Preparing for Interviews and Working in Corporate Finance and M&A

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Introduction

We wrote this article to help new graduates gain a better understanding of what is entailed by a career in corporate finance and M&A. While there are lots of books and guides about these topics we have found most either to be too simple or too complex, and we have not yet found a single volume that describes the essential knowledge a new graduate needs to help them decide whether a career in corporate finance would suit them, or that sums up the knowledge they need to acquire to prepare properly for interviews.

This article is an attempt to describe the macro- and micro- work of corporate financiers and put their work into a wider commercial context. It describes the corporate finance process linearly in an effort to create a logical train of thought to approach the many related and inter-locking tasks undertaken in the day-to-day lives of corporate financiers. While it refers to a myriad of complex terms, it is not a textbook in itself. Rather it introduces these terms as triggers for the reader to go on and research in more detail.

Whether a single banker or bank gets involved in all these activities depends on the operational structure of the investment bank concerned. Some boutiques will only undertake a narrow range of advisory activities, whereas, while a large investment bank will be involved in every aspect of all the activities mentioned, many will be hived off to specialist departments and fall outside the domain of purely the corporate finance function.

1. What is Corporate Finance?

The term corporate finance should immediately be broadened to 'Investment Banking'. Investment Banking classically describes the activities of an entity acting in the capacity of an intermediary between: -

- organisations needing to raise capital and investors wanting to invest it (known as corporate finance advisory) and / or
- companies looking to takeover, or be taken over, by other companies (known as mergers and acquisitions advisory)

The term intermediary is key, because investment banks prefer not to invest their own money – they do not ordinarily act as a "bank".

Therefore, the Investment Banking Division (often referred to as the 'IBD') of an investment bank tends to offer two main services to client companies (a) corporate finance – raising new capital or optimising and restructuring capital already raised (b) corporate restructuring – more commonly referred to as "M&A" – mergers and acquisitions.

Investment banking should be distinguished from the wider activities entered into by an investment bank, such as securities brokerage and secondary trading, asset management, custody, risk advisory etc. Therefore, by strict definition, an investment bank does a lot more than purely investment banking, and these days, most investment banks have diversified to become financial services 'supermarkets'.

Investment banking therefore should also, by strict definition, be distinguished from Merchant Banking, as the latter is commonly understood to describe a financial organisation willing to invest its own capital in its client companies in the form of 'private equity' or 'principal finance'. Investment Bankers generally prefer to act purely as agents – acting on behalf of 3rd party clients and charging fees for their advisory services.

2. Investment Banking as a Noble Industry and a Worthy Career

As an industry, investment banking is often seen by some in a negative light. High salaries, glamorous offices, and some well-publicised abuses have caused some people to believe investment bankers are parasitic – living off the buying and selling of others. However, without investment banks, it would be much more difficult for capital to flow freely to finance companies and for resources to be properly allocated within the economy. The optimisation of the control of companies would be impeded and the inefficient use of productive capacity perpetuated causing a waste of resources.

Investment Banks can actually be seen to play a very healthy and beneficial role within modern society. They help iron out friction in markets ensuring the free flow of capital and corporate control. This benefit is ultimately felt by the consumer – in the form of better products and services produced at the cheapest price – and by investors – in the form of better returns on their savings. Investment Bankers play a pivotal role in shaping the texture of industry, and in doing so, society at large. To be an investment banker is to be at the centre of modern life.

3. The Corporate Finance Industry

Organisations that offer Corporate Finance services tend to split into two categories:

- Large, full-service investment banks, the biggest of which are referred to as 'The Bulge Bracket'. These banks tend to offer a full-range of services to clients that support corporate finance work, including primary and secondary broking (ie capital markets activities), asset management, risk advisory, custody services etc. They tend to be international organisations aiming to work with multi-national corporations in across the globe. Examples include: Goldman Sachs, Morgan Stanley and CSFB
- Smaller boutiques – who tend to purely focus on advisory work; they may have one of two offices in different countries (eg London, New York and Frankfurt). Examples include: Gleacher and Greenhill

Just like the companies they serve, banks need to create competitive advantage to attract clients and run a successful business. Such advantage arises from their expertise in certain industries, financial products and services or geographic regions. This expertise is reflected in the fees they generate and the transactions they complete which are all reflected in numerous league tables. The "League Tables" are the ultimate test of an investment bank's performance and its standing against its competitors.

