Finance 5880

ASSIGNMENT 1

1. Case 1: Review the requirements of the Chapter 3 Mini-Case, parts b through j. Then apply those same requirements to do an analysis of Brinker International, which is a real company. Do the analysis on the basis of the figures for the most recent year. For part g, use the 2 most recent years. Download 10K financial statements for the most recent year for Brinker. A good source is the company's home page. Also compare the Brinker ratios to the industry averages. You'll note that some of the company's ratios you calculate won't agree with those found on the web page. Ratios are calculated in different ways, however, you should use the formulas in the text. Also, you won't find all of the industry averages, but you will find most of them. You'll need the company's stock price for several of the ratios; use the fiscal year end price. The company's stock symbol is EAT.
2. What effect did the the expansion have on sales and net income? What effect did the expansion have on the asset side of the balance sheet? What effect did it have on liabilities and equity?
3. What do you conclude from the statement of cash flows?
4. What is free cash flow? Why is it important? What are the five uses of FCF?
5. What are operating working capital and total net operating capital does Computron have?
6. What are Computron’s net operating profit after taxes (NOPAT) and free cash flow (FCF)?
7. Calculate Computron’s reurn on invested capital. Computron has a 10% cost of capital (WACC). Do you think Computron’s growth added value?
8. Jamison also has asked you to estimate Computron’s EVA. She estimates that after-tax cost if capital was 10% in both years.
9. What happened to Computron ‘s Market Value ADDED (MVA) .
10. Assume that a corporation has 100,000 of dividend income. What is the company’s federal tax liability?
11. Assume that you are in the 25% marginal tax bracket and that you have $5,000 to invest. You have narrowed your investment choices down to California bonds with a yield of 7% or equally risky Exxon Mobil bonds with a yield of 10%. Which on e should you choose and why? At what marginal tax rate would you be indifferent to the choice between California and ExxonMobil bonds?

[(Visit Brinker web site)](http://www.brinker.com)

[(Access industry averages)](http://moneycentral.msn.com/investor/invsub/results/compare.asp?Page=FinancialCondition&Symbol=EAT)

For this section I answered the questions just need to plot to excel spreadsheet.

2. Chapter 11: Problems 1, 3, 4, and 6

1. A project have an initial cost of 52,125, expected net cash inflows of 12,000 per year for 8 years, and a cost of capital of 12%. What is the project NPV?

NPV = -$52,125 + $12,000[(1/I)-(1/(I\*(1+I)N)]

= -$52,125 + $12,000[(1/0.12)-(1/(0.12\*(1+0.12)8)]

= $7,486.68.

3. A project have an initial cost of 52,125, expected net cash inflows of 12,000 per year for 8 years, and a cost of capital of 12%. What is the project MIRR

MIRR: PV Costs = $52,125.

FV Inflows:

PV FV

0 1 2 3 4 5 6 7 8

12%

| | | | | | | | |

12,000 12,000 12,000 12,000 12,000 12,000 12,000 12,000

13,440

15,053

16,859

18,882

21,148

23,686

26,528

52,125 MIRR = 13.89% 147,596

PV = -52125, PMT = 0, FV = 147596, and then solving for I = 13.89

4. A project have an initial cost of 52,125, expected net cash inflows of 12,000 per year for 8 years, and a cost of capital of 12%. What is the project PI?

PV = $12,000[(1/I)-(1/(I\*(1+I)N)]

= $12,000[(1/0.12)-(1/(0.12\*(1+0.12)8)]

= $59,611.68.

6. A project have an initial cost of 52,125, expected net cash inflows of 12,000 per year for 8 years, and a cost of capital of 12%. What is the project discounted payback period?

The project’s discounted payback period is calculated as follows:

Annual Discounted @12%

Period Cash Flows Cash Flows Cumulative

0 ($52,125) ($52,125.00) ($52,125.00)

1 12,000 10,714.80 (41,410.20)

2 12,000 9,566.40 (31,843.80)

3 12,000 8,541.60 (23,302.20)

4 12,000 7,626.00 (15,676.20)

5 12,000 6,808.80 (8,867.40)

6 12,000 6,079.20 (2,788.20)

7 12,000 5,427.60 2,639.40

8 12,000 4,846.80 7,486.20

The discounted payback period is 6 +  years, or 6.51 years.