

# Investment Banking Interview Questions and Info

## **Career Overview**

You've seen all the headlines, over the past few years, deriding Wall Street firms. You've seen the news photos of disgraced research analysts who recommended certain stocks to the public even while they trashed them in e-mails to colleagues; you've heard about the nine-figure fines investment banks have had to pay for transgressions like conflicts of interest. Still, there's something intriguing about the industry—the legendary long hours and mega-bonuses—and you like to imagine yourself a pinstripe-wearing, jet-setting investment banker. But suddenly it dawns on you. What the heck is investment banking? You panic. What do investment bankers do? What's the difference between sales and trading and corporate finance? More to the point, why do you want to be a banker?

### **What I-Banking Is**

Traditionally, commercial banks and investment banks performed completely distinct functions. When Joe on Main Street needed a loan to buy a car, he visited a commercial bank. When Sprint needed to raise cash to fund an acquisition or build its fiber-optic network, it called on its investment bank. Paychecks and lifestyles reflected this division too, with investment bankers reveling in their large bonuses and glamorous ways while commercial bankers worked nine-to-five and then went home to their families. Today, as the laws requiring the separation of investment and commercial banking are reformed, more and more firms are making sure they have a foot in both camps, thus blurring the lines and the cultures.

Investment banking isn't one specific service or function. It is an umbrella term for a range of activities: underwriting, selling, and trading securities (stocks and bonds); providing financial advisory services, such as mergers and acquisition advice; and managing assets. Investment banks offer these services to companies, governments, non-profit institutions, and individuals.

The action and players in investment banking are still centered in New York City and a few other money centers around the world, but the list of players is getting smaller as the industry consolidates. Today, leading banks include Merrill Lynch, Goldman Sachs, Morgan Stanley, Citigroup, Credit Suisse First Boston, and J.P. Morgan Chase. These and other firms are regular visitors to campus career centers.

### **What You'll Do**

The intensely competitive, action-oriented, profit-hungry world of investment banking can seem like a larger-than-life place where deals are done and fortunes are made. In fact, it's a great place to learn the ins and outs of corporate finance and pick up analytical skills that will remain useful throughout your business career. But investment banking has a very steep learning curve, and chances are you'll start off in a job whose duties are more *Working Girl* than *Wall Street*.

Wall Street is filled with high-energy, hardworking young hotshots. Some are investment bankers who spend hours hunched behind computers, poring over financial statements and churning out spreadsheets by the pound. Others are traders who keep one eye on their Bloomberg screen, a phone over each ear, and a buyer or seller on hold every minute the market's in session. Traders work hand in hand with the institutional sales group, whose members hop from airport to airport trying to sell big institutions a piece of the new stock offering they have coming down the pipeline. Then there are the analytically minded research analysts, who read, write, live, and breathe whichever industry they follow, 24/7.

### **Who Does Well**

You shouldn't go into banking just for the money—the lifestyle is too demanding. To survive in investment banking, much less to do well, you'll need to like the work itself. And, quite honestly, even if you love the work, an investment banking career can still be a tough road. If the market or your industry group is in a slump (or if your firm suddenly decides to get out of a certain segment of the business), there's always the chance that you may find a pink slip on your desk Monday morning.

But, if you like fast-paced, deal-oriented work, are at ease with numbers and analysis, have a tolerance for risk, and don't mind putting your personal life on hold for the sake of your job, then investment banking may be a great career choice. But if this doesn't sound like you, a job in investment banking could turn out to be a bad dream come true.

## **Requirements**

First, if you're an undergraduate, you'll want to try to get an internship—it's the best way to secure an eventual offer. If you're an undergraduate from an Ivy League school with a great GPA, bidding recruiting points is still a favorable option—however, college recruiters are usually sent from the prestigious bulge-

bracket firms, and not the smaller, specialized niche firms, or boutiques. It's important to discern the type of bank for which you are best suited, so conduct your own independent research.

