# **2. Management Summary**

The contract proposed by Pulp Novels plc offers Power Printing Ltd. an opportunity to significantly expand current operations. Should PPL produce 35,000 books per week at £9 per book, this would generate an additional £16,380,000 in yearly revenue.

However, in its current state, the contract is not logistically feasible. The Printers’ Union hiring cap of 70 new printing staff would not allow PPL to produce the maximum weekly output of 50,000 books proposed by Pulp Novels plc.

For this contract to be logistically feasible, PPL must negotiate either a lower maximum weekly production (42,315) or a hiring cap of 84 printing staff. Given the financial benefits and greater likelihood of renegotiating the maximum weekly production, the following conclusions are drawn.

The lower weekly output of 42,315 is the maximum output of 18 TP 4000s costing £3,811,500. To accommodate for these machines, magazine presses 3,4,5 and 6 must be relocated to create 2,900 sq. ft. of space. The recommended shift structure is a day shift and an evening shift, Monday to Friday. This configuration, while operating at maximum capacity, has an annual cost of £2,853,670. This includes the wages for 20 apprentices, 42 masters, 8 supervisors and 2 shift leaders.

Books should be stored on plastic pallets in an on-site warehouse of size 22.5m x 12m in the space available adjacent to the factory. An additional two forklifts and two forklift drivers should be acquired to service the warehouse. This warehouse, fully fitted with all required services, would cost £229,377 and take 176 days.

The recommended loan structure for this project is to borrow £309,377 on August 1st, 2018. This loan will finance the construction of the warehouse and the reconfiguration of the factory floor. A second loan of £3,811,500 should be taken out on December 1st, 2018. The purpose of this loan is to finance the purchase of machinery.

As advised by PPL’s Finance Director, Mr. T. Booker, for this project to be accepted the minimum discount rate used in Net Present Value calculations should be 9%. However, given the risks associated with this contract, a rate of 12% is preferred. We recommend extending the contract term to 6 years, which would require PPL to receive a price per book of £9.52. If the duration of the contract cannot be extended, the price received should be £10.08. This allows the contract to remain profitable in the worst-case scenario, where the weekly production is 35,000 books.

The financial analysis contained in this report assumes that the true average length of a book is 220 pages. If the true average increases above 220 pages, PPL will not be able to maintain an annual return of 12% over the duration of the contract.