

Investment Banking – Course Syllabus



Course FINC-GB.2334.00

Summer—2013

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Department of Finance

Course Description

This course delves into the structure, management and practices of investment banking (IB)—from larger more universal players to boutique operations. It covers the business activities of mergers and acquisitions, financing and investment; and, the creation of value through advisory services and the choices of client business models. It looks into the business practices of private equity, hedge funds and trading operations; and, the role of each in facilitating investment, the deployment of capital and the changing face of risk-taking activities.

Some of the “bigger” questions this course addresses are:

- What does it mean to be—or take to become—a “player” in this business?
- How do IB businesses actually add value for their customers—and, make money for their employees, partners and shareholders?
- What synergies and conflicts exist across the various IB business lines and practices; and, how are they addressed?
- How can IB’s and related businesses regain their respect and brand recognition in the market—bringing to the forefront the status of “trusted financial advisor”?
- What’s the future for the IB industry and what role can you play in that future either as a practitioner or client?

Importantly, through our class discussions and case-study work—each student will bring the answers to these questions into personal focus. Students are exposed to both the diagnostic and prescriptive processes of IB allowing them to actually partake in the financial advisory process; and, understand what it means to be either an IB practitioner or client.

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Course Outline¹

Class One—Saturday, July 6, 2013

Morning

The World of Investment Banking

This class explores the business of investment banking from both a historic and current perspective. It highlights the forces that have transformed the business to what it is today—and what it is becoming. It utilizes examples from the industry discussing different strategies and approaches to the business as well as delineating those indicators that are crucial to the success or failure of the industry. Topics to be discussed include:

- The historic face of investment banking—the great investment bankers, house and bulge-bracket firms of Wall and Lombard Streets, the gnomes of Zurich
- The evolution of investment banking—a regulatory journey of both form and substance
- The culture and organizational structure of investment banks—the changing face of leadership, risk management, human behaviors and organizational values
- The structure of investment banks—public versus private, universal versus boutique, the road to the top—vice presidents, managing directors and partners—and the accolades of success
- The business and strategies of investment banking—buy and sell sides, inside and outside the shadow markets; research, Chinese walls and electrified fences
- The competitive challenges of investment banks—the retention of talent, the CEO's wandering eyes, the growing dimensions of risks from market to operational to human behaviors
- The customer and performance goals of investment banking businesses—criteria for superior performance
- The role of the financial advisor/advisory business—a journey to the top of Maslow's pyramid

Assignments

“CP”

Please read:

“History of Investment Banking”

¹ Please note additional readings will regularly be posted to BB. Where multiple case assignments are indicated, participants will be given discussion preparation questions that cut across-such cases—thus allowing us to focus more on themes than just the particulars of a single case. Please also note that while the case studies and readings are designated in the afternoons one should assume that they will be part of the entire day's conversations. In most situations the mornings will be devoted to discussing IB practices; and, the afternoons to the actual IB business applications of such.

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“Corporate Culture and Investment Banking”

“Connecting Employees to Create Value in Investment Banks”

Please read and be prepared to discuss:

Case “Goldman Sachs and Its Reputation”

Case “Goldman Sachs: A Bank for all Seasons (A) (B) (C)”

Class Two—July 6, 2013

Afternoon

The Customer and Investment Banking Solutions

Being an IB financial advisor in the investment banking business requires a combination of the right skills and behaviors. Together, these are the competencies of the financial advisor. This class takes a client perspective and provides a framework for both the diagnosis of client financial needs and their relevant IB solutions. This class covers:

- How to present value to the client—and get paid for it
- Understanding client needs—cash flows and the trade-offs of flexibility/cost and risk/return
- The debt versus equity conundrum—determining the optimal capital structure of the client
- Utilizing a financial needs worksheet—assessing financial needs and value-adding gaps/opportunities
- Investment banking product and solutions as a spectrum of risk/return and/ or flexibility/cost alternatives—examples from various businesses
- Developing the “pitch” book—the IB and client perspectives
- Presenting and delivering the “pitch”
- Becoming the best IB financial advisor one can possibly be—a journey of trust

Assignments

“BB”

Please read:

“Pitch-Book”

“How to Create Investment Banking Pitch Books”

“Cost vs. Flexibility: A Needs Analysis Advisory Framework”

“CP”

Please read:

“Are Investment Banks Special Too? Evidence on Relationship-Specific Capital in Investment Banking Services”

Please read and be prepared to discuss:

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Case “Hill Country Snack Foods Co.”

