between a bank and a business (i.e credit cards)
  - **Term Loans (Bank Debt):** A **term loan** is a monetary **loan** that is repaid in regular payments over a set period of time. usually involves an unfixed interest rate that will add additional balance to be repaid (~5-8 year tenor)
  - **Bonds:** debt instrument that pays a fixed interest payment over the tenor. Interest rates are higher than loans and the tenor is longer (~8-12 years)
- **Syndication Process:** Loan **syndication** is the **process** of involving a group of lenders in funding various portions of a loan for a single borrower. Loan **syndication** most often occurs when a borrower requires an amount too large for a single lender to provide or when the loan is outside the scope of a lender's risk-exposure levels



# How are Banks structured?



## Common Bank Groups

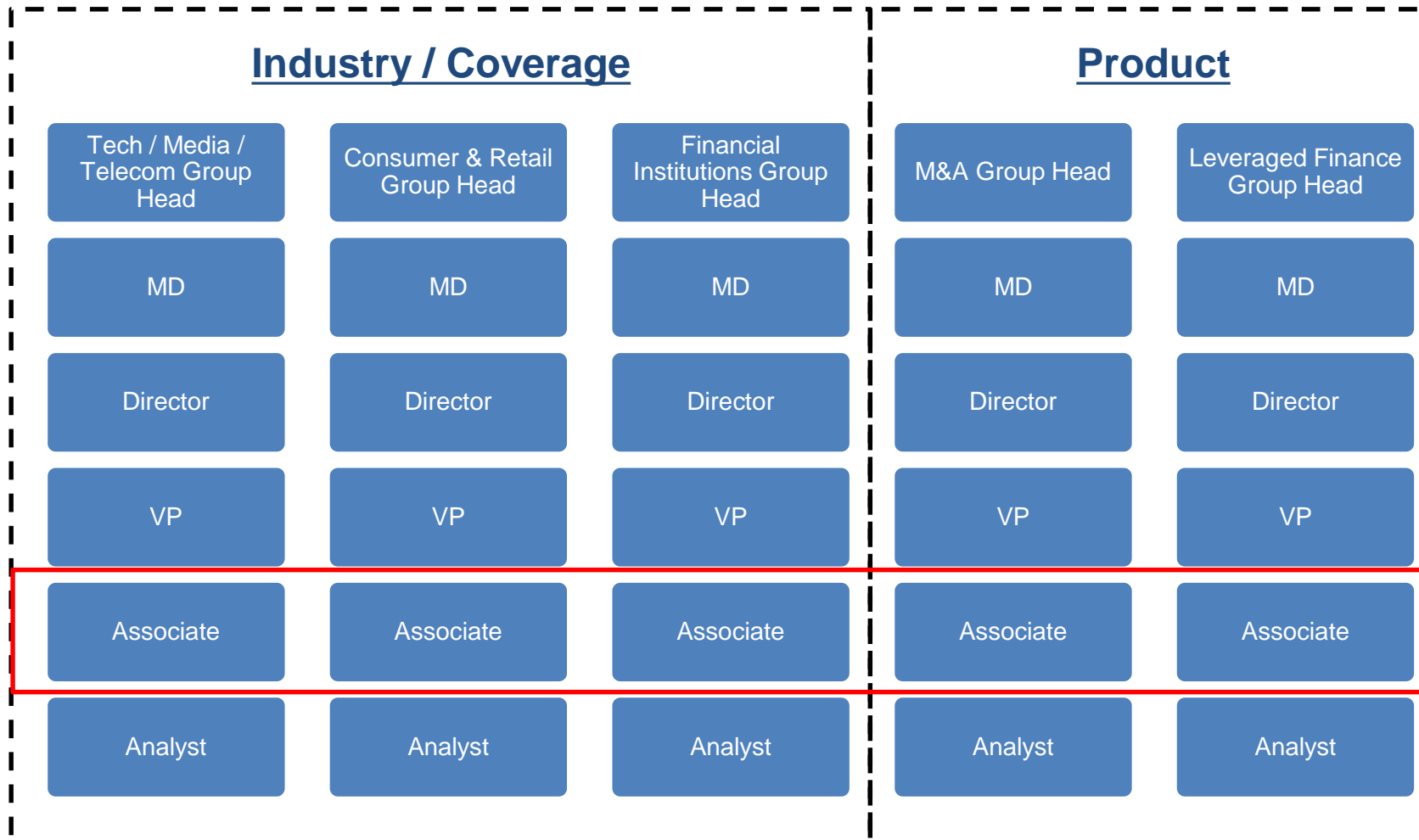
### Industry / Coverage

- Technology, Media, Telecom (TMT)
- Consumer / Retail
- Industrials (GIG, DI)
- Financial Institutions (FIG)
- Financial Sponsors
- Healthcare
- Real Estate (RE)
- Oil & Gas (Energy, Natural Resources)
- Power & Utility (PUG)
- Public Sector

### Product

- Mergers & Acquisitions (M&A)
- Leveraged Finance (LevFin)
- Equity Capital Markets (ECM)
- Debt Capital Markets (DCM)
- Other specialty groups (e.g., Restructuring)

