# Sicilia Pizza

Jean-Charles Bagneris - v2017.03.1

Sicilia Pizza is a pizza restaurants group, established in France, with more than 40 restaurants in big and medium sized cities. It was created back in 2000 by two brothers whose family was from the Sicilia island in the Mediterranean sea. The Sicilia group developed quickly and is now facing a new step in its development as it wishes to set up in Asia, starting with Vietnam.

Sicilia Pizza has been listed on a small caps market for 2 years now. The unlevered beta of its sector is 1.15. The stock price is 61.30 € and there are 1,176,348 stocks outstanding. The company issued 250,000 bonds 3 years ago, with a 200 € face value, a 6.10% coupon rate and 8 years maturity. The bonds will be repaid at par at maturity and the bonds current YTM is 5.90%. Coupons are paid once a year. There is no other debt. Sicilia could get additional debt at the current YTM.

In order to finance its development, Sicilia requires 10,000,000 € net. It is considering these two financing opportunities:

- A SEO (rights issue) of new common stocks. The issuing price would be 52.50 € and the issuing costs will represent 2.847% of the gross proceeds of the issue.
- A 4-years convertible bonds issue. Coupon rate would be 3.8% and 2 bonds would be convertible into 7 common stocks at any time. In case the bonds are not converted, they would be repaid at 110%. The bonds issuing price and face value would be 264 € and the issuing costs will be 3.4% of the gross proceeds of the issue.

The risk free rate is currently 2.6%, and the expected market return is 13.4%. Corporate tax rate is 1/3 (yes, 1/3, not 33%).

1. What is the market price of Sicilia outstanding bonds? What is then the market value of Sicilia debt? (1 points)
2. What is the beta of Sicilia? Calculate Sicilia cost of equity. (2 points)
3. What is the WACC of Sicilia before the new financing? (3 points)
4. In the SEO case, how many new stocks should be issued to get the required net proceeds? (1 point)
5. How many rights would then be necessary to buy a new stock? What will be the rights theoretical value? (2 points)
6. How many convertible bonds should be issued to get the required net proceeds? (1 point)
7. What is the annual necessary compounded growth in the stock price for the convertible bond to be in the money at maturity? (2 point)
8. What would be the new cost of equity in the SEO case? What would then be the new WACC? Use the stock price right after SEO, and assume the cost of debt does not change. (3 points)
9. A shareholder of the company owns 300 shares of stock and 3,000 € in cash just before the new financing. Assume that 4 years later (at the time of the convertible bond repayment) the stock price is 90 €. What would be her portfolio value then in the SEO case? In the convertible bonds case? Assume no dividends are paid. (3 points)
10. Assume the shareholder required rate of return on the convertible bonds is the YTM on the company's debt. What would be her NPV on investing in 500 convertible bonds? Use conversion assumptions from previous question. (2 points)