



Faculty of Economics and Commerce

The Department of Finance

FINANCE 1 @ Melbourne

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FINANCE DEALS WITH

finding investment opportunities that promise the
highest return with the ***least*** amount of risk
– *the most profitable business venture or share portfolio*

and

finding the ***cheapest*** way to finance an investment
opportunity
– *the most affordable business loan*



How do you finance a new business?

You use your wealth (or your families/friends)...

You approach your banker...

You borrow from investors...

You share the ownership of your business...

You might have a preference, but there may not be a choice!



AND WHAT IF

- ✓ You have no wealth...
- ✓ You have no credit history...
- ✓ You have no collateral...
- ✓ Your project is highly risky, but offers great opportunities

You need a **business angel** providing **venture capital** in exchange for a share of your (uncertain) profits and often a say in how you run the company!



You either ***borrow***

but then you need to repay debt with interest

or you ***sell part of your firm***

but then you lose part of the profits

Selling means

Private placement of shares to preferred shareholders

Public listing of shares

Initial Public Offering (IPO) at the Australian Stock Exchange (ASX)

Examples: Virgin Blue, Telstra...



advantages

- ✓ new capital to finance expansion
- ✓ ...from a potentially large pool of investors, competing for a piece of the action
- ✓ allows original owners to realise some of their wealth tied up in the company

but also **disadvantages**

- ✓ the IPO process is expensive – administration costs
 - ✓ original owners have to accept a loss of ownership
 - ✓ ownership and management become separated
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Determining the **issue price** is difficult

- ✓ if too high, investors won't buy
- ✓ if too low, the business is sold cheap

The best prices for IPO firms are recorded when markets are **bullish**

- ✓ Investors are queuing up –
excess demand for investment opportunities
 - ✓ immediate success (share price is likely to go up) –
confirms investors' expectations of a cheap deal
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ASX Listing of Bondi Mining



BONDI

as of 25-Feb-2008



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ASX listing of New Guinea Energy

NEW GUINEA ENERGY
as of 25-Feb-2008



new guinea energy ltd

Minimum Investment:	\$2,000
Expected Close Date:	16 May 07
Expected Float Date:	30 May 07
Issue Price:	\$0.50 per share
Amount Sought:	\$60,000,000 Maximum Subscription

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Commonly shares are **under-priced** when issued

- ✓ after listing on the ASX, shares quickly trade above the issue price
- ✓ which generates an immediate profit for the new shareholders

But, why sell your business cheap?

- ✓ desire of the seller to achieve a “successful” IPO
 - ✓ ...and then attract investors to subsequent equity raisings
 - ✓ pressure from the intermediating investment banks?
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Finance I is an introductory subject

It covers

- financial markets
- financial institutions and market participants
- financial assets

real life examples with a focus on Australia and “the region”

2 assignments (on “hot” topics)

Delivery modes:

- Lectures and Tutorials (and pitstop consultations)
 - PASS
 - *FinanceNow!*
 - *Just Finance ...* online community
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Welcome to the Department of Finance



THE UNIVERSITY OF
MELBOURNE

The best of luck with your studies!