Welcome to Finance 254

Introduction to Corporate Financial Management

The First Day Agenda

- Course Administrative Overview
- Top 10 List
- What is corporate finance and the role of the financial manager.
- The goal of the firm
- Careers in Finance
- Different forms of Business Organizations. (Discussion section this week.)

Required Class Materials

- Finance 254 Syllabus Book
- Texas Instruments BAII Plus financial calculator
Important Internet Addresses

- Course Website: http://www.business.uiuc.edu/~mdyer/fin254.htm
- Syllabus and Announcements
- Powerpoint Lecture Note files on Course Schedule and Lecture Notes Page.
- Links to Internet Class Assignments (Assignments page)
- Textbook Website: http://www.mhhe.com/blm4e
  - Select Student Edition from Online Learning Center box.

Contacting Prof. Dyer

- Office: 328J DKH
- Telephone: 244-7807
- Office Hours:
  - 3-4:30 Monday & Wednesday
  - 1-3 Thursday
  - e-mail: dyer1@uiuc.edu

The Nitty Gritty

- Grade Breakdown (500 total points)
- 400 points from four 90-minute exams: 100 points each (with optional final)
  - 25 multiple choice questions worth 4 points each roughly half conceptual questions (no calculations) and half problems.
- 100 points from best 10 out of 12 GradeSummit internet assignments.
  - Due dates (9 PM almost every Sunday) and link to GradeSummit Assignments posted on Assignments Page of course website
  - Each assignment has 10 multiple choice questions.
  - You will have up to 3 attempts at a given assignment (multiple versions of each assignment), only your best score counts. 3 hour time limit per session.
  - GradeSummit logon details and procedures discussed in detail during this week’s discussion section.
Exam Dates

- Exam 1: Monday, Sept. 22 (Chapters 1-4)
  - 6:30-8 pm, Conflict 4-5:30 pm
- Exam 2: Monday, Oct. 20 (Chapters 5-8)
  - 6:30-8 pm, Conflict 4-5:30 pm
- Exam 3: Monday, Nov. 10 (Chapters 10-13)
  - 6:30-8 pm, Conflict 4-5:30 pm
- Exam 4: Monday, Dec. 8 (Chapters 15-18)
- Optional final exam dates: (The optional final is comprehensive and can be used to replace an exam that you missed or we count your best 4 exam scores if you take all 5 exams.)
  - Monday, Dec. 15: 9-10:30 am
  - Thursday, Dec. 18: 1:30-3 pm

Miscellaneous Items

- Textbook problems assigned in syllabus will not be graded, but you are responsible for knowing how to do them.
- Solutions to all assigned textbook problems are in the back of syllabus.
- Helpful textbook items: online chapter objectives and questions at textbook website.
What is Corporate Finance?
The Balance Sheet

What is Corporate Finance?
☐ In the simplest sense: involves what assets a company should invest in and how to raise cash to finance these investments in order to maintain and maximize economic value.
☐ Where does a company get cash to run and finance its business? (Details in Chapter 2)

The Role of The Financial Manager

☐ Capital Budgeting (Investment)
  Decision
  ■ Buy real assets that are worth more than they cost
The Role of The Financial Manager

- **“Capital Budgeting”**

  - **Tangible Assets**
    - Euro Disney
      - @ $2 billion
  
  - **Intangible Assets**
    - Gillette’s Mach3 Razor
      - @ $300 million

The Role of the Financial Manager

- The Financing Decision: how to raise the money (long-term capital) that is invested in new assets
- Financing Options:
  - Debt: bank loans, debt securities (bonds)
  - Equity: retaining company earnings, sell new stock.
- Here’s how this whole corporate finance process works:

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(1) Cash raised from investors
(2) Cash invested in firm
(3) Cash generated by operations
(4a) Cash reinvested
(4b) Cash returned to investors
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Goal of the Firm

☐ The primary goal is shareholder wealth maximization.
☐ This means:
  ■ Maximizing Firm Value (market price per share of common stock x number of outstanding shares)
  ■ Maximizing stock price.

Goal of The Corporation Issues

☐ Shareholders desire wealth maximization
☐ Do managers maximize shareholder wealth?
☐ Managers have many constituencies “stakeholders”
☐ “Agency Problems” represent the conflict of interest between management and owners

Goals of The Corporation

Ethics & Management Objectives

☐ Does value maximization justify unethical behavior?
☐ Enron example
☐ WorldCom example
☐ Arthur Andersen example
☐ Salomon Brothers example
Goals of The Corporation

Agency Problem Solutions
1. Compensation plans
2. Board of Directors
3. Takeovers
4. Specialist Monitoring
5. Auditors

Key Financial Decision Making Rule
- Finance is concerned with raising cash to invest in assets that are expected to generate future cash flows.
- Net Present Value (NPV) = present value of future expected cash flows - initial outlay.
- A firm that follows the practice of investing in positive NPV assets will increase shareholder wealth & firm value.

Different Finance Career Opportunities
- Corporate Finance
- Investments
- Banking and Financial Services
- Insurance and Risk Management
- Real Estate

Check out website www.careers-in-finance.com
Also, further info in powerpoint file posted on the Update & Announcements page of course website.
Organizing a Business

- Types of Business Organizations
  - Sole Proprietorships
  - Partnerships
  - Corporations
  - Hybrids
    - Limited Partnerships
    - LLP
    - LLC
    - PC

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Organizing a Business

<table>
<thead>
<tr>
<th>Sole Proprietorship</th>
<th>Partnership</th>
<th>Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who owns the business?</td>
<td>The manager</td>
<td>Partners</td>
</tr>
<tr>
<td>Are managers and owners separate?</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>What is the owner’s liability?</td>
<td>Unlimited</td>
<td>Unlimited</td>
</tr>
<tr>
<td>Are the owner &amp; business taxed separately?</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

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Corporate Structure

- Sole Proprietorships: Unlimited Liability
- Partnerships: Personal tax on profits
- Corporations: Limited Liability
  - Corporate tax on profits +
  - Personal tax on dividends