REVIEW FOR FINAL EXAM

FINAL EXAM

Wednesday, December 11th

8:00 – 10:30 AM

- For Online Students: **Friday (12/6) through Wednesday (deadline: Wednesday, 12/11)**
- Don't Forget:
  - Financial Calculator
  - A Black Pen (preferably)
  - *Reminder about the **back side** and **ALL** pages*

THINGS TO DO…

- Study both the notes and the book.
- Do suggested problems.
- Do more problems!
- Be comfortable with calculator, but understand concepts (e.g., timeline).
- Get help if you are having problems.

HELP!

- Office Hours
  - Tuesdays and Thursdays
  - 11:00 AM – 12:00 Noon

    or by appointment
- Phone: (334) 844-5303
- Email: yostkev@auburn.edu
- You can ask questions up to your exam time

THINGS NOT TO DO…

- Study solutions and not do problems.
- Memorize all the formulas.
- Forget your calculator.
- Think bad thoughts about me between now and the exam.

INVESTMENT CRITERIA

- Chapter 5
- NPV, IRR, MIRR, PI, PB, DPB
- Pros and Cons
- When do they always agree? When might they disagree?
- Projects with Unequal Lives
  - Replacement Chain/Common Life
  - Equivalent Annual Annuity/Equivalent Annual Cost

CAPITAL BUDGETING

- Chapters 6 and 7 (sections 7.1-7.2 and 7.4)
- Calculating Project Free Cash Flows
  - Relevant Incremental Cash Flows
  - Depreciation (Straight-line and MACRS)
  - After-tax Salvage Value
- Risk Analyses
  - Sensitivity Analysis
  - Scenario Analysis
  - Simulation Analysis
  - Phased Decisions

CAPITAL STRUCTURE

- Chapters 16 and 17
- M&M Propositions (firm value, R_E, WACC) without Taxes
- M&M Propositions (firm value, R_E, WACC) with Taxes
  - Assumptions (taxes, financial distress costs), calculations, and concepts
- Trade-off Theory of Capital Structure

THE OLD STUFF

- Valuation
  - Time Value of Money
  - Free Cash Flow and Required Return
    - Bond Value
    - Stock Value
    - Firm Value
    - YTM
    - R_E
    - WACC

EXAM CONTENT AND STRUCTURE

QUESTIONS AND PRACTICE PROBLEMS

Comprehensive, Inc. is evaluating an expansion project that will last 3 years. The project has the same risk as the firm's current operations and the firm is in the 40 percent tax bracket. The project will require equipment costing $850,000 and an increase in net working capital of $60,000. The equipment is expected to have a salvage value of $275,000 at the end of the project. Sales are forecasted to be $1.2 million annually, with costs at 45 percent of sales. The equipment falls in the MACRS 3-year asset class.

The common stock of Comprehensive, Inc. has a beta of 1.6 and maintains a constant growth rate in dividends of 7.6 percent. The firm just paid a $1.35 annual dividend yesterday and there are 22 million common shares outstanding. The firm also has 5 million shares of preferred stock outstanding that currently have a dividend yield of 9 percent and pay a $3.24 annual dividend, of which the most recent one was paid yesterday. The 10 year Treasury is yielding 4 percent and you use a 6 percent estimate for the market risk premium. Further, you are instructed to only use the CAPM to estimate the required return on common stock (i.e., ignore other methods).

Comprehensive, Inc. has 200,000 bonds outstanding that mature in 12 years, have a $1,000 face value, and make semiannual coupon payments. The coupon rate is 8 percent and they currently have a yield to maturity of 7 percent. Assume the firm made its most recent coupon payment yesterday.

Should the firm invest in this project?