

Stocks and Their Value

Rights of Shareholders

- Voting
- Dividends (if declared)
- New shares
- The Proxy Statement

THE HOME DEPOT



PROXY STATEMENT
AND
NOTICE OF 2019 ANNUAL MEETING OF SHAREHOLDERS



Thursday, May 23, 2019
at 9:00 a.m., Eastern Time
COBB GALLERIA CENTRE,
ATLANTA, GA

Types of Common Stock

- Non-publically Traded Shares
- Publically Traded Shares
- Classified Stock
- Tracking Stock
- **Preferred** Stock (*not* common stock)

Common Stock

- Voting Rights
 - Majority Voting or Straight Voting
 - Cumulative Voting

- Dividends

Preferred Stock

- Voting Rights

- Dividends
 - Cumulative
 - Non-cumulative

- Stated/Liquidating Value

- Preferred Stock and Debt

Differences Between Debt and Equity

Debt

- Not an ownership interest
- Creditors do not have voting rights
- Interest is considered a cost of doing business and is tax deductible
- Creditors have legal recourse if interest or principal payments are missed
- Excess debt can lead to financial distress and bankruptcy

Equity

- Ownership interest
- Common stockholders vote for the board of directors and other issues
- Dividends are not considered a cost of doing business and are not tax deductible
- Dividends are not a liability of the firm and stockholders have no legal recourse if dividends are not paid
- An all equity firm can not go bankrupt

Stock Valuation

- First, recall: How do you calculate the price of a bond?
- The price (value) of a share of stock is equal to the _____ of the stock's _____ cash flows.

Stock Valuation

$$P_o = \frac{D_1}{(1+r)^1} + \frac{D_2}{(1+r)^2} + \frac{D_3}{(1+r)^3} + \dots + \frac{D_{n-1}}{(1+r)^{n-1}} + \frac{D_n + P_n}{(1+r)^n}$$

- Zero Growth
- Constant Growth
- Non-constant Growth
 - 1.
 - 2.
 - 3.

Keven Corp., just paid a \$2 dividend, which it expects to maintain for the foreseeable future. If stocks of this risk require a return of 14.52 percent, what is the current price of the stock?

If the firm expects to maintain a constant 3% growth rate in dividends, what would the price be today?

If the firm was unable to pay a dividend for the next 4 years, but then paid a \$2 dividend which grew at a constant 3%, what would the price be today?

Another Stock Valuation Example

- Yostmeister, Inc. just paid a \$2 dividend. Dividends are expected to grow at 10 percent for the next two years, after which they will grow at 4 percent for the foreseeable future. If investors require a return of 16 percent for stocks of this risk, what is the current price?

The Rate of Return

- What are the two components of our return?
- Consider a constant growth stock...

The Growth Rate

- How might we estimate the dividend growth rate?
 - 1.
 - 2.
 - 3.

Reality Check

- Is stock valuation really this easy?
- Stock Valuation vs. Company Valuation
- What about market multiples?

Stock Markets

- Primary vs. Secondary Markets
- Dealers vs. Brokers
- NYSE vs. NASDAQ

Stock Price Reporting

The Home Depot, Inc. (HD)

NYSE - NYSE Delayed Price. Currency in USD

[☆ Add to watchlist](#)

190.34 -4.24 (-2.18%) **191.10** +0.76 (0.40%)

