

3. You are trying to estimate the growth in net income for a mid-cap retail firm. The firm's book value of equity at the beginning of the year was \$500 million and the reported net income for the year was \$200 million. The firm also reported capital expenditures of \$175 million, depreciation of \$90 million, a decrease in working capital of \$30 million, and a debt-to-capital ratio of 35%.

a) Estimate the equity reinvestment rate for the firm and the expected growth in net income.

b) Estimate the Free Cash Flow to Equity for this firm.