

# LEHMAN BROTHERS

10/26/01



*Introduction to Investment Banking*

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# *Investment Banking Overview*

## Investment Banking Corporate Structure



## **Functional Areas of a Typical Investment Bank**

- ***Capital Markets - Sales, Trading & Research (Equity and Fixed Income)***
  - Distributes new security (primary) issues to institutional investors/clients
  - Transacts blocks of previously issued (secondary) securities through private placement or negotiation
  - Maintains markets for securities already distributed
  - Provides research on securities, companies, industries and economies
- ***Private Client Services***
  - Provides investment and financial advisory services
  - Focuses on high net worth individuals and mid-sized institutional investors
- ***Investment Banking***
  - Provides strategic, financial and valuation advisory services
  - Raises capital through the issuance of securities
  - Advises companies in merger & acquisition and restructuring transactions
  - Offers specialized products and services to meet the needs of corporate and government clients

## **What is Investment Banking?**

- ***Provide strategic, financial and valuation advisory services***
  - Use industry knowledge, expertise and contacts to advise senior executives and boards of directors
  - Identify and assess strategic opportunities
  - Interpret market information and enhance shareholder value
  - Provide general valuation services (e.g., segment analysis, break-up valuations, fairness opinions)
  
- ***Raise capital through the issuance of securities***
  - Act as intermediary between issuers and investors
  - Provide access to equity and fixed income capital (e.g., investment-grade, bank, high-yield, preferred stock)
  - Create specialized securities and derivatives (e.g., convertibles, trust preferred securities, warrants)

## **What is Investment Banking?**

- *Advise companies in merger & acquisition and restructuring transactions*
  - Sell-side assignments (represent client in sale of its company or some of its assets)
  - Buy-side assignments (represent potential acquirers and negotiate transactions)
  - Hostile take-over defense/advisory
- *Offer specialized products and services that satisfy the needs of corporate and government clients*
  - Private equity (e.g., Merchant Banking, Real Estate, Venture Capital, Other)
  - Fixed income principal transactions
  - Privatization
  - Monetization
  - Asset-backed securities

# *Investment Banking Overview*

## **Reasons to Consider a Career in Investment Banking**

- Develop wide range of skills (finance, strategy, marketing, etc.)
  - Team and project management
- Interact with senior management
  - Deal directly with CEO/CFO and senior management
  - Transactions undertaken are often high profile, company altering events
- Work with highly talented peers
  - Learn from those around you
- Able to take on responsibility early
  - Steep learning curve
- Industry expertise or breadth of knowledge across industries
  - Can specialize in an industry (e.g., Technology, Healthcare, etc.) or a product group (e.g., M&A, High Yield, etc.) that covers many industries
- Wall Street deal flow
  - Long-term growth in industry expected to continue
  - Breadth of different types of transactions and experiences

# *Investment Banking Overview*

## **Career Comparisons**

### ■ *Investment Banking vs. Sales, Trading & Research*

- More team and project oriented, longer-term assignments
- More strategic rather than market oriented
- More exposure to valuation, accounting, tax and corporate finance issues
- Skills more transferable outside the industry

### ■ *Investment Banking vs. Industry and Management Training Programs*

- More training and development of wide range of general business skills (finance and capital markets; tax, accounting and legal; negotiation; marketing; and how to create transaction opportunities)
- More responsibility at an earlier stage
- Faster career track
- More exposure to senior management and board members
- Greater interaction with leading industry players, better opportunity to develop network
- Greater intensity

# *Investment Banking Overview*

## **Career Comparisons**

### *Investment Banking vs. Consulting*

- Like consultants, investment bankers provide strategic advice to their clients
  - For example, investment bankers advise clients on how to survive in a changing industry
    - Optimize operating and stock price performance by divesting non-core business units
    - Capitalize on synergies or unrecognized value by acquiring other companies or assets
- However, unlike consultants, investment bankers also provide financial advice to their clients
  - Investment bankers present their clients with alternatives to reduce the client's cost of capital or to help the client obtain a stronger balance sheet
  - In simple terms, investment bankers efficiently match capital providers with capital users
- While transactions are conceived at a "strategic" level, execution requires detailed analysis and a thorough understanding of the financial, accounting and tax profile of the client
- More immediate, visible results to your advice – transactions executed in shorter time period and the "market" provides an immediate opinion on your advice

