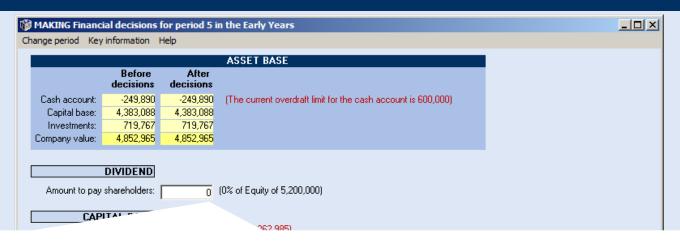
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Dividend



Dividend



DIVIDEND

Dividends are taxable payments declared by a company's board of directors and given to its shareholders, normally quarterly. They provide an incentive to own stock in stable companies even if they are not experiencing much growth.

The dividend paid to shareholders is one of the key factors that affects the company share price :-

- Insufficient dividend will disappoint the shareholders and reduce the share price
- Sufficient dividend will keep the shareholders content, with no change in the share price
- Ample dividend will make the shareholders very happy, and increase the share price

The affect on share price is determined by the **% of the company's equity** that is paid as a dividend.

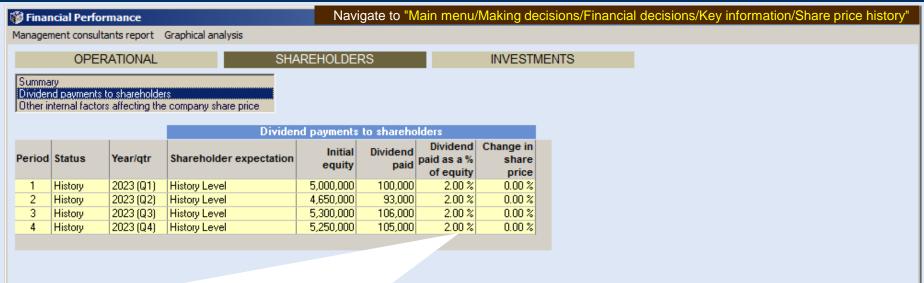
The **equity** of the company at any time is the overall share value.

EQUITY = NUMBER OF SHARES x CURRENT SHARE PRICE

Clues as to the affects of different levels of dividend are available by examining what happened in the History, using the **Key information/Share price history** option.



Dividend



Since period 1 the company has paid a dividend of 2% of equity every period (8% per annum), and this has been **sufficient to keep the shareholders content** because there has been no change in the share price.

In period 5 we could pay a higher dividend than 2% to try and improve the share price. However, this strategy could be counter productive because dividend payments come out of the cash account and reduce the company value, which adversely affects the company share price, and the positive affects of the extra dividend could be offset by the reduction in the value of the company.

The key is to find a careful balance so that dividend levels do not compromise the financial stability of the business, but do improve the share price.

In period 5 we will continue to pay a 2% dividend, to at least keep the shareholders satisfied, **but look to increase this in the future as the company grows and becomes more profitable.**

KEY POINTS

Shareholder expectations can change as the operating performance of the company changes, and may be higher or lower than the History level. This will affect the level of dividend that needs to be paid to keep them content.



Dividend

