	Before Recap (All Equity)	Before Recap (W/Tax)
WACC	8.00%	8.00%
Revenue	$1,500.00	$1,500.00
Operating Exp	$1,375.00	$1,375.00
Interest	$0.00	$0.00
Tax	$0.00	$25.00
Net Income	$125.00	$100.00
Firm Value	$1,562.50	$1,250.00
Debt Value	$0.00	$0.00
Equity Value	$1,562.50	$1,250.00
Shares Outstanding	62.5	62.5
PPS	$25.00	$20.00
Dividends	$125.00	$100.00
DPS	$2.00	$1.60

Return on Levered Equity		
	0.12	
WACC 50/50		8.00%
	0.14	
WACC 60/40		10.00%
	0.173	
WACC 70/30		13.33%
	0.107	
WACC 40/60		6.67%
	0.097	
WACC 30/70		5.71%
	0.24	
WACC 80/20		20.00%

After Recap	After Recap (W/ Tax)
6.72%	6.40%
$1,500.00	$1,500.00
$1,375.00	$1,375.00
$20.00	$20.00
$0.00	$21.00
$105.00	$84.00
$1,562.50	$1,562.50
$500.00	$500.00
$1,062.50	$1,062.50
42.5	39.4
$25.00	$26.97
$105.00	$84.00
$2.47	$2.13

Base Case

Income Statement (in Millions)		
Revenue	$	1,500.00
Operating Expenses	$	1,375.00
Operating Profit	$	125.00
Net Income	$	125.00
Dividends	$	125.00
Shares Outstanding		62.5
Dividends per share	$	2.00
PPS	$	25.00
	$	32.00
Balance Sheet		
Current Assets	$	450.00
Fixed Assets	$	550.00
Total Assets	$	1,000.00
Book Debt		0
Book Equity		1000

Buyback Pr

Inc
Revenue
Operating E
Operating P
Net Income
Dividends
Shares Out
Dividends p
PPS
Current As
Fixed Asset
Total Asset
Book Debt
Book Equity

Total Capital	1000	Total Capit

roposal

come Statement (in Millions)			WACC 100% Equity	
$	1,500.00			
$	1,375.00			0.09884
$	125.00		WACC (under share repurchase plan)	
$	125.00			
$	125.00		Levered Beta	
	42.5			
$	2.94			
$	69.20			

Balance Sheet	
$	450.00
$	550.00
$	1,000.00
	0
	1000

1000

8%

6.94%

1.10144

	0.098816
WACC	6.94%
0.0640	

Base Case

Income Statement (in Millions)	
Revenue	$ 1,500.00
Operating Expenses	$ 1,375.00
Operating Profit	$ 125.00
EBT	$ 125.00
Tax Expense	$ 25.00
Net Income	$ 100.00
Dividends	$ 100.00
Shares Outstanding	62.5
Dividends per share	$ 2.00
Share Price	$ 32.00

Balance Sheet	
Current Assets	$ 450.00
Fixed Assets	$ 550.00
Total Assets	$ 1,000.00
Book Debt	0
Book Equity	1000
Total Capital	1000

Buyback Proposal

Income Statement (in Millions)	
Revenue	$ 1,500.00
Operating Expenses	$ 1,375.00
EBIT	$ 125.00
Interest Expense	$ 5.00
EBT	$ 120.00
Tax Expense	$ 24.00
Add Back Interest:	$ 5.00
Net Income	$ 101.00
Dividends	$ 101.00
Shares Outstanding	39.4
Dividends per share	$ 2.38
Share Price	$ 60.32

Balance Sheet	
Current Assets	$ 450.00
Fixed Assets	$ 550.00
Total Assets	$ 1,000.00
Book Debt	0
Book Equity	1000
Total Capital	1000

Interest Tax Shield	$ 1.00

Value of Unlevered Firm	$ 1,000.00
PV Tax Shield	$ 25.00
New Value of Firm	$ 1,025.00

1. How do the financial statements for M&M Pizza vary with the proposed repurchase plan? Do the alternative policies improve the expected dividends per share?

The alternative proposal will increase the dividends per share but will not increase the overall dividend an
the no tax scenario.

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2. What impact does the repurchase plan have on M&M's weighted-average cost of capital?

The repurchase plan will lower the cost of capital because debt is cheaper than equity in all instances. In this particular instance, the WACC goes from 8% in the base case to 6.94% in the repurchase plan case.

3. What are the debt and equity claims worth under the alternative scenarios? You ma
that the present value of a perpetual cash flow stream is equal to the expected payment
by the associated required return.

	Before Recap (All Equity)	Before Recap (W/Tax)	After Recap	After Recap (W/ Tax)
WACC	8.00%	8.00%	6.72%	6.40%
Revenue	$1,500.00	$1,500.00	$1,500.00	$1,500.00
Operating Exp	$1,375.00	$1,375.00	$1,375.00	$1,375.00
Interest	$0.00	$0.00	$20.00	$20.00
Tax	$0.00	$25.00	$0.00	$21.00
Net Income	$125.00	$100.00	$105.00	$84.00
Firm Value	$1,562.50	$1,250.00	$1,562.50	$1,562.50
Debt Value	$0.00	$0.00	$500.00	$500.00
Equity Value	$1,562.50	$1,250.00	$1,062.50	$1,062.50
Shares Outstanding	62.5	62.5	42.5	39.4
PPS	$25.00	$20.00	$25.00	$26.97
Dividneds	$125.00	$100.00	$105.00	$84.00
DPS	$2.00	$1.60	$2.47	$2.13

ay note
divided

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.588 = 500/x

PV tax shield	$100.00

4. Which proposal is best for investors? What do you recommend that Miller do?

In a world with no tax, the investors would be indifferent between the share repurchase proposal and no repurch
their equity would remain unchanged. In the instance that the tax plan is implemented, the investors would pref
the interest expense would be deducted from the taxes and therefore would given investors a larger amount in e
scenario where no buyback occurs.

If we were to make a recommendation to Miller, if taxes were implemented, it would be wise of him to go with th
because he would create more value for shareholders. If the current tax laws were to stay in place, the way he sl
D/E is irrelevant in terms of creating more equity for shareholders. The only thing issuing debt would do is lower
making their cost of capital cheaper, although only by less than 1%, which is not the goal of the firm.

ıase because the value of
fer the buyback because
equity compared to the

ıe repurchase plan
lices up his companies
the companies WACC,

5. How would your analysis in questions 2 and 3 and recommendation in question 4 change if the new tax law is implemented? Please note that, with corporate taxes, the expected debt-to-equity ratio under the share repurchase plan is .588 and the number of remaining shares outstanding is 39.4 million.