WACC Practice Problem

1. You need to estimate the equity beta for Golden Clothiers, Inc. Golden's debt-to-equity ratio is 85%, which is higher than a typical firm in its industry. The following table shows the levered equity betas and debt-to-equity ratios for three comparable chemical firms. Assume the tax rate is 40%.

Company	**Levered Beta**	**D/E ratio**
TJ Maxx	1.68	0.25
New York & Co.	2.14	0.16
Express, Inc.	1.23	0.28

   a. Assuming debt is risk-free, use the information given above to estimate the unlevered equity betas of each of these companies.

   b. What is your estimate of Golden Clothiers' levered equity beta?

   c. If T-Bills are yielding 1.8% and the return on the market is 9.3%, what is the required return on Golden Clothiers' stock, according to the CAPM?

   d. Golden has 5-year maturity bonds outstanding with a par value of $1,000 that pay annual coupons of 5%. These bonds are currently selling for $982. What is Golden's required return on debt?

   e. If Golden has no preferred stock outstanding, their debt-to-equity ratio of 85% is expected to remain constant going forward, and their marginal tax rate is 40%, what is their weighted average cost of capital?