Finance

Kiesler / Schönfelder

Overview

- Role of Finance
- Financial Planning
- Use of Funds

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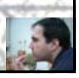
- Stocks & bonds
- from a companies
- point of view

Kathrin Schönfelder

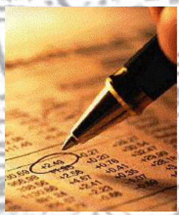
Role of Finance

Financing, Financial Managers & Management



Why Financing?

- Companies need money to operate
- Products should be the main income
- Sometimes, that's not enough



The Financial Manager

- does Financial Planning,
- Investments and
- Financing
  - internal financing (reinvesting)
  - external financing (debt / equity)

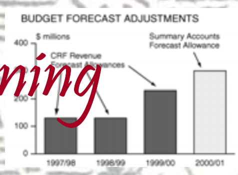
Goals of Financial Manager

What are the goals of the Financial Manager?

- look for return
- think about the risks
- take care about risk-return trade-off

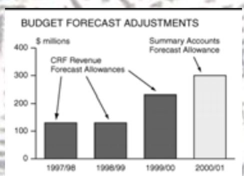
Financial Planning

Forecasts and Budgets



Forecasts

- short-term forecasts
  - also called operating plans, ~ 1 yr
- long-term forecasts
  - also called strategic plans, 2 – 10 yrs
  - basis for capital-budget



Budgets

- Formal written forcasts
- cash budgets (inflows and outflows)
- capital budgets (fixed assets)
- operating budgets (sales vs. production costs)

Use of Funds

Short-Term Expenses & Long-Term Expenditures

Short-Term Expenses

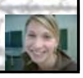
- Cash management
  - estimateable by budget
  - marketable securities
- Accounts Receivable
  - (not yet received payment)
  - Credit policies
  - Collection policies
- Inventory

Long-Term Expenditures

- Capital expenditures (long-lived assets)
  - printers,
  - land,
  - mergers, …
- Capital budgeting
  - evaluating / choosing long-term expenditures
  - to maximize the firm's value

Getting Short-Term Financing

Unsecured vs. Secured Short-term Loans and their costs



Short-term financing

- Unsecured loans
- Secured loans

Unsecured loans

- Trade credit
- Bank loans
- Commercial papers

Example: Ford Motor Credit

Ford Motor Credit

commercial paper 1.000.000
90 days maturity

Sell it for 980.000
Interest 20.000 (8,2 %)

Secured loans

...are loans that require the borrower to pledge specific assets as collateral, or security

- Factoring

Cost of short-term loans

- Prime rate of interest

- Fixed-rate loans
- Floating-rate loans

Getting Long-Term Financing

Debt vs. Equity Financing

Long-term financing

...include both debt (borrowing) and equity (ownership)

- Leverage
- Cost of capital

Leverage example

East company	West company
200.000 cap. expenditure	200.000 cap.expenditure
20.000 common stock (10%)	200.000 common stock
180.000 bonds (90%)	
50.000 earnings	50.000 earnings
18.000 bond interest	0 bond interest
32.000 total earnings	50.000 total earnings

return to stockholders:

32.000/20.000 = 160%	50.000/200.000 = 25%

And always remember:

Thank you!

This handout can be downloaded at http://www.kiesler.at/article186.html.
You can also comment it there.

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