

## Valuation Analysis – Group Assignment 3

### Cost of Capital Estimation

**Instructions:** This assignment requires you to estimate the cost of capital and its components. Many of the variables required will come from the firm's financial statements. However, you may also need to use additional data sources such as Bloomberg, Damodaran's data page, and other web sites. The assignment is due on Friday, October 16<sup>th</sup>. Any supporting analysis should be attached.

Your Company: \_\_\_\_\_

1. ***Beta***

Estimate both a regression Beta and an industry (or bottom-up) Beta for your firm. Attach all calculations. If you use Bloomberg to estimate the regression Beta, attach the Beta page from Bloomberg. Be sure to adjust for leverage when calculating the industry Beta.

Regression Beta \_\_\_\_\_ Industry Beta \_\_\_\_\_

Assumptions/Explanation:

2. ***Cost of Equity***

Estimate the cost of equity for your firm based on the CAPM equation. Attach all calculations. Explain your assumptions related to Beta, the risk-free rate, and the market risk premium.

Risk-free Rate \_\_\_\_\_ Market Risk Premium \_\_\_\_\_

Beta \_\_\_\_\_ Cost of Equity \_\_\_\_\_

Assumptions/Explanation:

3. ***Cost of Capital***

Estimate the cost of capital (WACC) for your firm. Attach all calculations. Be sure to adjust debt for operating leases and separate the equity and debt components of convertible bonds. Also, describe any assumptions you will make about the cost of capital going forward.

Market Value of Equity \_\_\_\_\_ Market Value of Debt \_\_\_\_\_

Cost of Debt \_\_\_\_\_ Tax Rate \_\_\_\_\_

WACC \_\_\_\_\_

Assumptions/Explanation: