Move It Ltd[1]

Background

Move It Ltd (MI) is a NZ courier firm. The company, which is listed on the New Zealand Stock Exchange, has been growing rapidly and is currently evaluating the benefits of engaging in a share buyback.

The Finance Manager at MI lacks expertise in cost of capital and long-term financing issues so you have been employed as a consultant to advise the MI Board. You will present your recommendations to the Board of MI in the form of a PowerPoint presentation.

MI have provided you with the following current balance sheet:

Move It Limited
Balance Sheet

Assets	$000	Liabilities & Net Worth	$000
Cash	2,000	Accounts Payable	2,400
Other Short Term Assets	3,600	Bank Loan	5,000
Plant & equipment	14,200	Bond	7,000
Land & buildings	9,000	Total Liabilities	14,400
Other assets	2,800	Equity including retained earnings	17,200
Total	$31,600	Total	$31,600

You have also been provided with the following information:

- There are currently 5,500,000 shares on issue. The shares are listed on the NZX and the last trade was at a price of $2.80.
- Retained earnings total $3,500,000.
- MI's bank debt of $5,000,000 costs it 5.0% p.a.
- MI's perpetual bond of $7,000,000 is issued at 8.5% and currently has a yield to maturity of 5.5%.

[1] Move It Ltd and all information provided in this assignment is fictitious.

- The payment terms of both bank debt and the perpetual bond are interest only.
- Land and buildings are not depreciated but the building fit-out, which is currently valued at $1,200,000, is depreciated.

- MI's budgeted income and expenses for the next financial year are as follows:

Move It Limited Budgeted Income and Expenses for the next financial year	
	$000
Revenue	8,700
Wages	5,000
Repairs and Maintenance	450
Power	330
Sales and Marketing	1,100
Other	50

MI also provides you with the following information:

- Revenue is expected to grow at 3% p.a. from years 2-5 and 2% p.a. in years 6-10.
- Wages are expected to increase at 2% p.a.
- Repairs and maintenance are forecast to grow by 3% p.a.
- Power expenses are forecast to grow by 4% p.a.
- Sales and marketing expenses are forecast grow by 2% p.a.
- Other expenses are forecast to grow by 5% p.a.
- Depreciation on the building fit-out is calculated at a rate of 10% DV.
- Depreciation on plant and equipment is calculated at a rate of 16% DV.
- Assume there is no capital expenditure over the period.
- The tax rate is 28%.
- Given the above revenue and expense forecasts are simply estimates, you should consider the possibility of all revenue and expenses (including depreciation but excluding interest) being 25% lower and 25% higher than the base case represented in the above forecasts.

Requirements

- MI is looking to buy back $3,000,000 or $5,000,000 worth of shares. It wants to keep cash on hand at $2,000,000 so it would fund the buyback through the issue of a new perpetual bond. It forecasts the interest rate would be 5.5%

    - You are expected to determine the impact of these actions on EBIT / EPS over the next 10 years and recommend no buyback or the buyback of $3,000,000 or $5,000,000 worth of shares from an EBIT / EPS perspective.
    - You are requested to give your view on the likely impact of the $3,000,000 buyback or $5,000,000 buyback on MI’s cost of capital.
- You are expected to deliver the following items to the Board of MI prior to your presentation (i.e. submit both for marking):
    - A print out (in pdf format) of your PowerPoint presentation. This should contain no more than 15 slides. The print out should be of “Notes Pages” which contain each slide at the top of the page with brief notes below which elaborate on the information from your slides. The presentation should contain all the important information from your Excel model. You should assume you will have just 30 minutes to present to the board so please think carefully about what information to include and how best to present it.
    - Your Excel model.