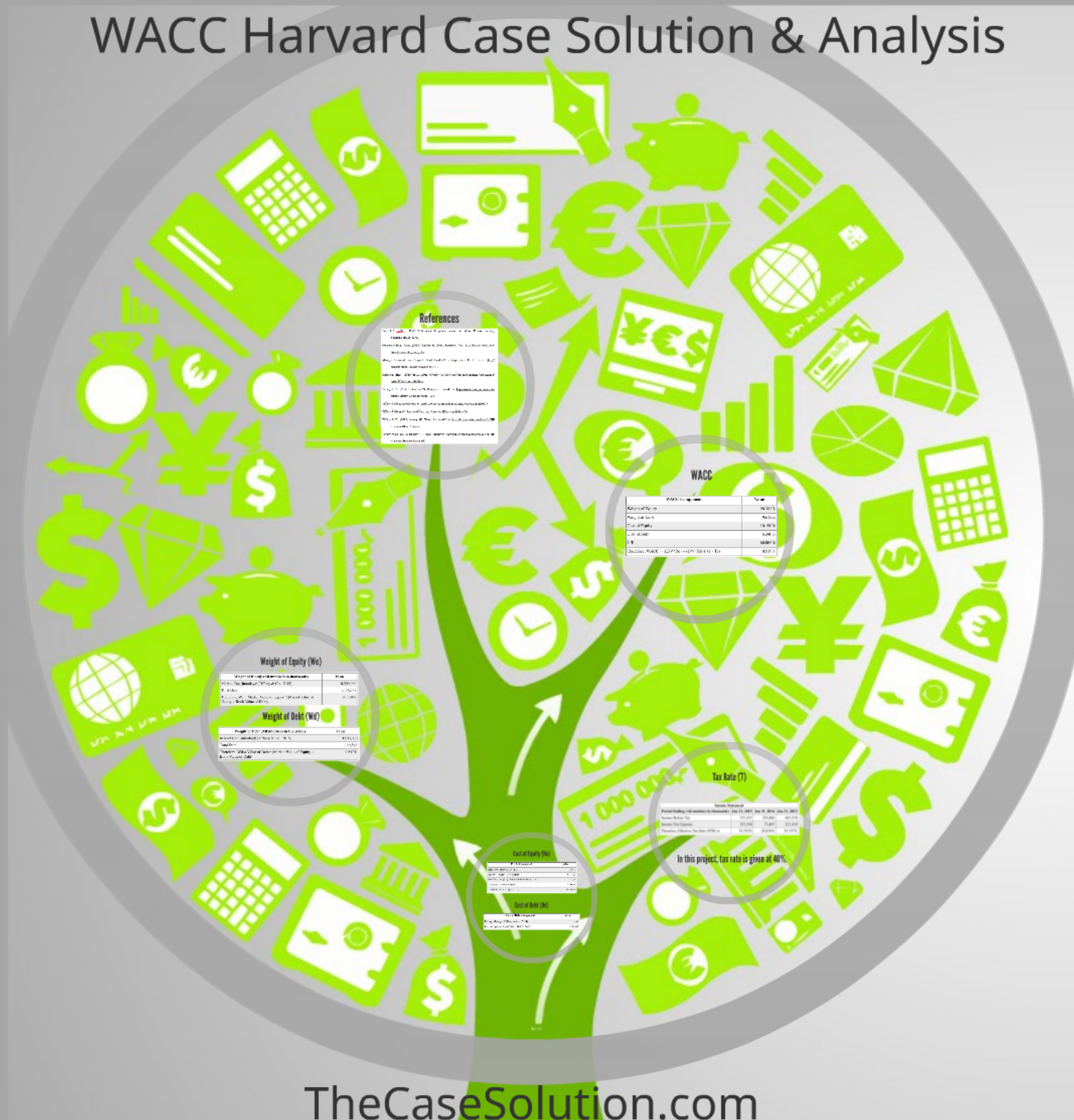


WACC Harvard Case Solution & Analysis



References

1. [WACC Calculator](#)
 2. [WACC Formula](#)
 3. [WACC Example](#)
 4. [WACC Definition](#)
 5. [WACC Calculation](#)
 6. [WACC Formula](#)
 7. [WACC Example](#)
 8. [WACC Definition](#)
 9. [WACC Calculation](#)
 10. [WACC Formula](#)

