

Chapter.1 : introduction to corporate finance

مبادئ
مالية

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شرح تفصيلي



فيديوهات اسئلة مخصصة



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المدرّب نبيل اياد

تأكد من تواجدكم بمجموعة الواتس اب الخاصة بالمشاركين

LEARNING OBJECTIVES (LO)**LO1 The basic types of financial management decisions and the role of the financial manager.****LO2 The goal of financial management.****LO3 The financial implications of the different forms of business organization.****LO4 The conflicts of interest that can arise between managers and owners.****Corporate Finance and the Financial Manager**

Corporate finance is the study of how companies answer three major financial questions. If you start your own business, you must decide:

1. What long-term investments should you take?

- What business will you operate in?
- What assets (buildings, machinery, equipment) will you need?

This is called the **capital budgeting decision**.

2. Where will you get long-term financing?

Once you decide what to invest in, you need money.

You can:

- Raise equity (bring in owners)
- Borrow money (debt)

This is called the **capital structure decision**.

3. How will you manage daily financial activities?

After starting operations, you must manage:

- Collecting from customers
- Paying suppliers
- Managing cash

This is called **working capital management**.

❖ The financial manager (CFO):

Why Do We Need a Financial Manager? لماذا نحتاج لمدير مالي

In large corporations:

- Owners (shareholders) are usually not involved in daily decision-making.
- Managers are hired to act on behalf of the owners.

Because firms are large and complex, shareholders cannot manage daily operations themselves.

Therefore:

The financial manager represents shareholders' interests and makes financial decisions for them.

The financial manager is responsible for answering the three key financial questions:

1. What long-term investments should be taken?
2. How should those investments be financed?
3. How should daily financial activities be managed?

Position of the Financial Manager in the Organizational Structure:

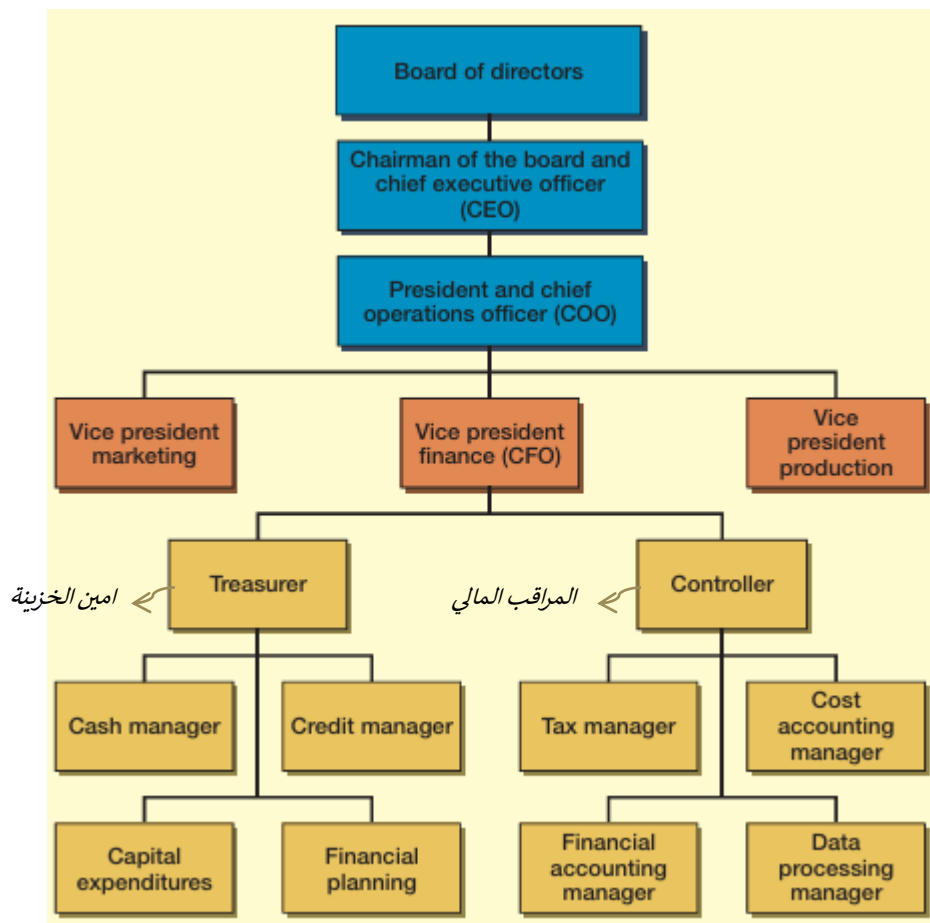
عادةً يكون المدير المالي في منصب إداري رفيع يسمى:

