

Corporate finance assignment

Business



The division revenue figures include approximately \$95 million of internal sales within divisions which are eliminated when considering unconsolidated revenue for the company. We must look closer on the financial projections and the operating details for the two proposals. By looking we can see a big difference in Revenue growth. We realize that Design your own doll can handle much more additional annual revenue according to the resources in the balance sheet.

According to the outlays the initial expenditures for Design Your Own Dolls is much higher than Match my Doll Clothing. As with Match my Doll Clothing the required R&D and marketing costs would be tax deductible. BIT Is a good gauge of how well those two companies Is being managed. It Is watched closely by all stakeholders, because It measures both overall demand for the company ' s products and the company' s efficiency In delivering those products. The operating projections tell us that Design Your Own Doll has gained more in operating profits.

Substantial investment in working capital (primarily work in process inventory of partially manufactured dolls) would be required beginning in 2011 for Match My Doll Clothing to support the forecasted level of sales. The value of a risky alternative to the decision maker may be deferent than the expected value of the alternative because f the risk that the alternative poses of serious losses. The concept of the certainty equivalent is useful for such situation.

Factors considered in the assessment of a project ' s risk for Emily Harris included, for example, whether it required new consumer acceptance or new

technology, high levels of fixed costs and hence high breakable production volumes, the sensitivity of price or volume to macroeconomic recession, the anticipated degree of price competition, and so forth. Given the proven success of Match My Doll Clothing, Harris believed the project entailed moderate risk that is, about the same degree of risk as the production division ; s existing business as a whole.

Design Your Own Doll had a relatively long payback period, introduced some untested elements into the manufacturing process, and depended on near-flawless operation of new customer-facing software and user interfaces. If the project stumbled for some reason, New Heritage risked damaging relationships with the best customers. On the other hand, the project had a relatively modest fixed cost ratio, and it played to the company's key strength – creating a unique experience for its nonusers. The cash flows excluded all financing charges and non-cash items (i. . Depreciation), and were calculated on an after-corporate-tax basis. The New Heritage's corporate tax rate is 40%. We think that the Design Your Own Doll project is more compelling. Project creates more value? (Please find the calculations in the attachment) NP calculations include a terminal value computed as the value of a perpetuity growing at constant rate. We computed Free Cash Flows (FCC) to find out the actual amount of cash from operations that the company could use in developing its new rejects.

We calculated the terminal value for 2020 as projected FCC in the first year beyond the projection horizon divided by discount rate of 8.4% less the perpetuity growth rate, which in this case was 3%. According to our calculations the Mad's terminal value in 2020 and ODD'S Based on the our <https://assignbuster.com/corporate-finance-assignment-essay-samples-2/>

calculation the NP of the Match My Doll Clothing project is \$7, 1 51, 000 (and the NP of the Design Your Own Doll project is \$9, 257, 000 . In both cases the NP is greater than zero but NP of project 2 is greater than NP of project 1, therefore project number 2 should be selected.