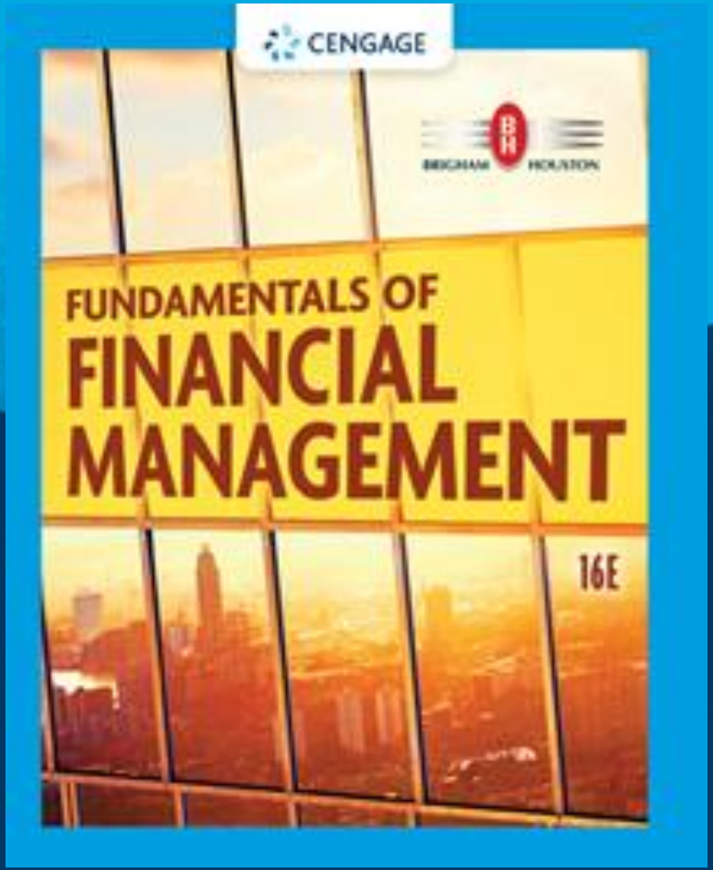
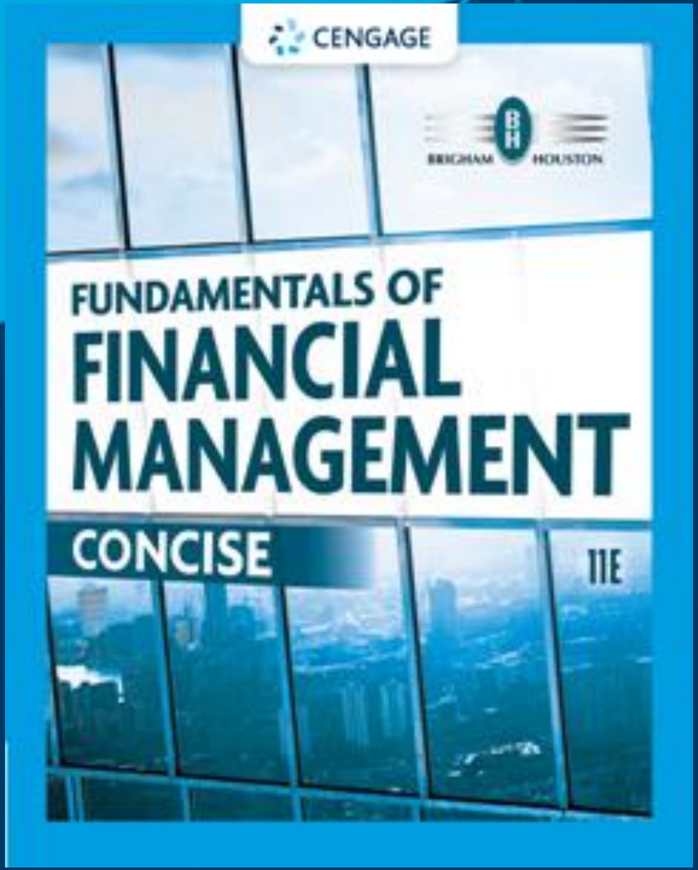




