



THE WHOLE FOODS DINING CASE: INVESTMENT ANALYSIS

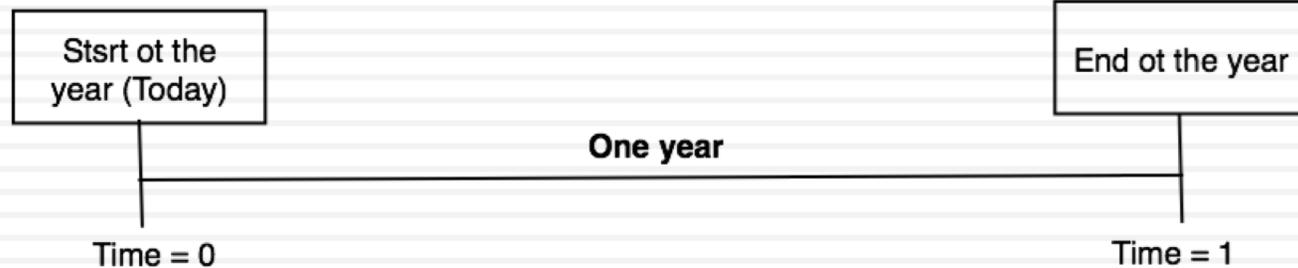
Aswath Damodaran

Discrete and Continuous Time

The Real World

Most of your cash flows occur over the entire year. Revenues and operating expenses are spread over the year, though there may be "seasonal" factors

Some of your cash flows (tax payments, debt payments) occur at discrete intervals (every quarter or month)



The PV World

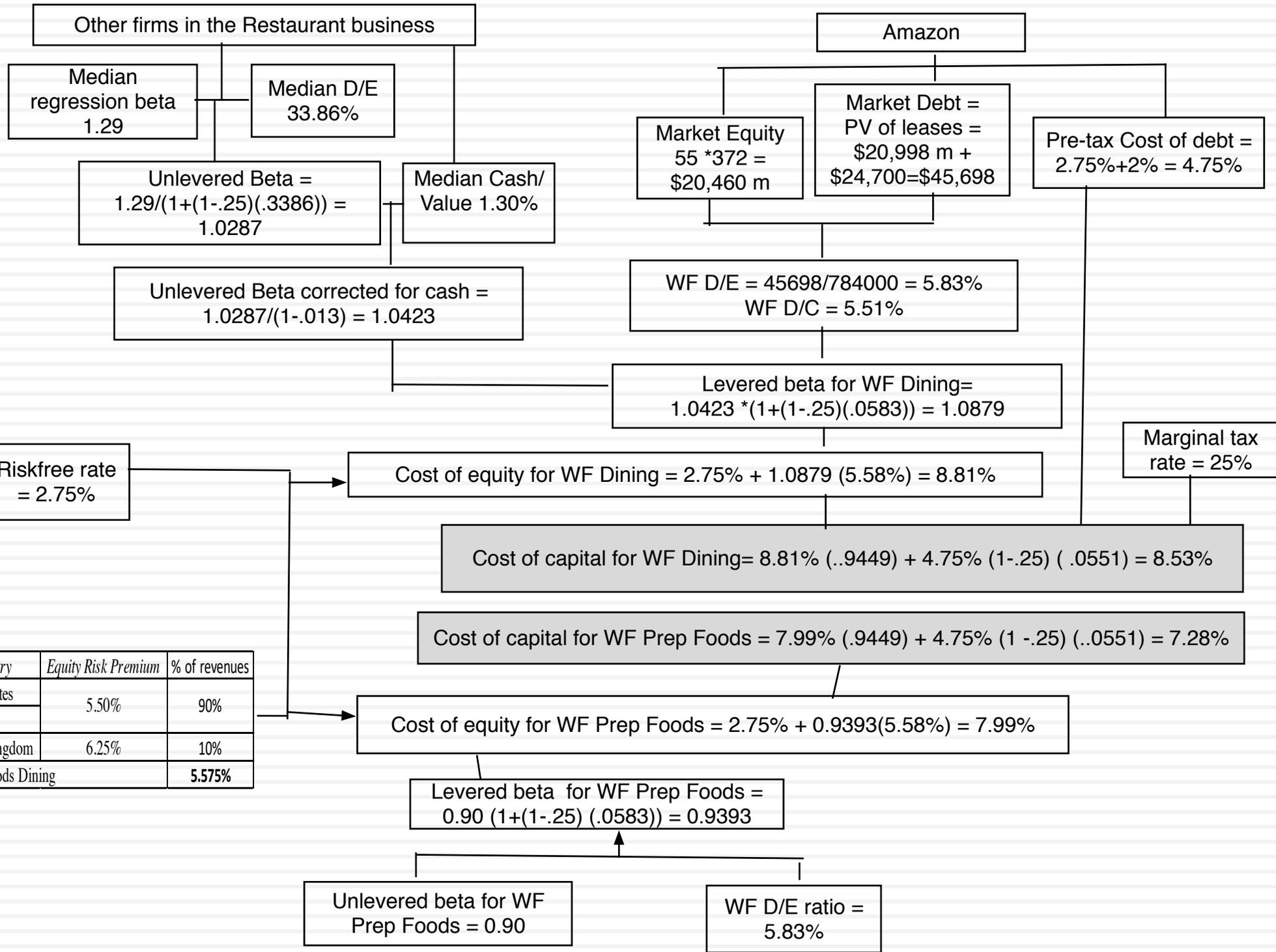
The Discrete Time World: Cash flows are assumed to occur at a point in time.

