

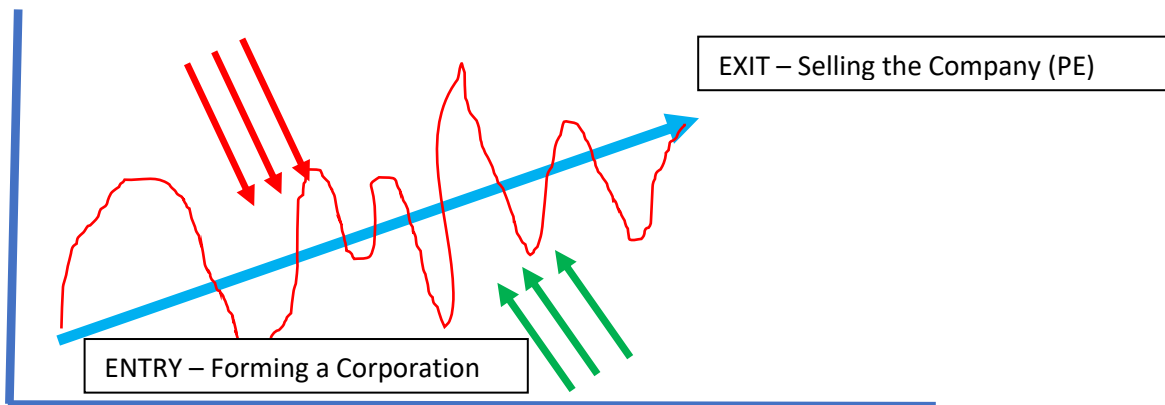
LECTURE 1

INTRODUCTION TO CORPORATE FINANCE

Instructor's Personal Notes:

VALUE CREATION: SHAREHOLDER VALUE

- INVESTMENT / RETURN EXPECTATION



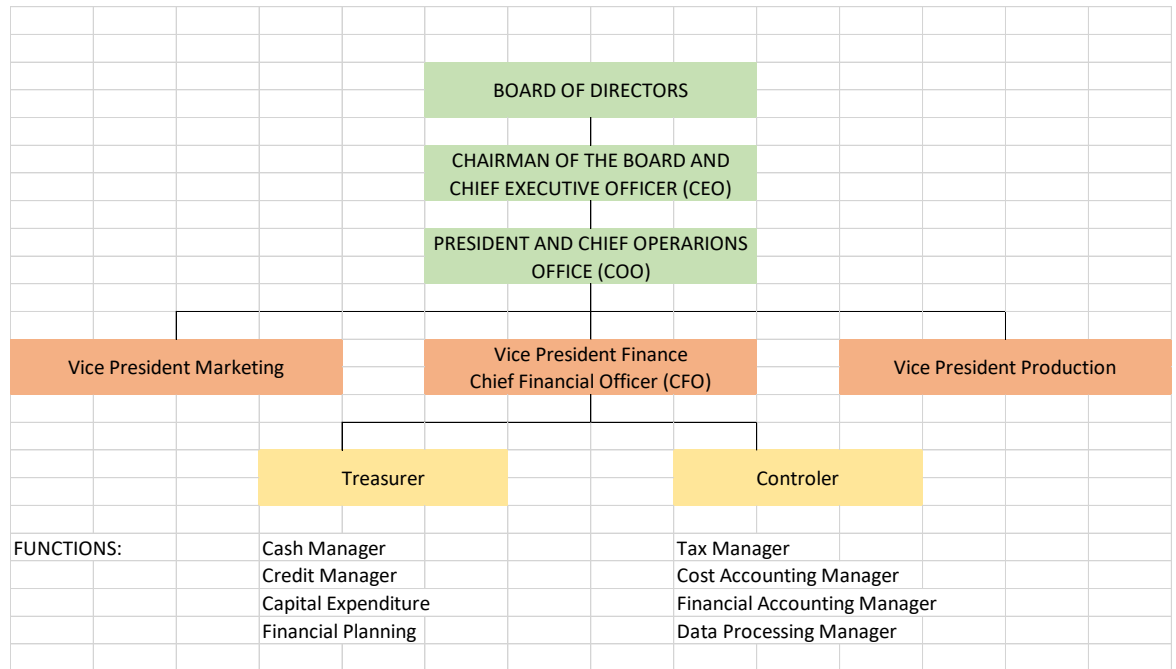
- **FACTORS PUSHING THE VALUE LINE DOWN:**
 - Competition / New Products / Technology
 - Government (taxation, tariffs, environmental laws, interest rates)
 - Economy (Unemployment, Inflation, Interest Rates)
 - Capital Markets – systemic risk
- **MANAGERIAL STRATEGIES AND DECISIONS TO KEEP THE VALUE LINE UP:**
 - Operational Strategy (Minding the business – Organic (Revenue) Growth/ Cost Control / Working Capital Management/ Budgeting)
 - Transactional Strategy (Mergers & Acquisitions / Joint Ventures / Capital Expansion / Long-Term Investments)
 - Financial Strategy (Capital Structure, Financing, IPO, Going Private, Sale Leasebacks, Hedging)
 - Social Responsibility (Sarbanes-Oxley, OSHA, Responsible to shareholders, employees, community, government)

