

# UNIVERSITY OF PENNSYLVANIA

## The Wharton School

**Michel Fleuriet FNCE 890 001 Global Investment Banking Fall 2004**

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Class Meeting Time: 1:30 – 3:00 p.m. Tuesday and Thursday.

**Overview:** This course is about the professional practices of investment banks. The business of an investment bank is doing deals. This involves raising capital (debt, equity) for clients and advising on M&A transactions. In addition, investment banks sell securities to institutional and retail investors. They also trade for their own account. Finally, many banks are involved in managing third-party assets. We will review how investment banks are organized and the interdependency between the various areas. We start with the historical legacies, the various businesses of investment banking, the various strategies of investment banks, and the exchanges where they are active. The course then analyses the main functional areas of an investment bank: the departments of research, equity capital market, debt capital market, M&A and third-party asset management. Other topics involve the personal strategy of an investment banker as we discuss career planning, client relationships and ethics. By the end of the course, students will understand the different functions and departments within an investment bank and how they work together to deliver products and services to issuing and investing clients.

### **Course Objectives:**

Provide students with a fundamental understanding of the role of Investment Banks and how they operate.

Expose students to the industry overall, its key participants, different departments within specific organizations, and their key functions.

Give students a frame of reference for a role as future professionals in the investment banking industry.

Help students understand the conduct of the participants (internal and external) and how to get a mandate from a client.

Identify the required competencies to be a successful investment banker

**Course mechanics:** Discussion of cases or memos. Class participation is actively encouraged.

The course site at Wharton webCafé contains suggested questions for cases and handouts distributed in class. It is the information center for the course. Please check the course site regularly. Registered students can reach the course site on the webCafé home page (<http://webcafe.wharton.upenn.edu>).

### **Bulkpack**

The course bulkpack from Wharton Reprographics contains all the cases, teaching notes, and other recommended readings. Materials should be read prior to the class in which they are listed. In addition, students will be charged for class handouts that will be distributed regularly throughout the term. Extra handouts will be available from the course folder at the reception area of the Finance Department,

**Important Notice:** There will be two in-class exams, one at mid-course and the final.

**Grading:** The course grade will be based on the following:

Case write-ups and memos count 40%; the final exam counts 40%; class participation counts 20%. The final exam will have four essay questions. The numerical grade distribution will dictate the final grade, according to the faculty's recommended grade distribution. Class participation is based on quality of comments, not quantity.

**Exam policy:** In the exam, students will not be allowed to bring any document and calculators will not be needed. Unexcused absences from exams or failure to submit cases will result in zero grades in the calculation of numerical averages. Exams are collected at the end of examination periods.

**Cases write-ups:** For each class there is a written case assignment to be handed in as group reports. You must form into groups of 3 (maximum) people to work on the cases. Each group will submit a write-up for the cases and memos, and it should help you prepare to participate in the class discussion (which you *will* have to do). The memos should be concise and can be in bullet-point format, when appropriate. Every student in the group must retain a copy of the write-up and bring it to the class that the case or the memo is discussed. The cases do not generally require computing a precise numerical answer, as might be done in other finance courses. Note that each case comes with a set of suggested questions that will prove useful in focusing your discussion and guiding your analysis.

**Class participation:** Active class participation – this is what makes classes lively and instructive. Treat each class as a client meeting. Come on-time and prepared

**Regrading of exams:** Any requests for regrading of exams must be submitted in writing. Requests for regrading may be submitted only up to one week after the graded assignment or exam has been returned to your mail folder. Requests for regrading must be very specific. Send an email to the professor with this explanation.

**Academic integrity:** All work turned in for this course must be your own work, or that of your own group. Working as part of a group implies that you are an active participant and fully contributed to the output produced by that group. When you use the web, please state your sources.

## Course Topics, Readings, and Schedule

### 1. Introduction and historical legacies

This first class will be in a lecture format

**Introduction:** course structure, course mechanics, flavor for each session.

**Historical legacies:**

- Financial innovations in the Middle-Ages
- The players: banks and financiers
- History of Exchanges, bubbles and bulbs
- Universal banks in Europe
- Investment banks in the USA

**Required Reading:** Teaching note “Historical Legacies”

### 2. The businesses of investment banking

A useful way to understand the businesses of an investment bank is to visit its website, in particular when it deals with employment. Compare the lines of business at Goldman Sachs and at Merrill Lynch. You can go to the Merrill Lynch website <http://www.ml.com/> and to careers at Merrill <http://www.ml.com/careers/whyml/wherejobs.asp#mlim>, and to the Goldman Sachs website and their employment section [http://www.gs.com/careers/inside\\_goldman\\_sachs/business\\_snapshot/investment\\_banking/index.html](http://www.gs.com/careers/inside_goldman_sachs/business_snapshot/investment_banking/index.html)

**Required Reading:**

- Articles in Bulkpack

**Assignment:** Prepare a memo comparing the organizational structures and strategies of Merrill Lynch and Goldman Sachs. Be prepared to discuss your thoughts in class. I will post a list of questions on the Web Café to help you.

### 3. The Marketplace

**Required Reading :**

- HBS -The Major Global Stock Exchanges

Author(s): Ashish Nanda , Thomas J. DeLong , Lynn Villadolid Roy

- Future perfect or future shock? By Kenneth Kavajecz, May 18 2001
- NASDAQ- Marker Mechanics

**Assignment- Your preferred stock-exchange**

Each group will choose a security market of its choice out of the 50 exchange members of the World Federation of Exchanges and compare with it with the NYSE. A list of exchanges and a lot of information can be found here - <http://www.world->

[exchanges.org/WFE/home.asp?menu=54](http://exchanges.org/WFE/home.asp?menu=54). You can then conduct your research using material from this site, from the exchange's site, and from library/web sources. Again, I will put up a list of questions on the WebCafé.