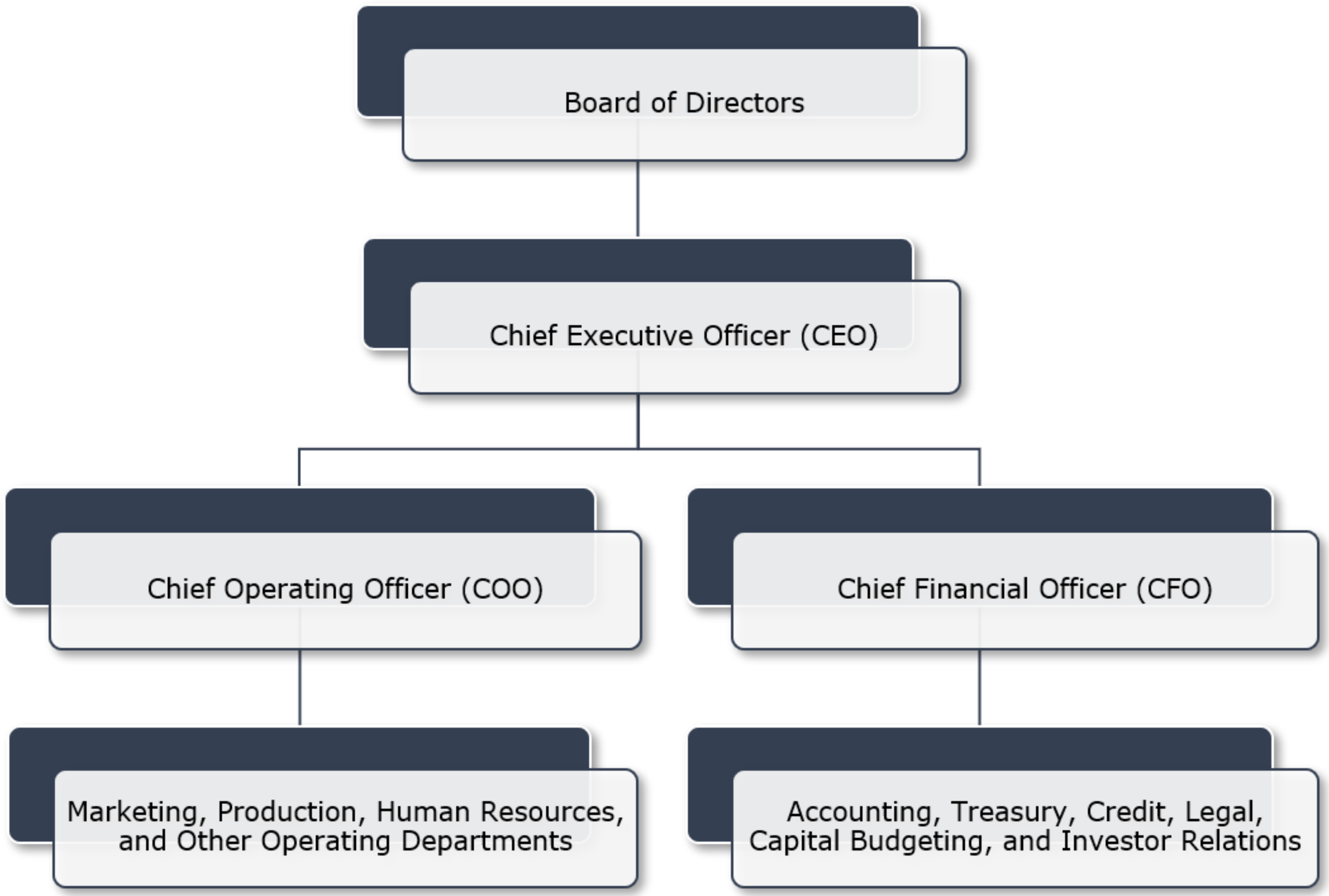
Chapter 1

An Overview of Financial Management

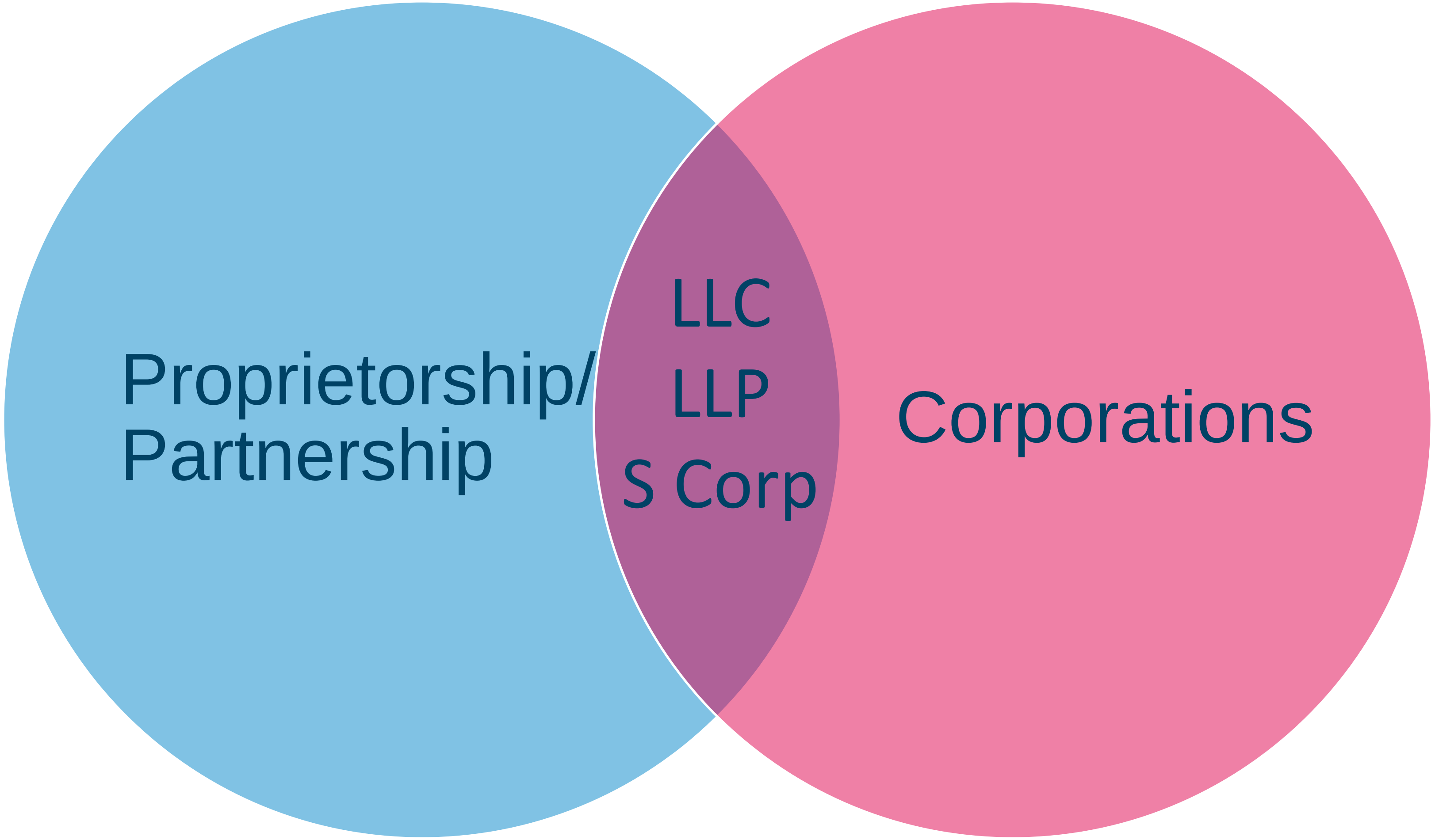
An Overview of Financial Management

- Forms of Business Organization
- Creating Value for Investors
- Stockholder-Manager Conflicts
- Stockholder-Debtholder Conflicts
- Balancing Interests of Shareholders and Society

Finance Within the Organization



Forms of Business Organization



Proprietorships and Partnerships

- Advantages
  - No corporate income taxes
  - Ease of formation
  - Subject to few regulations
- Disadvantages
  - Unlimited liability
  - Limited life
  - Difficult to raise capital
- Often set up through LLCs/LLPs.