Case “Winfield Refuse Company: Raising Debt versus Equity”

Class Three—July 13, 2013

Morning

The Business of Equity

- The investment banker’s perspective of the public/private equity businesses—what’s in it for the investment bank/private equity investors
- Fee income, secondary trading and business synergies—a look at the equity-business value chain and the value the investment bank brings to the table
- Private equity and the private equity firms—doing business in the “shadows”
- The role of private equity firms—their evolution, structure, participants and investment objectives
- The challenges they face—funding, creating value, “balancing” investor/fund-manager objectives
- Private equity exit strategies
- The decision to go public—more than raising equity capital by a long shot
- IPO’s and follow-on issues
- Why the investment bankers get paid the big bucks—getting the what, who, where and when right
- The anatomy of a “typical” transaction—a look at a IPO benchmark deal; what went “right” and “wrong”
- The post IPO check-up—everyone is a genius in retrospect

Class Four—July 13, 2013

Afternoon—Discussion Continued

Assignments

“BB”

Please read:

“2013 Private Equity Fund Outlook: In Search of a Firm Footing”

“CP”

Please read:

“The Role of Private Equity in Mergers and Acquisition Transactions”

Please read and be prepared to discuss:

Case “North Village Capital Private Equity”

Case “Prada: To IPO or not to IPO, that is the Question Again”

Case “Taking Private Equity Public: The Blackstone Group”

Class Five—July 20, 2013

Morning

The Business of Debt/Fixed Income

- The various structures of debt financings/investments—a world of comparative advantages—from straight debt to warrant issues
- The investment banker's perspective on the fixed-income business—what's in it for the investment bank—the debt capital markets value chain
- Fee income, secondary trading and business synergies—a look at each and the value the investment bank brings to the table
- Types of debt placement and distribution
- Hybrid securities—equity warrants and convertibles
- Investment grade debt—a look at benchmark deals in the market
- The perspective of the issuer, investor and investment bank
- The role of the credit rating agencies
- Regulatory rules that make a difference in debt issuance
- High-yield debt
- The world of financial leverage
- The LBO financing model—it's all in the cash-flows
- The anatomy of a deal—a look at benchmark deals in the market
- The leveraged recapitalization—creating shareholder value or not?

Class Six—July 20, 2013

Afternoon—Discussion Continued

Assignments

“BB”

Please read:

“Guide to Credit Rating Essentials”

“Guide to High-Yield Bond Covenants”

“CP”

Please read and be prepared to discuss:

Case “Sealed-Air's Leveraged Re-capitalization”

Case “Granite Apparel: Funding an Expansion”

Class Seven—July 27, 2013

Morning

The Business of Trading and Secondary Markets

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- The evolution of trading—historic turning and reflection points; real stories/lessons to be remembered
- Liquidity and the secondary markets—behind every good investment banker is a trader?
- The structure of the business—brokers, traders and the sales desks
- Market-makers, hedge funds and speculators
- Order and quote driven markets
- Beyond “speculation”—volatility trading (arbitrage)
- Trading derivatives—a world of spreads
- The role of \$LIBOR—the center of the derivatives universe
- How traders make money—spreads, positions, speculation, arbitrage and market manipulation
- Trading for the client—where the client is not the bank
- Proprietary trading—where the client is the bank (entrepreneur)
- Market-making activities—where the sunlight and shadows come together
- The new “boys” on the street—dark pools, algorithmic high-frequency trading
- Financing trading positions, capital allocation and the role of value-at-risk (VAR)
- Risk-monitoring and control—the Whale of London, insider-information, “unauthorized-trades” and those “rogue traders”

Class Eight—July 27, 2013

Afternoon—Discussion Continued

Assignments

“BB”

TBA

“CP”

Please read:

“The Hedge Fund Industry”

Please read and be prepared to discuss:

Case “Was Insider Trading Ahead of Takeovers a Problem?”

