|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 1.      Buck Inc. is considering an expansion project that requires an investment of $90 million in machinery. | | | |  |  |
| This is expected to produce sales of $140 million in year 1 and $150 million in year 2. | | | |  |  |
| The machinery will be depreciated over two years on a straight-line basis to a zero book value. | | | |  |  |
| The machinery will be scrapped after 2 years with a salvage value of $5 million. Cost of goods sold (COGS) is | | | | |  |
| expected to be 40% of same year sales. Selling, general and administrative expenses are $15,000,000 per year. | | | | |  |
| Year-end net working capital (NWC) is given in the table below. The corporate tax rate is 30%. | | | |  |  |
| Find the free cash flows for the project by filling in the table below. | | |  |  |  |
|  |  |  |  |  |  |
|  | **Year 0** | **Year 1** | **Year 2** |  |  |
| NWC Needed | 5,000,000 | 6,000,000 | 0 |  |  |
|  |  |  |  |  |  |
|  | **Year 0** | **Year 1** | **Year 2** |  |  |
| Sales Revenue |  |  |  |  |  |
| Cost of Goods Sold |  |  |  |  |  |
| Fixed Operating Expense (SGA) |  |  |  |  |  |
| Depreciation Expense |  |  |  |  |  |
| EBIT |  |  |  |  |  |
| Taxes |  |  |  |  |  |
| Net (Operating) Income |  |  |  |  |  |
| Operating Cash Flow |  |  |  |  |  |
| Capital Investment & Net Salvage |  |  |  |  |  |
| Net Working Capital (NWC) Investment |  |  |  |  |  |
| **Free Cash Flow** |  |  |  |  |  |
|  |  |  |  |  |  |