Maytag: Takeover Strategies

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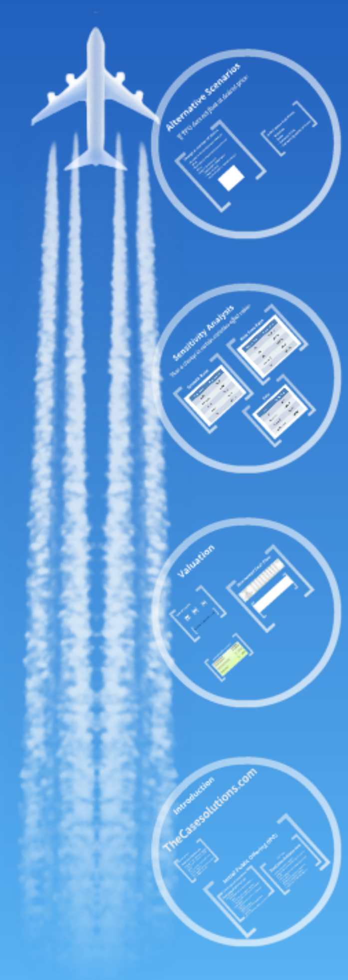

At what price should JetBlue offer their shares?

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JetBlue Background

- 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

- 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%

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%

- 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%**