Quiz: 2/13/12 Name & Class time____________________________

Quiz: Assume your firm is considering whether or not to invest $5,000,000 into a new factory to produce batteries for electric and hybrid cars. The factory will fall into the 7-year MACRS class. Sales from the new factory are expected to equal $6,000,000 a year from today and are expected to grow by 20% per year for 5 years. The cost of producing these sales will be 60% of sales and salaries at the plant will equal $1,000,000 per year. Seventy percent of all sales will be on credit that will be collected one year after the sale. Inventory will equal 25% of sales and will be purchased for cash. If the factory is built, the firm will need to increase its cash balances from $500,000 to $600,000 one year from today. The firm's cash holdings would fall back to $500,000 when it sells the factory ten years from today for an estimated $750,000. Set up to calculate the firm's unlevered net income and free cash flow three years from today if the firm's marginal tax rate is 35%.

Note: You don't have to solve anything, just set everything up.

Note: Bonus WSJ Questions on back of page