Business: Allied Irish Bank on Mergers and Acquisitions

Created by esldebates.com

Warmer questions

1. Can you think of any news when two companies joined together?
2. Are there any examples of failed mergers?
3. What sort of financial problems might companies face when merging?

Reading

Is corporate finance different from business finance?

Corporate finance is different from business finance. While business finance refers to finance to all types of business (such as partnership firms, joint-stock companies, etc.), corporate finance includes planning, raising, investing, and monitoring of finance so as to achieve the financial goals of an organisation.

Corporate Finance Products and Services

Corporate finance understands the financial problems of the organisation beforehand and prevents them. It usually refers to financial services offered to large clients (wholesale clients). The services offered by corporate divisions of banks include general commercial banking activities, and services particularly tailored to big clients such as multinational companies. The most important are:

- Loans and other credit products –this is usually one of the biggest sources of profit and risk for a bank.
- Treasury and cash management services –for managing working capital and currency conversion requirements.
- Equipment lending –customised loans and leases for a range of equipment used by companies in diverse sectors.
- Commercial real estate –real asset analysis, debt and equity structuring, and portfolio evaluation.
- Trade finance –involves bill collection, letters of credit and factoring.
- Employer services –payroll and group retirement plans are typically offered by specialized affiliates of a bank.

Questions from the reading section:

1. Failed energy giant Enron is a prime argument for the importance of solid corporate governance. Is this a consequence of poor corporate governance alone?
2. A merger occurs when two firms join together to form one. What factors drive mergers and acquisitions? Why would two companies merge?

Vocabulary matching

Match the vocab on the left with the correct definitions on the right.

Corporate finance	A combination of two things, especially companies, into one
Deal	Funding that is required to get a new business started.
Expansion	An act of purchase of one company by another: “there were many _______________ among travel agents”.
Venture capital	The action of becoming larger or more extensive.
Seed capital	An independent company that is more than 50% owned by another company, usually referred to as the parent company or holding company.
IPO	An agreement entered into by two or more parties for their mutual benefit, especially in a business or political context: “the band signed a major recording _________”.
Investor	A person or organization that puts money into financial schemes, property, etc. with the expectation of achieving a profit: “foreign ___________in the British commercial property sector”.
Merger	An initial public offering, or IPO, is the very first sale of stock issued by a company to the public.
Acquisition	Area of finance dealing with the sources of funding and the capital structure of corporations, the actions that managers take to increase the value of the firm to the shareholders, and the tools and analysis used to allocate financial resources.
Subsidiary	Venture capital (VC) is a type of private equity, a form of financing that is provided by firms or funds to small, early-stage, emerging firms that are deemed to have high growth potential, or which have demonstrated high growth (in terms of the number of employees, annual revenue, or both).

Video: AIB – Mergers and Acquisitions

Corporate finance departments are charged with governing and overseeing their firms' financial activities and capital investment decisions. Such decisions include whether to pursue a proposed investment and whether to pay for the investment with equity, debt, or both. They also include whether shareholders should receive dividends, and if so, at what dividend yield. Additionally, the finance department manages current assets, current liabilities, and inventory control.

[Video link: https://esldebates.com/business-allied-irish-bank-on-mergers-and-acquisitions/](https://esldebates.com/business-allied-irish-bank-on-mergers-and-acquisitions/)

Watch the video and then answer the questions below

1. How did the financial crisis affect Ireland?
2. How is Ireland doing now?
3. What is AIB?
4. Who is Owen Travis?
5. Is corporate finance in Ireland busy?
6. What is the meaning of corporate finance?
7. What does AIB mean by being with its customers not just through one deal but through its whole lifespan?
8. AIB Corporate Finance used to be on top four in Ireland. How is it managing to claw its way back to that position?
9. What is the meaning of disintermediation?
10. Is disintermediation advisable?

Benefits of corporate finance

1. As a company grows, it is helpful to have different corporate finance accounts for reserves and other savings. Should a financial crisis occur, corporations will want to make full use of the reserve available to get on with business.

2. Corporate finance specialists provide assistance concerning general financial advisory, acquisitions, project financings, refinancings, disposals, restructurings, conducting international transactions, and more.

