

Extra Credit Points (to be applied to assignment component of grade; add on to your lowest score – total of 2.5 points available)

Work must be completed in word or excel and handed in readable form on last day of class; You can work with up to 2 individuals on this and only one submission per group is required.

You must show all your work – there will be no assistance from me on this assignment!

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Company ABC is looking to invest in a project whose cash flows are detailed below. Given the following information calculate the projects NPV and comment on whether they should go forward with the project. After your initial findings comment on what could change their decision to invest or not to invest.

CFO = -125000

CF1 – CF5; 40000, 55000, 10000, 30000, 20000

The company is going to raise money to fund the project by issuing bonds and they will use retained earnings. They have bonds that were previously issued that are currently priced at \$1075 in the market. The bonds pay interest annually and mature in 10 years. The coupon of the bonds is 8% and the face is \$1000. The common stock is currently priced at \$100 and the expected dividend of \$6.00 is expected to grow at 6% forever. Their tax rate is 30%, assume 10% flotation cost for any new stock issuance. The target capital structure for this project is 30% bonds and 70% common stock.