

Operating cash flow and market risk premium assignment



**ASSIGN
BUSTER**

How many aircraft does Airbus need to sell each year in order to break even (in NP) on this investment? The assigned assumptions for this calculation are described at the end of the assignment. B. Where your break-even estimate in 2. A. Elise on assumptions (including my suggestions below) that are unrealistic or uncertain, please comment on whether different assumptions would increase or decrease the break-even number. Along the same lines, you should comment on any relevant considerations that have been omitted in the calculation. C. Compare the break-even number to likely annual demand for very large aircraft (VIAL) up through 2019, considering both the projections supported by Airbus and those supported by Boeing in your determination of demand.

Comment on the major factors determining demand, contrasting Boeing's and Airbus' views regarding the future of air travel. 3. How should Boeing respond to the possibility that Airbus might build the AJAX'? Does your answer depend on what you expect Airbus to do? Even if you think there is no clearly best course of action for Boeing, you can describe the options and the ways in which they are desirable or undesirable. 4. Should Airbus commit to build the AJAX'? Your answer to this question presumably will be based on the rest of your paper, especially the results from question 2.

Feel free to comment on anything else that you think is important or interesting. General Instructions: Prepare your answers in the form of a unified report rather than, for example, a set of bullet points. You may (but are not required to) include section headings, but the sections ideally will transition smoothly from one to the next. Your writing quality, including not

only grammar and spelling but also clarity, organization, and style, will affect your score.

Be sure to heed the advice indicated in the “ Common Grammatical Problems” file. Double-space your paper. Your written answer for the break-even number (Question AAA) does not need to include algebra; two or three sentences explaining the general approach employed is adequate for an appealing presentation because I will also have your spreadsheet. If, however, you decide to reject some of my suggestions for the calculation, which I do not generally recommend, then you should explain in greater detail what exactly you did and why you did it.

Submit hard copies of your spreadsheet and written answers (with the spreadsheet Airbus: Operating Cash Flow and Market Risk Premium By Hendrix As noted in the syllabus, all calculations should be performed and clearly labeled within your spreadsheet. Create cells for each input parameter, e. G. , the market risk premium, and use cell references rather than just typing in numbers in formulas. When your spreadsheet is complete, you should be able to change any input and see your final answer change as a result.

Resubmission After I have graded your work, you are to revise both the spreadsheet and the written work unless I have made no comments on one or the other of those. Submit Word and Excel files with your revised work on the website. Also submit a hard copy of the new work and return your original hard copy with my comments. Do not staple the original and new

copies together (but do staple the pages within each copy). Approach for Answering Question AAA: 1 .

Start by calculating the UP (as of year 2000, one year before costs are first incurred) of startup cost cash flows? investment, working capital, and R&D, including the effect of taxes and depreciation (in cash flow form). 2. Then assume that a constant number of planes will be sold in each of 40 years with the first revenues received in 2008, 8 years from the present, generating a growing (at the rate of inflation) annuity of net cash flows. Find the number of planes per year such that the Poof cash flows from the planes equals the UP of startup costs from part A. . Compare this number of planes (multiplied by an appropriate number of years) to the number of planes the airlines will likely demand up through 2019. 4. Use CAMP-based discounting for both the startup and future cash flows, assuming the market risk premium (E(Arm)-RFC) is 6%. 5. Use information from the text of the case on depreciation, tax rate, 2008 realized selling price, beta of comparable, risk-free rate, and operating margin 6. Operating margin is a concept different from operating cash flow.

Operating margin is classical except perhaps for an adjustment associated with Other Income that we will assume is not relevant here. 7. Use the Exhibit 10 timeline for startup costs * Note that the working capital investments provided in the table are already in the form of changes in NC. * Our rule of thumb has been that the first year of depreciation for a given capital expenditure is the year after that expenditure. For the AJAX, depreciation will be increasing over time due to the gradual capital

expenditures. Your Poof the startup phase should incorporate tax benefits from depreciation for the years even after 2008.