

# [Ipo's and fluidigm case study sample](https://assignbuster.com/ipos-and-fluidigm-case-study-sample/)

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## Question One

The article shows the impact of the global financial crisis on financial market. The financial market is a market which involves the trade of shares and financial securities. The financial meltdown in the United States, which occurred in 2008, had negative impacts on the financial performance of a company. The financial crisis led to the decline of the value of a company's stock in the stock exchange market. Some companies collapsed as a result of the financial crisis. The need to cut costs by the companies in order to survive the crisis emerged. Employees lost their jobs. In addition, companies needed a lot of cash in order to fund their operations .   
Silicon Valley Fluidigm needed additional capital to fund its operations. The chief executive of the company intended to raise the additional capital from the issue of shares to the public. Initial public offer is the process of raising capital through the issue of share capital to the public. The issue of share capital was not possible due to the financial crisis which prevailed during that time. Investors were not willing to invest their resources in the stocks of a company. They feared that the company might collapse due to the financial crisis.   
According to the case, share capital is a source of capital for the firm. It is risky for a business to carry out operations with little amount of cash balances. It was impossible for Silicon Valley Fluidigm to raise additional cash from investors during the financial crisis. Silicon Valley Fluidigm had little cash balances. The decision by the Chief Executive officer to obtain additional cash was difficult. The case study also helps to show how the stock market was affected by the financial crisis. The Chief Executive Officer of Silicon Valley Fluidigm had decided to issue shares at a price of 14 to 16 per share. The investors were not willing to buy the share at that price. They made an offer of less than $10 per share. The case study helps to show the implications of the global financial crisis in 2008.

## Question Two

An initial public offer is a method used in raising capital by public companies. It involves issuing shares to the public for the first time. After the issue, the shares trade in the securities exchange. Initial public offer is only used by public companies in raising capital. The private companies are not permitted to use this technique in raising capital. The money received from the shareholders is not refundable. The shareholders are entitled to dividends at the end of the financial year of the company. The amount of dividends to be paid out depends on the amount of profit available to the shareholders after taxation. In case, a company incurs a loss the shareholders are not going to receive dividends .   
The main aim of initial public offer to an organization is that it increases the capital of a company. The company can undertake expansion activities due to an increase in the amount of capital. The initial public offer is a cheaper method of raising capital than the use of debt capital. The debt capital leads to an increase in the liquidity position of a company. The debt holders are entitled to dividends at the end of the financial period irrespective of whether an organization makes a profit or a loss. In case of a loss, the dividends would be paid from the capital of a firm. Payment of dividends using the capital of a firm is not allowed. Initial public offer helps to increase the public image of an organization. An organization that pays high dividends to its shareholders has a good public image. Good public image reduces the rate of employees’ turnover.

## Question Three

The initial public offer process involves three main components namely investor, companies and projects. As stated earlier, IPO involves the process of raising additional capital from the public for investment purposes. The first step in the initial public offer involves the investor. The investors are the shareholders of a company. They buy the company stock and expect to receive returns in the form of dividends at the end of the financial year. Investors are the providers of capital for the company. The company uses the capital provided to undertake investment projects. The investors expect the company to undertake viable projects, which are going to maximize their returns. Investors entrust the management of the company with their resources. Conflict may arise between the shareholders and management of an organization if their funds are not used well. The company receives income from the investment projects. The income received is used for three purposes. A proportion of income is paid to the government in the form of tax. The other proportion is retained in the company for investment purposes. The balance is paid to investors in dividend form. The dividends are the return investors get from their investment in the company.   
Silicon Valley Fluidigm failed to identify the need for capital at the right time. Need for capital is the main reason why companies raise capital. Investors would invest in a company in case they are sure the company performance would remain stable. Investors would not invest in situations where the economic conditions are not favorable. The presence of the financial crisis created tension among the investors. They had feared that they would not receive returns from the investment in Silicon Valley Fluidigm.

## Question Four

The economy of the country would decline. An investment in the capital market would be affected. The investors would be unwilling to invest in companies with a low amount of capital. An organization would be unable to invest in large projects. This means that the return from the projects would be low as compared to companies which invested in big projects. In addition, low returns would discourage investors from investing in the company. Transactions in the stock exchange would decline. The government would receive a little amount of tax revenue from the company. This lowers the economy of the country.   
Borrowing of money from banks and other financial institutions increases the liquidity position of an organization. A company, which is unable to raise capital through the initial public offer, would seek alternatives from the lending institutions. Silicon Valley Fluidigm had opted to borrow funds from Wall Street in order to finance its operations. Loans and borrowings increase the debt equity ratio of a company. The liquidity position of the company increases. A company with a high liquidity position is prone to bankruptcy and liquidation. Such companies contribute very little amount to the economy of a country. This illustration helps to explain why the economy would decrease.

## References

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