## **Associate Role in an Initial Public Offering**

- Assemble marketing materials to win the mandate, perform initial valuation work
- Conduct due diligence through site visits, interviews and extensive industry research
- Draft prospectus with company management, lawyers and accountants
- Produce marketing materials for the company's management team to present to investors to sell the transaction
- Develop a target of likely investors and coordinate sales effort with capital markets, sales force and on-line presence
- Perform final valuation work, price the offering
- Closing dinner

## **Associate Role in an Acquisition Advisory**

### **Before Winning the Mandate**

- Develop strategic analysis and rationale for acquisition
- Present a thorough analysis of potential acquisition candidates to client
- Formulate financing and capital structure to support the acquisition

### **After Winning the Mandate**

- Conduct extensive due diligence on target company; consider regulatory issues
- Continue to work with product specialists (e.g., leveraged finance) to refine capital structure issues
- Negotiate transaction terms and documentation
- Prepare fairness opinion, go to committee
- Assist the client in “selling” the transaction to the market
- Finalize the transaction and assist in any pending capital markets financing
- Closing dinner

## **Typical Role of a Summer Associate**

- Valuation analysis
  - Comparable company analysis
  - Comparable transactions analysis
  - Financial modeling / Discounted cash flow
- Assist in preparation of presentations (e.g., new business pitches, board books)
  - Important for the firm's marketing effort
  - Good for learning a product or an industry
- Attend Summer Associate events
  - Important evaluation factor
  - Demonstrates your ability to juggle your schedule and mix with people
  - Gives full-time bankers the opportunity to see you outside the office
- Above all else, be an enthusiastic and positive member of the team
  - Probably the most important factor in receiving an offer

## **Timeline of Investment Banking Recruiting**

### **October to November**

- Get to know the investment banks
  - Attend company presentations and other events
  - Attend Investment Banking Club events
  - Talk to 2<sup>nd</sup> years that were summer associates and 1<sup>st</sup> years that are former analysts
  - Network with alumni
- Stay knowledgeable about the industry
  - Read Wall Street Journal, Financial Times, Economist, etc.
  - Keep up with CNBC, CNN, Bloomberg, etc.
- Refine your resume to highlight the appropriate areas
  - Leadership
  - High academic performance (GPA/GMAT)
  - If applicable, relevant work experience

## **Timeline of Investment Banking Recruiting**

### **November to January**

- Organize informational interviews
  - Be professional and well prepared before contacting people
  - Be proactive
- Refine your story and practice mock interviews
  - Practice with a group
  - Know the three central questions (Why investment banking?, Why this firm?, Why you?)
- Send cover letters and resumes

### **January to February**

- On-campus interviews

## **What the Investment Banks are Looking For**

- Demonstrated excellence (in multiple dimensions)
  - High academic performance (GPA/GMAT)
  - Leadership/self motivator
  - Communication skills
  - Team skills
- Positive attitude
- Presence and professionalism
- Commitment to learning
- In general, firms are looking for people who have done their homework
  - Those who understand the industry and can differentiate among the firms

## **Personal Fit**

- Do you have the characteristics to make a good investment banker? Be prepared to relate anecdotes that illustrate these qualities:
  - Hardworking
  - Motivated
  - Willing to take initiative
  - Detail oriented
  - Team player
  - Aggressive
  - Handle stress well / thick skinned
  - Quantitative
  - Personable
  - Flexible
  - Sound judgment
  - Articulate
- Does your personality fit well into the bank's culture?
  - Team oriented culture vs. one that favors individual achievers
  - Meeting and talking to people at the various banks will give you a good idea
  - Remember, you will be spending a lot of time with these people so it's best to find an environment in which you are comfortable

## *The Recruiting Process*

### **Know how to differentiate among the firms, both for interviewing and for your own firm selection process**

- In addition to obvious geographic and market position characteristics, firms have other differing qualities
- Know how the firms are internally structured
  - All have some type of industry and product groups
  - Every firm has a different approach to group placement
- Know how the firms perceive themselves
  - What are their strengths, what are recent significant transactions?
  - How do they view their own culture?
  - What are employee demographics?
- Try to come to some conclusion regarding firm culture and personal fit
  - Meet as many people as you can

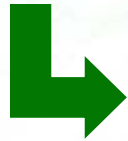
# *Investment Banking Interviews*

## **Summer Associate Interview Process and Format**

### *The Process*

Round  
**1**

- On campus – usually 30 to 45 minute interview with alumni



Round  
**2**

- Usually within a few days, with two back-to-back interviews each with two senior bankers

