

# BANKING AT MICHIGAN

Alternative Industries & Technicals

November 16, 2020

[www.bankingatmichigan.org](http://www.bankingatmichigan.org)

# Agenda

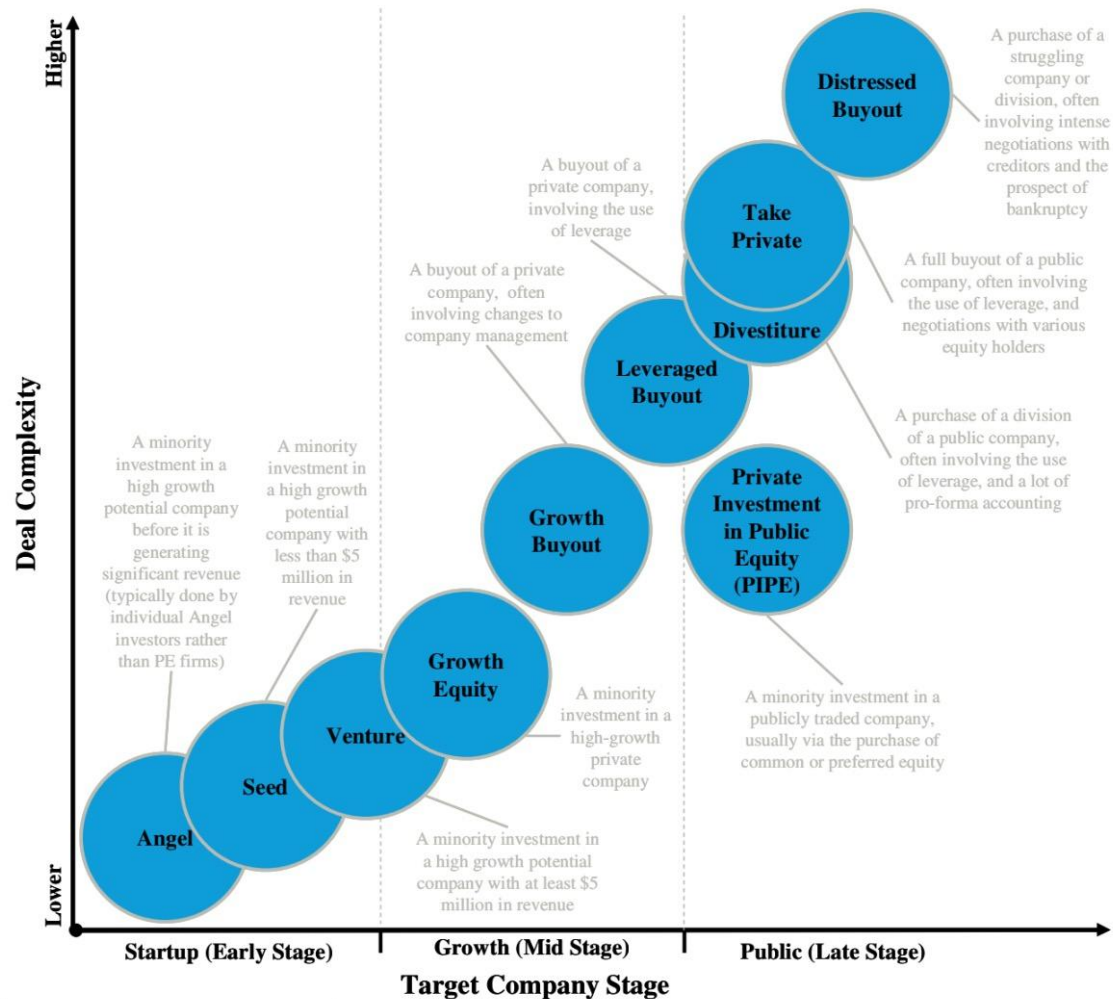
- Overview of alternative industries
  - PE, VC, Asset/Wealth Management, S&T, Corporate Finance
- Intro to technicals

