

Estimates of cost of capital for a payday lender

This table is a comprehensive additional response to PUB/CAC IR 1-33, 1-34, PUB/CPLA IR 25 and additional oral commentary from Board staff that the Manitoba corporate tax rate is 27% for large companies and 11% for small companies. In all combinations nominal debt rate is 10% and expected inflation 2%

	Cost	Weight	Weighted
Equity rate: Bond Yield + Risk Premium of 4%. Tax rate of 27%			
Debt	0.052	0.150	0.008
Equity	0.118	0.850	0.100
WACC			10.8%
Equity rate: Bond Yield + Risk Premium of 4%. Tax rate of 27%			
Debt	0.052	0.600	0.031
Equity	0.118	0.400	0.047
WACC			7.8%
Equity rate: Bond Yield + Risk Premium of 4%. Tax rate of 11%			
Debt	0.068	0.150	0.010
Equity	0.118	0.850	0.100
WACC			11.0%
Equity rate: Bond Yield + Risk Premium of 4%. Tax rate of 11%			
Debt	0.068	0.600	0.041
Equity	0.118	0.400	0.047
WACC			8.8%
Equity rate: CAPM with beta = 1.4. Tax rate of 27%			
Debt	0.052	0.150	0.008
Equity	0.076	0.850	0.065
WACC			7.3%
Equity rate: CAPM with beta = 1.4 Tax rate of 27%			
Debt	0.052	0.600	0.031
Equity	0.076	0.400	0.031
WACC			6.2%
Equity rate: Bond Yield + Risk Premium of 4%. Tax			

rate of 11%

Debt	0.068	0.150	0.010
Equity	0.076	0.850	0.065
WACC			7.5%
Equity rate: Bond Yield + Risk Premium of 4%. Tax rate of 11%			
Debt	0.068	0.600	0.041
Equity	0.076	0.400	0.031
WACC			7.1%

Considering all of the variations of possible values in this table, and other variations that would be possible, Dr. Robinson maintains his opinion that 8% is a reasonable estimate of the real weighted average cost of capital for a payday lender.