

Corporate finance demystified

A Guest Article by Jim Keeling
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The words "corporate finance" trip easily off the tongue for those who work inside the world's financial centres. For many in the real world, though, the term remains shrouded in mystery. What exactly is it these corporate financiers do?

In this article, Jim Keeling of corporate finance firm Corbett Keeling peels back some of the layers of mystification to reveal a service of vital interest to businessmen in all industries.

Oiling the wheels of capitalism

If you believe that capitalism has a part to play in the world economy, you probably also believe that building the value of companies is an inherent part of business life. But business is not just about building value.

If you are one of the owners of a company, you also want to be able to turn that value into cash, so that you can enjoy the proceeds. That, after all, gives you the incentive to get out of bed early on a cold winter's morning.

Along the way, it helps to have someone oiling the wheels of those two aspects of capitalism – building and realising value. And that, in a nutshell, is what corporate finance is all about.

Building the value of the business

Time and again, people who are trying to build a business lack one core ingredient: capital – that is, the funding to allow them to expand their business. This might be used, for example, to build a new factory, develop a service, buy a competitor or complete a management buy-out of a business.

Whatever is driving the need for funding, the first question the owners and managers of a growing business ask themselves will be: how can the capital best be provided? By "best" they will normally mean most cheaply and efficiently. This is where corporate financiers can step in: in almost all cases, a key aspect of their service is finding the best and most suitable source of capital.

Corporate financiers may turn to banks for debt funding, or loans. But they also have a much wider range of choices available. For example, it may be appropriate to seek equity funding from providers who are prepared to take more risk but in return ask for a stake in the business they are backing.

Between debt and equity, there is a whole spectrum of hybrid funding products that may be relevant to any given situation – such as junior debt, mezzanine financing and preference shares. A key part of corporate finance advice will be

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to suggest to the client which, if any, of this bewildering array of options is appropriate to their particular situation.

But the corporate financier can also make introductions to people or firms who may be able to provide the funding. To have the best chance of securing the funding (and at favourable terms), the business plan submitted to funders must be shaped and presented so that it is as appealing as possible. It is another part of the corporate financier's job to help their client to do this effectively.

Realising the value of the business

After raising capital and building value, the business owners may want – some years later, perhaps – to realise that value by selling the business. Here the corporate financier, if they formed a strong relationship with the owners in earlier years when raising money, may be asked to step in again.

And, if the earlier funding was one of the most important financial transactions of the owners' lives, the subsequent sale is even more so: few transactions are as critical as the sale of a concern that has often taken many years to build. Naturally, the best possible advice and assistance is required.

When it comes to a sale, the corporate financier can help the client once again to present the business in the best possible light, and in a way that is relevant to the target audience – though now that will be people who want to buy the business in its entirety, rather than acquiring a stake or lending funds.

The service the corporate financier provides will normally include identifying all likely purchasers, carrying out an auction among them, negotiating with them and managing teams of supplementary advisers – lawyers, accountants, tax consultants, etc. – to ensure that the transaction comes to a satisfactory conclusion for the sellers.

So, to sum it up, corporate financiers help to oil the wheels of capitalism at some of the key points in a company's life, from the early days of growing the business to the final, hopefully jubilant, scenes when it is sold.

Jim Keeling

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If you would like more information on any of the points covered in this Guest Article, please contact **TCii** on **020 7099 2621**.