Excel Exercise:

You have established a company focused on selling thin-client computers tailored for internet transaction processing in the food processing sector. Before committing to invest, a venture capitalist has requested a five-year pro forma income statement detailing projected unit sales, revenue, total variable costs, marketing expenses, fixed costs, and profit before tax.

You expect to sell 2,600 units of thin-client computers in the first year at $180 each. Due to the rapid growth in internet adoption, unit sales are projected to double each year for the next five years. However, increasing competition is expected to reduce the price by 13% annually.

In terms of costs, technological advances will reduce the initial variable manufacturing cost of $100 per unit by 16% each year. Fixed costs are estimated at $100,000 per year, and marketing expenses are projected to be 24% of annual revenue. At the point when profitability supports it, you plan to lease an automated assembly machine, which will reduce variable manufacturing costs by 25% but double the annual fixed costs. After this adjustment, the new variable manufacturing cost will continue to decline by 16% per year. Net present value (NPV) will be used to evaluate the cumulative annual profit stream, discounted at a rate of 15% per year.

Tasks:

A. Create a five-year pro forma income statement, excluding tax implications, for the venture capitalist.

B. Calculate Year 1 Breakeven: Determine the number of units required to be sold in the first year to reach breakeven within that year.

C. Calculate Year 2 Breakeven: Determine the number of units required to be sold in the first year to achieve breakeven by the second year.

D. Prepare an Investor Presentation: Summarize the financial projections, break-even points, and key insights, including any additional perspectives from your end to support the investment decision.