

Aurora textile company



**ASSIGN
BUSTER**

1. List the factors affecting the textile industry. What do you think is the state of the industry in the United States? How should you incorporate the state of the textile industry into your analysis? Why should anyone invest money in the industry?

2. How has Aurora Textile performed over the past four years? Be prepared to provide financial ratios that present a clear picture of Aurora's financial condition.

3. What are the relevant cash flows for the Zinser investment? Using a 10% WACC and assuming a 36% tax rate, what do you get as the NPV for the project? What are the value drivers in your analysis? What do you estimate as the cost per pound for customer returns under the Zinser alternative? (Hint: for a replacement decision, analysts often find it helpful to prepare two sets of cash flows and two NPVs—one for the status quo and one for the new machine.)

4. Craft a memo to the board of directors stating your recommendation about investing in the new Zinser machine. Part of your memo should explain why it is better to invest in the Zinser or to pay a dividend to the shareholders. Be sure to explain the primary reasons that justify your recommended course of action.