The Accounting World

The Accounting World: Revenues, earnings and expenses occur in fiscal years

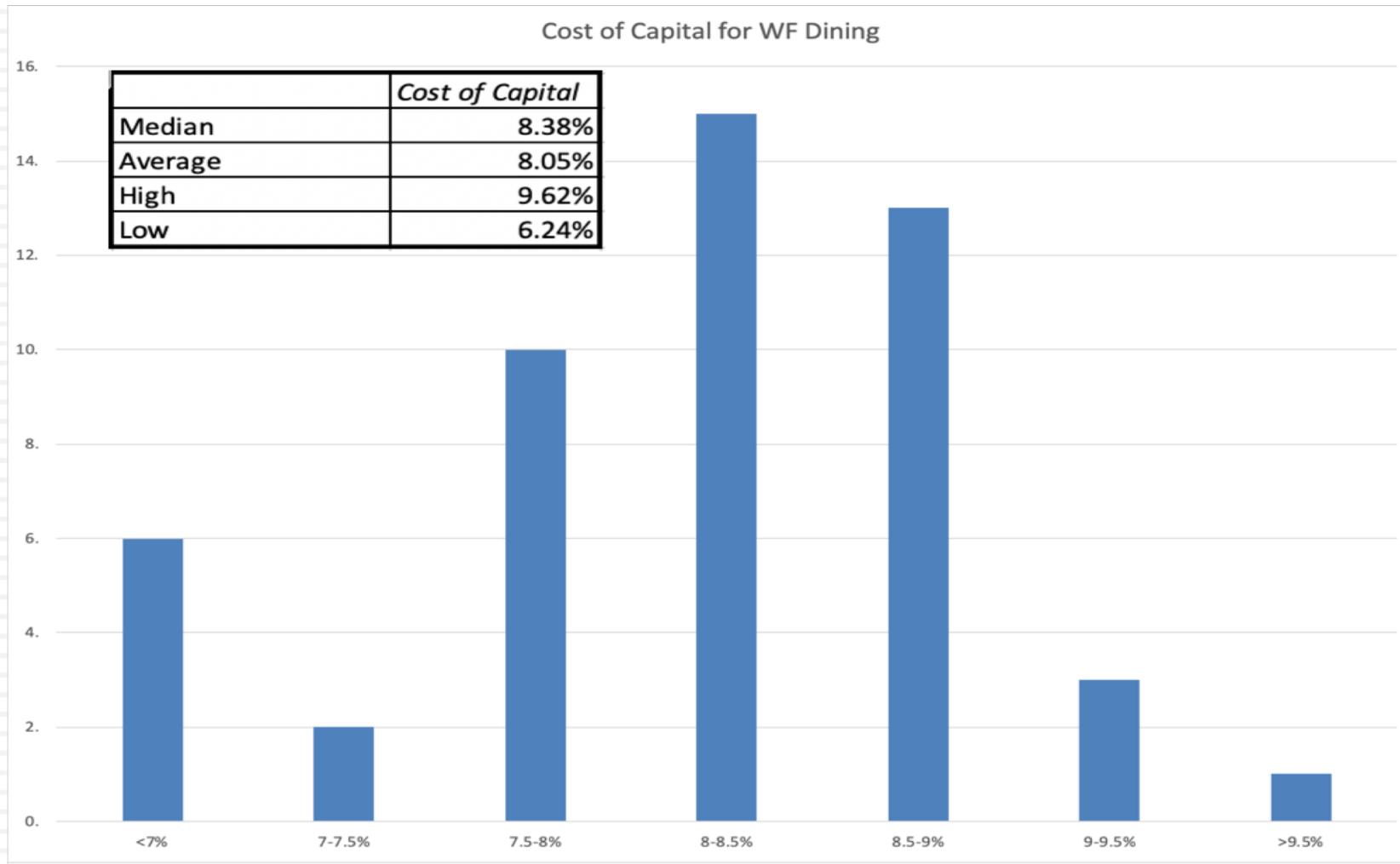
Summary of Conclusions

- On a stand-alone basis, this project does not pass muster, but with the synergy benefits counted in, it does.
 - The average return on capital, in the finite life case, is 6.38%, without synergy and about 13.44% with synergy. The latter is higher than the cost of capital for WF Dining, which is 8.53%.
 - The net present value of the cash flows on WF Dining, using a cost of capital of 8.16%
 - Is -\$109 million, under the finite life assumption of a of 15 years. Adding the present value of the side benefits to the stores, the NPV is +\$82 million.
 - Is -\$78 million, under the assumption of an infinite life. Adding the present value of the side benefits of the stories, the NPV is \$284 million.
 - The IRR is 4.90% (9.27%) with a 15-year life and 5.43% (10.53%) with the infinite life, with the number in brackets representing the IRR with synergy counted in.
- Since this investment becomes a good one only after the consideration of the side benefits from prepared foods, I would look at alternative (less expensive and less involved) ways in which I could promote the sales of prepared foods.
- This is, at best, a “blah” project. If Whole Foods were a stand alone enterprise, WF Dining would not be a good place to tie up scarce resources.