Case “JP Morgan: Lessons Learned”

Case “Long-term Capital Management (LTCM)”

Class Nine—August 3, 2013

Morning

The Business of Mergers and Acquisitions

- Investment bankers at the top of Maslow’s Pyramid—The CEO as the client
- The theory and practice of M&A—from synergies to core competencies

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- Private-equity driven deals—structures and expectations
- Strategic investment driven deals—structures and expectations
- The role of the investment banker—the buy and sell side; conflicts of interest; the trusted advisor role
- The valuation, pricing, and fee structure of M&A deals
- The financing M&A deals—cash, stock, bank financing, the debt capital markets
- M&A as a real option strategy—getting one’s foot in the door
- Beyond M&A—creating value through corporate restructurings
- Spin offs—preparing for a divestiture
- Benchmark deals in the market—investment bankers as creators or destroyers of shareholder value?

Class Ten—August 3, 2013

Afternoon—Discussion Continued

Assignments

“BB”

Please read:

“How Corporate Diversity and Size Influence Spin-offs and other Break-ups”

“Spin-offs: Tackling the Conglomerate Discount”

“CP”

Please read:

“Making Mergers Work”

Please read and be prepared to discuss:

Case “The Accura/Flexco Acquisition”

Case “Lab International”

Case “Brinks Company: Activists Push for a Spin-off”

Class Eleven—August 10, 2013

Morning

The Wealth Management Business

- The businesses evolution—from a world of “savers” to investors
- The asset management business—getting “personal”; more than just financial considerations—a relationship business
- The product set of wealth management—the role of price and value, scale versus scope, margins versus volume of business
- The importance of product suitability—segmenting clients by behaviors and risk sensitivities; the world of elephants, tigers and the animal kingdom

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- Using Maslow’s pyramid to understand high net worth customer needs—climbing the needs pyramid together with the client
- The role of the financial advisor—client expectations and the trust building process; when things get too personal; get ready to put your parachute on
- The synergies with other parts of the bank—extending one’s advisory reach into the business of the client; the wealth management value chain
- Converting clients into other sources of businesses—private equity, hedge fund investors
- The ins and outs of getting paid for value—fees, commissions, assets under management and/or portfolio of business, share of customer wallet
- The conflicts of wealth management—cross-subsidize or let the others sink or swim on their own; better to keep the business separate?

Class Twelve—August 10, 2013

Afternoon (1)—Discussion Continued

Assignments

“BB”

Please read:

“Maslow’s Hierarchy of Needs”

Please read and be prepared to discuss:

Case “Bruno’s Wholesale Meats—A Family Business in Life-cycle Transition”

“CP”

Please read

“How Much is Sweat Equity Worth?”

The Future of the IB Business/Getting—and Keeping a Seat at the Table (or the Top of the Pyramid)

- Open discussion
- Assessments of IB Opportunities—business and employment
- Take-a-ways of the course
- Where do you go from here—as an IB practitioner or client?

Assignments

“CP”

Please read and be prepared to discuss:

Case “The Pine Street Initiative at Goldman Sachs”

Case “Leadership Development at Goldman Sachs”

Final Examination

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Course Information

Course Prerequisites

Students registering for this course should have had previous courses in basic economics, accounting and financial analysis at the undergraduate or graduate level. Prerequisites can be waived by consent of the bursar. This course can be taken concurrently, before or after Global Banking and Capital Markets.

Logistics and Pedagogy

The course is conducted over twelve classes—six Saturdays. Classes begin on July 6, 2013 and end on August 10, 2013. It meets over six consecutive Saturdays from 9:00am to 4:00pm with a one hour lunch break at 12:00pm. It will meet in room 4-80. Appointments are always possible and encouraged—please contact fmilitel@stern.nyu.edu.

