

# INVESTMENT BANKING INITIATION

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CORPORATE FINANCE  
INTERN HELPSHEET

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# ABOUT SMITH HOWARD

Smith Howard was set-up by a former investment banker to educate candidates about their career options, in particular the range of options in investment banking. It also helps organisations with smaller graduate recruitment targets to access the highest calibre candidates.

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# 1. INTRODUCTION

If you are heading to the City of London to intern in corporate finance this summer, we hope that this helpsheet will provide you with a useful introduction to the work that you will do and give you those few vital tips that only an insider would know.

If you were unable to secure an internship, we hope this article will give you a good insight into what your peers will be doing this summer.

It is important to understand the aims of an internship. For most of you, the objective will be to secure a graduate job, for some it might be a fact finding mission to see if this type of career is right for you. Regardless of whether your heart is set on corporate finance or not, it is essential to make a good impression – the world of finance is a small place and intern gossip travels fast.

Please note that whilst this helpsheet hopes to cover the experience of interns at all banks in the City, some of the terms used in this article will vary from bank to bank, the concepts however will still hold.

## 2. HOW IT WORKS

Before you start, you have to understand what type of work is carried out in a corporate finance department and the hierarchy of an investment bank.

### THE WORK THAT IS CARRIED OUT

The business of corporate finance is advice and process management. This can involve a number of documents. However, the type of document most used by corporate financiers is a presentation. These are also referred to as 'books' or 'decks' and are used to present the results of research and analysis and ultimately convey the advice of an investment bank to its clients.

As you can imagine, all books contain different analysis and advice, but the table of contents can look very much like a university project with an executive summary, an introduction, a section containing the results of research and analysis, followed by conclusions and next steps. A sample table of contents could contain the following:

**Introduction to the investment bank** – only included in a book when pitching to a potential new client (a 'pitchbook'). This section includes information about the investment bank, their recent high profile deals, and a background to the people attending the meeting. Its purpose is to sell the bank to the client.

**Company information** – background information about the company being presented to, along with background information on any potential acquisition targets. This section includes recent and forecast financial performance, recent share price performance, views of research analysts, a list of shareholders and a list of the company's directors. Its purpose is to show the client just how much the bank knows about the company they are presenting to and their potential targets.

# THE WORK THAT IS CARRIED OUT cont.

**Market background** – includes current trends in the client's sector, recent deals and market sentiment. Its purpose is to show the client just how much the bank knows about the sector and recent trends.

**Financial analysis** – valuation of the client and any potential acquisition targets, the impact of different corporate finance scenarios, e.g. an acquisition or debt raising. It is here that the bank lays out its opinion of what's next on the agenda for the client. This section is often the most important section of a presentation.

## THE HIERARCHY OF THE INVESTMENT BANK

It is also useful to understand the hierarchy of an investment bank. The terms used vary slightly from bank to bank, but the team structure will work in the same way.

- Analyst - responsible for the majority of the initial research and analysis  
(0-3 years experience)
- Associate – responsible for checking the analyst's work (3-6 years experience)
- Vice President ('VP') – responsible for the contents and structure of the book  
(6-9 years experience)
- Director – responsible for maintaining the day-to-day client relationships and defining the advice that is given to the client
- Managing Director ('MD') – responsible for maintaining current relationships with the CEO's and Chairmen and developing new client relationships

# THE HEIRARCHY OF THE INVESTMENT BANK cont.

Each team consists of an analyst, associate and at least one more senior banker. The size of the team can be much larger – junior bankers will be added to the team if there is a lot of work to do in a relatively short period of time, senior bankers will be added to the team if the bank wants to demonstrate to their client the level of 'senior attention' the project will receive.

A client project team may consist of one or more teams, depending on the type of project. For example, there will be two teams on a project if there is an acquisition which will be debt funded, as both the M&A bankers and debt bankers will be working on the transaction.

## 3. INTERNS WORK

As an intern you will help the analyst and sometimes an associate with research, analysis and preparation of the book.

