



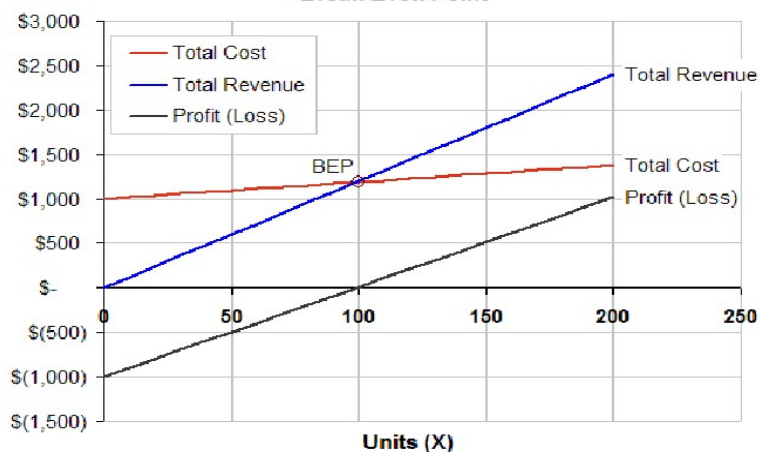
MERGERS AND ACQUISITIONS



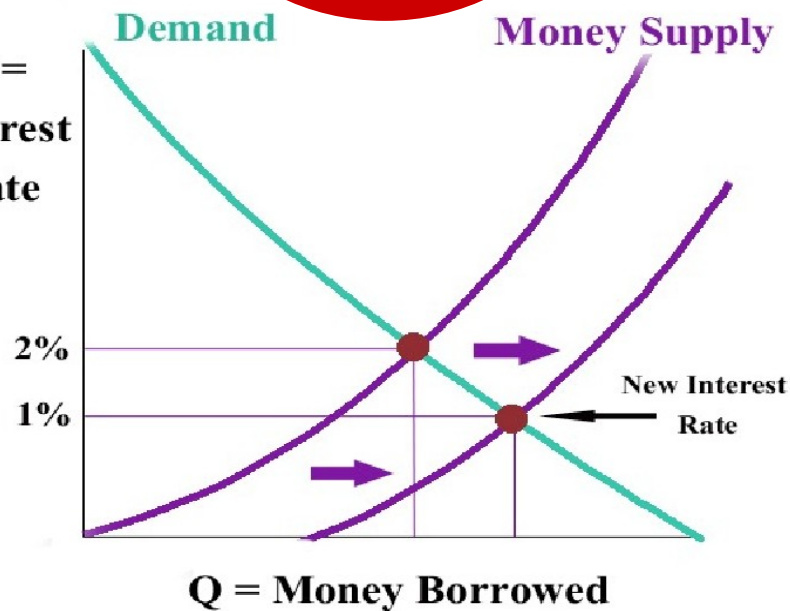
Lecture

05

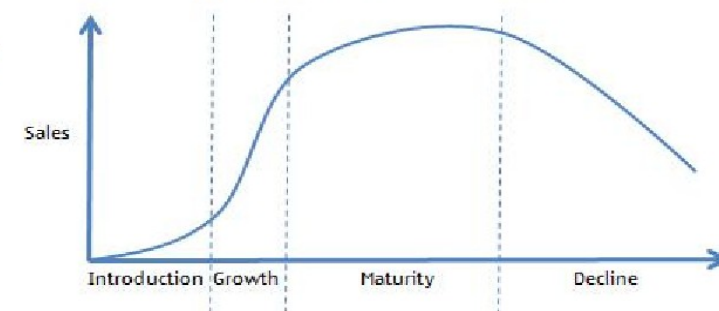
Break-Even Point



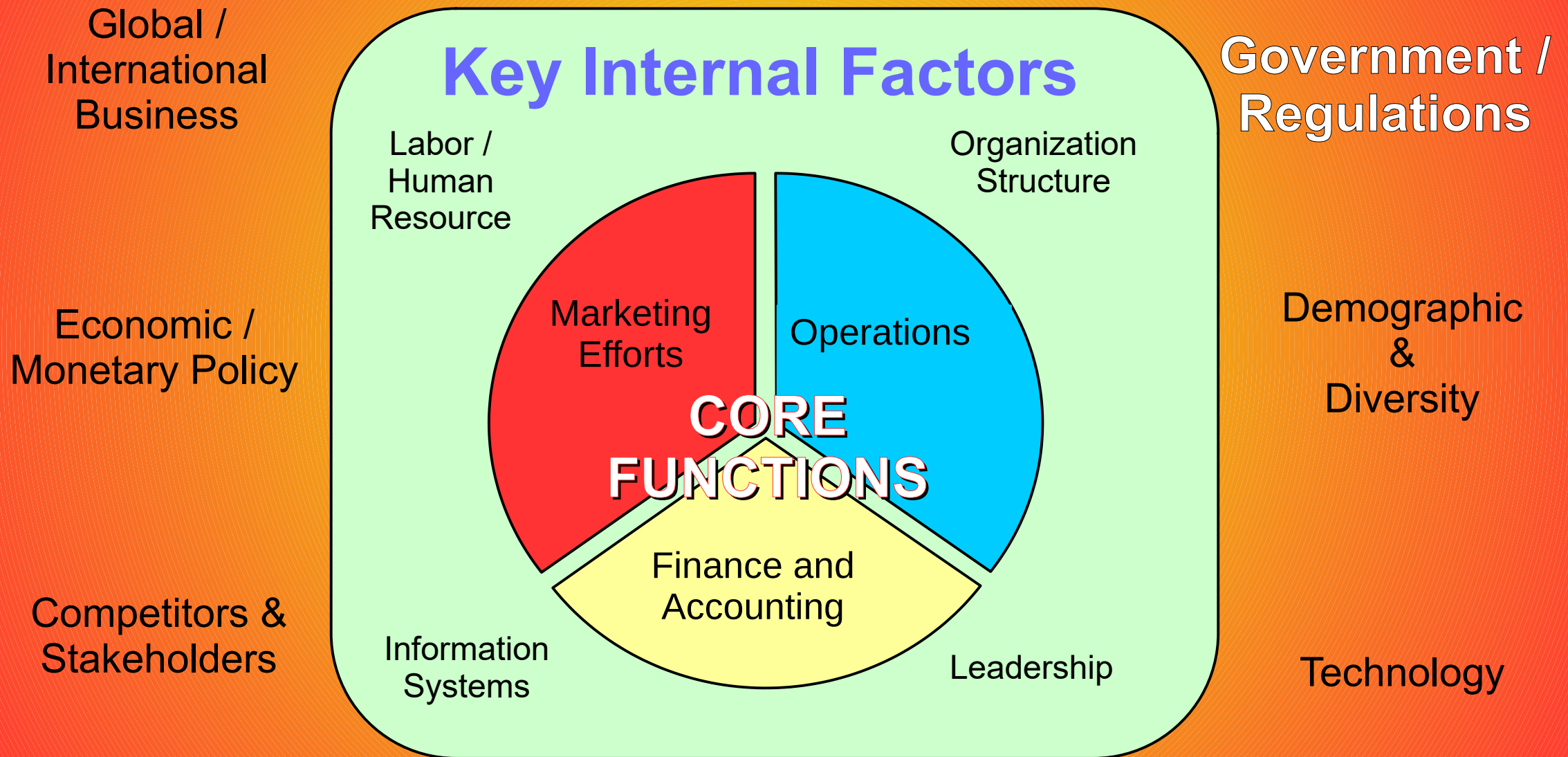
P =
Interest
Rate



Product Lifecycle Stages



External / Social Forces

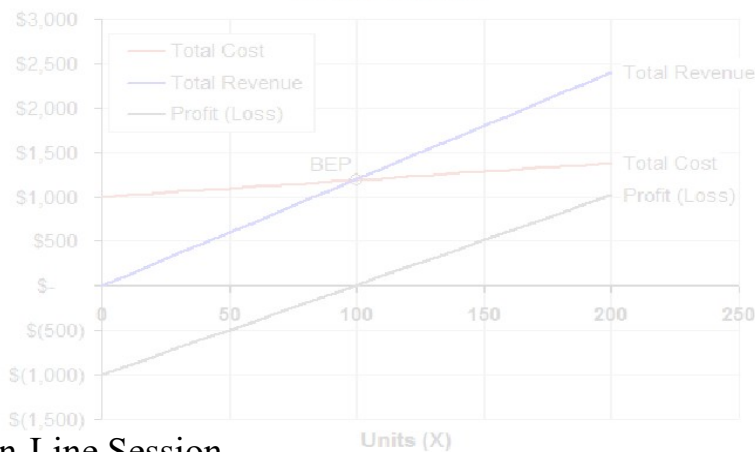


Introduction to Business

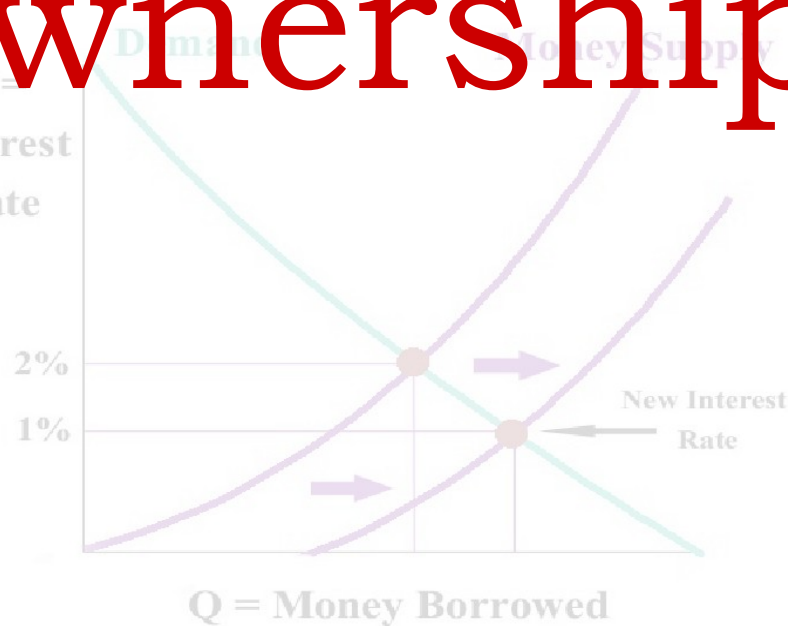
Business

Ownership

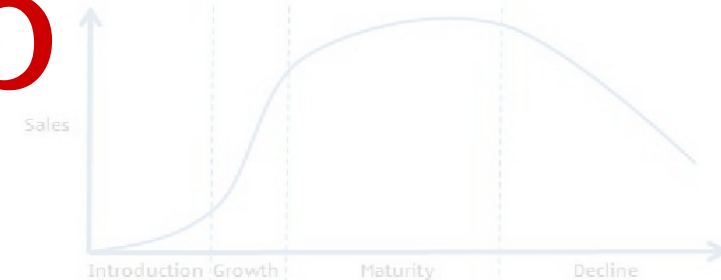
Break-Even Point



Interest
Rate



Product Lifecycle Stages



Objectives

- ❖ Sole proprietorship
- ❖ Partnerships
- ❖ Corporations
- ❖ How to grow?
- ❖ Franchising
- ❖ Cooperative, joint venture, syndicates
- ❖ Video tutorials