If you're not an Ivy League graduate, and recruiters haven't been breaking down your door, networking is your best bet. Use your school's alumni and your neighbors and acquaintances to get in touch with someone at the I-bank of your choice. If you're a good student who is truly interested, you've got a shot.

If you have an MBA or other advanced business certification, you'll be paid more for a position than someone with a fresh BA. But those with prior experience always get first shot, so be sure to get an internship. Industry expertise and prior corporate finance work can also be a way in, but you'll have to be patient.

If your degree isn't in business, take heart in the knowledge that banks are increasingly encouraging applications from candidates with specialized resumes in order to better appeal to a growing client base.

## Job Outlook

Undergrads and MBAs from top schools are recruited for a number of openings that is small even in the best of times. Competition is fierce, so if you're not from a top-tier school, you may need to be more resourceful and persistent than those who are. Doing an internship in investment banking is essential to breaking into the field in today's business environment. Networking is key; make use of your alumni network.

**Undergrads** vie for 2-year positions as analysts. If you do well, depending on the firm, you may get to stay for a third year, perhaps even abroad.

**MBAs** compete for fast-track associate slots, and international assignments may be available for those who want them.

**Midcareer** people are recruited by headhunters or hired on an ad hoc basis for positions at various levels. Though relatively few people come into the industry from other fields, it can be done, especially by those who have a technical background in a specific industry and an aptitude for and interest in finance. Otherwise, expect to start at the bottom.

## Career Tracks

While the various groups within an investment bank support each other, the work and responsibilities in each group vary.

### Corporate Finance

Investment bankers are like financial consultants for corporations—which is precisely where the Corporate Finance Group comes into play. As a member of Banking or CorpFin, you serve the sellers of securities—Fortune 1000 companies in need of cash to fund growth, and private companies that are looking to complete an IPO—by buying all the shares or all the bonds a company has for sale, which are then resold by your firm's sales force to investors on the market.

Many investment banks divide their corporate finance departments into industry subgroups, such as technology, financial institutions, health care, communications, entertainment, utilities, and insurance, or into product groups such as high-yield, private equity, and investment-grade debt.

As an investment banker in corporate finance, you will underwrite equity and debt (bond) offerings, help firms devise and implement financial strategies, analyze their financial needs (such as how to structure balance sheets and when and how to proceed with funding initiatives), and work with the sales and trading departments to determine valuations for new offerings.

### Mergers and Acquisitions

The mergers and acquisitions group (known as M&A) provides advice to companies that are buying another company or are themselves being acquired. M&A work can seem very glamorous and high-profile. At the same time, the work leading up to the headline-grabbing multibillion-dollar acquisition can involve a herculean effort to crunch all the numbers, perform the necessary due diligence, and work out the complicated structure of the deal. As one insider puts it, "You have to really like spending time in front of your computer with Excel." Often, the M&A team will also work with a CorpFin industry group to arrange the appropriate financing for the transaction (usually a debt or equity offering). In many cases, all this may happen on a very tight timeline and under extreme secrecy. M&A is often a subgroup within corporate finance; but in some firms, it is a stand-alone department. M&A can be one of the most

demanding groups to work for.

### **Public Finance**

Public finance is similar to corporate finance except that instead of dealing with corporations, it works with public entities such as city and state governments and agencies, bridge and airport authorities, housing authorities, hospitals, and the like. Although the basic services (financial advisory and underwriting) and the financial tools (bonds and swaps, but no equity) are similar to those used for private-sector clients, numerous political and regulatory considerations must be assessed in the structuring of each deal. A particular key issue involves how to get and maintain tax-exempt status for the financial instruments the client will use.

### **Research**

Research departments are generally divided into two main groups: fixed-income research and equity research. Both types of research can incorporate several different efforts, including quantitative research (corporate-financing strategies, specific product development, and pricing models), economic research (economic analysis and forecasts of U.S. and international economic trends, interest rates, and currency movement), and individual company research. It's important to understand that these are "sell-side" analysts (because they in effect "sell" or market stocks to investors), rather than the "buy-side" analysts who work for the institutional investors themselves.

