

You will perform an analysis based on information provided and determine the most desirable investment alternative to select. The analysis involves the choice between two mutually exclusive investment proposals to install two types of machinery that yield different operating efficiencies that affect cash flow. The objective of this is to select the investment alternative that best fits the long-term strategic goals and objectives of the company and that produces the economic impact most favorable to the maximization of shareholder wealth.

Prepare a report, not to exceed four pages, on the following features of the company.

- Assume that the company will use its WACC (weighted average cost of capital) as the discount rate basis for analysis. Given the firm's current capital structure, what is the firm's WACC? You may assume the WACC to be 2 points plus the prevailing New York prime lending rate. The superior paper will go through a detailed calculation of the WACC. Interpret the firm's future financing limitations and suggest a strategy to finance the project. (Your paper will lose 10 percent if you use the prime plus 2 point option.)
- Are there any capital rationing limitations to consider?
- Describe the impact of varying the levels of working capital on asset levels.
- Based on the financial research and analysis skills you are developing, describe the financial management practices, documentation, and risk levels of the organization.

Further assume the following parameters for calculation purposes:

- Management has established a target required rate of return of 20% on all capital projects.
- The company's average tax rate is 40%.
- Detailed information on each investment alternative is as follows:

| Detailed information on each investment alternative | | |
|--|------------|-----------|
| Parameter | Machine A | Machine B |
| Invoice Price | \$ 100,000 | \$50,000 |
| Shipping/Installation | \$ 20,000 | \$ 10,000 |
| MACRS Class | 3 | 3 |
| Project Life | 5-years | 5-years |
| Salvage Value | \$ 50,000 | \$ 0 |
| Incremental Revenues (EBITD; before taxes and depreciation. Note, these are not cash flows so you must convert.) | EBITD | EBITD |
| Year - 1 | \$125,000 | \$135,000 |
| Year - 2 | \$125,000 | \$135,000 |
| Year - 3 | \$125,000 | \$135,000 |
| Year - 4 | \$125,000 | \$110,000 |
| Year - 5 | \$125,000 | \$110,000 |

1. Construct a timeline for each of the project's cash flows.
2. Do the cash flows include any considerations for interest expense and dividends? Why or why not?
3. Based on the information provided, calculate each project's NPV, IRR, and payback for each option. Discuss the need for an MIRR calculation.
4. Discuss the criteria for selecting the appropriate alternative, and make your recommendation.

