Finance 496: Introduction To Investment Banking

Fall 2012: Thursdays, 4:00 PM – 6:40 PM
GMCS 324

Course Instructor: Lakshya Datta
Office Location: SSE 3405
Office Hours: Thursdays 12 PM to 2 PM
Email: datta.lakshya@gmail.com

Description
Investment Banks help companies, corporations, businesses, and governments raise money for Initial Public Offerings, Mergers & Acquisitions, and Leveraged Buyouts. Investment Banks actively hire recent college graduates and pay them over $100,000 in annual compensation for possessing the skills taught in this course.

In this course, students will learn the importance, relevance and work that an investment banker does. Students will learn how to value a private or public company using widely known methods, as well as the process of purchasing or selling a company. By the end of this course, students will be equipped with all the knowledge required to apply for and work at leading Investment Banks.

The material isn't limited to would-be investment bankers, and can be applied to any career where one deals with valuations, such as venture capital, private equity, corporate development, management consulting, and other related fields.

Course Objectives
To study widely used valuation methods, the process of mergers and acquisitions, and the financial markets.

Student Learning Outcomes
• Identify the many ways to value a company, and describe the key differences between them.
• Describe the various ways an individual or a company raises money from investors.
• Calculate the value of a company, forecast its success or failure, and determine it's stock price or sale price.
• Identify the advantages and disadvantages of leveraged buy-outs.
• Analyze how a company can go from $0 to $1 Billion in value without ever making a profit.
• Ace interview questions and be job ready.

Course Materials
The required text for this class is Investment Banking: Valuation, Leveraged Buyouts, and Mergers & Acquisitions, written by Joshua Rosenbaum and Joshua Pearl. It is available at the bookstore.

Media Reserves
To be announced in class.
**Topics Covered and Timeline**

**Week 1: The Life & Times of The Investment Banker**

An Introduction to the course, with a review of the current state of the finance industry and why it should matter to college students, and a discussion about how to make billions.

**Week 2: Facebook Vs. Twitter Vs. ? – Valuation by Comparison**

A detailed look at the first of three methods to value a company: Comparable Companies Analysis aka Trading Comps.

**Week 3: Excel Gods - Trading Comps Continued**

How to use Microsoft Excel to turn concepts, theory, and guesstimates into real, tangible numbers that mimic the market valuation.

**Week 4: Down To Business – Trading Comps Concluded**

Using the concepts and methods learned in the last two sessions, a public company is valued using the Comparable Companies Analysis.

**Week 5: Turning The Past Into A Higher Offer**

Introduction to the second, and more popular, method used to value a company: Precedent Transactions Analysis.

**Week 6: Excel Gods – Transaction Comps Continued**

Concepts are converted into calculations in part two of Excel Gods – this session is focused on transaction comps.

**Week 7: Show Me The Money – Transaction Comps Concluded**

Revaluing the company from week 4 using the Precedent Transactions Analysis – and discussing the possible reasons behind the difference.

**Week 8: Testing Capabilities – Midterm**

Midterm held in class (take home portion due at beginning of session).

**Week 9: Assume A Billion, Spend A Million – The Misused DCF**

Discounted Cash Flow: The third, and final, valuation method is introduced, followed by a discussion of its importance and relevance in a world blinded by overvalued startups.

**Week 10: Truth Above All – The DCF Way**

A fresh perspective is taken on the previously twice-valued public company – this time, using the Discounted Cash Flow Method.

**Week 11: Debt is Good, Mostly – Intro to Private Equity**

An introduction to the world of Private Equity, followed by a discussion on how, and more importantly, why they make so much money.
**Week 12: Taking Leverage Seriously – Intro to LBOs**

Concepts regarding Leveraged Buy-Outs are introduced, followed by an overview of the process used by PE firms to value an investment.

**Week 13: Thanksgiving Holiday (No Class)**

**Week 14: Mergers and Acquisitions, Acquisitions, Acquisitions**

An introduction to the M&A market – the bread and butter of Investment Bankers - followed by a brief look at the best and worst of the world’s biggest deals. At the end students are divided into teams for next week’s class project.

**Week 15: The Big Guns Vs. The Big Deals**

Teams representing real companies negotiate a possible merger or acquisition.

**Week 16: The End, For Now – Final Exam**

Final Exam held in class (take home portion due at start of session).

