

Prada: to ipo or not to ipo essay sample

Finance



**ASSIGN
BUSTER**

Refer to the HBS case “ Prada: To IPO or Not to IPO” and answer the questions below. Note: Complete the related textbook chapters (RWJJ Chapters 14, 15 & 19) before attempting this case. 1) What is the problem said to be facing Prada?

2) List the alternative methods Prada could use to refinance its maturing debt. In addition to the many alternatives mentioned in the case (start by listing those, grouping them in the two broad categories of “ Debt” and “ Equity”), what other variations of these debt and equity choices can you identify (try to give two or three others)? 3) Using LVMH and Li & Fung (LF, owner of Trinity brand) as benchmarks, propose a method to estimate Prada’s cost of equity capital. Hint: “ Dividend Discount Model” (RWJJ pp. 401-402). See Exhibit 10. Assume that dividends for these comparables are projected to grow at 5%. 4) Using LVMH and Li & Fung as benchmarks, estimate the market value of Prada’s equity capital (market cap, in euro) based on the following ratios found in Exhibit 10: Price-earnings (P/E), Price-to-book value of equity (P/Book), Price-to-Sales (P/Sales), Price-to-Cash-Flow (P/CF), and Price-to-Free-Cash-Flow (P/FCF).

Use the most recent data for Prada (2011). 5) Based on your average estimate of Prada’s market cap in question 4 (average across methods for LVMH and LF), what percentage of its equity ownership would the owners (the Bertelli and Prada families – assume they own 100%) have to sell if the objective is to raise 1 billion euro? 6) Would you necessarily advise Prada to recapitalize (i. e., change its capital structure) in the process of refinancing? If so, how and why? If not, why not? What arguments can you make to support your recommendation? 7) Finally, propose a few “ out-of-the-box”

alternatives outside the debt/equity categories. Hint: Analyze the efficiency of its balance sheet and the nature of its expenses.