IN PRACTICE WEBCAST: ASSESSING POTENTIAL DIVIDENDS

It is my cash and I want it now…

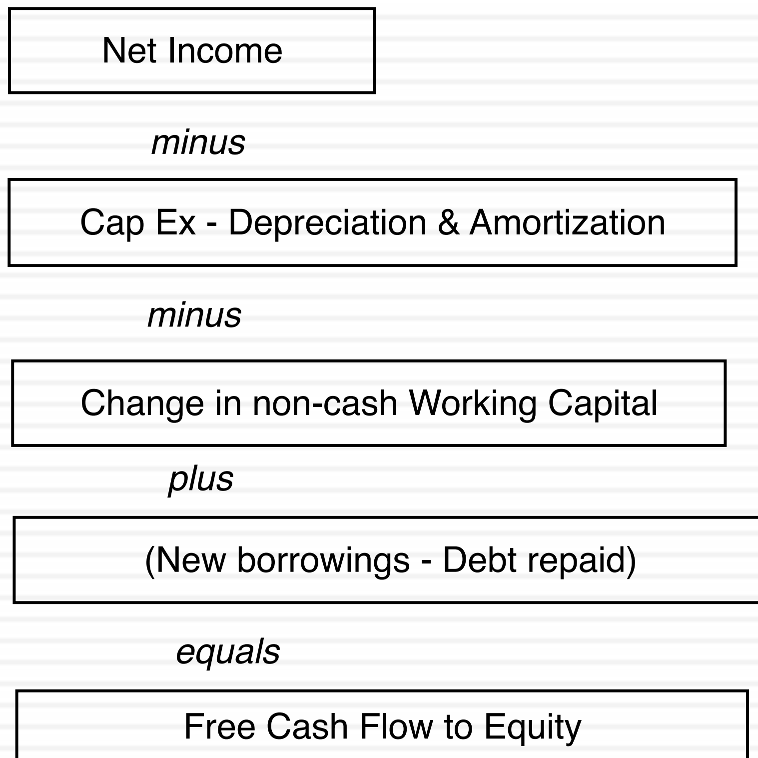
A Measure of How Much a Company Could have Afforded to Pay out: FCFE

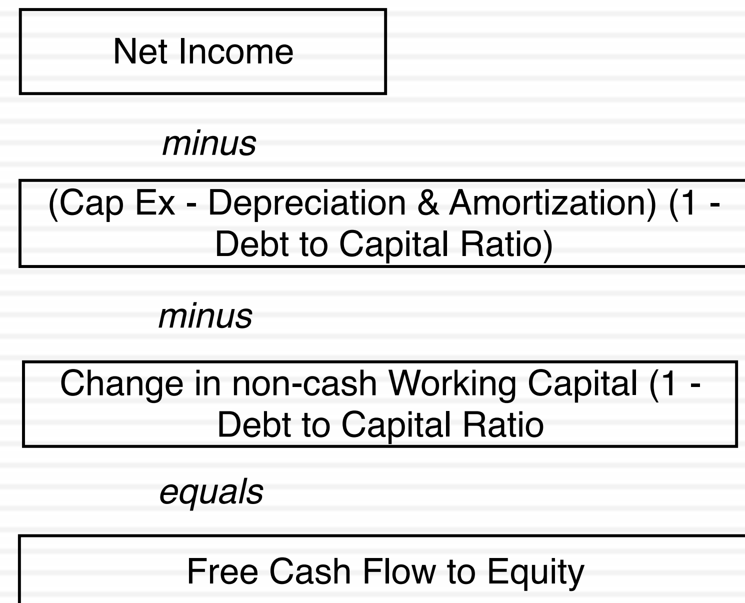
- The Free Cashflow to Equity (FCFE) is a measure of how much cash is left in the business after non-equity claimholders (debt and preferred stock) have been paid, and after any reinvestment needed to sustain the firm's assets and future growth.

