APV Example: Wilcox Enterprises in Taiwan

1. PV of project itself
   - Initial cost: $10,000
   - Annual CF: $1,750
   - Discount rate: 18%
   - PV of cash flows (discount rate = 18%): $9,722
   - NPV of project itself: ($0.2778)

2. PV of financing
   - Loan proceeds: $7,000
   - Interest rate: 5%
   - Annual interest payments (at 5%): ($0.3500)
   - Tax rate: 20%
   - Annual tax shield: $0.0700
   - Net annual payments: ($0.2800)
   - Number of payments: 5
   - PV of annual payments (discount rate = 18%): ($0.8756)
   - Principal repayment: ($7,000)
   - PV of principal repayment (discount rate = 18%): ($3,059.80)
   - NPV of financing: $3,064.60

3. PV of tax shield on adjustment
   a. until Taiwanese loan is paid off
      - Target debt ratio: 50%
      - Debt adjustment needed: ($2,000)
      - Before tax borrowing rate: 14%
      - US tax rate: 35%
      - Annual change in US tax shield: ($0.0980)
      - After tax borrowing rate: 9.1%
      - PV of change in tax shield (discount rate = 9.1%): ($0.3802)
   b. after Taiwanese loan is paid off
      - Debt adjustment needed: $5,000
      - Annual change in US tax shield: $0.2450
      - PV of change in tax shield (discount rate = 9.1%): $1,741.80

4. Adjusted Present Value of Project: $4,148.50