

Sunrise Bakery

Assumptions

Expected Investment Cost	\$3,50,000
Risk Free Rate	3.00%
Market Beta	0.80
Equity Risk Premium	5.50%
Cost of Debt	4.50%
Cost of Equity	7.40%
Tax rate	30%
Debt / (Equity+Debt)	25%
WACC	

Year

Income statement (all figures are incremental)	0	1	2
Revenue (Sales)		\$1,35,000	\$1,45,000
Production Costs		(\$20,000)	(\$22,000)
Depreciation / Amortization		(\$35,000)	(\$35,000)
Profit Before tax		\$80,000	\$88,000
Taxes		(\$24,000)	(\$26,400)
Profit after tax (Net Income)		\$56,000	\$61,600

Projected Balance Sheet

	0	1	2
Cash and Marketable Sec.	\$0	\$91,675	\$1,88,325
Other Current Assets (Inventory and Receivables)	\$15,000	\$17,025	\$17,175
Fixed Assets			
At cost	\$3,50,000	\$3,50,000	\$3,50,000
Accumulated Depreciation / Amortization	\$0	\$35,000	\$70,000
Net Fixed Assets	\$3,50,000	\$3,15,000	\$2,80,000
Total Assets	\$3,65,000	\$4,23,700	\$4,85,500
Current Liabilities (Payables)	\$0	\$2,700	\$2,900
LT Debt	\$0	\$0	\$0
Total Liabilities	\$0	\$2,700	\$2,900
Stock and accumulated retained earnings	\$3,65,000	\$4,21,000	\$4,82,600
Total Liabilities and Equity	\$3,65,000	\$4,23,700	\$4,85,500

Working Capital (Non-Cash Current Assets less Current Liabilities)

Change in working capital

Projected Free Cash Flows to the Project

Net Income	
Depreciation / Amortization	
Change in working capital	
Capital Expenditures (fixed assets at cost)	
After tax salvage value (Terminal Value)	
Free Cash Flows	

IRR

Does this beat the WACC?

NPV analysis (using the WACC)

0 1 2

PV(Cash Flow) @ Discount rate

NPV

Payback Analysis (when do cash flows sum positive?)

Return on invested capital

Average forecasted profit (net income)

Average capital invested (net fixed assets)

Ratio (ROIC)

3	4	5	6
\$1,55,000	\$1,65,000	\$1,65,000	\$1,65,000
(\$24,000)	(\$26,000)	(\$26,000)	(\$26,000)
(\$35,000)	(\$35,000)	(\$35,000)	(\$35,000)
\$96,000	\$1,04,000	\$1,04,000	\$1,04,000
(\$28,800)	(\$31,200)	(\$31,200)	(\$31,200)
\$67,200	\$72,800	\$72,800	\$72,800

3	4	5	6
\$2,90,575	\$3,98,425	\$5,06,225	\$6,14,025
\$17,325	\$17,475	\$17,475	\$17,475
\$3,50,000	\$3,50,000	\$3,50,000	\$3,50,000
\$1,05,000	\$1,40,000	\$1,75,000	\$2,10,000
\$2,45,000	\$2,10,000	\$1,75,000	\$1,40,000
\$5,52,900	\$6,25,900	\$6,98,700	\$7,71,500
\$3,100	\$3,300	\$3,300	\$3,300
\$0	\$0	\$0	\$0
\$3,100	\$3,300	\$3,300	\$3,300
\$5,49,800	\$6,22,600	\$6,95,400	\$7,68,200
\$5,52,900	\$6,25,900	\$6,98,700	\$7,71,500

