

Dividend Policy at FPL Group – Case Questions

A Wall Street analyst has just learned that FPL Group (the holding company for Florida Power and Light, the country's fourth largest utility) may decide to freeze its upcoming dividend at \$2.48 per share at the company's upcoming annual meeting. The decision not to increase dividends would end a 47-year streak of annual dividend increases. In response to the news, FPL's stock price is down 6%. Kate Stark, an equity analyst, must decide whether to revise her investment recommendation on FPL in light of this new information.

The following discussion questions may help guide your answer to the following question: As Kate Stark, what would you recommend regarding investment in FPL's stock – buy, sell, or hold?

- 1) What are the most important issues confronting the FPL Group?
- 2) Why might payout policy matter to a firm? Why do firms pay dividends? What, in general, are the advantages and disadvantages of paying cash dividends?
- 3) From FPL's perspective, is the current payout ratio appropriate? Would either a higher or a lower payout ratio be more appropriate?
- 4) From an investor's perspective, is FPL's payout ratio appropriate?