NEW YORK UNIVERSITY
STERN SCHOOL OF BUSINESS

Investment Banking
C15.0045.01, Spring 2009

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Goals of the Course

This course provides a broad overview of investment banking and of the forces that are continuing to change it worldwide. It examines in some detail each of the principal businesses in which the major investment banking firms are involved, including raising capital, advising on mergers and acquisitions, serving as a broker/dealer, trading and investing the firm’s own capital, and managing the assets of others, both institutions and individuals. In particular, it asks the question: Which of these activities make sense for an investment bank, and which ones might not? Put slightly differently, the focus is on the changing investment banking business model.

Throughout, there are a number of overarching themes. Among these are: the interplay of regulation, globalization, and technology; the emergence of private equity funds and hedge funds as the critical clients for the major banks; the search for new, high-margin products, and whether that process has reached its limits; and the changing relationships among the different groups within a bank, of which “the bankers” are only one.

By the end of the semester, each student should be well prepared either for an entry-level position in an investment bank or for a comparable position at a client firm, where he or she needs to interact with investment banks. Moreover, all students should find that they are able to read the financial press through new eyes at the end of the semester.

Required Readings

A course packet (in lieu of a text) is available at the Bookstore. Other required readings—e.g., current articles and the M&A case—will be distributed in class. And students are expected to keep up with the financial news throughout the course.

Blackboard

“Blackboard”, which can be accessed through your browser at http://sternclasses.nyu.edu, is an integral part of this course, and you are responsible for any information posted there. Be sure to look under the “Assignments” tab in preparing for each class.
Grading

There will be an in-class exam on February 19, an M&A case assignment due on April 2, and a final exam on. They will be weighted 20%, 20%, and 60%, respectively. However, attendance and classroom behavior will also impact grades. In particular, students who have a large number of unexcused absences, who consistently arrive late, or who disrupt the class with incessant side conversations amongst themselves will have their course grade reduced as a result. The grade distribution will follow the Stern guidelines, i.e., no more than 35% of the grades will be “A” or “A-”. It goes without saying that students are expected strictly to abide by the NYU Code of Conduct.

Teaching Assistant

The TA for this course will be Angelo Di Rocco, adr303@stern.nyu.edu.

Schedule of Classes

January 20 & 22—Overview of the Financial Services Industry and the Role of Investment Banks
- Investment banks (“IBs”) in the context of “financial intermediation”
- The concept of “trusted advisor”
- The transformation of investment banking over the past few decades
- The legal/regulatory framework of investment banking in the U.S.

Readings: Course Packet (“CP”), Articles #1-#4

January 27 & 29—Private Equity and Hedge Funds
- The private equity market: size, principal investors, and the range of issuers
- Specialized intermediaries, merchant banking, and the role of investment banks
- Hedge funds and their multiple relationships with investment banks

Readings: CP, Articles #5-#7

February 3 & 5—Raising Public Equity: Initial Public Offerings
- The decision to go public
- Getting the mandate to lead an IPO
- The league tables and their significance
- Origination, underwriting, distribution, and after-market support
- The allocation of the fees

Readings: CP, Article #8
September 10 & 12—Other Aspects of Raising Publicly Traded Equity
- The impact of the internet on equity underwriting
- Privatizations, seasoned and secondary offerings, and rights issues
- The changing role of “sell-side” research

Readings: CP, Articles #9-#12

February 17—Review Session

February 19—Exam (Closed Book; No Notes)

February 24, 26, & March 3—Publicly Traded Investment Grade Debt & Private Placements
- The menu of choices for raising investment grade debt
- The role of the rating agencies vs. that of fixed-income research
- From shelf-registration to offerings over the internet
- Competitive vs. negotiated deals
- Private placements, Rule 144A issues, and bank loans

Readings: CP, Articles #13-#16

March 5 & 10—High-Yield Debt and Convertible Securities
- The evolution of the high-yield market
- The development of the leveraged loan market
- Hybrids of debt and equity
- The logic of convertible securities and the changing nature of that market

Readings: CP, Articles #17-#19

March 12, 24, & 26—Securitizations and Derivatives
**Note: No classes on March 17 & 19**
- The mechanics of mortgage-backed and asset-backed issues
- “Financial engineering”: tailoring risk and return to individual tastes
- Swaps and their importance for raising capital
- Credit derivatives

Readings: CP, Articles #20-#23
March 31, April 2 & 7—Mergers, Acquisitions, and Strategic Advisory
- M&A case assignment due April 2
- Recent trends in M&A activity
- Motivations for acquisitions and divestitures
- Winners and losers, and the elements of a successful deal
- “Doing a deal”: the mechanics of M&A

Readings: CP, Article #24

April 9, 14, & 16—The Sales and Trading Function
- The importance of sales and trading to capital raising
- Market-making vs. brokerage; institutional vs. retail clients
- The evolution of the exchanges and the new world of electronic trading
- Financing the inventory of an investment bank: call money and “repos”

Readings: CP, Articles #25-#27

April 21—Proprietary Trading
- Proprietary trading vs. market-making
- Risk-arbitrage at investment banks and elsewhere

Readings: CP, Article #28

April 23 & 28—Asset Management and Private Banking
- Institutional asset management and its relationship with investment banking
- Private banking and its evolution
- Synergies vs. conflicts

Readings: CP, Articles #29-#31

April 30—Managing Risks and Professional Standards and Ethics
- The variety of risks faced by an IB
- Measuring and managing market risk and the concept of “VAR”
- The “people risks” at investment banks
- Firm values and firm culture: their importance for success
- The lessons from recent years and the challenges ahead

Readings: CP, Articles #32 & #33

Final Exam—May 7, 4PM-5:50PM