### RESEARCH

Whether advising on an acquisition or disposal, trying to build a relationship with a new client, or maintaining a relationship with an existing client, the day to day work of an investment bank, is researching for information about companies and industries. This research falls broadly into four areas:

#### **General**

- Description of activities
- History
- Various key statistics
- Products and services
- Location of business operations
- Board of directors

# RESEARCH cont.

## **Financial**

- Financial calendar
- Historic performance
- Forecast performance
- Share price performance
- Equity analyst price targets and recommendations

## **News**

- Regulatory News announcements (official announcements made by a listed company)
- Press commentary

## **Strategy**

- Recent corporate activity – acquisitions / disposals
- Statements regarding strategic development (product or geographic expansion)

# RESEARCH SOURCES

Research is mainly internet based and is available through a number of different websites. These fall into four broad categories as detailed below.

## **Company website**

This is the first stop for information and contains the majority of historical information about a company. The investor relations and media sections are the two sections of a company's website to look at, although a trawl of the other sections can sometimes be useful.

## **One-stop shops**

There are a number of companies that act as information aggregators, the most famous of these is Bloomberg. These sources provide a quick and usually reliable way of getting historical and forecast information about companies and industries. Other examples of information aggregators include Thomson, FactSet and CapitalIQ.

## **Research websites**

Equity research provides information regarding a company's future performance, including forecast financials. Reports are published by the research arm of investment banks and specialist research firms. You can access research directly from the publishing company's website or via a research aggregator, for example Thomson Research or The Markets.

## **New aggregators**

A listed company has to issue a press release for every significant event or decision that is made. These press releases have to be issued through an official news wire, the most popular of which is the Regulatory News Service (RNS) and for this reason they are normally referred to as an RNS. These official press releases can be found on the issuing company's website or via a news aggregator. Investegate provides free access to RNS's ([www.investegate.co.uk](http://www.investegate.co.uk)).

News commentary also provides interesting insights into a situation and can be a source of information that has not been publicly announced. Some newspapers provide free access to stories via their website. The most widely used news aggregator is *factiva*, which covers

# RESEARCH SOURCES cont.

the majority of newspapers worldwide. Another source of news is mergermarket, this source collates the majority of company issued press releases, reports on market rumour and provides its own proprietary intelligence.

Some of the information sources discussed above are available on a subscription only basis, and therefore availability will vary from bank to bank. With help from the analysts you will soon get to know what sources you can use for which pieces of information.

Some of the bigger banks have document libraries, so some of the endless trawling may be done for you, but you will still need to know how and where you can find this information just in case you need it on short notice.

Interns are often given research intense projects, the work is not difficult so approach it as your big chance to impress. Be diligent and pay attention to detail as discussed in Section 4.

Research forms the backbone of any pitchbook, it is important that the senior bankers know everything about the company they are advising and any targets they are looking at.

# PROFILES

The information that you find whilst researching a company will form the basis of the presentation work that you do. Most interns will spend a lot of their summer putting together company profiles. Here are some of the things that you might be asked to include in company profiles:

**Company overview** – overview of the company's operations and the geographies they operate in. Most of this information will be taken directly from a company's website.

**Share price performance** – Share prices can be downloaded automatically from an information aggregator such as Bloomberg or FactSet, these are then presented in graphical form. Often a share price graph is annotated to demonstrate what has driven movements in share price. The best place to find these drivers is from the RNS announcements (see above) and Financial Times coverage about the company and the sector – don't forget that most companies are also affected by wider economics.

**Analyst recommendations and key commentary** – when producing equity research, most analysts will accompany it with a Buy, Sell or Hold recommendation and a target price. For companies that are well covered it is useful to see what the market's view of the company is, by presenting a list of these recommendations (Date, Analyst, Recommendation, Target Price). Extracts of analyst key comments or key themes from research notes are also useful to get a sense of the market's view of the company.

**Recent news** – Extracts of editorial comments can also help to form a view of the company being profiled.

**Slide presenting the board of directors** – these are found on a company's website, it is always useful to include the ages of the directors as it can be used to judge the motivations of the board.

