

# Prada case study essay sample



**ASSIGN  
BUSTER**

### 1) What is the problem facing Prada?

The Prada fell into some financial trouble. It needed to raise more than 1 billion euros to meet the long-term debt maturing in one year in 2011 and also required extra capital to implement its expansion plan in Asia market to seize the opportunity in this area which has the highest growth rate compared to the other markets. The demand for this huge amount of capital is quite urgent. The Prada has tried several times for IPO, but all terminated by some unlucky reasons. The market prospect for IPO, if Prada chose this way, was not clear and there were limited choices for Prada to raise the capital.

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)? For each alternative, give one or two main “pros” and one or two main “cons”. These pros and cons can be entirely qualitative (non-numeric).

#### Variations proscons

Equity IPO in HK

1. higher valuation than listed in Europe

2. aim to the Asia market
1. HK market has lower liquidity

2. potential tax problem

HKDR

1. listed in Milan but also can be bought and sold by investors in HK.
2. help future negotiation in China

1. may have lower valuation than IPO in HK

2. higher cost than IPO

Strategic partnership  
1. current price for PE transaction is attractive  
2. higher premium  
1. higher cost than other alternatives  
2. may cause partially loss of control of the corporation

Debt  
Traditional corporate bond  
1. easily priced  
1. further potential financial problem  
2. higher leverage ratio

Dim sum bond  
1. aim to the Asia investors

2. potential appreciation in Chinese yuan  
1. lower yields due to the small supply of this bonds  
2. limited time period of Chinese yuan appreciation compared to the long term bond

Other variations  
Eurodollar bond  
1. Fewer regulatory restrictions  
1. the American market is shrinking  
ADR( American depository receipt)  
1. higher liquidity  
1. the American market is shrinking  
2. higher cost than IPO

3) Using LVMH and Li & Fung (owner of Trinity brand) as benchmarks, propose a method to estimate Prada's cost of equity capital.  
1. Use DDM to estimate the Prada's cost of equity capital.  
a) estimating the growth rate of LVMH and Li & Fung by ROE and retention ratio  
b) combining the growth rate and the dividend yield gets the cost of equity capital for each benchmark company  
c) the Prada's cost of equity capital sits between LVMH's and Li & Fung's  
2. Use CAPM to estimate the Prada's cost of equity capital  
a) Getting the beta for the benchmarks and the market risk premium (the difference between the return of the market index and long-term government bond) for each market that the benchmark stock listed in.

Using CAPM to calculate the cost of equity for each company. b) the range of the Prada's cost of equity capital is between LVMH's and Li & Fung's 4) Would you advise Prada to recapitalize (i. e., change its capital structure) the process? If so, how and why? If not, why not? What arguments can you make to support your recommendation? I would suggest that the Prada to change its capital structure because the fact that the too much long-term debt caused Prada into some financial trouble, directly impacting the regular operation of the company. And, compared to the other luxury fashion firms, such as LVMH and Li & Fung, their debt-to-asset ratios are much lower than the Prada's ratio which is around 0.5. 5) Finally, propose a few "out-of-the-box" alternatives outside the debt/equity categories.