1. What is Indian River's Year 0 net investment outlay on this project? What is the expected
nonoperating cash flow when the project is terminated at Year 4? (Hint: Use Table 1 as a
guide.)
2. Estimate the project's operating cash flows. (Hint: Again, use Table 1 as a guide.) What are the
project's NPV.FCF, and payback? Should the project be undertaken? Remember: The MIRR is found in three steps: (1) compound all cash inflows forward to the 4 terminal year at the cost of capital, (2) sum the compounded cash inflows to obtain the terminal X) value of the inflows, and (3) find the discount rate which forces the present value of the terminal value to equal the present value of the net investment outlays. This discount rate is defined as the MIRR.]

 **TABLE 1 Project Cash Flow Estimates**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Net Investment | Depreciation Schedule: |  |  |  |
| Outlay: |  |  |  |  |
| Price | X Basis = | X |  |  |
| Freight | X  |  | Deprec. | End-of-Year |
| Installation | X Year Factor | MACRS | Expense | Book Value |
| Change in NWC | X 1 33% | 33% | $188,100 | $381,900 |
|  | X 2 X | X | X | X |
|  |  3 X | X | X | X |
|  |  4 2 | 7 | 39.900 | 0 |
|  |  | 100% | — X |  |
| Cash Flow | Statements: |  |  |  |
|  | Year 0 Year 1 | Year 2 | Year 3 | Year 4 |
| Unit price | $ 2 | X | X | $ 2 |
| Unit sales | 425.000 | X | X | 425.000 |
| Revenues | $850,000 | X | X | $850,000 |
| Operating costs | 637,500 | X | X | 637,500 |
| Depreciation | 188,100 | X | X | 39,900 |
| Other project | 20.000 | x | x | 20.000 |
| effects |  |  |  |  |
| Before tax | $ 4,400 | X | X | $152,600 |
| income |  |  |  |  |
| Taxes | 1.760 | x | x | 61.040 |
| Net income | $ 2,640 | X | X | $91,560 |
| Plus depreciation | 188.100 | x | x | 39.900 |
| Net op cash flow | $190.740 | x | X | $131.460 |
| Salvage value |  |  |  | $100,000 |
| SVtax |  |  |  | X |
| Recovery of NWC |  |  |  | X |
| Termination CF |  |  |  | X |
| Project NCF |  \_X X | \_X\_ | \_X | \_X — |
|  |  |  |  |  |