**Introduction**

The Primary goal of the project is for students to gain practice applying finance concepts to practice. Additional goals are for students to (1) become familiar with sources of economic and financial information and in particular the Bloomberg Database, and (2) practice their writing skills. The project is an individual assignment and late submissions will not be accepted.

**Recommended Information Sources**

Bloomberg Database. This is located in the Wells Fargo Financial Markets Laboratory. It is located in Wells Fargo Financial Markets Laboratory. To get there from the door that is facing the open air theater, once you enter the door you go left (there will be a sign telling you to go left also). Then, go to the right to get passed all the computers then go all the way to the end and make another right (it is the last junction at which you could make a right). Finally, it’s the second door on the left.

**ANSWER ALL OF THE QUESTIONS FOR A PARTICULAR COMPANY. THE CHOICE OF COMPANY IS UP TO YOU. BUT, PLEASE EMAIL ME TO LET ME KNOW OF YOUR SELECTION. COMPANY SELECTION IS FIRST COME FIRST SERVE. IT IS A GOOD IDEA TO KEEP THREE OR FOUR COMPANIES IN MIND BECAUSE YOU ARE TO USE THE BLOOMBERG DATABASE IN YOUR RESPONSE TO EACH QUESTION. YOU CANNOT PICK MICROSOFT BECAUSE THIS IS OUR EXAMPLE.**

1. Calculate the free cash flow for your company over the period 2010-2015. Please include the formulas detailing the calculation of the free cash flow and the numbers that resulted from implementing this calculation. To carry out this calculation, please find the financial analysis screen corresponding to the company. From the financial analysis screen, you can go to the cash flow statement which provides you with the “operating cash flow” from this you subtract “capital expenditures” to get free cash flow.
2. Now we assume that we are in the year 2009, please calculate the value of a project proposal that will last over the period 2010 through 2015. This project will generate cash flow equal to the free cash flow the firm is expected to generate over the above period. This means that we will assess the project’s value today (i.e. 2009) based upon the cash flow it is expected to be able to generate over the next five years (2010-2015) based upon your response to question 1. So, we will need to assess the risk of the project. As we have assumed in class, the risk of the project is at the level of the risk of the firm. We will use three different methods to calculate the discount rate which will capture the risk of the firm.
3. The cost of equity using the capital asset pricing model (CAPM). In this calculation you will need to include a calculation of beta, which is your firm’s index of systematic risk. Please calculate beta in two ways. 1) Calculate beta by taking the ratio of the covariance of the market return with the return of your firm’s return to the variance of the market. Please use data covering the period 2000-2015 at monthly increments just like we did in class for the Microsoft example to calculate the beta. 2) Using that same period, please use regression analysis to calculate the beta. This answer should match the answer that you get for beta from the first method. Please also indicate whether or not you believe that your estimate of the beta is statistically significant. You will also need an estimate of the market risk premium. To calculate this value, please use the return to the S&P 500 and the risk-free rate over the aforementioned period, and take the average of that excess return corresponding to the return to the S&P 500 over the risk free rate for this period. Please include all spreadsheets used in your calculation along with details regarding how you arrived at each calculation in your answer.
4. The weighted average cost of capital (WACC). Please include all details and assumptions of your calculation and/or spreadsheet used to calculate it here.
5. The WACC that is computed by Bloomberg for your firm. Please explain how Bloomberg calculates the WACC.
6. Please use each of the three discount rates computed above to calculate the present value of the free cash flows over the period 2010-2015.
7. Please discuss the advantages and limitations of each of the above approaches to calculating the discount rate. Which one do you think is the best? Please justify your answer.