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QUESTIONS AND PROBLEMS

connect FINANCE

BASIC

(Questions 1–13)

1. **Stock Values** [LO1] The Jackson–Timberlake Wardrobe Co. just paid a dividend of $1.95 per share on its stock. The dividends are expected to grow at a constant rate of 4 percent per year indefinitely. If investors require a return of 10.5 percent on The Jackson–Timberlake Wardrobe Co. stock, what is the current price? What will the price be in three years? In 15 years?
2. **Stock Values** [LO1] The next dividend payment by Halestorm, Inc., will be $2.04 per share. The dividends are anticipated to maintain a growth rate of 4.5 percent forever. If the stock currently sells for $37 per share, what is the required return?
3. **Stock Values** [LO1] For the company in the previous problem, what is the dividend yield? What is the expected capital gains yield?
4. **Stock Values** [LO1] Caan Corporation will pay a $3.56 per share dividend next year. The company pledges to increase its dividend by 3.75 percent per year indefinitely. If you require a return of 11 percent on your investment, how much will you pay for the company's stock today?
5. **Stock Valuation** [LO1] Tell Me Why Co. is expected to maintain a constant 3.9 percent growth rate in its dividends indefinitely. If the company has a dividend yield of 5.9 percent, what is the required return on the company's stock?
6. **Stock Valuation** [LO1] Suppose you know that a company's stock currently sells for $63 per share and the required return on the stock is 10.5 percent. You also know that the total return on the stock is evenly divided between a capital gains yield and a dividend yield. If it's the company's policy to always maintain a constant growth rate in its dividends, what is the current dividend per share?
7. **Stock Valuation** [LO1] Estes Park Corp. pays a constant $7.80 dividend on its stock. The company will maintain this dividend for the next 13 years and will then cease paying dividends forever. If the required return on this stock is 11.2 percent, what is the current share price?
8. **Valuing Preferred Stock** [LO1] Moraine, Inc., has an issue of preferred stock outstanding that pays a $3.50 dividend every year in perpetuity. If this issue currently sells for $85 per share, what is the required return?

9. **Stock Valuation and Required Return** [LO1] Red, Inc., Yellow Corp., and Blue Company each will pay a dividend of $3.25 next year. The growth rate in dividends for all three companies is 4 percent. The required return for each company's stock is 8 percent, 11 percent, and 14 percent, respectively. What is the stock price for each company? What do you conclude about the relationship between the required return and the stock price?
10. **Voting Rights** [LO3] After successfully completing your corporate finance class, you feel the next challenge ahead is to serve on the board of directors of Schenkel Enterprises. Unfortunately, you will be the only person voting for you. If Schenkel has 550,000 shares outstanding, and the stock currently sells for $39, how much will it cost you to buy a seat if the company uses straight voting?
11. **Voting Rights** [LO3] In the previous problem, assume that Schenkel uses cumulative voting, and there are four seats in the current election. How much will it cost you to buy a seat now?
12. **Stock Valuation and PE** [LO2] The Perfect Rose Co. has earnings of $2.35 per share. The benchmark PE for the company is 18. What stock price would you consider appropriate? What if the benchmark PE were 21?
13. **Stock Valuation and PS** [LO2] TwitterMe, Inc., is a new company and currently has negative earnings. The company's sales are $2.7 million and there are 130,000 shares outstanding. If the benchmark price–sales ratio is 4.3, what is your estimate of an appropriate stock price? What if the price–sales ratio were 3.6?

INTERMEDIATE

(Questions 14–31)

14. **Stock Valuation** [LO1] Bayou Okra Farms just paid a dividend of $2.65 on its stock. The growth rate in dividends is expected to be a constant 4.5 percent per year indefinitely. Investors require a return of 15 percent for the first three years, a return of 13 percent for the next three years, and a return of 11 percent thereafter. What is the current share price?
15. **Nonconstant Growth** [LO1] Metallica Bearings, Inc., is a young start-up company. No dividends will be paid on the stock over the next nine years because the firm needs to plow back its earnings to fuel growth. The company will pay a $14 per share dividend 10 years from today and will increase the dividend by 3.9 percent per year thereafter. If the required return on this stock is 12.5 percent, what is the current share price?
16. **Nonconstant Dividends** [LO1] Maloney, Inc., has an odd dividend policy. The company has just paid a dividend of $3.50 per share and has announced that it will increase the dividend by $4.50 per share for each of the next