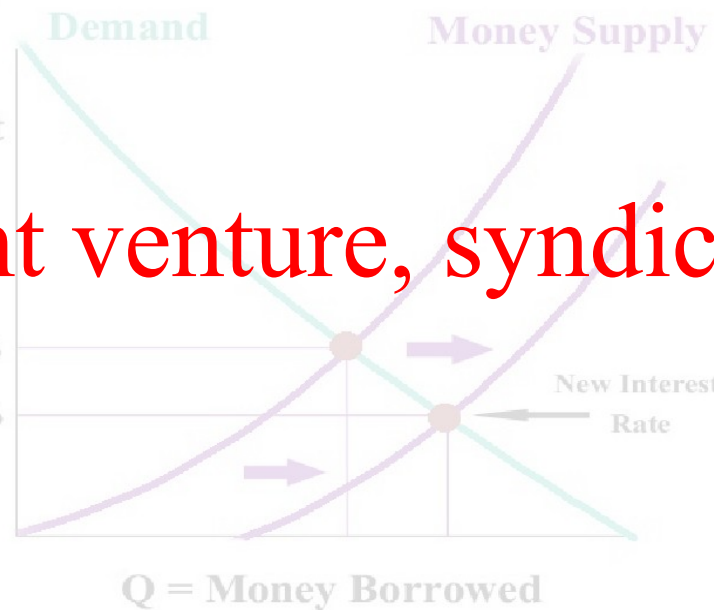
MERGERS AND ACQUISITIONS



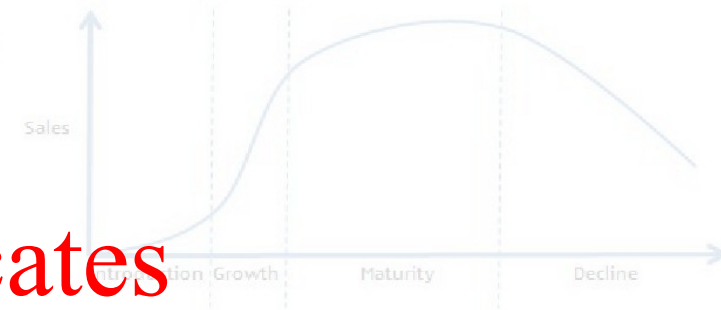
Break-Even Point



$P =$
Interest
Rate



Product Lifecycle Stages

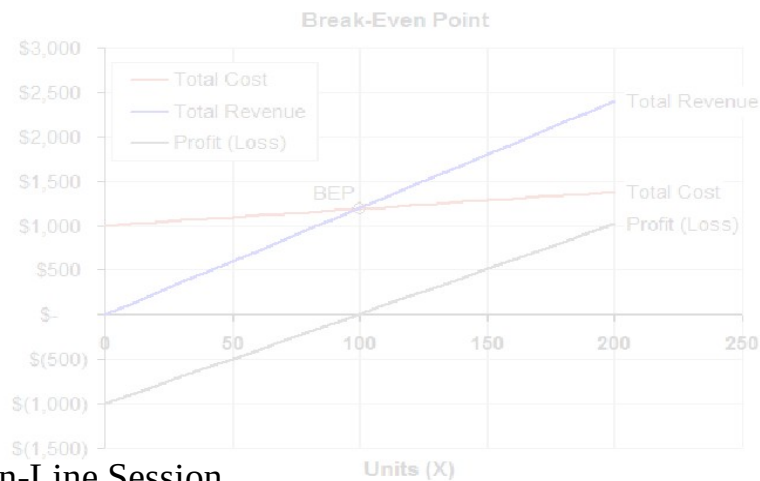


Sole proprietorship

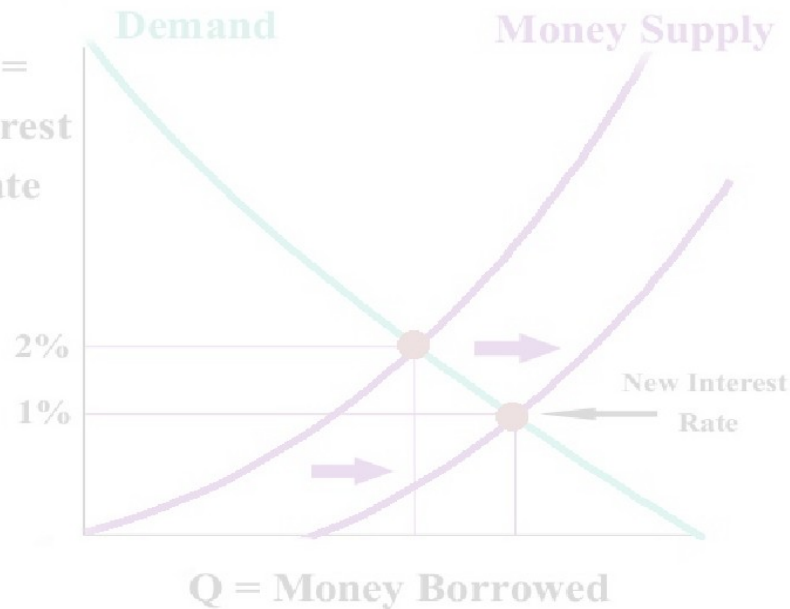
◆ What is it?

◆ Advantages

◆ Disadvantages



$P =$
Interest
Rate



Product Lifecycle Stages



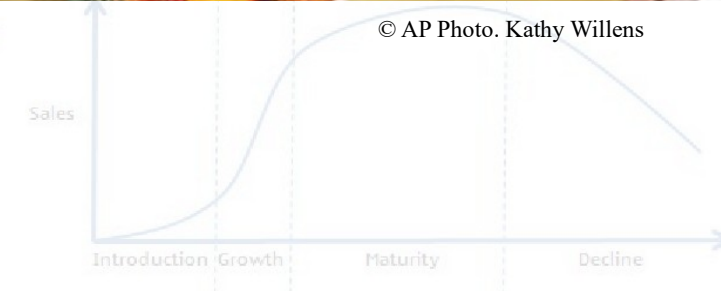
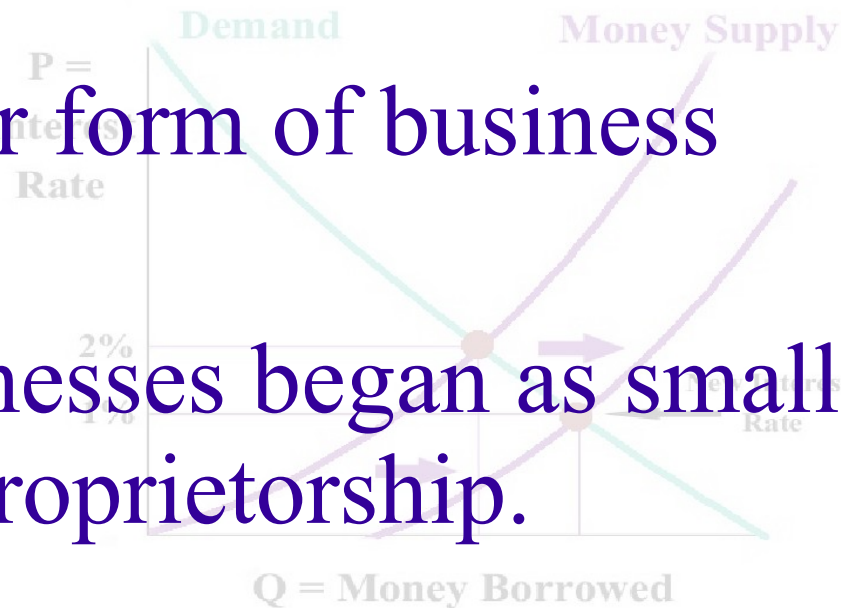
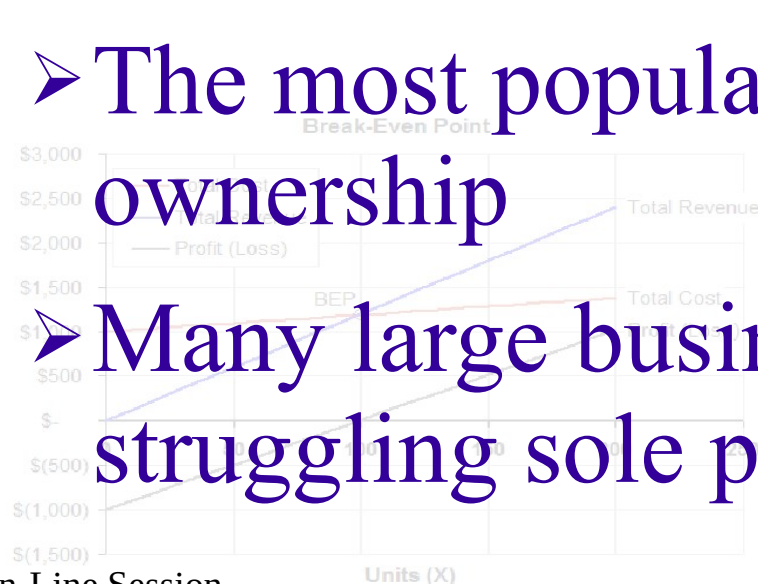
What is a sole proprietorship?

- A business owned and (usually) operated by one person
- Simplest form of business ownership
- The most popular form of business ownership
- Many large businesses began as small struggling sole proprietorship.

MERGERS AND ACQUISITIONS



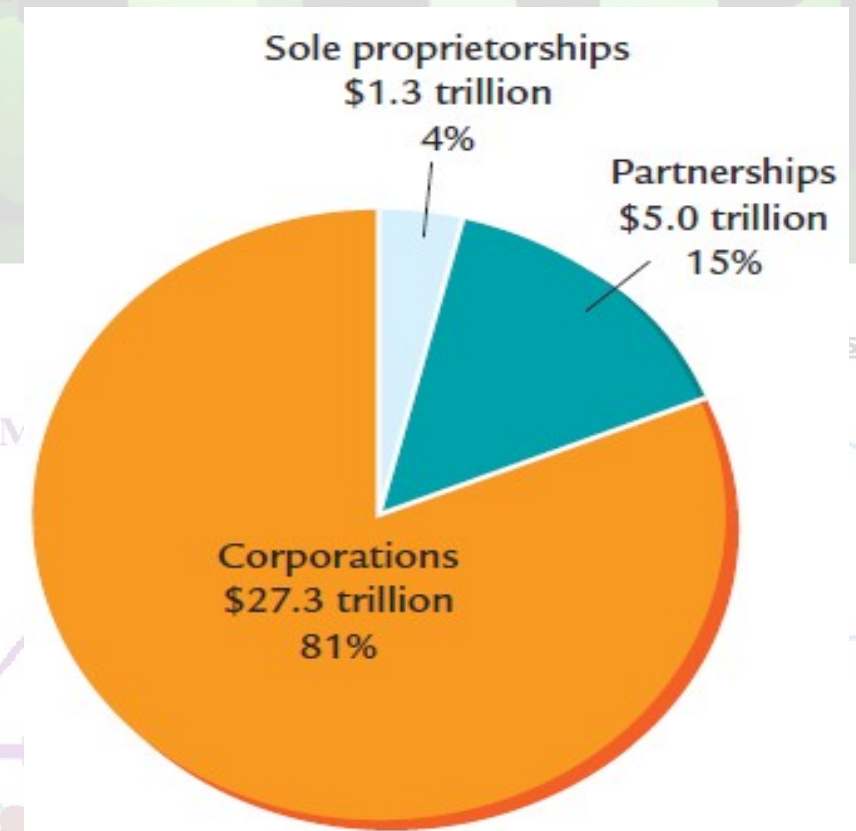
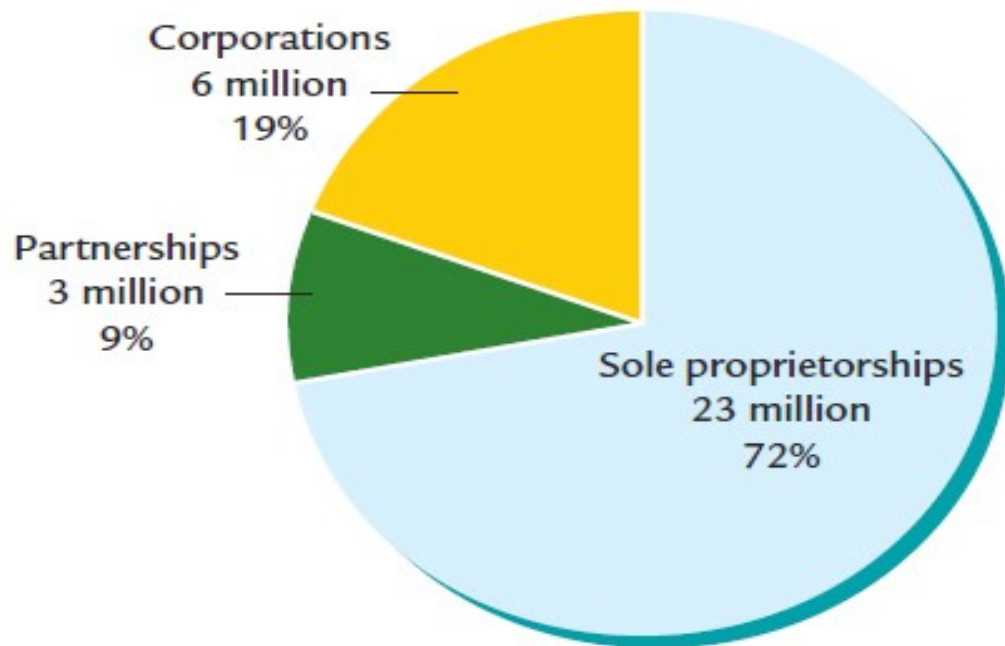
© AP Photo. Kathy Willens



Sole proprietorship in comparison

Relative percentage of non-farm sole proprietorship, partnerships and corporations in the U.S.

