

Capital Budgeting – mutually exclusive Investment Projects



Company XYZ evaluates two mutually exclusive Investment Projects (A and B) that lead to the following (estimated) increases in company cashflows/profits (in MUSD):

Project	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Project A	20	30	40	50	100	200
Project B	50	75	100	75	50	10

Both projects require an initial Investment of 200 Million USD (to buy Machinery and Plant).

The projects are mutually exclusive. Which project should XYZ realize? Assume a company-wide required rate of return of 6.0% p.a. for comparable projects.

Calculate the (hypothetical) required rate of return where your decision would change (crossover rate). Visualize!

Mutually exclusive Investment Projects - Solution

Decision Rule when NPV and IRR conflict:
Realize Project with higher NPV!

