Nike cost of capital executive summary assignment

Business

Since the majority of Nine's cash flows are in the footwear and apparel lines. The smaller segments would not make a significant difference. We disagreed with Cone's methodology in calculating her WAC. Cohen used the book values as the basis for debt and equity weights. From class, we understand that market values are most appropriate in calculating these weights, due to the fact that we are interested in finding out how much it is expected to cost a company to raise the capital TODAY, This cost we speak of is approximated by the market value of the company's capital, instead of the book value.

The market value of equity is calculated by multiplying the company's current stock price by its number of outstanding share. The book value of equity does not take into account the company's growth potential. The market value of debt is typically difficult to calculate, but it has to do with the amount of debt, and it can include all debt or just long-term or short-term, depending on whom is doing the calculations. We also disagreed with Cone's calculation of the cost of debt. She calculated the cost of debt using historical information.

Since the WAC represents the return hat capital providers require today, using historical information is inappropriate. Instead, we used market yields to gauge the cost Of debt. We understand that the yield to maturity is the proper cost of debt input. As far as the cost of equity goes, Cohen used three models to compare and contrast Which one might be most appropriate. First, we started with the CAMP. Using the Capital Asset Pricing Model, we found that the CAMP is 9. 8%, being that the risk. Free rate was 5. 74%, the risk premium was 5. 9%, and the beta was 0. 69 (the most recent year to date beta).