Total sales receipts of American businesses

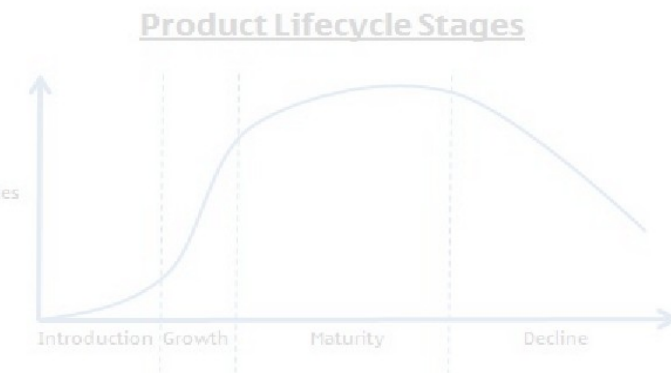
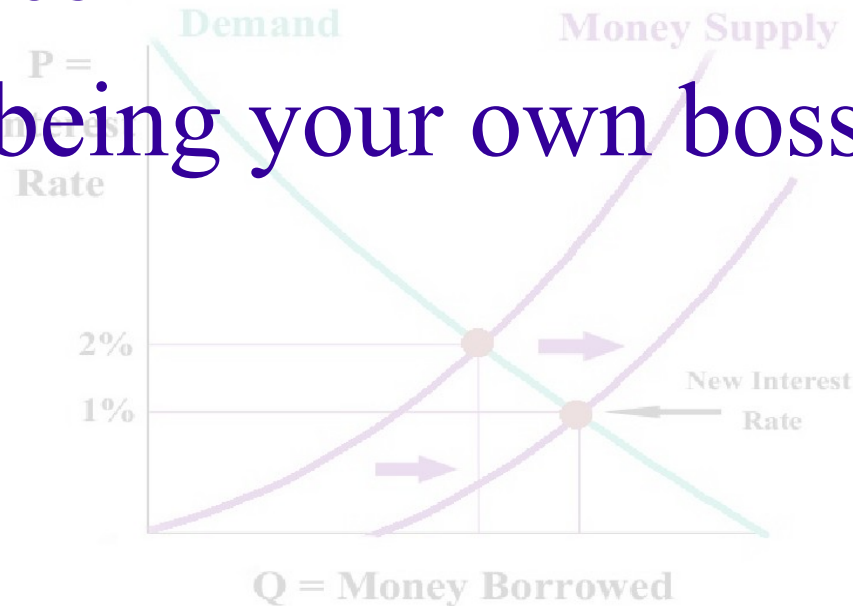


Source: U.S. Bureau of the Census, Statistical Abstract of the United States (Washington, DC: Bureau of the Census, 2012), table 744 (www.census.gov).

Q = Money Borrowed

Advantages of sole proprietorship

- Ease of start-up and closure
- Pride of ownership
- Retention of all profits
- No special taxes
- Flexibility of being your own boss



Disadvantages of sole proprietorship

➤ Unlimited liability

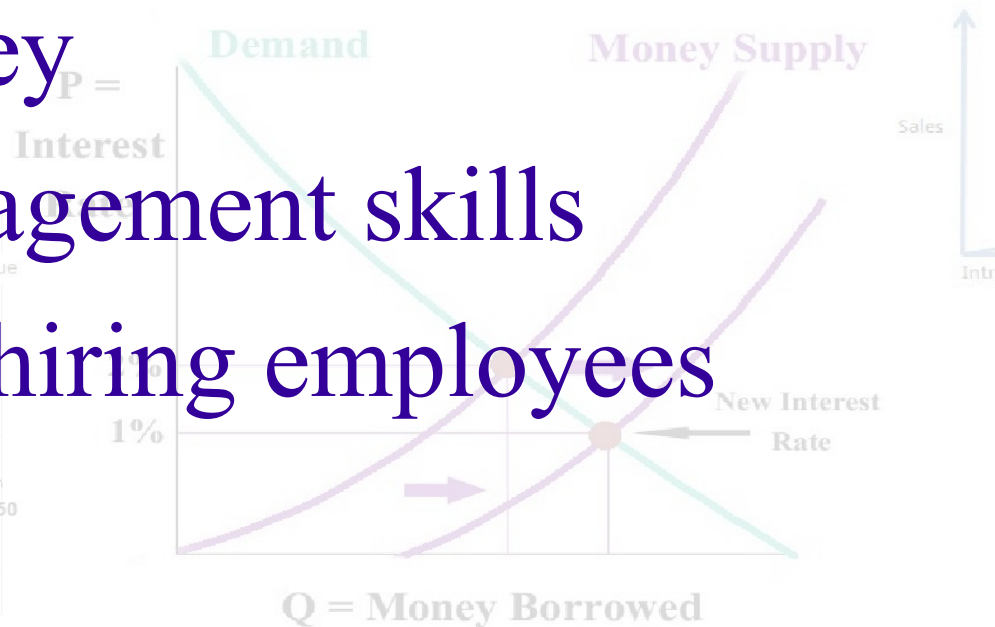
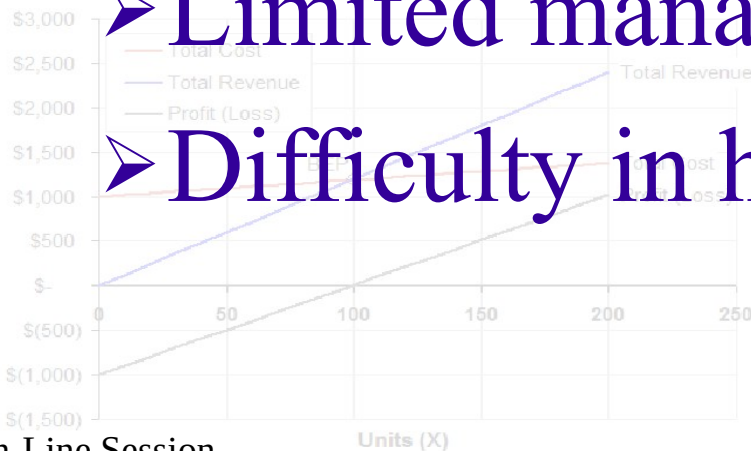
a legal concept that holds a business owner personally responsible for all the debts of the business.

➤ Lack of continuity

➤ Lack of money

➤ Limited management skills

➤ Difficulty in hiring employees

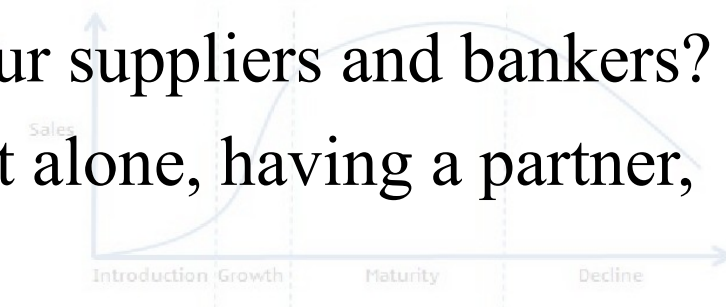
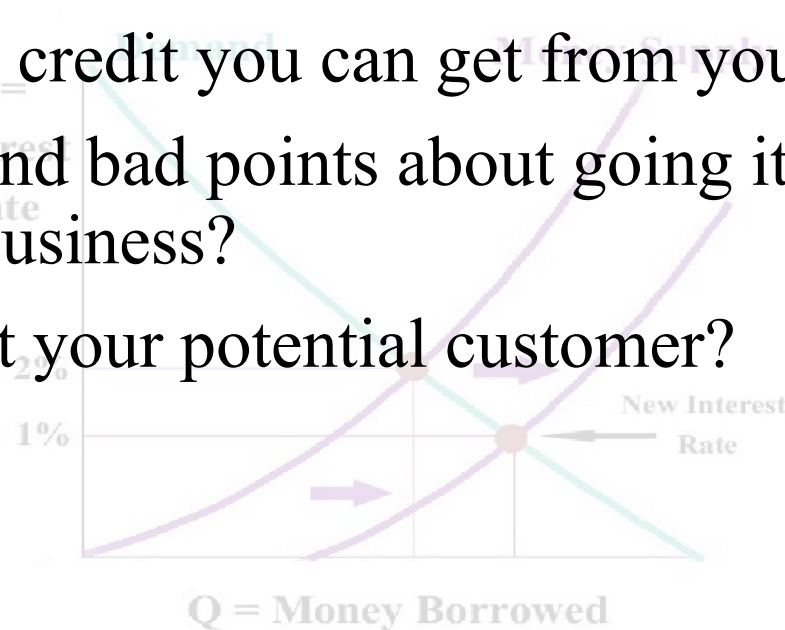
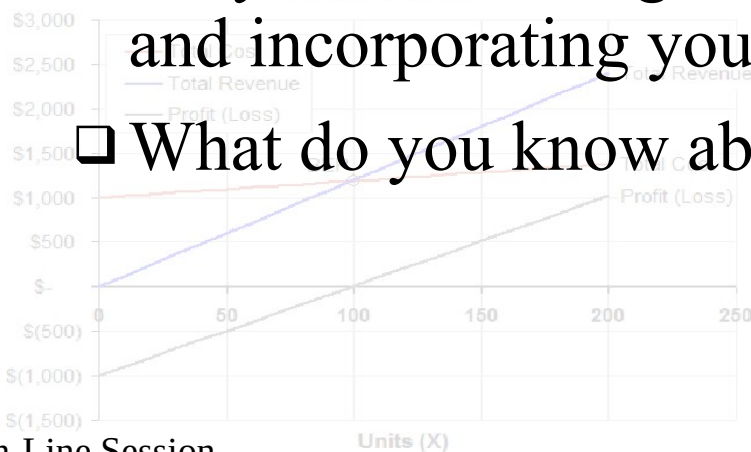


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Class Exercise

You want to own and manage your own business. To help you evaluate your chances of success, answer these questions.

- ☐ Do you have any experience in a business like the one you want to start?
- ☐ Have you worked for someone else as a supervisor or manager?
- ☐ Have you saved any money? How much?
- ☐ Do you know how much money you will need to get your business started?
- ☐ Do you know how much credit you can get from your suppliers and bankers?
- ☐ Do you know the good and bad points about going it alone, having a partner, and incorporating your business?
- ☐ What do you know about your potential customer?