As a researcher, you'll meet with company management and analyze a company's financial statements and operations, provide written and oral updates on market trends and company performance, attend or organize industry conferences, speak with the sales force, traders, and investment bankers about company or industry trends, develop proprietary pricing models for financial products, make presentations to clients on relevant market trends and economic data, offer forecasts and recommendations, and watch emerging companies.

### **Compensation**

All right, like any good banker, you want the bottom line. Exactly how much are these guys going to pay you to sign your life away? Salaries at investment banks, even for nonprofessional staff, almost always consist of a base salary plus a fiscal year-end bonus. Bonuses are determined at the end of each year and are based on the performance of Wall Street, as well as the performances of your firm and department and your contribution to them. Base salaries tend to be relatively low at the entry level (well, let's say moderate), and bonuses are discretionary. While the real money in investment banking comes from bonuses, your take-home pay from year to year can go through swings of more than 100 percent, especially when you move up in seniority.

Because of the tremendous decline in investment banking revenues over the past few years, bonuses have plummeted. Indeed, investment banks have cut bonuses by as much as 60 percent over the last several years.

- **Undergraduates:** \$70,000 at bulge-bracket firms, plus an annual bonus contingent on market success; in the late 1990s boom, year-end bonuses for undergrads would usually fall between \$10,000 and \$20,000, but are 2-3x these days
- **MBA:** \$100,000 at bulge-bracket firms, plus a \$20,000 to \$25,000 signing bonus, and first-year annual bonus contingent on market success
- **Summer interns:** up to \$2,000 per week

A final note: Investment banking opportunities, of course, exist outside the bulge bracket and outside New York. If you go to work for a boutique or regional bank, don't be surprised if your compensation is not as hefty as that of your bulge-bracket peers.

1. Do you invest? In what?
2. What did the stock market do yesterday?
3. What stocks do you follow / like and why? What are their share prices?
4. What is our company's stock price?
5. Who is the head of our group / CEO?
6. How many jelly beans does it take to fill a 747?
7. You have no experience in banking, why do you want to enter this job market now?
8. Why didn't you have an internship in banking?
9. Why did you go to Marquette and not a better Ivy League school?
10. What are the three most important qualities that make a banker?
  - a. How do you represent these qualities
11. What are your three greatest strengths?
12. What are your three greatest weaknesses?
13. Tell me about your background
14. What classes have you taken that are the most relevant to banking and what did you like / dislike in these classes?
15. What job have you had that you didn't like?
16. How would your friends describe you?
17. Tell me about a time you used your analytical skills
18. What do you do in your free time?
19. What is banking?
20. What do you think as an analyst you would spend the majority of your time on?
21. Why do you want to work for our firm?
22. Why do you want to work for our specific industry group / division?
23. Who else are you interviewing with and who has extended you offers?
24. Why have you not applied or interviewed with more bulge bracket firms?
25. Where does our firm fit into the larger scheme of hierarchy and league tables?
26. How have you proven that you can handle many tasks at the same time?
27. Why did you choose Marquette?
28. How do you calculate a terminal value?
29. How are the three financial statements linked? Explain how you walk through the statements
30. DCF states a company is worth \$50, and the historical precedent shows the company is worth \$30, why are the values different?
  - a. Undervaluation of earlier company
    - i. Assumptions in DCF model
      1. Discount rate
      2. terminal value
      3. capital structure
31. In a market with rising costs, if you want the highest earnings do you use LIFO or FIFO?
32. What companies have betas less than 1?
33. Why leverage a company?
34. What are the dangers in using high leverage?
35. What are the macro factors associated with a rod and reel company?