At close: May 13 4:01PM EDT

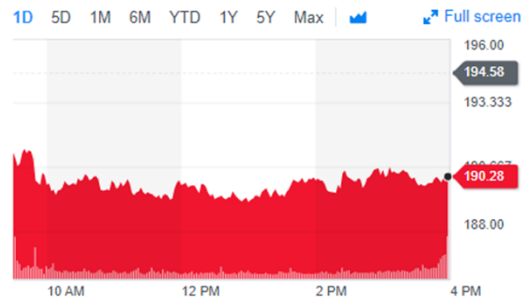
Pre-Market: 8:51AM EDT

Buy

Sell

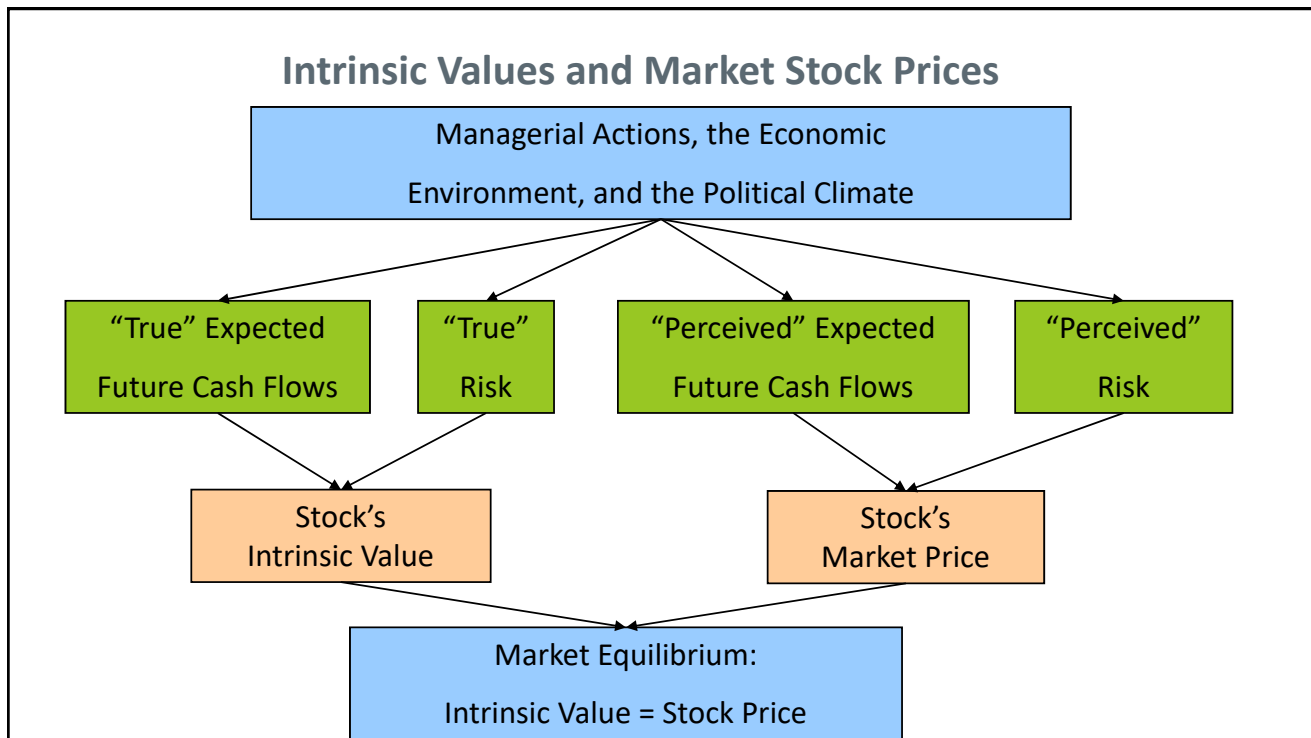
[Summary](#) [Chart](#) [Conversations](#) [Statistics](#) [Historical Data](#) [Profile](#) [Financials](#) [Analysis](#) [Options](#) [Holders](#) [Sustainability](#)

Previous Close	194.58	Market Cap	209.896B
Open	191.00	Beta (3Y Monthly)	1.24
Bid	191.00 x 2200	PE Ratio (TTM)	19.56
Ask	191.68 x 800	EPS (TTM)	9.73
Day's Range	189.14 - 191.66	Earnings Date	May 21, 2019
52 Week Range	158.09 - 215.43	Forward Dividend & Yield	5.44 (2.67%)
Volume	3,223,777	Ex-Dividend Date	2019-03-13
Avg. Volume	4,201,121	1y Target Est	205.86



Stock Market Equilibrium

- What happens when expectations change?
- The Efficient Markets Hypothesis
 - _____ Form Efficiency
 - _____ Form Efficiency
 - _____ Form Efficiency



Chapter 9 Suggested Problems

- Concept Questions

- 1, 2, 3, 5, 6, and 10

- Questions and Problems

- 1, 2, 3, 4, 5, 8, 10, 12, 14, 15, 18, and 19

Stock Valuation Example #1

- Griffin Corporation will pay a \$5.00 per share dividend next year. The company pledges to increase its dividend by 3 percent per year, indefinitely. If you require a 16 percent return on your investment, how much will you pay for the company's stock today?

Stock Valuation Example #2

- The next dividend payment by SAF, Inc., will be \$4 per share. The dividends are anticipated to maintain a 6 percent growth rate, forever. If SAF stock currently sells for \$45.00 per share, what is the required return?

Stock Valuation Example #3

- Suppose you know that a company's stock currently sells for \$60 per share and the required return on the stock is 18 percent. You also know that the total return on the stock is evenly divided between a capital gains yield and a dividend yield. If it's the company's policy to always maintain a constant growth rate in its dividends, what is the dividend per share that was just paid?

Stock Valuation Example #4

- Nematode, Inc., has an issue of preferred stock outstanding that pays a \$9.50 dividend every year, in perpetuity. If this issue currently sells for \$110 per share, what is the required return?

Stock Valuation Example #5

- Key Corporation, is a start-up tech. firm. No dividends will be paid on the stock over the next five years, because the firm needs the money for growth. The company will then pay a \$6 per share dividend and will increase the dividend by 5 percent per year thereafter. If the required return on this stock is 23 percent, what is the current share price?

Stock Valuation Example #6

- Taza Corporation is expected to pay the following dividends over the next four years: \$4.75, \$3, \$2, \$1. Afterwards, the company pledges to maintain a constant 9 percent growth rate in dividends, forever. If the required return on the stock is 17 percent, what is the current share price?

Stock Valuation Example #7

- Torsion Corporation stock currently sells for \$108 per share. The market requires a 15 percent return on the firm's stock. If the company maintains a constant 7 percent growth rate in dividends, what was the most recent dividend per share paid on the stock?