

INVESTMENT BANKING



Raising capital

Ruth Henly works in an investment bank in New York.

‘Unlike commercial banks, investment banks like ours don’t lend money. Instead we act as intermediaries between companies and investors. We help companies and governments raise capital by issuing securities such as stocks and bonds – that is, we offer them for sale. We often underwrite securities issues: in other words, we guarantee to buy the securities ourselves if we can’t find other purchasers.’

As well as initial public offerings (IPOs), when companies offer stock for sale for the first time, there are other occasions when they raise funds. For example, they might want to expand their operations, or to acquire another company, or to reduce their amount of debt, or to finance a specific project. They don't only raise capital from the public: they can sell stocks or shares to institutional investors like insurance companies, investment funds – companies that invest the money of lots of small investors, and pension funds – companies that invest money that will later be paid to retired workers.

We also have a stockbroking and dealing department. This executes orders – buys and sells stocks for clients – which is broking, and trades with our own money, which is dealing. The stockbroking department also offers advice to investors.'

BrE: flotation; AmE: initial public offering (IPO)

Mergers and acquisitions

'Investment banks often represent firms in mergers and acquisitions (see Unit 21), and divestitures. A divestiture is when a company sells a subsidiary – another company that it owns. Most of the fee – the money the company pays us for the service – will depend on us completing the deal successfully. This gives the bank a good reason to make sure that the transaction succeeds.'

Consulting and research

'Large corporations have their own finance and corporate development departments. But they often use an investment bank like ours because, like a consulting firm, we can offer independent advice, and we have a lot of experience in financial transactions. We also have a large network of contacts, and relationships with investors and companies that could be interested in a merger or acquisition.'

If we've worked on a transaction with a company, we know a lot about its business. This means we can give advice about **strategic planning** – deciding what to do in the future – or **financial restructuring** – changing the way the business is financed. Large investment banks also have extensive **research** departments with **analysts** and **forecasters** who specialize in the **valuation** of different markets, industries, companies, securities and currencies. Analysts try to work out how much things are worth now, and forecasters study the prospects for the future.'

Complete the table with words from A, B and C opposite and related forms. Put a stress mark in front of the stressed syllable in each word. The first one has been done for you.

Verb	Noun(s)	Noun for people	Adjective(s)
a'cquire		—	—
advise			—
			analytical
institute		—	
invest			—
value		—	

Complete the sentences from newspaper articles with words from the box.

acquiring

advised

divesting

fees

IPOs

merged

underwritten

1

Deutsche Telekom's IPO was
..... by Goldman Sachs.

2

During their acquisition of
Mannesman, Vodafone were
..... by UBS.

3

Large multinationals are always
..... less successful parts of
their business as well as
successful companies.

4

Big Wall Street banks earned millions of
dollars in consulting from
Enron before the company collapsed.

5

When Mitsubishi Tokyo Financial Group
..... with UFJ Holdings, they
became the world's biggest bank.

6

In 2000, the global value of
..... was over \$220 billion.

Match the words in the box with the definitions below. Look at A, B and C opposite to help you.

financial restructuring	consulting firm	forecasters	institutional investor
strategic planning	pension fund	subsidiary	valuation

- 1 a company of experts providing professional advice to businesses for a fee
- 2 a financial institution that invests money to provide retirement income for employees
- 3 deciding what a company is going to do in the future
- 4 people who try to predict what will happen in the future
- 5 a company that is partly or wholly owned by another one
- 6 a financial institution that purchases securities
- 7 making changes to how a company is financed
- 8 establishing how much something is worth

Homework for next Thursday:

Can you name a big financial institution in your country (not a bank)? What are the services that offer ?