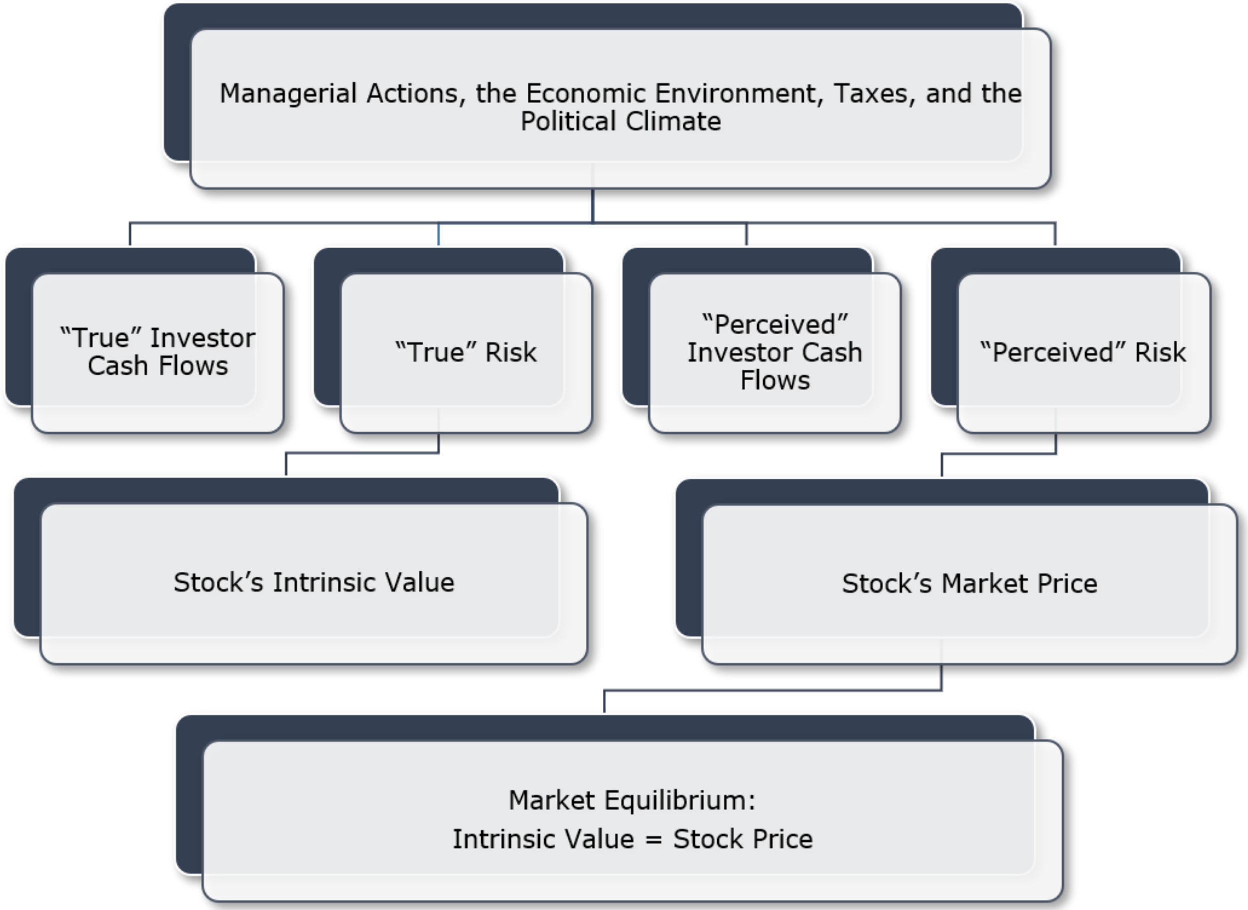
Corporation

Advantages	Disadvantages
Limited Liability	Double taxation
Unlimited Life	Cost of setup and report filing
Easy transfer of ownership	
Ease of raising capital	