**Slide presenting a company's shareholders** – a useful slide to show who the most influential shareholders are. This information is available from the aggregators or directly from the company's registrars. It is normally presented as a list of the top 20 shareholders, their respective shares and their cumulative shareholdings.

A profile will generally include some financial information as well as the elements described above. This is discussed in the next section.

# PRESENTATION OF FINANCIALS

For some parts of the presentation you will be required to present a company's financials. You will extract these financials from annual reports and research notes. Financial information is presented in either tables or graphs.

For some of you, your internship will be the first time that you have looked at the financials of a company. The table below gives a quick run down to the financial statements, and how you will use them.

## **Profit & Loss (Income) statement**

Presents the income and expenditure of a company over a stated time period, for example an annual report will show a profit and loss statement for one year.

The usual line items of a P&L are as follows, in the order that they appear on the profit and loss statement:

<b>Item</b>	<b>Explanation</b>
<b>Sales</b>	Also called revenues
<b>COGS</b>	Cost of goods sold (i.e. expenses directly related to the goods or services that a company provides)
<b>Gross profit</b>	Sales minus COGS
<b>Operating expenses</b>	Expenses related to running the business, e.g. head office costs, IT costs
<b>Operating profit</b>	Gross profit minus operating profit
<b>Interest</b>	Charges relating to cash and debt balances
<b>PBT</b>	Profit before tax (operating profit minus interest)
<b>Tax</b>	Tax charge for the period represented
<b>Net income</b>	Profit after tax (PBT minus tax)
<b>Earnings per share</b>	Net income divided by number of shares

Along with items above you will be asked to calculate 'margins'. The most common are gross profit margin and operating profit margin. These are calculated by dividing the profit metric by sales.

# PRESENTATION OF FINANCIALS cont.

## **Balance sheet**

This shows the financial health of a company at a snapshot in time, for example a company's year end. The statement shows the assets and liabilities of a company – what the company owns and what it owes.

## **Cash flow**

This is similar to the profit and loss statement, in that it represents a period of time and describes the cash inflows and outflows of the company over that period of time. This statement differs from the profit and loss statement for two reasons:

- Accounting profit includes non-cash items such as depreciation, provisions, accruals and pre-payments
- Companies buy and sell on credit, therefore there is often a timing difference between profit and cash flow

## **Notes to the accounts**

These three statements are accompanied by a comprehensive set of notes – do not be afraid to use them! They give a lot more information about the numbers that are calculated in the statements. For example, a net debt calculation can often be found in the notes to the accounts but not on the balance sheet.

A couple of terms are used by investment bankers which are not shown in the accounts. The most common of which are EBIT and EBITDA (said E-bit and E-bit-da), these metrics adjust earnings figures for non-cash and pre-financing items, for most companies it is a good proxy for an operating cashflow.

- EBIT – Earnings before interest and tax (normally equivalent to operating profit)
- EBITDA – Earnings before interest, tax, depreciation and amortisation

# 4. ATTENTION TO DETAIL

If you ask any investment banking associate to name something that frustrates them about their job, most will say an interns/analyst's careless mistakes. Virtually every intern, even the most capable, struggles with the idea of '100% correct' and is criticised at least once over the summer for their lack of attention to detail.

It can be hard to understand why everything needs to be so accurate, but the credibility of investment banks relies on their ability to get things right.

Investment banking advice forms the basis of corporate decisions. If a board of directors make the wrong decision, their jobs could be on the line. Investment banks have to constantly demonstrate that they can be trusted to be accurate in their analysis and give the right advice.

Don't get frustrated by the amount your work is checked: everyone makes mistakes. But you can cut down the scrutiny that your work is put under, by constantly checking what you do. Print it out, check all figures back to the original sources and make sure everything you've written makes sense. Check your work corresponds to the 'house style' - a full stop or capital letter in the wrong place is easy to miss.

