**ENGG4900 Module 3 - Financial Evaluation of Projects**

**Tutorial 6 – DCF, NPV and IRR**

**Question 1**

You work for a large beverage company. The company is considering investing in new equipment to produce a new product line of zero alcohol beer. The upfront capital investment is $2.1m. The revenues are estimated to be $1.95m in year 1 and projected to grow at 5% pa. The operating costs are $950,000 in year 1 and projected to grow at 3% pa. The expected life of the investment is 7 years. Assume the equipment can be linearly depreciated over the life of the project. The tax rate is 30%. The salvage value of the equipment is estimated to be $250,000. The company discount rate is 11%.

What is the NPV? What is the IRR?

Should the company invest in this project?