Overall strategy using ratio and cash flow analyses

Capital Structure Decision – report results of financing mostly with equity, a 505-50 mix of debt/quity, and mostly with debt

Short term v. long-term debt financing decisions – report results of financing debt with all ST bank notes versus all LT debentures

Dividend policy decisions – report results f low, moderate, and high dividend payout

# Capital Structure Decisions

When financing mostly with equity you would be reducing each shares ownership interest in the company. While this would allow you to keep your

* All equity
  + It’s nice no debt
  + Reducing share interest levels
  + Devalues company in eyes of shareholders since it shows a lack of confidence
* 50/50
  + Healthy amount for most industries
  + Allows you to grow at an acceptable rate without incurring the negatives of all equity or debt.
* Mostly debt
  + If you leverage yourself too high, a small decrease in market value could bankrupt the company

ST v. LT Debt

* If you finance all ST bank notes
  + You must focus on cash flow, a small decrease in A/R turnover could hurt the ability to pay on time.
* If you finance all LT bank notes
  + You end up paying more interest over the long run
  + You don’t necessarily have to worry so much on CF

Dividend Policy (Focus on CF)

* Low
  + More cash, can reinvest. Brings in a different type of investor who is willing to stick for the long run.
* Moderate
  + Consistent dividends produce a better stock price.
* High
  + You are looking at volatile stock prices, must focus on CF.