BUSINESS

2023/2024

REVIEW QUESTIONS

LESSON 2 – PART 2

1. Read the following information extracted and adapted from the BBC website. Which type of company, according to ownership, was Facebook before and after May 2012? Why do prices fluctuate any time an important investor takes the decision of selling his shares?

Facebook (now Meta) went public in May, 2012. The company priced its historic initial public offering (IPO) at $38.23 a share, becoming the largest Internet IPO in history.

However, some investors had bought shares before that date at SecondMarket and SharesPost, the online trading platform for pre-IPO shares.

For example, Facebook started off February 2012 with its highest implied valuation yet: $102.3 billion thanks to a share price of $44. That price dropped to $40 at the end of the month in SharesPost.

Some months after IPO, Facebook shares fell 50%. Analysts and investors were concerned about the firm's ability to generate revenue from users that access the website on their mobile devices. The decreased screen space on these devices, compared with traditional desktop computers, means it is difficult to place advertisements, which are a major contributor to its income. Two early investors nearly cashed out completely in August which caused a drop in the stock price. Under these circumstances, Facebook shares dropped to $17.55 on September 2012. As a reaction, the founder Mark Zuckerberg said that he would not sell any of his shares in Facebook for at least one year.

Nevertheless, Facebook shares had enormously increased in 2013, after the announcement that profits will overpass expectations. Moreover, 41% of advertisement services revenues come from the mobile market and Facebook users in the mobile phones increased by 51% in the third quarter of 2013, after the company improved the access to this website. People are checking their Facebook page more and more all the time.

More recently, Facebook shares fell 4.5 percent on 25 Sept 2017, as investors digested the new planned share sales from CEO Mark Zuckerberg.
The social media company made headlines several times the previous week after its chief executive returned to the office from paternity leave. Upon his return, Zuckerberg took swift action on a lawsuit over a proposed new class of shares.
Facebook settled the lawsuit by abandoning the proposed new class of shares, which would have included no voting rights . The suing shareholders felt it was a bad idea to "separate economic interest from voting control," Stuart Grant, an attorney for Facebook shareholders.
Following the settlement, Zuckerberg said he would sell between 35 million and 75 million shares in the company over the next 18 months to support his other company, the Chan Zuckerberg Initiative, which invests in technology to address social issues.

2. Read the following information about Cofares. Which type of cooperative is it? Highlight some distinctive features of these companies that you have observed in Cofares.

Cofares was established as a cooperative in 1944 formed entirely by pharmaceutical capital the main purpose of which is guarantee the Spanish pharmaceutical model: pharmaceutical distribution supplies all authorised medicines in the country and defers resources from profitable operations to “cover” unprofitable ones as rural pharmacies: it is a joint and several distribution model that ensures equity in patient access to medicinal products. Their market share is upper 29% what stands them as the largest health cooperative in Spain. They have more than 9,500 pharmacists as cooperative partners and more than 3,000 pharmacies as clients
Cofares is working every day to offer its users the best retail offer in the industry with a clear category management approach with leading and seasonal products and exclusive discounts per laboratory. Exclusive offers such as Generic Option, OTC, Top Selection, management of the health and beauty and OTC categories with Nexo.
Cofares provides the pharmacy with tools to develop loyalty schemes so that it can attract new health users, in any support, and increase retail sales. In order to achieve these goals, the organisation Educo Academy seeks to provide accurate

information and quality training tailored to the real needs of all players in the health sector. An area for Training, Innovation and Co-creation that provides the sector with high-impact professionalisation and specialisation programmes in different methodologies, in collaboration with the best schools and universities. Their own brand, Farline, promotes a healthy way of life; Farline has included new products in its catalogue (Farline Eco), a category in which articles made of organic, non-pollutant materials are produced. Recently, an innovation HUB was created to promote health technology.

Cofares works quickly and proactively to identify health solutions that have a positive impact on people. For this reason, Cofares wants to go one step further as a company becoming a global health agent that, in addition to supplying drugs to the population, facilitates access to innovative products (and devices), services or tools for a more conscious and responsible health.

