

# Hampton case study

[Business](#)



Why can't a profitable firm like Hampton repay its loan on time and why does it need more additional bank financing? What major developments between November 1978 and August 1979 contributed to this situation? (SST-I) Hampton has a substantial backlog of outstanding orders from respected customers so they need cash to purchase equipment to maintain production efficiency.

In an effort to conserve cash, very little has been spent on equipment in 1978 and 1979, resulting in poor ability to maintain production at a capacity rate. Also, Hampton had to wait for their suppliers to ship electronic control mechanisms, upsetting the shipment schedule.

2. Review the result of your forecast. Do the cash budgets and the pro forma financial statements yield the same result? Why? The cash budgets and statement of sources and uses yield negative results concerning the principal payment of the loan for December, based on Mr...

Cowing' plan.

This analysis is based on projected sales, dividend payments and tax payments. Consequently, the sales projects and accounts receivables are 30 days net; if not paid on time, then this could hang the results significantly by putting the company in more of a financial bind. Based on our forecasts it seems that Mr..

. Cowing is incorrect about being able to repay the loan in December, but Hampton should be able to repay in January with more precise planning. 3.

Critically evaluate the assumptions on which your forecasts are based. What developments could alter your results?

Is Mr.

.. Cowing correct In his belief that Hampton can repay the loan In December?

It Is obvious that Hampton cannot afford to repay the loan in December, If they proceed with their Orlando plans. The company will have a negative cash flow In December. They should request a one- month extension on the loan, as they cannot afford to make a loan payment in December.

Extending the loan repayment one month until January allows for account receivables of December to become collected, because of the company collection policy of 30 days net.

This means Hampton will not have to go into the negative to pay the loan in December, keeping cash flow at an expectable level. 4. What action should Mr..

. Oakwood take on Mr... Cowing' loan request? What are the major risks associated with the proposed loan? What other alternatives does Mr..

. Oakwood have, and what are their pros and cons? What would you do? Mr... Oakwood should ask for a security against loan or Increase Interest amount.

Mr... Oakwood should loan Mr..

. Cowing a smaller amount than the full requested loan.

Due to a great deal of their cash being tied up in Inventory and A/R at the end of the year, Hampton will be unable to pay back the inure loan on December 31 SST. Their projected sales estimates also predict them to be producing at 100% capacity, and are not conservative estimates. As sales at some point in 1980- once customers pay the AIR balance from December. 5.

Why did Hampton repurchase a substantial fraction of its outstanding common stock? What is the impact of this repurchase on Hampton financial performance?

Hampton repurchased the stock of several dissident shareholders to gain more control over the company. It is unclear why these shareholders were dissident, though it raises red flags as the shareholders could have insight into current company policies or future earnings uncertainties. Hampton repurchased the shares to quell these shareholders and maintain stricter control. This repurchase will raise the stock price and shows that Hampton has trust in the ongoing future of the company. 6. Critically asses Hampton dividend policy.

Do you agree with Mr...

Cowing' proposal to pay a substantial dividend in December? Hampton cannot afford to make a dividend payment in December, regardless of their willingness to do so. Canceling the dividend payment will free up \$1 50, 000 in December, keeping the net cash flow in the positive, which compensates for the \$350, 000 loan payment.

This also helps keep the net cash flow positive in December, as well as waiting for accounts receivables of \$2, 265, 000 to come in January for the final payment. This makes the company profitable for the future, and, in turn, the stock will not become valueless.