FROM THE TEXT BOOK – CHAPTER 1:

- WHAT IS CORPORATE FINANCE – The 3 questions:
 - What Long Term Investment you should take on
 - Where will you get the long-term financing

- How will you manage your everyday financial activitiesn(collecting from Customers and paying your suppliers)

- THE FINANCIAL MANAGER



- FINANCIAL MANAGEMENT DECISIONS

- Capital Budgeting
- Capital Structure
- Working Capital Management

FORMS OF BUSINESS ORGANIZATION

- Sole Proprietorship – Keeps all the profits but has unlimited liability for business debts
- Partnership – Two or more owners (partners) – GP / LP
- Corporation (Articles of Incorporation / set of bylaws)
 - LLC – taxed like a partnership but retain limited liability for owners)
 - Double Taxation

THE GOAL OF FINANCIAL MANAGEMENT

- Possible Goals
 - Profit Maximization
 - Cost Minimization
- The Goal of Financial Management
 - Maximize Shareholder Value (Current Value per share)
- Sarbanes-Oxley Act of 2002

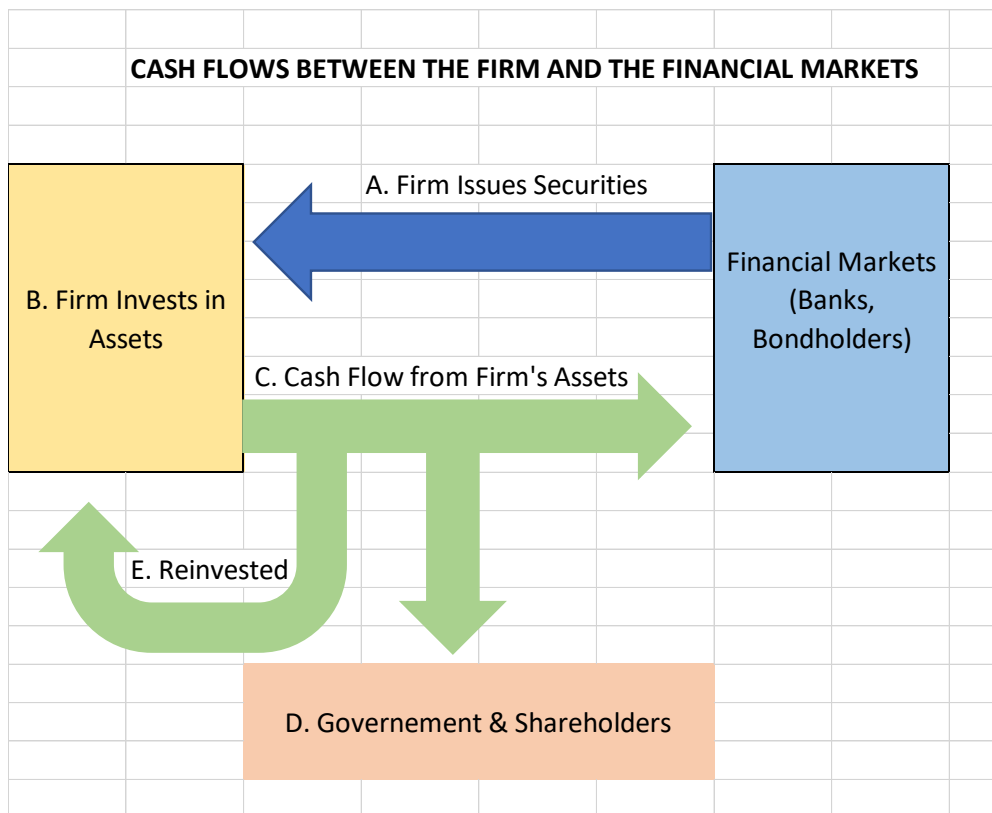
- Protect investors from lying on financial reports (Enron)
- Prohibition of personal loans to officers (WorldCom CEO Bernie Ebbers)
- CEO/CFO is personally responsible

THE AGENCY PROBLEM AN CONTROL OF THE CORPORATION

- Agency Relationship (shareholder vs Management)
- Management Goals
- Do Managers Act in the shareholders' interest
 - Managerial Compensation
 - Control of the Firm
- Stakeholders (Shareholders)

FINANCIAL MARKETS AND THE CORPORATION

- Cash Flows to and from the Firm



- Primary Vs Secondary Markets
 - Primary Markets (Public offerings and private placements)
 - Stocks
 - Bonds
 - Secondary Markets
 - Stocks
 - Bonds

- Dealer Vs Auction Markets
- Trading in Corporate Securities
- Listing