Country	Equity Risk Premium	% of revenues
United States	5.50%	90%
Canada		
United Kingdom	6.25%	10%
Whole Foods Dining		5.575%

Cost of Capital: Your numbers



WF Dining: Operating Income & Incremental Operating Income

	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Revenues		\$150.00	\$221.85	\$304.32	\$384.69	\$446.50	\$510.64	\$543.37	\$568.60	\$585.83	\$597.55	\$609.50	\$621.69	\$634.12	\$646.80	\$659.74
- Fixed Costs		\$100.00	\$122.40	\$145.66	\$169.79	\$194.84	\$220.82	\$225.23	\$229.74	\$234.33	\$239.02	\$243.80	\$248.67	\$253.65	\$258.72	\$263.90
- Food Costs		\$45.00	\$66.56	\$91.30	\$115.41	\$133.95	\$153.19	\$163.01	\$170.58	\$175.75	\$179.26	\$182.85	\$186.51	\$190.24	\$194.04	\$197.92
- Other Variable Costs		\$15.00	\$22.19	\$30.43	\$38.47	\$44.65	\$51.06	\$54.34	\$56.86	\$58.58	\$59.75	\$60.95	\$62.17	\$63.41	\$64.68	\$65.97
- Depreciation		\$10.00	\$12.04	\$14.12	\$16.24	\$18.41	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62
- Marketing		\$3.00	\$6.13	\$9.41	\$9.60	\$9.79	\$9.99	\$10.19	\$10.39	\$10.60	\$10.81	\$11.02	\$11.25	\$11.47	\$11.70	\$11.93
- Allocated G&A		\$25.32	\$26.35	\$27.44	\$28.55	\$29.61	\$30.70	\$31.69	\$32.68	\$33.66	\$34.64	\$35.66	\$36.71	\$37.78	\$38.89	\$40.03
Operating Income		-\$48.32	-\$33.81	-\$14.04	\$6.63	\$15.26	\$24.26	\$38.30	\$47.74	\$52.30	\$53.44	\$54.60	\$55.77	\$56.96	\$58.16	\$59.37
- Taxes		-\$12.08	-\$8.45	-\$3.51	\$1.66	\$3.81	\$6.07	\$9.57	\$11.94	\$13.07	\$13.36	\$13.65	\$13.94	\$14.24	\$14.54	\$14.84
Operating Income after taxes	\$0.00	-\$36.24	-\$25.36	-\$10.53	\$4.97	\$11.44	\$18.20	\$28.72	\$35.81	\$39.22	\$40.08	\$40.95	\$41.83	\$42.72	\$43.62	\$44.53

	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Revenues		\$150.00	\$221.85	\$304.32	\$384.69	\$446.50	\$510.64	\$543.37	\$568.60	\$585.83	\$597.55	\$609.50	\$621.69	\$634.12	\$646.80	\$659.74
- Fixed Costs		\$100.00	\$122.40	\$145.66	\$169.79	\$194.84	\$220.82	\$225.23	\$229.74	\$234.33	\$239.02	\$243.80	\$248.67	\$253.65	\$258.72	\$263.90
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- Other Variable Costs		\$15.00	\$22.19	\$30.43	\$38.47	\$44.65	\$51.06	\$54.34	\$56.86	\$58.58	\$59.75	\$60.95	\$62.17	\$63.41	\$64.68	\$65.97
- Depreciation		\$10.00	\$12.04	\$14.12	\$16.24	\$18.41	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62
- Marketing		\$3.00	\$6.13	\$9.41	\$9.60	\$9.79	\$9.99	\$10.19	\$10.39	\$10.60	\$10.81	\$11.02	\$11.25	\$11.47	\$11.70	\$11.93
- Allocated G&A		\$10.00	\$14.79	\$20.29	\$25.65	\$29.77	\$34.04	\$36.22	\$37.91	\$39.06	\$39.84	\$40.63	\$41.45	\$42.27	\$43.12	\$43.98
Incremental OI		-\$33.00	-\$22.26	-\$6.88	\$9.53	\$15.10	\$20.92	\$33.77	\$42.51	\$46.90	\$48.25	\$49.63	\$51.03	\$52.46	\$53.92	\$55.42
- Taxes		(\$8.25)	(\$5.57)	(\$1.72)	\$2.38	\$3.78	\$5.23	\$8.44	\$10.63	\$11.73	\$12.06	\$12.41	\$12.76	\$13.12	\$13.48	\$13.86
Incremental OI after taxes	\$0.00	(\$24.75)	(\$16.70)	(\$5.16)	\$7.15	\$11.33	\$15.69	\$25.33	\$31.88	\$35.18	\$36.19	\$37.22	\$38.27	\$39.35	\$40.44	\$41.57

