

#### Disadvantages of Buyback

- Interest payments
- Market might interpret buyback as negative, as an indication of lacking of attractive investment.
- The stock price might decrease after the buyback.

#### Advantages of Buyback

- Increasing of ROE.
- Healthy borrowing will increase the firm's value.
- Tax shields which will be captured by equity holders.

#### Recommendation

The main goal of firm to give value for their share holders.  
Thus, it is better to make Stock repurchasing.

#### Should we recommend shares repurchase?

With:

\$209 million in cash  
\$50 million in new debt-bearing interest at the rate of 6.75%

to repurchase

14 million outstanding shares at a price of \$18.50 per share.

#### Summary of case problem

Blaine Kitchenware Inc. is a mid-size producer of branched small appliance used in residential kitchen.

Its capital structure has caused it to be "over-liquid and under-levered" net D/E is -24,06%.

#### Optimal Debt Level

We choose Level B+

As it gives the highest value of levered firm: \$305 790.

# Blaine Kitchenware, Inc. Harvard Case Solution & Analysis

TheCaseSolutions.com

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