

Yasser Alhenawi
FACULTY 6 NEW ▾Allison Plekkenpol
COACH ▾

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Assessment 2 Instructions: Evaluation of Ca

Create an Excel spreadsheet in which you use capital budgeting tools to determine the quality of 3 proposed investment projects, as well as a 6-8 page report that analyzes your computations and recommends the project that will bring the most value to the company.

Introduction

This portfolio work project is about one of the basic functions of the finance manager: allocating capital to areas that will increase shareholder value. There are many uses of cash managers can select from, but it is essential that the selected projects are ones that add the most value to the company. This means forecasting the projected cash flows of the projects and employing capital budgeting metrics to determine which project, given the forecast cash flows, gives the firm the best chance to maximize shareholder value.

As a business professional, you are expected to:

- Use capital budgeting tools to compute future project cash flows and compare them to upfront costs.
- Evaluate capital projects and make appropriate decision recommendations.
- Prepare reports and present the evaluation in a way that finance and non-finance stakeholders can understand.

Scenario

You work as a finance manager for Drill Tech, Inc., a mid-sized manufacturing company located in Minnesota. Three capital project requests were identified as potential projects for the company to pursue in the upcoming fiscal year. In the meeting to discuss capital projects, the director of finance (and your boss), Jennifer Davidson, gives you a synopsis of the projects along with this question: Which one of these projects will provide the most shareholder value to the company?

She also tells you that other than what is noted in each project scenario, all other costs will remain constant, and you should remember to only evaluate the incremental changes to cash flows.

The proposed projects for you to review are as follows.

Project A: Major Equipment Purchase

- A new major equipment purchase, which will cost \$10 million; however, it is projected to reduce cost of sales by 5% per year for 8 years.
- The equipment is projected to be sold for salvage value estimated to be \$500,000 at the end of year 8.
- Being a relatively safe investment, the required rate of return of the project is 8%.
- The equipment will be depreciated at a MACRS 7-year schedule.

- Annual sales for year 1 are projected at \$20 million and should stay the same per year for 8 years.
- Before this project, cost of sales has been 60%.
- The marginal corporate tax rate is presumed to be 25%.

Project B: Expansion into Europe

- Expansion into Western Europe has a forecast to increase sales/revenues and cost of sales by 10% per year for 5 years.
- Annual sales for the previous year were \$20 million.
- Start-up costs are projected to be \$7 million and an upfront needed investment in net working capital of \$1 million. The working capital amount will be recouped at the end of year 5.
- Because of the higher European tax rate, the marginal corporate tax rate is presumed to be 30%.
- Being a risky investment, the required rate of return of the project is 12%.

Project C: Marketing/Advertising Campaign

- A major new marketing/advertising campaign, which will cost \$2 million per year and last 6 years.
- It is forecast that the campaign will increase sales/revenues and costs of sales by 15% per year.
- Annual sales for the previous year were \$20 million.
- The marginal corporate tax rate is presumed to be 25%.
- Being a moderate risk investment, the required rate of return of the project is 10%.

Your Role

You are a finance manager at Drill Tech, Inc., who plays a major role in reviewing capital project requests.

Requirements

Jennifer reiterates that your report is critical for the company to select the project that will bring the most value to shareholders. Your calculations and report should address these items for her and other stakeholders:

- Apply computations of capital budgeting methods to determine the quality of the proposed investments.
 - Use budgeting tools to compute future project cash flows and compare them to upfront costs. Remember to only evaluate the incremental changes to cash flows.
 - Demonstrate knowledge of a variety of capital budgeting tools including net present value (NPV), internal rate of return (IRR), payback period, and profitability index (PI). The analysis of the capital projects will need to be correctly computed and the resulting decisions rational.
- Evaluate the capital projects using data analysis and applicable metrics that align to the business goal of maximizing shareholder value.
 - Evaluate capital projects and make appropriate decision recommendations. Accurately compare the indicated projects with correct computations of capital budgeting tools and then make rational decisions based on the findings.
- Select the best capital project, based on data analysis and evaluation, that will add the most value for the company.
- Prepare an appropriate evaluation report for requestors, using sound research and data to defend your decision.
 - Justify your decision with a clear analysis showing the findings of the analysis and which project has the best chance to increase shareholder value.
 - Use your calculations and data to provide a clear picture of why your recommendation is the right one. This goes beyond just regurgitating the data. Think about how the data can tell the story that will be meaningful to the readers.

Deliverable Format

For this assessment, create two deliverables:

1. An Excel spreadsheet showing the required cash flow forecasts and capital budgeting tool calculations for each project. Use the same spreadsheet but create separate tabs for each project.
2. A report providing an analysis of the computations, the project selection decision, and justification for the decision, as well as its impact on the value of the firm. The project selection decision must have an analytical rationale to support it.

Report requirements:

- Ensure written communication is free of errors that detract from the overall message and quality.
- Use at least three scholarly resources.
- Your report should be between 6 and 8 pages.
- Use 12 point, Times New Roman.

Related company standards:

- Your report is a professional document and should follow the corresponding MBA Academic and Professional Document Guidelines (found in the MBA Program Resources), including single-spaced paragraphs.
- Use APA-formatted references.

Evaluation

By successfully completing this assessment, you will demonstrate your proficiency in the following course competencies through corresponding scoring guide criteria:

- Competency 1: Apply the theories, models, and practices of finance to the financial management of an organization.
 - Apply computations of capital budgeting methods to determine the quality of the proposed investments.
- Competency 2: Analyze financing strategies to maximize stakeholder value.
 - Evaluate the capital projects using data analysis and applicable metrics that aligns to the business goals.
- Competency 3: Apply financial analyses to business planning and decision making.
 - Select the best capital project, based on data analysis and evaluation, that will add the most value for the company.
- Competency 5: Communicate financial information with multiple stakeholders.
 - Prepare an appropriate evaluation report for requestors, using sound research and data to defend the decision.

Faculty will use the scoring guide to review your deliverables in the role of your boss and stakeholders. Review the scoring guide prior to developing and submitting your assessment.

ePortfolio

This assessment shows potential employers and clients that you can analyze capital projects to determine whether and how they can provide value to shareholders. Include this in your personal ePortfolio.

**SCORING GUIDE**

Use the scoring guide to understand how your assessment will be evaluated.

[VIEW SCORING GUIDE](#) 