Chief Financial Officer (CFO) or Vice President of Finance

ال CFO يشرف على منصبين رئيسيين:

➤ **Controller and Treasurer**

Controller	Treasurer
يسجل ويعد تقارير	يدير ويقرر
Accounting Focus	Decision-Making Focus
Past-oriented	Future-oriented



Shareholders – المساهمون

- هم المالكون الحقيقيون للشركة
- لا يديرون الشركة بشكل يومي
- هدفهم تعظيم قيمة أسهمهم

Board of Directors – مجلس الإدارة

- يتم انتخابهم من قبل المساهمين
- يمثلون مصالح الملاك
- يراقبون الإدارة العليا

CEO – المدير التنفيذي

- مسؤول عن إدارة الشركة بالكامل
- يتخذ القرارات التشغيلية والاستراتيجية
- يرفع تقاريره لمجلس الإدارة

- The number of board members varies depending on the size of the company and local regulations.
- In most jurisdictions, the minimum number is usually three members.
- The maximum number is determined by corporate law or the company's bylaws.
- In small firms, the board may consist of 3–8 members.
- In large corporations, it may include 10–15 members or more.

FINANCIAL MANAGEMENT DECISIONS

The financial manager must be concerned with three basic types of questions:

➤ **Capital Budgeting**

The first question concerns the firm's long-term investments, the process of planning and managing a firm's long-term investments.

يتعلق السؤال الأول باستثمارات الشركة طويلة الأجل، وعملية تخطيط وإدارة استثمارات الشركة طويل الأجل

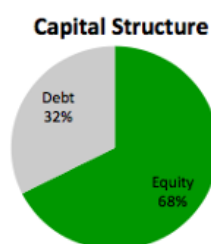
The financial manager tries to identify investment opportunities that are worth more to the firm than they cost to acquire.

- For example, for a large retailer such as Wal-Mart, deciding whether to open another store would be an important capital budgeting decision.
- For example, the decision to develop and market a new spreadsheet program would be a major capital budgeting decision.
- For example, what type of computer system to purchase, might not depend so much on a particular line of business.

➤ **Capital Structure**

The second question for the financial manager concerns ways in which the firm obtains and manages the long-term financing it needs to support its long-term investments.

يتعلق السؤال الثاني للمدير المالي بالطرق التي تحصل بها الشركة وتدير التمويل طويل الأجل الذي تحتاجه لدعم استثماراتها طويلة الأجل.



Capital structure: The mixture of debt and equity maintained by a firm.

هيكل رأس المال : هي خليط بين الملكية و الدين التي تحصل عليه الشركة لتمويل الاستثمار طويل الاجل.

- The financial manager has two concerns in this area:
 - i. First, how much should the firm borrow? That is, what mixture of debt and equity is best? The mixture chosen will affect both the risk and the value of the firm.
 - ii. Second, what are the least expensive sources of funds for the firm?

هنا يجب ان يحدد المدير المالي نسبة الدين و الملكية لتمويل الاستثمار طويل الاجل و يتم الاخذ بالعديد من الامور بعين الاعتبار مثل المخاطر و قيمة الشركة و تكاليف مصادر التمويل.

○ ملاحظة مهمة:

الاسهم (اداة ملكية) و السندات (ادوات الدين) هم من مصادر التمويل طويلة الاجل، فحملة الاسهم هم "ملاك " و حملة السندات هم "دائنين".

bond	السندات
stock	الاسهم
bondholders	حملة السندات
stockholders	حملة الاسهم
owners	الملاك
creditors	الدائنين

➤ Working Capital Management

The third question concerns working capital management, the term working capital refers to a firm's short-term assets, such as inventory, and its short term liabilities, such as money owed to suppliers.

يتعلق السؤال الثالث بإدارة رأس المال العامل، يشير مصطلح رأس المال العامل إلى أصول الشركة قصيرة الأجل مثل المخزون و التزاماتها قصيرة الأجل من الأموال المستحقة للموردين.

Managing the firm's working capital is a day-to-day activity that ensures that the firm has sufficient resources to continue its operations and avoid costly interruptions.