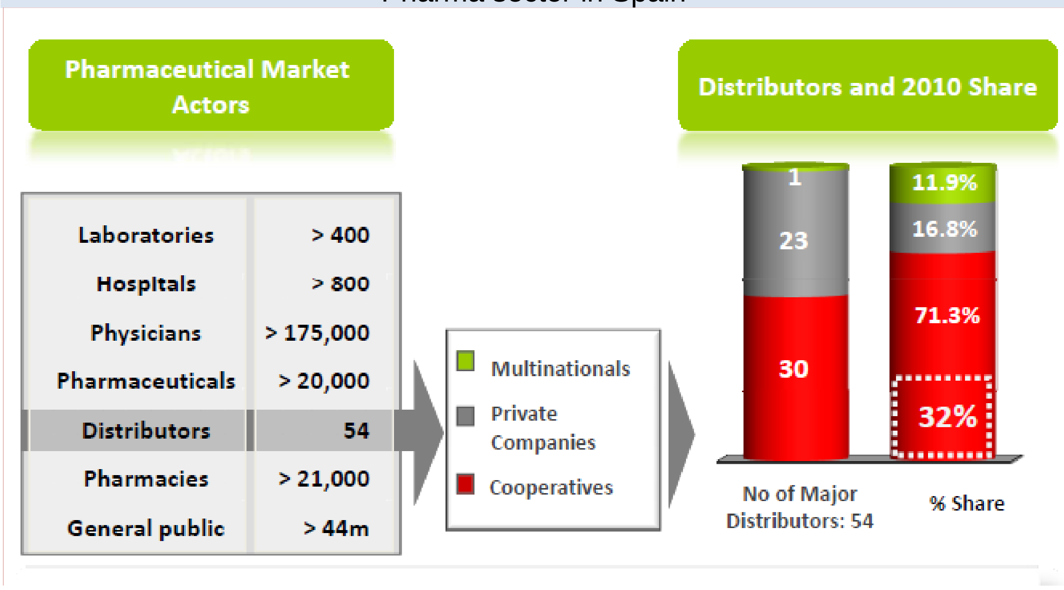
Cofares is focused on:

- Offering new opportunities for people to have healthy and productive lives, regardless of their age
- Helping people with chronic diseases to manage and live with it in the best possible way.

And Cofares believes that we have the perfect ally to achieve it: the pharmacies, 100% sanitary health centers, in the first line of contact with users, and that will be the best way to bring innovation to the hands of people.

- *Distribution:* Formulas allowing pharmacies to buy better
- *Loans section*: Financing and investment for pharmacies
- *Own brands*: Pharmacies' exclusive brands
- *Pharmacy management*: Specialist services for competition
- *Cifarma sofware*: Technology solutions and computing services

Pharma sector in Spain



Source: Cofares - Arahealth

3. Read the following information adapted from several pieces of news published by the Financial Times in August, 2015. Why should the investor ask for permission to buy shares when El Corte Inglés is a Limited Company (Sociedad Anónima)? Why was it so tricky to fix a price for the shares? Why was the minority shareholder hit from the Board? Was it fair, apparently? Is it interesting to create Committees in the Board?

