

12.1.2023

Subject: The financial analysis of Madison Park Property Project

Dear Ann,

Thanks for entrusting me with the analysis of the project concerning the closure of the convenience store and subsequent opening of a coffeeshop. Today I am going to present the process, results, implications, and recommendations from the comprehensive analysis. To ensure a clear understanding, I prepared two distinct cash flow projections: one for the existing convenience store and another outlining the incremental cash flows for the proposed coffee shop, with the closure and renovation of the convenience store as a cash outflow beginning at the end of June 2024.

In order to tell you whether it is worth investing in the coffee shop, there are some components that I consider, such as the estimation of wealth creation or destruction value from the potential investment from today, the rate of return, which measures the investment's profitability, the time frame for risk exposure, and cash flow recovery. First, positive incremental cash flow is a good sign indicating that investment is profitable to investors, as revenues surpass expenses. However, take a look closely at the net present value, which shows that if the project creates wealth for investors, the value of \$ (-106,118.43) implies that the project is not viable for investment. Or I can say that if you invest in this project, you are expected to create a loss of \$106,118.34.

Second, the internal rate of return is expected to be greater than the average rate of return, which is 8.12%; however, the project's IRR is 5.09%, which means the expected annual rate of return for your investment is 5.09%. Your IRR is lower than WACC (8.12%). Third, for the payback

period, the projection indicates that it would take approximately 7.48 years to recoup the initial investment. Given that there is a tentative plan to relocate after 10 years, this would allow a mere 2.5 years to realize any profit from this investment. Since the project does not meet any of those criteria, I personally think this project is not worth investing in based on its outcome. Based on the analysis, I recommend that you consider continuing to operate the modest convenience store based on the current one since it might be less expensive than a renovation project.

All above is my financial analysis and recommendations for your decision on investment. I hope it is helpful to you.

Please do not hesitate to reach out to me if you have any questions!

Best,

Phuong (Rachel) Nguyen