Mistakes are forgivable in certain circumstances, especially if you are completing a task that is at the limits of your knowledge. Making the same mistake twice or a careless error is less forgivable. If this happens, resist the temptation to make an excuse, instead:

- 1) Own up to your mistake
- 2) Offer to correct the mistake as soon as you can
- 3) Offer to re-check other work where the same mistake might have occurred

And if you ever do come across a mistake you've made that hasn't been spotted tell someone as soon as you can – it will be discovered. It's one of the worst days of an associate's life when he presents a book with a mistake in it, especially if that mistake is in the numbers of the company the bank is advising. Remember - most CFOs and CEOs look at their own company's figures day in, day out, so they will be able to spot straight off if something looks wrong. Company numbers always deserve a double check.

# 5. EXCEL

You will use Excel a lot over your internship, learning to use it effectively will help lighten your workload over the summer. The most important things to master are drawing graphs, cell formatting, keyboard shortcuts and Excel formulas.

## DRAWING GRAPHS

Basic graphs are relatively easy to create in Excel via the 'Charts' menu. The most commonly used charts in corporate finance are bar charts and line graphs. Before you start your internship you should try using Excel to draw these charts and understand the differences between Excel's chart types.

Once you have drawn your chart, you can still alter the formatting and the data it includes via the 'Chart options' or 'Chart formatting' menus in Excel 2003 or the 'Design', 'Layout' or 'Format' menus in Excel 2007.

## FORMAT CELL

The 'Format Cell' menu contains most of the things that you need to change the appearance of your Excel sheet. This menu allows you to change the number format, font, border and fill of a cell. Excel has a number of pre-defined number formats, but it is worth learning how to define these yourself by using the 'custom' option (in the 'number' section of the 'Format Cell' menu).

Some examples are given below - in order to achieve the number style described on the left hand side you will need to use the 'custom' format on the right hand side:

Number style	'Custom' format
Number with comma separator	#,##0
Negative number in brackets	0;(0)
Zero shown as '-'	0;(0);-
20.0x	0.0x
20ppm	0"ppm"
CD 20	"CD "0

Another useful tool is 'Paste special', this menu allows you to copy different elements of a cell, the most useful of which are format, formula and value.

# KEYBOARD SHORTCUTS

The most efficient analysts use keyboard shortcuts to navigate Excel. The 'ALT' key allows you to access all of the menus that you normally navigate with your mouse, for example, pressing 'ALT' followed by 'E', 'S' and 'T' will allow you to copy the format of a cell that is on the clipboard. 'ALT' allows you to access the menus, 'E' opens the Edit menu, 'S' opens the Paste Special menu and 'T' selects the format option.

Along with navigating the menus via your keyboard, there are a number of other key combinations that can be used to save time. Some of the shortcuts listed below can be used not only in Excel, but also in other Microsoft Office programs (theses are donoted with an asterix [\*]):

## CTRL keys

PRESS	TO DO THIS
CTRL +A*	Select all
CTRL +B*	Bold
CTRL +C*	Copy
CTRL +D	Copy down
CTRL +F*	Find
CTRL +H*	Replace
CTRL +I*	Italic
CTRL +N*	New document
CTRL +P*	Print
CTRL +R	Copy right
CTRL +S*	Save workbook
CTRL +U*	Underline
CTRL +V*	Paste
CTRL +X*	Cut
CTRL +Y*	Re-do last action
CTRL +Z*	Undo last action
CTRL +I	Open 'Format cell' menu
CTRL +PAGE UP/DN	Select the next/previous worksheet

# KEYBOARD SHORTCUTS cont.

## Function keys

<b>PRESS</b>	<b>TO DO THIS</b>
<b>F1*</b>	Open help menu
<b>F2</b>	Go into a cell / go out of a cell
<b>F4*</b>	Repeat the last action
<b>F9</b>	Calculate
<b>SHIFT + F11</b>	Insert a new worksheet

