

Financial affairs

Business



The market for traditional food retailers is saturated, and there is no room for growth under the same business model. Toss's shareholders have been pressuring the management to pursue new opportunities in order to increase the value of their shares. The management of TOSCA has hired Nova Investment Bank (NIB) to study the possibility of expanding their activities to Spain.

For this they will pay NIB a fixed fee of ,−100, 000.

You are an analyst at NIB and your job is to perform a financial analysis of this opportunity. Below you can find the number of stores they plan to have fully operational in the beginning of each year for the next 3 years (some will be rented, others will be bought). # New Stores Rent Buy 10 Also, you know that today the average monthly rent per square meter in Spain is ,−30 and the market value per square meter sold is ,−6, 000.

Additionally, TOSCA will need to invest ,−13, 000, 000 in the calculation of a distribution center one year before the first stores open. Own stores will be fully depreciated in 20 years. In Spain, each store will employ 50 employees, and the distribution center will employ 75.

If opened today, each employee would earn an average monthly salary of ,−1, 000. However, these salaries will grow at a rate which is 0.5 percentage points above inflation, every year. Social security and corporate tax rates in Spain are as follows: Social Security Rate Employer Social Security Rate Employee 30. % 17. 7% 3.

7% In Portugal, where TOSCA has 320 stores, this year (YOU) they expect to sell tit COGS of The stores have a selling area of mm out off total area of mm . These characteristics are expected to be the same for the Spanish stores. Sales per square meter in Spain will be the same as in Portugal whereas the gross margin is expected to be 3 percentage points lower. According to their plan, other than the ones already mentioned, TOSCA expects to have the following costs: Other Costs 14. 380.

Oho ,→ 36. 800. Oho ,→ 53. 450. Oho ,→ Further Assumptions: 1 .

All cash inflows and outflows will occur at the end of the year. 2. The investment or the construction of both the stores and the distribution center takes place one year before the stores start to operate. 3. The investment in the stores purchased and in the distribution center is constituted by land (70. 0%) and construction (30.

0%). 4. Salaries are paid 14 months during each year. 5. Inflation rate in Spain is 2. 5% each year.

6. Toss's operations in Spain will have 0 days of accounts receivable, 45 days of accounts payable, 25 days of inventories and 30 days of VAT.

Consider 365 days a year and consider a VAT rate of 21. % (VAT relates only with sales and with purchases). 7. The company uses the straight line method to depreciate its assets.

8. For Y, assume a CAPES equal to ,→1, 000, 000. 9. After the third year, you know that the NONFAT, the net fixed assets and the net working capital will

grow at a nominal growth rate of forever. 10. Unless stated otherwise, all values are expressed as of year zero (I.

E. They do not account for future inflation movements). 11 . All the revenues/costs that the firm will attain/incur in if it decides to expand to costs in your calculations.

For each part, please hand in a hard copy of the report with a maximum of 10 pages and upload on Model one compressed file containing the PDF file and the Excel spreadsheet until the due date. In addition, please include your group number in the file's name and in the first page of the written report.

The report should contain your answers and methodology as well as anything else that you find relevant. You should always state and Justify all the assumptions made. Part 1 (Due Date: 15th April) Assume that the company has enough funds to finance its expansion projects (I. E. Is entirely financed with equity). The appropriate nominal discount rate is 10.

0%. 1. Calculate the NP, AIR, Payback Period and PI of Toss's expansion to Spain. Should the company invest in this project? 2. Spanish workers are known for strikes and bargaining their compensations. What would be the NP and the AIR of this project if staffing costs were 5% higher and sales were 10% lower from Y onwards? If you expected this, what would you recommend to Toss's management? 3.

Perform a Joint sensitivity analysis for changes in the discount rate and the perpetuity growth.

Interpret these results. What is the importance of a doing an analysis of this kind? Are there any other variables on which you think a sensitivity analysis should be performed? 4. TOSCA can also expand their Portuguese activities to the online segment, in order to achieve growth. Assume that if so, sales in Portugal as a whole would be 1.

5% higher than without the online segment every year, starting on Yell and that the new EBITDA margin would be 5.3% (vs... Old EBITDA margin of 5%). The corporate tax rate in Portugal is 25% and inflation is expected to be in line with the Spanish one.

Consider a 2% perpetuity growth, no additional depreciations and that this would require an investment of today. Ignore any new working capital needs. A. What is the NP and the AIR of the “online project”? B. If TOSCA could only invest in one of these projects, which one should it be? Why? Part 2 (Due Date: 24th May) Assume now that the firm has 200,000,000 shares outstanding and that the current price per share is 11.50, €.

Consider also that the book value of its debt is with an annual coupon rate of 7.0%, 4 years to maturity and current market price that is 112% of face value.

The cost of capital unleavened is 10.0%. 1.

Assuming that the Spanish expansion project is scale-enhancing, calculate the NP of the project accounting for the effects of financing decisions. 2.

Consider now that TOSCA has decided to finance this scale-enhancing investment through an issuance at par of 5 year bonds with an outstanding

amount of which pay an annual coupon of 6.0%. These bonds have a flotation cost of 2%.

In addition, the Portuguese government, wishing to increase exportation's, has announced that it will give TOSCA a subsidy which is 50% refundable at NP of the project?