CORPORATE FINANCE EVENT

PARTICIPANT INSTRUCTIONS

- The event will be presented to you through your reading of the General Performance Indicators, Specific Performance Indicators and Case Study Situation. You will have up to 30 minutes to review this information and prepare your presentation. You may make notes to use during your presentation.
- You will have up to 15 minutes to make your presentation to the judge (you may have more than one judge).
- Turn in all of your notes and event materials when you have completed the event.

GENERAL PERFORMANCE INDICATORS

- Communications skills – the ability to exchange information and ideas with others through writing, speaking, reading or listening
- Analytical skills – the ability to derive facts from data, findings from facts, conclusions from findings and recommendations from conclusions
- Production skills – the ability to take a concept from an idea and make it real
- Priorities/time management – the ability to determine priorities and manage time commitments
- Economic competencies

SPECIFIC PERFORMANCE INDICATORS

- Calculate internal performance measures (e.g., product-line profitability, business unit profitability, return on investments).
- Explain methods used to analyze capital investments (e.g., payback period, discounted breakeven, net present value, accounting rate of return, internal rate of return, etc.).
- Calculate cash flows associated with an investment (e.g., initial investment, operating cash inflows, operating cash outflows, terminal flows).
- Calculate capital investment return (e.g., payback, net present value, internal rate of return).
- Identify project benefits and costs.
CASE STUDY SITUATION

WILD WELDING is a small manufacturing company. The owner produces backyard and garden decorations using scrap metal. The owner’s designs are in demand throughout the region and the hope is to expand to nationwide marketing and shipping.

The owner and a small staff weld the decorations using manual equipment one piece at a time. The owner realizes that an expansion to nationwide marketing and shipping may require an investment into a new mechanized welding system.

Preliminary research has shown that the owner can purchase a new mechanized welding system for $600,000. The WILD WELDING accountant suggests depreciating it at a 30% CCA rate. Its life span is anticipated to be four years, when it can be traded in for $100,000.

The owner expects the new system would save $180,000/year pre-tax in labor costs. The tax rate the owner currently faces is 44%. In order to consider the investment, the owner would like to see a return of 15%.

YOUR CHALLENGE

The owner of WILD WELDING has asked you to analyze the numbers. You must calculate the net present value of the new equipment and consider a few alternatives to buying the equipment if the NPV turns out to be less than the cost of the machinery.
The $180,000 pre-tax savings gives an after-tax amount of:

\[(1-.44) \times 180,000 = 100,800\]

The Present Value of this four-year annuity amounts to:

\[
\begin{align*}
\text{PV} &= 100,800 \times (1 - 1 / 1.15^4) / .15 \\
&= 100,800 \times 2.855 \\
&= 287,782
\end{align*}
\]

The Present Value of the tax shield on the CCA is:

\[
\begin{align*}
\text{PV} &= \left[600,000(0.30)(0.44)\right] \times (1 + .5(0.15)) - 100,000(0.30)(0.44) \times 1 / (1.15)^4 \\
&\quad (0.15 + 0.30) (1 + 0.15) (0.15 + 0.30) \\
&= 164,522 - 16,771 \\
&= 147,750
\end{align*}
\]

The only flow left undiscounted is the salvage value of the equipment. The PV of the salvage value is:

\[
\begin{align*}
\text{PV} &= 100,000 \times (1 / 1.15^4) \\
&= 100,000 \times .5718 \\
&= 57,175
\end{align*}
\]

There are no working capital consequences, so the NPV is the sum of the three flows and compare to the initial investment.

<table>
<thead>
<tr>
<th>Investment</th>
<th>- $600,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>PV of labour savings</td>
<td>287,782</td>
</tr>
<tr>
<td>PV of salvage</td>
<td>57,175</td>
</tr>
<tr>
<td>PV of CCA Tax Shield</td>
<td>147,750</td>
</tr>
<tr>
<td>NPV</td>
<td>- $107,293</td>
</tr>
</tbody>
</table>

The return of the new welding machinery would be 5.4%, therefore the project does not seem to be profitable.