## Other Shortcuts

<b>PRESS</b>	<b>TO DO THIS</b>
<b>SHIFT + ARROW</b>	Extend selection by one cell
<b>CTRL + SHIFT + ARROW</b>	Extend selection to last non-blank cell
<b>CTRL + SPACEBAR</b>	Selected the entire column
<b>SHIFT + SPACEBAR</b>	Selected the entire row
<b>ALT + ENTER</b>	Start a new line in the same cell
<b>TAB</b>	Finish cell entry and move right in selection
<b>SHIFT + TAB</b>	Finish cell entry and move left in selection
<b>ALT + TAB*</b>	Switch to the next program
<b>ALT + SHIFT + TAB*</b>	Switch to the previous program

# EXCEL FORMULAS

Excel has a number of pre-defined formulas which can be used to save time and limit error by carrying out calculations automatically. Again, before you start your internship have a play around with these formulas so you know exactly how they work and how they can save you time.

The most useful formulas are listed below:

Formulas	
FUNCTION	DESCRIPTION
<b>SUM</b> = SUM(A1:A3) = SUM(A1, A2,A3) = SUM(A1:A2,A3)	Sums ranges and/or individual items within the sum formula
<b>SUMIF</b> = SUMIF (range, criteria, range to be summed)	Adds all items within a range that specifies a specific criteria
<b>SUMPRODUCT</b> = SUMPRODUCT(Range1, Range2, Range3,..)	Often used to calculate the weighted average of numbers within a range. Calculated such that the 1st cell of each range is multiplied by each other and then added to the 2nd cell of each range multiplied by each other and so on...
<b>CONCATENATE</b> =CONCATENATE(A1, A2, ...)	Allows you to attach text/data from different cells into one cell
<b>AVERAGE</b> = AVERAGE(A1:A3) = AVERAGE(A1, A2,A3) = AVERAGE(A1:A2,A3)	Returns the average (arithmetic mean) of the cells selected
<b>MEDIAN</b> = MEDIAN(A1:A3) = MEDIAN(A1, A2,A3) = MEDIAN(A1:A2,A3)	Returns the median of the cells selected. The median is the number in the middle of a set of numbers
<b>MAX</b> = MAX(A1:A3) = MAX(A1, A2,A3) = MAX(A1:A2,A3)	Returns the largest value in a set of values
<b>MIN</b> = MIN(A1:A3) = MIN(A1, A2,A3) = MIN(A1:A2,A3)	Returns the smallest number in a set of values
<b>ROUND</b> = ROUND(A1, number of digits)	Rounds the number in the selected cell to a specified number of digits
<b>TRANSPOSE</b> = TRANSPOSE(range)	Returns a transposed range of cells. For example, a horizontal range of cells is returned if a vertical range is entered. Once you have entered the formula and selected the required number of cells you wish to transpose, then press CTRL + SHIFT + ENTER
<b>COUNT</b> = COUNT(A1:A3) = COUNT(A1, A2,A3) = COUNT(A1:A2,A3)	Counts the number of cells that contain numbers in a range
<b>COUNTIF</b> = COUNTIF(range, criteria)	Counts the number of cells in a range, that meets a given criteria

# 6. VALUATION & MODELLING

At some point during your internship you will wonder what the 'model' is. Simply, it is an Excel workbook with a myriad of sheets that sets out the valuation of a company and the financial implications of any potential strategic moves. Interns are rarely asked to help out with the model, but you can look smart if you have an understanding of the basics and take extra time to study the models that are used on your projects.

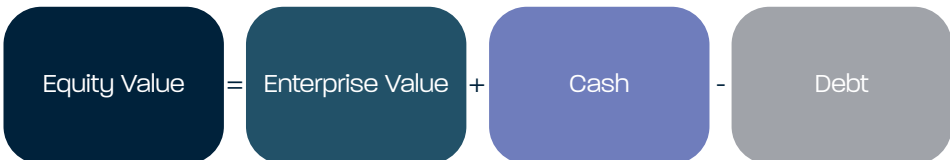
## RUNNING THE COMPS

The first valuation task that is carried out is 'the comps' - this refers to the calculation of various ratios based on listed companies and historic transactions. In theory, companies with common characteristics (e.g. industry, size, growth prospects) should be valued similarly by an efficient market and therefore the calculated ratios will be similar. The ratios analysed vary from project to project, depending on the industry and information available.