Return on Capital Computation

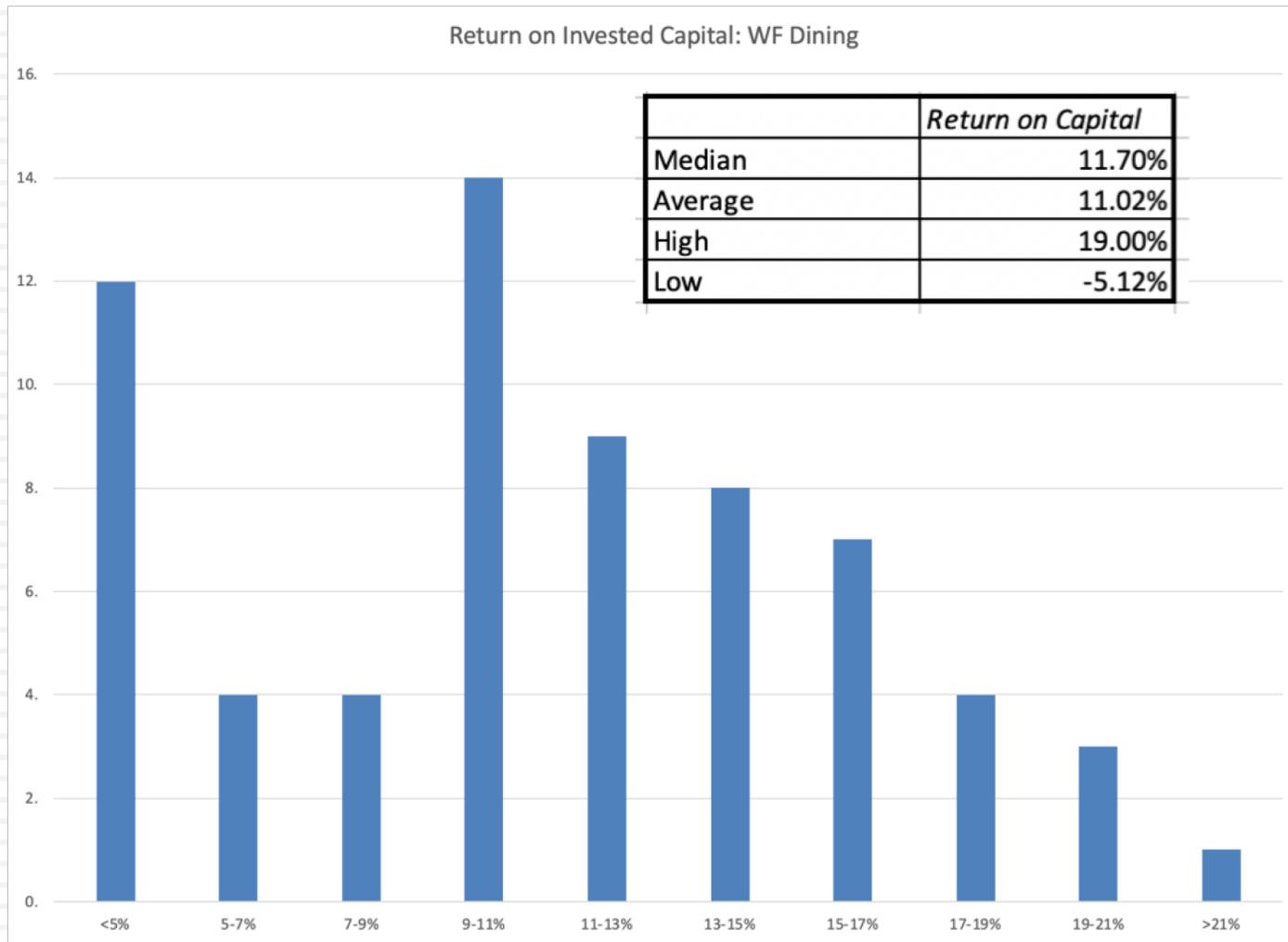
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Aggregate
After-tax Operating Income	-\$36	-\$25	-\$11	\$5	\$11	\$18	\$29	\$36	\$39	\$40	\$41	\$42	\$43	\$43.62	\$44.53	\$320
After-tax Incremental Operating Income	-\$25	-\$17	-\$5	\$7	\$11	\$16	\$25	\$32	\$35	\$36	\$37	\$38	\$39	\$40.44	\$41.56	\$313
After-tax Operating Income with synergy	-\$25	-\$12	\$6	\$24	\$33	\$43	\$54	\$62	\$66	\$67	\$68	\$70	\$71	\$72.72	\$74.21	\$674
After-tax Operating Income with synergy	-\$14	-\$3	\$11	\$26	\$33	\$41	\$51	\$58	\$62	\$63	\$65	\$66	\$68	\$69.55	\$71.25	\$667
BV of Fixed Assets	\$200	\$231	\$260	\$289	\$316	\$342	\$321	\$300	\$280	\$259	\$238	\$218	\$197	\$177	\$156	\$3,783
BV of Working Capital	\$8	\$11	\$15	\$19	\$22	\$26	\$27	\$28	\$29	\$30	\$30	\$31	\$32	\$32	\$33	\$374
BV of Parking Capacity	\$0	\$0	\$0	\$0	\$0	\$169	\$152	\$135	\$118	\$101	\$101	\$84	\$0	\$0	\$0	\$862
Invested Capital	\$208	\$242	\$276	\$308	\$338	\$536	\$500	\$464	\$427	\$390	\$370	\$333	\$229	\$209	\$189	\$5,019
ROIC (no synergy)	-17.47%	-10.48%	-3.82%	1.61%	3.38%	3.40%	5.74%	7.72%	9.18%	10.27%	11.06%	12.55%	18.66%	20.88%	23.56%	6.38%
Incremental ROIC (no synergy)	-11.93%	-6.90%	-1.87%	2.32%	3.35%	2.93%	5.06%	6.87%	8.23%	9.27%	10.05%	11.48%	17.19%	19.36%	22.00%	6.24%
ROIC (with synergy)	-12.04%	-4.79%	2.13%	7.82%	9.87%	8.03%	10.81%	13.29%	15.35%	17.16%	18.47%	20.94%	31.13%	34.81%	39.28%	13.44%
Incremental ROIC (with synergy)	-6.51%	-1.21%	4.07%	8.52%	9.83%	7.56%	10.13%	12.45%	14.40%	16.16%	17.46%	19.87%	29.66%	33.29%	37.71%	13.30%

BV of capital = Undepreciated portion of original investment
+ BV of Parking Investment + Non-cash Working capital

Some Thoughts on Operating Income...

- There are a number of allocation mechanisms that can be used to compute operating income, and the return on capital is affected by decisions on allocation.
- Your choices on depreciation have profound effects on return on capital. Using a more accelerated depreciation method would raise your return on capital substantially.
- Note that the operating income is computed after marginal taxes (Why?) and does not include the tax savings due to interest expenses (Why?).