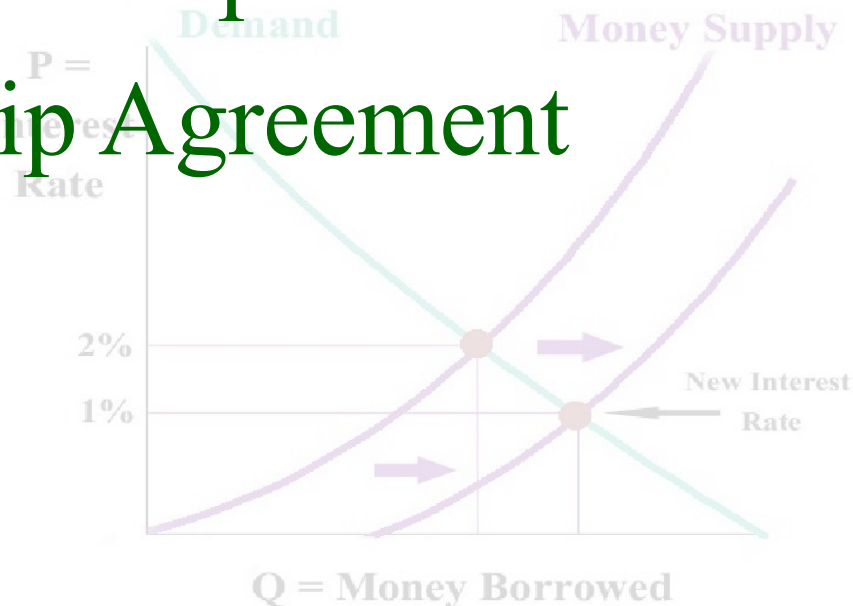
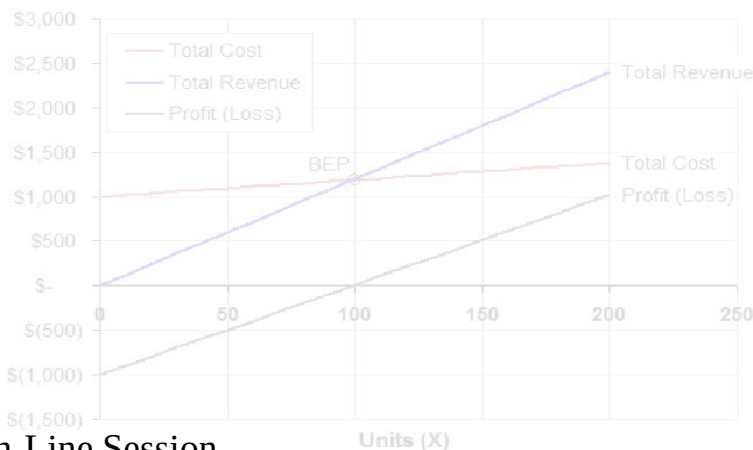
Partnership

- ◆ What is it?
- ◆ Advantages
- ◆ Disadvantages
- ◆ Types of partnership
- ◆ The Partnership Agreement

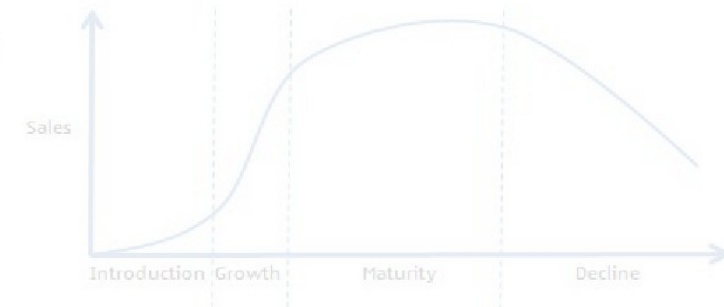
MERGERS AND ACQUISITIONS



Break-Even Point



Product Lifecycle Stages



What is a partnerships?

A voluntary association of two or more persons to act as co-owners of a business for profit.

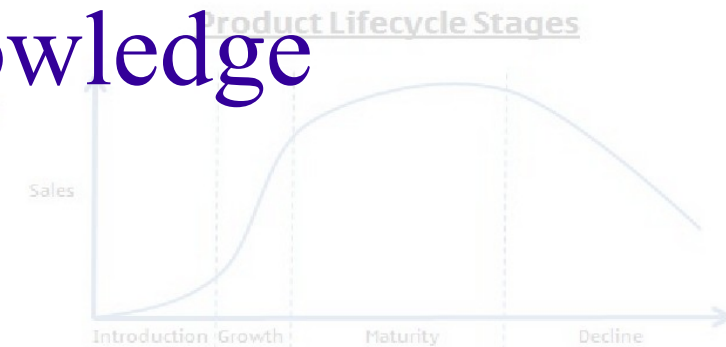
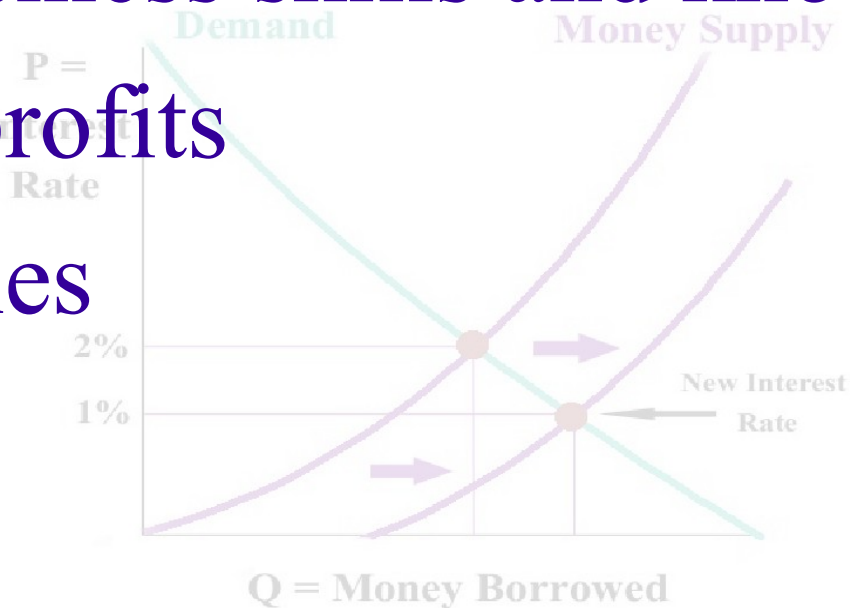
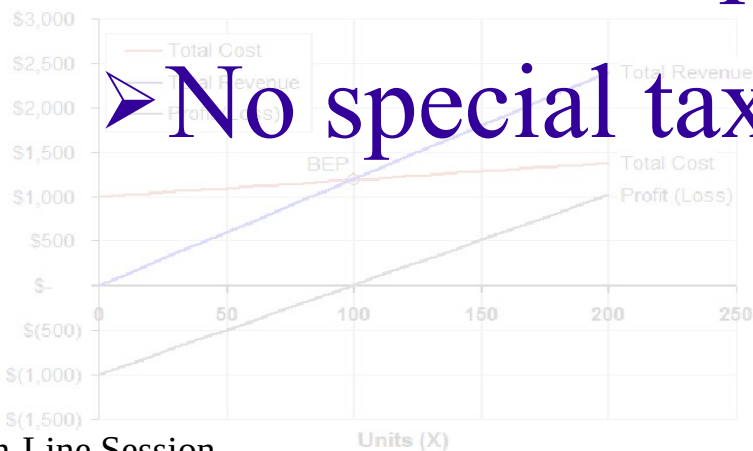
- ❑ A pooling of special talents or
- ❑ Result of a sole proprietor taking on a partner
- ❑ There is a minimum (two)
- ❑ No maximum number of partners
- ❑ Large accounting, law, and advertising partnerships have multiple partners.
- ❑ Less common form of ownership than sole proprietorship or corporation.



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Advantages of partnership

- Ease of start-up
- Availability of capital and credit
- Personal interest
- Combined business skills and knowledge
- Retention of profits
- No special taxes



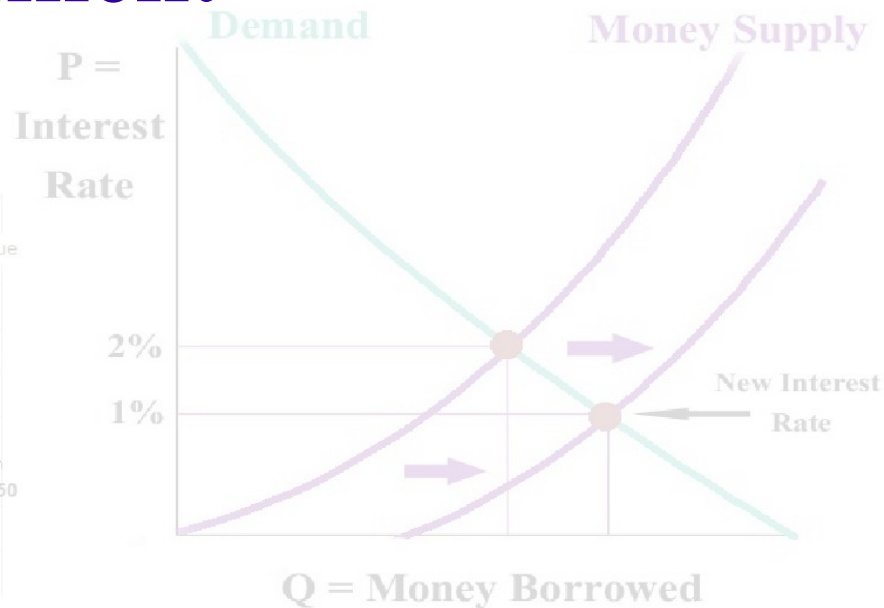
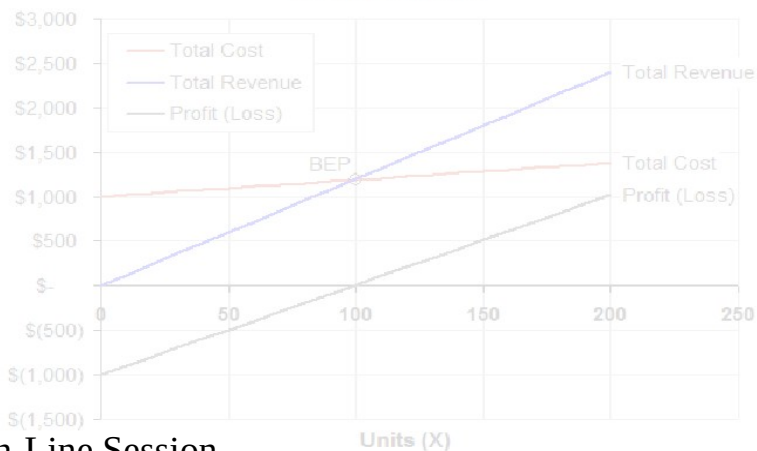
Disadvantages of partnership

- Unlimited liability
- Management disagreements
- Lack of continuity
- Frozen investment

MERGERS AND ACQUISITIONS



Break-Even Point



Product Lifecycle Stages



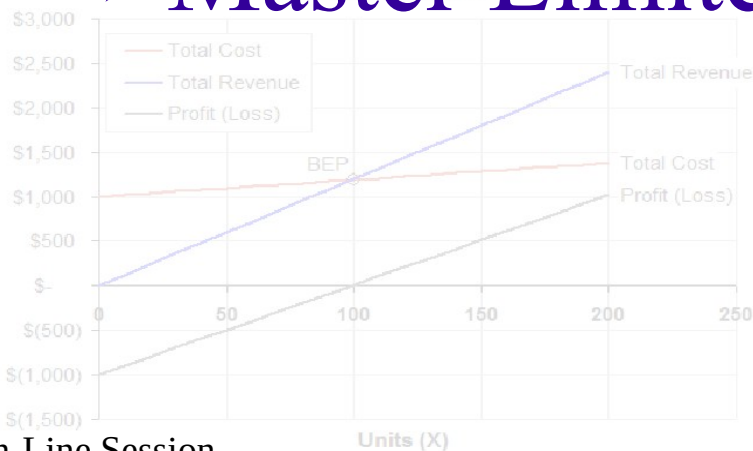
Types of partnerships

➤ General partnership

a business co-owned by two or more general partners who are liable for everything the business does.

