

Case study-payout: gainesboro

[Business](#)



The goals of Gainsayers Corporate Goals Management expected the firm to grow at an average annual through 2011. Recent strategy of Gainsayers The company devoted a greater share of its research-and-development budget to CAD/CAM as to reestablish its leadership in the field. The company also underwent two massive restructurings, including selling two unprofitable lines of business, selling two plants, eliminating five leased facilities, and reducing personnel in 2002.

Then, In 2004, the company implemented a second round of restructuring by altering TTS manufacturing strategy, refocusing its sales and marketing approach, and adopting administrative procedures for a further reduction in staff and facilities. The Artificial Workforce was an array of advanced control hardware, software, and applications that could distribute information throughout a plant.

Thus a product could be designed, manufactured, and packaged solely by computer no matter how intricate it was.

Although the company had successfully patented several of the processes used by the Artificial Workforce, there were two factors that could affect sales which should be concerned. First, two strong competitors were developing comparable products and would probably introduce them within the next 12 months. Second, sales of molds, presses, and CAD/CAM equipment and software were highly cyclical, and predictions about the strength of the U. S. Economy were not encouraging. II.

The Inferential process 2004 SALES 2011 SALES 45% Machine Tools Press, Die, Mold CAD Press, Mold Cause the company goal is to change its revenue structure, which make CAD/CAM and peripheral cutting edge products generate 3/4 of the sales, and the traditional reuses and mold would account for the remainder. Thus, we think that the company will definitely have to leave some money for the R&D design. On the other hand, expanding aggressively in the international arena and getting new product through M&A also need to prepare a lot of money.

Base on the idea we got from the Microsoft readings, company had better keep some percentage of the cash for the operating expense in case there would have emergency need. The analysis of investors' attribution From the Exhibit 4, we can see that the attributions of the investors are changing. As for the institutional investors, the growth-oriented investor drop from 13% to 6%, while the value-oriented investors raise from 8% to 13%. This gives us a cue that the institutional investors are gradually change from growth-oriented into value-oriented.

Which means that now the institutional investors think that the Gainsayers Corporation is not a highly growth company.

Instead, it's a stable growth company . So the institutional investors will expect to have high dividends. As for the individual investors, the long-term investors drop from 37% to 26%, while he short-term investors increase from 5% to 13%. This shows that individual investors have a trend to sell the stock in a short time and regardless the dividends.

The suspicion of forecasting We hold doubt on the stated speculation of a 15% compound rate of growth due to manufacturing mishaps and missing components which delayed production growth, as well as start-up costs continued to penalize earnings. In general, investors could accept 20.

8% payout ratio, and there is a trend that the ratio has been decreasing for decades (66. 5% in 1978; 20. 8% in 1999). So we think Gainsayers doesn't need to pay 40% dividends.

We can see that in CAD/CAM industry, PEE ratio is so high because they are expected to be high-potential, so they need lots of capitals to reinvest, such as acquisition, R. As a result zero dividends- payout is acceptable and makes sense.

CAD/CAM companies Sales (mm) Current payout ratio (%) PIE ratio Attitudes, Inc. 1 , 234 6. 0 25. 3 Nanas, Inc. 135 0.

0 23. 3 Cadence Design 1, 198 21 . 4 Interbrain Corp... 25.

7 Mentor Graphics 711 21 . 9 Molds Corp... 49 36. 2 Parametric Technology Corp.

.. 33. 4 Synopses, Inc. 1 , 092 26.

So if Gainsayers wants to prove they are also high potential, they can make the same decision in order to keep money for their growth but they has to communicate with investors well to make them understand what they are going to do. III. Conclusion The percentage of firms paying cash dividends had dropped to 20. 8% since 1999. In that case, perhaps the market would

react favorably, if Gainsayers adopted a zero partial stocks so as to increase PEPS and stock price.

Send a signal to the market that managers are confident on company's new development and expansion.

Regarding to numerous growing strategies of the firm, we prefer canceling dividend payout and save more capital to support all the new projects.

Besides, we support to launch image advertising and name change program step by step, which is not necessary in 2005. The firm can periodically reveal new expansion policy and R&D progress, for building up a solid image that the firm is under a transformation with highly innovative speed. The branding campaign should be done before 2011 when growth projects finished. In 2005, the firm should keep maintaining revenue growth rate and optimize productions for sustainable growth.