4. Researching and Understanding the Business Strategy of Companies

The starting point of investment banking work, both for corporate finance and mergers and acquisitions, is research.

Investment Banking does not exist in a vacuum. It is a derived industry – derived from the needs of companies to expand beyond their intrinsic limits of retained profit and organic growth. If companies did not want to optimise their operations to offer better or more profitable products and services to customers, then investment banks would not need to exist.

Therefore before you can develop a close understanding of investment banking you must understand companies and how they create competitive advantage. It is key to understand what drives the creation of value by the Company, and specifically how long it can continue to generate returns in excess of its cost of capital.

Analysing the competitive position of a company requires a host of analytical tools.

Firstly, you need to analyse the industry in which the company operates and appraise the quality of its competition. A key model for this is Michael Porter's 'Five Forces' model featured in his book "Competitive Advantage". You also need to look at total possible consumer demand for the company's products and services by segmenting the marketplace in which the company operates.

Secondly, you need to appraise the distinctive characteristics of a company's operations. You need to see how it organises itself to create competitive advantage. A company faces a number of issues along its supply chain from product design to after-sales service, including the development of proprietary technology, procurement of materials, manufacturing quality and cycle times, marketing decisions such as pricing, promotion and branding, as well as sales-related issues such as the skill and effectiveness of its sales force. How it deals with these issues in a better or different way to its competitors will determine its financial performance. A banker needs a more-than-cursory knowledge of all these disciplines if he is to prescribe the proper financial medicine.

This ability to appraise the competitive position of companies is the typical knowledge base of a strategy consultant. A good investment banker needs to have this knowledge as well. They will be able to look critically at an industry or a company. For example, what are the key issues in the airline industry? What is a good ratio of expenditure on research and develop to sales income in the pharmaceutical industry? Why has there recently been a process of consolidation in the UK retail industry? Why has Tesco outperformed Sainsbury over the last few years? What are the strategic options facing Vodafone? The investment banker needs to know the answers to these questions, or at least know how to research them.

5. Researching and Understanding Companies' Historical Financial Performance

Having understood the competitive position of a company from a strategic perspective, you will want to understand its financial performance. A company's financial results should represent the

ultimate distillation over time of its business strategy.

A company's published financial accounts contain three separate financial statements:

(1) profit and loss account – showing income and expenditure
(2) balance sheet – showing assets and liabilities
(3) cashflow statement – showing the change in the company's net cash position as a result of incoming and outgoing cashflows

Because financial statements are open to a certain degree of manipulation they do not usually represent an objective basis to be used as a starting point for analysis or valuation. Companies can legally alter their reported earnings and net asset positions by smoothing income or costs, manipulating non-cash costs like depreciation and other provisions or adopting expeditious accounting policies in valuing assets such as property or stock.

Therefore, before embarking on an analysis of a company's financial position, still less attempting to value the company, the investment banker first needs to reorganise the financial statements to provide a true and undistorted picture of a company's operations. In essence, this means moving from measures of accounting profit to ones of economic profit. The Holy Grail metrics that a banker seeks to discover are the 'free cash flow' generated by operations and the weighting of capital invested in those operations. To gain a full picture, the banker will also want to appraise the company's credit health and liquidity to understand how it has been financing its value creation and how safe is the company's existing capital structure.

As well as valuing an individual company, a banker will want to perform comparative analysis of how the company performs relative to its competitors. In doing so, it will want to compare a number of financial indicators and ratios. There are dozens of these ratios to master computing and the knowledge of which ratio to use and when is itself one of the banker's arts.

6. Origination

Once a banker has a detailed understanding of a company's business strategy and historic financial position they are in a position to consider originating a transaction with that company.

The term 'origination' describes the process whereby an investment bank works with a corporate client to develop the concept and win the mandate to undertake a transaction. Such a transaction could be a new issue of securities to raise finance, or the take-over of another company.

Twenty-five years ago, investment banking was a relationship-driven industry and companies tended to have a long-standing relationship with one investment bank. Barring mistakes or an unfortunate outcome to a transaction, a corporation would tend to maintain this singular committed relationship. In turn, the investment bank would manage all aspects of a transaction – for example in raising new capital they would handle all three aspects of origination, under-writing and distribution.

