**Scenario:**

You are the manager of the apparel division of On Your Mark, a manufacturer of athletic equipment and apparel, which has recently gone through the initial public offering (IPO) process and has become a public company. On Your Mark has annual sales revenue of approximately $50 million and makes seven unique and distinct products (which serve seven different markets). Each product is represented by its own division within the company and has its own group of sales, marketing, and manufacturing personnel. Some departments, including human resources and the finance division, support the entire organization. Operations consist of a single headquarters and production (manufacturing) center.

In your role as division manager, you are responsible for compiling and reporting on budget / forecast data, and for assessing and valuing new business opportunities (which will ultimately be presented to upper management). You report directly to the Plant Manager; however, you work closely with the Chief Financial Officer (CFO), and the accounting department's staff accountants assist you with your budget / forecast responsibilities.

You have been informed by the CFO that On Your Mark will be aggressively pursuing new business opportunities, which may include expansion through acquisition and the development and implementation of new products. As a publicly traded company, On Your Mark is scrutinized by bankers and investors as never before. In fulfilling your responsibilities you must keep this in mind, and you must instill a new sense of financial discipline in the organization

**Deliverable Length:** 500 - 700 words

On Your Mark is considering purchasing new manufacturing equipment that costs $1,300,000 and is expected to improve cash flows by $500,000 in year 1, $350,000 in year 2, $475,000 in year 3, $450,000 in year 4, and $300,000 in year 5.

Key financial metrics for this capital budgeting project have been calculated and provided by the Finance department (see below). A 14% rate of return and a payback period of less than five years are required for the project. These key metrics must include (1) payback period, (2) net present value, and (3) internal rate of return. (Use 6% as the weighted average cost of capital).

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Year 0 | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|  | (1,300,000) | 500,000 | 350,000 | 475,000 | 450,000 | 300,000 |
| pv |  | 438,596 | 269,314 | 320,611 | 266,436 | 155,811 |
| NPV |  | 150,768 |  |  |  |  |
| IRR |  | 19% |  |  |  |  |
| payback |  | 800,000 | 450,000 | (25,000) | (475,000) | (775,000) |
| MIRR |  | 17% |  |  |  |  |
|  |  |  |  |  |  |  |

In a memo to the CFO, discuss the metrics and make a recommendation whether to accept or reject the project.

Here are the key financial metrics for the capital budgeting project that have been calculated and provided by the Finance Department.  Please ignore the key financial metrics shown above.

Payback:      2 years and 11 months

IRR:             19%

MIRR:          13%

NPV:            $462,636

In the memo to the CFO, please make sure to include modified internal rate of return (MIRR), in addition to payback, IRR, and NPV and to ignore the 14% rate of return.  The rate of return is equal to the firm's 6% weighted average cost of capital (WAC).