

Russell Mehta at Rosy Blue: A Diamantaire for Life!

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At what price should JetBlue offer their shares?

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JetBlue Background

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- **Founded in 1999 by David Neeleman**
- **1999: \$4 billion order for 75 A320 aircraft**
- **2000: One-millionth customer and first \$100 million**
- **2001: Expand services and launches**
- **2002: Announces IPO**

Advantages/Disadvantages

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- **Advantages**

- financial gain in raising the company's capital
- more funding for research, debt, etc.
- increase public awareness of the company

- **Disadvantages**

- possible decision errors due to unsound analysis
- heavily regulated
- cost associated with complying to regulations

- switch from long-term focus to short-term

IPO Process

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- usually takes about 3 months
- prerequisites to fulfill before equity-issuance process
- hold meeting to map & agree upon process
- "quiet period"
- SEC reviews registration statement
- surveying potential investors
- negotiation of final offering price

Cost of Debt

Issue	Weight of Bonds	Yield to Maturity	Weight * Yield
8.75 Note	25.00%	5.65%	1.41%
8.00 Note	25.00%	5.91%	1.48%
7.875 Debenture	25.00%	7.41%	1.85%
7.375 Debenture	25.00%	8.68%	2.17%
Weighted Yield to Maturity			6.91%

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Tax Rate	Cost of Debt	After tax rd
38.50%	6.91%	4.25%

Cost of Equity: CAPM

Risk Free Rate	5.00%
Beta	1.1
Market Risk Premium	5.00%
Cost of equity using CAPM	10.50%

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$$\bullet \text{ CAPM} = r_f + \beta(r_{rp}) = 5.00\% + 1.1(5.00\%) = 10.50\%$$

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Weights of Debt and Equity

Total Debt	\$	1,842.00	Wd	10.28%
Total Equity	\$	16,071.99	We	89.72%
Total Financing	\$	17,913.99		

$$\$1,842 / \$17,913.99 = 10.28\%$$

$$1 - .1028 = 89.72\%$$