

Mcbride financial services

[Economics](#), [Financial Markets](#)



McBride Financial Services is a premier one-stop mortgage provider in the five-state area of Idaho, Montana, Wyoming, North Dakota, and South Dakota. The company specializes in providing low-cost, flat-rate fee mortgages to members of its communities shipping for a new residential mortgage. The company is currently privately held but is exploring opportunities to go public through an Initial Public Offering (IPO), acquiring another company in its same industry or merging with another organization.

Through utilization of the SWOT method, management will evaluate each approach and determine which is the best method to take McBride Financial Services public. Strengths in Going Public If McBride Financial Services chose the option of going public with an IPO there are a couple of strengths that it would benefit from. The first distinct strength is the raising of capital. Additional capital would allow for brick and mortar expansion, investment opportunities, and added cash flow to improve products and services. An IPO can help reduce debt and the applicable risk rating given by creditors.

If the IPO is successful, the options for additional financing will be open. By utilizing the option of an IPO, an organization's awareness within the community arises. Most companies gain profits when establishing an IPO. Consumers become aware on a local and even a national level of what your organization produces. They will take a risk if currently unhappy with their current financial services and experiment with your products and services. If the customer relationship is cemented from the beginning, the consumer is sure to now produce additional clientele via word-of-mouth.

All of this additional business is generated by creating and offering an IPO. If McBride's chose to acquire another organization within the same industry, it

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has several advantages it could benefit from. One advantage from the start is that the open locations could potentially be in lucrative locations that would create a stronger voice and curb appeal. Financing options become available as well. The current financier used by McBride, will be ready and willing to offer other financing options if needed because of additional income that is now a potential.

The potential for additional consumers and vendor relationships is tremendous depending on the size of the organization acquired. It can be beneficial for McBride, as some of those vendor contracts may be more cost effective in the future. Within the same notion of cost effectiveness, the additional staff that is acquired with the new organization brings experience and dependability. It allows the two organizations that are now one to continue to run smoothly and not have higher costs of training and development.

There are two major advantages to merging with another organization if that is the choice McBride's Financial Services commits to. The first advantage is that once the merger is completed, competition within the industry community becomes less of a threat. The other advantage to a merger is the strategic planning and restructuring of the organization. Usually the two organizations will coercively plan and stage a strong management lead to run the larger institution. Weaknesses in Going Public Conducting an IPO is time-consuming and expensive.

It can take up to a year or more to complete and can cost several hundreds of thousands of dollars for attorneys, accountants, printers, and additional fees. The SEC disclosure rules are very extensive and mean all financial

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information is made public. McBride will be subject to review by the SEC to ensure compliance with regulations through proper filings and relevant disclosures. Decision-making among management may be affected by the market price of the shares and the feeling they must receive market recognition for the company's stock. McBride could lose market confidence should shares of the company's stock fall.

Decreased valuation of the company can affect lines of credit, secondary offering pricing, the company's ability to maintain employees, and the personal wealth of insiders and investors. "In today's global business environment, companies may have to grow to survive, and one of the best ways to grow is by merging with another company or acquiring other companies," according to consultant Jacalyn Sherriton. In principle, a merger or acquisition is a capital budgeting decision much like any other. However, much like an IPO, mergers have their weaknesses as well.

The value of a merger may depend on such things as strategic fits which can be difficult to measure. The accounting, tax, and legal aspects can be complex. Mergers often involve issues of corporate control and are a means of replacing existing management. Mergers affect the value of a firm and further affect the relative value of the stocks and bonds. Finally, mergers are often unfriendly. Although many companies have found acquisitions to be highly beneficial to their operations, many more encounter problems that can prove disastrous to the future position of the firm.

A poorly executed acquisition can harm McBride's financial and strategic situation. Problems with financing an acquisition can arise before and after the transaction. Expenses for acquisitions can be astronomical when they

involve lawyers, consultants, financiers, and advisors that helped make the deal possible. Additionally, filing and legal fees because of complications in the transaction can further exacerbate the already extremely high costs of acquisition. Oftentimes, quality employees are lost in an acquisition because the acquiring firm is too caught up in transaction to recognize they exist within the acquired firm.

The long-term strategies of a firm can be negatively affected if it is pursuing a diversification strategy. Rather than improving upon the factors that led to its competitive advantage, management focuses on running a diversified company, which could result in the company losing its core business advantage and severely hampering the future success of the firm. Opportunities in Going Public Major companies and corporations that comprise a big part of the United States economy take advantage of certain opportunities such as going public through IPO's, acquisitions, and mergers.

These three approaches provide an additional resource and many times an advantage to expand, become more profitable, or simply save a company's existence. McBride Financial Services, for instance, can raise capital by doing an IPO. This gives the company an opportunity to expand its business by becoming a part of the stock market and hence becoming well-known. This also provides enough funds to be put back into the company for profit, and for any other expenses necessary to remain successful and in existence.

In the case of an acquisition, which is the taking over of another company, McBride will benefit because the company being acquired is already established. It takes less investment, time, and energy than to start-up a new company. A merger also can be a beneficial opportunity for the <https://assignbuster.com/mcbride-financial-services/>

company because both parties agree to come together as one organization to improve and grow stronger than as individual companies. A merger eliminates part of the competition, creates a bigger and stronger company, and strengthens the balance sheet.