Your findings: Return on Capital



Finite Life case assumptions

□ Incremental Effects

- When analyzing the cost of parking expansion, we consider the cost of the system in year 6 (\$ 169 million) but we show the savings in year 12 (\$ 190 million). Similarly, for depreciation, we show the depreciation on the existing system of \$ 16.9 million from year 6-11, but show the differential depreciation of -\$2.13 million between the two systems in years 12-15.
- Since we are planning on wrapping up the business in 15 years, there is no need for significant capital maintenance expenditures.
- Both working capital investments and restaurant investments are assumed to occur at the start of the year and are therefore shown at the end of the previous year.

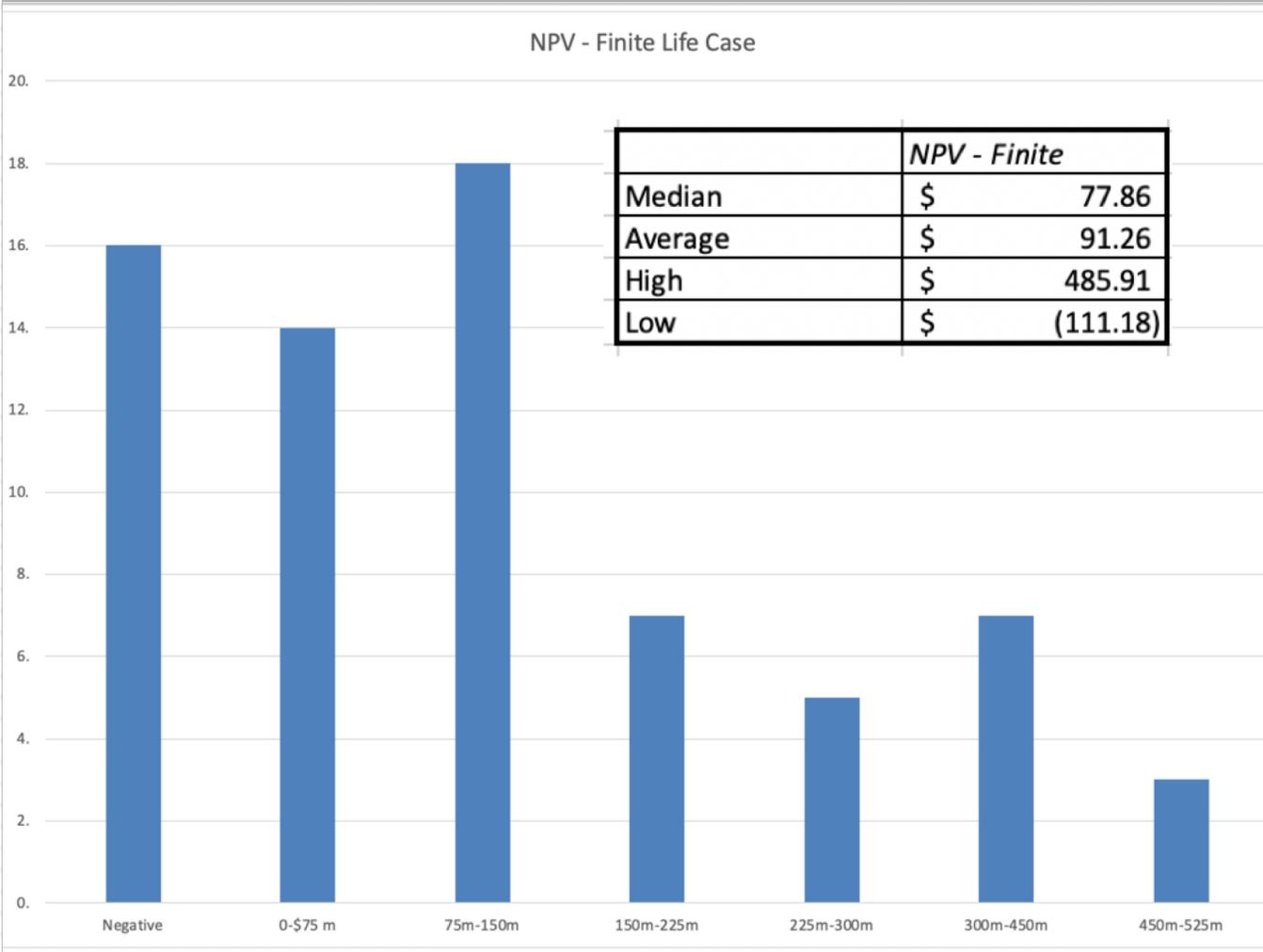
Incremental Cash Flows - Finite Life

	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Revenues		\$150.00	\$221.85	\$304.32	\$384.69	\$446.50	\$510.64	\$543.37	\$568.60	\$585.83	\$597.55	\$609.50	\$621.69	\$634.12	\$646.80	\$659.74
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- Depreciation		\$10.00	\$12.04	\$14.12	\$16.24	\$18.41	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62
- Marketing		\$3.00	\$6.13	\$9.41	\$9.60	\$9.79	\$9.99	\$10.19	\$10.39	\$10.60	\$10.81	\$11.02	\$11.25	\$11.47	\$11.70	\$11.93
- Allocated G&A		\$25.32	\$26.35	\$27.44	\$28.55	\$29.61	\$30.70	\$31.69	\$32.68	\$33.66	\$34.64	\$35.66	\$36.71	\$37.78	\$38.89	\$40.03
Operating Income		-\$48.32	-\$33.81	-\$14.04	\$6.63	\$15.26	\$24.26	\$38.30	\$47.74	\$52.30	\$53.44	\$54.60	\$55.77	\$56.96	\$58.16	\$59.37
- Taxes		-\$12.08	-\$8.45	-\$3.51	\$1.66	\$3.81	\$6.07	\$9.57	\$11.94	\$13.07	\$13.36	\$13.65	\$13.94	\$14.24	\$14.54	\$14.84
Operating Income after taxes		-\$36.24	-\$25.36	-\$10.53	\$4.97	\$11.44	\$18.20	\$28.72	\$35.81	\$39.22	\$40.08	\$40.95	\$41.83	\$42.72	\$43.62	\$44.53
+ Depreciation		\$10.00	\$12.04	\$14.12	\$16.24	\$18.41	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62
- Capital Expenditures (new restaurants)	\$200.00	\$40.80	\$41.62	\$42.45	\$43.30	\$44.16	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
- Capital Expenditures (maintenance)		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
+ Tax benefit of Deprec'n on cap maintenance		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
- Change in non-cash Working Capital	\$7.50	\$3.59	\$4.12	\$4.02	\$3.09	\$3.21	\$1.64	\$1.26	\$0.86	\$0.59	\$0.60	\$0.61	\$0.62	\$0.63	\$0.65	-\$32.99
+ Adjustment for G&A		\$11.49	\$8.67	\$5.37	\$2.18	-\$0.12	-\$2.51	-\$3.40	-\$3.92	-\$4.05	-\$3.89	-\$3.73	-\$3.56	-\$3.37	-\$3.17	-\$2.96
- Parking Investment							\$168.92						-\$190.24			
+ Tax benefit from incr deprecn - Parking								\$4.22	\$4.22	\$4.22	\$4.22	\$4.22	-\$0.53	-\$0.53	-\$0.53	-\$0.53