# PRIVATE EQUITY

# Types of Private Equity

- Leveraged Buyout
- Venture Capital
- Growth Equity
- Real Estate
- Infrastructure
- Fund of funds

# PE Deal Types by Stage and Complexity



# Types of Leveraged Buyout Funds

## Traditional Mega Funds



TPG

ARES

THE CARLYLE GROUP

KKR

Blackstone

APOLLO

## Sector Focused

THOMABRAVO

VISTA  
EQUITY PARTNERS

SILVERLAKE

## Middle Market

GENSTAR  
CAPITAL

Audax  
Group

L CATTERTON

MARLIN EQUITY  
PARTNERS

# Process

- Fundraise
  - Raise money through dedicated funds from LPs
- Source
  - Evaluate potential companies to invest in
- Invest
  - Commit certain amount of capital, raise debt
- Exit
  - Public markets (IPO), strategic partner, financial sponsor

# Why Private Equity?

- Investment Process
  - Work with companies over the long-term instead of just on a single deal
  - Exposed to the operations of companies and understand all aspects rather than just the financial ones
  - Understand various growth strategies to drive returns
- Education
  - Exposure to a variety of different companies / investment rationale
- Compensation
  - Large bonuses based on success of companies
  - VPs and above have incentives through “carried interest”



# VENTURE CAPITAL

# Investment Fund Types

- Venture capital (VC) is financial capital provided to early-stage, high-potential, companies in exchange for equity in the companies it invests in.
- Focus on
  - Stage (early, mid or late)
  - Geography
  - Sector (software, med-tech, biotech, greentech)

# Different Types of Rounds

- In order...
  - Seed: Initial funding to build initial product and prove business model
  - Series A: Build core team and launch core product
  - Series B: Expand team and expand product portfolio
  - Series C: Scaling the business model
  - Series D+: Geographic expansion of business
- Check crunchbase to see funding history of any (venture-backed) company

# Process

- Entrepreneur gets introduction to multiple VC firms
- Entrepreneur pitches business to VC firms
- Term sheet written if VCs want to invest
- Build business further
- VCs repaid through: acquisition, IPO, or bankruptcy

# ASSET & WEALTH MANAGEMENT

# Industries

- **Asset Management:**
  - Asset management is a service offered by financial institutions catering to high net-worth individuals, government entities, corporations and financial intermediaries.
  - **Firms:** BlackRock, Vanguard, and State Street, and the large banks, such as JP Morgan, Goldman Sachs, and Credit Suisse,
- **Wealth Management:**
  - Wealth management is an investment advisory service that combines other financial services to address the needs of affluent clients

## SALES & TRADING

# Industry

- Sales & Trading is the division of an investment bank that pitches buy and sell recommendations to clients (sales) and then executes on those trades (trading).
  - May include groups such as Leveraged Finance, Equity Capital Markets, and Debt Capital Markets
- Similar recruiting process and timeline to IB
  - More market-oriented knowledge required



# CORPORATE FINANCE

# Industry

- Corporate finance is the division of finance that deals with how corporations deal with funding sources, capital structuring, and investment decisions.
  - It is primarily concerned with maximizing shareholder value through long and short-term financial planning and the implementation of various strategies.
- Financial analyst and FP&A roles are common at F500 corporates
  - Microsoft, Apple, Pfizer, etc.
- More relaxed recruiting timeline than IB

# TECHNICALS INTRO

# Areas of Focus:

- Accounting
- Equity Value/Enterprise Value
- Valuation
- Discounted Cash Flow (DCF)
- Merger Model
- Leveraged Buyout (LBO)

# Accounting

- Bread and butter for IB interviews; necessary to have these ones down
- Serve as the foundation for more advanced concepts
- Example Questions:
  - Walk me through the 3 financial statements
    - Starting on the Income Statement...moving on to the Statement of Cash Flows...then Balance Sheet
  - How can you tell whether or not an expense should appear on the Income Statement?
  - Could you ever have negative Shareholders' Equity? What does it mean?
  - Walk me through what happens on the 3 statements when there's an Asset Write-Down of \$100.

