Weighted average cost of capital and new product line assignment

Business

International Finance Uncle Jim 2011 Brief Case: Flash Memory, Inc. Presentation: By teams of 6 Format: Teams will present a written report and deliver a verbal presentation supported by PowerPoint. Time: Initial introduction October 19 Working groups October 24-November 2 In Class ReviewNovember 7 In Class PresentationNovember 9 Each presentation will be not longer than 15 minutes. Discussion questions to be completed in writing showing all calculations, assumptions, and support for conclusions in the form of exhibits: 1.

Assuming the company does not invest in the new product line, prepare forecasted income statements and balance sheets at year-end 2010, 2011, and 2012. Based on these forecasts, estimate Flash's required external financing: in this case all required external financing takes the form of additional notes payable from its commercial bank, for the same period. 2. Assuming the company does invest in the new product line, prepare forecasted income statements and balance sheets at year-end 2010, 2011, and 2012.

Based on these forecasts, estimate Flash's required external financing which could come from other suggested sources. Is there sufficient financing available in the existing loan agreement? Can the company take on more debt financing? How attractive is the proposal to move its bank financing to the factoring division? What is the impact of a private sale of new common stock? 3. What course of action do you recommend regarding the proposed investment in the new product line?

Should the company accept or reject this investment opportunity? 4. How does your recommendation from questions 2 and 3 (above) impact your estimate of the company's forecasted income statements and balance sheets, and required external financing if the company relies solely on additional notes payable from its commercial bank, compared to a sale of new equity? 5. As CFO Hathaway Browne, what financing alternative would you recommend to the board of directors to meet the financing needs you estimated in questions 1 through 4 (above).

What are the costs and benefits of each alternative? You should show considered statistics including (but not limited to) the following: Earnings Per Share, Interest coverage ratio, Return On Equity, NP / AR, NP/SE, L/SE, NP Important assumptions and key factors: 1. Read all footnotes and explanations on all of the exhibits. Many key assumptions and computation factors are enumerated. Following are some of the calculations you should prepare.

You can find definitions and discussion on sites such as WWW. INVESTOPEDIA. COM: 2. Weighted Average Cost of Capital ??? Show calculations and assumptions Calculate Asset Beta for the industry using market value weights. You may make reasonable assumptions relating to Debt Beta but support this value with discussion. When comparing Beta for the four companies use Debt Book Value in your calculations wherever you might otherwise consider Market Value of Debt(not provided for the other companies).

B(a) = B(d) x (D/V) + B(e) x (E/V) D = book value of debt; E= Market value of equity; B(e) = 0. 2; B(d) = debt beta; B(e) = equity or levered beta; B(a) = asset or unlevered beta Calculate cost of equity capital for Flash considering the Market Risk Premium Calculate cost of debt capital for Flash Target Capital Structure 3. Net Present Value of the new product line 4. You will be provided with an Excel spreadsheet. You can use the Excel sheet as a tool in your forecasting. [pic][pic][pic]