The course is discussion and case-oriented, and accordingly emphasizes classroom participation; requiring students to apply principles developed in class to actual investment banking challenges and opportunities. The course does not involve routine lectures on material presented in the readings; however, all assigned readings and case preparations should be completed prior to the class for which they are assigned.

Much of the course material is posted on Blackboard “BB,” where you can download a copy of the syllabus/outline, reading assignments, cases, and copies of exhibits used in class. There is also a course packet “CP” available through the bookstore.

Required Text Books

There is no required text. All readings required for the class are included in the course packet. This is available on-line through the school bookstore. Case studies are also included in the packet.

For those students wishing to use a supplementary text:

Stowell, David P., Investment Banks, Hedge Funds and Private Equity, Academic Press, 2013

Final Examination

This is a rigorous course covering a significant amount of material. The application of such is critical to the assessment of each student’s performance. Accordingly, the final examination takes the form of a take-home assignment. Directions for completing the final examination will be given early-on in the course so students can be working on their submissions throughout the

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course. There is no restriction on students working with each other; however, each student is expected to submit their own work and grades will be assigned on an individual basis.

Grading

Final grades will be adjusted by as much as one letter grade based upon the student's class participation and case study preparedness.

Professor

Frederick C. Militello, Jr., is CEO/Senior Thought Leader of Future Change Management, LLC. He works with top banking leaders and strategists in a wide-range of organizational and change initiatives. These include organizational and global market strategies—covering both corporate and investment banking. He has also developed financial policies and strategies for many of the world's leading corporations; including M&A integration assignments.

He is an adjunct GBS professor of finance at New York University's Leonard N. Stern School of Business. He teaches both Global Banking and Capital Markets; and, Investment Banking.

For three decades, he has been a leading practitioner and thought leader to financial executives around the world. Specifically:

- He has held numerous senior executive positions such as vice president, division executive and managing director for the Chase Manhattan Bank responsible for their global corporate consulting and merchant banking activities out of New York and London.
- He has worked his way through Wall-Street holding financial positions for US Steel Corporation, Mobil Oil Corporation, the Bank of Boston International and the American Stock Exchange. Starting at the bottom as a “messenger,” clearing-house “runner,” and foreign exchange position clerk he moved=up through the ranks to senior management positions for both corporate and international banking departments.
- He has been founder and co-owner of two Wall Street-based financial/educational advisory practices with an emphasis on corporate and investment banking—organizational structure, business and product line development and a wide-range of senior leadership issues and challenges.

Frederick has written many books in the fields of finance and banking including:

. *Leverage Competencies: What Financial Executives Need to Lead;*

. *The Empowered Organization: Redefining the Roles and Practices of Finance;*

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. *Integrity-Based Financial Leadership and Ethical Behavior;*

. *Reassessing Corporate Banking Relationships: Issues, Practices and New Directions;*

. *Foreign Exchange Risk Management: A Survey of Corporate Practices.*

Over the years, his corporate clients have included some of the world's largest corporations including Apple Computer, McDonald's, Monsanto, Sandoz, Gillette, etc., and well-known financial organizations around the world—both in developed and emerging markets.

He has been a speaker and Chair Person for educational organizations including the Belgian-American Chamber of Commerce, Management Centre Europe, the American Management Association, the Rotterdam School of Management, the Vlerick Gent Leuven School of Management and the Financial Executives International.

As a scholar he was awarded the Wall Street Journal Student Achievement Award in Economics and is a professional member of the World Future Society and Strategic Planning Society.

Educated in New York, Frederick studied at Pace and Columbia Universities earning advanced degrees in economics and international economics.

He has sat on boards for numerous not-for-profit organizations such as the Children's Media Project and the Durham Historic Preservation Commission (Chair). He is married, has three daughters, two grandchildren and lives on their family-run horse farm. He has a passion for cooking and is a graduate of the Culinary Institute of America—Boot Camp Program.