CHAPTER 1

Introduction to Investment Banking

Tell people that you are an investment banker and you will likely get varying responses. Some will be highly impressed and may ask if they can hitch a ride on your private jet. Others will blame you personally for nearly blowing up the global economy in 2008 and for all the ills of the world that have followed. But perhaps the most frequent reply goes something like this: "Oh, you're an investment banker. Do you have any good stock tips?"

One thing is pretty certain: Ask a random person from Main Street, not Wall Street, to describe what it is that an investment banker does, and he or she will likely have no idea.

Maybe you are trying to decide whether to recruit for investment banking. How will you decide? First, you need to know what you are getting into. Will your life as a junior banker be glamorous? Will the work be intellectually challenging? Will you be well paid for all of your sacrifices? What will you learn? And where can a foundation in banking take you over the longer term?

Now, let's suppose you decide to go for it. Full steam ahead with recruiting. What's the first thing you need to do? You need to be knowledgeable—or at least sound like you're knowledgeable. You need to be able to articulate what investment banks do and what investment bankers do. There is no more surefire way to fail at the recruiting and interviewing process than to come across as naïve about the industry.

Okay, so let's say you've successfully navigated the recruiting process. You have offers—good offers. You're going to be an investment banker. Now what? Go in with your eyes open, have realistic expectations, and understand what it takes to succeed. Know what you want out of it and, most importantly, do it for the right reasons. Take this advice and your career will flourish. Don't, and you will struggle and be miserable, and your time spent as an investment banker will likely be brief.

This chapter is meant to give you a broad overview of investment banking and of what life will be like as a junior investment banker. We will begin with a discussion of the various functions of a typical large investment bank, the kinds of transactions that investment banks execute, and the different types of investment banks that exist. Next we will cover the structure of an average investment banking division and the standard hierarchy of job titles. Following that, we will talk about the actual work that investment bankers perform, and the culture and lifestyle that you should expect as a junior banker. Finally, we will wrap up the chapter with a discussion of some of the common career paths that exist for bankers leaving the industry and clear up some frequently held misconceptions about investment banking.

OVERVIEW OF AN INVESTMENT BANK

Let's start with the basics. An investment bank is an institution that provides financial advice and raises money for three main sets of clients: companies, governments, and wealthy individuals.

However, the large investment banks of the world, the firms like Goldman Sachs and Morgan Stanley, do a lot more than just advise and raise money for their clients. In other words, they do much more than just investment banking. For example, they have departments that sell and trade various securities, provide research to institutions and individuals about such securities, manage the investments of institutions and wealthy individuals, and trade the bank's own capital.

Following is a brief list of the many of the significant functions and/or divisions of a typical large investment bank. These functional areas are considered to be part of the institution's front office. Loosely speaking, that means that they are client-facing and typically revenue-generating parts of the firm. Investment banks also have substantial middle-office and back-office roles. Middle-office areas of the bank encompass such things as risk management and treasury management, whereas back-office roles include operations and information technology (IT).

Key front-office functions include:

- Investment banking.
- Sales and trading.
- Proprietary trading.
- Research.
- Asset management.
- Private banking.

As you may be aware, not every investment bank is large, and not every investment bank provides all of these types of financial services. Some investment banks indeed only do investment banking, and not trading or research or asset management. We will discuss the different types of investment banks later in this chapter.

Moreover, even the large investment banks may be just one division of a larger financial institution. Some firms provide not only investment banking services to companies but also commercial banking services. Such services typically include bank lending, money market savings accounts, and cash management. A firm that contains both an investment bank and commercial bank is often referred to as a universal bank. And even universal banks may be just a small part of a larger retail bank with a retail branch network that offers banking services to individuals, including checking and savings accounts, credit cards, and mortgages.

Key Divisions of an Investment Bank

As mentioned earlier, large investment banks do many different things. This section includes a brief description of these divisions or functional areas, and a short discussion of the lifestyle of the types of finance professionals who work there.

Keep in mind that the various divisions of banks are often structured differently from one another, and banks frequently have different names (and sometimes acronyms) for the same functions. An example of such a difference is private banking, which might fall under the umbrella of asset management at some firms and be an independent division at others. Some more poorly run banks even go through the exercise of restructuring their divisions every few years.

Investment Banking Given that the remainder of this chapter is about the investment banking division, we will keep this section very short. Investment banking is the division within an investment bank that advises companies, sometimes governments, and occasionally wealthy individuals on two things:

1. Executing large financial transactions such as an acquisition, sale, or divestiture.
2. Raising substantial amounts of money both privately and publicly through the debt or equity markets.

Within a larger financial institution, the investment banking division is sometimes abbreviated IBD, or referred to as corporate finance or advisory.

There are also plenty of standalone firms that only do investment banking. From this point on in the book, when we use the term "investment banking," we are speaking specifically of this functional area or division.

Sales and Trading Sales and trading is the division within the investment bank that, as its name indicates, sells and trades various securities and financial instruments. The sales and trading division is often abbreviated S&T and is sometimes referred to as capital markets or just markets.

The sales and trading division earns revenue through trading commissions and trading profits. By being both a buyer and seller of securities, it also provides liquidity to the marketplace, often referred to as market making. Over the past decade or so, a large focus of the sales and trading division has also been on inventing and structuring complex financial products (derivatives) such as interest rate swaps, collateralized debt obligations (CDOs) and credit default swaps (CDSs).

Examples of securities and financial instruments that are sold and traded by this division include:

- Equities (i.e., stocks).
- Fixed income securities (i.e., government and corporate bonds).
- Currencies.
- Commodities.
- Derivatives.

Professionals who are employed in this division work on what is known as the trading floor, an often-cavernous room taking up entire physical floors of the buildings that house financial institutions. The trading floor is segregated by financial product into what are known as desks. Individuals sit on a desk depending on what financial product they sell or trade. For example, a trader might sit on an equity derivatives desk or a convertible bonds desk.

Each desk typically has three types of personnel: institutional salespeople, traders, and sales traders. Salespeople suggest trading ideas and take trading orders from clients. These clients include institutional investors such as hedge funds and other asset managers. Traders then execute those trades. Sales traders act as intermediaries between the sales people and the traders.

Over the past several decades, the sales and trading division has become the largest front-office division of a typical large investment bank, both in terms of headcount and revenue. However, at most firms, this division has shrunk significantly over the past several years as trading revenue has declined, as more trading has become automated, and as products that were once considered complex have become standardized and "plain vanilla."

These trends have had a negative impact on recruiting, especially among undergraduates and MBA students.

The sales and trading division of investment banks have placed a large focus on increasing revenue and profits by inventing highly complex financial instruments that are not standardized and cannot be traded on an exchange. However, the hiring needs to structure and trade these kinds of products have focused on those with highly quantitative skills such as PhDs in the hard sciences, mathematics, and finance.

In general, sales and trading tend to attract individuals who are interested in the markets, have aggressive personalities, and handle stress well. The trading floor tends to be a male-dominated, fraternity-like atmosphere. Women are underrepresented, even by the standards of the finance industry. The lifestyle is intense during market hours, with traders and salespeople glued to their multiple computer monitors and phones. However, compared with investment banking, there is much more predictability to the hours. Plus, traders rarely work nights or weekends, the exception being salespeople who entertain clients. Compensation in sales and trading can be very high, even at relatively junior levels, though the compensation can be very volatile as market conditions change. Exit opportunities from sales and trading are generally limited to doing similar work at a hedge fund or other asset manager.

Proprietary Trading One of the greatest sources of profits for some of the large investment banks over the past decade has been from trading securities with the firm's own capital, as opposed to trading on behalf of a client. This activity is known as proprietary trading, or prop trading for short. Essentially, proprietary trading is like an internal hedge fund within the sales and trading division. However, recently regulators have tried to put a stop to proprietary trading, arguing that it is too risky of an activity for regulated banks. It remains to be seen how successful regulators will be in curtailing proprietary trading since it is difficult for regulators to distinguish between trades made on behalf of a client and trades that are not.

Sell-Side Research Sell-side research departments produce the fundamental research and analysis of industries, companies, economies, and related securities such as stocks, bonds, and currencies. The largest division within the research department is typically equity research, where analysts are responsible for covering the stocks of companies within a specific industry. Research analysts produce reports with detailed analysis, earnings forecasts, and commentary about the companies that they cover. They also often issue buy and sell recommendations, and come out with price targets on the stocks of those companies.

Research departments have two main sets of clients: internal and external. Internal clients are those that are within the bank, such as the equity sales and trading department. External clients are those that are outside of the bank, namely institutional investors such as hedge funds, pension funds, and mutual fund companies. Individual investors are also considered to be external clients.

Historically, many research analysts acted as investment bankers, helping to market their firm's mergers and acquisitions (M&A) and capital raising services to senior management of the companies that they covered. However, after the dot-com bust of the early 2000s, regulators tried to put an end to that practice, citing the inherent conflict of interest between independent research and investment banking. This has resulted in shrinkage of the equity research departments at most large investment banks and generally lower compensation for research analysts. Now that analysts cannot act as investment bankers, research is thought of as more of a cost center than a revenue generator. Research analysts are under significant pressure to cover a great number of companies and have strong relationships with institutional investors who will place trades with the bank, an activity that does generate revenue.

Equity research analysts have a similar skillset to investment bankers, and, in fact, some research analysts do make the switch to banking and vice versa. Like investment banking, research requires finance, accounting, valuation, and financial modeling skills. However, research analysts generally have more in-depth knowledge of the industry and companies that they cover than do bankers. In addition to the reports that research analysts publish, and the financial models underlying those reports, analysts spend time meeting with management, attending industry conferences, and meeting with and talking to institutional investors such as hedge funds.

Equity research tends to attract individuals who like to follow the stock market, enjoy fundamental research, and have an interest in a particular industry. The stress level is high, though not at the level of trading, and hours are long, though not at the level of banking. However, life gets very challenging during earnings seasons, when there is intense pressure to publish reports following each covered company's earnings release.

Chinese Wall Before we move on from our discussion of equity research, there is one additional topic worth mentioning: that of the Chinese Wall. Within an investment bank, a Chinese Wall is a separation between individuals who possess non-public information about a company and those who should only have public information. The most significant of these Chinese Walls exists between research analysts and investment bankers. For example, a research analyst should not know about a potential M&A deal on which an investment banker is secretly working. The compliance departments of investment banks take this separation very seriously and typically limit or chaperone interaction between the research analysts and the bankers.

Asset Management and Private Banking The asset management division of an investment bank manages and administers the assets of institutions such as pension funds, endowments, foundations, corporations, governments, and individuals. This division may manage investments on behalf of clients in all sorts of financial assets, such as equities and fixed income, as well as alternative investments such as hedge funds and private equity. Within the asset management division there are many different types of job functions including buy-side research (which is similar to sell-side research), portfolio management, and risk management. Asset management is sometimes also referred to as investment management.

The private banking department advises and manages money for high net worth individuals, their families, and their estates. In addition to managing money, they might help with such things as tax planning and estate planning. Private banking is sometimes also referred to as private client services (PCS) or private wealth management (PWM). This division may be a standalone division of the investment bank, or it may fall under the asset management or investment management umbrella. Most large financial institutions that offer private banking have different tiers of service, depending on the wealth of the client and the amount of assets a client has under the firm's management.

As with equity research, individuals attracted to asset management tend to enjoy following the markets and have good fundamental analysis and valuation skills. Individuals in asset management tend to stay in asset management, though they may move from an investment bank to another type of institution such as a hedge fund or mutual fund company.

Private banking requires very strong sales and client management skills, in addition to a varying degree of finance knowledge. At the junior levels, cold-calling is often required, and at the senior levels, significant entertaining. Wealthy individuals are often demanding clients, and catering to them is not always easy. Private banking is one area of the bank that tends to attract a significant number of women.

OVERVIEW OF INVESTMENT BANKING

Now that we've introduced the larger entity known as the investment bank and many of its important divisions, it is time to turn our attention specifically to investment banking, which is the focus of the remainder of the book.

We will start with a discussion of the types of transactions that investment bankers execute for their clients, and how they market their services and pitch for new business. Then we will cover the different types of investment banks that exist, namely the bulge bracket firms and the boutiques. We will conclude this section by talking about the structure of the different groups within a typical investment bank.

