FIN 521: Case 4: Blaine Kitchenware

Due on Tuesday, April 3, 2018

Wanbae Park

Question 1

Question 2

The current capital structure and payout policies of the firm are not appropriate since there are lots of benefits from using debt. Of course, increasing leverage makes firm's revenue risky, but on the current status, compensation from increasing leverage is much larger since the current amount of debt is zero. Most of firms which uses debt has larger market-to-book ratio, and larger ROE than Blaine Kitchenware. Assuming that industrial background among the firms are negligible, it justifies the argument that Blaine should raise debt. It is reasonable to increase D/V ratio to 17.09%, which is the average D/V ratio of other firms.

Question 3

a)

b)

Question 4

a)

b)

c)

d)

e)

f)

g)

Question 5

a)

b)

Question 6