# Equity Value/Enterprise Value

- Equity Value: Shares Outstanding \* Share Price
- Enterprise Value: Market Cap. + Preferred Stock + Debt + Non-controlling interest - Cash/Cash Equivalents
- Questions will tend to focus on trying to ensure you understand the differences between the two and the utility of the two
- Example Questions:
  - How do you use Equity Value and Enterprise Value differently?
  - Could a company have a negative Enterprise Value? What does that mean?
  - You have a company with an EV/Revenue of 2x and an EV/EBITDA of 10x. What is the EBITDA margin?

# Valuation

- Two methods: relative valuation and intrinsic valuation
- Section mainly tests your level of understanding of different methods
- Example Questions:
  - What are the 3 major valuation methodologies?
  - How do you select Comparable Companies or Precedent Transactions?
  - When is a DCF useful? When is it not so useful?
  - How do you calculate Unlevered FCF (Free Cash Flow to Firm) and Levered FCF (Free Cash Flow to Equity)?
  - Why can't you use Equity Value / EBITDA as a multiple rather than Enterprise Value / EBITDA?

# Discounted Cash Flow (DCF)

- Valuation of firm based on its future cash flows
- How does it work:
  - Project a company's Free Cash Flows over a 5-10 year period.
  - Calculate the company's Discount Rate, usually using WACC (Weighted Average Cost of Capital).
  - Discount and sum up the company's Free Cash Flows.
  - Calculate the company's Terminal Value.
  - Discount the Terminal Value to its Present Value.
  - Add the discounted Free Cash Flows to the discounted Terminal Value
- Example Questions:
  - If I'm working with a public company in a DCF, how do I move from Enterprise Value to its Implied per Share Value?
  - Let's say that you use Levered Free Cash Flow rather than Unlevered Free Cash Flow in your DCF - what is the effect?
  - Two companies are exactly the same, but one has debt and one does not - which one will have the higher WACC?



# Merger Model

- Questions test your understanding of how M&A affect firms' financials
- Example Questions:
  - Why would an acquisition be dilutive?
  - A company with a higher P/E acquires one with a lower P/E – is this accretive or dilutive?
  - If a company were capable of paying 100% in cash for another company, why would it choose NOT to do so?

# Leveraged Buyout (LBO)

*Likely won't get too many questions about LBOs during IB recruitment*

- Questions meant to discern you understand LBOs as a valuation method
- Often considered the *floor valuation* method, due to that unlike strategic acquirers, they are not as willing to pay a premium
- Example Questions:
  - Why do PE firms use leverage when buying a company?
  - How do you pick purchase multiples and exit multiples in an LBO model?
  - Give me an example of a “real-life” LBO.
  - What is the interest tax shield?

# Miscellaneous Questions:

- Tell me about a deal in the news you've found interesting?
- Pitch me a stock — *not super common, but, if you have internship experience in trading, private wealth management, or a hedge fund this question is more likely*
- Would you rather get \$1,000,000 today or \$5,000/month the rest of your life?

# Preparation

- **Study** — recruiting is like a 5 credit class
  - Use the technical guides in Drive (focus on OLD BIWS), use [ibvine.io](https://www.ibvine.io) (like quizlet but for technicals)
  - Study with friends, bounce ideas off each other, discuss questions you've all received
- Learn the technicals in the order just gone over; these concepts build on each other so you need a solid foundation first
- **Mock Interviews** — really important to ensure you can answer questions in interview format and also to receive feedback
  - Ross CDO offers mock interviews and you can always reach out to people in BAM!
- Right after your interview, write down all the questions you were asked (behavioral *and* technical) — you'll often hear questions multiple times in recruitment, so having a study bank is very helpful

## BANKING AT MICHIGAN: Investment Banking

This page is intentionally left blank