Coinciding with the aggressive entrance of the large US banks to the London market in the mid-1980s, the investment banking industry has increasingly become more transaction orientated, and now investment banks are locked in competition to win mandates from corporate clients to undertake transactions, or manage aspects of them, on their behalf. The parameters on which they compete are the originality and viability of their research ideas, their past experience with that company, their reputation for performing similar transactions, including their position in the relevant league table, the personal impression made by the bankers who approach the client and attempt to forge and build a relationship with that client, and of course, their proposed fees and charges.

It is now customary for different banks to handle different aspects of the same transaction. In a large flotation, different banks will be responsible for origination, under-writing, and distribution. In a large take-over or merger it is not uncommon for a dozen banks or more to be co-operating or competing on different aspects of the transaction, either at the lead or syndicated level.

Origination is a euphemism for 'marketing'. Banks employ both their very junior and very senior staff in the origination process and create "pitch books" – presentations of ideas to clients. Often the senior staff will leverage their individual relationships or reputations to organise meetings and lunches with clients during which the pitch books are presented. The content of the pitch books – an amalgam of research of ideas, hypothesis, statistics and valuations – is assembled by the junior staff. The origination process is iterative in that these client meetings will often lead to the senior bankers developing a closer understanding of the client's operational and financial issues – to address which new ideas are presented.

Origination leads to mandates for corporate finance and mergers and acquisitions work. To be of value to your employing bank, you will need to develop an 'origination mentality' – being able to spot the potential for the creation of value to your clients (and in turn for the generation of fees for your bank). In corporate finance this means seeing the possibility for optimising a company's capital structure and in M&A it means visualising the synergistic value that could be created as a result of a transaction. A good technical grasp is not enough – you need personality and salesmanship to get the attention of clients and persuade them to grant an audience to your fellow bankers so they can make a formal pitch.

The aim of origination is to win a 'mandate' – a formal authorisation by a client to attempt a transaction.

7. Valuation

Whether origination leads to a corporate finance or an M&A transaction, the first step in attempting to "execute" the mandate will be one of valuation.

It will firstly be necessary to value the client company itself "pre-deal" or "pre-money". If the transaction involves a merger or take-over the target company or companies will need to be valued, and then the combined "post-takeover" entity will also need to be valued. And if a new issue of securities is entailed, either to finance the take-over or as a stand-alone capital raising exercise, the "post-money" position of the company will be valued.

The process of valuing a company or a division of a company is one of the investment banker's core skills. It is a highly mathematical process although, after all the complex calculations have been computed, it is often said that something is worth what someone is willing to pay for it. Therefore, valuation calculations are a very good guide to the true value of corporate assets, but they are ultimately only a guide.

There are lots of ways to value a company, and you will want to be familiar with a wide number of them.

Because valuation is an exercise in predicting value into the future (as opposed to accounting measures which tend to be historic) you will need to master some complicated techniques. The most popular of these is "DCF" – discounted cashflow – where the future cashflows of a company or project are collapsed into a single present value by applying a discount factor to revalue the future cashflows in today's money. Calculating the discount factor to be used involves calculating the WACC – "weighted average cost of capital" faced by the company – that is the cost of the company's financing – being a weighting of its cost of equity and cost of debt.

To calculate a company's cost of equity, you will use the CAPM "Capital asset pricing model". To calculate the company's cost of debt, you must calculate the true yield of its outstanding debt to maturity.

While DCF is the most popular valuation method, it is suffers from some drawbacks and there are a number of other valuation methods and each with their relative strengths and weaknesses. For example, if the company is quoted, it will have a market capitalisation – that is the company's share price multiplied by the number of shares in issue. You will always look for recent comparative transactions – deals completed recently – and see whether the same valuation techniques can be applied.

Valuation is one of the truly technical aspects of banking and you must master it as both an art and a science.

8. Financing

To be a good investment banker, you need to understand the different ways in which companies finance themselves. Broadly, a company is faced with a choice between two overall forms of finance: equity and debt, although there are now a number of hybrid options.