Types of Investment Banking Transactions

The primary role of an investment banker is to execute financial transactions for their clients. When we talk about an investment banker advising a client, what we really mean is a banker is advising on the execution of a transaction or potential transaction. The most common types of transactions that bankers execute are mergers and acquisitions, leveraged buyouts, capital raises, and restructuring transactions. Before bankers are hired to execute a transaction for a client they typically have to market their services, a process known as pitching.

Mergers and Acquisitions (M&A) For a number of reasons, companies sometimes merge with or acquire other firms, or purchase divisions or assets of other firms. For all but the smallest of deals, firms hire investment banks to help execute these transactions. Companies also hire investment bankers when they want to sell their entire company or divest divisions or large amounts of assets. Together, these types of transactions are known as mergers and acquisitions or, for short, M&A.

For an investment bank, this kind of advisory work can be segregated into two types: sell-side M&A and buy-side M&A. Sell-side M&A refers to the work representing a company that seeks to sell itself or a portion of its assets. On the flip side, buy-side M&A refers to the work advising a company that seeks to buy another company or portion of a company. In any given M&A transaction, there are typically one or more investment banks advising each side of the deal.

We will discuss mergers and acquisitions in much greater detail in Chapter 7.

Leveraged Buyouts (LBOs) Leveraged buyouts (LBOs) refer to a type of transaction whereby a company is acquired using a substantial amount of debt to help finance the purchase. The companies that make these types of acquisitions are a special type of investment fund known as a private equity firm or financial sponsor. Investment banks advise private equity firms on the acquisition and help to raise the substantial amounts of funding required to complete the transaction.

We will discuss leveraged buyouts in more significant detail in Chapter 8.

Capital Raisings As we mentioned earlier in this chapter, one of the two primary roles of the investment banking division is to help raise money for companies. Companies often require money for many different reasons, such as to fund organic growth, for a product or geographic expansion, for an acquisition, or because they have to repay existing lenders or investors. As we will discuss in Chapter 3, there are many different types of funding available to most companies, but nearly all types of funding can be categorized as either debt or equity.

Investment bankers help companies raise debt and equity from both the private and public markets. Raising capital is a highly regulated process, especially when seeking funds through the public markets, such as issuing traded stocks or bonds. In the United States, investment banks and the investment bankers who work on fundraising transactions must be licensed by regulatory agencies. Even raising money privately from banks, hedge funds, or other accredited investors requires following regulatory processes.

Most fundraisings, whether public or private, and whether for debt or equity, follow a similar process. Perhaps the most talked-about of fundraising processes is when a private company issues new shares of common stock to public investors. This is known as an initial public offering, or IPO. Many investment banks (collectively known as the underwriters) are involved in selling the new securities to both institutional investors and individual investors (also referred to as retail investors). However, there are typically one or two investment banks that play the lead role in the fundraising process, known as the bookrunner, or lead manager (or joint bookrunners/lead managers, in the case of multiple investment banks).

The lead manager(s) does a substantial amount of work through the IPO process. Key tasks include doing substantial due diligence on the company, working with the company's management and lawyers to draft and revise the S-1 registration statement (which becomes the prospectus), and determining the appropriate valuation for which to issues shares. The lead manager also organizes what is known as the road show, where management markets the company and presents its investment case to prospective institutional investors. The lead investment bank also helps to coordinate with the other underwriters on the deal (the co-managers). After all of that work, shares are allocated to investors and the stock begins trading publicly. Generally for an IPO, the investments banks receive fees of up to 7 percent of the amount of money raised, with the lead manager receiving the largest share, though in recent years, IPO fees for large and high-profile IPOs, such as GM and Facebook, have been significantly lower.

In addition to helping private firms issue new shares to the public in an IPO (known also as a primary offering), investment banks often help public companies sell additional new shares to investors, which is known as a follow-on offering. There is typically much less work that needs to be done in a follow-on offering than for an IPO, and the time it takes to execute the transaction is much shorter. Sometimes investment banks also help institutional investors sell large blocks of existing public shares of a company in what is known as a secondary offering.

When investment banks help companies raise money privately, it is typically referred to as a private placement. These types of fundraises are generally, though not always, smaller in size than a public offering. They are also less regulated than a public offering, but the process and the work required of the investment bank are quite similar. The investment bank must perform due diligence and valuation, and help draft the marketing material known as a private placement memorandum (PPM) or offering memorandum, as well as seek out and negotiate with investors or lenders.

Restructuring When times are good, investment bankers are busy helping companies raise money and make acquisitions. When times are bad, sometimes companies get into trouble. Companies may find themselves in the position of not having enough funds on hand to pay the interest or principal on their debt, or even operate their business. Or they may be in breach of various financial requirements (known as covenants) that lenders have placed on them. Companies in such a precarious state are referred to as being distressed. In distressed situations such as these, investment bankers are frequently brought in to provide advice.

Just as M&A assignments can be bifurcated into two broad categories (buy-side and sell-side), so can restructuring work be split into two type types. In the case of restructuring, there are investment banks that advise the distressed company, which is known as being on the debtor-side. In a typical distressed situation, there are also investment banks hired to advise the lenders and/or investors of the company, known as being on the creditor-side.

Debtor-side work involves representing a distressed or bankrupt company through a financial reorganization or recapitalization. Often this restructuring takes place under the legal protection of a bankruptcy court (a Chapter 11 reorganization), though sometimes a restructuring transaction can be effectuated without the company having to file bankruptcy (an out-of-court restructuring). The general goal of the debtor-side adviser is to help negotiate a reduction or elimination of the company's debts so that the company can be healthy when it emerges from bankruptcy or from the restructuring transaction. Bankers also help distressed companies raise funds to allow them to operate while in bankruptcy (debtor-in-possession, or DIP financing) and raise funds to allow them to operate upon emerging from bankruptcy (exit financing). Debtor-side work also frequently involves the sale of assets or multiple sales of assets, as in a sell-side M&A transaction.

Creditor-side involves representing the creditors (or a certain group of creditors) of a distressed or bankrupt company to try to maximize recoveries to that constituent. In a large restructuring, there are often multiple classes of creditors, each represented by a different investment bank.

Generally restructuring work is very interesting, given the legal backdrop of the bankruptcy laws. Transactions are also often contentious given the highly sophisticated parties involved (i.e., distressed hedge funds) and the fact that these parties are fighting over a zero-sum pool of money (the value of which is typically declining the longer the company is distressed or in bankruptcy). Much of the work involved is similar to that in M&A and fundraising processes, involving due diligence, valuation, modeling, and the creation of marketing materials and other presentations. However, timetables are often much quicker than in healthy transactions, and the technical work of junior bankers such as valuation often plays a key role in determining recoveries to the various creditor classes.

Unlike M&A and capital raises for healthy companies, for which advisory work is generally dominated by the larger investment banks, most restructuring work is done by smaller, boutique banks. This is due to the fact that large institutions often have conflicts of interest in distressed situations because they had a role in previously raising funds for the now-distressed company. Moreover, given the contentious nature of most restructuring transactions, large banks are reluctant to negotiate against the interests of some of their best clients, namely hedge funds and large institutional investors that typically make up a sizable portion of a distressed company's bondholders or other class of lenders. Lastly, keep in mind that within the small community of investment banks that do have restructuring practices, some firms focus primarily on either debtor-side or creditor-side roles, and some firms will perform both functions (though obviously not on the same transaction).

Pitching

While investment banks get paid for executing transactions for clients, bankers spend much of their time marketing their firm's services to prospective clients. This marketing activity is known as pitching. In fact, in nearly all circumstances, before a bank is hired to execute a particular transaction, it will have pitched for the business first.

Broadly speaking, there are three different types of pitches. The first type of pitch is an introductory pitch, when the investment bank or a particular senior investment banker meets a new prospective client for the first time. In this type of pitch, the bankers are there to introduce the firm and the firm's services to the company, and to learn about the company and its anticipated need for future investment banking services. The goal of such a pitch is to begin a relationship with the company that will ultimately result in the bank being hired to execute one or more transactions down the round.

The second kind of pitch is what we will call an untargeted pitch. In an untargeted pitch, bankers will present a variety of different investment banking "ideas" to a client, such as possible acquisition targets. The bankers will also frequently use this opportunity to provide management with an update on current market conditions. These types of pitches are used by bankers to get in front of senior management periodically, sometimes as often as every month for large companies that execute lots of transactions and are frequently in the market for investment banking services. The goal of this kind of pitch is to continue to foster a relationship with the company and to demonstrate helpfulness so that when the client is ready to hire a bank to execute a transaction, the investment bank is considered. It is unusual for the "ideas" presented in these kinds of pitches to result in actionable transactions.

The third kind of pitch is a targeted pitch, where investment bankers meet with the management of a potential client to talk about one or more specific transactions. Frequently, this kind of meeting is initiated not by the investment banker but by the company. This is the case when the company is contemplating a transaction and wants to hire an investment bank to help execute it. Often the company will invite a number of investment banks to pitch for the business in what is commonly referred to as a bake-off or beauty contest. Occasionally, such contests will go through multiple rounds of pitching, something that is difficult for bankers because, in each round, they will have to come up with additional material to present to management.

Pitchbooks In nearly every single meeting in which bankers pitch clients, junior investment bankers assigned to the pitch will create what is known as a pitchbook. A pitchbook is a PowerPoint presentation that gets printed in color, bound with a fancy cover, and presented to potential clients in the actual pitch meeting. Enormous work often goes into the process of creating these pitchbooks. In fact, junior bankers can routinely expect to spend half of their time or more working on pitchbooks, as opposed to working on live transactions.

A typical pitchbook contains a number of different sections. One of the first tasks of the deal team assigned to a new pitch is to decide what sections should be in the pitchbook. The list of sections is also often referred to as the pitchbook's table of contents, or TOC. Pitchbooks can run from a couple dozen pages to a hundred pages or more, the length of which will often vary, depending on the type of pitch but also on the senior investment banker running the pitch. Some senior bankers are notorious for demanding "fat pitchbooks." Many junior bankers believe there is an inverse relationship that exists between the size of the pitchbook and the quality of the senior banker.

Following are examples of some of the key sections contained in a typical investment banking pitchbook.

Credentials and Experience The goal of the credentials and experience section is to impress a prospective client with the vast experience and range of services that the investment bank can offer. In addition to providing an overview of the firm, this section will highlight the bank's (or group's) experience working with similar types of companies and/or executing similar types of transactions. For example, a pitchbook created for a sell-side M&A pitch will naturally highlight the firm's vast experience executing sale transactions. This section contains little analysis and is mostly boilerplate material that is periodically updated. Usually each group within the investment bank has its own set of materials for this section. In an introductory type of pitch, this section might be the only one contained in the pitchbook, whereas if the bank is pitching a client it knows well, this section may be relegated to the back of the pitchbook in an appendix.

The credentials section will typically include a grid of "tombstones" highlighting relevant deals with which the bank has been involved. It may also include one or more case studies, containing more detailed information about a previous transaction and its successful outcome.

League Tables One additional set of information nearly always contained in the credentials and experience section is known as the league tables. League tables are rankings of investment banks compiled by various services and grouped by type of investment banking activity. The most commonly used source for investment banking league tables is Thomson Reuters.

The goal of including league tables in a pitchbook is to make the investment bank appear to be the top-ranked adviser for relevant transactions. It is often up to the junior bankers putting the pitch together to "slice and dice" the league table data to make their employer be ranked first, or at least in the top three, of the league tables.

As an example of this often-silly exercise, suppose a number of investment banks are pitching to provide advice to a $1 billion European technology company that is contemplating selling itself. One bank might present the league tables showing that is ranked number one for all global M&A transactions. A second firm might show being ranked number one for European M&A transactions. A third bank might be ranked number one for European M&A transactions in the technology sector, and a fourth bank might show being ranked number one for European technology M&A for deal sizes of $750–$1.25 billion (for which there might only have been one recent deal!).

Situation Overview/Market Overview Another common section included in pitchbooks is a situation overview, or market overview. The section might include commentary and/or analysis about the company, its industry and industry trends, and the company's current positioning within its industry. Typically, a positive spin is put on company information and recent performance so as not to offend management. This type of section might also include information about the current M&A or financing environments, and any other relevant data that will help encourage the client to consider doing a deal.

