Questions: 1. In theory, to fund an increased dividend payout or a stock buyback, a firm might invest less, borrow more, or issue more stock. Which of those three elements is Rockboro’s management willing to vary, and which elements remain fixed as a matter of the company’s policy?

2. What happens to Rockboro’s financing need (and unused debt capacity) if: a. No dividends are paid? b. A 20% payout is pursued? c. A 40% payout is pursued? d. A residual payout policy is pursued? Note that case exhibit 8 presents an estimate of the amount of borrowing needed and assumes that the maximum debt capacity is, as a matter of policy, 40% of the book value of equity.

3. How might Rockboro’s various providers of capital, such as its stockholders and creditors, react if Rockboro declares a dividend in 2015? What are the arguments for and against the zero payout, 40% payout, and residual-payout policies? What should Sara Larson recommend to the Board of directors with regards to a long-term dividend-payout policy for Rockboro Machine Tools Corporation? Especially in the context of Rockboro’s strategic shift to focus on the newly developed, breakthrough AIW software product.

4. How might various providers of capital, such as stockholders and creditors, react if Rockboro repurchased its shares? Should Rockboro institute a share-buyback plan? I.e., what should Larson recommend to the Board concerning prospective share repurchase(s)? Please be sure to support your share repurchase recommendation with (Rockboro) intrinsic share valuation analysis (see pointers below).

5. Should Larson recommend the corporate-image advertising campaign and corporate name change to Rockboro’s Board of Directors? Do the advertising and name change have any bearing on the dividend policy or the stockrepurchase policy that you propose?

6. What are the risks that Rockboro faces? Based on your reading of the case do they seem to have foreign currency exposure? In general terms what can / should they do if they do have foreign currency exposure