Analysis of the case study "merit enterprise corp" essay sample

Finance

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Abstract

In my analysis I will discuss the two different options for Merit Enterprise Corp. Should the chief financial officer (CFO) recommend Merit to get the $4 billion from a loan through JPMorgan and keep the business private or should Merit go public and issue stock in the primary market. I will go through the Pro and Cons for both options and explain which why CFO should recommend to the board to go with option 2.

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The Chief Financial Officer of Merit Enterprise Corp has two options that she can recommend to the board. Lets take a look at option 1. Pros: We already know that JPMorgan Chase bank has served Merit for many years. The $4 billion loan can come quickly from JPMorgan Chase by gathering a group of banks together. As an investment bank it can help Merit raise capital, and engage in trading and market making activities. Because of their good relationship with the bank merit can negotiate to obtain a low interest rate. The business will stay private. The cons: JPMorgan has served with Merit for many years with seasonal credit lines as well as a medium-term loan. Depending on how business goes they may need a long-term loan. Since the loans will come from different banks if the business does not produce enough cash flow there may be a chance for bankruptcy.

JPMorgan will have the upper hand in their finances by demanding periodic financial disclosures to monitor Merit's financial conditions while their operation is increasing. The bank may lay down certain restrictions that can affect future financing. Since $4 billion is a large loan the bank may require collateral. If the business doesn't do so well they may use that to control assets and sell it for profit to make up for what they owe. Lastly failure to pay back the loan can result in a lawsuit, which can be the worst possible outcome. (Pros and Cons of Borrowing Money from a Financial Institute) Option 2: Pros – Merit is known to have excellent financial performance throughout the years. Many investors may be willing to participate in stock offered by Merit. If many people are willing to invest Merit can reach its goal of $4 billion quickly.

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The more shares of stock the investors own more dividends will come when the company makes a profit. This will give the company more equity. Even if the company doesn't do so well the risk will lie on the investors and not so much on Merit. Cons – Merit will become a public company, which will have them face extensive disclosure requirements and other regulations. It may also be a difficult process to find enough people who willing to invest the $4 billion dollars in a quick amount of time. When issuing stock, investors can purchase shares, which will give them an equal portion of ownership in the company. Shareholders will constantly want to know what's going on within the business. This may impact Merit's judgment on certain business decisions to keep investors happy. Must also be cautious if someone comes along and buy the majority of the shares that may cause Merit to lose control of their company. (Pros & Cons of Selling Stock in Your Business) The best option should be number two.

You always want to try to avoid loans from banks because it may cause Merit to go into debt. This is not a loan to a house but to a business that needs $4 billion dollar. If the business doesn’t do so well it will cause stress. Even though going with option one will keep the company private I would actually want Merit to go public. By increasing visibility it will attracts investors, which will not put Merit in financial strain on loans. When you issue stock, there is no limit on how much money you could potentially raise. If you have a solid business concept behind you, you might be able to find many investors who want to give you money. (Pros & Cons of Selling Stock in Your Business). This will avoid Merit going into debt. Without any debt a company can function more efficiently. Analysis of the Case Study “ Merit Enterprise Corp”

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