Strategic Alternatives Even if an investment bank has been invited to pitch regarding a specific transaction, the bank will typically include a strategic alternatives section highlighting other possible transactions the company may want to consider. Alternatives might include a sale of the company, a sale of a division, a capital raise, or doing nothing at all. However, since bankers only get paid for doing deals, doing nothing is usually not recommended.

Bankers will typically list the pros and cons (or advantages and disadvantages) of each strategic alternative. However, as one of the unspoken rules of investment banking, words with negative connotations like "cons" or "disadvantages" are not used. "Cons" become "issues," and "disadvantages" turn into "risks." After all, issues can be dealt with and risks can be mitigated.

Valuation As we will discuss in Chapter 5, a valuation exercise is performed for nearly all investment banking transactions. Since the majority of pitches discuss one or more possible transactions, a section on valuation is common in most pitchbooks. Generally, the pitchbook will include a summary page showing a range of concluded values, as well as summary pages for each of the different methodologies utilized. Sometimes the detailed work supporting the summary valuation exhibits are included in an appendix to the pitchbook.

Depending on the type of transaction being contemplated, bankers may skew the valuation higher or lower. When pitching a sell-side assignment, the valuation is likely to be on the aggressive side. In other words, hire us and we will get you a top price. On the other hand, for a buy-side pitch, valuation is more likely to be conservative. Sophisticated clients that deal frequently with investment bankers understand these types of games that bankers play and know to temper expectations accordingly. However, less sophisticated clients can become upset when transaction value winds up being substantially different from a banker's initial valuation. In a pitchbook, bankers always label valuation and other analysis as preliminary so as not be held legally or reputationally responsible for analyses that later gets revised, or for mistakes or inaccuracies. In addition, presentation pages containing analysis typically have very detailed footnotes describing the sources of information that have been used and the assumptions that have been made.

Potential Buyers/Investors/Targets A pitch for a sell-side assignment will typically contain a list of potential buyers that the investment bankers think might be interested in acquiring the company or assets being sold. Most of the time this list will be segregated into two categories of buyers: strategic buyers and financial buyers. Strategic buyers are usually companies in the same or a related industry as the seller and would be interested in making the acquisition for "strategic" reasons. Financial buyers are typically private equity firms that might be interested in acquiring the firm in a leveraged buyout.

Some background information is frequently included for each possible buyer, along with some commentary specifying the rationale for the buyer being interested and the likelihood of success for each buyer. For some pitchbooks, a couple of bullet points are sufficient to describe each potential buyer; other times the pitchbook will contain a slide for each buyer. If the list is sufficiently targeted, bankers may even perform some preliminary analysis for a transaction with each possible buyer, such as an accretion/dilution analysis (which we will discuss in Chapter 7).

Similar to the buyer's list contained in a sell-side M&A pitch, a list of potential investors will be compiled for a fundraising transaction. In a pitchbook for an untargeted buy-side pitch, this section will often contain detailed profiles of possible acquisition targets that the company may (or, more likely, may not) be interested in purchasing. These are usually among the most painful types of pitches to put together for junior bankers, especially when the number of profiles reaches into the dozens.

Summary Conclusions Most pitchbooks will contain a summary or conclusion section detailing the investment bank's recommendations based on its understanding of the situation and on its preliminary analysis. Depending on the type of pitch, recommendations may include pursuing a particular transaction or using a certain financing structure.

Bios At the end of nearly every pitchbook is a section containing bios. Of all the sections contained in the pitchbook, the bios are typically the only section actually read by the potential client. Bios are usually a paragraph or two of information about each member of the team who will work on the engagement should the investment bank be hired. The bios of the bankers in attendance at the actual meeting are often highlighted, and bios are typically listed in the order of each banker's job title. However, between bankers of the same rank (especially managing directors), the order is sometimes highly contested. It is not enjoyable for the junior investment bankers putting the pitchbook together to get caught in the middle of such a political squabble.

Winning the Pitch Given how much work goes into creating pitchbooks, it would be reasonable to think that the investment bank that creates the best pitchbook will get hired. Alas, this is rarely the case. The quality of the pitchbook (or the analysis contained therein) rarely decides which investment bank will get hired. Since bankers typically have access to the same information and perform the exact same types of analysis, pitchbooks from different investment banks tend to be very similar.

For the most part, investment bankers are hired based on the quality of their relationships with the potential client and their experience executing similar transactions. Some large companies that frequently engage investment bankers like to spread the work around multiple banks; other companies tend to stick with one investment bank for all of their transactions. Except for very small transactions, the decision to hire a bank is almost never based on the fees that the bank will charge. Investment banking fees tend to be very comparable from bank to bank.

Types of Investment Banks

The universe of investment banks can be segregated into two types: bulge bracket banks and boutiques. On one hand, this is a gross simplification of the world, since as we will see there is a lot of diversity within the boutique landscape. On the other hand, this is pretty much the way people who work in the industry think.

In this section, we will describe the two different types of investment banks, in terms of the type of work they do, the types of transactions they execute, and the clients they advise. Later in this chapter, when we talk about the lifestyle of a junior investment banker, we will discuss some of the cultural differences between bulge bracket and boutique banks.

Bulge Bracket Investment Banks The term bulge bracket is used very frequently within the finance community to describe a certain subset of investment banks. In light of that fact, it may be surprising to you to learn that there is no technical definition of what bulge bracket means, and there is no official list of which investment banks should indeed be considered as members of the bulge bracket.

When we speak of the bulge bracket, we are referring to the large investment banks that (1) market to and advise the biggest clients in most, if not all industries, and (2) execute a variety of types of large-cap investment banking transactions. Bulge bracket banks also tend to operate globally, having offices across the world, something that is important given the ever-increasing number of cross-border transactions.

As of 2012, most professionals in the industry would consider the following investment banks to be within the bulge bracket:

- Bank of America Merrill Lynch (BAML).
- Barclays.
- Credit Suisse.
- Citigroup.
- Deutsche Bank.
- Goldman Sachs.
- J.P.Morgan.
- Morgan Stanley.
- UBS.

Keep in mind that this list is not forever static. For a variety of reasons, over time, banks have dropped off the list and others have been added. The most recent changes to the bulge bracket community occurred during the tumultuous period of 2008 and 2009, with the bankruptcy of one bulge bracket bank, Lehman Brothers (much of its U.S. investment banking assets acquired by Barclays) and the distressed sales of two others, Bear Stearns (acquired by J.P.Morgan) and Merrill Lynch (acquired by Bank of America). In addition, over the past decade other large financial institutions have attempted to break into the bulge bracket. HSBC tried and failed in the mid-2000s, and Nomura has made an effort in recent years.

Boutique Investment Banks So, if you are not a bulge bracket bank then you are a boutique investment bank. Admittedly, some of the larger financial institutions that are not considered bulge bracket might find this classification a touch insulting. However, within the context of our discussion, the term boutique does not necessarily mean that a firm is small, but that its investment banking presence and/or the type of its investment banking activity is more limited than that of the bulge bracket.

Some boutique investment banks are actually quite large, with multiple offices in multiple countries.

We will classify the boutique investment banks into four categories:

1. Investment banks that focus on one or more investment banking products (product focus).
2. Investment banks that focus on one or more industries (industry focus).
3. Investment banks that focus on smaller deal sizes and smaller clients (middle market focus).
4. Large domestic or international financial institutions that have limited investment banking capabilities or dealflow (bulge bracket lite).

Product Focus Some boutiques focus on advising clients on one or more particular types of financial transactions. Some of the most prestigious and sought-after boutiques among job seekers specialize in providing advice on mergers and acquisitions. These investment banks often compete with the bulge brackets for M&A deals, but they do not offer their clients a full range of investment banking services. For example, boutiques may not have the capital markets capabilities to help execute an IPO, and they may not have the balance sheets necessary to be a lender to a client in connection with an acquisition. For these reasons, sometimes boutiques will pair up with a bulge bracket bank when executing a large transaction.

Following are a few examples of boutiques that are known for having a strong M&A focus. Note, however, that some of these firms are large and do much more than solely provide M&A advice. Also keep in mind that M&A is not the only type of transaction on which boutiques focus. For instance, there are boutique banks that specialize in restructuring transactions.

- Evercore.
- Greenhill.
- Lazard.
- Moelis.
- Perella Weinberg.

Industry Focus A second type of boutique investment bank encompasses firms that focus not on a product like M&A, but on providing services to clients in one or more specific industries. Some boutiques that fit this bill specialize in smaller clients and smaller transactions. Others, like the product-focused banks, will compete with the bulge bracket banks for larger deals. Some industry-focused boutiques also concentrate on products such as M&A while others provide a broader range of investment banking services, including executing IPOs and private placements, and have capital markets and equity research divisions. Often industry-focused banks are small but their senior-level bankers tend to have a high degree of industry knowledge and strong industry relationships.

Following are three examples of well-regarded boutiques that focus on a specific industry, with the industry in parentheses.

- Allen & Company (media).
- Qatalyst Partners (technology).
- Simmons & Company (energy).

Middle Market Focus The next category of boutique investment bank to discuss is those firms that focus on middle market clients and middle market transactions. Like with the term bulge bracket, there is no correct definition of what constitutes the middle market. Most people think of the term middle market as generally referring to companies or transactions valued at less than $500 million. However, some of the bulge bracket banks define the middle market as starting higher—say, at $1 billion.

Many of the middle market firms offer the broad range of investment banking services and also have sales and trading, asset management, and equity research arms. However, unlike bulge bracket banks, which operate nationally or internationally, many of the middle market boutiques are regionally focused. At the upper end of the middle market, these boutiques do compete for deals with the bulge bracket banks. This is especially the case during periods when investment banking activity is slow, as the bulge bracket firms tend to move down market to try to keep busy.

Several examples of middle market banks include:

- Jefferies.
- Oppenheimer.
- Piper Jaffray.
- Raymond James.
- Stifel Nicolaus.

"Bulge Bracket Lite" The final category of boutique investment bank is a little bit harder to categorize than the product-focused, industry-focused, and middle market shops. This last grouping encompasses large financial institutions that do some investment banking activity but not enough to be considered bulge bracket. For lack of a better term, we will call these firms bulge bracket lite. These institutions are certainly not boutiques from the standpoint of their entire operations (many are huge firms!), but their investment banking divisions are considered boutique because of the limited investment banking services they provide, their limited deal flow, or their limited scope of clients.

Often, these firms pursue middle market deals where they have prior corporate banking or private banking relationships. Because these firms are often very large, with significant balance sheets, they are sometimes co-advisers on M&A transactions or co-managers on equity raises, but they much less frequently play the lead advisory role on a large deal. As we discussed in the section on bulge bracket banks, sometimes these firms do attempt to build their investment banking divisions, either organically or through acquisition, and break into the bulge brackets. However, history has time and time again shown this to be an expensive and difficult undertaking.

A few examples of large financial institutions that do a limited amount of investment banking activity include:

- HSBC.
- Macquarie.
- Nomura.
- Wells Fargo.

Structure of the Investment Banking Division

The investment banking division of a bulge bracket bank is generally divided into two types of groups: product groups and industry groups. Industry groups are sometimes also referred to as sector groups or coverage groups. Some of the larger boutique banks have a similar structure, while smaller boutiques tend to have fewer, if any, groups. At boutique banks, bankers are more likely to be product and/or industry generalists rather than specialists.

Investment bankers in product groups typically have product expertise and execute transactions, while bankers in industry groups do more marketing of the firm's services by building and maintaining relationships with companies within the industry they cover. However, the division of labor between marketing and execution does vary from bank to bank. For example, some of the bulge bracket banks do not have M&A product groups. Instead, bankers in industry groups execute deals. It also varies firm to firm whether junior bankers are hired directly into a group, do a rotation in different groups, or are hired as generalists. We will talk more about group selection from a career perspective in Chapter 9.

Product Groups The three most well-known product groups are mergers and acquisitions (M&A), leveraged finance, and restructuring. These three groups in particular are desirable by many junior investment bankers because they are perceived to offer more experience on live transactions, more modeling experience, and better exit opportunities. The tradeoff is often longer hours and a tougher lifestyle. There is a degree of truth to this perception, though how much really depends on the particular bank, on the level of deal flow, and on general market conditions.