	Equity	Debt
Ownership	• Confers ownership to the holder	• Does not confer ownership
Right to benefit from capital appreciation	• Confers right to benefit from capital appreciation on sale or flotation	• Capital value is fixed to the level of the original investment
Participation in management	• Allows participation in management via right to vote at company meetings	• Does not allow participation in management
Right to income	• Right to dividend payments but only if voted for by management and only if the company has sufficient reserves	• Generally always receives guaranteed income of interest payments, irrespective of the company's profitability
Repaid	• Generally never repaid	• Always repaid
Taxation	• Dividends paid after tax – ie they are not tax-deductible	• Interest paid before tax – ie interest payments are tax deductible
Security	• Unsecured	• Generally secured by taking a charge on assets
Ranking in Insolvency	• Ranks last behind all other claims if the company becomes insolvent	• Ranks high up the list of claims if the company becomes insolvent

In general terms, equity is a high risk / high return instrument, while debt is lower risk / lower return instrument. In return for limiting their claim for repayment to the amount of the original principal lent, debt holders receive a guaranteed fixed rate of interest and have their claim for repayment met before the claims of equity holders.

In return for accepting the risk that the company might be unable to pay dividend payments or repay their original investment in the event of insolvency, equity holders enjoy the full benefit of any surplus income and capital value accruing to the company after meeting all other claims of operating, interest and taxation expense.

There are a number of hybrid instruments which combine the features of debt and equity. These include convertibles - that is debt instruments that are convertible into equity - and derivatives. The most common hybrid instrument is "preferred stock" which pays a fixed coupon and can often be redeemed (like debt), but pays this coupon into perpetuity (unless redeemed) after tax, out retained reserves and only after other claims have been met (like equity).

There are a myriad of other financial instruments available to the investment banker and their investment characteristics can be tailored to suit the various needs of the issuing companies and the investment community. In particular, there are now dozens of debt-related products including: senior secured debt; high-yield debt ("junk bonds"); zero-rated bonds; bonds with caps, collars and floors; bonds with warrants or equity kickers; short-term commercial paper; floating rate notes...the

list goes on. The Investment Banking Division will work with the various products groups within the Debt Capital Markets group such as the Structured Products Group, the High-Yield Department and the Swaps Department to design new financial instruments to suit every new investment circumstance or to restructure existing already-issued financing.

Your understanding of the forms of finance available to companies and investors will inform your work in corporate finance and M&A.

9. Corporate Finance Advisory – Executing a Mandate

As a Corporate Finance Advisor the investment bank acts as an intermediary between a corporation or a government enterprise that requires capital and persons or institutions that have funds to invest. They assume the role of 'primary market maker' – that is they "make a market" in a new issue of securities. The entity in need of financing will issue new securities and is often referred to as "the issuer".

The raising of finance can be either public or private. If the securities are to be offered to the public for the first time, the issue is called an "IPO" – an initial public offering – or flotation. There are various types of flotation including a "placement", a "tender offer" and an "offer for sale" and each has different pricing, lodgement and distribution characteristics.

Companies 'go public' for various reasons and not just to raise capital. The creation of a public market for the company's shares gives the original owners an orderly exit route for their shares; it gives currency to the company's shares ("its paper") which can then be used as consideration to buy other companies or to reward employees via stock options and equity stakes; and being publicly-quoted creates publicity for the company – although whether it will be positive or negative will depend on the fortunes of its share price!

Under the umbrella of 'corporate finance', the bank provides three separate but related functions:

- Origination
- Underwriting
- Distribution

We have discussed the marketing aspects of origination already. Within a corporate finance transaction the origination process will go further to include drawing up the huge mountain of paperwork required to support an issue of securities (including a prospectus, a long-form report, a short-form report and numerous filings of legal documents with various regulatory bodies such as the Stock Exchange), co-ordinating an army of supporting advisers including lawyers, accountants and public relations consultants, as well as being satisfied by a process of due-diligence that they are willing to back the issue with their professional reputation and act as sponsor to the issue – in effect a statement to the investment community that the issue has the bank's blessing. The investment bank generally charges a retainer for its services once it has a mandate in place.

The process of underwriting has changed over the years. Classically it described an arrangement whereby the investment bank negotiated with the issuing company a price at which the securities would be offered to investors. The bank then 'accepted' the securities at a price marginally below this level – "the underwriting spread" – which it kept in return for its underwriting services. If the securities went unsold, the investment bank agreed to buy them themselves – that is they "underwrote" the issue – and in effect gave the issuing company an insurance policy that a minimum level of new capital would be raised.

