

Exam – Case Study 2

Valuing investment projects at SV SpA

Your goal

Your goal is to value the investment project of SV.

The case

SV Spa is valuing an investment project related to the production and marketing of a new product. A market analysis was carried out by SV with a cost of € 500, whose results can now be used for sale volumes and prices estimations. Mr. Bertelli, the CFO, says that this cost can be depreciated over 5 years.

The implementation of the project requires the acquisition of a plant, whose cost is between € 2,000 and €2,100, to be depreciated in 5 years. However, as Bertelli reminds, a new tax rule allows SV to reduce (deductible) depreciation period to 2 years.

The start-up of the project also requires the use of a machine with a net carrying amount of € 200, already available to SV. The machine is not used in other activities for a very long time, however SV was not able to sell it on secondary market due to its low efficiency when compared to other newer machines.

SV also owns a hangar that could be rent for €20 or € 25 per year and that will be used for the needs of the project.

According to the Sales Department, a viable selling price for the new product is € 15 per unit, but a possible range for the price is from €12 to €18 per unit. It is expected to grow in line with the expected inflation, i.e. 2% per year.

The standard variable production cost is between € 2.8 and 3.1 per unit, and is expected to grow in line with the inflation rate.

SV will hire 10 new workers, at a total cost (for all the new workers) of € 700 for the first year. This cost is expected to grow in line with inflation. In addition, other workers already working with SV and corresponding to about 2 FTE (Full Time Equivalent) with a cost for person of € 12 per year, will help with the implementation of the project during the first two years.

SV uses a discount rate of 15% for the valuation of its investment projects.

Other data are summarized in the table below.

Income tax rate	30%
VAT rate	0%
DSO (dd)	From 90 to 110
DPO (for variable costs) (dd)	From 60 to 90
Expected sales (qty) in year 1	From 140 to 160
Expected growth rate in sale (years 2 to 5)	From 3% to 5%
Inventories	Null

How to enroll

Application. The representatives of the groups willing to enrol on the case discussion must send an email to mrzgpp@unife.it (Object: CSE1 – Application), specifying the name of the group.

Deadline: 28 November 2019, 1:00 PM

Report. The representative must send the (draft of the) presentation in PowerPoint format to mrzgpp@unife.it. Deadline: 13 December 2019, 1:00 PM

Presentation. Presentations will be delivered on 19 and 20 December 2019. Each student of each group is expected to present. Time allowed for each group: 15 minutes for presentation and 5 minutes for Q&A.

For each presenting group, a group discussing the presentation will be indicated. The list of the groups presenting and discussing the case study will be sent to the representatives of the groups and each representative is also requested to send the draft of the presentation to the representative of the group acting as a discussant.

The order of presentations will be communicated by email once received all the reports.

Points: Up to 30 with honours

Note. This is the first of the two case studies that make up the exam for students attending classes.