micro Home Solutions: A Social Housing Initiative in India

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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

<table>
<thead>
<tr>
<th>Issue</th>
<th>Weight of Bonds</th>
<th>Yield to Maturity</th>
<th>Weight * Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.75 Note</td>
<td>25.00%</td>
<td>5.65%</td>
<td>1.41%</td>
</tr>
<tr>
<td>8.00 Note</td>
<td>25.00%</td>
<td>5.91%</td>
<td>1.48%</td>
</tr>
<tr>
<td>7.875 Debenture</td>
<td>25.00%</td>
<td>7.41%</td>
<td>1.85%</td>
</tr>
<tr>
<td>7.375 Debenture</td>
<td>25.00%</td>
<td>8.68%</td>
<td>2.17%</td>
</tr>
</tbody>
</table>

**Weighted Yield to Maturity**

| Weighted Yield to Maturity | 6.91% |

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<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>Cost of Debt</th>
<th>After tax rd</th>
</tr>
</thead>
<tbody>
<tr>
<td>38.50%</td>
<td>6.91%</td>
<td>4.25%</td>
</tr>
</tbody>
</table>
Cost of Equity: CAPM

<table>
<thead>
<tr>
<th>Risk Free Rate</th>
<th>5.00%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beta</td>
<td>1.1</td>
</tr>
<tr>
<td>Market Risk Premium</td>
<td>5.00%</td>
</tr>
<tr>
<td>Cost of equity using CAPM</td>
<td>10.50%</td>
</tr>
</tbody>
</table>

\[
\text{CAPM} = r_f + \beta (r_p) = 5.00\% + 1.1(5.00\%) = 10.50\%
\]
### Weights of Debt and Equity

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Debt</td>
<td>$1,842.00</td>
<td>Wd</td>
<td>10.28%</td>
</tr>
<tr>
<td>Total Equity</td>
<td>$16,071.99</td>
<td>We</td>
<td>89.72%</td>
</tr>
<tr>
<td>Total Financing</td>
<td>$17,913.99</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\[
\frac{1,842}{17,913.99} = 10.28\%
\]

\[
1 - 0.1028 = 89.72\%
\]