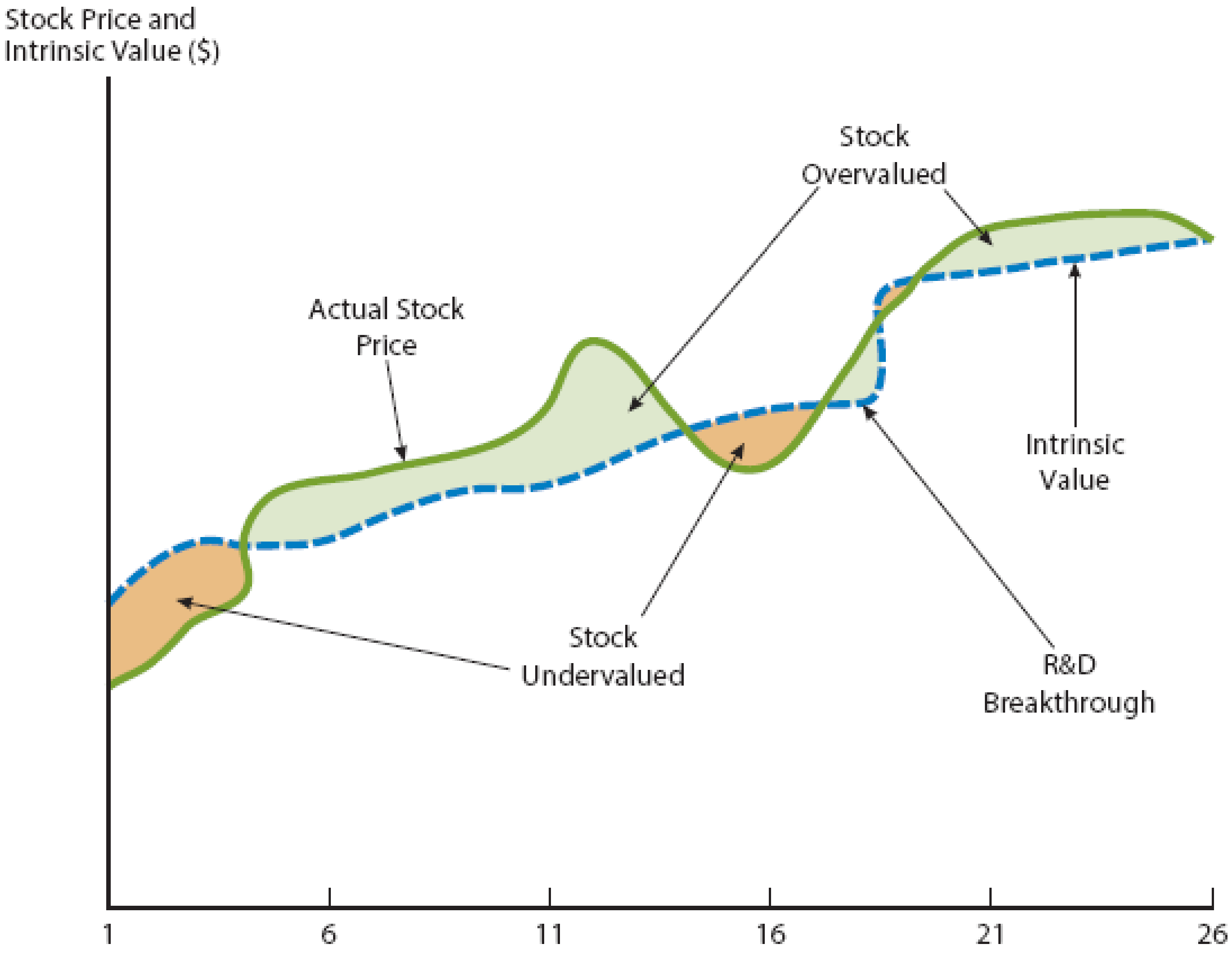
Stock Prices and Intrinsic Value

- In equilibrium, a stock’s price should equal its “true” or intrinsic value.
- Intrinsic value is a long-run concept.
- To the extent that investor perceptions are incorrect, a stock’s price in the