➤ Some questions about working capital that must be answered are the following:

1. How much cash and inventory should we keep on hand?
2. Should we sell on credit? If so, what terms will we offer, and to whom will we extend them?
3. How will we obtain any needed short-term financing? Will we purchase on credit or will we borrow in the short term and pay cash? If we borrow in the short term, how and where should we do it?

Forms of Business Organization

- We examine the three different legal forms of business organization :

في هذا القسم سنتعرف على الأشكال القانونية لتنظيم الاعمال و هم ثلاث اشكال

1. Sole proprietorship
2. Partnership
3. Corporation

i. Sole proprietorship

A business owned by one person, this is the simplest type of business to start and is the least regulated form of organization.

(الميزات) <i>advantage</i>	(السلبيات) <i>disadvantage</i>
Owner receives all profits (and sustains all losses).	Owner has unlimited liability total wealth can be taken to satisfy debt.
Low organizational costs.	Limited fund- raising power tends to inhibits growth.
Income included and taxed on proprietor's personal tax return.	Proprietor must be jack-of-all trades
Independence.	Difficult to give employees long-run career opportunities
Secrecy.	Lack continuity when proprietor dies.
Ease of dissolution	

سؤال على نمط الامتحان

Which one of the following statements concerning a sole proprietorship is correct?

- A. A sole proprietorship is designed to protect the personal assets of the owner.
- B. The profits of a sole proprietorship are subject to double taxation.
- C. The owner of a sole proprietorship is personally responsible for all of the company's debts.

ii. Partnership

A business formed by two or more individuals or entities, Partnerships are common in the finance, insurance, and real estate industries.

Divided into two type:

1. General partners " unlimited liability"

2. Limited partners " limited liability"

(الميزات) <i>advantage</i>	(السلبيات) <i>disadvantage</i>
Can raise more funds than sole proprietorship.	Owners have unlimited liability and may have to cover debts of other partner.
Borrowing power enhanced by more owners	Partnership is dissolved when a partner dies.
More available brain power and managerial skill	Difficult to liquidate or transfer partnership.
Income included and taxed on partner's personal tax return	

- ✓ the primary advantage of being a limited partner instead of a general partner maximum loss limited to the capital invested
- ✓ A general partner is solely responsible for all the partnership debts.
- ✓ A limited partnership has a greater ability to raise capital than a sole proprietorship.

سؤال ع نمط الامتحان

Which of the following individuals have unlimited liability based on their ownership interest?

I. general partner
IV. limited partner

II. Sole proprietor

III. Stockholder

A. II only

B. I and II only

C. II and IV only

D. I, II, and III only

E. I, II, and IV only

iii. Corporation

These firms are often called joint stock companies, public limited companies, or limited liability companies.

A business created as a distinct legal entity composed of one or more individuals or entities.

A corporation is a legal “person” separate and distinct from its owners.

The owners of a corporation are its stockholders, whose ownership, or equity, takes the form of either common stock or preferred stock.

Note: Common stock is the purest and most basic form of corporate ownership.

- **Stockholders expect to earn a return by**
 1. receiving dividends—periodic distributions of cash
 2. realizing gains through increases in share price.

Because the money to pay dividends generally comes from the profits that a firm earns.

(الميزات) <i>advantage</i>	(السلبيات) <i>disadvantage</i>
Owners have limited liability, which guarantees that they cannot lose more than they invested.	Taxes generally higher because corporate income is taxed, and dividend paid to owners are also taxed at maximum 15% rate.
Can achieve large size via sale of ownership	More expensive to organize than other business forms
Ownership (stock) is readily transferable	Subject to greater government regulation
Long life of firm	Lacks secrecy because regulations require firms to disclose financial results.

سؤال على نمط الامتحان

Which type of business organization has all the respective rights and privileges of a legal person?

- A. sole proprietorship B. general partnership
C. limited partnership D. corporation

The Goal of Financial Management

o The goal of financial management is to make money or add value for the owners.

If we were to consider possible financial goals, we might come up with some ideas like the following:

1. Survive. الاستمرارية و البقاء
2. Avoid financial distress and bankruptcy. تجنب العسر المالي و الإفلاس
3. Beat the competition. القضاء على المنافسة
4. Maximize sales or market share. تعظيم المبيعات و الحصة السوقية
5. Minimize costs. تقليل التكاليف
6. Maximize profits. تعظيم الربح
7. Maintain steady earnings growth. الحفاظ على مستوى نمو مستقر

The goal of financial management is to maximize the current value per share of the existing stock.

