



CASE STUDY:

A Judgment Call

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Overview

You are an associate in an investment bank. You are the newest member of a fifty-person group that covers the health care industry. Your team won a competitive mandate to be lead sell-side advisor. Your client, a Fortune 500 health care company, is selling its health care payments business (the “Subsidiary”) that its management team deemed to be a non-core asset. It is the group’s first time leading a transaction for the client. A successful sale of the Subsidiary will likely lead to future transactions.

You were informed that you have been staffed to work on the asset sale with a few others from the group (an analyst, vice president, and managing director).

Group background

The health care group has expanded over the past two years with the goal of significantly increasing its market share, both on the buy-side and the sell-side. The team has made tremendous progress toward this goal.

Prior to joining the group, you had heard that the reputation of the team was to work its junior bankers hard, and that some senior bankers had difficult personalities. In fact, you were able to get some additional context through a “friend of a friend,” Ariel, who has been an associate in the group for two years. Ariel stated unequivocally that to be successful in the group, one must stay on the good side of senior bankers.

The majority of the team is situated in an open-floor office, so you have direct access to colleagues at all levels of seniority. Despite having to work long hours, you are pleasantly surprised by how well everyone works together. The culture is one where junior bankers are encouraged to ask senior bankers questions. You have also noticed a strong camaraderie across the team from analysts to managing directors. It is not uncommon for senior members of the team to take junior colleagues out to grab a drink and socialize, especially when they have been working hard. Although it has been a relatively short



period of time, you have begun to assimilate into the group culture and develop a few relationships.

Sell-side advisement

You are excited about the opportunity to work on your first deal with the team—and to work with Maria, a well-respected vice president. It is common knowledge in the group that Maria is very influential with senior bankers. During compensation discussions, she is known to be a strong advocate for juniors. Maria asks you to review the historical and projected financials for the Subsidiary. She then provides you with a model/spreadsheet that has been provided by the client. The model's financial projections will be one source that potential buyers will use to determine the value of the Subsidiary and what they might bid. The model will also drive the team's advice to the client with regard to the range of offers to expect, as well as a fair price if the investment bank is to provide a "fairness opinion" on the sale. (A fairness opinion is a report generated by an investment bank for a client's management team and board of directors that offers a view on whether the client is receiving a fair price when buying or selling an asset.)

In the course of reviewing the model's financial projections and assumptions provided by the client, you notice a hardcoded number that increases future cash flow by an additional 2.5 percent. The due diligence with the client took place prior to you joining the team, so you will not have an opportunity to ask the client about it directly. The hardcoded number does not appear to be drastically different from other numbers in the model, and the additional 2.5 percent cash flow does not seem material. Time is not on your side, and you have to complete the review of the model. You wonder if you should you bring this to Maria's attention. You eventually err on the side of caution and decide to bring it up with her.

You walk over to Maria's desk and say, "Maria, I noticed this number in the model was hardcoded and it impacts future cash flows by an additional 2.5%." Maria looks annoyed and in a condescending tone says, "That's just one of many assumptions in the analysis. The 2.5% is a far more conservative assumption than what's typically used for financial projections. Welcome to the health care industry, rookie."



On the one hand, you immediately begin to second-guess your decision to bring this to Maria's attention. On the other, your gut is still telling you that something about the analysis just does not feel right. Maria spoke with conviction, but it's difficult to evaluate whether she is correct given it's your first deal. The fact is, however, that nothing on the spreadsheet indicates that the number is only an assumption.

A few minutes later, Maria stops by your desk. "Look, it's a judgment call," she says. "It's not your job to make the judgment. We can talk about it later. But just get this done now. Please. Thank you."

You don't want to do something that ruins your prospects with either the group or the firm. You distinctly remember what Ariel said when you joined: To be successful in the group, one must stay on the good side of senior bankers. Maria has a solid reputation in the office, and the senior bankers respect her opinions. She is focused. She gets the job done. You do not want to be the person who disrupts the team's cohesiveness, camaraderie, and accomplishments.

Maria was clear that this task must be completed now. You contemplate whether you should prepare the projections as requested. Given the importance of the transaction, you don't want to create a problem if there isn't one. Nonetheless, since you joined the bank, you have been repeatedly reminded of how important honesty and accuracy are to the business through the bank's communications and training.

Discussion Questions

- Should you just let it go and complete the projections? What does your gut tell you?
- What do you feel is your responsibility in this case?
- What are some of the factors that impact your judgment?



- If you went and talked Maria a second time, what would you say to her?
- If you do not want to go to Maria, who else in the organization could you seek out?
- What are the potential positive and negative ramifications of raising your concerns and of not raising your concerns?
- How would your decision affect how you feel about yourself and how you feel about the bank?