In recent times this "firm commitment" underwriting agreement is often reduced to a "best efforts"

or a "stand by" agreement whereby the bank does not make a firm pledge to buy securities that remain unsold. However, the bank still charges a fee equal to a percentage of the securities offered, typically between 2 and 8% depending on the complexity of the offering, to support the issue as its sponsor, in return for accepting public liability that the representation of the company in the prospectus and other public documents is true and reasonable.

There is a dynamic tension in the underwriting process. The issuing company wants to price the securities as high as possible (in order to generate the most capital) and so does the investment bank, to an extent, to ingratiate themselves to their client. However, paradoxically the bank also wants to set the lowest price possible to ensure the success of the issue and to ingratiate themselves to the investors who buy the securities and to whom they will return to persuade them to buy the next issue on behalf of future clients.

During the final distribution phase, the investment bank's Capital Markets group will draw on their relationships with institutional or private investors to persuade them to buy the securities being sold. Often a distribution syndicate is formed which passes down the securities to be sold through a network of different banks acting in different geographical regions or having access to different investor profiles. The process of gaining a sufficient volume of commitments from investors to buy stock is called "book running" or "book building".

A flotation or indeed any issue of securities is an enormously expensive process, and even a float that raises just a few million pounds for a small company will cost at least £750,000 in fees. Large offerings often create tens of millions of pounds of fees for the investment banking community.

In total, due to their corporate finance activities, investment banks meet the financing short- and long-term financing needs of companies and governments as well as the investment needs of intuitional and private investors.

In order to develop an understanding of corporate finance work, you will need to understand the complex process involved when companies offer securities for sale to the public or to private investors. This understanding should include listing and filing requirements, an appreciation of the dynamic tension that exists in negotiating the pricing of an issue and the delicate balance that a bank tries to achieve in its relations with its corporate clients on the one hand and institutional investors on the other.

10. Mergers and Acquisitions Advisory – Executing a Mandate

Mergers and Acquisitions work, more properly called "Corporate Restructuring", is an umbrella term that comprises M&A itself, divestitures, liquidations and battles for corporate control. In practice this means helping one company acquire another; helping one company be acquired by another; defending a company against an unwanted takeover attempt; or selling off single divisions or parts of companies. The investment bank can act on either side of these transactions – that is it can represent the company doing the buying or the company being sold.

In an M&A deal the investment banker (and their clients) is looking to create synergistic value – that is the new corporate whole will be greater than the sum of its corporate parts – in other words that one plus one will equal three. The ability to visualise the creation of value in this way, and to be able to broker the transaction by introducing the relevant parties to each other is the ultimate test of the banker's ability. The M&A adviser needs an intimate knowledge of the underlying companies concerned – including their operations, financial structure and management teams – if they are ever going to broker a successful deal.

Each M&A transaction can be categorised as either being one of expansion, contraction or a change in corporate control.

Expansionist M&A deals tend to be examples of horizontal integration – where a company acquires other businesses making similar products or services; or vertical integration – where a company acquires other businesses along its supply chain – either backwards towards its sources of supply, or forwards towards its distribution channels; or conglomeratisation – where two companies in completely different businesses combine.

Contractionist deals involve a company divesting itself of low-margin, non-core or otherwise unwanted assets, or elements of the company splitting off to form new or separate companies.

The world of mergers and acquisitions is often characterised by a battle for corporate control. Strong companies use their financial muscle to takeover weak companies. In doing so, they might strip them of their useful and productive assets while getting rid of their unproductive or duplicatory assets. Sometimes rival shareholders bid for outright control of the same company, or look for more productive ways to finance them. For example, if an incumbent management team believes that the stock market is undervaluing their publicly-quoted company they might seek to take the company private – through a leveraged buy-out – an "LBO". Private equity firms have created an entire industry to make available private (ie non-quoted) finance for such transactions.

Management teams often look to enter into M&A transactions to expand their companies beyond the natural limits of organic growth. In doing so their motivations might include: -

- Leveraging their core business to gain access to new or expanded markets
- Utilising economies of scale to reduce operating or financing costs
- Exploiting technology or skills transfer

Originating and executing an M&A transaction requires a great deal of involvement at all stages from the investment banker. As part of either the origination or the execution process they will need to draw up a long-list of companies to be targeted, either as possible acquisitions or as buyers, if the client company is to be sold. Through a combination of financial and strategic review, the banker will want to identify a couple of strong candidates then perform detailed valuation work to decide the best option. With backing from the client's management, the bankers will then decide how best to approach the target company to open negations.