➤ Limited partnership

➤ Master Limited Partnership (MLP)



Product Lifecycle Stages

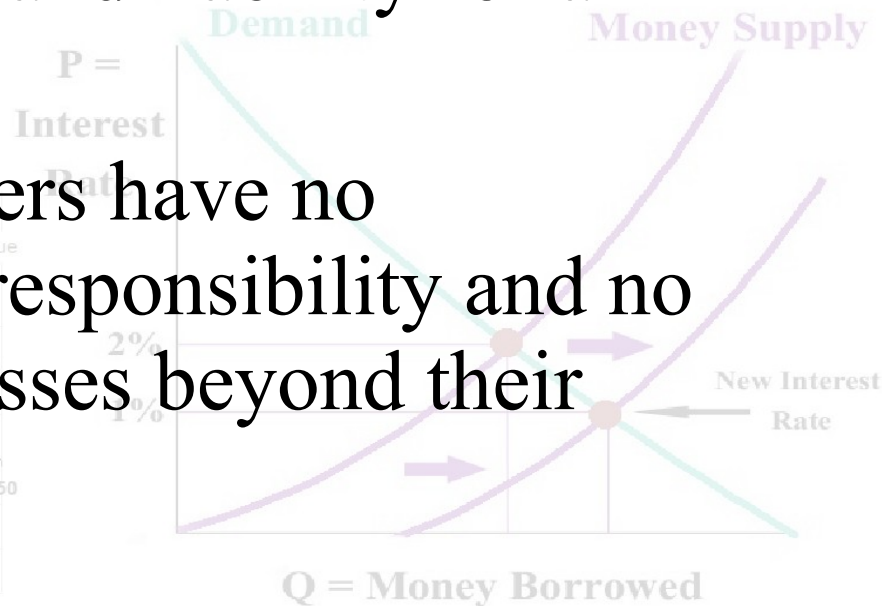
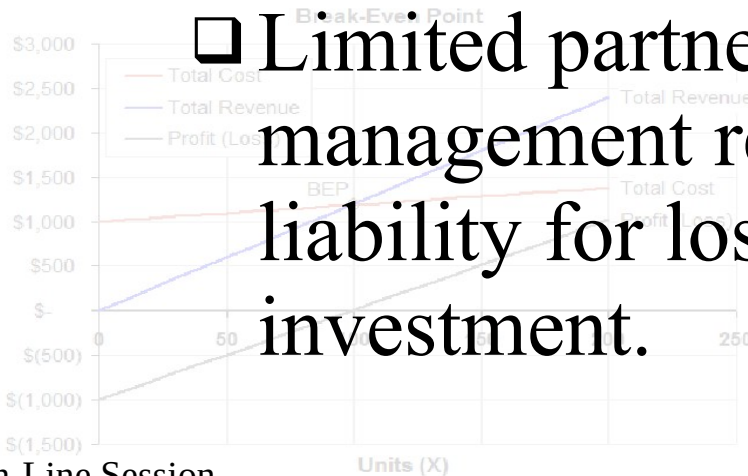


Limited partnership

A business co-owned by one or more general partners who manage the business and limited partners who contribute capital.

□ General partners have management responsibility and liability for all losses.

□ Limited partners have no management responsibility and no liability for losses beyond their investment.



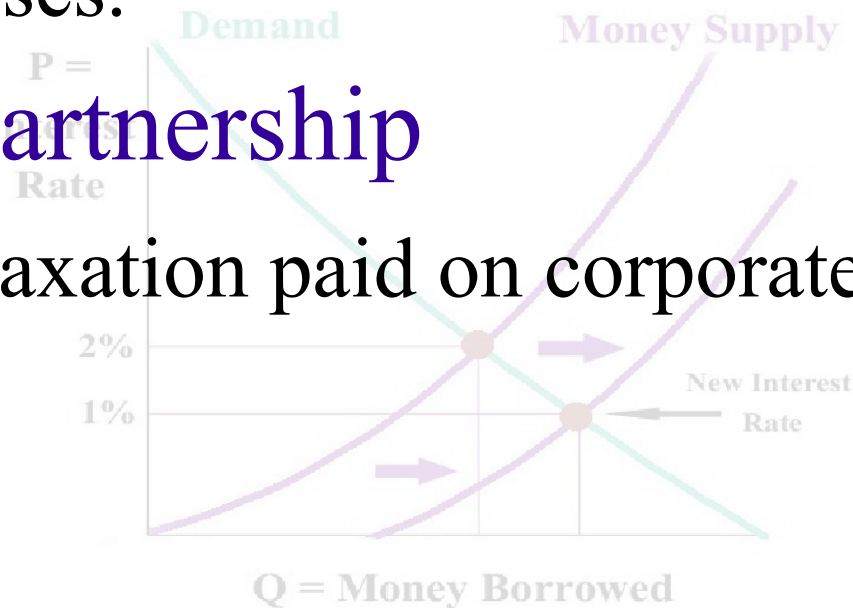
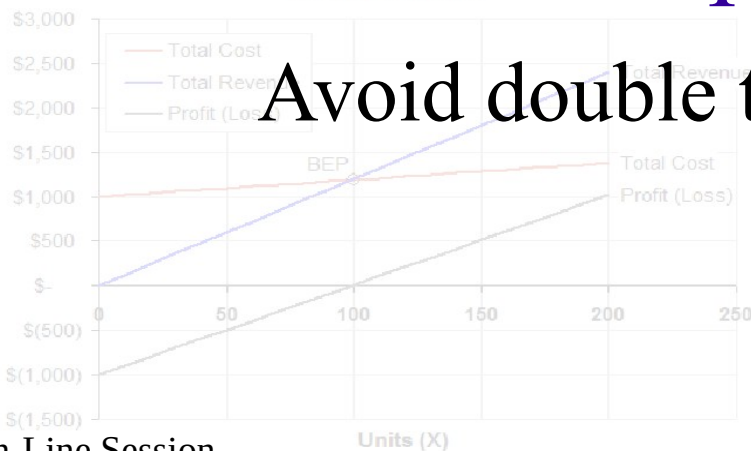
MLP

➤ Managed like a corporation

- ❑ Units of ownership can be traded on security exchanges.
- ❑ Investors can sell their shares at any time.
- ❑ Typically in natural resources, energy, or real estate-related businesses.

➤ Taxed like a partnership

Avoid double taxation paid on corporate income.

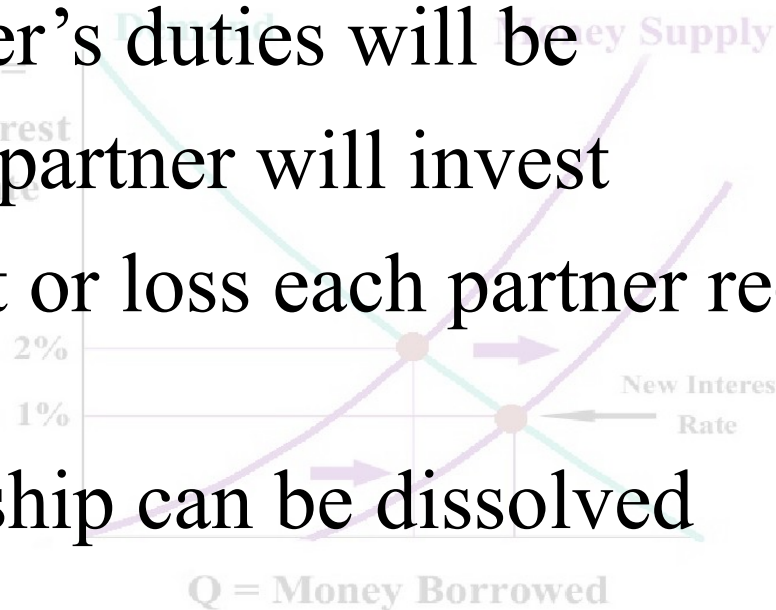
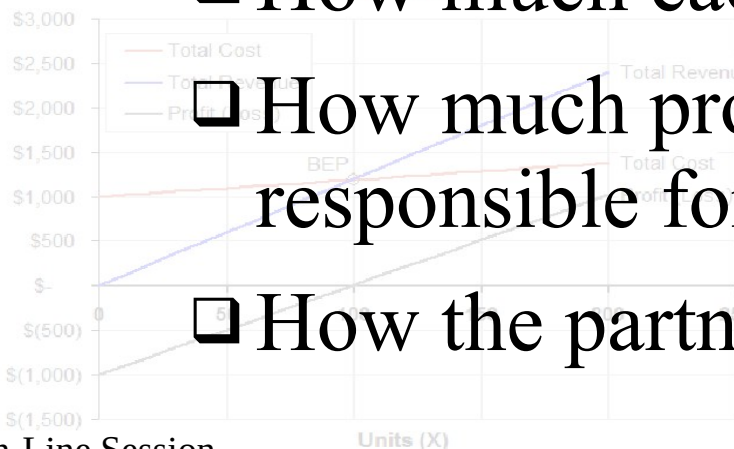
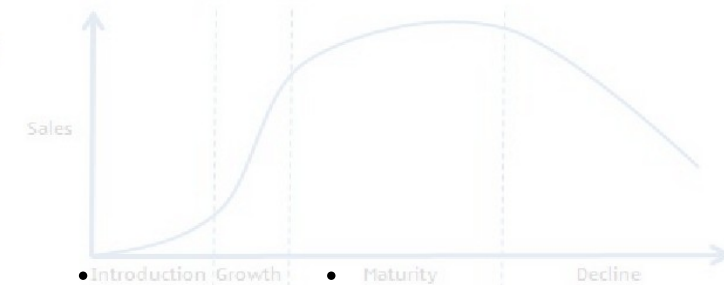


Articles of partnerships

- An agreement listing and explaining the terms of the partnership; written is preferable to oral
- Agreement should state
 - ❑ Who will make final decisions
 - ❑ What each partner's duties will be
 - ❑ How much each partner will invest
 - ❑ How much profit or loss each partner receives or is responsible for
 - ❑ How the partnership can be dissolved

MERGERS AND ACQUISITIONS

Product Lifecycle Stages



Corporations

◆ What is it?

◆ Advantages/Disadvantages

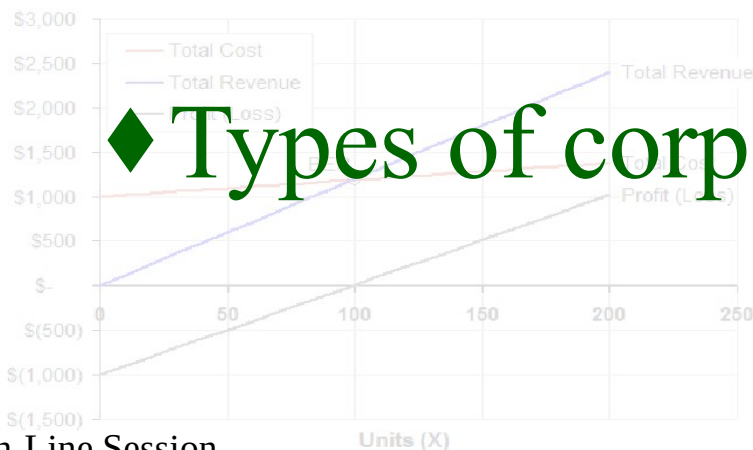
◆ Forming a corporation

◆ Types of corporations

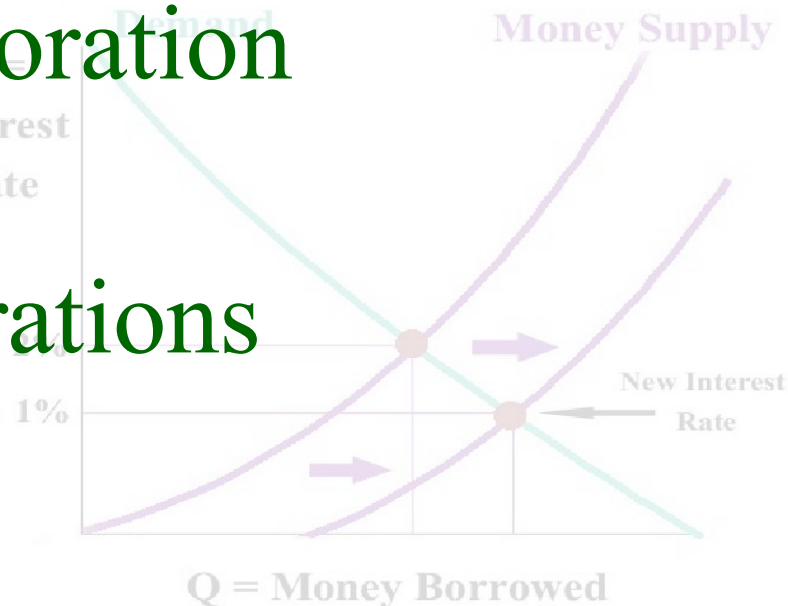
MERGERS AND ACQUISITIONS



Break-Even Point



Interest Rate



Product Lifecycle Stages

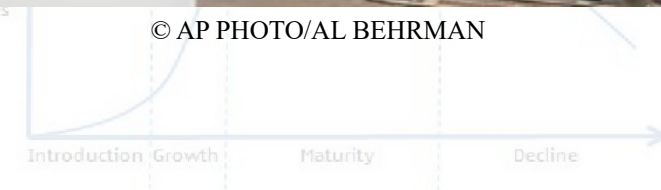
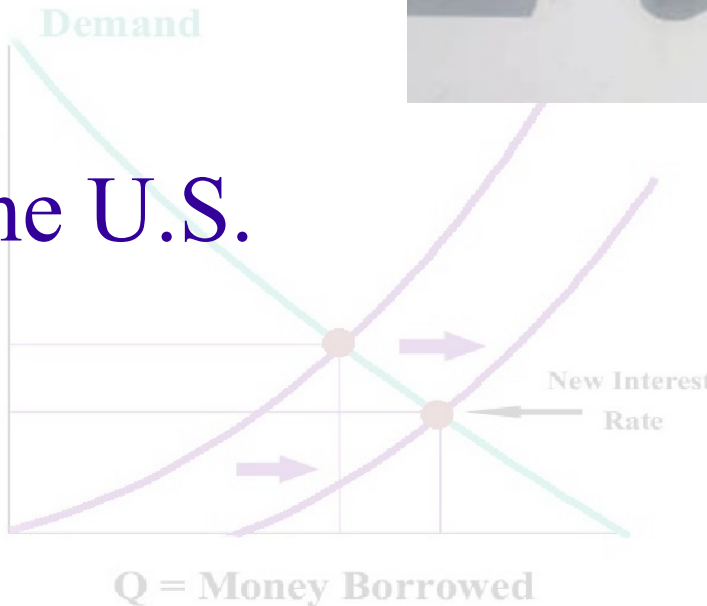


