Solutions

2.1

- $E = 500{,}000 \times 1.80 = £900{,}000$; $V = 1{,}170{,}000$.
- Weights: 76.9% / 23.1%.
- $WACC = 0.769(13.5) + 0.231(7 \times 0.8) = 10.38 + 1.29 = 11.67\%$.

2.2

- Book: 250,000/520,000 = 48% equity weight – roughly the double-count of the market's.
- Investors require returns on what their stake is WORTH; the market price is the worth.

2.3

- $k_e = 3 + 1.3(9.5 - 3) = 11.45\%$.
- Implied private premium = $13.5 - 11.45 = 2.05$ points – a judgement, written down.

2.4

- Each tranche raises the equity beta (k_e climbs) and the new debt prices above 7% for the riskier borrower.
- The curve is U-shaped: the bottom is the right debt, not the most available.

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