

Solution to FIN 533 homework
Due November 10, 2009

$$\text{Capital expenditures} = \$3,190 - (\$3,223 - 483) = \$450$$

$$\Delta\text{NWC} = \$491 - \$413 = \$78$$

Cash flows to Equity for a Levered Firm

Net Income	\$275
+ Depreciation & Amortization	+ 483
Cash flows from Operations to Equity Investors	\$758
- Preferred dividends	-0
- Capital expenditures	-450
- Working capital needs	-78
+ Net debt issuance	-150
Free Cash flow to Equity Holders	<u>\$80</u>

$$\text{FCFE per share} = \$80/100 = \$0.80 \text{ per share}$$

$$\text{FCFE}_1 = \$0.80(1.20) = \$0.96$$

$$\text{FCFE}_2 = \$0.96(1.15) = \$1.104$$

$$\text{FCFE}_3 = \$1.104(1.10) = \$1.2144$$

$$\text{FCFE}_4 = \$1.2144(1.06) = \$12873$$

$$V_3 = \frac{\text{FCFE}_4}{k - g} = \frac{\$1.2873}{.16 - .06} = \$12.8726$$

$$\text{CF}_0 = \$0$$

$$\text{C01} = \$0.96$$

$$\text{C02} = \$1.104$$

$$\text{C03} = \$1.2144 + \$12.8726$$

$$I = 12\% \quad \text{CPT NPV} = \$10.67$$