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**Book Description**

Investment Banking: Valuation, Leveraged Buyouts, and Mergers & Acquisitions focuses on the primary valuation methodologies currently used on Wall Street – comparable companies, precedent transactions, DCF, and LBO analysis. These methodologies are used to determine valuation for public and private companies within the context of M&A transactions, LBOs, IPOs, restructurings, and investment decisions. Using a step-by-step how-to approach for each methodology, the authors build a chronological knowledge base and define key terms, financial concepts, and processes throughout the book. The authors also provide a comprehensive overview of the fundamentals of LBOs and an organized M&A sale process.

Many leading business schools across the country, including Wharton, Booth, Ross, Kellogg, Columbia, and Johnson. It is also being used as training material at Credit Suisse, Deutsche Bank, Moelis & Co., and UBS.

This book is will be used extensively throughout this course and is highly recommended for anyone interested in a career in investment banking and/or valuation.

**Grading System**

A, outstanding achievement; B, praiseworthy performance; C, satisfactory performance; D, minimally passing and F, failing. The grade for average undergraduate achievement shall be C.
Grading

Attendance: 5%
Participation: 5%
Quizzes: 20%
Midterm: 30%
Final: 40%
TOTAL: 100%

Quizzes

There will be 5 quizzes during the course. Each student’s best 4 will each count at 5% of the overall grade (please see schedule below for dates). Each quiz will be held at the beginning of the session and will last 15 minutes. Details will be discussed in class in the week prior to each quiz.

Midterm

Take Home: 10%
In Class: 20%
TOTAL: 30%

There will be one midterm during the course, counting at 30% of the overall grade (please see schedule below for date). The take home portion will be an assignment based on Microsoft Excel. Students will have one week to complete it and it will be due at the beginning of the session. The in class portion of the exam will be in written format and will be held in class on the day of the midterm. The concepts from weeks 1 to 6 will be covered in the midterm. More details will be given out in the two weeks prior to the midterm.

Final Exam

Take Home: 15%
In Class: 25%
TOTAL: 40%

There will be one final exam during the course, counting at 40% of the overall grade (please see schedule below for date). The take home portion will be an assignment based on Microsoft Excel. Students will have one week to complete it and it will be due at the beginning of the session. The in class portion of the exam will be in written format and will be held in class on the day of the Final (after the Excel assignment is collected). More details will be given out during the course. The exam is scheduled for Thursday, December 13, 16.00 - 18.00 PM. Location is TBD.
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<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Chapter</th>
<th>Quizzes, Exams, Notes</th>
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<tbody>
<tr>
<td>August 30</td>
<td>The Life &amp; Times of the Investment Banker</td>
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<td>September 6</td>
<td>Facebook Vs. Twitter Vs. ?</td>
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<td>September 13</td>
<td>Excel Gods - Trading Comps</td>
<td>1</td>
<td>Quiz 1 in class; Complete input sheet in excel model</td>
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<td>September 20</td>
<td>Down to Business - Trading Comps</td>
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<td>Complete trading comps excel model</td>
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<td>September 27</td>
<td>Turning the Past into a Higher Offer</td>
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<td>Quiz 2 in class</td>
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<td>October 4</td>
<td>Excel Gods - Transaction Comps</td>
<td>2</td>
<td>Complete input sheet in excel model</td>
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<td>October 11</td>
<td>Show Me the Money - Transaction Comps</td>
<td>2</td>
<td>Quiz 3 in class; Complete transaction comps excel model</td>
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<td>October 18</td>
<td>Assume a Billion, Spend a Million - DCF</td>
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<td>Midterm take home portion is given out</td>
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<td>October 25</td>
<td>MIDTERM EXAM in Class</td>
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<td>November 1</td>
<td>Truth Above All - DCF</td>
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<td>Complete DCF excel model</td>
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<td>November 8</td>
<td>Debt Is Good, Mostly - Private Equity</td>
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<td>Quiz 4 in class</td>
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<td>Taking Leverage Seriously - LBOs</td>
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<td>November 22</td>
<td>Thanksgiving Holiday - No Class</td>
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<td>November 29</td>
<td>Mergers and Acquisitions</td>
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<td>Quiz 5 in class</td>
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<td>December 6</td>
<td>The Big Guns Vs. The Big Deals</td>
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<td>December 13</td>
<td>FINAL EXAM - In Class</td>
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<td>Take home portion of Final exam is due at beginning of class</td>
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