Chad Edwards Guest Lecture

Media tab on canvas

Career advice, acquisitions vs. asset management.

A restaurant is for sale for $200,000. It is estimated that the rest will earn $20,000 a year for the next 15 years. At the end of 15 years, it is estimated that the restaurant will sell for $350,000. Which of the following would be most likely to occur if the investor’s required rate of return is 15%?

Hint: either solve for the NPV by using PV() less the purchase price. Or, solve for the IRR, using the RATE(), and compare the IRR to the required return

1. Investor would pursue the project
2. Investor would not pursue the project
3. Investor would be indifferent about this project

NPV = -200000 + PV(15%, 15, -20000, -350000) = ($40,039.53)

PV(rate, nper, pmt, fv)

So the correct answer is b. DO NOT PURSUE.

BT Leveraged = the before tax IRR