The agency problem and control of the corporation

We've seen that the financial manager acts in the best interests of the stockholders by taking actions that increase the value of the stock, however, we've also seen that in large corporations ownership can be spread over a huge number of stockholders.

- Will management necessarily act in the best interests of the stockholders?

Might not management pursue its own goals at the stockholders' expense .

AGENCY RELATIONSHIPS

The relationship between stockholders and management is called an **agency relationship**.

Such a relationship exists whenever someone (*the principal*) hires another (*the agent*) to represent his or her interests.

- **Agency problem:** The possibility of conflict of interest between the stockholders and management of a firm.
- **Agency costs :** The costs of the conflict of interest between stockholders and management.

Imagine a company is considering launching an innovative new product.

Studies show that:

- If the project succeeds → the company's profits will increase significantly and the stock price will rise.
- However, the project is risky → if it fails, the company could suffer major losses.
- **Shareholders (owners):**
They prefer to take the project.
Why?
Because they benefit from the increase in stock price. Also, they can reduce their risk by investing in many different companies (diversification).
- **Management:**
They might hesitate or reject the project.
Why?
Because if the project fails:
 - The company may incur heavy losses.
 - Management reputation could be damaged.
 - Managers might even lose their jobs.

This situation creates a conflict of interest:

Shareholders want to maximize firm value, even if it involves risk.

Managers may prefer safer decisions to protect their positions.

- If management does not take the investment, then the stockholders may lose a valuable opportunity, this is one example of **an agency cost**.

- **The cost can be :**

1. An indirect agency cost : is a lost opportunity

A company has the opportunity to enter a new market that could increase its value, but management rejects it due to fear of risk.

Indirect loss:

Competitors enter the market and gain market share, weakening the company's future position.

This is an example of an **agency cost**, caused by a conflict between management and shareholders.

2. Direct agency costs, come in two form:

- I. Corporate expenditure: that benefits management but costs the on stockholders.
- II. Expenses: that arises from the need to monitor management actions.

قامت الشركة بشراء أرض بمساحة كبيرة وتعيين موظفين للعناية بها، مما أدى إلى إضافة تكاليف تشغيلية جديدة مثل الرواتب ومصاريف الصيانة. هذه التكاليف زادت من مصاريف الشركة وخفّضت الأرباح التي كان من الممكن أن يحصل عليها المساهمون.

DO MANAGERS ACT IN THE STOCKHOLDERS' INTERESTS?

هل يتصرف المديرون لمصلحة المساهمين؟

ليس دائماً...
لكن هناك عاملان رئيسيان يحددان ذلك:

1. Managerial Compensation

The key question:

Is the manager's income tied to company performance?

If managers receive:

- Only a fixed salary ☐
They may not strongly care about stock price.

But if they receive:

- Performance-based bonuses
- Company shares
- Stock options

Then their personal wealth increases when firm value increases.

This aligns management goals with shareholder goals.

2. Control of the Firm

The key question: Can managers be replaced if they perform poorly?

If:

- The board of directors is strong
- Shareholders can vote
- Poor performance lowers stock price

Managers face the risk of losing their jobs.

This creates an incentive to act in shareholders' interests.

Stakeholders

Stakeholders Someone other than a stockholder or creditor who potentially has a claim on the cash flows of the firm.



Which of the following parties are considered stakeholders of a firm?

- I. employee II. long-term creditor
 III. government IV. common stockholder
 A. I only B. IV only C. I,II, III, and IV

