

Dividend Decisions

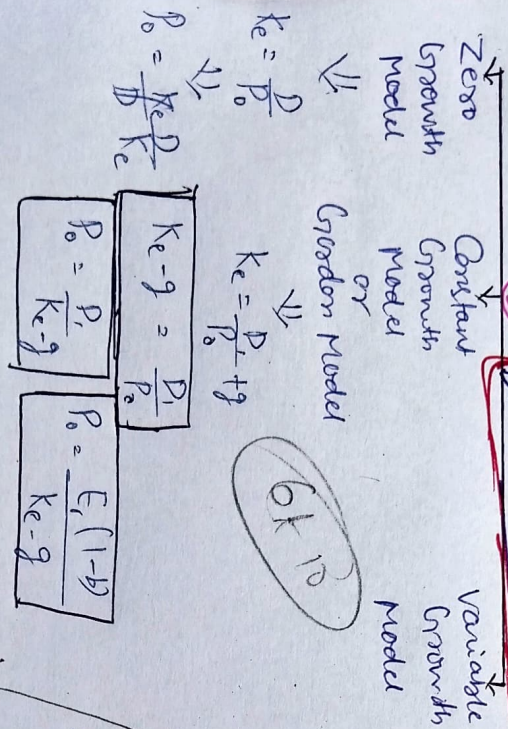
①

Position of r & K_e Firm optimal Dividend payout Ratio

- Case-1 $r > K_e$ Growth
- Case-2 $r < K_e$ Decline
- Case-3 $r = K_e$ Constant

$EPS = \frac{\text{Net profit} - \text{pref. dividend}}{\text{No. of Eq. share}}$

③ Dividend Discount Model



⑤ Traditional or Graham & Dodd Model

$P_0 = (m) \left[D + \frac{E}{3} \right]$

$m = \text{multiplier}$

14, 15, 16

②

Walter Model

Today's price = PV of all future dividend + on retained earnings

$P_0 = \frac{D}{K_e} + (E - D) (1 + K_e)$

$P_0 = \frac{D + (E - D) (1 + K_e)}{K_e}$

Capitalization Rate

where, $I = \text{Amount required for Investment}$

- $E = \text{Earning per share}$
- $D = \text{Dividend per share}$
- $n = \text{No. of Existing share}$

$P_0 = \text{Price after 1 Year}$

⑥ Linter Model

$D_1 = D_0 + [(EPS \times \text{Target Payout Ratio}) - D_0] (AF)$

- where, $D_0 = \text{Last paid Dividend}$
- $EPS = \text{Earning per share}$
- $D_1 = \text{Next Expected Dividend}$
- $AF = \text{Adjusting Factor}$

10, 11, 12, 13