short run may deviate from its intrinsic value.
- Ideally, managers should avoid actions that reduce intrinsic value, even if those decisions increase the stock price in the short run.

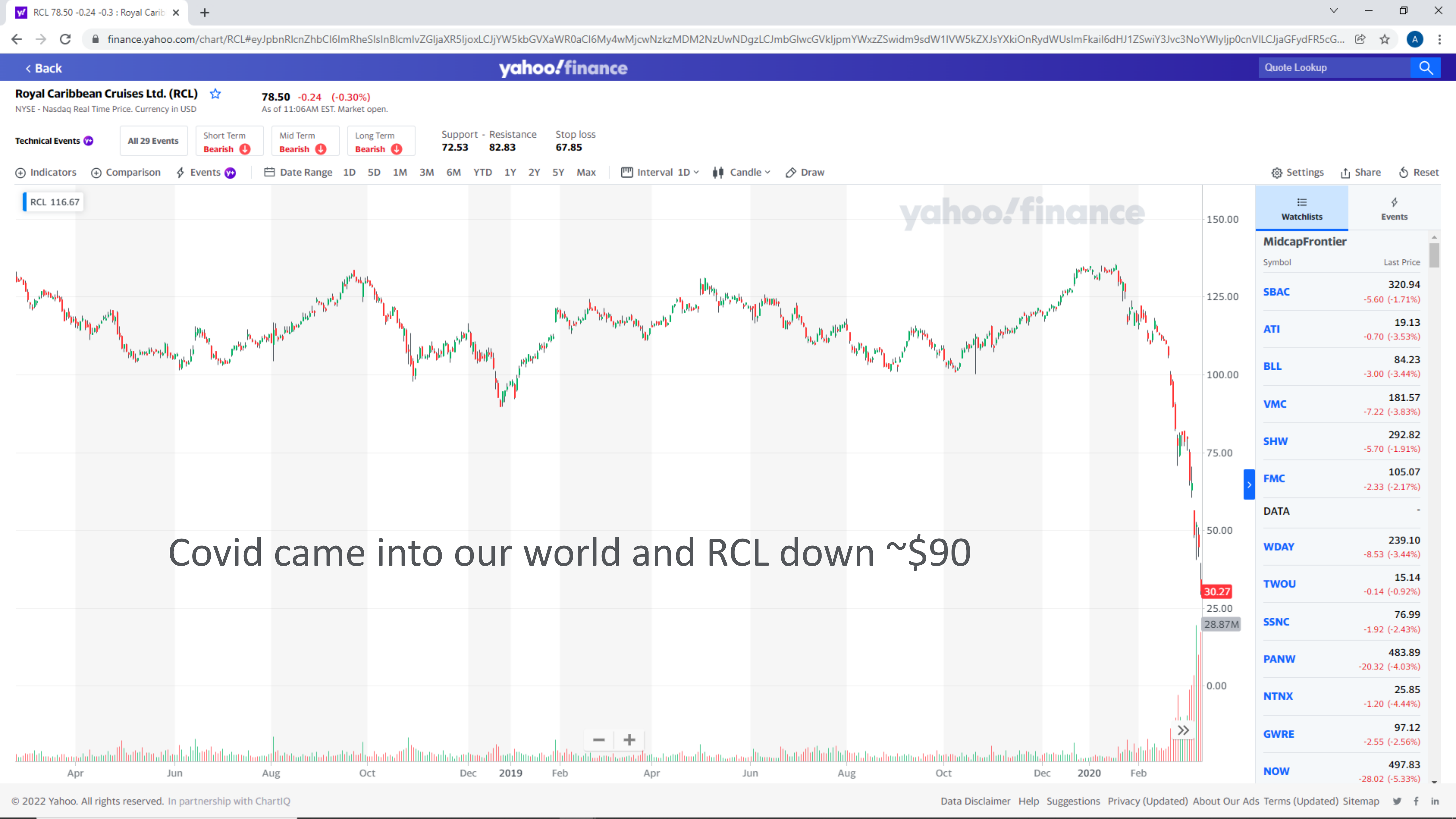
Determinants of Intrinsic Values and Stock Prices



