# Corporate finance assignment

Business

Tom believes the company should use the extra cash to pay a special one-time dividend. How will this proposal affect the stock price? How will It affect the value of the company? Electronic Timing, Inc. (ET) needs to be careful on how It dispenses the extra cash as a dividend. Issuing the extra cash as a dividend would mean that the shareholders collectively will probably drop by the same amount because of the transfer of wealth from the company to the shareholders individually. Hence, the economic value of the company will also decrease. . Jessica believes that the company should use the extra cash to pay debt and upgrade and expand It existing manufacturing capability. How would Jessica proposals affect the company? Jessica proposal will support an expansionary policy for the company which can result to a higher growth rate for ET. As to the company's dividend policy, not issuing the extra cash as a dividend signals to the market that there are still better and more efficient uses of the cash than using it for dividends. . Nolan Is In favor of a share repurchase. He argues will Increase the company's PIE Asia, return on assets, and return on equity. Are his arguments correct? How will a share repurchase affect the value of the company? A share repurchase if done correctly should be equivalent to the issuance of a cash dividend with the same amount as regards to effects on shareholders' wealth. The way the share repurchases should be done in a way that it does not diminish or create shareholder wealth.

Hence, Nylon's argument that the company's return and assets and return on equity will Increase Is not correct However, the PIE ratio might go upwards for a time until the market corrects It. 4. Another option discussed by Tom, Jessica and Nolan would be to begin a regular dividend payment to shareholders. How would you evaluate this proposal? A plan to issue a regular dividend to shareholders is a start in establishing a dividend payout policy. A dividend policy signals to the market that the company Is making a commitment to Its shareholders and hence the company strategies will have to be aligned with that commitment.

Therefore I would evaluate the proposal as regards the company’s ability to stick to it. For example, it adopts a stable dividend policy – will it be able to have cash to honor such policy year on, year off? Another factor would be does a regular deemed matter to It’s shareholders? Or do they prefer a different method of transferring wealth to them aside from a cash dividend? 5. One way to value a share of stock is the dividend growth, or growing perpetuity, model.

Consider the following: The dividend payout ratio is 1 minus b, where b is the “ retention” or “ blowback” ratio. So, the dividend next year will be the earnings next year, El, times 1 minus the retention ratio. The most commonly used equation to ratio. Substituting these relationships into the dividend growth model, we get the following equation to calculate the price of a share of stock today: What are the implications of this result in terms of whether the company should pay a dividend or upgrade and expand its manufacturing capability?

Explain. The substituted dividend growth model is +rub). This equation implies that the future dividends of the company are directly related to the amount of earnings it retains and the rate of return if makes from its investments. However, in order to attain the company’s regarded rate of return it also needs to retain more of its earnings in the company for upgrading or expanding its manufacturing plant rather than using it for cash dividends.

In the expansionary phase, the company has to make trade offs – lower dividends for higher growth. 6. Does the question of whether the company should pay a dividend depend on whether the company is organized as a corporation or an LLC? No, an LLC can distribute earnings to its owners; however that distribution is not called a dividend, but rather distribution of cash or property to the partners. It is still a dividend in a different name.