Financial market and the corporation

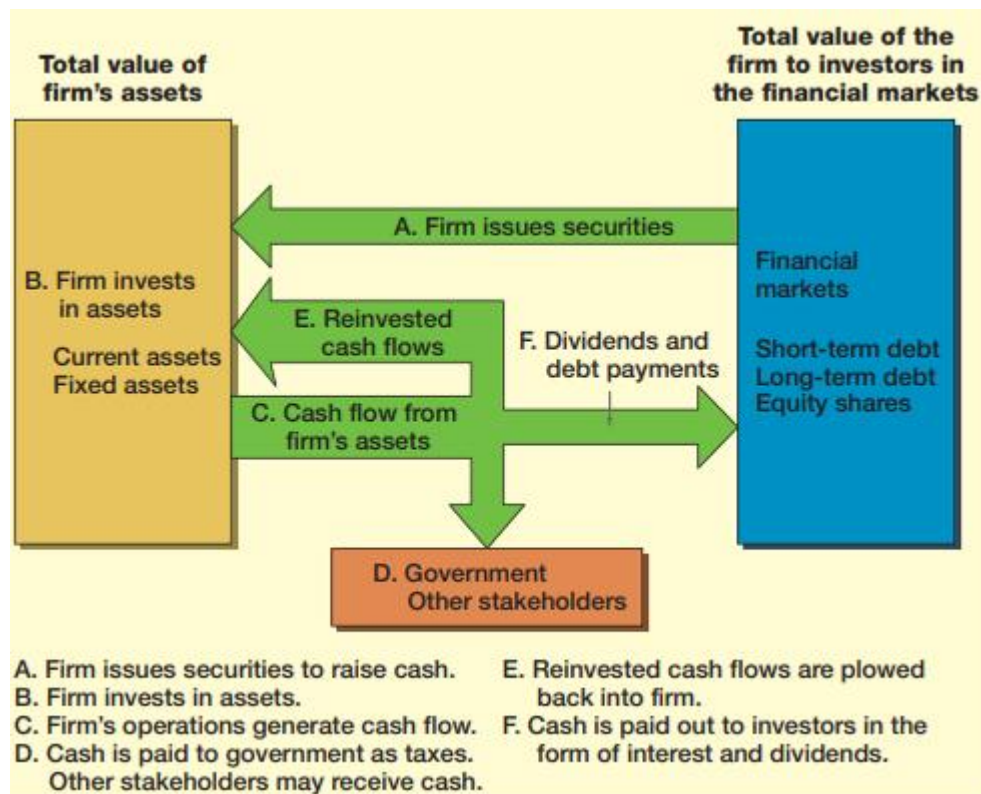
We've seen that the primary advantages of the corporate form of organization are that ownership can be transferred more quickly and easily than with other forms and that money can be raised more readily.

مميزات الشكل المؤسسي للشركة (Corporation) :

- إمكانية نقل الملكية بسهولة وسرعة مقارنة بأشكال الأعمال الأخرى.
- القدرة على جمع الأموال بشكل أسرع من خلال إصدار الأسهم أو السندات.

➤ Financial market and the corporation Cash flow to and from the firm:

- I. The firm invests securities.
- II. The firm invests the cash in current assets and fixed assets.
- III. Cash flow from firm assets.
- IV. Cash in paid to government at taxes, and cash in paid to stakeholders may receive cash.
- V. Reinvested cash flows are plowed back into firm.
- VI. Cash is paid out to investors in the form of interest and dividends.



- **Primary market**: the original sale of securities by government and corporations and the sellers is corporate.
- **Secondary market**: Are those in which these securities are bought and sold after the original sale.
- **The capital market**: is a market that enables suppliers and demanders of long-term funds to make transactions. Included are securities issues of business and government.

السوق الأولية (Primary Market) :

- هي السوق التي يتم فيها بيع الأوراق المالية لأول مرة، سواء من قبل الحكومة أو الشركات.
- البائع الأصلي هنا هو الشركة نفسها أو الجهة المصدرة.

السوق الثانوية (Secondary Market) :

- هي السوق التي يتم فيها شراء وبيع الأوراق المالية بعد بيعها الأولي.
- هنا البائع والمشتري يكونان مستثمرين وليس الجهة المصدرة.

سوق رأس المال (Capital Market) :

- سوق يتيح للجهات التي تحتاج تمويل طويل الأجل الحصول على الأموال، وللمستثمرين استثمار أموالهم لفترة طويلة.
- يشمل إصدارات الأوراق المالية للشركات والحكومة.

Trading in corporate security**The equity shares of most of the large firms in the United States trade in Organized auction markets:**

1. The New York stock exchange (NYSE): the large market, which accounts for more than 85% of all the shares traded in auction markets.
2. The American stock exchange (AMEX)
3. National association of securities dealer (NASD): is made available dealers and brokers an electronic quotation system called (NASDAQ).

o Listing: stocks that trade on an organized exchange are said to be listed on that exchange to be listed, firm must meet certain minimum criteria concerning.

Note: these criteria differ from on exchange to another

▪ **There are two kinds of secondary markets:**

1. **Auction markets:** it has physical location as (wall street) and it is to match those who wish to sell with those who to buy.
 2. **Dealer markets:** stock and long-term debt are called over the counter.
- o Public offering: selling securities to the general public.
 - o Private placement: negotiated sale involving a specific buyer.