



## **CAREER CLUSTER**

Finance

## **CAREER PATHWAY**

Corporate Finance

## **INSTRUCTIONAL AREA**

Financial Analysis

# **CORPORATE FINANCE EVENT**

## **PARTICIPANT INSTRUCTIONS**

- The event will be presented to you through your reading of the General Performance Indicators, Specific Performance Indicators and Case Study Situation. You will have up to 30 minutes to review this information and prepare your presentation. You may make notes to use during your presentation.
- You will have up to 15 minutes to make your presentation to the judge (you may have more than one judge).
- Turn in all of your notes and event materials when you have completed the event.

## **GENERAL PERFORMANCE INDICATORS**

- Communications skills—the ability to exchange information and ideas with others through writing, speaking, reading or listening
- Analytical skills—the ability to derive facts from data, findings from facts, conclusions from findings and recommendations from conclusions
- Production skills—the ability to take a concept from an idea and make it real
- Priorities/time management—the ability to determine priorities and manage time commitments
- Economic competencies

## **SPECIFIC PERFORMANCE INDICATORS**

1. Explain forms of dividends.
2. Explain the nature of dividend reinvestment plans (DRIPS).
3. Discuss the residual theory of dividends.
4. Describe the impact of dividends on the value of a firm.
5. Explain the nature of a dividend policy.

## **CASE STUDY SITUATION**

You are to assume the role of the manager of the dividend department of ZELLOTS BEVERAGES INC., a nationally recognized beverage company offering over 700 brands of drinks to people in over 300 countries. The company has been a primary source of retirement investment income for people all around the world. The director of shareholder services department would like you to visit with a group of college students studying corporate finance at a local university and discuss dividends in great depth. Many of these potential students plan to intern with ZELLOTS during the summer.

## **YOUR CHALLENGE**

The director of shareholder service department has asked you to address the following topics in a presentation:

- Cash vs. stock dividends
- Advantages of a corporation issuing DRIPS
- Residual theory of dividends and explaining how ROA can be used to determine management's overall performance.
- The effects of the balance sheet of a firm issuing dividends
- The factors that can affect the dividend policy of a company

You will give your presentation to one or more of the college students.

You will receive 2-3 questions from the judge pertaining to the case situation.

**Solution:**

**1. Explain the forms of dividends—explain cash vs. stock dividends and how they are expressed to shareholders:**

- **Cash dividends** — Distribution of corporate earnings paid by a corporation to its shareholders in cash on a specific date. They are usually expressed as a rate per share. If a dividend pays .20 cents per share, this would mean that the shareholder would receive .20 for each share owned.
- **Stock dividends** — Distribution of corporate earnings paid by the company to its shareholders as of a specified date. They are paid by a corporation's stocks. They are usually expressed as a percentage. For example, a 10% stock dividend means that for each share owned a shareholder would receive 10% dividend for each full share owned.

**2. Explain the nature of dividend reinvestment plans (DRIPS)—focus on advantages of a corporation issuing DRIPS:**

A dividend reinvestment plan (DRIP) is offered by a corporation and allows investors to reinvest their cash dividends by purchasing additional shares of the dividend payment date. For an investor, a DRIP is an excellent way to increase the value of an investment. For a corporation there can be several advantages. First, the funds generated from the DRIP creates more capital for the company to use. Also, it has been known that shareholders who participate in a DRIP are less likely to sell their shares when the stock market declines. Also, the company does not issue a payout of cash, which allows the assets to show more on the balance sheet.

**3. Discuss the residual theory of dividends:**

- **Residual theory of dividends** – A residual dividend is a policy that companies use to fund capital expenditures with available earnings before paying dividends to shareholders. Before any company issues dividends, it must consider the assets needed to operate the business and the need to reward shareholders by paying a dividend for the usage of funds.
- **Return on assets (ROA) is used to determine management performance** – The formula is calculated by net income/total assets. The more net income increases, the ROA ratio improves, and shareholders will feel more comfortable with accepting the residual dividend policy. However, if a company generates lower earning and continues to fund capital expenditures at the same rate, shareholders' dividends will decline.

**4. Describe the impact of dividends on the value of a firm—focus on the effects of the balance sheet of a firm issuing dividends:**

- **Cash dividends** – Decrease the company's cash account of the asset side and decrease the retained earnings on the equity side. Therefore, cash dividends result in the overall reduction of a company's balance sheet.
- **Stock dividends** – Reduce the company's retained earnings and increase common stock and additional paid-in capital accounts.

5. **Explain the nature of a dividend policy—focus on the factors that can affect the dividend policy of a company:**
- a. **Type of industry** – Industries with earnings that are stable may adopt a consistent dividend policy.
  - b. **Ownership structure** – A company with a higher promoter holding will offer a low dividend payout. A company that has a high institutional ownership will favor a high dividend payout to help them increase the control over management.
  - c. **Age of corporation** – New corporations will retain major part of their earnings for further growth and expansion. They will have to follow a conservative policy unlike established companies, which can pay higher dividends from their reserves.
  - d. **Extent of share distribution** – A company with a large number of shareholders will have a difficult time getting them to agree to a conservative policy.
  - e. **Varying shareholder expectations** – many shareholders will have different needs and expectations when it comes to their investment.
  - f. **Future financial requirements** – Dividend payout will depend on the future capital needs of a company. A company with no internal or external capital needs can opt for a higher dividend as opposed to a company needed funding will offer lower payouts.
  - g. **Business cycles** – Companies that experience increases in net oncome can establish reserves to declare high dividends to attract more shareholders.
  - h. **Growth** – Companies with a higher ROA can pay high dividends to keep investors happy.
  - i. **Government policies** – There can always be changes to dividend policies due to any new policies set by the government.
  - j. **Taxation policy** – corporate taxes will affect the policy because it reduces the residual earnings after tax available for shareholders.
  - k. **Liquidity** – If a firm has a stronger liquidity, it can afford to pay a higher dividends.
  - l. **Laws** – Certain legal restricts are made on companies for dividend payments.



**CORPORATE FINANCE, 2018**

Participant: \_\_\_\_\_

**JUDGE'S EVALUATION FORM**

ICDC Final

I.D. Number: \_\_\_\_\_

**INSTRUCTIONAL AREA**

Financial Analysis

Did the participant:

		Little/No Value	Below Expectations	Meets Expectations	Exceeds Expectations	Judged Score
<b>PERFORMANCE INDICATORS</b>						
1.	Explain forms of dividends?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
2.	Explain the nature of dividend reinvestment plans (DRIPS)?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
3.	Discuss the residual theory of dividends?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
4.	Describe the impact of dividends on the value of a firm?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
5.	Explain the nature of a dividend policy?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
<b>PRESENTATION</b>						
6.	Demonstrate clarity of expression?	0-1	2-3	4	5	
7.	Organize ideas?	0-1	2-3	4	5	
8.	Show evidence of mature judgment?	0-1	2-3	4	5	
9.	Overall performance: appropriate appearance, poise, confidence, presentation, technique and responses to judge's questions?	0-1-2	3-4-5	6-7-8	9-10	
<b>TOTAL SCORE</b>						