"We are not a speculator but investor"

ECO352 FINANCE

9/13/2018 In class activity – calculation of flotation costs for equity or debt

The Sprite Toy Company needs to raise funds for a major expansion of its manufacturing operations. Sprite has determined that it will issue $100 million of financing operations, but it has not decided whether to issue debt or equity. The company is publicly traded.

a. Based on the information given in the following table, compute the flotation costs that Sprite would incur if it raises the needed funds by issuing equity only
b. Based on the information given in the following table, compute the flotation costs that Sprite would incur if it raises the needed funds by issuing straight debt only
c. If Sprite wants to keep its flotation costs low, which form of financing should it use?

TABLE 3-3 Flotation (Issuance) Costs for Issuing Debt and Equity[a]

Issue Size ($ millions)	Bonds[b]		Equity[c]	
	Straight	Convertible	Seasoned Issues	IPOs
Under 10.0	4.4%	8.8%	13.3%	17.0%
10.0–19.9	2.8	8.7	8.7	11.6
20.0–39.9	2.4	6.1	6.9	9.7
40.0–59.9	1.3	4.3	5.9	8.7
60.0–79.9	2.3	3.2	5.2	8.2
80.0–99.9	2.2	3.0	4.7	7.9
100.0–199.9	2.3	2.8	4.2	7.1
200.0–499.9	2.2	2.2	3.5	6.5
500.0 and larger	1.6	2.1	3.2	5.7