NORTHWESTERN UNIVERSITY
KELLOGG SCHOOL OF MANAGEMENT

INVESTMENT BANKING COURSE
FINANCE 461, SECTION 81
FALL QUARTER 2005
TUESDAY 6:30 PM AT JACOBS CENTER

Professor:  David Stowell
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Office:  # 447 Jacobs Center
Classroom:  # 166 Jacobs Center
Office Hours:  Tuesday before and after class, Thursday 9am-3pm and evenings by appointment

COURSE DESCRIPTION

Investment Banking focuses on the changing landscape within the securities industry, the challenging regulatory environment created by Sarbanes-Oxley and other new securities laws, and Wall Street innovation in financing and advisory products. The course explores M&A strategies and valuation, analyzes LBO and hedge fund threats and opportunities from a corporate and investment banking perspective, reviews corporate financing alternatives, including IPO’s, follow-on stock offerings, bond and high yield offerings and convertible issuance and focuses on the benefits and disadvantages of new Wall Street products. In addition, the course analyzes the alternative investment banking functions of banking (underwritings and M&A), sales and trading, research, asset management and wealth management.

REQUIRED TEXT

No text. There will be a case packet containing all required reading material

GRADING

1. Class participation (20% weighting)
Classroom comments and questions should demonstrate knowledge of the topic being discussed and should facilitate learning for the entire class.

2. Class presentation on weekly developments in the financial and M&A advisory markets (20% weighting)
Written and verbal presentation on current developments.
(one team presents each week)

3. Mid-Term paper (30% weighting)
A paper on a topic to be assigned will be due during class #6

4. Final Exam (30% weighting)

GRADING PHILOSOPHY

The following is necessary to achieve the highest grade:

- Participation in class discussions
- Teamwork
- Awareness of current financial and merger market conditions
- Effective use of all electronic news media
- Meeting class deadlines
- Class attendance and punctuality
- Name cards at every class
- Insightful and efficient verbal and written communication
- Total adherence to the Honor Code

HONOR CODE

Weekly presentations on market developments and the mid-term paper will be completed by groups. These and other team activities must adhere to the Honor Code in every respect, including each team member having a full understanding of any written material that includes a student’s name. For example, even though one student may do the principal work on a spreadsheet, all team members are expected to fully understand the spreadsheet and be able to answer questions regarding it or any other aspect of the team’s product. The Honor Code will, of course, also apply to all individual work as well.

CLASSROOM POLICY

Students should demonstrate respect for the professor and fellow students during the class period. Students, therefore, should refrain from distracting behavior such as disruptive eating, using laptops to surf the Web or check e-mail and holding side conversations.

SUMMARY COURSE OUTLINE

Class #1 Introduction to Investment Banking
September 27

Topics:
Course organization and requirements
Overview of investment banking
Historical evolution of the securities industry
Competitive landscape in investment banking
Principal products and services
Analysis of revenue and profit generation

Readings:
League Tables-IDD  “Will the Streak Continue”
Fee Analysis-IDD  “Underwriting Fees”
The Bloomberg 20
Structure of an Investment Bank
Trading Division explanations from Morgan Stanley and Goldman Sachs
Investment Banking, Hayes, Ch. 4
Goldman Sachs IPO prospectus dated May 1999 and July 2000 Prospectus
Goldman Sachs, A Culture of Success-Lisa Endlich
Merrill Lynch FY 2004 Financial Statements

Class #2  Securities Regulation and Credit Rating Agencies
October 4

Topics:  Principal regulators, regulatory impact
Interaction with rating agencies

Readings:
Speak No Evil/Reg FD’s global ripples – Institutional Investor
Gramm-Leach-Bliley Act of 1999
Report on the Role of Credit Rating Agencies in the Securities Markets
Moody’s Framework for Assessing Hybrid Securities

Class #3  Wall Street and Corporate Interaction with Hedge Funds and LBO Funds
October 11

Topics:  Hedge Funds and LBO Funds: impact on corporations and the securities industry
Sears and Kmart Merger: hedge fund ESL’s role
Market Volatility and Crisis Management
Impact of Long-Term Capital Markets (“LTCM”)
Prime Brokerage

Readings:
Hedge Funds
Financial Sponsors: (LBO market)
“Kmart, Sears and ESL: How a Hedge Fund Became one of the World’s Largest Retailers” case study
IDD – “Eddie Lampert’s Big Retailing Play”
Long-Term Capital Management A,B,C,D cases
When Genius Failed, Roger Lowenstein, p. 143-160 “The Fall”
Bloomberg Markets – “Goldman’s Risky Business”
Class #4  Mergers and Acquisitions/Capital Structure Decisions
October 18

Topics:  
Alternative Cash Usage Strategies
Mergers and Acquisitions
Strategic Opportunities and Threats
Hostile Takeover Defenses

Readings:  
Journal of Applied Corporate Finance: “Where M&A Pays and Where it Strays”
M&A Valuation Alternatives
League Tables – IDD “The Long Slide Stops for M&A”
M&A is an Integral Driver to Maximizing Shareholder Value
Choosing the Optimal Capital Structure

Class #5  Mergers and Acquisitions (Part 2)
October 25

Topics:  
JP Morgan M&A Challenge

Readings:  
JP Morgan M&A Challenge
Important Investment Banking Relationships-Greenwich Associates

Class #6  Client Relationship Management  (MID-TERM PAPER DUE)
November 1

Topics:  
Guest Speaker: Garth Milne, Treasurer of Motorola
Guest Speaker: David Windreich, Managing Member of Och-Ziff Management

Class #7  Financings in the Public and Private Markets
November 8

Topics:  
Equity Financings
IPO’s
Preferred Stock

Readings:  
Terminology of public and private securities offerings, Shearman & Sterling
Clues to an Attractive Equity Offering
IDD – “Forget Raising Capital; Block Trades Rule”
Amazon.com case
IDD – “Google Goes It’s Own Way”
Deloitte - “Strategies for Going Public”
Introduction to Preferred Stock
Class #8  Financings in the Public and Private Markets (cont.)
November 15

Topics:  Debt Financings
         High Yield Financings
         Convertible Financings

Readings:  Philip Morris A case
           What is a High Yield Bond?
           Convertible Bonds and PERCS, Handbook of Equity Derivatives
           What are Convertibles?

Class #9  Innovation on Wall Street
November 22

Topics:  Derivative transactions
         Repurchase strategies

Readings:  Cephalon, Inc. case
           BioWorld Today, “IDEC Expects Rituxan Approval”
           BioWorld Today, “Biotechnology Firms Turn to Creative Financing”
           Tax Deductible Equity and Preferred Stock

Class #10 New Product Development and Fostering Creativity
November 29

Topics:  New product development and fostering creativity
         Course review

Final Exam  December 6 Room 116  6:30-8:30 pm

RECOMMENDED BOOKS ABOUT INVESTMENT BANKING

Barbarians At The Gate – Burrough and Heylar
Big Deal – Wasserstein
Dictionary of Financial and Investment Terms – Barrons
When Genius Failed – Roger Lowenstein
The New Corporate Finance – Chew
Goldman Sachs: Culture of Success – Endlich
Investment Banking – Hayes
Tearing Down the Walls - Langley