

variable costs of \$125 each and fixed costs of \$1,800,000 per year. If Conch Republic does introduce the new smart phone, sales of the existing smart phone will fall by 15,000 units per year, and the price of the existing units will have to be lowered to \$275 each. Net working capital for the smart phones will be 20 percent of sales and will occur with the timing of the cash flows for the year; for example, there is no initial outlay for NWC, but changes in NWC will first occur in Year 1 with the first year's sales. Conch Republic has a 35 percent corporate tax rate and a 12 percent required return.

Shelley has asked Jay to prepare a report that answers the following questions.

QUESTIONS

1. What is the payback period of the project?
2. What is the profitability index of the project?
3. What is the IRR of the project?
4. What is the NPV of the project?