Equity capital markets (ECM) and debt capital markets (DCM), which are sometimes grouped together as capital markets, are specialized product groups within the investment bank. In fact, they are really a hybrid group situated between the investment banking division and the sales and trading division. Professionals in these groups sit on or near the trading floor, rather than near the investment bankers. However, they are technically on the investment banking side of the Chinese Wall. The ECM group helps execute equity raises such as IPOs while the DCM group typically helps to raise investment-grade debt for clients. These groups tend to be less analytical than the other investment banking groups and generally offer fewer exit opportunities. However, the lifestyle and hours tend to be significantly better.

Following is a list of many of the product groups of a typical bulge bracket investment bank:

- Mergers and acquisitions (M&A).
- Leveraged finance.
- Restructuring.
- Project finance/public finance.
- Equity capital markets (ECM).
- Debt capital markets (DCM).

Industry Groups As we stated, bankers in industry groups market the bank's investment banking services to companies in specific industries. At the senior levels, bankers in industry groups tend to have relationships with the senior management teams of the companies they cover. In fact one significant advantage of industry groups over product groups is that you are more likely to start making valuable client relationships earlier in your career. Also keep in mind that at a bulge bracket bank, there are generally far more investment bankers working in industry groups than are working in product groups. Finally, it is also worth mentioning that being in an industry group does not require an enormous amount of industry knowledge—in fact, certainly less so than working in equity research.

Some of the larger groups are sometimes further segregated into subgroups. For example, healthcare might be divided into biotechnology, medical devices, managed care, and pharmaceuticals, while the financial institutions group (FIG) might be separated into asset managers, banks, financial technology companies, and insurance.

The last group in this list, financial sponsors, does not technically refer to an industry like all the other groups. Bankers in a financial sponsors group cover private equity firms that make leveraged buyouts (which we will talk about in Chapter 8). However, since they typically operate like the other industry groups, marketing the bank's services and having relationships with clients, they are typically classified as such.

Following is a list of many of the common industry groups to be found in a typical bulge bracket bank:

- Consumer/retail.
- Financial institutions (FIG).
- Healthcare.
- Industrials and transportation.
- Natural resources.
- Power and utilities.
- Real estate, gaming, and lodging.
- Technology, media, and telecom (TMT).
- Financial sponsors.

THE LIFE OF AN INVESTMENT BANKER

So far in this chapter, we have talked about the institution we call an investment bank. Now it is time to turn our attention to the professionals who work there: the investment bankers.

We will start this section with a discussion of the various job titles and hierarchy that are mainstays of nearly all investment banks worldwide. Next, we will talk about the actual work that investment bankers perform on a day-to-day basis. Then we will discuss the lifestyles of both junior and senior bankers, and the compensation structure that exists in the industry. We will also examine some of the cultural differences that exist between bulge bracket and boutique banks, between different geographies, and between different groups. Finally, we will wrap up this section by talking about some of the common exit opportunities that exist for investment bankers.

Investment Banking Hierarchy

Like the military, investment banks typically have a very strict hierarchy of job titles and career progression. From junior to senior, the career ladder or hierarchy in a typical investment bank is as follows:

- Analyst.
- Associate.

- Vice president (VP).
- Senior vice president (SVP) or director.
- Managing director (MD).

Some investment banks do deviate from this hierarchy a bit (e.g., having the senior vice president and director titles be separate positions). Moreover, other firms, especially some of the non-U.S. banks, have the same five-tiered structure but use different names for each position as follows:

- Analyst.
- Associate director (AD).
- Director.
- Executive director (ED).
- Managing director (MD).

Bear Stearns, before it was acquired by J.P.Morgan, used to refer to the second most senior position as a managing director and the most senior position as a senior managing director, confusing job seekers and industry professionals alike.

Finally, keep in mind that in equity research, the titles of analyst and associate are reversed. Equity research associates are the most junior level position, and analysts can have anywhere from several years to several decades of experience.

Regardless of the job titles used by any given investment bank, the general job functions of each position tend to be very consistent. Over the next few pages, we will provide an overview of each role, including a discussion of the traits and skills that can help make one successful at each level.

Analyst Analysts are typically men and women directly out of top undergraduate institutions who join an investment bank for a two-year program.[1]

[1]In September 2012, Goldman Sachs announced a change to their analyst program: The firm is no longer giving two-year contracts to analysts. This is thought to be the result of the firm tiring of analysts beginning to recruit for private equity and hedge fund positions well within their first year of employment. Likely, this change is just a way to keep analysts motivated for two full years, since their bonuses are no longer essentially guaranteed. However, it remains to be seen if other investment banks will follow Goldman's lead and if this will indeed represent a major change to the typical investment banking analyst program.

Top-performing analysts are sometimes offered the chance to stay for a third year, and the most successful analysts can be promoted after three years to the associate level.

As analysts are the bottom rung on the investment banking ladder, they do the vast majority of the actual work, which we will discuss later in this chapter. Analysts are the grunts of the investment bank. They are sometimes derogatorily referred to by the higher ups as the Excel monkeys or the widget monkeys.

What Makes a Good Analyst? If valuable real estate is due to "location, location, location," then a valuable analyst is because of "attitude, attitude, attitude." Attitude is really what separates the top-performing analysts from the middle of the pack. Strong analysts have a proactive, can-do mindset. They volunteer for work and they never bitch or complain. Good analysts never have to be asked twice to do something. Great analysts never have to be asked once to do something.

Analysts need to be smart, to be able to learn quickly, and to have strong analytical skills. In fact, analysts tend to be the brightest rung on the investment banking ladder. Basic accounting and finance skills are obviously helpful and generally necessary to get through the interview process. However, some of the best analysts that I've personally worked with have been liberal arts or engineering majors, not business or finance majors.

Analysts also need to have a very strong attention to detail. It goes without saying that they need the ability to work extremely hard and be able to handle having little sleep. People skills and a pleasant personality are also helpful. However, since most analysts have limited interaction with clients, analytical skills and attitude generally trump people skills. People skills do help you make friends internally, which, given the political nature of all investment banks, can be beneficial for getting staffed on deals, come bonus time, and for being considered for a third year and/or associate promotion.

Associate Associates are typically men or women recruited directly out of top MBA programs. A handful of associates are also investment bankers who have been promoted after having worked three years as an analyst. The typical investment banking track is to be an associate for three and a half years before being promoted to the next position, which is vice president. Associates are also typically categorized into class years as in first years, second years, and third years (or for example, class of 2012, 2013, and 2014).

The associate generally has two primary roles. The first is, along with the analyst, to do the work. The associate's second function is to check the work of the analyst. The associate is directly responsible for making sure that the analyst's work is accurate, correct, and perfect. In reality, whether the associate actually performs this second role varies. Often, checking the analyst's work takes the following form:

Analyst: "I'm finished with the analysis."

Associate: "Is it correct?"

Analyst: "I think so."

Associate: "Well, check it again and don't come back until you are 100 percent *sure* it is correct."

What Makes a Good Associate to the Firm? Many of the same traits that make a good analyst also make a good associate, including a great attitude, the ability to work hard, strong attention to detail, and competent finance and accounting knowledge. Analytical skills are also important, though less so than at the analyst level. More important to the associate is possessing a solid communication and management skillset. The associate needs to be able to manage the analyst as well as manage the expectations of senior bankers. Since the associate also typically begins to have significant exposure to clients, he or she needs to be able to represent the firm in a positive manner and be generally presentable.

What Makes a Good Associate to the Analyst? The analyst works directly for the associate. Given this strict hierarchy, what makes a good associate in the eyes of the firm is not always the same as what makes a good associate in the eyes of the analyst. To an analyst, a good associate is technically strong, can answer questions, and can be a mentor and teacher. Well regarded associates take responsibility for errors, help to protect the analyst from the wrath of the VP or MD, and can even push back at times, given unreasonable demands.

On the other hand, there are the associates that analysts hate to work for. These associates tend to create unneeded work, either out of ignorance or spite. They are quick to blame analysts for mistakes and have the tendency to throw analysts under the proverbial bus in front of senior bankers. They are too high and mighty (or lazy) to hit the print button, constantly calling analysts to ask for things to be printed out for them. Finally, they think what they learned in business school is correct (it usually isn't) and refuse to consider deferring to experienced analysts who frequently know more than they do.

Vice President (VP) The primary role of the vice president is to be to the project manager on pitches and live transactions. Bankers generally spend about three years as a VP, though it can vary by a year or so based on performance. The vice president position is the most junior of the senior bankers, and many in the industry regard the VP as the first "real" investment banking position.

The vice president is frequently the intermediary between the senior banker (the managing director) and the junior bankers (the analysts and associates), and typically has the most day-to-day client contact on a deal. The VP is also responsible for all work product, and for supervising and directing the analysts and associates. However, the VP very rarely does any of the actual work.

The VP typically decides the structure (i.e., the table of contents) of presentations and pitchbooks. On live engagements, the VP is typically the banker running the deal. The VP must manage the client, manage the senior bankers, and manage the analysts and associates who are actually doing the work. It is often at the VP level that bankers begin to form valuable relationships with clients. Depending on the individual and also the bank, some VPs will start to play a role in client development and marketing.

What Makes a Good Vice President to the Firm? Given that the primary role of the vice president is as a project manager, the most important skillset of a VP is naturally someone with strong project management skills. Specifically, the VP needs to manage three constituencies: the analysts and associates who do the actual work, the senior banker to whom the VP reports, and the client. Managing all three is no easy task. Like the associate but more so, the VP needs strong communication and client skills to able to manage up and manage down. A good VP is also someone who is beginning to develop strong relationships with the firm's clients.

What Makes a Good Vice President to the Analyst and Associate? Ask many a junior banker about the vice president role and they will tell you that VPs are often useless. VPs don't do any of the real work (that's not their job anymore), they don't yet have client relationships, and they are not all that good at managing—or worse: VPs actually slow things down. They demand unnecessary work in order to ingratiate themselves with senior bankers and clients, and they are frequently guilty of excessive red-penned comments on presentations that wind up being reversed or excised by the more senior bankers.

It is not without reason that many a vice president has been informally labeled by those above and below as a bag carrier or a bag-carrying VP. That is to say, the VP's true utility begins and ends with the task of carrying to meetings and pitches the heavy bag containing the copies of printed presentations.

Of course, not all VPs warrant such negative association. To the analysts and associates, a good VP is efficient, does not create excessive and unnecessary work, and does not keep the junior bankers waiting around for no reason. Helpful vice presidents act as buffers to, and interpreters of, the wishes and whims of senior bankers and difficult clients.

Senior Vice President (SVP)/Director Depending on a variety of considerations, the senior vice president or director will either play the role of project manager, like the vice president, or a client-development and relationship-building role, like the managing director. The factors determining whether the SVP/director will act more like the VP or more like the MD may include the skills, experiences, and maturity of the individual, the structure of the investment bank, the particulars of the transaction or project, and the makeup of the other investment bankers involved. Bankers typically spend two to four years at the SVP or director level before being promoted to managing director, a promotion that is often predicated on the banker demonstrating an ability to form client relationships, to market the firm's services, and to successfully bring in new business.

What Makes a Good SVP/Director? Given the dichotomy of roles, a strong SVP/director will possess many of the skills required of a vice president and managing director. From the firm's perspective, the SVP or director is often viewed as a budding managing director and is typically evaluated (and compensated) accordingly.

Managing Director (MD) As the most senior-level investment banker, the role of the managing director is mostly one of client development, especially in the industry coverage groups. The MD is typically the banker with the senior-level relationships with a company's CEO, CFO, head of corporate development, and sometimes board of directors. The MD is most frequently responsible for spearheading marketing efforts to a set of current and/or potential clients. On a live transaction, once the investment bank is engaged, the MD often plays only a minor role, getting involved when difficulties arise during the deal and for high level negotiations.

In addition to marketing, client-relationship, and deal-execution duties, some MDs also have broader managerial responsibilities. Especially at the bulge bracket banks, more senior managing directors are often tapped to be the head (or co-head) of their particular product or industry group. MDs that are group heads have responsibility for setting and forecasting the group's budget and profit and loss (P&L), making hiring and firing decisions, setting compensation, and deciding on promotions. Group heads also tend to have strong influences on the culture of their group.

