The expected annual free cash flow for the GPS tracker investment from problem 3-1 is computed as follows:

Revenues 1,250,000

Variable cost 750,000

Fixed expenses 250,000

Gross profit 250,000

Depreciation 100,000

Net operating income 150,000

Income tax expense 51,000

NOPAT 99,000

Plus: depreciation 100,000

Less: CAPEX

Less: working capital investment

Free cash flow 199,000

1. Construct a spreadsheet model to compute free cash flow that relies on the following assumptions or estimates:

**Base Case Estimates Values**

Initial cost of equipment 1, 000,000

Project and equipment life 10 years

Salvage value of equipment 0

Working capital requirement 0

Depreciation method Straight-line

Depreciation expense 100,000

Discount rate 10.00%

Tax rate 34.00%

Unit sales 10,000

Price per unit 125.00

Variable cost per unit 75.00

Fixed costs 250,000

1. What level of annual unit sales does it take for the investment to achieve a zero NPV? Use your spreadsheet model to answer this question. (Hint: Use the Goal Seek function in Excel.)
2. If unit sales were 15% higher than the base case, what unit price would it take for the investment to achieve a zero NPV?