

P4 ip1

Literature, Russian Literature



AutoEdge Company Analysis al Affiliation: AutoEdge Company Analysis After reviewing the financial ment of the business for the duration of six years, it has come to my attention that the company has a negative NPV; \$35. 39. Net Present value (NPV) refers to the value obtained when the difference between present value of future cash flows and the total value invested is calculated. When the value of NPV is zero, it means that the project yields the amount invested plus the interest is supposed to accrue. On the other hand, positive NPV means that the business has excellent returns. But when the net present value is a negative value, then the investment has bad returns. Therefore, when a company is experiencing zero or positive NPV, then the project is an excellent investment and the company should continue with it. Negative NPV means that the project is unable to return the amount of money invested. This is not healthy for the company and the project should be terminated (Academic Resource center, 2010). The company is at a bad financial state and should consider changing its line of operations. Maintaining the same business operations may not be the suitable thing to do in the long run. Relocating to the United States may also not be the most convenient way to tackle this issue. This is primarily because, the state of the American market is on the brink of collapse and therefore, consumer expenditure is very low. The American economy is on recession, investing in a market that is dwindling is not a good idea. High levels of unemployment and low wages will result in people opting for public transport rather than purchasing automobiles. This may not be good for the firm. Since the South Korean markets are stable it would be plausible to expand on the Korean soils and any other stable markets across the globe (Swami, 2013). Another

vital measure that the company needs to consider is to ensure that the NPV is positive. The firm may decide to abandon the projects that result in negative net present value and invest in other areas that may lead to better returns. If the company is unwilling or unable to change from one line of business to another, then it may change the structural and operations involved in the production of the existing product. The firm should upgrade its technology and equipment to improve and increase productivity. The company should also invest thoroughly in advertisement to win back the consumer confidence and also to create an awareness of the possible changes that the company has instilled on its products (KPMG INTERNATIONAL, 2013). The company could also organize workshops for the automobiles. This is the best way to bring the products to the consumers while at the same time convincing them to purchase the automobiles. This has the advantage of reducing the biasness that the consumers may be having towards the company's products. The automobiles should then be fitted with quality parts, like durable engines and stereo systems. The company should also participate in community development projects, creation of jobs and other activities that will result in trust among the locals. The product should give them a sense of pride, that is, the people should feel that the product is their own and not a foreign company trying to exploit them. These activities will automatically change the perception that people of the company.

YEAR	2012	2013	2014	2015	2016	2017	2018	Cost of Capital
(US\$ in Millions)	6%	6%	7%	8%	8%	7%		
Revenue	\$30. 10	\$34. 20	\$38. 10	\$40. 40	\$45. 60	\$50. 00		
Selling, General, Admin	\$16. 10	\$17. 20	\$18. 90	\$19. 50	\$21. 40	\$24. 30		
Depreciation	\$4. 10	\$4. 40	\$4. 80	\$4. 90	\$5. 30	\$5.		

70 Interest Expense \$0. 45 \$0. 56 \$0. 69 \$0. 73 \$0. 78 \$0. 81 Taxes \$1. 10
 \$1. 30 \$1. 70 \$1. 90 \$2. 00 \$2. 10 Net Income \$8. 35 \$10. 74 \$12. 01 \$13.
 37 \$16. 12 \$17. 09 Increase in fixed assets \$1. 30 \$2. 40 \$0. 90 \$0. 00 \$4.
 90 \$2. 10 Initial capital expenditure \$18. 00 Operating Cashflow \$4. 25 \$6.
 34 \$7. 21 \$8. 47 \$10. 82 \$11. 39 Cost of Capital \$19. 08 \$20. 23 \$21. 65
 \$23. 38 \$25. 25 \$27. 02 Free Cashflow (\$14. 83) (\$13. 89) (\$14. 44) (\$14.
 91) (\$14. 43) (\$15. 63) Pvf factor 0. 943 0. 89 0. 816 0. 735 0. 681 0. 666 PV
 Cashflow (\$17. 39) Value of future flows (\$759. 17)
 Initial expenditure \$18 \$20. 38 \$22. 63 \$22. 55 \$23. 38 \$30. 15 \$29. 12 Net
 Present Value Initial: PV=-\$18 Year 1: PV= -\$7. 633 Year 2: PV=
 -\$3. 89 Year 3: PV= -\$2. 411 Year 4: PV= -\$1. 645 Year 5:
 PV= -\$1. 075 Year 6: PV= -\$0. 731 NPV (\$35. 39) References

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