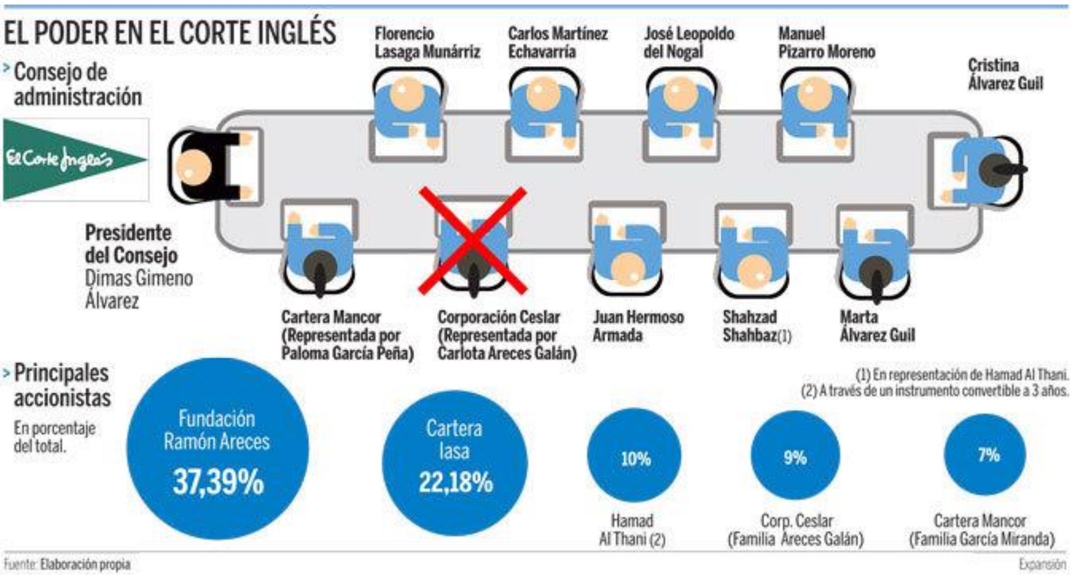
El Corte Inglés announced in July 2015 that it was selling a 10 per cent stake in the group to Sheikh Hamad bin Jassim bin Jabr al-Thani, a former Qatari prime minister and high-profile dealmaker. His investment was made in the form of a "convertible loan" that will convert into shares after three years. The shares will be taken from treasury stock held by El Corte Inglés.

Ceslar, a family-owned investment vehicle that owns close to 10 per cent of El Corte Inglés denounced the sale as a "manoeuvre to sideline traditional investors and secure the power of current management" and that the deal undervalues the group. Ceslar was one of two large shareholders that refused to support the deal at a previous board meeting, but both were ultimately outvoted.

According to Ceslar, the group committed to pay Sheikh Hamad an annual interest of at least 5.25 per cent, which could rise to as much as 7.5 per cent if certain growth targets are not met. Ceslar complains that the sale is structured in a way that could leave the Qatari investor with a much larger share of the group than publicly advertised, possibly as much as 15 per cent "[We] regret that this contract involves interest payments far above the market rate, and with a series of penalties that always favour the Qatari investor and that in any case lack any justification," the investor said.

The group itself consistently declined to respond to the criticism. But majority shareholders and management hit back at Ceslar at the general shareholder assembly some weeks later, approving a motion to eject the minority shareholder from the Board.

Other important agreements voted in that Meeting were: Creation of Committees for Auditing and for Appointments and Retributions, elimination of the condition of being shareholder to sit in the Board of Directors, and they gave permission to the Board to issue new debt in the following 5 years up to 2,000 million €.



El Corte Inglés said in a statement that the decision came in response to "repeated violations of Ceslar's legal obligations as an administrator". It added that Ceslar had failed to meet its "duties of secrecy and loyalty", and undermined the "orderly functioning" of the board by passing on information and data to the public. In 2016, Sheikh Hamad is already a shareholder of the company and the minority shareholder was readmitted in the Board in 2018, after the CEO D. Dimas Gimeno resigned and a new one was appointed, D. Jesús Nuño de la Rosa. This was the first CEO at El Corte Inglés that is not part of the family of the founders. He also resigned in 2020 and nowadays Dña Marta Álvarez, daughter of the founder, is the President.

El Corte Inglés, 2015

4. Discuss whether the following statements are true or false.

(a) An enterprise with 300 employees is an SME, using the European Commission criteria.

(b) Public companies are those companies where an owner government controls the firm.

(c) Increasing the profitability and competitiveness of the firm usually is the main reason for expropriating a private-owned company.

(d) In comparison with limited companies, sole proprietorships have much more difficult access to financing.

(e) In order to solve the conflict of interest between shareholders and managers, some external control mechanisms are used, such as corporate governance.

(f) The Board of Directors is a group of individuals that are elected representatives of the stockholders of the company which monitors the officers.

(g) Members of cooperatives can concentrate much risk, mainly in worker coops because they are both workers and capitalists.