+ Salvage Value/ Terminal Value																\$135.35
FCFF	-\$207.50	-\$59.14	-\$50.39	-\$37.51	-\$23.00	-\$17.64	-\$134.25	\$48.90	\$55.86	\$59.43	\$60.43	\$61.45	\$247.97	\$58.80	\$59.88	\$229.98

The Side Benefits for Prepared Foods

	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Additional Revenue - Prepared foods		\$150.00	\$183.60	\$218.48	\$254.69	\$292.26	\$331.22	\$337.85	\$344.61	\$351.50	\$358.53	\$365.70	\$373.01	\$380.47	\$388.08	\$395.84
Pre-tax Operating Margin		10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Incremental Operating Income		\$15.00	\$18.36	\$21.85	\$25.47	\$29.23	\$33.12	\$33.78	\$34.46	\$35.15	\$35.85	\$36.57	\$37.30	\$38.05	\$38.81	\$39.58
Incremental After-tax Operating Income		\$11.25	\$13.77	\$16.39	\$19.10	\$21.92	\$24.84	\$25.34	\$25.85	\$26.36	\$26.89	\$27.43	\$27.98	\$28.54	\$29.11	\$29.69
PV of After-tax Operating Income		\$10.44	\$11.86	\$13.10	\$14.17	\$15.10	\$15.88	\$15.03	\$14.23	\$13.47	\$12.76	\$12.08	\$11.43	\$10.82	\$10.25	\$9.70

The Value Effect: NPV



Your findings... Finite Life NPV

Whole Foods Dining																
	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
FCFF	-\$207.50	-\$59.14	-\$50.39	-\$37.51	-\$23.00	-\$17.64	-\$134.25	\$48.90	\$55.86	\$59.43	\$60.43	\$61.45	\$247.97	\$58.80	\$59.88	\$229.98
Present Value (at WF Dining Cost of capital)	-\$207.50	-\$54.50	-\$42.78	-\$29.35	-\$16.58	-\$11.72	-\$82.17	\$27.58	\$29.03	\$28.46	\$26.66	\$24.98	\$92.90	\$20.30	\$19.05	\$67.41
Cost of capital for WF Dining =	8.53%															
NPV of WF Dining =	(\$108.22)															
Side Benefits to Prepared Foods																
Incremental After-tax OI		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
PV of After-tax Operating Income		\$10.44	\$11.86	\$13.10	\$14.17	\$15.10	\$15.88	\$15.03	\$14.23	\$13.47	\$12.76	\$12.08	\$11.43	\$10.82	\$10.25	\$9.70
Cost of capital for Prep Foods	7.74%															
NPV of Synergy =	\$190.32															
Total NPV	\$82.10															

Explanations for Infinite Life Case

- When extending the project life to infinity, I did make some changes to the assumptions about capital maintenance.
 - Made the capital expenditure exceed depreciation by 2% (the inflation rate) all through the 15 years. Essentially, I am assuming that whatever depletion occurs in book value because of depreciation is made up by new capital maintenance expenditures in that year, with the inflation adjustment.
 - Set capital expenditures 2% higher than depreciation in year 16, to allow for the fact that in perpetuity, I would have to keep stores looking pristine to have growth of 2% a year forever.
- The synergy benefits now continue in perpetuity as well.

