



Principles of Finance

(FINC311)

Chapter 1

Introduction to Financial Management

Objectives for Today

- Why study finance?
- What is the goal of financial management?
- Understand the different forms of business organization
- Review of Course Overview
- Introduce Blue Hen Brewery



Why Study Finance?

Financial decisions are fundamental to business

- What investments should a business make?
- How do investments get financed?
- How are daily financial activities managed?

Financial decisions impact our personal lives

- Attend college or start work?
- Buy or lease a car?
- Pay cash or use a credit card?
- Obtain a fixed or variable home mortgage?
- Buy a bond or a share of stock?
- How do I save for retirement?

Why Study Finance?

Marketing

- Cost-benefit analysis
- Budgets
- Marketing research

Accounting

- Dual accounting and finance function
- Preparation of financial statements
- Gain insights behind the numbers

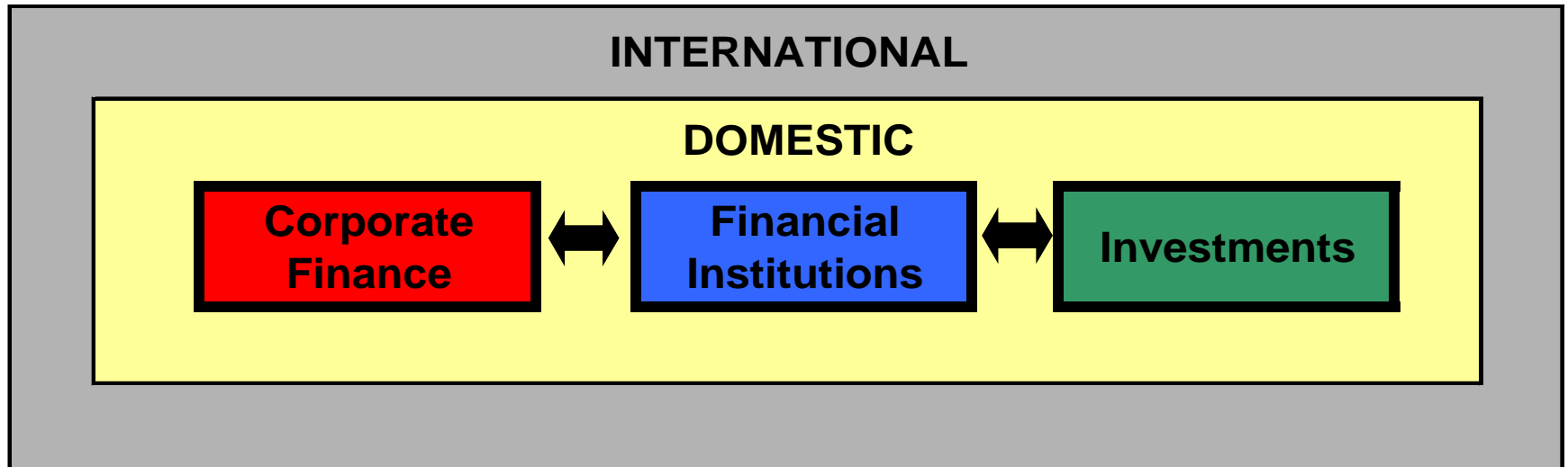
Management

- Strategic thinking
- Job performance
- Profitability

Personal Finance

- Personal budgeting
- Retirement planning
- College planning
- Day-to-day cash flow

Basic Areas Of Finance



Corporate Finance = Business Finance

Job Opportunities in Finance

Corporate Finance

- Financial planning and analysis
- Valuation and decision support
- Financial reporting
- Cash Management
- Investor relations

