

Read the ford case
study and answer the
3 questions assigned



**ASSIGN
BUSTER**

Ford Motor Company's Value Enhancement Plan (A) Ford is one of the most renowned automobile manufacturers around the globe. With respect to automobile manufacturing, it is placed second in the United States and fifth largest automobile manufacturer in Europe. The company faced many liquidity issues since its inception but after that the company improved gradually and was able to accumulate \$23 billion in the year 2000. This \$23 billion was the company's largest and the strongest cash position in its history. This cash position seemed much more considerable when compared to the company's \$57 billion market capitalization in the year 2000. This cash accumulation seemed humongous and it needed proper allocation of this cash reserve to make sure that the company progresses smoothly and steadily in future. The cash position was almost half of the market capitalization i. e. the market value of the company at that time. The company's directors decided to use the Value Enhancement Plan to distribute the cash amongst its shareholders. The alternatives for cash distribution would have been: Investing those funds into other profitable investments/ventures. Capital Expenditure i. e. by buying any machinery/equipment that can be used within the business for a long period of time. The Value Enhancement Plan (VEP) was designed to distribute cash amongst the shareholders of the company. Under the VEP, the existing shareholders would exchange their common or Class B share type one-for-one for a new share of the same type. Besides that, the shareholders had the right to receive \$20 cash or \$20 cash equivalent shares based upon the market value of the shares as on July 2000. The aim of the VEP was to ensure better flexibility, liquidity and alignment for its shareholders. The owner's of the company believed that the company's shares had been

<https://assignbuster.com/read-the-ford-case-study-and-answer-the-3-questions-assigned/>

under-valued and such a recapitalization plan would enhance and increase the value of its share in the market. Moreover, it was believed that the recapitalization would align the interests of the shareholders and the owners in such a manner that it would further improve the performance of the company. The Visteon spinoff on the other hand was considered to be a move that would help Ford and Visteon to focus on their individual core businesses and it would further help Visteon to create its own customer base without the client base of Ford. As a shareholder of the company, the decision of availing cash or shares seems highly arguable. The shareholders of the company would have to look at many different matters before deciding upon the cash and the share scenario. The basic answer of this question lies with the preference of the shareholders. A shareholder with a growth perspective preference would avail the shares of the company whilst a short-term investor would fall for the cash dividend. Besides the preference, the taxation effect would also have a pivotal role in the final decision. Cash dividend would be considered as a capital gain with respect to the taxation effect. Analyzing the situation would make a doubt within the shareholder's mind as to the availability of the growth options available, it may seem the growth opportunities are limited and that is the reason that the company is using its cash reserves for recapitalization. A \$20 payout for each share held seems to be a hefty amount as compared to the \$0.5 per share dividend; hence the shareholders would possibly favour the \$20 payout as opposed to the current \$0.5 per share dividend (Boone, 2002).

Works Cited Top of Form Boone, Audra. Corporate Financial Policy. North Chelmsford, Mass: CEO Press, 2002. Print. Bottom of Form