The Finance and Growth of Firms Cheat Sheet

by nelaorav via cheatography.com/167833/cs/35880/

Capital

loan capital	consists of those funds borrowed from a variety of financial institutions
risk capital	is raised by the sales of shares in the ownership of a company

Borrowing money

interest	the cost of borrowing money
Why do banks charge interest?	lenders (banks) take it for the risk of lending money and their inability to use the money anywhere else while the borrower uses it
security/collateral	assetes that borrowers offer the lenders to cover for the repayment of a loan in case their business fails and the are unable to repay it; afterwards the lender seizes the collateral
Where to borrow money?	**commercial banks** - banks checks the borrowers ability to repay, reputation, how much they are asking for, and the purpose of using the money and afterwards decides whether they will give the money to the firm with interest
	specialists banks - specialize on risky clients (start ups); money lend to such firms is known as **venture capital**, higher riske = higher IR

Borrowing money (cont)

international banks and markets - multinationals, in return for a loan a company issues and Eurobond (which is in different currency than euro) - it is a promise to repay the sum of interest each year and to repay the loan in full at a fixed date in the future - Eurobond may be bought and soldn on international financial markets

the government - gov. lends money to industry to create jobs, offers loans to areas with low employment

hire purchase - the price of an asset is paid in deposits (splátky)

leasing - firm pays for the equipment as long as they need it; the assets will never be theirs

trade credit - a firm buys an assets using invoice and they ralize they need more time to pay for it so they ask the supplier to post-pone their payment, of course with an interest

Borrowing money (cont)

except borrowing we can also use retained profits and obtain funds from other financial institutions - pension funds and insurance companies, building societies, trusts (investment trust) or issuing securities

How trust work?

trust	a form of collective investment
investment trust	PLC
	PLC purpose is to buy shares in other companies on behalf of their investors, theyy buy shares they think will be profitable and so use the deposited money
	investors - trust - buying assets form investors' money
	the risk is the initial capital may not be the same as the final since the market prices of assets are constantly changing
	when I no longer want them I can sell them
unit trust	doesn't have a fixed form (právnu formu)
	they do not emit shares but **units**
	there is no limit to how much units one person can own
	they use the money put in trust in different aspects, so there is lower risk of losing everythink you put in
	if I no longer want to own units I have to return them (cannot sell them)

Issuing securities

debentures	PLC can raise moeny by issuing debentures or loan stock on the SE Market
	is an IOU issued by a plc in return for a loan of money
	person who lent moeny to a company and holds a debenture receives a fixed rate of interest each year for as long as the loan is designed to last; at the end of the period the loan is fully repaid
	if the holder of the debenture wishes to get the money sooner they can sell the debenture on stock exchange market
shares	bought and sold on SEM
ways of selling shares	**by prospectus** - a firm issues shares and announces an invitatioin for anyone who wants to buy the shares, it contains the full details about the company, their future plans, etc.
	by offer for sale - issuing house buys all the shares and sells it on its behlaf to general public
	by placing - issuing house only helps with selling the shares e. g. offers the to its clients, but it does not sell it for the firm
	by a rights issue - company offers new shares to owners who already own their shares but in such amount that they will keep the percentage

Issuing securities (cont)

	by tender - people blindy bid on a share up to a certain date and on that day the envelope with the highest amount wins
types of shares	***preferance share*** - owners get repaid a fixed return or dividend
	they are paid as the first
	the cannot vote
	cumulative preferance shares - profits not paid in one year will be paid in later years
	participating preferance shares - receive sum out of profit with a fixed amount after other shareholders have been paid the dividend
	ordinary shares - shareholders receive dividend based upon what is left from profits after debenture holders and preferance shareholder have been paid their share
	they can vote
	a wide variety of things influences their cut on bonuses
Government stock	not very popular nowadays

The Stock Exchange

SEM	runs markets for bying and selling new and second hand sotcks and shares or securities

The Stock Exchange (cont)

the markets for securities	**the equity market** - deals with buying and selling of securities in thoussands of large plc securities, A listed company is one that has been allowed by the council to sell its shares on the SE
	the international equity market - deals with the shares of international companies
	the quilt-edged market - deals with g-e securities
	fixed interest or bond market - can borrow moeny directly from the public by selling them fixed-interest securities or bonds
	the alternative investment market - market for shares in small and growing companies

How SE works

SE	is not open to general public
	if a member of the public wishes to buy or sell some shares they must contact a share dealing rom which is a member of SE and they will buy and sell shares for the public for a commission

How SE works (cont)

Electronic dealing in the shares of the largest companies	buyer and sellers of shares place their orhers on the computer "order book" stating shich shares and at what price they wish to buy or sell
	if a match is found the transaction will be carried out immediately
commands	**a limit** - buyer states the firm and an exact summ at what they want to buy the share
	at best - customers enter their orders and agree to the system to carry out the transaction at the lowest price (risky - we don't know the summ)
	fill or kill - orders are carried out immediately or rejected by the system
	execute and eliminate - similar to 'at best' but the limits are placed on the price range that will be accepted by the traders
speculations	**bulls** - people/firms who buy shares in hope their price will rise, so they can make more profit

How SE works (cont)

bears - people/firms who sell shares in the hope their price will fall, so they can buy them cheaper some time later and earn profit

stags - people/firms who apply to buy up newly issued shares in the hope their price will rise quickly

The growth of firms

types of growth	**internal growth**
	external growth - more firms join together to form a larger enterprise
integration	involves the merger or the takeover (acquisition)
	take-over (acquisition) - one company buys at least 50% of the shares of another company, so it can take over the control; the over-taken company often loses its own identity
	merger - two or more firms join together to form a new enterprise;it is done by shareholders of the two or more companies exchanging their shares for the new ones in the new company
holding companies	a company formed for the sole purpose of buying up the share in the ownership of a number of other companies

Types of intergration

horizontal integration	firms engaged in the production of the same or similar ty of Gs&Ss (the same suppliers, production process, etc.)
	+ combined business will have a larger market share
	+ it will reduce the number of competitors
	+ integrated firms may have cost advantages due to their combined size
vertical integration	firms engaged in different stages of production combibe
	forward integration - when a company takes over a firm which is next in their production process (wine producer takes over the wine shop)
	backward integration - when a company takes over a firm which is previou in their production process (wine producer takes over a grapes producer)
lateral integration	firms which are unrelated combine together
	this is known as **conglomerate merger to form conglomerates** in order to produce a wide range of different products