What Makes a Good Managing Director to the Firm? From the investment bank's perspective, a good managing director (at least on the coverage side) is someone who brings in business—lots of business. To bring in business, it certainly helps to have strong client relationships (most MDs don't) and be good at marketing and pitching (most MD's aren't). Developing valuable relationships takes time and often involves months or years of meetings, pitches, and entertaining.

The best managing directors do add real value to their clients. By maintaining a high-level network throughout an industry, an MD can have insight into, for example, what companies might be considering selling divisions and what companies might be in acquisitive moods. A well connected MD may even occasionally help broker a high-profile merger between two competitors. However, in today's oversupplied world of investment bankers and given the short-term-focused compensation structures that exist, the days of MDs being long-term trusted advisers to CEOs are mostly behind us. Managing directors need to bring in revenue each and every year or risk disappointing bonuses or worse.

What Makes a Good Managing Director to the Analyst and Associate? At the junior levels of investment banking, getting strong deal experience is imperative toward building one's skillset and moving one's career forward. From that perspective, an MD that is effective at originating deals is obviously highly valued by analysts and associates. However, a number of other factors contribute to make a managing director desirable (or undesirable) to work for.

The highest-regarded MDs by junior bankers are often demanding but also fair. They hold everyone to the same high standards, treat analysts and associates with respect, and take an interest in junior bankers' career development. Effective managing directors do not overpromise to clients and do not set unrealistic expectations. Nor do they micromanage. But they are decisive and available to answer questions when needed. The best managing directors also make sure to keep the team informed of high-level discussions and the big picture, and invite junior bankers to meetings whenever possible. The worst MDs to work for are those who forget (or just don't bother) to tell you that a meeting or pitch was cancelled, forcing you to pull consecutive all-nighters for no reason whatsoever. Yes, this happens.

Deal Teams Now that we have reviewed each of the various ranks within the investment bank, let us discuss how they come together to form a deal team. On nearly every investment banking project, whether a pitch or live transaction, a deal team will be assigned to the engagement.

A typical deal team is made up of four bankers: an analyst, an associate, a VP or SVP/director, and an SVP/director or MD. Deal teams for large or high-profile transactions can be larger, with multiple personnel at any given level. In some transactions, multiple deal teams may be assigned. For example, an M&A assignment for a healthcare company might consist of a deal team from the M&A group and a separate deal team from the healthcare group.

While we always use the word "team" to describe the group working on the project, "team" is somewhat of a misnomer. Unlike in other industries, in investment banking the deal team is nearly perfectly hierarchical, not collegial. That is to say, it rarely feels like a team in the conventional sense. The analyst reports to the associate, the associate reports to the VP, and the VP reports to the MD. The senior bankers normally want nothing to do with the junior bankers, so as long as the work is getting done, this chain of command is rarely broken.

The "Work" of an Investment Banker

We have already talked about what investment bankers do in very general terms. Investment bankers execute various types of financial transactions for their firm's clients. They also expend considerable amounts of time and effort marketing their firm's services to prospective clients in the hopes of executing lots more transactions. But what exactly is the work involved in executing transactions and pitching prospective clients? In other words, what will you actually be doing on a daily basis as an analyst or associate?

Broadly speaking, we can categorize the work done by junior investment bankers into four types:

1. Analysis.
2. Creating presentations and other documents.
3. Administrative tasks.
4. Recruiting and other firm-building activities.

The highly attentive reader among you may have noticed that we prefaced this list as the work of *junior* investment bankers and not all investment bankers. Why? Because generally, only the analysts and associates actually do the work. Once you get to the vice president level, you no longer have to get your hands dirty. So, when we talk about the work of an investment banker, we really mean the work of a junior investment banker. We will talk about how senior-level bankers spend their days later in this chapter when we discuss lifestyle.

Analysis The first type of work performed by analysts and associates that we will discuss is analysis. Basically, if a banker is using Microsoft Excel, then we will consider their work to be analysis. Common examples of work done in Excel include entering historic company data from public documents and calculating various statistics using that data (which we will discuss in Chapter 4), estimating the fair market value of a company or its stock (to be covered in Chapter 5), and projecting a company's financial statements (discussed in Chapter 6). Other varieties of analysis include examining and charting historical stock performance, and evaluating and sensitizing the impact of various potential deal structures or financing arrangements.

Analysts spend a significant amount of their time using Excel, performing various types of analysis. In fact, most of this type of work is performed by the analysts. However, associates do sometimes help, especially with the creation of financial models. And as we discussed earlier, associates are responsible for checking and verifying all of the work done by the analysts.

Creating Presentations and Other Documents The second significant type of work performed by junior bankers is drafting and editing presentations and other types of documents. This type of work typically involves the use of Microsoft PowerPoint or Microsoft Word to put together such materials. Probably the most common examples of such documents are the pitchbooks that are used for marketing purposes.

Various types of documents are also created by bankers for use on live transactions. Examples include materials presented to a company's management or board of directors that provide the deal team's recommendations on strategic alternatives or financing strategies, or give updates on a particular transaction's process or timing. On sell-side M&A transactions and capital raises, presentations are created to help management present important information to prospective lenders, investors, or buyers.

Junior investment bankers also create various types of Word documents, many of which are used to aid with the marketing of new securities or the sale of a company or division. Common examples of these documents include offering memorandums and private placement memorandums used for equity raises, credit memorandums relating to debt financings, and teasers and selling memorandums utilized on sell-side M&A assignments.

Most presentations and Word documents created by investment bankers contain two types of content. They contain descriptive, textual information such as company, industry, and situation overviews. This type of content is typically in bullet form when in PowerPoint presentations and in paragraph form when in Word documents. The second type of content is analysis. In fact, the vast majority of the analysis performed by junior bankers gets inserted into presentations and other documents, at least in summary form.

Analysts and associates often share the workload of authoring and creating documents. In situations where there are time constraints, the work is often split up between analysts and associates. Most frequently in these circumstances, analysts do the Excel work and associates do the writing. This makes sense since associates tend to have better writing and communication skills and more advanced business knowledge, given their MBA degrees and professional work experience.

While the analysts and associates create the documents, the more senior bankers act as editors. Typically each member of the deal team from the associate on up will take out his or her red pen in turn, and make comments or changes. As is often the frustrating case, each member of the deal team has a tendency to contradict the edits of the previous reviewer. The most senior banker, typically the MD, has the final say.

This editing process helps teach the junior bankers two important skills. The first is patience. Analysts and associates are often left sitting around for hours waiting for comments to be faxed from VPs who are traveling visiting clients, or from MDs who are vacationing at their beach house or ski lodge. The second skill is one that is shared with Egyptian scholars: that of translating hieroglyphics. Many an analyst has wasted hours trying to decipher the illegible handwriting of senior bankers.

Most of the larger boutique banks and all of the bulge bracket banks have professionals on staff (non-investment bankers) to aid with the creation of these documents and presentations. Such departments have various names, depending on the bank, but are commonly referred to as graphics or word processing or document presentation services. These groups do not do analysis or writing but provide help creating graphics, charts, and tables, and with formatting.

As we discussed earlier in this chapter in the section on pitchbooks, most of the work product of a banker gets printed in color and bound with fancy-looking covers for use in client meetings. The vast majority of banks have copy centers that help with printing and binding, and at many banks, these centers operate 24 hours a day, as does the graphics/word processing department. However, it is ultimately the responsibility of the junior bankers to make sure that presentations and other documents are printed perfectly and ready in time for the meeting or the deal team's flight. Analysts typically examine each page of each copy, a process known as flipping the books.

Administrative Tasks One of the analyst's first tasks on a new engagement is to create what is commonly known as a working group list, which is a list of the names and contact information for everyone working on the deal, including the investment banking team, company management, lawyers, accountants, and so forth. It is also the analyst's job to keep this document up to date for the duration of the transaction. Needless to say, creating working group lists is not one of the more stimulating tasks required of investment bankers, and it is for good reason that analysts sometimes refer to themselves as glorified admins.

Creating working group lists is an example of the third type of work performed by junior bankers. Other administrative tasks frequently performed by analysts and associates include scheduling conference calls, organizing meetings, making travel arrangements, and coordinating due diligence and information exchanges with clients and with the investment bankers on the other side of the deal. These kinds of tasks arise most frequently when working on live transactions, especially during the latter stages of a deal, after most of the analytical and presentation work has been completed.

Moreover, scheduling large meetings for due diligence sessions, investor meetings, or negotiation sessions often requires dozens of e-mails and phone calls to ensure all parties are available, a tedious process often referred to as herding cats. Many an associate has questioned the value of their MBA degree, having spent hours trying to reschedule a meeting for the third or fourth time.

Recruiting and Other Firm-Building Activities In addition to the day-to-day work of Excel and PowerPoint, analysts and associates also spend a portion of their time on various firm-building activities. In fact, these types of activities are often required of investment bankers at all levels, and a banker's level of participation and enthusiasm is often taken into consideration in one's annual performance review.

The activity on which bankers typically spend the most time is recruiting. Given that an investment bank's core asset is intellectual capital (i.e., its bankers), firms take recruiting very seriously, and they spend significant time and money on it. For a banker, recruiting activities involve such things as attending receptions at undergraduate and/or graduate business schools, meeting candidates for coffee for what are known as informational interviews, reviewing resumes, interviewing prospective candidates, and attending sell-day events with candidates who have received offers. Other firm-building activities include being involved with the firm's training of new analysts and associates, mentoring junior bankers, and participating on various committees.

The Lifestyle of an Investment Banker

There is no such thing as work-life balance in investment banking. As an investment banker your life *is* work. To be an investment banker requires significant sacrifice, whether those sacrifices are sleep or health, or friendships or family, or hobbies or holidays. Of course, those costs must have some benefits, too. Otherwise being an investment banker wouldn't be the sought-after job that it is. Those benefits include a level of compensation unusual to most jobs inside or outside of the finance world, as well as a foundation and skillset that can lead to careers even more sought-after than investment banking.

In this section, we will talk about the culture of an investment bank and what the lifestyle is like for both junior and senior bankers. We will also discuss what kind of people and personalities tend to do well in this industry.

Investment Banking Culture Shortly, we will discuss the work hours and lifestyle of a typical investment banker at both the junior and senior levels of banking. First, let's turn our attention to the culture of an investment bank. In reality, culture is a tricky thing to describe. You really have to live it to truly understand and appreciate it, but I'll give it my best shot at describing what the investment banking culture is really like. As you read this section, keep in mind something that is probably obvious to you: Culture and lifestyle are very much related, since the culture of an institution will often play a large role in dictating the lifestyle of the professionals who work there.

I think that there are four key points you need to know to try to comprehend the culture of investment banking:

1. Junior bankers are commodities.
2. Only the work matters.
3. The firm owns you.
4. Everything you do is life or death.

Junior Bankers Are Commodities The first thing to understand is that junior investment bankers are treated like commodities. Being a commodity means that you are easily replaceable, and replaceable you are. You will frequently be reminded that there are hundreds of undergraduates or MBA students who would die to be in your position.

You are replaceable because of the nature of the work. It is not very hard intellectually, and it requires little thought and virtually no creativity. In other words, as long as you are smart enough, have a great attitude, and are capable of putting in the requisite hours, you can be an analyst or associate. Moreover, you are there to do the work assigned to you, not to come up with brilliant ideas. Junior bankers, and especially analysts, are supposed to be seen but not heard.

Since you are replaceable, you can be worked until you burn out. This is especially true for analysts, who are typically employees for only two years, anyway. Even junior bankers who do manage to differentiate themselves positively, so-called rock stars, wind up being worked even harder since senior bankers always want them on their team. This culture helps result in the "sweatshop mentality" investment banking is famous for, and the hours and work schedule (which we will discuss in the next section).

Only the Work Matters The next thing about investment banking culture to understand is that only the work matters, which is another way of saying that the ends justify the means. From a senior banker's perspective, as long as the work gets done and gets done correctly, that the analyst hasn't slept in two days or that the associate had to cancel a spouse's birthday dinner is inconsequential. This attitude is exacerbated by the fact that a managing director rarely interacts with the analysts and associates. There is almost always one or more layers of bankers, such as a VP, in between.

A secondary consequence is that a junior banker's career development also takes a backseat. As a junior banker, you are there to do work, not to learn. Senior bankers do not typically have the time or inclination to be mentors or to answer questions. It is simply not a high priority for them.

