

## Lecture #1

### INTRODUCTION (Chapter 1)

#### Financial Manager's Primary Responsibility:

- **Value Creation**

<b>Entry Point</b>
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- Startup – Build
  - Economic Studies
  - Acquiring Initial Funds (Equity/Debt)
  - The Right Price / Cost as compared to Future Cash Flows
  - Form of Organization: Sole Proprietorship/Partnership/Corporation
  - Going Private/Public
  - Set-Up Management – Resources
- Acquisition / Merger of Existing
  - Acquiring Initial Funds (Equity/Debt)
  - The Right Price / Cost as compared to Future Cash Flows
  - New Management or Existing?
  - Going Private/Public

<b>Value Creation - Managerial Goals / Strategies</b>
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#### Goals:

- Create Value
  - Maximize Profit = shareholder value
  - Minimize Costs
  - Beat the competition / Maximize sales or market share
  - Survive (avoid financial distress and bankruptcy)

#### Strategies

- Operating Strategies
  - Grow internally – manage Revenue, Expenses & **Cash Flow** – Volume/Price
  - Manage Systematic Risk / Credit Risk / Market Risk / Operational Risk
- Transactional Strategies
  - Grow through acquisitions
  - Franchising / Owning
  - Management Contracts / Real Estate / Sale Leaseback.
- Financial Strategies
  - Refinancing / Optimum Structure

- Foreign Exchange Strategies – Hedge against FX moves – International
- Lease or Buy (Equipment, Buildings, Trucks)
- Social Responsibility / Ethical – Corporate Governance
  - Shareholders
  - Employees
  - Community
  - Bankers/Creditors
  - Environmental

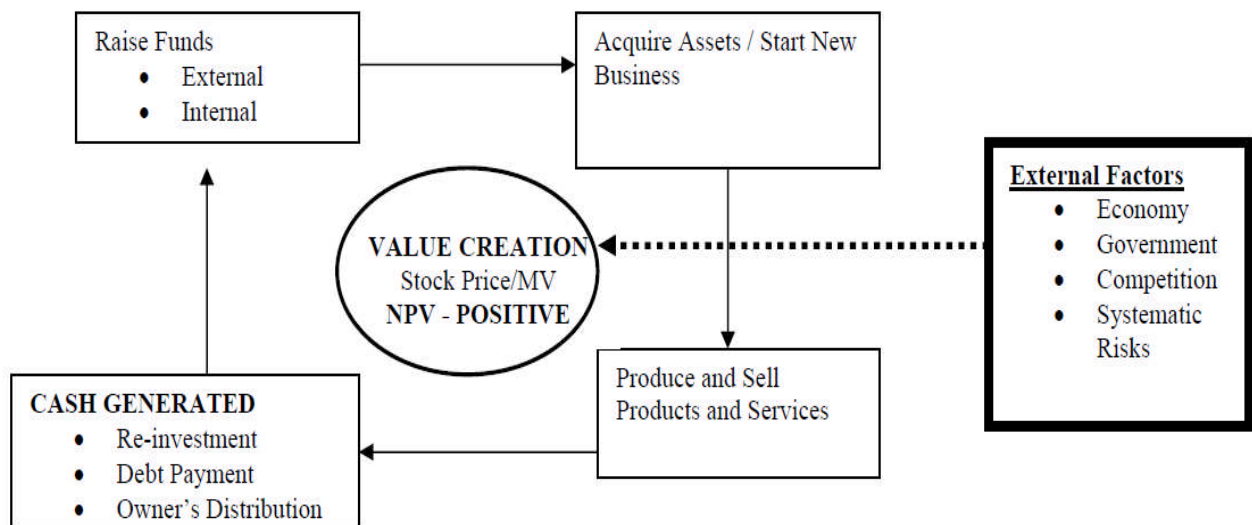
Sarbanes-Oxley (Enron)

**Exit Point**

- Valuations (Market Value prices / Methodology) – Terminal Value

**CASH FLOW GENERATION PROCESS**

Cash Flow is one of the central elements of financial analysis, planning, and resource allocation decisions. The Financial Health of the firm depended on its ability to generate sufficient amounts of cash to pay its creditors, employees, suppliers, and owners. Later we will distinguish between Cash Flow and Net Income.



## Organizational Structure