WACC

WACC Component	Value
Cost of Equity	10.50%
Cost of Debt	6.00%
Cost of Equity	10.50%
Cost of Debt	6.00%
WACC	8.25%

Weight of Equity (We)

Component	Value
Equity	1000000
Debt	1000000
Total	2000000
Weight of Equity (We)	0.50

Weight of Debt (Wd)

Component	Value
Equity	1000000
Debt	1000000
Total	2000000
Weight of Debt (Wd)	0.50

Tax Rate (T)

Component	Value
Interest Expense	100000
Interest Expense	100000
Interest Expense	100000
Interest Expense	100000
Interest Expense	100000

In this project, tax rate is given at 40%.

Cost of Equity (Ke)

Component	Value
Cost of Equity (Ke)	10.50%
Cost of Equity (Ke)	10.50%
Cost of Equity (Ke)	10.50%
Cost of Equity (Ke)	10.50%

Cost of Debt (Kd)

Component	Value
Cost of Debt (Kd)	6.00%
Cost of Debt (Kd)	6.00%
Cost of Debt (Kd)	6.00%
Cost of Debt (Kd)	6.00%

WACC Harvard Case Solution & Analysis



References

1. [WACC Calculator](#) - Online tool to calculate WACC

2. [WACC Formula](#) - Detailed explanation of the WACC formula

3. [WACC Example](#) - Step-by-step example of WACC calculation

4. [WACC Definition](#) - Definition of WACC and its components

5. [WACC vs. Cost of Capital](#) - Comparison of WACC and Cost of Capital

WACC

WACC Component	Value
WACC	10.00%
Cost of Debt	6.00%
Cost of Equity	14.00%
Debt Ratio	0.40
Equity Ratio	0.60
Debt Cost	6.00%
Equity Cost	14.00%
WACC	10.00%

Weight of Equity (We)

Component	Value
Equity	600000
Debt	400000
Total	1000000
Weight of Equity (We)	0.60
Weight of Debt (Wd)	0.40

Weight of Debt (Wd)

Component	Value
Equity	600000
Debt	400000
Total	1000000
Weight of Equity (We)	0.60
Weight of Debt (Wd)	0.40

Cost of Equity (Ke)

Component	Value
Cost of Equity (Ke)	14.00%
Cost of Debt (Kd)	6.00%

Cost of Debt (Kd)

Component	Value
Cost of Debt (Kd)	6.00%
Cost of Equity (Ke)	14.00%

Tax Rate (T)

Component	Value
Tax Rate (T)	40%

In this project, tax rate is given at 40%

Cost of Equity (Re)

CAPM Component	Value
Beta (β) (Tiffany & Co., 2015)	2.030
Historical Market Return (rm)	6.070%
Risk Free rate (rf) (Composite Bond Rates, 2015)	2.070%
Market Risk Premium (rm-rf)	4.000%
Therefore, $r_e = r_f + \beta(r_M - r_f)$	10.190%

Cost of Debt (Rd)

Cost of Debt Component	Value
Rating: Moody's (Tiffany & Co., 2014)	Baa2
Baa2 Corporate Bond Yield (FRED, 2015)	5.340%

Tax Rate (T)

Income Statement			
Period Ending (All numbers in thousands)	Jan 31, 2015	Jan 31, 2014	Jan 31, 2013
Income Before Tax	737,537	254,866	643,576
Income Tax Expense	253,358	73,497	227,419
Therefore, Effective Tax Rate (ETR) is	34.352%	28.838%	35.337%

In this project, tax rate is given at 40%.