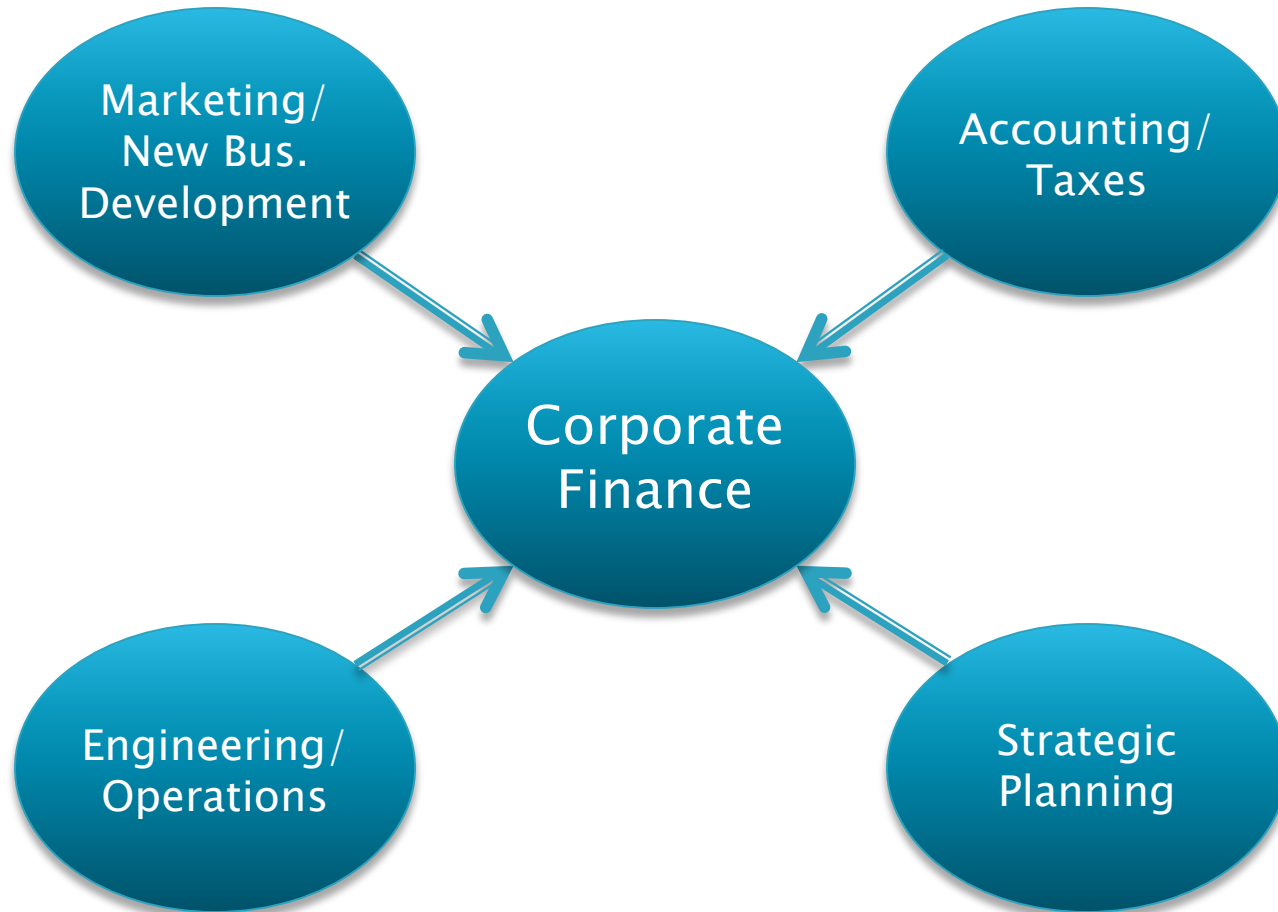
Investments

- Financial advisor
- Portfolio manager
- Security analyst
- Investment banker
- Stockbroker

Areas where finance is a key skill

- Marketing
- Business development
- General management
- Strategic planning

Finance As Information Hub



Goal of Financial Management – Some Options

Potential Goal

Issues

Maximize profits

- An imprecise goal
- Maximize what profit?
 - Long-run or short-run profits?
 - Accounting profits?
 - Cash flow?

Minimize costs

- Reducing costs can damage the long-run viability of the firm

Maximize market share

- Ultimately, a company needs profits to satisfy shareholders

Provide stable employment and be a good corporate citizen

- Shareholders would not want to invest in a company with this goal

Goal of Financial Management The Best Answer...



