Show all your calculations in this problem. Consider the following company. It has the following financial projections for the next two years (years 1 and 2) in millions of dollars. Assume depreciation is included in COGS.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Year 0** | **Year 1** | **Year 2** |
|  |  |  |  |
| Sales Revenue | --- | $ 1,000 | $ 1,100 |
| COGS | --- |  600 |  650 |
| SG&A | --- |  130 |  120 |
|  |  |  |  |
| ***Current Assets*** |  |  |  |
| Cash | $ 30 | $ 50 | $ 50 |
| Receivables |  35 |  55 |  100 |
| Inventories |  125 |  200 |  220 |
| Total Current Assets | $ 190 | $ 305 | $ 370 |
|  |  |  |  |
| Net Fixed Assets |  640 |  760 |  700 |
| Total Assets | $ 830 | $ 1,065 | $ 1,070 |
|  |  |  |  |
| ***Current Liabilities*** |  |  |  |
| Accrued Expenses and otherNon-Interest-Bearing Current Liabilities | $ 15 | $ 20 | $ 60 |
| Accounts Payable |  40 |  45 |  50 |
| Total Current Liabilities | $ 55 | $ 65 | $ 110 |
|  |  |  |  |
| Long-Term Debt |  700 |  700 |  700 |
| Equity |  75 |  300 |  260 |
| Total Liabilities and Net Worth | $ 830 | $ 1,065 | $ 1,070 |
|  |  |  |  |

**Other Data**

* The current time is Year 0
* Firm’s equity β at present = 1.5
* Current debt/equity ratio market value terms = 0.25 (assume this is also the optimal capital structure)
* 50 million shares outstanding; current stock price = $18
* Tax rate = 40%
* The risk-free rate is 4% and the market equity risk premium is 7%
* Pre-tax cost of debt for firm = 8%
1. What is the weighted average cost of capital applicable to this firm?
2. Calculate the enterprise value of this firm at present (Year 0) using discounted cash flow analysis assuming that the free cash flow in year 2 will grow 2% per year forever.