SC24031

Capital Budgeting Case
Siding Production in Ontario

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Abstract

1. Grace Building Products (NYSE ticker GBP), based in Springfield, TN, manufactures engineered wood building products for residential and commercial construction. GBP has recently diversified into a new business segment, Siding Panels (SP) - allowing the firm to produce a relatively stronger and thicker strand lumber product (compared to other wood and cement-based products). As the firm contemplates a $300 million investment in capital equipment and working capital, it must forecast cash flows in a highly specialized and growing market segment that presently commands high and stable prices and margins. This case offers revenue, cost, and cost of capital assumptions; thereby, allowing students to utilize an Excel template to answer the following:
    a. The initial, time period 0, need for capital to finance an increase in net working capital, coupled with an increase in capital expenditures.
    b. The time periods 1 – N operating cash flows, assuming revenue and operating expense assumptions, including the MACRS scheduled annual depreciation of the firm's capital expenditures.
    c. Incremental terminal year cash flows, including the return of time period 0 net working capital as well as the after-tax net salvage value of the realized sale of fixed (capital) assets.
    d. The weighted average cost of capital, assuming the current market value of existing long-term debt, common stock, and preferred stock, coupled with the appropriate solutions to calculations that determine the cost of each source of external financing.
    e. Using the aforementioned assumptions, the Internal Rate of Return (IRR) and Net Present Value (NPV).
    f. Repeating steps a through e, using sensitivity analysis, to adjust revenue and cost assumptions to accommodate weaker or stronger demand for GBP's new product offering.