

DREAMWORKS ANIMATION COST OF CAPITAL

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COST OF CAPITAL

- DWA Stock Price: \$19.17
- Shares outstanding: 84,228
- Preferred Stock: 0
- Debt: \$165,000

Common Equity:

$$84,228 * 19.17 = 1,614,650 *$$
$$1,614,650 / 1,779,650 = \mathbf{91\%}$$

$$\mathbf{Debt: } 165,000 / 1,779,650 = \mathbf{9\%}$$

DEBT, EQUITY

Tax Rate: $17,215/53,637 = 32\%$

Cost of Debt After Tax:

$2.71\% * (1 - 0.32) = 1.8\%$

Cost of Equity: $RFR + b(RM - RFR)$:

$2.03 + .93(6.5) = 8.1\%$

$7.84 * 91\% = 7.13$

	Cost	Weight	
Debt	1.8%	9%	.162
Equity	8.1%	91%	7.3

DWA WACC: **7.462**

The company should borrow money and repurchase shares to lower the capital structure .