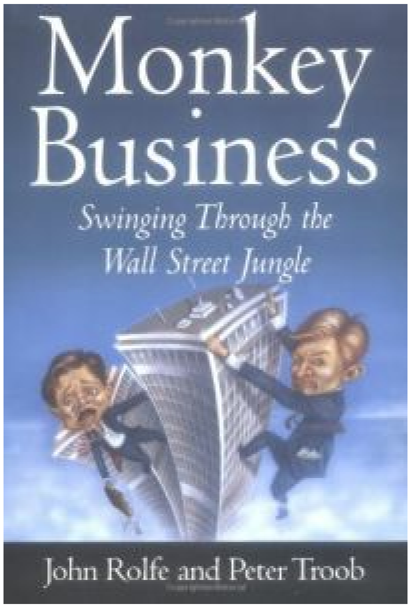

Book Monkey Business

Swinging through the Wall Street Jungle

John Rolfe and Peter Troob
Warner Books, 2000

Recommendation

Two young bankers have written a revealing book about investment banking. John Rolfe and Peter Troob, both graduates of top ranked universities and business schools, joined Donaldson, Lufkin and Jenrette (DLJ) in the1990s. They were drawn to DLJ by the opportunity to make a great deal of money. They earn and tell, with lively stories from the thirty months or so that they spent plying their trade. These stories are presented as representative of the entire investment banking industry. The writers' in-the-trenches anecdotes make the book entertaining and valuable. *BooksInShort* recommends this recreational tale to anyone interested in how money is made in the world of investment banking.

Take-Aways

- Investment bankers control their environment by using greed, fear, and abandonment.
- Valuation techniques let associate investment bankers justify valuations their managing directors set arbitrarily.
- It is the market that drives pricing, not research valuations.
- The investment banks' search for new meat at top business schools begins at first year orientation.
- To succeed as a first year associate investment banker, work hard and avoid all conflict or rebellion.
- The merchant bank is the most orgasmic place to work because even junior bankers are allowed to participate in deals.
- An investment bank analyst is like a monkey swinging in a tree and holding fruit with one arm - plenty to eat, but no chance to stop and eat it.
- Investment bankers are like toll collectors: you must pay their fee to get the capital you need to continue running your business.
- The managing director's sole purpose is to find new business; the associate's sole purpose is to support the managing director's purpose.
- The leading force in the recruitment and seduction of new associates is their own greed.

Summary

Recruiting, Interviewing, and Summer Boot Camp

The world of Wall Street investment banking has a clearly defined hierarchy. Analysts are at the bottom of the pecking order. They are typically recent undergraduates from top schools, such as Harvard, Princeton, and Wharton. Associates are the next level up. They are recruited while still in the nation's best business graduate schools. The top levels are occupied by vice presidents, senior vice presidents, and managing directors. They all have the power to dump work on associates' desks. When you are an associate, people in the organization are either below you - the analysts - or above you - everybody else.

> "Whether it is money, booze, food, sex, or work hours, to the typical banker more is better."

Associate recruiting begins with business school orientation, during which schools distribute a survey ranking average starting salary by industry. At the top of the list are management consulting and investment banking. This survey reinforces the natural inclination of entering business students: greed.

> "The only way for a young associate to survive the investment banking gauntlet is to either buy into it hook, line, and sinker or to maintain some sense of humor about what it is that he or she is doing."

A few days after classes begin, the formal recruiting process of corporate presentations and cocktail parties starts. Each organization has an hour to present the glories of working for their firm. Each presentation has a question and answer period where overly enthusiast recruits can ask questions with the goal of impressing the firm's representatives. They know a summer position is "not just a job, but the first step on your career path."

> "The one immutable truism that exists for bankers is that any problem can be solved by throwing enough money and time at it."

A summer job at an investment bank is the equivalent of boot camp with an expense account. The key is survival. At the start of the summer associate program at Donaldson, Lufkin and Jenrette (DLJ), nine summer associates are told that they are competing for six fulltime positions. The offer of a fulltime job at summer's end means "peace of mind, leverage over potential employers, and the option to coast through the entire second year of business school." All summer associates at DLJ understand that to get a fulltime job offer, they need to work extreme hours and "avoid all conflict or rebellion."