The Firm Owns You Many an analyst has referred to their lives as one of indentured servitude. It is understood that when you become a junior investment banker that your life now belongs to the firm. Any free time that you do have away from the office is because the firm allowed you to have it. An analyst going home at only 10 PM? A gift from her associate. An associate being able to attend a friend's out-of-town wedding? The result of a magnanimous VP.

Everything You Do Is Life or Death The final thing point I want to make about the investment banking culture is that, as a junior banker, you are made to feel like that with everything you do, your life, and indeed the fate of the world, is on the line. Typo in an e-mail? Mistake in a model? Didn't finish your assignment? Your life is over. The world will end.

The result is twofold. First, an enormous amount of stress is embedded in every task and in every interaction you have with your superiors. Even a simple chore like sending an e-mail becomes an exercise in fear. It is not uncommon for grown men and women to break down crying at times from a combination of this stress and the lack of sleep.

Second, since the bar is set at perfection for everything that you do, there is really no way to exceed it, only to fall short. Do not expect pats on the back for exceptional work. Exceptional work is expected. Do expect to be yelled at if you make a mistake, even if that mistake is inconsequential to the big picture. Generally speaking, as a junior banker, you know you are doing a good job if you are not being yelled at.

The reality is that the instant you realize that investment banking is just a job and not a life-or-death situation, you have a hard time doing it anymore.

The Lifestyle of a Junior Banker In case you have not figured it out already, the life of a junior investment banker is miserable. I'm not trying to scare you off, or to be provocative or overly dramatic. I just want to be as honest as possible about what you have to look forward to so that you can set appropriate expectations.

There are 168 hours in a week. As an analyst at a bulge bracket banks or well-regarded boutique, you should expect to work 90 to 100 of those hours. A typical weekday might have you arrive at the office around 10:00 AM and leave around 2:00 AM. Be prepared to work Saturday and Sunday, too. Have a big pitchbook due this week? You will probably pull one or more all-nighters. Maybe even two in a row. For everyone's sake, hopefully you will have time to go home to take a quick shower and change clothes. Sometimes you won't. Occasionally, a workweek will be lighter, but not by much.

Associates generally have a slightly better schedule and might average 80–90 hours per week. A typical schedule for an associate might be weekdays from 9:00 AM until perhaps 11:00 PM, and working on either Saturday or (more likely) Sunday. Associates will sometimes also find themselves pulling all-nighters. The first year of an associate's life is especially tough, and most first-year associates work similar hours to analysts. Hours in the second and third years do tend to improve a bit.

While we are on the subject of hours, a few additional things are worth mentioning. The first is that even if you are in the office for those 16-hour days, you are not necessarily always doing actual work that entire time. Sometimes you will be cranking on a model or presentation for literally days on end, but often a fair amount of time is spent waiting around for comments from your senior bankers or for information from your client. If you are lucky, you might even have the chance to duck out of the office to go the gym or grab a quick coffee with your compatriots.

Investment banking also tends to have a pretty strong face-time component. That is to say, even if you do not have work to do, you are pretty much required to be in the office the same hours as the other analysts or associates. You need to look busy. Consistently leaving early or disappearing for extended periods of time during the day is a quick way to find yourself staffed on a new project or to be given extraneous work on a current project by your associate or VP as punishment. When market conditions are tough, deal flow is soft, and layoffs are a risk, face time is even more important.

The third thing to note regarding hours is that, especially among analysts, there does tend to be a degree of competitiveness over who works the most hours, with all-nighters earning a special badge of honor. This tendency naturally results in some exaggeration of how many hours people say they work.

Believe it or not, most analysts and associates quickly become acclimated to working these kind of hours. You tend to surprise yourself by how productive you can still be with only a few hours of sleep. Somehow models get built and pitchbooks get created even when you are too tired to speak coherent thoughts—though, not surprisingly in these instances, the quality of your work product often suffers.

Nearly all junior bankers will agree that the long hours themselves do not actually represent the worst thing about the investment banking lifestyle. The worst thing is the total lack of control you have over your life. As an analyst or associate, you could be assigned a new project or given a new task at a moment's notice. You are completely tied to the office and are expected to be reachable at all times day and night, including weekends and holidays. Even in the infrequent instances when you are able to take a vacation, you will still be checking in to the office and expected to be working.

This lack of control makes it extremely difficult to schedule time to see friends and family, to date, and to generally make any plans whatsoever. For a typical new analyst or associate, the first few months on the job will be those of consistently canceling dinner plans, weekend plans, and even vacations at the last minute. You will miss birthday parties, weddings, and even funerals. The hours and minutes leading up to the evening, especially on a Friday, are fraught with anxiety, with bankers praying that their phone doesn't ring. For most junior bankers, after a few months, the combination of this apprehension and the fatigue of having to apologize over and over to friends and family are too much to take. Most analysts and associates stop making advanced plans altogether.

The upshot of not ever leaving the office and not being able to make plans is that you tend to lose touch with your classmates from school and other friends because you just do not have time to see them. Few people outside of investment banking really understand your lifestyle, including girlfriends/boyfriends and spouses. So for better or worse, most of your friends will be fellow bankers. You don't have to apologize to them when you cancel on them. They will understand.

Within the firm, analysts do typically find some camaraderie among their fellow analysts. On most days, groups of analysts will take a short break from work in the evening to eat dinner together in a conference room.

It is an opportunity to relax, share some firm gossip, and complain about life. Since analysts will likely be at the office late anyway, a few minutes spent socializing are worth it. This is less true for associates, however. Associates more often have boyfriends or girlfriends or spouses, and prefer to eat at their desks while working so they can get home as early as possible.

Finally, it is worth mentioning that at both the analyst and associate level, the first six to nine months are especially difficult, since you tend to be clueless about what you are doing and add little value to the deal team. You are constantly scared of making mistakes but also scared to ask questions. It generally takes about two years before you really feel comfortable. This is one of the reasons why analysts who stay for a third year are so valuable. Not only have they built up their knowledge base, but they often act as mentors to the first-year analysts and sometimes even the first-year associates.

Travel Before we move on to talk about the lifestyle of senior bankers, let us discuss one last aspect of a junior banker's work life: travel. The majority of a junior banker's time will be spent in the office. However, sometimes analysts and especially associates will be invited to travel to go to pitches and other meetings. In fact, going to meetings can occasionally be a reward for good work.

On the other hand, junior bankers may have a significant opportunity to travel when they are working on live deals. For example, during the early stages of a sell-side M&A transaction, the analysts and associates will often spend a significant amount of time at the client's headquarters doing due diligence and gathering information. Later in the transaction, junior bankers may continue to travel to the client's headquarters to babysit management presentations and to accompany prospective buyers and their bankers on due diligence trips and site visits. If you are lucky, you may even get to fly on your client's private jet—a definite perk!

Other than racking up frequent-flier miles and hotel points, there are at least three things that junior bankers like about traveling. The first is that you usually don't get staffed on a new project when you are on the road. Second, traveling is a respite from the daily grind of the office. The third benefit is that you might actually get a chance to catch up on some much-needed sleep on the plane. Just pray that you are not sitting next to your MD on the plane, as he or she, reading your presentation for the first time, points out every single typo.

The Lifestyle of a Senior Banker At the vice president level, the hours start to improve significantly. At bulge bracket banks, VPs might work 60–80 hour weeks on average. However, even more importantly, VPs start to have much more control over their lives. They can make dinner plans during the week, go away for a weekend, and even take an occasional week-long vacation. If they have to work weekends or late nights, which they often do, VPs can usually do so from home. And since VPs are usually the project managers on a deal or pitch, they frequently get to select the time of internal meetings and conference calls.

On the flip side, there is a lot of pressure on VPs to show that they are adding value, especially since the average vice president is not actually doing the work and does not yet have strong industry and client relationships. Especially insecure VPs tend to require analysts and associates to do a lot of unnecessary work and analysis in order to try to ingratiate themselves with both managing directors and clients.

The work of a vice president, as project manager, is to set the direction for presentations and analysis, to make edits, and to be the point person to the client or opposing investment bank on a deal. At many investment banks, some VPs also act as the staffer or resource manager, with the job of assigning projects analysts and associates.

The role of the staffer is a thankless one. Junior bankers hate you for assigning them to a new project at 5:00 PM on a Friday. Senior bankers hate you for assigning a weaker analyst or brand-new associate to their transaction. Moreover, the staffer must always be reachable, as new pitches or deals can come in at any time, day or night, weekday or weekend. Luckily, most investment banks allow the staffer to cut down on (or even eliminate) the amount of deals he or she is expected to work on while playing this role, and rotate the job of staffer once a year.

Compared with the rest of the investment banking hierarchy, managing directors have a much more normal work schedule, at least when they are not traveling. MDs tend to come in early in the morning (often between 7:00 AM and 9:00 AM) and leave relatively early, by banking standards (between 6:00 PM and 7:00 PM). However, MDs are often on the road visiting clients and prospective clients, traveling on average perhaps three out of every five days. When they are in the office, MDs tend to spend a lot of time on the phone and in meetings. They also often participate in various managerial duties, such as being a part of recruiting and compensation committees.

While the hours of a managing director aren't too bad aside from the travel, the lifestyle of an MD is not an easy one. MDs are under intense pressure to pitch clients and bring in deals, year after year. Given the amount of money involved, there are often internal politics at play, with MDs fighting over clients, over credit for deals, over compensation, and over resources for their staff or group. This is especially true when market conditions are difficult.

The People Now let's turn our attention to the types of people that are both attracted to and excel at investment banking careers.

Analysts Analysts tend to be smart and tend to be very high achievers. Most analysts come in to investment banking having worked exceptionally hard in school to get very high grades and have filled their free time with extracurricular activities and internships. This makes sense, since working hard and being able to juggle many things at once while excelling in all are the same traits that make a strong analyst.

With regard to personality, there is generally more diversity among analysts than among any of the other more senior positions of banking. Some analysts are more personable and outgoing, some more shy and reserved. Some are nerdy and analytical, and some are very social and gregarious. As long as you are not at the extreme of personality and are willing to work hard, you can do well as an analyst. Having said that, among the very top-rated analysts, there is probably a bias for those who have more sociable qualities.

Even though most analyst have Type A personalities and are high achievers, within an analyst class there tends to be much more camaraderie than competition. Since analysts rarely work together on the same project or deal, there isn't much reason to be competitive. And even given the fact that analysts are ranked against each other each year, the tough lifestyle of banking and the sheer number of hours they spend together in the office tend to bring them together. Of course, in nearly every analyst (and associate) class, there is always the one outlier who is cutthroat and political.

Associates–MDs At the associate level, individuals in investment banking tend to be more homogeneous. They are still smart and high-achieving but generally somewhat less so than the analysts. Whereas analysts are typically bankers for only two years, associates are viewed as people who could be MDs someday. Therefore, they tend to have better social and communication skills than analysts, traits they will need to move forward on the track toward being a senior-level banker.

Most senior investment bankers are assholes.[2] As we discussed earlier, the culture inherent to the industry is one in which you have to be willing to treat other people poorly, especially the junior staff. There is simply no other way to get all of the work done under the time frames and circumstances required by clients and transactions alike. Moreover, as a senior-level banker you need to have the sharp elbows and ruthlessness necessary to win at the political games that your compensation and career advancement will require.

Associates attracted to investment banking as a long-term career tend to possess many of these personality traits, but these kinds of traits are also

[2]Yes, asshole is the technical term.

reinforced and further developed as associates become more senior investment bankers.

In addition, senior investment bankers and aspiring senior bankers also must share a love of money. As we will discuss when we get to compensation later in this chapter, there is simply no other reason to put up with the long-term sacrifices required of banking other than for the compensation. For a typical banker, this pursuit of money and all things related will have a much higher priority than most other things. In other words, if you are not interested in talking about fancy cars, exotic vacations, expensive clothes, and trophy wives, it is best to avoid inviting investment bankers to your next cocktail party. And of course, the arrogance and self-importance that often accompany high levels of compensation in any industry, tend to reinforce the view of bankers as "difficult" people.

Lifestyle and Culture Differences For the most part, banking is banking. In other words, regardless of the type of investment bank, the location of the office, or the particular group, you should expect the work to be similar, and the lifestyle and the culture to be similar. However, there are some relatively minor differences between different banks and different groups. (Note that we will return to this subject in Chapter 9 when we discuss how to choose between multiple job offers.)

