

XYLO LTD

W1 MARKET VALUE OF EQUITY

$$= 80m \times 4.65 = \underline{\underline{372m}}$$

W2 IRREDEEMABLE DEBT

$$\text{MARKET VALUE} = 15m \times \frac{0.05}{0.06} = \underline{\underline{12.5m}}$$

W3 REDEEMABLE DEBT

For \$100 NOMINATE:

Time	CASHFLOW	5% DF	PV
1-6	8	5.076	40.608
6	103	0.746	76.838
			<u><u>117.446</u></u>

$$\text{MARKET VALUE} = 26m \times \frac{117.446}{100} = \underline{\underline{30.54m}}$$

$$\begin{aligned} \text{GEARING RATIO} &= \frac{15 + 26}{20 + 299 + 15 + 26} \\ \text{(BOOK VALUES)} & \\ &= \underline{\underline{11.4\%}} \end{aligned}$$

$$\begin{aligned} \text{GEARING RATIO} &= \frac{12.5 + 30.54}{372 + \text{NIL} + 12.5 + 30.54} \\ \text{(MARKET VALUES)} & \\ &= \underline{\underline{10.4\%}} \end{aligned}$$

- MARKET VALUE GEARING LOWER
+ MORE REALISTIC INDICATOR OF TRUE LEVEL OF
DEBT IN THE BUSINESS

⇒ RATIO MUCH LOWER THAN AVERAGE IN
THE SECTOR

- INTEREST COVER OF XYLO WEAKER THAN
INDUSTRY AVERAGE.