Activity 20

Cash Flow Estimation

Group:

Section:

As the new CEO of Pemrose Corp (Carlton Whitfield), you are announcing a bold new expansion plan that entails building a new factory. The details are as follows:

- The initial cost of the factory is $500 million, and it will last 8 years. The factory value is depreciated straight-line to a book value of $0, and the salvage value of the factory at the end of the project is $100 million.
- Annual sales and costs will be $300 million and $200 million, respectively, in all 8 years.
- Inventories will rise immediately by $15 million, accounts payable will rise immediately by $30 million, and accounts receivable will rise at the end of the first year by $20 million. All working capital components return to original values at the end of the project's life.
- WACC is 10% and the tax rate is 30%.

What is the expansion's NPV?