Net Income

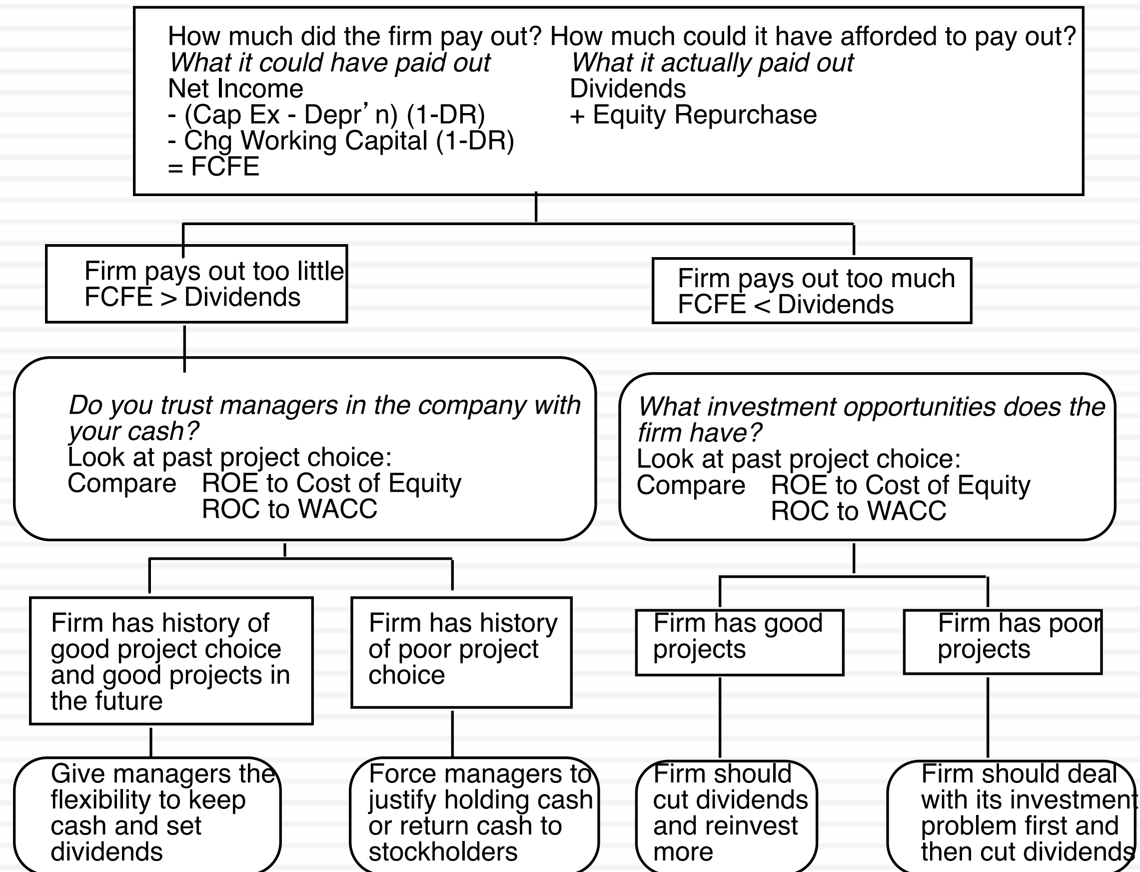
+ Depreciation & Amortization
= Cash flows from Operations to Equity Investors
- Preferred Dividends
- Capital Expenditures
- Working Capital Needs
- Principal Repayments
+ Proceeds from New Debt Issues
= Free Cash flow to Equity

Two other ways of looking at FCFE





The FCFE versus Cash Return Comparison



A Dividend Matrix

Quality of projects taken: ROE versus Cost of Equity

Dividends paid out relative to FCFE

	Poor projects	Good projects
Cash Surplus	*Cash Surplus + Poor Projects* Significant pressure to pay out more to stockholders as dividends or stock buybacks	*Cash Surplus + Good Projects* Maximum flexibility in setting dividend policy
Cash Deficit	*Cash Deficit + Poor Projects* Cut out dividends but real problem is in investment policy.	*Cash Deficit + Good Projects* Reduce cash payout, if any, to stockholders