# What is the typical Bank hierarchy?



# Bulge Brackets vs Boutiques



- **Bulge Brackets:** JP Morgan, Goldman Sachs, Morgan Stanley, Citi, Barclays, Credit Suisse, BAML, Deutsche Bank and UBS
  - Largest global banks that operate in all regions and offer all services – **M&A, equity and debt** – to clients
  - Bulge also have sales & trading, research, wealth management, and often a retail bank
- **Independents / Boutiques:** Evercore, Moelis, Lazard, Guggenheim, Greentech, Greenhill, PWP, Houlihan Lokey and Centerview
  - These firms focus on **M&A Advisory and Restructuring** rather than debt and equity, and they often work on the **same deals that the bulge brackets advise on**
  - The largest Independent / Boutique banks have international offices as well (Evercore, Moelis, PWP, Lazard, etc.)
  - The focus is on the Advisory business, given that Boutiques do not have a Balance Sheet to help finance transactions (i.e. focus on sell-side M&A)

\*M&A deals are more profitable and on average generate larger fees than Equity and Debt deals



- **Trade Wars**

- The escalating trade war between the U.S. and China continues to weigh on global growth and financial markets, and businesses have reported they are delaying planned investments as a result of rising policy uncertainty

- **Federal Reserve Monetary Policy**

- Federal Reserve Chairman Jerome Powell said the U.S. economy faced a favorable outlook despite significant risks from weaker global growth and trade uncertainty, and he cited the central bank's turn toward providing more stimulus this year as an important reason for that outlook

- **Macro Economy Trends**

- U.S. employment grew modestly in August and unemployment showed signs of stabilizing at historically low levels, signs that a global economic slowdown isn't driving the U.S. into outright recession but has dented the growth outlook

- **Yield Curve Inversion**

- An inverted yield curve for US Treasury bonds is among the most consistent recession indicators. An inversion of the closely watched spread - between 2 and 10-year Treasury bonds - has preceded every recession since 1950

- **Recent M&A & IPO Activity**

- M&A activity increased over the last 12-18 months given the strength of the economy, propelled by the tax cuts of 2017. Additionally, given valuations have soared and are at all time peaks, businesses have capitalized on these, which has translated into a surge of IPO activity (i.e. Uber, Lyft, Zoom, WeWork, etc.)





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**The following sources are the club's favorites:** WSJ, Financial Times, NYT Deal Book, The Economist and Robinhood Snacks

- You can sign up for the WSJ, Financial Times, NYT Deal Book and The Economist using [the following link](#)
- For Robinhood Snacks, [use this link](#)
- This list is not comprehensive – use the sources that will be most effective to you

**It is a best practice to develop a routine to follow the market:**

- Mornings while eating breakfast
- Use train time to and from NYC
- Listen to podcasts while working out
- In between classes or meetings

**\*\*Feeling comfortable and being able to have an educated conversation about what's going on in the markets will differentiate you throughout the recruiting process**

## The Fed's three functions are to:

1. Conduct the nation's monetary policy,
  2. Provide and maintain an effective and efficient payments system, and
  3. Supervise and regulate banking operations
- Although all three roles are important in maintaining a stable, growing economy, monetary policy is the most visible to many citizens
  - Monetary policy is the strategic actions taken by the Federal Reserve to influence the supply of money and credit in order to foster price stability and maintain maximum sustainable economic growth



**Jerome Powell**

Chairman of the Federal Reserve



- The **time value of money** (TVM) is the concept that **money** available at the present **time** is worth more than the identical sum in the future due to its potential earning capacity
- This core principle of finance holds that, provided **money** can earn interest, any amount of **money** is worth more the sooner it is received
- Interest is the charge (price paid) for the ability to transfer cash across time periods
- Let:  $t$  = number of periods;  $r$  = rate of interest;  $D$  = initial deposit
- Then the future value,  $FV$ , of an initial deposit of  $D$  left to accumulate interest of  $r$  per period for  $t$  periods is given by:
  - $FV = D \times (1+r)^t$
- Rearranged, the present value will be:
  - $D = FV / (1+r)^t$
- **This concept is particular relevant to Investment Banking, given that the value of a company is the present value of all the cash flows it generates throughout it's life**
  - More to come on this later



The below are important factors to think about when selecting and presenting **a deal**:

- **Buyer**
- **Seller**
- **Deal Rationale**
- **Industry Dynamics**
- **Consideration Mix (Stock, Cash, Debt)**
- **Pro Forma Ownership**
- **Accretive / Dilutive to Earnings**
- **Expected Synergies**
- **Nature of M&A (Friendly or Hostile)**

The Finance Club will help provide guidance on where you should be in the process each week. It is recommended to use the next 2 to 3 weeks to find a deal that you are excited about so that you can talk to bankers about it during informationals. This will be a common question in the middle of October. Additionally, your mentors will be a helpful resource for you to discuss what a good deal could potentially be

**\*Please leverage CapIQ when preparing your deal**



***The goal of this feedback is to prepare you for interactions with alumni bankers. This is to make sure your interaction with the alumni is positive and to make their lives as easy as possible.  
PLEASE practice this with the second years!***

- **Follow the format guidelines** discussed in the Finance Club (e.g. Calendar Subject: [Student Name] / [Banker or 2<sup>nd</sup> Year Name] Informational Meeting)
- **Suggest multiple time windows** during outreach emails that you are available to meet (minimum one hour windows) and write options in an easy format for the Banker / 2<sup>nd</sup> Year to read (bullet format can be effective)
- **Attach the latest copy of your resume** in the meeting invitation (common naming convention is [Surname]\_[First Name] and please remove version numbers) and **bring a printed copy** to the meeting
- **Send calendar invitations for 30min** and **specify the meeting location** (even when you are meeting Bankers specify the location – e.g. the bank’s address)
- **Write professional / formal emails** that do not include slang / colloquial language

# Questions?

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