Judgement and Deal Experience

Interview preparation summary · IB track

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INT.BJ.1.a · Judgement

Decide whether you would advise a client to do a deal, stating what must be true for it to work and what would make you say no.

A banker is asked to advise on a deal, not to cheer for it. The test is what must be true for the price to be justified. Start from value: what the target is worth on its own at the buyer's own multiple, then the premium being paid, then the synergies needed to cover that premium. Compare those synergies with what is realistic for the cost base and the revenue involved. Then test delivery: timing, cost to achieve, who owns the plan, and what happens if only part is achieved. Add the funding, the strategic fit and the risks that do not appear in a model, such as customer loss or regulatory remedies. A good answer names the two or three assumptions that carry the case and says what evidence would change the advice. The usual mistake is to answer with a list of positives. Interviewers want a view, the conditions attached and the point at which you would walk away.

WORKED EXAMPLE: WHAT MUST BE TRUE FOR CORRIN TO PAY 900M

Corrin Group, an invented acquirer, trades at 11.0x EBITDA and proposes to buy Dalby Components for 900m. Dalby has EBITDA of 60m and a cost base of 400m. Assume cost synergies would be valued at Corrin's own multiple. What synergies are needed to justify the price, are they realistic, and what would happen if only 60% were delivered?

Answer: The price needs 21.8m of synergies, about 5.5% of Dalby's cost base. That is plausible but leaves no margin: at 60% delivery Corrin would overpay by 96m. I would support the deal only with a costed plan, an owner for the savings and a price discipline limit.

> **Interview tip:** Say what must be true, quantify it, then say what you would need to see. Finish with the price or condition at which you would advise the client to walk away.

INT.BJ.1.b · Judgement

Handle a conflict or ethics call in a deal team: spot the conflict, protect the client and confidential information, escalate, and document.

Conflict and ethics questions test whether a junior banker will protect the client and the firm when it is awkward. The sequence is the same in nearly every case. Recognise the issue early. Stop and do not act on it alone. Protect confidential information: never share what you know with another team, a friend or another client. Tell your senior and the control room or compliance, because only they can decide on wall-crossing, restricted lists and conflict clearance. Where the bank's own interest differs from the client's, for example a fee paid only on completion, the client must still receive honest advice, and the conflict should be disclosed to the client where the rules allow. Document what happened and what was decided. The usual mistake is to try to solve it quietly, or to make the call yourself. A strong answer names who decides and why.

WORKED EXAMPLE: A FEE THAT PAYS ONLY ON COMPLETION

Your bank advises Hallam Retail, an invented buyer, on a 600m acquisition. The success fee is 1.0% of deal value, payable only on completion, with retainers totalling 0.5m. Your analysis shows the deal destroys about 25m of value for Hallam unless a risky assumption holds. Your senior suggests you do not mention it because it may jeopardise the fee. What are the amounts at stake, and what do you do?

Answer: The bank has 5.5m of fee depending on the deal proceeding, and the client has 25m of value at risk. I would not withhold the analysis. I would escalate it, document it and make sure the client hears it.

> **Interview tip:** Name the pressure plainly, say you would not act alone, and name the people you would involve. Do not describe a quiet workaround.

INT.BJ.1.c · Judgement

Advise a client against its wish: state the evidence, offer a better alternative, and respect that the decision is the client's.

Sometimes the right advice is not what the chief executive wants to hear. A banker's role is to bring evidence, set out the options and the risks, and then accept that the client decides. Good practice is to start by understanding why the client wants it, as there may be a fact you have missed. Then show the numbers: what the client's wish is worth against the alternatives, including the cost and risk of the alternative. Offer a practical middle route, for example a limited market check rather than refusing a bid or running a full auction. State the probability or condition at which your advice would change. Keep the tone respectful and the recommendation clear. The usual mistake is to refuse flatly, or to give way and say nothing. If the client still chooses its route, record your advice and carry out the instruction.

WORKED EXAMPLE: ADVISING MARLOW PACKAGING AGAINST A QUICK SALE

The chief executive of Marlow Packaging, an invented company with EBITDA of 40m, wants to accept a pre-emptive bid of 340m. Comparable companies trade at 9.5x to 10.5x. You estimate a limited process has a 70% chance of reaching 390m and otherwise falls back to 320m, with process costs of 8m. What is the bid's multiple, and the expected value of the process? At what probability of success is the process worth running?

Answer: The bid is 8.5x, below peers. The process has an expected value of 361m against 340m, and is worth running if the chance of success is above 40%. I would recommend a discreet market check, and leave the decision to the client.