- a. How do you value a company if it is held private?
  - b. How do you go about selling the business?
  - c. Is the business cyclical?
  - d. How does the company grow?
  - e. What are the driving factors behind the company's profitability?
36. On a clock, how many degrees are between the hour and minute hand at 3:15?
37. What is  $24 \times 12$ ?
38. How do you calculate free cash flow?
- a. Use EBIT and not EBITDA number
39. How do you calculate WACC?
40. What is a DCF?
- a. Explain every step in a DCF model
41. What are the three ways in which you can value a business?
- a. DCF
  - b. Comparative ratios
  - c. Historical precedence
42. How do you value a company without a public stock price?
43. In comparative analysis, how do you calculate the multipliers and how are they used?
44. How and where does net income appear on all three financial statements?
45. How and where is depreciation seen on all three financial statements?
46. When valuing a company and analyzing the financial statements, where do you start?
- a. Auditors opinion
47. What is the difference between debt and equity?
- a. In what situation would you use each?
48. Can a beta be less than 0?
49. What happens if a company grows faster than GDP forever?
- a. Company = GDP, is the market
50. Why investment banking?
51. How / why did you become interested in finance?
52. Tell me about your last internship. How did it prepare you for this job?
53. Walk me through a DCF
54. What is  $16 \times 17$ ? What is the sum of all numbers from 1-100? (or other random math questions)
55. Do you follow any stocks? If so, which? Why do you like them?
56. Describe a transaction you've followed
57. How are the three financial statements related?
58. Define goodwill
59. When issuing debt is it better to issue it at the hold co. or subsidiary (aka op co) level?
60. Teach me something

### **Top 10 questions:**

1. Walk me through the highlights of your resume. I'm interested in the decisions you have made.
2. Why investment banking? Why our bank?
3. How do you value a company?
4. Why did you choose Kellogg?
5. What other firms are you interviewing with and why? Are you interviewing with consulting firms also? What career opportunities are you exploring other than I-Banking?
6. What were your grades in college? What were your grades for the first semester at Kellogg? What was your GMAT score? Be ready to explain any weak-points.
7. What qualities would you consider most important for a career in I-Banking? What are your greatest strengths? What are your weaknesses?
8. What do you understand the responsibilities of an associate/summer associate to be?
9. Describe a current event in the market (i.e., LTCM at the end of 1998)?
10. What questions do you have for me? Always have at least two questions prepared per bank.

### **Resume-and personality questions:**

- [Be ready to explain **any** line on your resume].
- What made you choose your undergraduate institution? Why did you pursue a major in \_\_\_\_\_?
- What other business school did you apply to? Which ones accepted you? Why did you choose Kellogg?
- What was your favorite class at Kellogg so far? Why?
- What classes are you currently taking to get ready for the summer?
- What are your 5-10 year long term career plans?
- What are your proudest accomplishments? What is your most challenging professional experience?
- Are you a leader or a follower? Give me an example where you were successful in both roles?
- What do you do to relax?
- Tell me a joke.
- Who has influenced you the most, besides family members?
- Say you are at a meeting with a client and your MD is giving a presentation. You suddenly notice a mistake in some of the calculations, which you have prepared. Do you mention it? When? What do you say?
- Why should I take you instead of someone from Wharton?
- What is one skill that you think is most relevant to Banking?
- You seem to like marketing, why are you interested in finance?
- What is one word that describes you best?
- Your weaknesses? Your strengths?
- How would your group mates describe you? How would you characterize yourself in the group dynamic? If I spoke with your group mates, what would they say you needed to improve?
- Highlight your quantitative accomplishments.
- Describe an ethical decision you had to make?
- If you were a vegetable - what would you be?
- What do you read? What's your favorite book?

- As an associate, what tasks would you like to spend most of your time doing? What percent of each day do you see yourself spending on those tasks?
- What is in a pitch book?
- What's been your greatest challenge since beginning Kellogg? Greatest accomplishment?
- What accomplishment are you most proud of?
- Describe a time you failed, why did you fail, what did you learn?

