Easyvisa

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EasyVisa was a travel agency some ten years ago. Following some financial trouble, it changed its business and now specializes in facilitating visas requests and obtaining for individuals (tourism) and especially for businesses (prospecting, business travel). Its originality and a significant part of its success come from the fact that it works "both ways": it can provide a visa for China to a French executive, but can as well help a French company invite a Vietnamese customer to France. These two examples are often used by the CEO, because the company is quite successful with Asian countries, but he could mention many others.

EasyVisa is considering a significant investment to ensure its presence on the Internet, especially for its individual customers, looking for tourism visas. In these cases, formalities are often simple enough, and online payments are possible.

EasyVisa is not publicly traded, it is a family owned company, and it has always been. However, the CFO believes that he can calculate its beta by using the unlevered beta of the "tourism agencies and tour operators" sector, which is 1.2. EasyVisa has a debt ratio of 24%, it will thus be necessary to adapt the unlevered beta. The company can currently borrow at a 7.40% interest rate (per year). The market risk premium is 8.80% this year, and the risk free rate 3.60%.

The "Internet" development project would require a 480,000 euros investment, expected to provide the following additional sales (in euros):

Year	1	2	3	4	5
Sales	250,000	700,000	1,150,000	1,500,000	2,000,000

The project's EBITDA will be 20% of the additional sales. Project assets will be depreciated on a straight line basis to zero, over 5 years, and will be sold for 27,000 euros at the end of it. The corporate tax rate is 1/3. Assume the company is profitable on all its activities. The additional needs in working capital related to the project will be 12% of the EBITDA and will be recovered at the end of the 5 years.

Questions

1. Calculate EasyVisa's beta
2. What is EasyVisa's cost of equity (in % per year)?
3. What is the required rate of return (RRR) you would use on the investment project (in % per year)?
4. Calculate the project's divestment cash flow (in euros)
5. Present a table with all the project's cash flows
6. The CFO is considering financing the project with additional debt, raising the company's leverage to 45%. This would not change the cost of debt. What would then be the new RRR on the project?
7. Would you go for the new leverage? Why?
8. What is the project's NPV (in '000 €)? Use the RRR that would result from your decision about the new leverage.

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