Incremental Cash Flows- Infinite Life

	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Revenues		\$150.00	\$221.85	\$304.32	\$384.69	\$446.50	\$510.64	\$543.37	\$568.60	\$585.83	\$597.55	\$609.50	\$621.69	\$634.12	\$646.80	\$659.74	\$672.93
- Fixed Costs		\$100.00	\$122.40	\$145.66	\$169.79	\$194.84	\$220.82	\$225.23	\$229.74	\$234.33	\$239.02	\$243.80	\$248.67	\$253.65	\$258.72	\$263.90	\$269.17
- Food Costs		\$45.00	\$66.56	\$91.30	\$115.41	\$133.95	\$153.19	\$163.01	\$170.58	\$175.75	\$179.26	\$182.85	\$186.51	\$190.24	\$194.04	\$197.92	\$201.88
- Other Variable Costs		\$15.00	\$22.19	\$30.43	\$38.47	\$44.65	\$51.06	\$54.34	\$56.86	\$58.58	\$59.75	\$60.95	\$62.17	\$63.41	\$64.68	\$65.97	\$67.29
- Depreciation		\$10.00	\$12.04	\$14.12	\$16.24	\$18.41	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$21.03
- Marketing		\$3.00	\$6.13	\$9.41	\$9.60	\$9.79	\$9.99	\$10.19	\$10.39	\$10.60	\$10.81	\$11.02	\$11.25	\$11.47	\$11.70	\$11.93	\$12.17
- Allocated G&A		\$25.32	\$26.35	\$27.44	\$28.55	\$29.61	\$30.70	\$31.69	\$32.68	\$33.66	\$34.64	\$35.66	\$36.71	\$37.78	\$38.89	\$40.03	\$40.83
Operating Income		-\$48.32	-\$33.81	-\$14.04	\$6.63	\$15.26	\$24.26	\$38.30	\$47.74	\$52.30	\$53.44	\$54.60	\$55.77	\$56.96	\$58.16	\$59.37	\$60.56
- Taxes		-\$12.08	-\$8.45	-\$3.51	\$1.66	\$3.81	\$6.07	\$9.57	\$11.94	\$13.07	\$13.36	\$13.65	\$13.94	\$14.24	\$14.54	\$14.84	\$15.14
Operating Income after taxes		-\$36.24	-\$25.36	-\$10.53	\$4.97	\$11.44	\$18.20	\$28.72	\$35.81	\$39.22	\$40.08	\$40.95	\$41.83	\$42.72	\$43.62	\$44.53	\$45.42
+ Depreciation		\$10.00	\$12.04	\$14.12	\$16.24	\$18.41	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$20.62	\$21.03
- Capital Expenditures (new restaurants)	\$200.00	\$40.80	\$41.62	\$42.45	\$43.30	\$44.16	0	0	0	0	0	0	0	0	0	0	\$0.00
- Capital Expenditures (maintenance)		\$10.20	\$12.28	\$14.40	\$16.57	\$18.78	\$21.03	\$21.03	\$21.03	\$21.03	\$21.03	\$21.03	\$21.03	\$21.03	\$21.03	\$21.03	\$21.45
+ Tax benefit of Deprec'n on cap maintenance		\$1.67	\$2.01	\$2.36	\$2.71	\$3.08	\$3.45	\$3.45	\$3.45	\$3.45	\$3.45	\$3.45	\$3.45	\$3.45	\$3.45	\$3.45	\$3.51
- Change in non-cash Working Capital	\$7.50	\$3.59	\$4.12	\$4.02	\$3.09	\$3.21	\$1.64	\$1.26	\$0.86	\$0.59	\$0.60	\$0.61	\$0.62	\$0.63	\$0.65	\$0.66	\$0.67
+ Adjustment for G&A (1-t)		\$11.49	\$8.67	\$5.37	\$2.18	-\$0.12	-\$2.51	-\$3.40	-\$3.92	-\$4.05	-\$3.89	-\$3.73	-\$3.56	-\$3.37	-\$3.17	-\$2.96	-\$2.74
- Parking Investment							\$168.92						-\$190.24				
+ Tax benefit from incr deprecn - Parking								\$4.22	\$4.22	\$4.22	\$4.22	\$4.22	-\$0.53	-\$0.53	-\$0.53	-\$0.53	
+ Salvage Value/ Terminal Value																\$691.04	
FCFF	-\$207.50	-\$67.67	-\$60.66	-\$49.55	-\$36.85	-\$33.34	-\$151.84	\$31.32	\$38.28	\$41.84	\$42.84	\$43.87	\$230.39	\$41.21	\$42.30	\$734.44	\$45.09

The terminal value calculation

- Cash flow to the firm in year 16
 - = EBIT (1-t) + Depreciation – Cap Ex – Change in WC
 - = \$ 45.42 + \$ 21.03 – \$ 21.45 - \$ 0.67 = \$45.09 million
- Terminal Value
 - = CF in year 16/ (Cost of capital –g)
 - = 45.09/ (.0853-.02) = \$691.04 million

Finite versus Infinite: The Cash Flow Trade off

Year	Finite Life	Perpetual Life	Difference
0	\$ (207.50)	\$ (207.50)	\$ -
1	\$ (59.14)	\$ (67.67)	\$ (8.53)
2	\$ (50.39)	\$ (60.66)	\$ (10.27)
3	\$ (37.51)	\$ (49.55)	\$ (12.04)
4	\$ (23.00)	\$ (36.85)	\$ (13.85)
5	\$ (17.64)	\$ (33.34)	\$ (15.70)
6	\$ (134.25)	\$ (151.84)	\$ (17.58)
7	\$ 48.90	\$ 31.32	\$ (17.58)
8	\$ 55.86	\$ 38.28	\$ (17.58)
9	\$ 59.43	\$ 41.84	\$ (17.58)
10	\$ 60.43	\$ 42.84	\$ (17.58)
11	\$ 61.45	\$ 43.87	\$ (17.58)
12	\$ 247.97	\$ 230.39	\$ (17.58)
13	\$ 58.80	\$ 41.21	\$ (17.58)
14	\$ 59.88	\$ 42.30	\$ (17.58)
15	\$ 229.98	\$ 734.44	\$ 504.46