Weight of Equity (W_e)

Weight of Equity (All numbers in thousands)	Value
Market Cap (intraday) ⁵ (Tiffany & Co., 2015)	10,500,000
Total Debt	1,116,548
Therefore, $W_e = \text{Market Value of Equity} / (\text{Market Value of Equity} + \text{Book Value of Debt})$	90.388%

Weight of Debt (W_d)

Weight of Debt (All numbers in thousands)	Value
Market Cap (intraday) ⁵ (Tiffany & Co., 2015)	10,500,000
Total Debt	1,116,548
Therefore, $W_d = \text{Value of Debt} / (\text{Market Value of Equity} + \text{Book Value of Debt})$	9.612%

WACC

WACC Component	Value
Weight of Equity	90.388%
Weight of Debt	9.612%
Cost of Equity	10.190%
Cost of Debt	5.340%
1-Tc	60.000%
Therefore, WACC = $((E/V * Re) + (D/V * Rd)) * (1 - Tc)$	9.519%

References

Berk, J. & DeMarzo, P. (2013, February). *Corporate Finance*, 3rd Edition. Pearson Learning Solutions. (P.285, 337).

Composite Bond Rates. (2015, October 9). *Yahoo*. Retrieved from http://finance.yahoo.com/bonds/composite_bond_rates

Moody's Seasoned Baa Corporate Bond Yield. (2015, September). FRED. Louis. <https://research.stlouisfed.org/fred2/series/BAA>

Historical Prices: Tiffany & Co. (2015, October 9). Retrieved from <http://finance.yahoo.com/q/hp?s=TIF+Historical+Prices>

Tiffany & Co. (2014, September 22). *Moody's*. Retrieved from <https://www.moody.com/credit-ratings/Tiffany-Co-credit-rating-1926>

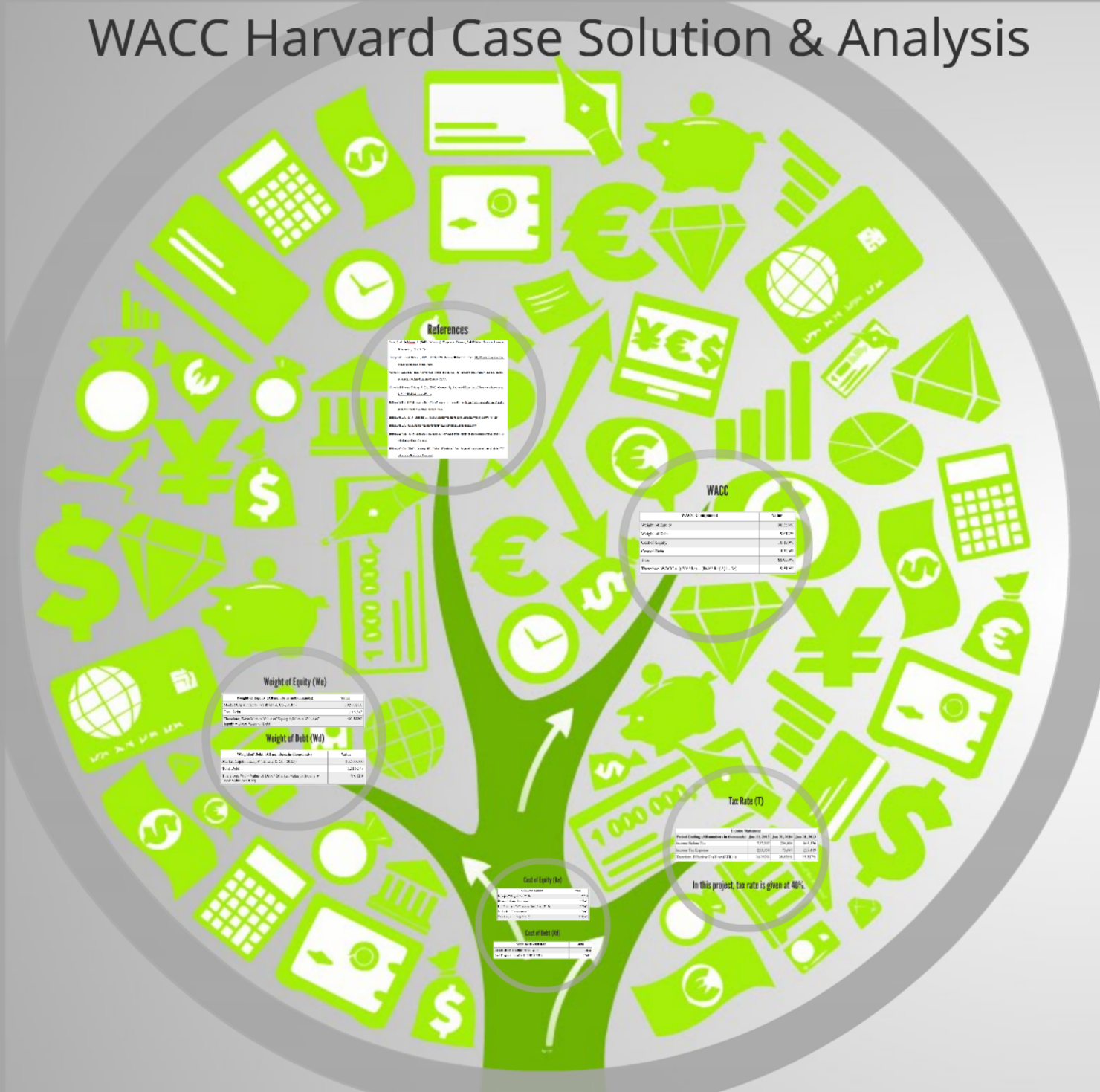
Tiffany & Co. (2015, October 9). *Yahoo*. Retrieved from <http://finance.yahoo.com/q?s=TIF>

