

1.1 Example of calculation of the Internal Rate of Return (IRR)

Input values:

- total investment value in CZK (I): I = CZK 235,600,
- Cash-Flow on 1,800 flowers sold in the online store in CZK (variable: CF): CF = 192,000.

We determine the internal rate of return as follows:

$$\left(\frac{192.000}{(1+i)^1}\right) + \dots + \left(\frac{192.000}{(1+i)^4}\right) = 235.600 \rightarrow i = IRR \cong 0,7223$$

It has been found by the calculation that the internal rate of return is approximately 72,23% per year. When comparing the IRR with the WACC, the $IRR > WACC$ condition is met, so the company can make the investment.

Similarly to the first-mentioned indicators, the problem of this indicator is the estimate of Cash Flow for the entire life cycle of the investment.