> **Interview tip:** Lead with the evidence, then the alternative, then the condition that would change your advice. Say clearly that the choice belongs to the client.

INT.BJ.2.a · Telling your deal story

Tell a deal or project story in a clear structure, owning your part, with the numbers you worked on.

A deal story is a short, structured account that shows what you did and how you think. A good order is the situation and the client's goal, the transaction and its headline numbers, your role, the hardest problem and how it was handled, the outcome and what you learned. Use I for what you did and we for the team. Quote the figures you handled yourself, such as the multiple, the premium or the synergy assumption, and be ready to explain how each was calculated. Aim for about ninety seconds and stop, so the interviewer can ask questions. The usual mistakes are to tell the whole history of the deal, to claim the team's work as your own, and to quote numbers you cannot explain. If a figure is a team figure, say so. Interviewers listen for ownership, accuracy and honesty about the limits of your role.

WORKED EXAMPLE: TURNING FACTS INTO A NINETY-SECOND STORY

You worked on the sale of a bolt-on, Quarry Foods, an invented target, to a larger group. The enterprise value was 320m and the target's EBITDA was 25m. The offer was 3.20 a share against an undisturbed price of 2.50. The buyer expected 6m of annual cost synergies. You built the comparables and checked the model. Work out the headline numbers you would quote and structure the story.

Answer: The deal valued Quarry Foods at 12.8x EBITDA, a 28.0% premium, or 10.3x after synergies. I built the comparables and checked the model, and the team led the negotiation.

> **Interview tip:** State the headline numbers once, say exactly which part was yours, and finish with what you learned. Stop talking and let the interviewer probe.

INT.BJ.2.b · Telling your deal story

Defend your view of a deal under challenge and critique a deal someone else describes, using numbers, without becoming rigid.

Interviewers push back to see how you think. Defend a view by restating the evidence and the assumption it rests on, and change it openly when a new fact is offered. To critique a deal, work through a fixed set of questions. Price: the multiple against peers and the premium paid. Strategy: what the buyer gains that it could not do alone. Synergies: size, timing and ownership. Financing: leverage, interest cover and what happens if earnings fall 20%. Risk: integration, regulatory approval and key people. A balanced critique names what is good about the deal as well as the weakness, and suggests a fix. For example, a sound strategy may be undermined by too much debt, and a mix of debt and equity can repair it. The usual mistake is to attack everything or to accept the story as told. Quote one or two figures to make the case.

WORKED EXAMPLE: CRITIQUING A DEAL FINANCED WITH 400M OF DEBT

A private buyer pays 650m for Tavern Brewing, an invented business with EBITDA of 50m. It funds 400m with new debt at 7.0% and 250m with equity, and claims 10m of synergies. The seller's banker calls it a great deal. Work out the multiple, leverage, interest cover and the cover if EBITDA falls 20%, then give a critique and a fix.

Answer: The deal costs 13.0x and uses 8.0x leverage with 1.8x cover, falling to 1.4x in a 20% downturn. I would back the strategy but cut debt to about 5.0x, where cover is 2.9x.

> **Interview tip:** Give one strength, the single biggest weakness with a figure, and a fix. Then invite the interviewer to challenge the fix.

INT.BJ.2.c · Telling your deal story

Show deal judgement with little or no deal experience by analysing an internship project, a student fund or a public transaction as if you had worked on it.

Many candidates have no live deal to describe. Choose something you can analyse in depth: an internship project, a student investment fund pitch, a case competition or a recent public transaction. Be honest about your role, and say what you did, not what the team did. Then show the same thinking a deal team would: why the buyer wanted the target, the price and multiple, the premium, how the price compares with peers, the synergies needed to cover the premium, the financing and the main risk. Use numbers you can calculate from public information and explain each step. Finish with a view and what you would check next. The usual mistake is to describe the news story without any numbers, or to pretend to have been closer to the deal than you were. Interviewers are testing method and honesty rather than access.

WORKED EXAMPLE: ANALYSING A PUBLIC BID AS IF YOU HAD WORKED ON IT

Alder Group, an invented bidder, offers 2.40 a share for Pellam Foods, an invented target with 210m shares, net debt of 90m, EBITDA of 54m and an undisturbed price of 1.90. Peers trade at 9.0x to 10.0x EBITDA. Work out the equity value, enterprise value, multiple, premium and the synergies needed to cover the premium over the peer midpoint, then give a view.

Answer: The bid values Pellam at 594m, or 11.0x, a 26.3% premium. Covering the premium needs about 8.5m of synergies, 15.8% of EBITDA, so the price looks full.

> **Interview tip:** Say plainly that this is a public deal you analysed, show the method and end with a view. Never imply you were on the deal.