COUNTRY AND COMPANY RISK

Start of session 5

Example 1: An Israeli Software Company

- You are valuing an Israeli software company, headquartered and traded in Israel, that derives 95% of its revenues in the US and 5% in Israel. In computing its overall cost of equity, which of the following equity risk premiums would you use?
  - The Israeli ERP
  - The US ERP
  - A weighted average of the Israeli and US ERP, with revenue weights
- How would you respond to the argument that the Israeli regulatory and tax laws are very different from US regulatory and tax laws, and that the ERP should reflect those differences?
- What about the argument that the software is written by software engineers in Tel Aviv?

Example 2: A Nigerian Oil Company

- You are valuing a Nigerian oil company, which gets all of its oil in Nigeria and is headquartered and traded in Lagos, that derives 95% of its revenues in the US and 5% in Nigeria. In computing its overall cost of equity, which of the following equity risk premiums would you use?
  - The Nigerian ERP
  - The US ERP
  - A weighted average of the Nigerian and US ERP, with revenue weights
- What if the Nigerian oil company delists in Lagos and relists on the NASDAQ?

Example 3: An Indian Auto Company

- You are valuing an Indian auto company, with all of its factories in India & is headquartered and traded in Mumbai, that derives 95% of its revenues in the US and 5% in India. In computing its overall cost of equity, which of the following equity risk premiums would you use?
  - The Indian ERP
  - The US ERP
  - A weighted average of the Indian and US ERP, with revenue weights
  - Something else