Your bank may well have an automatic template that calculates the comps for you, but make sure that you are up on the theory to check that the outputs of the template make sense.

Many valuation multiples involve denominators deriving from the profit and loss statement, e.g. EV / EBITDA, P/E. The choice of numerator (i.e. enterprise value or equity value) depends on the denominator, with enterprise value being compared to prefinancing metrics i.e. operating profit and above and equity value being compared to PBT and below (see the section on presentation of financials).

Equity value relates to enterprise value as shown below:



# COMMON COMPS METRICS

## Enterprise Value

- Operating metrics (e.g. stores, subscribers)
- Sales
- Gross profit
- EBITDAR (EBITDA pre operating rent)
- EBITDA
- EBITA
- EBIT
- EBITDA – Capex
- Unlevered cash flow

## Equity Value

- Profit before tax
- Earnings
- Cash earnings (earnings pre-depreciation)
- Levered cash flow
- Equity book value

# DISCOUNTED CASH FLOW ANALYSIS

A discounted cash flow (‘DCF’) is used to assess the fundamental value of a company.

A discounted cash flow is based on two principles: cash flow and the time value of money.

In order to derive your DCF valuation, free cashflows (i.e. cashflows before funding) are calculated from a company's financial forecasts and then adjusted, according to the perceived risk profile of the company, for the time value of money.

The results of a DCF analysis are generally higher than other valuation methods, this is because it assumes perfect execution of the financial forecasts and normally assumes growth around inflation for the time beyond the forecast period. The DCF is flawed in a number of ways - it can only be as accurate as the financial forecasts and the way in which the discount rate is calculated.

# MERGER MODELLING

This part of the model combines the financials of two companies and then models the impact of an acquisition or merger. This allows the corporate financier to assess what a company can afford to pay for an acquisition or what would be favourable merger terms.

The most studied outputs of a merger model are the comparison of post transaction earnings per share (EPS) to pre-transaction EPS, known as EPS accretion / dilution and credit statistics, multiples which show whether the acquiring company can raise the debt it requires to fund the acquisition.

## LEVERAGED BUYOUT ('LBO')

The LBO uses a company's financials and overlays an aggressive financing structure, which includes a substantially greater quantum of debt than a similar publicly listed company (potentially more than double). LBOs are used to value a target company by assessing what a private equity investor could pay for the company, and achieve its targeted return on investment. A private equity investor will also use the LBO model to determine its investment strategy. Companies with a predictable and stable financial profile are more suitable to a leveraged buyout as the cash flows they produce can be used to service the higher debt levels.

# 7. THE SOFTER SKILLS

Remember that the purpose of the internship is to impress your prospective employers. This involves a number of aspects including the way in which you present yourself during the internship and whether you fit with their culture.

## **Look keen**

Most interns are keen, so it probably sounds weird that we want to remind you of this. However, after you have had three late nights and you still have a lot of work to do, it may get harder to look as keen as you were when you started. Accept all work that you are given gracefully, regardless of whether you think that your peers are working on more interesting projects or going home earlier. If you perform well in the work that you do, you are more likely to get interesting work the next time.

## **Under promise, over deliver**

It seems an obvious thing to say, but interns can sometimes get themselves into trouble when they do the opposite. Always ask for a deadline and keep your analyst/associate up to date with your progress.

## **Attention to detail**

A whole section of this helpsheet is dedicated to attention to detail, but it seems worth mentioning it again. One of the biggest pitfalls open to interns is not paying enough attention to detail. All work in corporate finance has to be 100% correct, your superiors will react very badly to careless errors, always check your work one more time than you think necessary.

## **Be humble**

No one likes an arrogant intern, the people that you are working for are tired and stressed, and the last thing that they want to do is rein in egos. Remember you know only a small amount relative to the people you are working for, be humble and show you are willing to work hard, for as long as you are needed.





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