Actual Vs Intrinsic Values



Covid came into our world and RCL down ~$90



RCL 78.34 -0.39 -0.5 : Royal Carib

finance.yahoo.com/chart/RCL#eyJpbnRlcnZhbCI6ImRheSIsInBlcmlvZGljaXR5IjoxLCJjYW5kbGVXaWR0aCI6My42NjUxMDUzODY0MTY4NjE3LCJmbGlwcGVkIjpmYWxzZSwidm9sdW1lVW5kZXJsYXkiOnRydWUsImFkail6dHJ1ZSwiY3Jvc3NoYWlyIjp0cnVlLCJjaGFydFR5cGU...

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Royal Caribbean Cruises Ltd. (RCL) ☆

NYSE - Nasdaq Real Time Price. Currency in USD

78.34 -0.39 (-0.50%)

As of 11:12AM EST. Market open.

Technical Events	All 29 Events	Short Term	Mid Term	Long Term	Support - Resistance	Stop loss
		Bearish	Bearish	Bearish	72.53 82.83	67.85

Indicators | Comparison | Events | Date Range | 1D | 5D | 1M | 3M | 6M | YTD | 1Y | 2Y | 5Y | Max | Interval 1D | Candle | Draw | Settings | Share | Reset

Watchlists | Events

MidcapFrontier

Symbol	Last Price
SBAC	320.16 -6.38 (-1.95%)
ATI	19.04 -0.79 (-3.98%)
BLL	83.88 -3.35 (-3.84%)
VMC	181.70 -7.09 (-3.76%)
SHW	292.21 -6.31 (-2.11%)
FMC	105.03 -2.37 (-2.21%)
DATA	-
WDAY	237.92 -9.71 (-3.92%)
TWOU	15.18 -0.10 (-0.65%)
SSNC	76.80 -2.11 (-2.67%)
PANW	481.97 -22.24 (-4.41%)
NTNX	25.79 -1.26 (-4.66%)
GWRE	96.59 -3.08 (-3.09%)
NOW	494.00 -31.84 (-6.06%)

Stockholder-Manager Conflicts

- Managers are naturally inclined to act in their own best interests (which are not always the same as the interest of stockholders).
- But the following factors affect managerial behavior:
  - Managerial compensation packages
  - Direct intervention by shareholders
  - The threat of firing
  - The threat of takeover

Stockholder-Debtholder Conflicts

- Stockholders are more likely to prefer riskier projects, because they receive more of the upside if the project succeeds. By contrast, bondholders receive fixed payments and are more interested in limiting risk.
- Bondholders are particularly concerned about the use of additional debt.
- Bondholders attempt to protect themselves by including covenants in bond agreements that limit the use of additional debt and constrain managers' actions.

Balancing Shareholder Interests and Society Interests

- The primary financial goal of management is shareholder wealth maximization, which translates to maximizing stock price.
  - Value of any asset is present value of cash flow stream to owners.
  - Most significant decisions are evaluated in terms of their financial consequences.
  - Stock prices change over time as conditions change and as investors obtain new information about a company’s prospects.
- Managers recognize that being socially responsible is not inconsistent with maximizing shareholder value.