What is a corporation?

- An artificial person created by law with the legal rights of
 - ❑ to start and operate a business
 - ❑ to buy or sell property
 - ❑ to borrow money
 - ❑ to sue or be sued, and
 - ❑ to enter into binding contracts.
- Exists only on paper
- Approx. 6 million in the U.S.
- 19% of all businesses
- 83% of sales revenue



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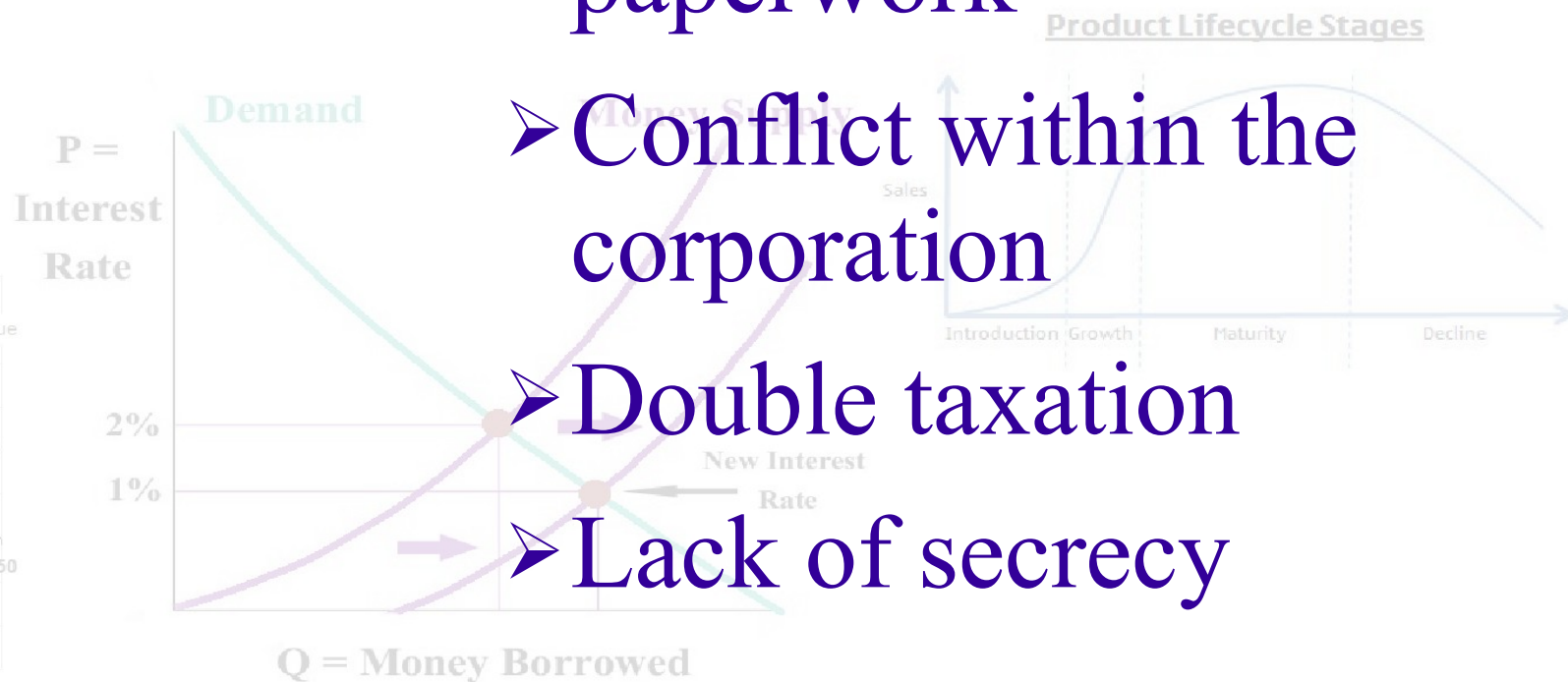
Advantages

- Limited liability
- Ease of raising capital
- Ease of transfer of ownership
- Perpetual life
- Specialized in management



Disadvantages

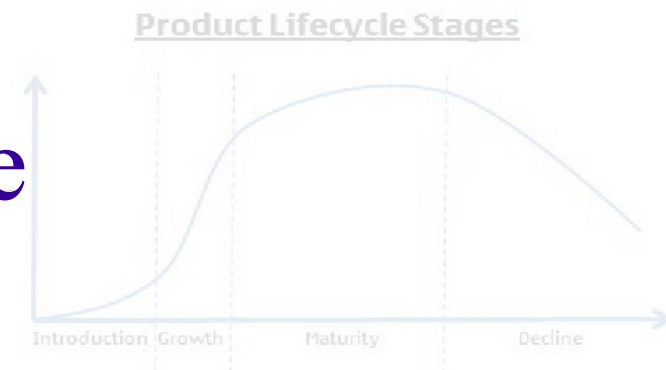
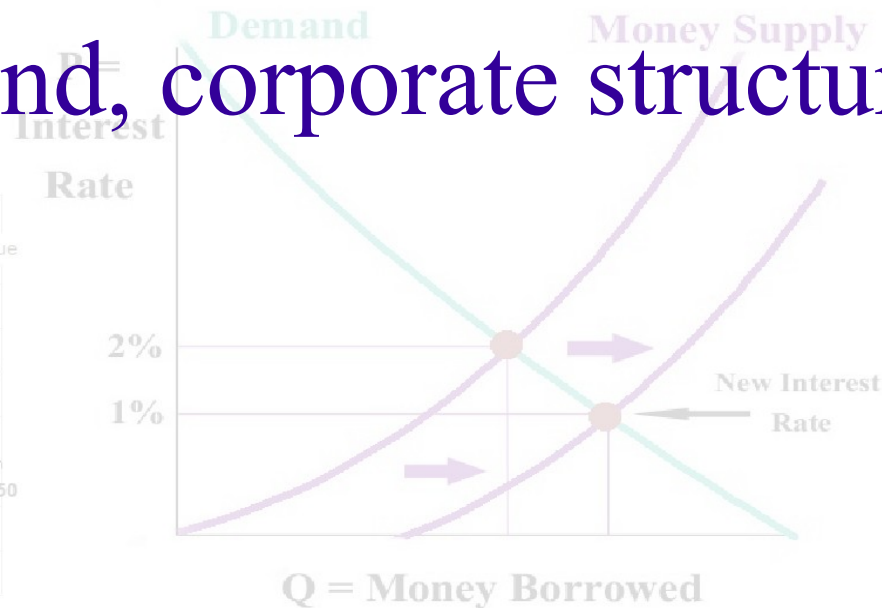
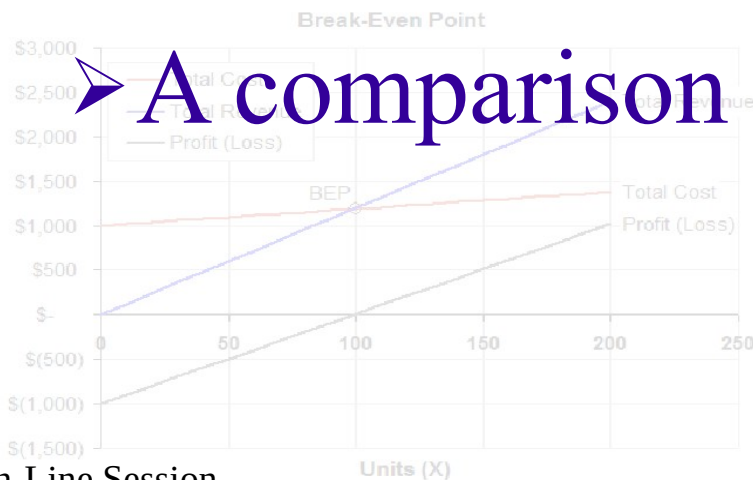
- Difficulty and expense of formation
- Increase regulation and paperwork
- Conflict within the corporation
- Double taxation
- Lack of secrecy



Forming a corporation

- Get legal advice When to get help?
- Where to incorporate Nevada, Wyoming, Delaware?
- Types of corporation
- The Corporate Charter
- Stocks, dividend, corporate structure

➤ A comparison



Different status

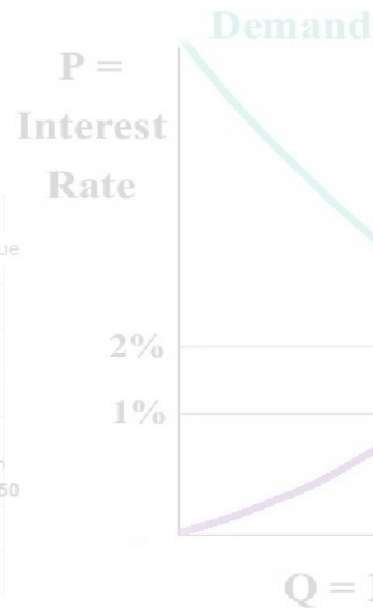
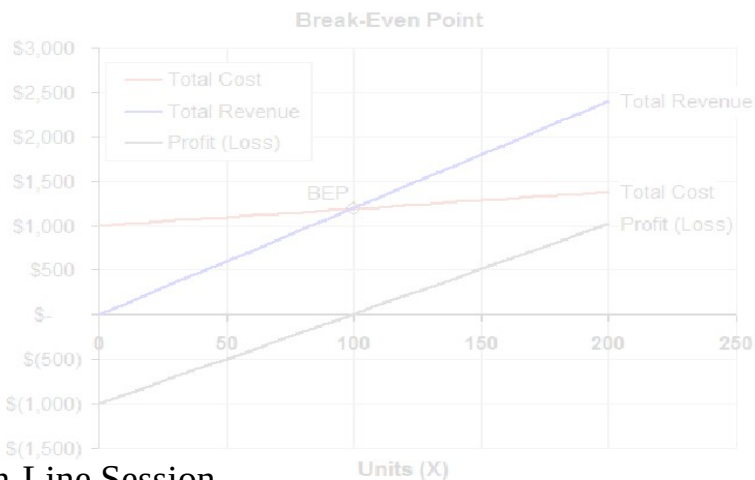
➤ Closed corporation

