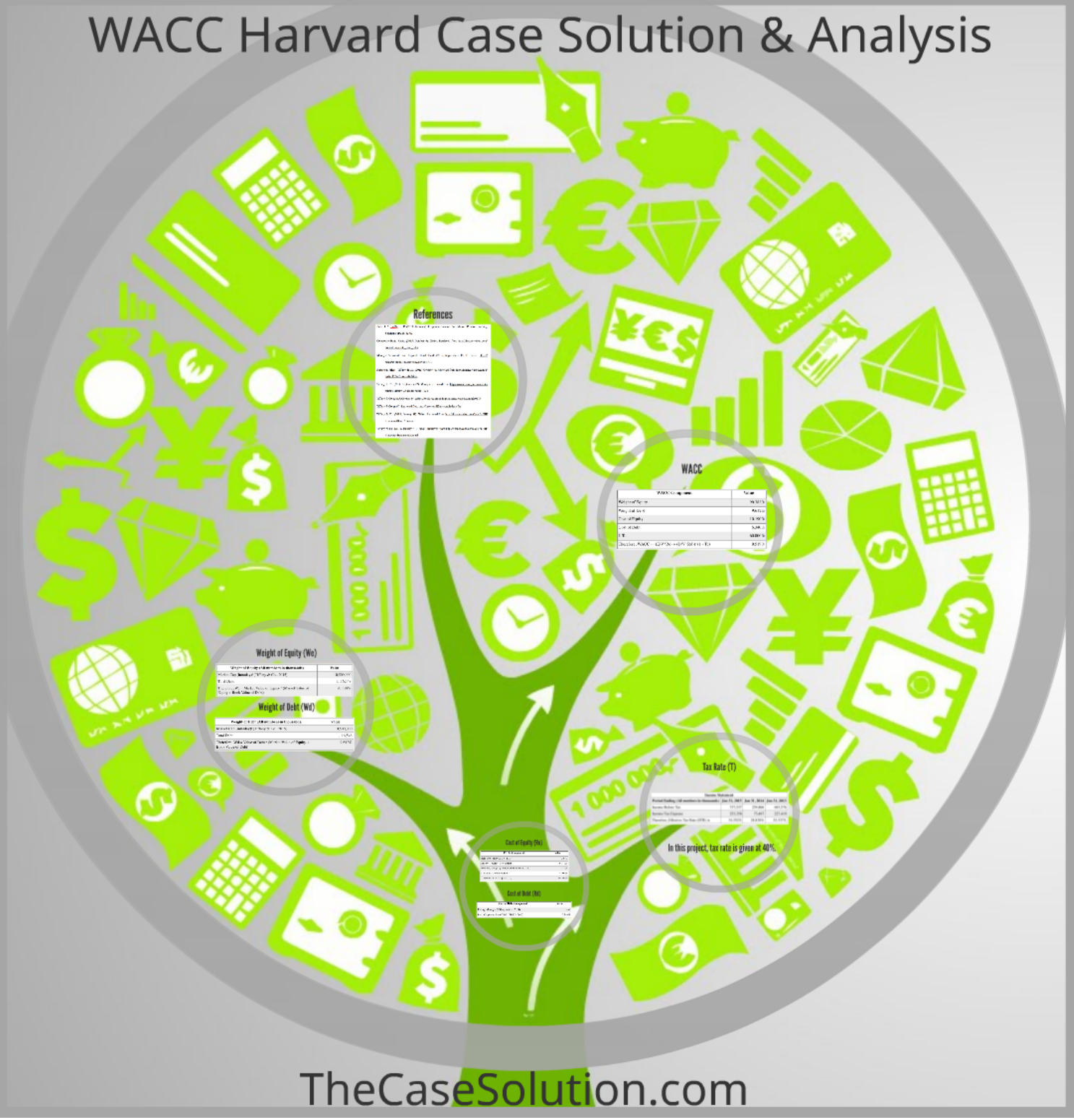
WACC Harvard Case Solution & Analysis



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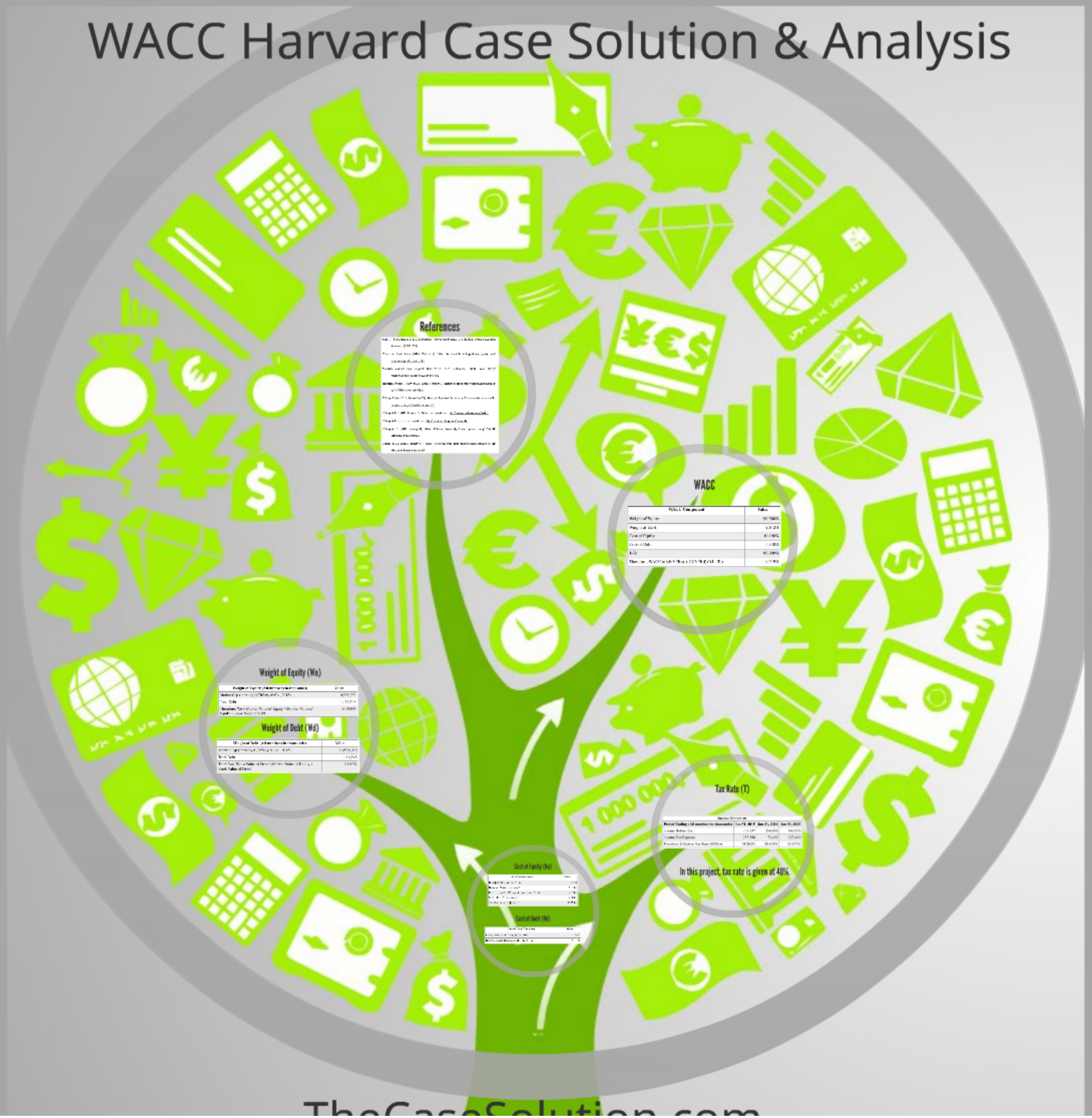

Cost of Equity (Re)

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 Premiem (rm-rf)	4.000%
Therefore, re = rf + β(rM - rf)	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 (We)

Weight of Equity (All numbers in thousands)	Value
Market Cap (intraday)[5] (Tiffany & Co., 2015)	10,500,000
Total Debt	1,116,548
Therefore, We = Market Value of Equity / (Market Value of Equity + Book Value of Debt)	90.388%

Weight of Debt (Wd)

Weight of Debt (All numbers in thousands)	Value
Market Cap (intraday)[5] (Tiffany & Co., 2015)	10,500,000
Total Debt	1,116,548
Therefore, Wd = Value of Debt / (Market Value of Equity + 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%

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