Differences among the Bulge Bracket Banks There are very few differences between the culture and lifestyle of the various bulge bracket banks. This is reinforced by the fact that senior bankers tend to switch banks with some frequency, thus stirring up the cultural pot. In fact, there is considerable more variability between the various groups within a bank than among the large banks. That the bulge bracket banks are difficult to differentiate actually presents a challenge when recruiting and interviewing, which we will discuss in Chapter 9.

The one outlier amongst the bulge bracket is Goldman Sachs. Different from the other large financial institutions, Goldman does have its own unique and very strong culture. Since entire books have been written about the firm, its history, and its culture, we can only scratch the surface. Briefly, the culture is one of the firm first and the individual second. This is the opposite of most other investment banks, where individuality is the rule and loyalty is virtually nonexistent. Goldman invests more in its recruiting process to ensure its employees are the right fit for the firm, and it invests more in its training and mentoring to ensure employees continue to uphold its values. One obvious benefit is that employees tend to have much longer tenures than at the other bulge bracket banks.

Differences between Bulge Bracket and Boutique Banks Many of the name-brand boutiques have cultures that are similar to that of the bulge brackets. There are also boutiques, often smaller firms, where the lifestyle is considerably better (i.e., fewer work hours). There are even a handful of boutiques where you will likely work even harder than at a bulge bracket. One thing to keep in mind that it is much tougher to generalize about boutiques given how many there are and how broad is the range of different types. Having said that, there are some generalizations that can be made that will hold true much of the time.

Analysts and associates at boutiques frequently have the opportunity to take more responsibility than their bulge bracket equivalents, as deal teams are often smaller. Junior bankers at boutiques also tend to have more interaction with senior bankers, as well as with clients, and are more likely to be invited to attend pitches and meetings. There also tends to be less face time at boutiques than at bulge bracket banks, meaning fewer wasted hours and fewer total hours spent in the office.

Differences among Geographies Discussing the cultural and lifestyle differences between different geographies always carries the risk of offending people. Bankers tend to be very possessive of their home office location and often take pride in the "toughness" of their culture and lifestyle vis-à-vis offices in other geographies. As with boutiques, it is difficult to generalize here, too.

Having said all that, though, generally, the life of an investment banker is more difficult in New York than anywhere else. Even though other major financial markets have grown enormously in recent decades, New York is still the central hub of investment banking activity and will likely remain so for some time. The other big international banking centers, London and Hong Kong, come next.

In any of the major regions of the globe, offices in secondary financial cities tend to be a bit more relaxed, and bankers tend to work fewer hours. This is especially true of regional offices, which we often refer to as satellite offices. However, there are always exceptions. In fact, not all regional offices are truly satellite offices since some industries get covered outside of the major financial centers. For example, an M&A banker in San Francisco probably has a better lifestyle than an M&A banker in New York. The same might not be true for a technology banker, given that an investment bank's technology group is often headed out of San Francisco.

One additional geographic difference worth mentioning is that of investment banking in emerging markets such as Latin America, Eastern Europe, and China, Southeast Asia, and India. These areas have seen enormous growth in investment banking activity over the past decade. However, given the less-developed capital markets in these regions, investment banking tends to be more relationship-driven and less of a commodity. The result is that people often have the opportunity to become relationship bankers much earlier in their careers than in regions with more mature markets. In these markets, it is not unusual for even associates to be calling on clients and to perform marketing activities.

Differences among Groups Once again, I preface this section with the warning that generalizations are difficult to make and fraught with risk. Alas, some groups, especially within bulge bracket banks do have reputations for having better or worse lifestyles. Bankers in product groups such as M&A, leveraged finance, and restructuring, on average, probably work more hours than bankers in industry groups. However, this will not necessary hold true if there is little deal flow for that product due to market conditions. For example, if the credit markets are shut down, leveraged finance bankers will be twiddling their thumbs. Similarly, if the markets are booming and bankruptcies are few, restructuring bankers might be seen leaving the office at 7 PM.

The same can be said for industry groups. Often the lifestyle of a particular coverage group depends mostly on the level of deal flow in that sector. For instance, if there are a lot of deals in industrials but few in healthcare, then the analysts and associates in the industrials group will likely be busier and work more hours. However, group culture is also highly dependent on the MD or MDs running that group. If the head of the group head is laid back, face time will likely be limited. If the MDs are more typical bankers and are aggressive about marketing and pitching, then the junior staff will likely be working long hours, even if deal flow is light.

Lastly, recall from earlier in this chapter that both equity capital markets (ECM) and debt capital markets (DCM) tend to offer significantly better lifestyles (and lower compensation) than most of the other groups within investment banking.

Being a Female Investment Banker Like most areas of finance, investment banking is very much a male-dominated culture (though nowhere near as extreme as trading). While certain groups tend to have more women (the consumer/retail coverage group is a typical example), overall the male/female ratio is heavily skewed male. While the industry has made progress in recent years in recruiting and retaining women, this fact alone leads to a number of consequences.

Given that most analysts and associate are men, it tends to be more difficult for the women to make strong friendships and to feel a true sense of camaraderie with their peers. Furthermore, female junior bankers are routinely forced to put up with the often-tasteless, inappropriate, and chauvinistic jokes of 22-year-old analysts (and 40-year-old managing directors). It is also much harder for female bankers to find mentors, given the limited number of senior female bankers at a typical investment bank.

In addition, the investment banking lifestyle presents different challenges for women than for men. For better or worse, most societies have different expectations for men and women when it comes to physical appearance. The lack of time available to junior bankers to meet such basic needs as eating healthy, exercising, and even getting one's hair cut tends to take a tougher toll on most women than it does on most men.

At the senior levels of banking, the differences are even more pronounced. As is the case in any high-powered industry, when it comes to having a family, the obvious sacrifices and tradeoffs that women must make tend to dwarf those of men. Moreover, female bankers tend to miss out on certain opportunities to build or strengthen relationships with both clients and colleagues. As much as the finance industry likes to hide it, a fair amount of networking and client entertaining still involves heavy consumption of alcohol and visits to strip clubs. Finally, it is a fact of the world in which we live, especially in certain cultures, that female bankers are often taken less seriously by the senior management of clients.

Compensation In any industry or job, if you are going to work very long hours in a very stressful environment then you better get paid well for your efforts. This is certainly true for investment banking. Long-term, the chief rationale for being an investment banker is for the money. And even though there are a handful of other reasons to be a banker at the analyst or associate level, you still need to be highly compensated for making the sacrifices that you are required to make. In this section, we will talk about every banker and prospective banker's favorite topic: compensation. Before we get to actual figures, we need to first discuss a few things.

Compensation in investment banking is nearly always made up of two components: a base salary and a bonus. In addition, new analysts and associates straight out of school typically receive a signing bonus. The base salary is fixed each year and is paid throughout the year like a normal paycheck. The bonus is completely discretionary and is paid at the end of a bank's fiscal year, except for analysts at most banks, who are paid their bonuses in the middle of the year. The annual bonus typically makes up a significant portion of a junior banker's compensation and is often the vast majority of a senior banker's compensation.

Total compensation can vary significantly from year to year, depending on market conditions. While base salaries sometimes move up or down each year, most of the variability comes from bonuses. Recent difficult economic conditions have seen a number of trends in banking compensation. Total compensation has declined since the beginning of the financial crises given that the industry has shrunk in headcount. Individual compensation has also declined, but less so. The percentage of compensation attributed to base salaries has risen as regulators, especially in Europe, have made efforts to curtail bonuses.

In addition, an increasing portion of bankers' bonuses are being paid in company stock or special illiquid securities, beginning at the associate level. This reflects the desire of investment banks both to better align the incentives of bankers and also to limit cash payments, given declining revenues. Some investment banks have even put a cap on cash bonuses as little as $150,000. Depending on the bank, the portion of one's bonus paid in company stock cannot be converted into cash for up to five years. A banker typically loses the value of these shares if he or she leaves the firm before the stock has vested.

The compensation figures that follow are merely estimates and are representative of average compensation at bulge bracket banks in major markets such as New York. Pay in smaller geographic markets is often, though not always, less. Some boutique banks pay at scales or even above the bulge bracket, though most, especially middle market banks, pay somewhat less. One final thing to keep in mind is that compensation tends to be commensurate with hours and lifestyle.

Both analysts and associates are grouped into classes (first-year, second-year, and third-year), and are also ranked by performance and grouped into tiers or buckets. The figures discussed here are generally for top-ranked analysts and associates, which typically make up no more than 20 percent of a class. However, there tends not to be significant variability to bonuses in different buckets, except for poorly ranked bankers who might receive no bonus and/or be terminated. For analysts, for example, bonuses might be lower by around $5–10K by tier.

Analyst Compensation In 2012, compensation for the average top-ranked first-year analyst at a bulge bracket bank included a base salary of approximately $70,000 and a bonus of $40,000–$60,000, for total compensation of $110,000–$130,000. First-year analysts also frequently receive one-time signing bonuses of $15,000–$20,000.

Pay for second-year analysts consisted of a base salary of $80,000 and a bonus of $60,000 – $80,000, for total compensation of $140,000–$160,000. Third-year analyst saw base salaries of about $90,000 and bonuses of $80,000–$100,000, for total compensation of $170,000–$190,000. Consider that few other jobs pay nearly $200,000 to 24-year-olds, three years out of college!

Associate Compensation Base salaries for top-ranked first-year associates have ranged from $100,000 to $125,000 in recent years. Bonuses for first-year associates have ranged from $75,000 to $150,000, for total compensation of $175,000–$275,000. Associates in their first half-year (often referred to as the stub year) recruited out of business school also typically receive a signing bonus of $40,000–$45,000.

For second- and third-year associates, base salaries generally increase approximately $15,000–$20,000 for each year, and bonuses tend to increase $50,000–$75,000 per year. Total compensation for a highly regarded third-year associate can approach or possibly even exceed $400,000.

VP Compensation At the vice president level and above, there tends to be much more variability of compensation than at the analyst or associate level. Bonuses can vary significantly with title, class year, and especially performance. Base salaries at the VP level tend to start around $175,000, with total compensation of perhaps between $400,000 and $700,000. Note that salaries for SVP/directors will be somewhere in between those of VPs and MDs.

MD Compensation Base salaries for managing directors have risen significantly over recent years and often range from anywhere from $250,000 to $600,000. Bonuses for MDs are the most variable of any level of investment banker, ranging from zero (be lucky you have a job) to several million dollars or more.

Exit Opportunities

In the previous section, we stated that the primary reason to consider investment banking as a long-term career is for the compensation. However, over the shorter term, investment banking can often represent a bridge or stepping-stone to another job or industry. We typically refer to these other jobs or industries as the potential exit opportunities of investment banking.

For many investment bankers, the most desirable exit from banking is to a career on the buy side. Investment banking is considered part of the sell side, since bankers sell their services to clients. The buy side is when you are the client and you make the investment decisions. When bankers speak of moving to the buy-side, they are most frequently referring to two types of investment firms: private equity and hedge funds.

As we will discuss in Chapter 8 when we cover leveraged buyouts, private equity refers to firms that make control investments in companies. Bankers are attracted to private equity partly because the compensation can be significantly higher than investment banking, but also because it seems cool to buy and sell companies, to sit on boards of directors, and to be able to give advice without having to do any of the work. Of course, the grass is sometimes greener, and many private equity professionals work just as hard as bankers.

Hedge funds refer to firms that invest in different types of securities and employ different strategies in the hopes of achieving high-risk adjusted returns for their investors. The types of hedge funds that attract ex–investment bankers are typically those that do fundamental analyst of companies, such as long/short equity funds or funds that take activist roles in the companies in which they invest. Other types of hedge funds that appeal to bankers are special situation funds, such as those that focus on merger arbitrage or distressed companies. As with private equity, the compensation at a hedge fund can sometimes dwarf that of investment banking.

Now, let's discuss some of the common exit opportunities for analysts, associates and for senior bankers. Keep in mind one very important point: Of all the levels of investment banking, analysts have by far the most exit opportunities. In fact, the more senior an investment banker you become, the more limited your exit opportunities tend to be.

