For Possible Extra Credit - Case Study Solution

For possible extra credit, please prepare your solution to the ***Groupe Ariel*** case study; – HBP Case # 4194. This case is included in the course pack. Note, there is a student spreadsheet available (4195). Once you purchase the case study, the student spreadsheet should become available.

Please submit ONLY your completed spreadsheet, which must include the solution with the appropriate / correct expansion of the SS to determine NPV of the prospective equipment purchase. Please also include a one-line answer as to whether or not the French company should go forward with the purchase of the new automation equipment based on whether or not your calculations indicated a positive NPV.

Consider the following "Pointers":

1. This is an "International Capital Budgeting" case, necessarily involving Foreign Exchange.

2. Assume that the Theory of "Purchasing Power Parity" holds true.

3. Mexican inflation is expected to be 7% per year vs Euro zone inflation of 3%

4. Be sure to estimate the expected future Peso cash flow improvement from this prospective capital investment. Note there will be NO salvage value of the new equipment after year 10. The old equipment will be sold in year 0 for a loss vs book value creating a tax shield benefit, for a total cash inflow from sale (of old equipment) of ___________?

5. Naturally, if the old equipment is disposed of, the corresponding tax shield benefits from depreciation of the old equipment will be foregone.

6. Mexican tax rate is 35%.

7. Be sure to incorporate into your analysis Peso depreciation tax shield benefit on new equipment over its 10-year useful life.

8. Use the “home Currency” method” to convert Pesos to Euros. Discount the Euros to today.

9. Deadline to submit on Classes is next Wednesday, November 21st at 8:30 PM sharp. NO submission will be accepted after this deadline.