### *The Interview Format*

- Introductory remarks and get to know you (resume review)
- Why are you here – Why did you choose this school?
- Why Investment Banking? Why this firm?
- What is the role of an associate?
- Technical questions
- Wrap-up and Q&A

## **Commitment to the Industry and the Firm**

- Be able to provide a succinct answer as to why you want to be an investment banker
  - Will be different for each person
  - Your resume should tell much of the story
- Be familiar with the firm's history and some of its recent transactions
  - Demonstrate a broader understanding of the industry
- Be prepared to answer questions such as
  - Who else are you talking to? (be specific)
  - How would you compare firm A with firm B?
    - Strength of businesses
    - Culture
  - Are you interviewing outside of investment banking? Why?
- Most importantly, show that you have done your homework

# Investment Banking Interviews

## Technical Questions

- *Before the interview, you should be familiar and comfortable with the following concepts:*

### Finance

- Discounted Cash Flow Analysis
  - Free cash flow
  - Terminal value
  - WACC
- Comparable Company Analysis
  - Enterprise vs. equity value multiples
- Comparable Transaction Analysis
  - Enterprise vs. equity value multiples, premium analysis
- CAPM

### Accounting

- Basic
  - Income Statement
  - Balance Sheet
  - Cash Flow Statement
- Intermediate
  - Purchase accounting
  - Cash EPS
  - Deferred taxes
- Advanced
  - Pension accounting
  - Recap accounting
  - LBO accounting

## **Interviewing Tips**

### ■ ***Resume***

- Ensure resume highlights key competencies required by investment banks
- Include only what you are comfortable talking about and know it by heart
- Be able to expand upon each bullet point
- Be able to clearly explain why you made certain choices (e.g., business school, college, first job)
- Don't overlook the additional information section – it can provide good insight into who you are

### ■ ***Answering tough or unexpected questions***

- Take a moment to think about your answer – a well thought out answer is better than a fast answer
- Be direct in your answer and stand by your reasoning
- Remain composed and balanced

### ■ ***Personal impact is important***

- Body language, composure, volume
- Always look the interviewer(s) in the eye and use their name(s)
- When you are in a two-on-one interview, make sure you address your answers to both interviewers
- Relax and try to learn from the interview

## **Interviewing Tips**

- *In conclusion, relax, be calm and confident*
  - You attend a great school
  - You have many resources available to assist you
  - Many others have succeeded before you
- So get organized and create a game plan
- Good luck!

# Lehman Brothers Overview

## Who We Are

### Franchise

- Founded in 1850, Lehman Brothers is one of Wall Street's premier investment banking firms. Our market leadership and global presence provide us with access to the most significant issuers and investors around the globe

### Strategy

- Our strategy is client-driven. Providing the highest level of service to our clients is the core of our business strategy

### Future

- Lehman Brothers' rich history and tradition provide a strong foundation as we continue to expand our franchise with a focus on high-margin business areas (e.g., M&A, equities, leveraged finance and private equity investing)

### Culture

- We operate on a "One Firm" philosophy that emphasizes integration and teamwork across all businesses worldwide. Working together as "One Firm" enables us to deliver a full range of products and services to our clients in a seamless manner

### People

- Our people are our greatest asset. Lehman Brothers' professionals are driven to challenge themselves and take an active role in shaping their careers. They are deeply committed to our business philosophy and motivated to contribute to the Firm's clients early in their careers

**Lehman Brothers and Stern have remarkably compatible cultures, and the Firm has enjoyed a tremendous recruiting relationship with Stern over many years**

# *Lehman Brothers Overview*

## **2001 Investment Banking Summer Associate Program**

### ■ *Interview Process*

- First round interviews at NYU will be held on 1/14/02
- Second round interviews at Lehman will be held shortly thereafter

### ■ *Duration*

- 10-week program beginning on two different start dates

### ■ *Group Placement*

- Driven by Summer Associate preference and group requirements

### ■ *Training*

- Training for the summer is one week and includes an accounting and finance overview, comparable company and transaction analysis, financial modeling and use of various software programs
- Helps you get to know the firm and review basic tasks you will be asked to perform over the summer
- Presentations by the industry and product groups to raise your interest and awareness about what they do