M&A deals can be either friendly or hostile. By its nature a hostile bid will generally be resisted by the targeted company who will retain an investment bank to help them mount a takeover defence. There are various measures that a company can put in place pre-emptively to resist an unwanted takeover including "poison pills", "shark repellents" and "golden parachutes".

On each side of all these deals there is a need for investment bankers to act as brokers, advisers and introductory agents. Where a company is being targeted for takeover by a number of potential acquirers, there is a virtual bean-feast of fees on offer for the army of rival investment banking firms, accountants and lawyers operating for each party on every side of the transaction.

Once an approach is made, whether it be friendly or hostile, the investment bankers mastermind a continuing process of due diligence, price negotiation and legal manoeuvring in order to progress the deal to a conclusion. The key factors in contention are usually: (a) the price itself (b) how the price will be satisfied – will payment be made in cash or shares? (c) post-deal integration terms – who will run the new combined company, what will be the employment and other control terms for each party's board of directors and employees?

The bankers will also be trying to arrange financing, and the ability to finance a deal in the most advantageous way might be a key factor in determining whether or not the acquiring company can pay a deal-winning price.

The other key factor in executing an M&A deal is controlling (sorry, I mean advising!) client management. CEOs, finance directors and controlling shareholders often have a legal cocktail of financial interests, prejudices, emotional attachments and ego-centric influences all of which need to be carefully managed and channelled by the bankers in order to facilitate the deal.

In order to play your part in earning these fees, you will want to acquire a knowledge of takeover protocols, including corporate law, the city code, filing requirements, forms of finance, and the darker arts of takeover tactics and strategies. You will want to be able to develop 'a nose" for the synergistic value created by a merger and set out the M&A options open to a company to build on its strategic strengths and address its strategic weaknesses.

In doing so, you will prepare yourself to tread in the footsteps of famous investment bankers, such as Bruce Wasserstein and Eric Gleacher, who over the last 25 years have proved they can broker the most complex and audacious deals. The all-star M&A bankers acquire 'master of the universe' status in the City and on Wall Street and amongst their clients and rivals, and this reputation in turn leads to still greater demand for their services.

11. Merchant Banking, Private Equity and Principal Finance

While we said above that bankers usually go to great lengths to act only in an advisory capacity and not accept a risk position, there are actually hundreds of financial organisations that seek such risk in order to seek commensurate returns. In corporate finance, these organisations are known as merchant banks, private equity houses or principal financiers.

These terms refer to slightly different activities: -

- A merchant bank refers to an investment bank willing to invest its own capital in its client's businesses to support its investment banking deals. This generally means that the bank is willing to take an equity stake, as opposed to a full-service bank (like Citigroup or HSBC) who have both an investment banking arm and a commercial banking arm, the latter which lends money in the form of loans or bonds to the company on arms' length terms. The investment 'sweetens' the role of the bank and makes it more likely they will win the mandate in the first place
- Private Equity (aka "venture capital") means a financial investor wanting to invest equity (or equivalent) finance into businesses usually with a short-term view (usually 3 – 5 years) to sell the company or otherwise exit their investment to make a profit; private equity houses do not otherwise participate in advisory work – they are solely looking to make profitable investments
- Principal finance means an investment bank willing to invest its balance sheet either in the form of debt or equity and in either private or public form in companies not related to their advisory deals. It is the corporate finance equivalent of 'proprietary trading' in securities. These are generally long-term investments and once done, are often refinanced and put into investment funds for securitisation and sale to the public or other investors.

12. Understanding the Regulatory Framework

Corporate Finance and M&A work is necessarily surrounded by hugely complex legal and regulatory governance. There is an overlay of regulation enshrined in the law itself, including national tax laws, accounting standards, the jurisdiction of various regulatory bodies such as the FSA and the Stock Exchange, and the special practices adopted by the financial community itself – known collectively as 'the City Code'. To be a good banker, you must familiarise yourself with terms such as the 'Yellow Book' and why the percentages of 30%, 50%, 75% and 90% are significant in terms of shareholder control.

