760-632-1889
An interview with an
International Investment Banker
Azim Khamisz
7/11/03

What is the difference between an investment banker and a banker?

The main difference between a banker and an investment banker is the banker wants low or no risk loans and tons of personal financials. An investment banker wants to know about the returns and expects more risk and to tolerate that risk they want a higher return.

What is the difference between a venture capitalist and an investment banker?

The main differences between an investment banker and venture capitalist are they may seek an exit quicker, often are more interested in the second round funding. Seek a higher return much more quickly than an investment banker. The venture capitalist is looking for a stronger management team.

How does a business owner find an investment banker?

The best way to find an investment banker is through your advisors

What are some secrets of a loan meeting with an investment banker?

Expect to spend some time getting to know each other. You should check out your investment bankers references and expect they will want to check you out. You will spend a lot of time with each other, it will in both your best interest to check each other out. Expect to pay a monthly retainer and a success fee. The smaller the deal the higher the success fee.

What size companies would be appropriate for seeking help from an investment banker?

Between 2 and 20 million. Your company may have reached a plateau where you need to get to the next level.

How many deals get funded, what are your odds of getting money from an investment banker?

A seasoned investment advisor doesn't accept deals that can't be funded. Azim's success rate is about an 80%

How much should a business owner expect to pay an investment banker for their help?

A business owner will pay a fee for the investment banker to search for money. That amount is similar to the fees for a business advisor or accountant. This fee covers an investment bankers cost. The investment banker starts making a profit when the business gets funded.

How long it will take for a business owner to get money after agreeing to engage the services of an investment advisor?

Four months to a year to get funding through an investment advisor depending on how well the company is prepared.

What is the number one thing an investment banker is looking for?

A business owner must have a business plan for an investment banker to get involved if they don't an investment banker will prepare it with them.

How do you determine how many employees a company should have?

As a rule of thumb, you can divide your revenues by $200,000 and that will tell you how many employees you might have in a typical situation. If your company is generating $1,000,000 in revenue you should have 5 employees.

What is one of the most important measurables an investment banker uses to determine the health of a company?

EBITDA

What is EBITDA?

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Earnings before interest, taxes, depreciation, and amortization

An easy way to think about EBITDA is;

If it costs you a dollar to sell a product for a dollar fifty, then your EBITDA is fifty cents.

If it costs you a dollar to sell a product at ninety cents then you have a negative EBITDA of ten cents.

10% of EBITDA on revenues it is not worth as much as a company that has 20%

If a company has $10,000,000 in revenues and an EBITDA of $1,000,000 it won't sell for a lot of money because the EBITDA is only 10% of revenues.

If a company $10,000,000 in revenues and EBITDA of $2,500,000 it will sell for more than a company with 10% EBITDA because the EBITDA is 25%.

Is EBITDA critical for funding through an investment banker?

EBITDA is the determining factor in how much funding an investment banker can raise in capital for growth

How does an investment banker use EBITDA?

EBITDA can be used to analyze the profitability between companies and industries. To determine the value of the company to an investor or buyer. It was originally used to indicate a company's ability to service debt in the 80's. It became popular for companies who had expensive assets that had to be written down over a period of time.

If EBITDA grows over time, it gives investors at least some sense of future potential profitability, which is why some investors look at "EBITDA margin" as a substitute for net margins.

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EBITDA can provide a relatively good "apples-to-apples" comparison of a company in an industry to another company in the same industry regardless of size.

For example, EBITDA as a percent of sales (the higher the ratio, the higher the profitability) can be used to find companies that are the most efficient operators in an industry.

The ratio can also be used to evaluate different industry trends over time. Because it removes the impact of financing large capital investments and depreciation from the analysis, EBITDA can be used to compare the profitability trends of, say, "heavy" industries (like automobile manufacturers) to hi-tech companies.

A simple explanation of EBITDA
by
James Wittmack

Say you're six years old and want to open a lemonade stand, hoping **Coca-Cola** (NYSE: KO) will eventually figure out a way to buy your operation. You have no money, so mom and dad front the capital equipment costs: $30 for lemonade, cups, sugar, water, and signage.

At the end of the day, mom and dad want to know how much money you made. They don't want a figure that's been adjusted for interest payments on the debt you owe them, taxes, and depreciation of the fixed assets. That's the idea behind EBITDA, to give investors a sense of how much money a young or fast-growing company is generating before it pays it all out to creditors, IRS, etc...

EBITDA is …..Earnings before interest, taxes, depreciation, and amortization

Taxes are

A levy placed on the profit of a firm; different rates are used for different levels of profits

Depreciation is

An expense recorded to reduce the value of a long-term tangible asset. Since it is a non-cash expense, it increases free cash flow while decreasing the amount of a company's reported earnings

Amortization is

The paying off of debt in regular installments over a period of time.

The deduction of capital expenses over a specific period of time. Similar to depreciation, it is a method of measuring the "consumption" of the value of long-term assets like equipment or buildings.