> "One screw up and I was out. The interview process is a pressure game, and in order to succeed you have to be a pressure player."

The summer associate program at DLJ starts with a breakfast meeting in the office space known as the bullpen. Unlike other DLJ office space, the bullpen is wretched. The windowless offices have old desks and filing cabinets. The carpet is worn; fluorescent lights hum constantly. Each summer associate gets an office and waits for an assignment to come down from above.

> "In training we learned what we were going to be doing for at least the next four years of our lives - processing lots of junk for fees and making things look pretty so that the Fidelitys, Putnams, and unsuspecting individual investors of the world would buy them without asking too many difficult questions."

Summer associates are also expected to participate in weekly DJL social functions, including dinners, cruises, baseball games, and dance clubs. All events are marked by excess, the necessary measure to inculcate summer associates with the allure of money. The more they come to like the spoils of money, the more they accept the firm's long hours and abusive working conditions.

> "As the number of available information sources continues to proliferate, and access to that information becomes less proprietary, the bankers' ability to extract fees from that information will inevitably will dissipate."

At the end of the summer, the associates get $12,000 for ten weeks of work, and are promised a $23,000 advance and bonus if they are offered and accept fulltime employment. The "recruiting push for fulltime employment" starts two months into the second year of business school. DLJ bankers come to town to close the deal with the summer associates. Over drinks at a strip bar and dinner at a steak house, they hard sell the advantages of DLJ. The "courtship dance" ends with an inference along the lines of, "if you can give DLJ a strong indication that you want to work for us and that you would accept an offer if one is given to you, then we can probably extend you an offer." The firm promises interesting work with good people and the prospect of making big money in a powerful bank. The brass ring of money, power, and status is in easy reach. The associate only has to grab it and say, "Yes, I want it all."

The Investment Banking Business

The food chain in investment banking is a pyramid. Managing Directors are at the top level. They "scour the world looking for ways to make fees for the investment bank." The senior vice presidents, at the next level, bring in business and process deals. Vice presidents, the next level down, are processing robots, paid to move deals to closure. The associates do the grunt work for the management. The analysts at the bottom of the pyramid also do grunt work, but unlike associates, they have no hope of advancing up the food chain.

> “At the end of the day, there’s nothing tangible except the prospectus to show for the numerous all-nighters and those dark months of toil that go into a deal.”

Investment bankers provide two types of services: give advice on matters of corporate finance and raise capital. Advisory work consists of recommendations on possible mergers and acquisitions, and proposals for re-structuring a company’s capital structure. Traditionally, advisory business came through the CEO’s relationships. Now, the proprietary nature of advisory information and the relationship-based connections have dissipated, making advisory work a mere commodity. An exclusive sale assignment is more common today. This is when the bank assists in finds someone to buy a company and takes a percentage fee.

> “So why do junior bankers continue to go to the printer? Tradition. It’s because printing the prospectuses is a milestone in the deal process.”

The money today is in raising capital. Companies always need capital, which is raised either through debt or equity financing. Investment bankers are the "toll collectors" at "the crossroads of public capital markets". The bankers collect a "toll" as low as one percent a for high-grade debt deal and as high as seven percent for an initial public offering (IPO).

> “We didn’t realize that we no longer had a life at work and a life outside of work.”

To get capital-raising deals, investment banks must make new business pitches. These pitches often involve competition between banks. Clients chose a bank through "beauty pageants," when teams from several banks travel to a prospective client to pitch their services. The associate’s role is to make the pitch book, a punishing assignment consisting of mindless information processing. A pitch book contains four parts: overview, capital markets update, valuation, and expertise. In the "overview," the company shouts that it is a great company and that the deal needs to be done now. The "capital markets update" presents an overview of the equity bond market. In the "valuation," the client finds out how much the deal is worth to his company. And in the "expertise" section, the bank demonstrates why it should be chosen to do the deal. Despite the amount of effort involved in setting up, creating, and delivering pitches, only one in ten succeeds.