### **Finance questions:**

- Why would two companies merge? What major factors drive mergers and acquisitions
- What are some common anti-takeover tactics?
- What is a LBO? Why lever up a firm?
- Why might a company choose to issue debt vs. equity?
- What could a company do with excess cash on the balance sheet?
- How would you calculate a firm's WACC? What would you use it for?
- What is the Beta and where would you find a firm's Beta? How and why would you unlever a Beta?
- What is the CAPM?
- How do you calculate the firm value for the following firm?
- What would greater impact a firm's valuation, a 10% reduction in revenues or 1% reduction in discount rate?
- What major factors affect the yield on a corporate bond?
- How would you evaluate the creditworthiness of manufacturer with three factories in different locations throughout the US?
- Company A trades at a P/E of 20. Company B trades at a P/E of 10. Both are considering acquiring Company C, which trades at a P/E of 15. For which of the two acquiring companies would the deal be dilutive. For which would it be accretive? Explain why for each.
- Suppose you are buying a new fixed asset - part cash and part debt. Take through how it affects all the financial statements.

### **Financial market questions:**

- What did our firm's stock close at yesterday?
- What is the DJIA at today? NASDAQ? S&P500? Long Bond? Fed funds rate?
- Where is the market going? Bond, equity and foreign exchange? Where do you think interest rates will be in the next 12 months?
- What happened in the markets in the past three months?
- Do you read the Wall Street Journal everyday? What's on the front page today?
- Do you follow an industry, a stock?
- What do you personally invest in?
- What industry do you follow and what numbers do you look at to determine if a firm is doing well in the industry.

### **Accounting questions:**

- What is EBITDA?
- Walk me through the major line items of a Cash Flow Statement.
- Say you knew a company's net income. How would you figure out its cash flows?
- What is the difference between the balance sheet and the income statement?

- What is goodwill? How does it affect net income?
- A firm is using LIFO, the COGS start decreasing. What are effects on I/S, BS and CFS?
- What is the difference between Purchase and Pooling accounting? Under what circumstances would you use one or the other?
- What are deferred taxes? How do they arise?
- What is working capital? How would you calculate it?

### **Questions on Investment Banks:**

- Why I-Banking vs. Consulting? Sales & Trading? Research? Finance in Industry?
- How does your past career qualify you for a position in investment banking? Why are you not going back to prior career?
- What do you hope to accomplish over the summer?
- What department do you want to work for inside I-banking and why?
- Who is in the bulge bracket?
- Rank firms on Wall Street and where do we fit? Who is our competition (in the major categories)? What differentiates our firm? What are our firm's strengths? Weaknesses?
- If you were the CEO of our firm, what major changes would you implement?
- Describe a typical day of an investment banking associate?
- Do you understand the lifestyle issues associated with this profession? Why don't you have an problem with these issues?
- What is your greatest concern about investment banking?

### **Random Questions (that were actually asked!):**

- What is your personal Beta?
- Suppose I was going to evaluate you and thirty of your Kellogg compatriots on one quality with the winner receiving something very desirable such as one million dollars and you are allowed to determine that quality, what would it be?
- What did you eat for lunch? How do you like Chicago? What do you do when you're bored?
- What is the riskiest thing you've ever done?
- Think of the team you worked with the most and give me a word that describes each team member.
- Are you more risk averse or risk seeking?
- Lets imagine you died and are giving a speech at your funeral. What would you say?
- How would you spend \$1,000,000 besides investing it?
- While interviewing for a Chicago office, the interviewer tells you that he/she is getting the impression that you are more interested in the New York office. You are. However, why do you say?

The following list provides some suggested books to learn more about investment banking and finance:

- Monkey Business
- Barbarians at the Gate
- Predator's Ball
- Buffett - The Making of an American Capitalist
- When Genius Failed
- Liar's Poker

- FIASCO
- Greed and Glory on Wall Street
- eBoys - Benchmark Capital Partners
- Big Deal