3. Corporate finance professionals provide strategic and specialised advice in areas of: divestitures, and growth strategies.

4. Corporate bankers can help companies make sure that their liquid accounts stay safe, so that they can always be ready to conduct business as needed.

The disadvantages of corporate finance

1. Corporate finance advisory can be very costly. Some companies prefer the disintermediation, which is the reduction in the use of intermediaries between producers and consumers −by investing directly in the securities market rather than through a bank, for example.

2. Companies may face liquidity risks when making large investments. In most cases, companies will be required to choose between cash in hand or generating more investments.

3. Regardless of corporate finance advice, there are systematic risks (this type of risk is both unpredictable and impossible to completely avoid so there is no way to fully protect investment portfolios), and non-systematic risks −which refer to risk factors common to the entire economy.

4. Not only are there risks presented in terms of benefits or liquidity. Many times, investments can lead companies to bankruptcy, which is directly linked to financing decisions.

Potential debating topics

1. No matter the price to be paid, corporate finance advisory is always a must.
2. After a cost-benefit analysis, companies should invest directly in their assets rather than being overcharged by corporate finance specialists.
3. Corporate finance understands the financial problems of an organisation beforehand and prevents them.
4. Corporate finance seldom fixes companies' financial difficulties and otherwise leads them to bankruptcy.

Conclusion

Finance is the foundation of any business. Corporations, too, need finances for daily operations so as to meet essential expenses and payments. Hence, finance is essentially required across all phases of an organisation lifecycle. Inefficient management of finances could lead corporations to liquidity shortages and bankruptcy. For that reason, company executives need to decide very carefully whether to seek financial advisory or to do business without corporate finance consulting.

Answers

Vocab answers

Vocab	Definitions
Corporate finance	Area of finance dealing with the sources of funding and the capital structure of corporations, the actions that managers take to increase the value of the firm to the shareholders, and the tools and analysis used to allocate financial resources.
Deal	An agreement entered into by two or more parties for their mutual benefit, especially in a business or political context: “the band signed a major recording ___________”.
Expansion	The action of becoming larger or more extensive.
Venture capital	Venture capital (VC) is a type of private equity, a form of financing that is provided by firms or funds to small, early-stage, emerging firms that are deemed to have high growth potential, or which have demonstrated high growth (in terms of the number of employees, annual revenue, or both).
Seed capital	Funding that is required to get a new business started.
IPO	An initial public offering, or IPO, is the very first sale of stock issued by a company to the public.
Investor	A person or organization that puts money into financial schemes, property, etc. with the expectation of achieving a profit: “foreign ______________in the British commercial property sector”.
Merger	A combination of two things, especially companies, into one
Acquisition	An act of purchase of one company by another: “there were many __________________ among travel agents”.
Subsidiary	An independent company that is more than 50% owned by another company, usually referred to as the parent company or holding company.

Video answers

1. Ireland was hit much harder than many other countries in the financial crisis, and house prices fell by sixty per cent.
2. Ireland is fighting back now with annual growth of around four per cent much higher than the UK's one point eight.
3. It is Ireland's largest bank.
4. He is managing director of AIB Corporate Finance based in Dublin.
5. It is extremely busy. It passed through a period where it was involved in restructuring, and helping companies get through the crisis, but things are improving now.
6. What it means is that AIB is helping people buy a further company to help their expansion, buy new facilities and sell operations and also raise financing capital to help them with their plans.
7. AIB is taking its clients from the early stages. From raising venture capital and seed capital, to the IPO, followed by sale at the business or right up to bringing new investors. So, AIB is present in the whole lifecycle of its customers.
8. AIB managed to keep together a core team during the crisis; it helped the bank sell approximately fifteen billion of assets −part of its recapitalisation. It has also augmented the team, helping people execute transactions of different types as it moves into the expansionary phase of the economy.
9. Disintermediation means that companies will handle their own mergers and acquisitions.
10. Not particularly. It is generally best for the company management to allow specialists in to help them with execution transactions −particularly company transactions, such as mergers acquisitions, and disposals of subsidiaries. Experts can generally help achieve best price and execution.