Without methods such as IPO's, acquisitions, and mergers, "...a company may simply become financially non-viable [and] not able to meet its debt and trade obligations" (Collier, p. 5). Threats in Going Public With the opportunities that McBride Financial Services has with these three options of expansion, there exist certain threats as well. If McBride chooses to go public through an IPO, then it has to worry about the new owners of the company and their ideas about what the company is and should be doing. In a worst case scenario, McBride's competitors can buy the company and decide to do with it what they want.

They can take full control of the company and manipulate it in ways McBride never imagined or they could even just dissolve the company into nonexistence. If McBride needs the money to expand that it would get if it went through with the IPO, then acquiring another organization in the same industry is indeed going to be difficult to do, if not impossible. Even if McBride does find a way to get the money to acquire another company without going public, then it would most likely go into eventual bankruptcy because of the debt it will accumulate because of increased costs.

If McBride wants to merge with another organization to expand, it will not be an easy task because the two become one company with a common purpose. If they do not learn how to work with each other and compensate for the other's weaknesses, then they will eventually fail and both companies

will be out of business. Conclusion Based on the information provided while researching each of the approaches for going public, the management team at McBride Financial Services has opted to go public via an IPO.

Although it can be costly and time-consuming, it seems to be the best method to maintain the current managerial make-up and integrity of the organization. References (n. d.) Merger and acquisitions. Retrieved on November 2, 2010 from [http://www. answers. com/topic/mergers-and-acquisitions](http://www.answers.com/topic/mergers-and-acquisitions) Collier, Steve. Mergers and acquisitions: Special dangers and opportunities. Retrieved November 4, 2010, from EBSCOhost database. Keown, A. J. , Martin, J. D. , Petty, W. , & Scott, D. F. (2005). Financial Management: Principles and Applications.

PearsonEducation, Inc. Steffens, Gregory (n. d.). Common problems with acquisitions. Retrieved on November 2, 2010 From [http://www. gaebler. com/common-problems-with-acquisitions](http://www.gaebler.com/common-problems-with-acquisitions) Taubman, L. E. (n. d). Considerations of an IPO. Retrieved on November 2, 2010 from [http://library. findlaw. com/2001/Jan/1/127967. html](http://library.findlaw.com/2001/Jan/1/127967.html) Chapter 22 Problems 1. What new problems and factors are encountered in international as opposed to domestic financial management? * Foreign Currency Exchange Fluctuation: International financial management involves cash flow in foreign currency.

Foreign currency exchange rate keeps fluctuating. International business is exposed to foreign currency exchange risk as fluctuation in wrong direction affects the business adversely. There are many ways to hedge the cash flow in foreign currency, but no strategy provides complete protection. * Fund flow between countries – International financial management deals with capital flow between countries. In many countries banking system is not <https://assignbuster.com/mcbride-financial-services/>

mature and /or fund raising is not easy. In that case, company has to raise fund outside the country.

International financial management involves the fund flow from one country to other country. * Laws and regulations – Different countries have different business laws, labor laws, laws related to taxation etc. International financial management is affected by the prevailing laws and regulations in a particular country. * Country risk – International business is exposed to the country risk of the country company is doing business in. Country risk involves political risk, general economic environment etc.

Because of country risk, additional risk premium is required. International financial management deals with this issue as well. 2. What does the term arbitrage profit mean? Arbitrage profit refers to making risk free profit without investing your own money. The opportunity of arbitrage profit arises because of pricing mismatch. In the simplest form, if the same financial instrument is selling at different price at two different places, one can buy the security where it is selling at the lower price and sell where it is selling at the higher price.

This gives the seller a risk free profit without using his money. Another example of arbitrage profit is Triangular arbitrage. It is the process of trading out of the first currency into a second currency, then trading it for a third currency, which is in turn traded for first currency. Arbitrage profit can be earned from trading from the second to the third currency if their direct quotes are not consistent with the cross exchange rates. 3. What can a firm do to reduce exchange risk? The firm can hedge against foreign exchange risk in a number of ways.

First, they can deposit funds into the foreign country's banks in the foreign denomination in a sufficient quantity so as to hedge against a downturn in the domestic currency. There are some opportunity costs associated with this method as the interest rate earned on the deposited funds will be less than could be earned elsewhere, but the difference is like carrying insurance. In addition, the firm could enter into forwards, futures, or options. 4. What are the differences between a forward contract, a futures contract, and options?

A forward contract is one that locks in an exchange rate now for a transaction in the future. It is possible the economy will render the forward more expensive than actual exchange rates would have made the transaction to begin with, but again, the forward acts like an insurance policy against negative shifts on exchange rates. Futures contracts are similar to forward contracts except that forward contracts are private agreements and may be molded accordingly. Futures are traded on open markets and, as such, are held to higher levels of scrutiny.

Forward contracts can only be executed on one specific date. Futures (because they are traded) are open for transaction any day until their expiration. Options set an exchange rate and, as the name implies, gives the firm the option of exercising the rate at the time the contract is due. This gives the firm flexibility and allows them to take advantage of unforeseen upticks in the global economy that actually make exchange rates favorable at contract execution time. Options are more expensive, however (the flexibility afforded by options costs a premium).