Tiffany & Co. (n.d.). Retrieved from <http://investor.tiffany.com/index.cfm>

Tiffany & Co. (2015, January 31). *Yahoo*. Retrieved from <http://finance.yahoo.com/q/bs?s=TIF+Balance+Sheet&annual>

Tiffany & Co. (2015, January 31). *Yahoo*. Retrieved from <http://finance.yahoo.com/q/is?s=TIF+Income+Statement&annual>

WACC Harvard Case Solution & Analysis



References

1. [WACC Calculator](#)
 2. [WACC Formula](#)
 3. [WACC Example](#)
 4. [WACC Definition](#)
 5. [WACC Calculation](#)
 6. [WACC Formula](#)
 7. [WACC Example](#)
 8. [WACC Definition](#)
 9. [WACC Calculation](#)
 10. [WACC Formula](#)

WACC

WACC Component	Value
Cost of Equity	10.00%
Cost of Debt	6.00%
Debt Ratio	30.00%
Equity Ratio	70.00%
WACC	8.40%

Weight of Equity (We)

Component	Value
Equity	100,000,000
Debt	30,000,000
Total	130,000,000
Weight of Equity (We)	76.92%
Weight of Debt (Wd)	23.08%

Weight of Debt (Wd)

Component	Value
Equity	100,000,000
Debt	30,000,000
Total	130,000,000
Weight of Equity (We)	76.92%
Weight of Debt (Wd)	23.08%

Tax Rate (T)

Period Ending	Income Before Tax	Income Tax Expense	Income Tax Paid
June 30, 2007	100,000	40,000	40,000
June 30, 2008	100,000	40,000	40,000
June 30, 2009	100,000	40,000	40,000

In this project, tax rate is given at 40%.

Cost of Equity (Ke)

Component	Value
Risk-free rate	3.00%
Market return	10.00%
Beta	1.00
Cost of Equity (Ke)	10.00%

Cost of Debt (Kd)

Component	Value
Yield to Maturity	6.00%
Cost of Debt (Kd)	6.00%