

American chemical corporation



Statement of the job In October of 1979, the American Chemical Corporation (ACC) began looking for a purchaser for the Collinsville, Alabama works after successfully getting 91% of the portions of Universal Paper Corporation, Dixon Corporation, a specialist chemical company with clients chiefly in the paper and pulp industry agreed to the possibility of buying the Collinsville works for \$12 million. This purchase will diversify Dixon's merchandise line, adding the Na chlorate chemical, produced at the Collinsville works, needed by its big clients. Dixon is measuring different watercourses of hard currency flows for the possibility of buying the Collinsville works.

Discussion The determination to get Collinsville's works will interpret into strategic and economic benefits. Dixon could increase their supply of chemical merchandises to their existing clients. However, first we looked in to the hazard of the possible venture. Dixon has never produced Na chlorate which could add hazard to the new venture. For this ground we calculated the beta of the undertaking based on the beta of the Na chlorate industry. We focused on Brunswick and Southern Chemical which are pure drama Na chlorate companies.

The norm unleveraged beta obtained from the two companies is 1.035 which reflects the hazard of the undertaking. Adjusting Dixon's beta by re-levering it utilizing its aim mark capital construction of 35% ends with a beta of 1.59. The beta obtained is used to deduce the CAPM method, ensuing in a 21.45% cost of equity. We assumed that the debt borrowed by Dixon has a rate of 11.25% ciphering an after-tax cost of debts of 5.85%. Therefore, the leaden mean cost of capital (WACC) for Collinsville's works hard

currency flow is about 16 % . This ratio will be used to measure the different NPV's of the undertakings.

To do an investing determination three scenarios have been analyzed. The first and 2nd scenarios are to finance the works in 5 old ages or 10 old ages severally both with a nothing salvage value at the terminal of the term. The Third option is to buy the works with a laminated engineering. ACC's proficient support. and zero salvage value at the terminal of the term. The first two options resulted in negative NPVs of (\$ 1. 928) and (\$ 1. 932) severally. through an incremental hard currency flow analysis. However. getting Collinsville with the laminated engineering will ensue in a positive NPV of \$ 4. 960. every bit good as.

cut down the electric power by 30 % . and the possibility of accommodating this engineering to other workss to cut down operating costs.

Recommendation Based on our analysis. we recommend that Dixon Corporation invest in Collinsville with the laminate engineering. Any of the other options. based on our incremental hard currency flow analysis. resulted in negative NPVs. We recommend putting in nil other than the laminate engineering undertaking for the benefit of the stockholders. However. Dixon should do an acquisition understanding protecting itself in instance the laminate engineering fails in supplying expected consequences. It should be stated that ACC should counterbalance Dixon for any installing charges. The acquisition of the works will increase wealth to the stockholders. every bit

good as. complement the provision of chemical merchandises to our bing clients.