Life of the Associate

The associate’s prime role is valuation work. Every transaction involves a valuation. If the bankers are selling a company, or doing an equity or bond offering, they need a valuation to figure out the fair sales price - how much the market will give them for the equity, or what is the value of the assets backing the bonds. An associate can choose among many types of valuation techniques, but the goal isn’t to use the best technique. The goal is to come out with the right answer. The managing director gives the associate a reasonable valuation number that he thinks he can sell to the client. He tells the associate, "display analysis that will validate the target value."

> “There was no longer any life outside the office. That was my epiphany, and it was the beginning of the end of my life as an investment banker.”

Valuation techniques include "comparable multiples analysis," "discounted cash flow analysis," and "research analyses." Comparable multiples analysis or comp analysis is the quickest but is subject to great abuse. Since bankers want the highest multiples possible, they often compare with companies in different market segments from the company being valued. Discounted cash flow analysis is used to value companies with no business. Value is attributed to future business, which the company may or may not produce. Research analysts, who write the research reports on the company being valued, are caught between their need to maintain credibility and to support the bank in its pursuit of new business. But no matter what the analyst says, "it's always the market that drives the pricing at the end of the day."

> "On one road show, I covered London and Paris in a single day. I saw the Eiffel Tower, the Louvre, Buckingham Palace, and Trafalgar Square. The only problem was that I saw them from the back of the limousine."

Associates also do word processing, copying, and drafting. The first two require the associate to deal with the urgent, often-unreasonable needs of managing directors, senior vice presidents, and vice presidents. The associate plays liaison with the word processing and copying departments. Success often depends upon effective communication with support staff, and bribes. Drafting is a major element in the prospectus development process. The importance of this task is only matched by the tedium required to complete it.

> "Drafting sessions are utterly forgettable. They are slow, painful, and excruciatingly boring."

Drafting a prospectus is a legal requirement under U.S. Securities law. Drafting sessions are staffed by multiple bankers, multiple banker's lawyers (underwriting counsel), and company representatives including the CEO, CFO, lawyers, and accountants. The problem is that each organization sends in a small army "girded for war." Their purpose is to create a sales document that conforms to the U.S. securities law. Ten sections must be drafted to complete a prospectus: summary, risk factors, use of proceeds, selected financial data, management's discussion and analysis of risk, business, management, principal and selling stockholders, underwriting, and financial statements. The entire drafting session takes from five to ten full working days. The associate must attend all the sessions, sit quietly until the senior banker says to do something, and make sure the document confirms to the bank's format. At a point known only to the senior banker, the prospectus is deemed complete. The magic words are, "It's time to go to the printer."

Going to the printer is another opportunity for the associate to wait. The only real task is checking the style of the document and approving the final blue line copy for printing. Then, the associate gets to "push the button" on production. This means approving the printing of 30,000 copies of the prospectus, at an approximate total cost of $1.5 million.

Associates also travel. Visits to exotic locations are as illusionary as a social life outside of the organization. A European road show can start in New York, go to London for a morning meeting, fly to Paris for a lunch meeting, and then fly home to New York, all within a twenty-four hour period. Domestic travel is as aggressive. An associate can accumulate 250,000 frequent flyer miles in a year. It is not uncommon for a client company to be located in a city the associate did not know existed prior to landing at its airport.

Bonuses and Compensation

Associates live for money. That is the reason they tolerate the extreme negatives of the job. Investment banks pay very good compensation and exceptionally good bonuses. A first year associate at DLJ can make more than $200,000. DLJ traditionally pays bonuses later than other banks to insure that it maintains its reputation for paying top dollar. However, every associate checks his numbers against the other numbers on the street, just to make sure.

About the Authors

John Rolfe, a southerner, entered the University of Pennsylvania's Wharton School of Business in 1993. He edited the *Wharton Vulgarian*. Following his sentence with DLJ, he was a principal with a private placement investment organization. John, now a freelance man of sport and leisure, is honing his panhandling skills for the next bear market. **Peter Troob** grew up on the rough and tumble streets of Scarsdale, New York. In 1993, he entered Harvard Business School, where he edited the humor section in the *Harbus* and wrote the "*Kosher Korner*" column. He is a partner with a private investment organization.