➤ Open corporation

MERGERS AND ACQUISITIONS



Product Lifecycle Stages



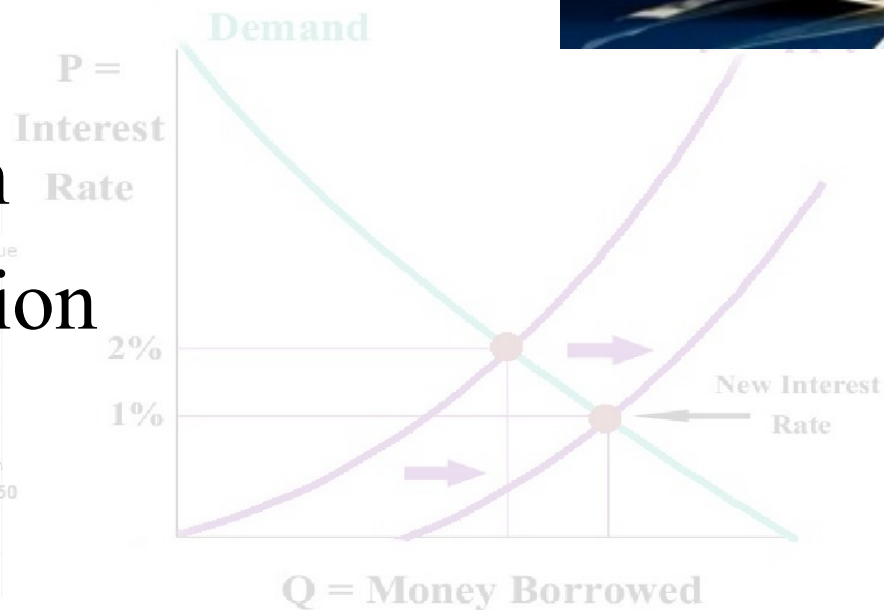
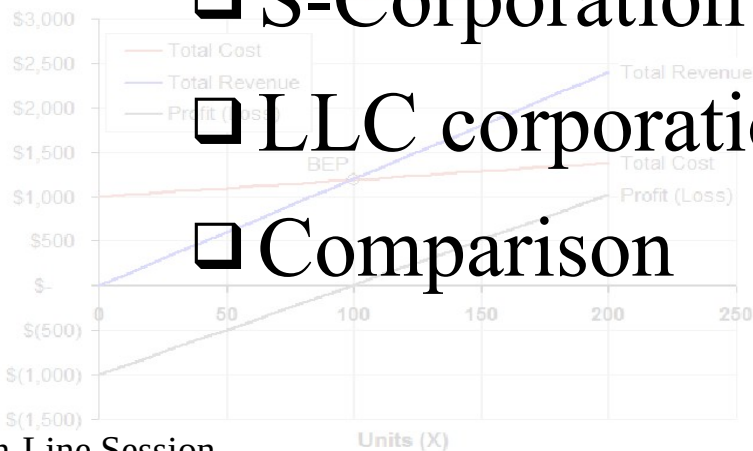
Types of corporation

➤ “Legal” status

- ☐ Domestic
- ☐ Foreign
- ☐ Alien

➤ “IRS” status

- ☐ S-Corporation
- ☐ LLC corporation
- ☐ Comparison



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“Legal” status

➤ Domestic corporation

a corporation in the state in which it is incorporated.

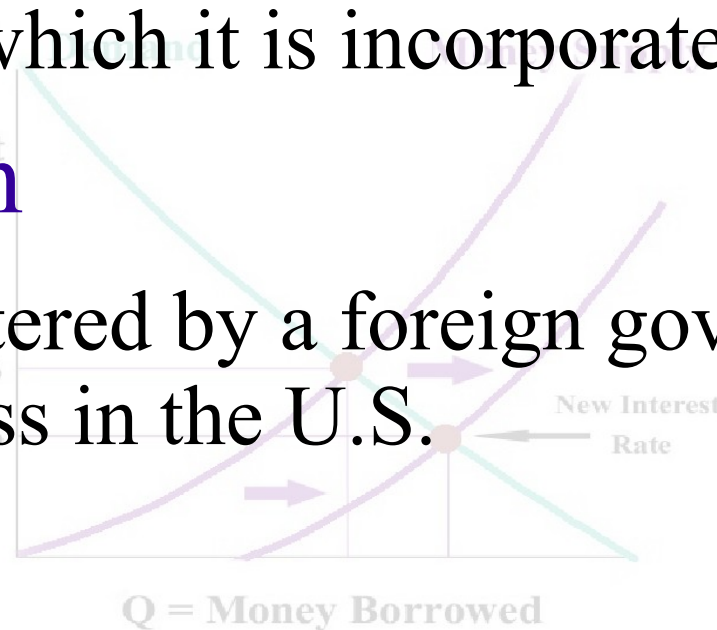
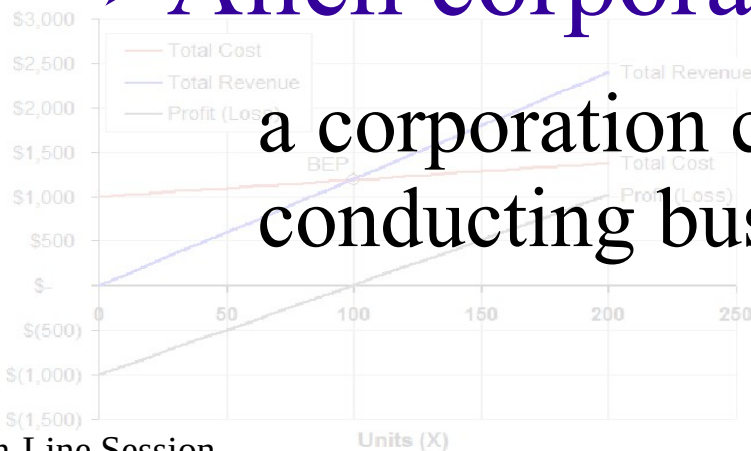
➤ Foreign corporation

a corporation in any state in which it does business except the one in which it is incorporated.

➤ Alien corporation

a corporation chartered by a foreign government and conducting business in the U.S.

MERGERS AND ACQUISITIONS



“IRS” status

➤ S-Corporation

- ❑ A corporation that is taxed as if it were a partnership.
- ❑ Benefits – avoids double taxation
- ❑ Criteria – < 100 stockholder, domestic

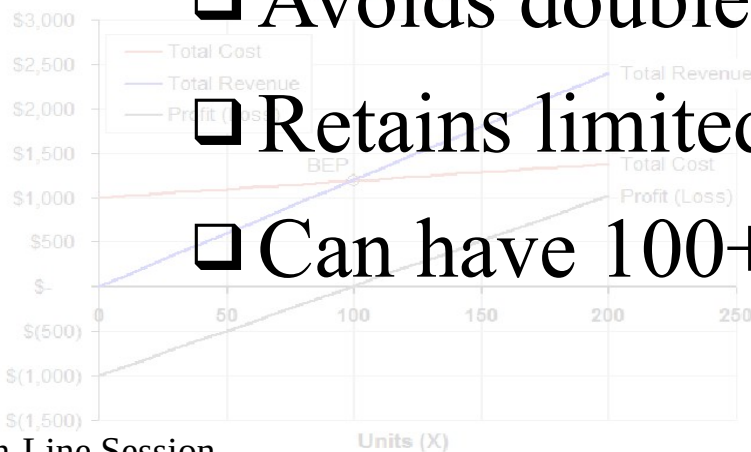
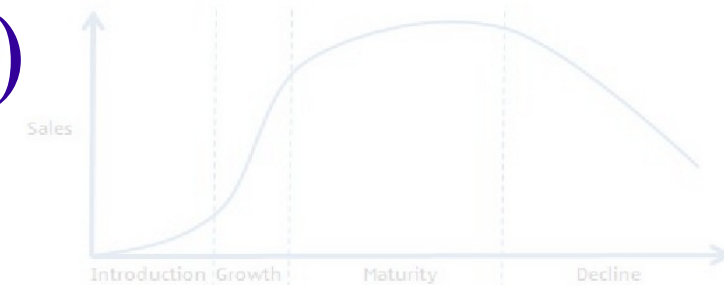
➤ Limited Liability Company (LLC)

- ❑ Avoids double taxation
- ❑ Retains limited liability
- ❑ Can have 100+ stockholders

MERGERS AND ACQUISITIONS



Product Lifecycle Stages



Interest



Brief comparison

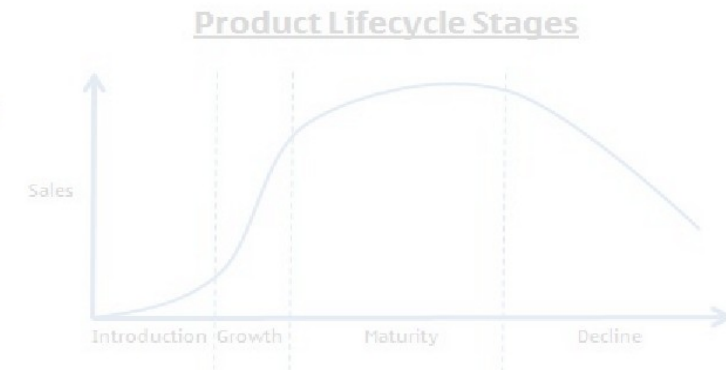
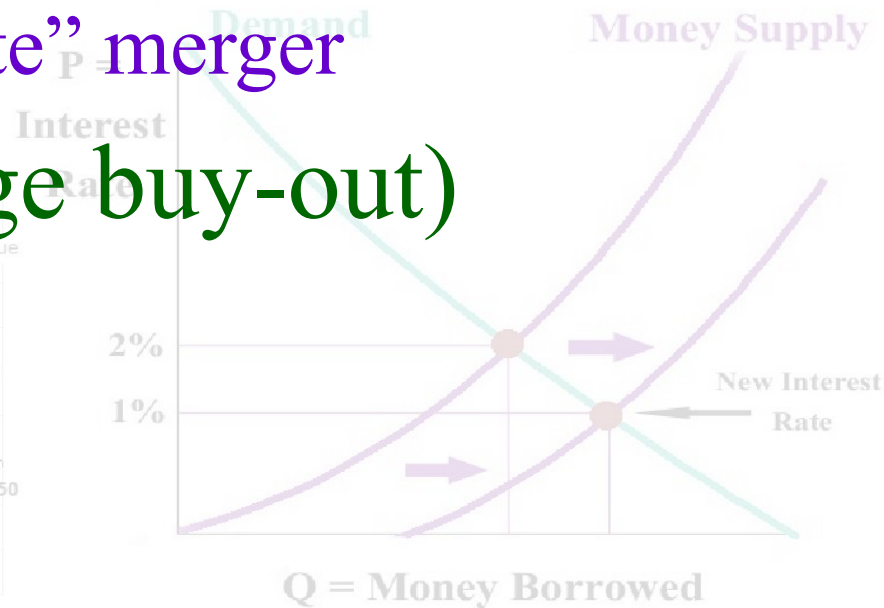
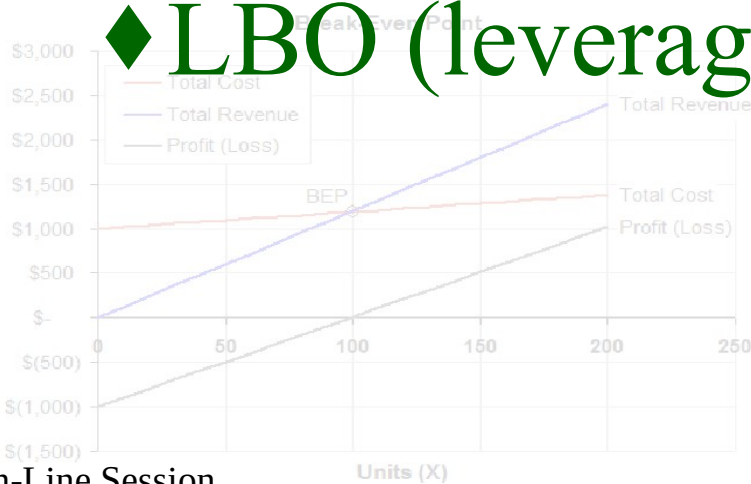
	Regular C-Corporations (Conventional)	S-Corporation	Limited Liability Company
Double taxation	YES	No	No
Limited liability and personal asset protection	YES	YES	YES
Management flexibility	No	No	YES
Restriction on the number of owners/ stockholders	No	YES	No
Internal Revenue Service tax regulations	Many	Many	Fewer



How to grow?