13. Related Departments

There are a number of other investment banking departments impacted by the work of corporate financiers: -

- **Capital Markets** – the Equity and Debt Capital Markets Divisions, together with their specialist sub-divisions will interact with Corporate Finance to advise on the structuring and restructuring of companies' capital structures, certain specialist financial products or the viability and pricing of securities issues. They will provide distribution services to sell new securities to investors
- **Sales and Trading** – any newly floated company must have at least one broker making a market in its securities so at least one investment bank or brokerage house must assume this function (in return for a retainer fee); once issued, the Sales and Trading function will attempt to provide an orderly after-market in the company's securities. Favourable or adverse stock market performance creates further cause for corporate finance work, either providing sufficient value in the currency of a company's stock to enable takeovers or dissipating value so the company runs the risk of being taken-over. As the Corporate Finance department will often have privileged knowledge of a company's operational performance, they will be in receipt of price-sensitive information. A 'Chinese wall' is meant to prevent this information being abused by the traders and salesmen within the Sales and Trading department
- **Research** – the securities research departments (both equity and fixed income) will want access to the company's management in order to prepare reports for their investor clients; these reports advise investors to either 'buy', 'sell' or 'hold'. If a bank's research arm issues unfavourable research reports it can prejudice the chances of the Corporate Finance department winning further M&A mandates. This is another example of where the 'chinese wall' should prevent the inappropriate influence of one department by the other
- **Asset Management** – an investment bank's in-house asset management department will often be persuaded by the corporate finance or capital markets groups to purchase the securities of corporate clients being represented by the bank. As such the Asset Management department becomes the in-house customer of the Corporate Finance department

And outside the walls of the investment banks themselves: -

- **Accountants** – a company looking to undertake a corporate finance or M&A transaction will always need reporting accountants to prepare the accounting statements and review their financial projections; in order to satisfy their due diligence requirements, the corporate finance department will interact heavily with the accountants
- **Specialist due diligence firms and strategy consultancies** – often, if the bank is a small boutique, or to gain greater confidence into the financial probity of either a client company or a target company, the corporate financier will employ a specialist due diligence firm; often the reviews conducted by these consultancies will go beyond just the companies' financial performance – they will consider the strategic and operational contributions made by individual divisions or the likely synergies to be gained from a merger
- **Lawyers** – lawyers will need to assist the corporate financier to file the mountain of legal documents and draft or review the various prospectuses required to support a transaction, including drafting the constitution of any newly created companies and contracts. In addition, many deals throw up litigation and lawyers must be on hand to do battle in the courts to protect the interests of the various parties and clear the path to doing a deal
- **Public relations consultancies** – most transactions have public relations implications and an investment bank will often retain a specialist consultancy to manage these aspects in a positive fashion. The PR company will help create excitement about the company in play, including stimulating the appetite of investors to acquire their securities. In a hostile takeover bid, PR firms will help the bank compete to win the hearts and minds of wavering shareholders
- **Headhunters and recruitment consultants** – yes, even our industry has a part to play, to ensure the corporate finance department is itself staffed by the right personnel and that client companies have the right make-up of management teams. An inspirational CEO can

make or break a company and finding the right management talent to run companies is a substantial constraint on the work of corporate financiers and private equity houses alike. In recent years, the need to recruit competent non-executive directors has received sharper focus, in an era of increased emphasis on corporate governance, reduced investor confidence and financial irregularities

14. Keeping up to date

We live in a world of increasingly industrialisation and consumerism. The reach of multi-national corporations touches every person on the planet in terms of their products, services, employment of staff, effect on the environment and use of resources. Their financial results, changes in senior staff, launches of new products, attempts to grow by takeover and efforts to raise finance are played out daily and reflected in the news headlines – and just not within the financial pages. It is said that the CEOs of large companies now have more power than politicians to affect people's lives.

At the heart of these events are investment banks and investment bankers. To keep up to date in a constantly shifting inter-linked world economy you need to stay on top of the news. You must read the business headlines every day and use your technical knowledge to understand what's happening "behind the headlines".

The vantage point of an investment banker is greater than almost every other profession into the essence of the forces shaping our world, while the skills you will learn, both technical and personal, will equip you for almost every other job you will ever do, and even be useful in your personal life, in terms of controlling your emotions and dealing with people. The fact that you will earn an inordinate amount of money and be better paid than any of your friends seems almost irrelevant!

Good luck!

Andrew Williams
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