#### **4. Research**

Topics: Stock price and equity research. Theory and practice of valuation from the point of view of research departments.

We will not discuss the financial analyst scandals and the recent compliance and ethical issues in this class. They will be discussed in the last class on Ethics.

##### **Required Readings:**

- How to read a research report: Review: <http://investdirect.hsbc.ca/ml/sample.asp> on XYZ Inc.

**Case study: Lauren Fine Case**

**Assignment: Prepare a memo on the case**

#### **5. The Equity Capital Market**

##### **Required Readings:**

- Chapter 4 – “Stock Underwriting” in *The Business of Investment Banking* by Liaw, 1999, John Wiley & Sons, Inc, New York.

**Case study: Netflix Going Public**

**Assignment: Prepare a memo on the case**

#### **6. New IPO techniques**

Google's decision to sell its shares via auction had been heralded as ringing the closing bell on Wall Street's established ways of bringing stocks to market. The unorthodox auction-based issue raises many questions. You will be asked to do a short research on Google's IPO

**The Google IPO**

**Assignment: Prepare a memo on Google's IPO.** The course site at Wharton webCafé will contain suggested questions to help you in this research.

#### **7. The Debt Capital Market**

**TBD**

## 8. Securitization

The debt business is no longer a domain of plain-vanilla financing, but of financial engineering. Today, a firm cannot only manage its core business efficiently, but it must manage the risks inherent in all of its operation. The capital market desks at IBs structure products that allow companies and investors to hedge away risks through trading on the financial markets. The investment banker will structure a financing which has one set of characteristics for the issuer and a different set of characteristics for the investor. This is the world of derivative instruments and structured finance.

### Required Readings:

- “A primer on securitization”, W Alexander Roever, Frank J Fabozzi. Journal of Structured and Project Finance. New York: Summer 2003. Vol. 9, Iss. 2; pg. 5
- “Chapter 6 – “Asset Securitization” in *The Business of Investment Banking* by Liaw, 1999, John Wiley & Sons, Inc, New York.

### Case study: The Chargeurs Wool Dec 1998 issue

## 9. Mergers and acquisitions

This class will be in lecture format. There is no written assignment for this class, however be prepared to actively participate in class discussion.

We will discuss:

- The players and their roles: range of advisory services, types of mergers, reasons for acquisitions
  - external: universal banks, investment banks, boutiques
  - internal: corporate finance, RM and M&A, developing a dialogue
- Sourcing a deal: how to prepare a presentation to customers?
  - from the buy side
  - from the sell side
- The value conundrum: buyer’s perspective/ seller’s perspective
- Executing a deal: teamwork, transaction structure, due diligences, fees

### Required Readings:

- “Where mergers go wrong” Scott A. Christofferson, Robert S. McNish, and Diane L. Sias, The McKinsey Quarterly, 2004 Number 2
- “All M&As Are Alike--and That Matters” Author: Joseph L. Bower
- Chapter 3 – “Mergers and Acquisitions” in *The Business of Investment Banking* by Liaw, 1999, John Wiley & Sons, Inc, New York.

## 10. Mergers and Acquisitions

### Required Readings:

- “Technical Note on Equity-Linked Consideration, Part 1: All-Stock Deals” Author Carliss Y. Baldwin

**Case study: Usinor.**

**Assignment: Prepare a memo on the case**

## **11. Third-Party Asset Management**

### **Required Readings:**

- Global Banking, Roy C. Smith & Ingo Walter, Oxford University Press, 2003, Chap.10 (Institutional Asset Management and Insurance) and 11 (Private Banking)
- Merrill Lynch- Cap Gemini 2004 report on High networth individuals
- The growth of alternative assets management TBP
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**Case study: Merrill Lynch’s acquisition of Mercury Asset Management**

**Assignment: Prepare a memo on the case**

## **12. Careers & Client relation**

### **Required Reading:**

- The Trusted Advisor, by Maister, Green, Galford, Chapters 8&9

**Case study: Abby Joseph Cohen: A Career Retrospective**

**Assignment: Prepare a memo on the case**

## **13. Ethics and professional standards**

During the early 2000s, various scandals affected the investment banking profession:

- Research recommendations for Enron even after the accounting problems had been announced in October 2001;
- The alleged analysts’ conflict of interest (Blodget at Merrill Lynch, Grubman at SSB);
- “Spinning” - the allocation of shares in hot IPOs (Quatrone at CSFB);
- The 2003 mutual funds crisis.

These excesses seem to be a violation of the values and principles of the investment banks involved. At its annual shareholder meeting on Apr. 26, 2002 the Chairman and CEO of Merrill Lynch, David H. Komansky took an unprecedented stand on the analyst debacle, saying: "We have failed to live up to the high standards that are our tradition, and I want to take this opportunity to publicly apologize to our clients, our shareholders, and our employees." (Source: “How Corrupt Is Wall Street?” , Business Week on line MAY 13, 2002). In 2003, Komansky’s successor Stan O’Neal said:” Perhaps the greatest threat to the economy is a continuation of last year’s high profile and very damaging questioning of our entire capital market structure and all its institutions. Yes, there have been excesses and, yes, steps to improve market regulation are warranted. Merrill Lynch was built on an inviolable

set of Principles: Client Focus, Respect for the Individual, Teamwork, Responsible Citizenship and Integrity. These values form the basis of our culture. They are a covenant among our employees, clients and shareholders.”

**Research: What ever happened to Merrill Lynch’s tradition of trust?**

**Assignment:** Prepare a memo on the research scandal at Merrill Lynch. The course site at Wharton webCafé will contains suggested questions to help you in this research.