

FIN 320: Basic Financial Management
University of Southern Maine
Professor James Bennett
Fall 2010: Weighted Average Cost of Capital
Due Saturday 11/13

Note: Submit your answers to the assigned questions via Blackboard. You may submit them only ONCE, so do not submit them until you are satisfied with your answers. If you are unable to submit them via Blackboard, email them to me. Use the subject "FIN 320 WACC HW" as your subject line. I will not accept any emailed assignments after the due date, or if you have already submitted answers via Blackboard.

An analyst is attempting to determine the weighted average cost of capital for Coleslaw, Inc. The analyst has determined that Coleslaw has 3,000,000 shares of common stock outstanding, priced at \$32 per share. The stock's beta is 0.90. The analyst expects that shares will pay a dividend of \$2.00 next year, and that dividends will grow at 6.00%.

The company faces a tax rate of 40%. The riskless rate is 3%, and the analyst believes the expected return on the stock market is 11%.

The company has issued 325,000 shares of preferred stock, with a par value of \$105.00, paying a dividend of \$6.30. The preferred shares are currently selling at \$98.00 each.

The company has two outstanding bond issues. The first is a 10-year zero coupon bond with a face value of \$42,000,000, currently priced at \$20,378,145. The second bond issue matures in 5 years, has a 5.50% coupon rate, an \$80,000,000 face value, and a yield to maturity of 6.25%.

Questions. (all worth 1 point, except #8 which is worth 3 points)

1. Based on CAPM, what is the after-tax cost of common equity for Coleslaw, Inc.?
2. Based on the constant-growth dividend discount model, what is the after-tax cost of common equity for Coleslaw, Inc.?
3. What is the after-tax cost of preferred equity for Coleslaw, Inc.?
4. What is the after-tax cost of Coleslaw's zero coupon debt?
5. What is the after-tax cost of Coleslaw's 5-year bond?
6. What is the total dollar amount of Coleslaw's capital?
7. What is the weight of common equity in Coleslaw's capital structure?
8. What is Coleslaw's weighted average cost of capital (WACC), using the CAPM-based cost of common equity?

Enter your answers on BB. Enter your answers as shown below – do NOT use commas, dollar signs, or percent signs.

<u>If your answer is</u>	<u>Enter on BB</u>
12.34%	12.34
\$12,345.67	12345.67