Numbers might be different if the owner could provide net working capital numbers to indicate the increase in productivity. Also, sunk costs, opportunity costs, machine malfunction are not being considered. Finally, the owner needs to weigh the investment decision with the cost-cutting decision. Laying off workers is never easy, and the hidden costs of such a decision could be great in terms of goodwill, ethics, etc.

The owner could consider leasing as an alternative, among other things.
EVALUATION INSTRUCTIONS

The participants are to be evaluated on their ability to perform the specific performance indicators stated on the cover sheet of this event and restated on the Judge’s Evaluation Form. Although you may see other performance indicators demonstrated by the participants, those listed in the Performance Indicators section are the critical ones you are measuring for this particular event.

Evaluation Form Interpretation

The evaluation levels listed below and the evaluation rating procedures should be discussed thoroughly with your event director and the other judges to ensure complete and common understanding for judging consistency.

<table>
<thead>
<tr>
<th>Level of Evaluation</th>
<th>Interpretation Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exceeds Expectations</td>
<td>Participant demonstrated the performance indicator in an extremely professional manner; greatly exceeds business standards; would rank in the top 10% of business personnel performing this performance indicator.</td>
</tr>
<tr>
<td>Meets Expectations</td>
<td>Participant demonstrated the performance indicator in an acceptable and effective manner; meets at least minimal business standards; there would be no need for additional formalized training at this time; would rank in the 70-89th percentile of business personnel performing this performance indicator.</td>
</tr>
<tr>
<td>Below Expectations</td>
<td>Participant demonstrated the performance indicator with limited effectiveness; performance generally fell below minimal business standards; additional training would be required to improve knowledge, attitude and/or skills; would rank in the 50-69th percentile of business personnel performing this performance indicator.</td>
</tr>
<tr>
<td>Little/No Value</td>
<td>Participant demonstrated the performance indicator with little or no effectiveness; a great deal of formal training would be needed immediately; perhaps this person should seek other employment; would rank in the 0-49th percentile of business personnel performing this performance indicator.</td>
</tr>
</tbody>
</table>
**JUDGE’S EVALUATION FORM**  
Association Event 1

**INSTRUCTIONAL AREA**  
Financial Analysis

<table>
<thead>
<tr>
<th>Did the participant:</th>
<th>Little/No Value</th>
<th>Below Expectations</th>
<th>Meets Expectations</th>
<th>Exceeds Expectations</th>
<th>Judged Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PERFORMANCE INDICATORS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Calculate internal performance measures?</td>
<td>0-1-2-3</td>
<td>4-5-6-7-8</td>
<td>9-10-11-12</td>
<td>13-14-15</td>
<td></td>
</tr>
<tr>
<td>2. Explain methods used to analyze capital investments?</td>
<td>0-1-2-3</td>
<td>4-5-6-7-8</td>
<td>9-10-11-12</td>
<td>13-14-15</td>
<td></td>
</tr>
<tr>
<td>3. Calculate cash flows associated with an investment?</td>
<td>0-1-2-3</td>
<td>4-5-6-7-8</td>
<td>9-10-11-12</td>
<td>13-14-15</td>
<td></td>
</tr>
<tr>
<td>4. Calculate capital investment return?</td>
<td>0-1-2-3</td>
<td>4-5-6-7-8</td>
<td>9-10-11-12</td>
<td>13-14-15</td>
<td></td>
</tr>
<tr>
<td>5. Identify project benefits and costs?</td>
<td>0-1-2-3</td>
<td>4-5-6-7-8</td>
<td>9-10-11-12</td>
<td>13-14-15</td>
<td></td>
</tr>
<tr>
<td><strong>PRESENTATION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Demonstrate clarity of expression?</td>
<td>0-1</td>
<td>2-3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>7. Organize ideas?</td>
<td>0-1</td>
<td>2-3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>8. Show evidence of mature judgment?</td>
<td>0-1</td>
<td>2-3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>9. Overall performance: appropriate appearance, poise, confidence, presentation, technique and response to judge’s questions</td>
<td>0-1-2</td>
<td>3-4-5</td>
<td>6-7-8</td>
<td>9-10</td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL SCORE**