

I-24.03

Cedar's is an upscale restaurant that is rapidly adding locations in new markets. The primary owner is Chef Bartell, and he obtains capital for expansion by enticing people in each new target market area to invest in the restaurant. The investment program entails offering investors a "unit" of ownership for \$250,000. The investment is very risky, and contemplates no return until the end of the third year. At the end of the third year, the investment is to pay each "unit" \$40,000. A similar payment is to occur at the end of year four, five, and six. At the end of the seventh year, Chef Bartell has then promised to buy back the "unit" for \$400,000.

Assuming you desire to earn at least a 12% rate of return, should you make the investment (i.e., does the proposal have a positive net present value)? How should uncertainty factor into the evaluation?