Maximize
Shareholder
Value




This eliminates
the failings of
other potential
goals

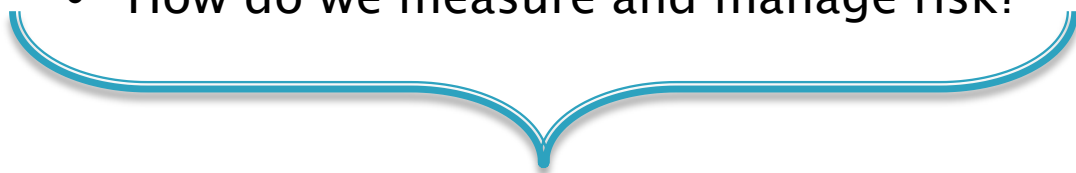
Throughout this course we will focus
on how to increase value

Objective of the Financial Manager

- **Objective**: Assure all business decisions improve and/or protect shareholder value

Some key
questions
to answer



- How are cash flows valued?
 - Which cash flows should we value?
 - On what grounds do we base investment decisions?
 - How are financial securities valued?
 - How do we measure and manage risk?
- 

These topics will be covered in future chapters

Goal of Financial Management

- Does this mean we should do anything and everything to maximize owner wealth?

Question

Do you think that it is appropriate for a US company to move jobs overseas to save money ?

- A. Of course. This will create shareholder value by saving money.
- B. Yes, but it would be better if this was illegal or the company paid a penalty.
- C. No, because it is unpatriotic.
- D. No, because the company will lose customers.

Goal of Financial Management

- Does this mean we should do anything and everything to maximize owner wealth?
 - Outsource jobs to countries with lower wages?
 - Provide corporate support of charities?
 - Cheat on diesel emissions tests?
 - Open fake bank accounts?

Forms of Business Organizations

Forms of Business Organization

- Three major forms in the United States

Sole Proprietorship

- Single owner of a business

Partnership

- General
- Limited

Corporation

- S Corp
- C Corp
- Limited Liability Corporation

Sole Proprietorship

Business owned by one person

■ Advantages

- Easiest to start
- Least regulated
- Single owner keeps all of the profits
- Taxed once as personal income

■ Disadvantages

- Limited to life of owner
- Equity capital limited to owner's personal wealth
- Unlimited liability
- Difficult to sell ownership interest

Partnership

Business owned by two or more persons

■ Advantages

- Two or more owners
- More capital available
- Relatively easy to start
- Income taxed once as personal income

■ Disadvantages

- Unlimited liability
 - General partnership
 - Limited partnership
- Partnership dissolves when one partner dies or wishes to sell
- Difficult to transfer ownership

Corporation

A legal “person” distinct from owners and a resident of a state

■ Advantages

- Limited liability
- Unlimited life
- Separation of ownership and management
- Easy transfer of ownership
- Easier to raise capital

■ Disadvantages

- Separation of ownership and management (agency problem)
- Double taxation (income taxed at the corporate rate and then dividends taxed at personal rate, while dividends paid are not tax deductible)

Course Overview



Let's Start a Company

Blue Hen Beer Company

- The Blue Hen Beer Company was started in 1990 by a UD graduate, and went out of business less than 10 years later
- Our sections of FINC 311 have been offered the opportunity to acquire the brand for free if we re-launch the business and make “Newark’s Best Beer”
- We are going to take that challenge...

Let's Start a Company

Blue Hen Brewery *"Newark's Best Beer"*



Question

What form of business should we use for Blue Hen Brewery?

- A. Sole Proprietorship
- B. Partnership
- C. Corporation

What Form of Business?

Key Question: Who will be the owners of the Blue Hen Brewery?



Answer: ~50 students of FINC 311
investing \$1000 each
→ \$50,000 total investment by owners

What Form of Business?



Incorporation Date: 1/31/2019

Additional Financing

- \$50,000 loan
- Principal paid back in 5 years
- 10% interest per year



We Have a Company

Blue Hen Brewery *“Newark’s Best Beer”*



\$100K of cash on the incorporation date of 1/31/2019

- \$50K from shareholders
- \$50k from a bank loan

Blue Hen Brewery

- Blue Hen Brewery will serve as a sample company throughout the semester to learn various course topics:
 - Financial statements
 - Financial analysis
 - Cash flows
 - Capital budgeting