Value Added: NPV of Infinite Life Case

Whole Foods Dining																
	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
FCFF	-\$207.50	-\$67.67	-\$60.66	-\$49.55	-\$36.85	-\$33.34	-\$151.84	\$31.32	\$38.28	\$41.84	\$42.84	\$43.87	\$230.39	\$41.21	\$42.30	\$734.44
Present Value (at WF Dining Cost of capital)	-\$207.50	-\$62.36	-\$51.50	-\$38.77	-\$26.56	-\$22.14	-\$92.94	\$17.66	\$19.89	\$20.04	\$18.91	\$17.84	\$86.31	\$14.23	\$13.45	\$215.27
Cost of capital for WF Dining =	8.53%															
NPV of WF Dining =	(\$78.17)															
Side Benefits on Prepared Food																
Incremental After-tax Operating Income		\$11.25	\$13.77	\$16.39	\$19.10	\$21.92	\$24.84	\$25.34	\$25.85	\$26.36	\$26.89	\$27.43	\$27.98	\$28.54	\$29.11	\$556.96
PV of After-tax Operating Income		\$10.44	\$11.86	\$13.10	\$14.17	\$15.10	\$15.88	\$15.03	\$14.23	\$13.47	\$12.76	\$12.08	\$11.43	\$10.82	\$10.25	\$181.96
Cost of capital for prepared foods	7.74%															
NPV of Synergy =	\$362.58															
NPV (Perpetual Life)	\$284.41															

Consistency in growth and investment assumptions

After year 15

Capital Expenditure Assumption

Project ends

No (or very low) capital maintenance

Let assets run down towards end of life

Infinite life; $g=0\%$

Capital maintenance = Depreciation

Maintain invested capital at base level

Infinite life; $g = \text{inflation}$

Capital maintenance $>$ Depreciation

Capital invested has to grow at inflation rate

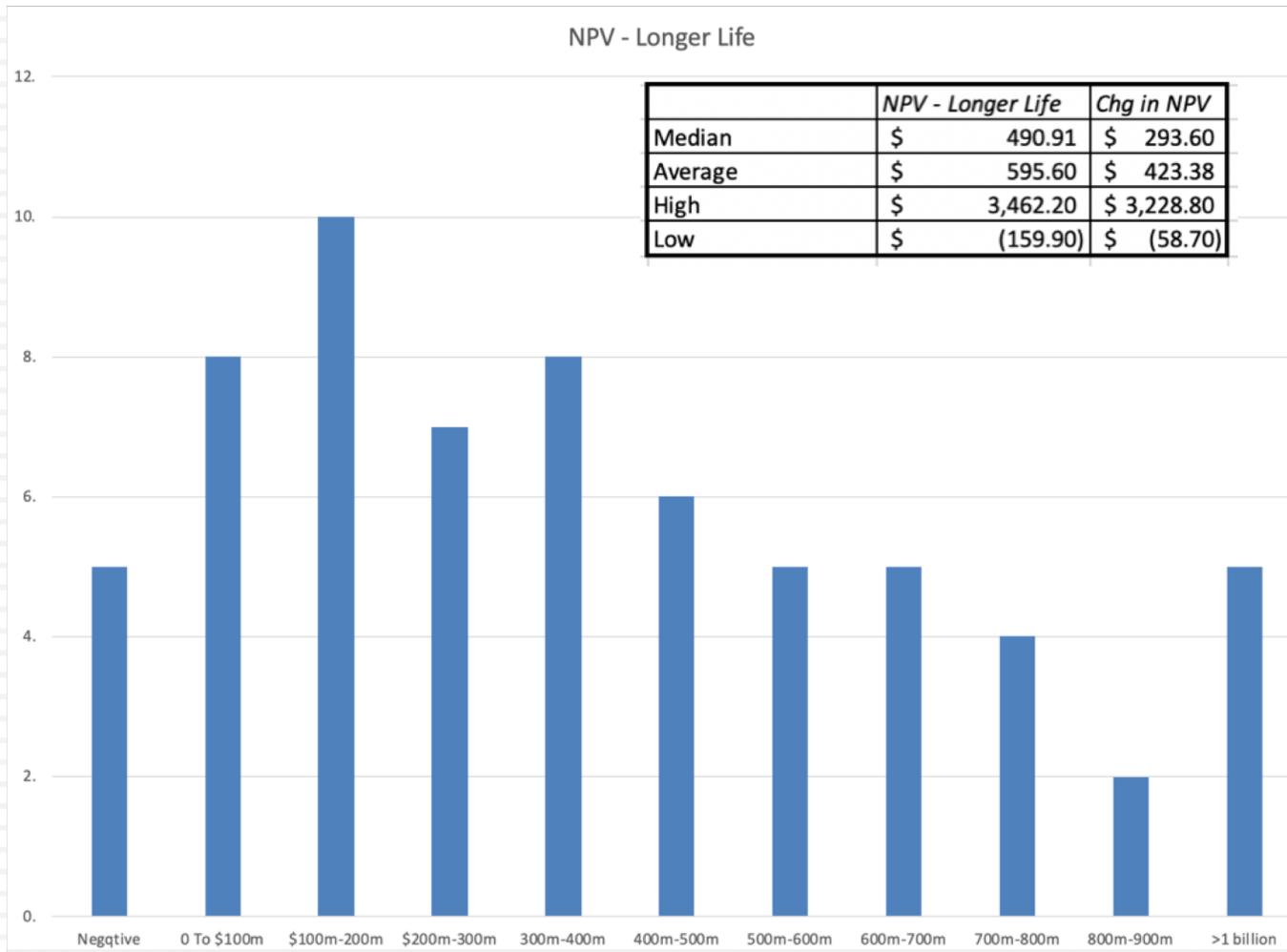
Infinite life; $g > \text{inflation}$

Capital investment to increase capacity

Capital maintenance $>$ Depreciation

Capital invested has to grow to reflect real growth

Your findings: Infinite Life



Final Conclusions



- Of the 55 groups that turned in numbers on this project, 8 decided that it should be rejected.
- 43 groups suggested that the investment be made...
- Four groups made conditional recommendations.