Activity 18

Capital Budgeting: Net Present Value

The purpose of this assignment is to practice capital budgeting using NPV.

Group:

Section:

1. You are asked to evaluate a new tractor project for Deere. The engineers and marketing and accounting folks have pooled their efforts to generate the following expectations about the project's cash flows (FCFF). Based on this information, what is the NPV of the project? Assume that the WACC is 10%

t	0	1	2	3	4	5	6	7	8	9	10
CF	(200)	30	40	50	40	50	50	30	30	20	10

2. Imagine you work at a grocery chain that is contemplating starting a food truck supply service. The service will prepare (pre-cook and freeze) 'small plates'—like tapas—which will then be sold to owners of food trucks. The start-up cost is $120 million. Financial analysts calculate that the operation will produce free cash flow (FCFF) of $7 million the 1st year, and that this free cash flow will grow by 10% over the following 25 years (i.e. from t=2 to t=26). After that, free cash flow is expected to grow at a constant rate of 4% forever. If WACC for this project is 8%, what is the project's NPV? *Use time value of money formulas.*