Analysts Probably the most common exit for analysts after their two-year program is to private equity. In fact, historically there was a very common track of two years as an investment banking analyst, two years as a private equity associate, off to business school to get an MBA, and then back to private equity at either the same firm or a different firm. In recent years, however, the growth of hedge funds has altered this path somewhat. Many analysts go directly to hedge funds after their two-year analyst program or after spending two years in private equity. As opposed to private equity, once in a hedge fund, it is somewhat less common to leave to get an MBA.

Other exit opportunities include going to work for a medium or large company in its corporate development group. Sometimes analysts wind up joining companies that they worked with on one or more transactions while a banker. Some bankers leave to be an entrepreneur and start a business, while others join their family business. It is not altogether uncommon for certain analysts to find that they strongly dislike business and finance altogether and do something totally different, like go to law school or medical school, or become a teacher.

Finally, as we discussed earlier in this chapter, some analysts do stay on for a third year and then get promoted to associate. A handful of bankers also go directly to business school. Once in business school, a few typically wind up going back into investment banking, but the vast majority do not.

Associates As we already stated in the introduction to this section, the exit opportunities for associates are significantly more limited than they are for analysts. In fact, it is a very common misconception among MBA students that investment banking at the associate level is a bridge job to private equity. It is not. While not completely unheard of, few associates are successful making that transaction. Hedge funds represent a somewhat higher probability but, again, certainly less so than for analysts. More common are corporate development jobs, entrepreneurial ventures, and family businesses. Occasionally, associates will switch to other areas of finance, such as equity research or asset management. And just like with analysts, many associates leave the finance world altogether.

Senior Bankers The exit opportunities for VPs, SVPs/directors, and MDs are more limited still. Corporate development jobs represent the most common transition, especially going to work for a client to execute internal M&A transactions. Occasionally, a senior banker (most likely an MD) will make the switch into private equity. This tends only to be case if the MD has very strong relationships in an industry and can help the private equity firm with deal flow.

Truth be told, the real exit for a senior banker is retirement. It is the goal of many an investment banker to make a lot of money and then retire at a young age, perhaps in his or her 40s. Retirement might mean playing golf all day or investing one's own money or opening a restaurant or doing any number of other things that the person did not have time to do when hard at work as an investment banker.

A discussion of exit opportunities for senior bankers does beg a certain question: Once you have made it as a banker to the vice president level or above, other than for retirement, why leave? Chances are, you have put in the hard work and hours, and are now reaping the benefits in terms of compensation. Few jobs will pay anywhere near what banking will. Of course, many senior bankers do leave the industry—but more often than not, the choice to leave was not theirs.

FREQUENTLY ASKED QUESTIONS

In the introduction to this chapter, we talked about the need to be knowledgeable about investment banking in order to be successful at the recruiting process. We also cited the importance of knowing what you are getting into and of having realistic expectations. In my experience teaching and mentoring prospective investment bankers, most undergraduate and MBA students share many of the same misconceptions about the industry. In the spirit of helping you to understand what investment banking really is, and what being an investment banker really is like, let's conclude this chapter by answering some frequently asked questions.

1. Is investment banking right for me if I love to follow and invest in the stock market?

This is an easy one. No. The day-to-day work of an investment banking actually has very little to do with the stock market. Yes, the stock market has an influence on investment banking activity, and yes, as an analyst or associate you will perform analysis that values a company's stock. However, if you are interested in the stock market and investing in general, you are much better off pursuing asset management, trading, or equity research.

2. Do investment bankers really advise companies?

We mentioned early on in this chapter that one of the alternatives names used for the investment banking division is advisory. It would therefore seem obvious that the answer must be yes. However, the reality is much less clear.

In a very narrow sense, investment bankers do provide advice on certain aspects of a transaction on such things as valuation and financing structure. In reality, what bankers are paid by clients to do is not to give advice but to execute transactions. In fact, it is rare that a transaction occurs because a banker suggested it. Most of the time, a client wants to do a deal and then hires the banker. If you are interested in providing strategic advice to companies, you are much better off working for a strategic consulting firm like McKinsey & Company.

3. Will investment banking teach me about business?

Investment banking will teach you a lot about a small subset of finance, which is in turn only a narrow aspect of business. Investment banking will not teach you much about sales or marketing or operations or product development—topics that are usually much more important to running or growing a business.

It is a fact of life that investment bankers, given their levels of compensation and inherent personalities, often take the view that finance is paramount, that companies are easy to run, and that most CEOs are dumb. Yes, some CEOs are dumb, but running a successful business is much harder than executing an M&A transaction. Long story short, if what you really want to do is learn about business then seek out a management trainee program at a large company. Rotate through different divisions. Run a factory. Become a CEO. You can always hire a banker to execute your transactions.

4. Is the work of an investment banker challenging? Is it intellectually challenging?

The work of a banker is challenging in certain respects. Dealing with difficult people can be challenging. Debugging a model at 3:00 AM can be challenging. Writing a coherent industry overview after you've been up for 36 hours straight can be challenging. Not falling asleep at a pitch in front of a CEO of a Fortune 500 company after you've barely slept in a week can be challenging.

Getting up the learning curve can be intellectually challenging, especially given that the typical new analyst or associate is "thrown into the fire" and is not given much guidance. But what you are really learning during this process is not the accounting or the finance theory or the valuation techniques or the various deal structures. What you are really learning is how to be an investment banker: how to have the proper attention to detail, how to format a presentation, how to craft a professional e-mail.

Once you know what you are doing, there isn't much that most bankers find intellectually challenging. People like to say all the time that banking isn't rocket science. It's true. You will never use more than about fourth-grade math. For junior bankers, occasionally a detailed, complicated financial model can be stimulating to build. But that's about it. In summary, what is challenging about investment banking is the lifestyle, not really the work itself.

5. Why don't investment banks just hire more people and pay them less?

The answer is threefold. For one, it's just the culture of banking to work really hard. And if people are working really hard, being put under a lot of stress, and making significant sacrifices, then they need to be paid accordingly.

The second answer is that the nature of investment banking transactions is that they are often extremely fast-paced and often require work to be done at a moment's notice with very quick turnaround. The implication of that is you need a small number of people who are intimately knowledgeable about the deal to be able to complete the work in a timely manner. There isn't usually time for new people to get up to speed. Plus some of the work, like building financial models, cannot easily be handed back and forth from one banker to another.

Finally, if I'm a senior banker, I want one person that is responsible for doing the work so if something isn't finished or isn't correct, I know who to yell at.

6. Is banking a work hard, play hard environment?

A lot of people who work in finance, especially in trading, refer to their jobs as work hard, play hard. It really isn't the case in investment banking. You may work hard, but you rarely play hard or indeed play at all. Some analysts do get out of work at 3:00 AM and go to clubs. They are the exception. Most bankers just want to go home and go to sleep.

7. Is investment banking compensation really that great?

Yes and no. Even taking into account recent trends, compensation in investment banking is higher than nearly all other jobs available to undergraduates and MBA students, both at the junior levels and senior levels of banking. However, the upside is nowhere near as high as it could be in private equity, hedge funds, or starting a business. However, banking compensation is generally less volatile than buy-side jobs and certainly less risky than being an entrepreneur. The bottom line is that banking is one of the safer ways to make a lot of money, but not an extraordinary amount of money. Though keep in mind that given the world we live in post–economic crises, nothing is truly safe.

8. Do all roads lead to private equity?

As an analyst at a bulge bracket bank or highly regarded boutique, you have a very good shot at breaking into private equity. Making the transition at the associate level or above is much more difficult.

9. Do the skills that make a good junior banker make a good senior banker?

This is one of the perverse things about investment banking. Being able to build a model has almost nothing to do with being good at pitching a client. Analysts need to have a great attitude, strong analytical skills, and the ability to put their heads down and do the work. Successful MDs are persuasive and relentless salespeople who are also good at playing politics. The skillsets are nearly complete opposites.

10. Is investment banking good for society?

Does the world need investment bankers? Yes. For companies to grow they need money, and investment bankers help raise money. Do we need so many investment bankers chasing the same deals and the same clients? No. Should companies really be making acquisitions left and right? Probably not. Should our best and brightest students be investment bankers? Certainly not. Like all areas of finance over the past two decades, investment banking grew too big and compensation grew too high. Now both are shrinking and will likely continue to shrink. But the industry will never go away.

So, let me answer the question another way. Are you saving the world by being an investment banker? No, obviously not. Investment banking is a job. It is like most other jobs, except that it demands more of you and pays better. And like most other jobs, you're doing your tiny little part to make the world go 'round and to put food, albeit of the gourmet variety, on the table.

11. Is investment banking worth the sacrifices?

Ah, this is the $64,000 question, isn't it? That's why I saved it for last. The answer is, of course, that it depends. And what it depends on, of course, is you. Most of the folks interested in investment banking can be divided into three categories:

- Recruiting for an analyst position as a stepping stone to the buy side.
- Recruiting for an associate position as a stepping stone to the buy-side or some other career.
- Considering investment banking as a long-term career.

Let us discuss the pros and cons of investment banking for each group.

Recruiting for an analyst position as a stepping stone to the buy side

The surest way into private equity and well-regarded hedge funds is to have been an investment banking analyst. In fact, there are very few other routes in. So, if you are looking for a career in private equity or hedge funds, if you want to be the next Henry Kravis or George Soros, then recruiting for an investment banking analyst program out of an undergraduate institution is close to what we call a no-brainer.

Your life for two years will be hard. But you are young, you have lots of energy, and you probably do not have a family yet. Hence, the sacrifices you will make are a little bit easier to swallow than they are for others. Plus, given that most analysts only stay for two years before moving on, there is a light at the end of the tunnel. Two years goes by pretty quickly, even while working 100-hour weeks. Moreover, the skills and experiences that you will receive as an analyst will be valuable for anything you wind up doing professionally later in your career. This includes not just the finance skillset, but the work ethic, attention to detail, and ability to deal with difficult people.

Whether a long-term career in private equity or hedge funds is worth it is a separate question altogether. While we will not discuss it directly, most of the factors you should take into account when considering a long-term career in banking (see the following section) are similarly relevant.

Recruiting for an associate position as a stepping stone to another career

Each year, lots of MBA students recruit for investment banking associate jobs. Some of them are interested in having a career as an investment banker. Others view banking as a bridge to another career, just as do prospective analysts. Then there are those that pursue banking because they do not know what else to do, or they get caught up in the prestige, or because it just seems like a cool thing to do. If you fit into the second or third groups, you need to really think about whether banking is worth it.

Similar to being an analyst, you will learn very valuable finance and life skills as an associate. You should also make pretty good money, which is especially helpful for the majority of associates who have graduated business school with large student loans. But, you need to understand that the exit opportunities as an associate are much more limited than those of an analyst, especially to the buy side. Please don’t expect to work two years as an associate and then go and do mega-buyouts at KKR. The odds of that happening are slim indeed.

Furthermore, unlike the analyst program, which is typically two years in length, there is no obvious exit ramp as an associate. The minute you decide that you want out of banking, your performance will suffer, and you will have difficulties mustering the energy to do the work and put up with the hours, lifestyle, and difficult people. It will be hard to hide your lack of motivation from peers and superiors alike. This can impact not only your compensation but also your ability to get a new job.

Lastly, keep in mind that the longer that you stay in banking, the harder it is to leave it. Not only do the exit opportunities diminish over time, but you also get accustomed to the level of compensation, and the lifestyle and ego that the compensation affords. Few other jobs will be able to match this.

Considering investment banking as a long-term career

Now, let's talk about those of you who are considering being an investment banker as a career. You need to decide what is important to you. Long-term, the primary reason to be an investment banker is for the money. As mentioned multiple times in this chapter, there are few careers that pay as well as investment banking. But you need to be willing to make many sacrifices.

Will you be able to take vacations, flying first class and staying at the Four Seasons? Probably. Will you be able to relax by the pool uninterrupted by conference calls? Probably not. Will you be able to send your children to the finest private schools? Probably. Will you be around to attend most of their soccer games and ballet recitals? Probably not. You get the idea.

Money is not the only consideration if you are thinking about a career as an investment banker. You also need to like the work, the culture, and the people. Merely being able to tolerate these things is not enough. Finally, the most successful bankers are often what we call deal junkies. They get satisfaction and an ego boost out of closing a deal—and then they move on to the next deal, the next client.

As for us, let's move on to all of the knowledge and skills you will need to be an investment banker. That is what the rest of this book is about.