- ◆ Organic growth
- ◆ Mergers / acquisition
 - Horizontal merger
 - Vertical merger
 - “Conglomerate” merger
- ◆ LBO (leverage buy-out)

MERGERS AND ACQUISITIONS

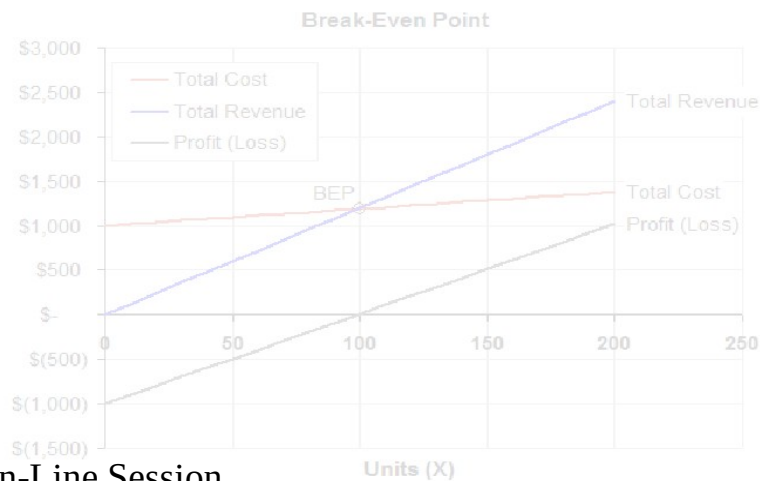


Franchising

◆ What is it?

◆ Why choose franchise?

◆ Advantages and disadvantages



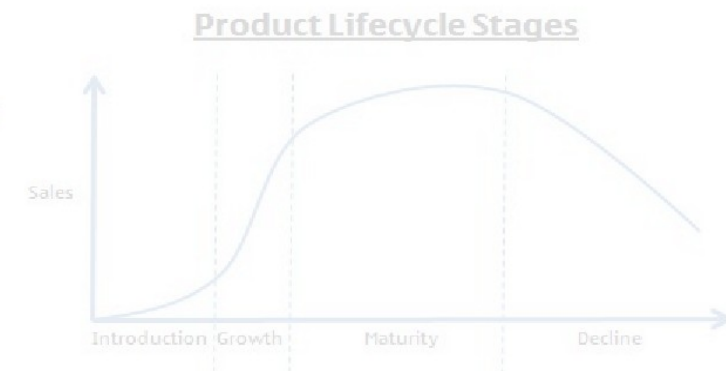
Interest
Rate

2%

1%

Q = Money Borrowed

Introduction to Business



What is a franchise? / Types

A license to operate an individually owned business as though it were part of a chain of outlets or stores.

Franchise Agreement



Franchisor

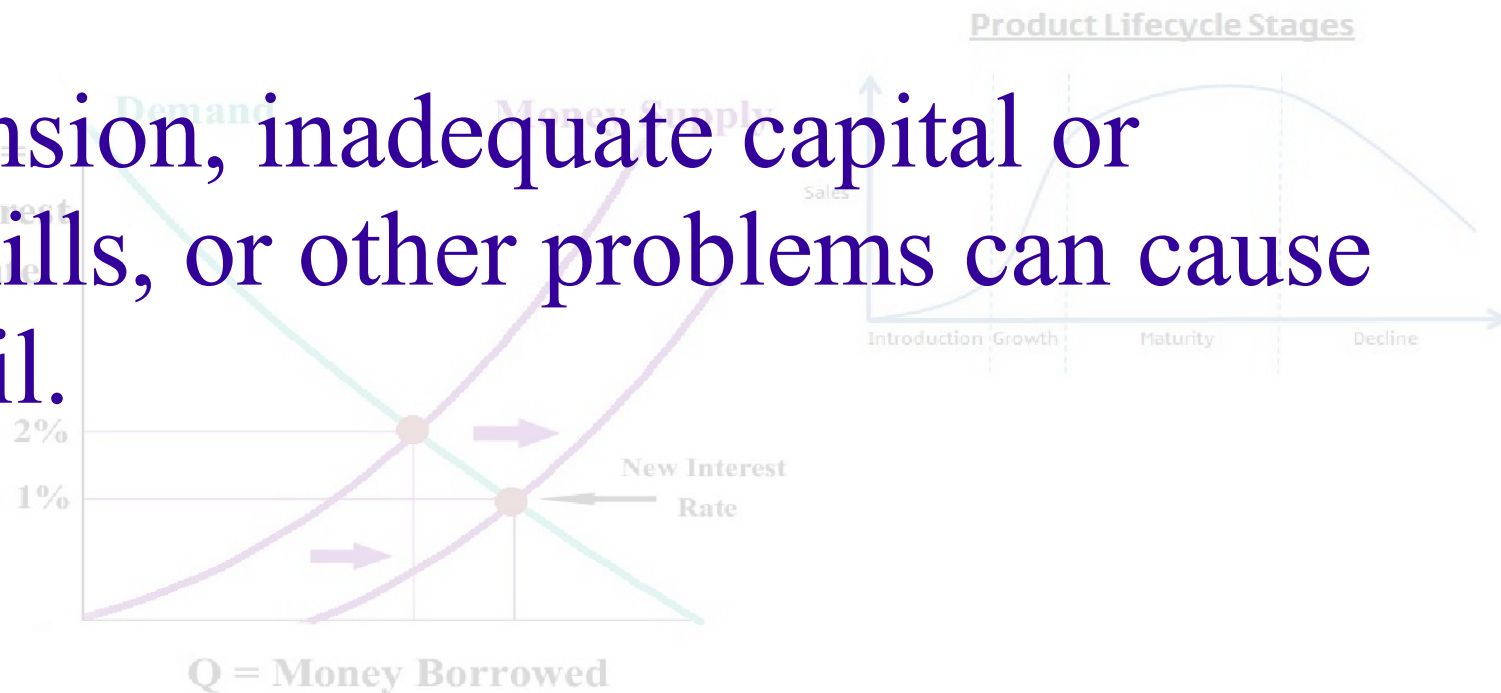
Franchisee



H&R BLOCK®

Growth of franchising

- The success rate for franchises is significantly higher than that for other small businesses.
- 94% of franchise owners report that they are successful.
- Too rapid expansion, inadequate capital or management skills, or other problems can cause franchises to fail.



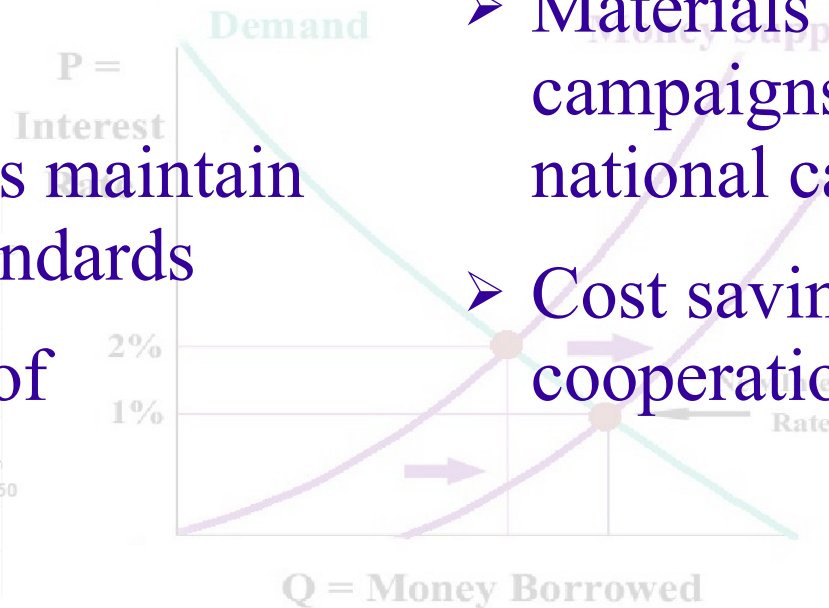
Advantages

Franchiser

- Fast and well controlled distribution of its products
- No need to construct and operate its own outlets
- More working capital available for expanded production and advertising
- Franchising agreements maintain product and quality standards
- Motivated work force of franchisees

Franchisee

- Opportunity to start a proven business with limited capital
- Guaranteed customers
- Franchisor available for advice and guidance
- Materials for local promotional campaigns and participation in national campaigns
- Cost savings when purchasing in cooperation with other franchisees



Cooperative, J.V., Syndicates

◆ Cooperative

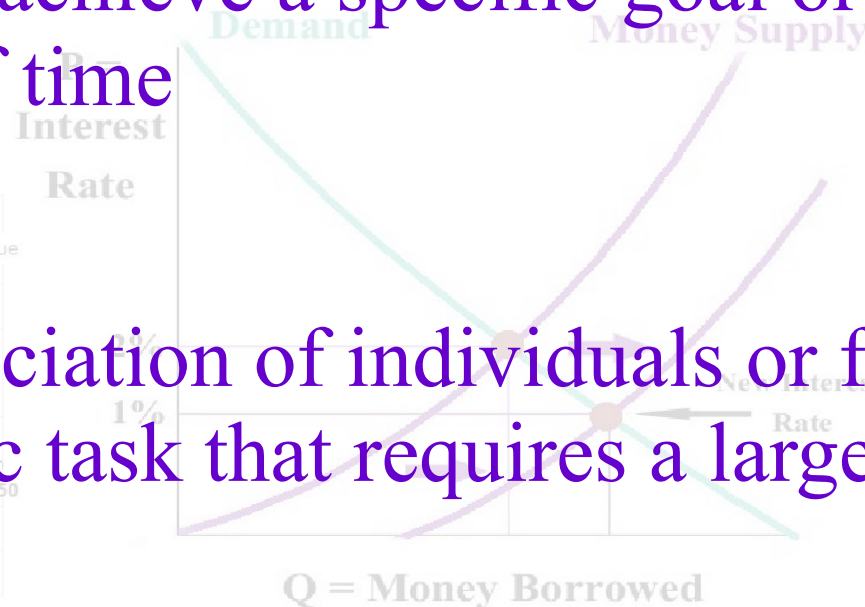
an association of individuals or firms whose purpose is to perform some business function for its member

◆ Joint Venture

An agreement between two (or more) groups to form a business entity in order to achieve a specific goal or to operate for a specific period of time

◆ Syndicates

A temporary association of individuals or firms organized to perform a specific task that requires a large amount of capital



Video tutorial

◆ Forms of an Organization

<https://www.youtube.com/watch?v=-k1nkB-ZWMQ>

◆ Partnership

<https://www.youtube.com/watch?v=LLHVeork75I>

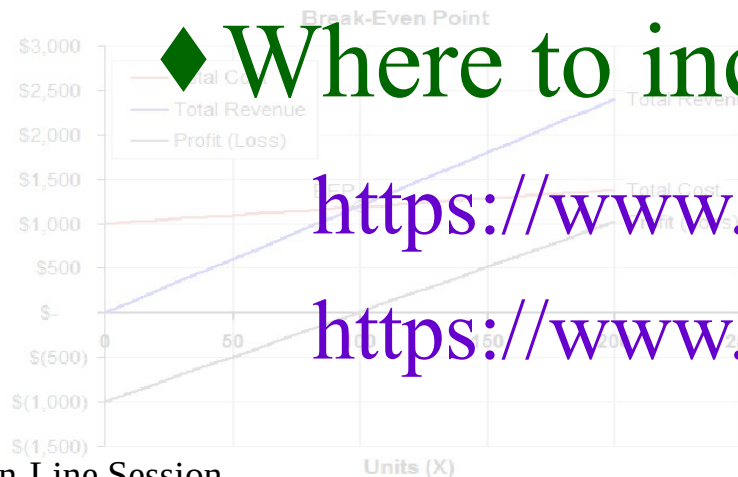
◆ S-Corp and LLC

<https://www.youtube.com/watch?v=55hdzTv6Kiw>

◆ Where to incorporate

<https://www.youtube.com/watch?v=MTblPshnYXc>

https://www.youtube.com/watch?v=CD-Fp_sclok



Product Lifecycle Stages

