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FIN401 - Weighted Average Cost of Capital (WACC) Template

$$\text{WACC} = (W_E)(R_E) + (W_D)(R_D)(1\text{-Tax Rate}) + (W_P)(R_P)$$

Note: If the question doesn't mention anything about Preferred Shares, simply exclude the end of the formula.

Where (W_E) = Weight of Equity   (W_D) = Weight of Debt   (W_P) = Weight of Preferred

      (R_E) = Cost of Equity   (R_D) = Cost of Debt   (R_P) = Cost of Preferred

Step 1: Find the Weights (W_E, W_D, W_P)

    a)   Market Value of Equity (MVE) = (Number of Shares Outstanding)(Stock Price)

       Market Value of Debt (MVD) = (Number of Bonds Outstanding)(PV)

       Market Value of Preferred (MVP) = (Number of Preferred Shares Outstanding)(Stock Price)

    b)   Firm Value (V) = MVE + MVD + MVP

       W_E = MVE / V

       W_D = MVD / V

       W_P = MVP / V

Step 2: Find the Costs of Capital (R_E, R_D, R_P)

    a) $R_E = \dfrac{D1}{P0} + g$ OR $R_E = Rf + B(Erm - Rf)$

    b) R_D is found using the TVM Function of your financial calculator

       N = Years   FV = 1000   PMT = (FV)(Coupon Rate)   P/Y = 1   C/Y = 1   PV = Given

       I = ?   -> R_D = I

       Note: If the Bonds are semi-annual, then multiply N and I by 2, and divide PMT by 2.

    c) $R_P = \dfrac{D1}{P0} + g$

Step 3: Plug values into WACC formula and Solve.

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