

Pacific grove case study

Business



**ASSIGN
BUSTER**

Dilution of shares seems have to have little impact on the PEPS of PEG shares. Therefore, it is expected that PEG shareholders would accept the issuing of shares.

However, this information has to be clearly communicated by Peg's management to its shareholders In order to gain support of this share Issuance. It is also fairly safe to say that it is a good decision for PEG to enter into the television deal. It is noted that the project would yield a positive NAP at 10%, 15% and 20% discount rates.

The project also requires only a modest initial investment The loss of confidence In credit by the overall market had left PEG with no choice but to obey the demands of their bank as It would be difficult to obtain credit from other institutions during the time. In addition to that PEG was also In the midst of a bearish stock market. This is justified by the fact that investors were anxious about the market and only willing to offer \$27.

50. A number of recommendations are given to help PEG reduce their debt levels.

These include improving their supply chain efficiency and forecasting so that they can reduce their Inventory levels, negotiating with suppliers to reduce the rate they are paying for Inventory and can extending the length of their accounts payable. Overall, it is recommend that PEG accepts the investment group's offer of \$27. 50 and issue 400, 000 common stock to raise \$1 1 M for reasons mentioned earlier in the report. The extra funds will give PEG more capacity to fund the television program in addition to reducing Its debt to

meet their bank's requirement, as well as purchasing an underpinned High Country.

. 0 DEBT According to the forecast in Exhibit 1, PEG seems to be on course in meeting their bank's demand of 55% Debt to Total Asset ratio and 2. 7 equity multiplier. Table 1 In the appendix Illustrates a number of ratios relating to Peg's debt. Just by following tenet expected Torture growth plans teeny wall almost reach ten requirements AT ten bank within 4 years. Using the information provided from their forecasted financial, by 201 5 Pacific Grove will reach a 55% ratio of interest/bearing debt to total assets and their equity multiplier will be 2.

77 which is consistent with Peterson expectation.

Although Peg's current future is projected to meet the bank's demands, the issue that is yet to be known is whether the banks are willing to allow PEG 4 years to achieve this. If the banks are reluctant to grant PEG such a lengthy time period, PEG will need to make smart changes in reducing these ratios. Recommendations for PEG in to solve this problem are discussed later in the report. An another note, it must be noted that over the next 4 years, Peg's interest coverage is forecasted to increase suggesting that they will gradually be building up more earnings to cover its debt payment which is a good sign for the banks.

This positive factor might help influence the bank to give PEG the entire 4 years to meet their requirements.

2. 0 SELLING NEW COMMON STOCK The issue with selling new common stock is that it can create dilution amongst existing shareholders. Shareholder dilution will lower share price in addition to sending a negative signal to the company's shareholders. Peg's common shares outstanding would increase from 1, 165, 327 by 400, 000 to 1, 565, 327. Peg's current PEPS in 2011 is 2. 037.

According to the earning figures from the forecast in Exhibit 1, the PEPS will be 2. 136 after issuing the new shares at year 2012.

Table 2 (attached in the appendix) illustrating the PEPS from 2012 to 201 5 shows that dilution of shares seems have to have little impact on the PEPS of PEG shares. Therefore, it is expected that PEG shareholders would accept the issuing of shares. However, this information has to be clearly communicated by Peg's management to its shareholders in order to gain support of this share issuance.