**Valuing New Ventures- the case of Sungreen’s expansion project**

**Question List**

**What is the case about?**

* What kind of business is Sungreen in? What are its product lines?

It is a large forest products and paper firm. They compete in 3 businesses, consisting of building products, paper and pulp, and chemicals.

* What problem to solve?

The Chairman and CFO of the Sungreen are trying to determine if building a new paper mill and printing plant is a good financial decision or not.

* Who are the main characters?

Pat Lahey and Hanna Summers, Chairman and Chief Financial Officer of Sungreen Corporation, respectively.

**Market analysis for new product line:**

* How would you describe its industry?

Competition between suppliers of wrapping paper is on the basis of price, product design, and the quality of the paper and print. The wrapping paper industry is seasonal, with approximately 60% of sales in the second half of the calendar year. Wrapping paper performance is tied to the overall economy, prices are volatile (10-15%).

* Industry outlook

Producers and analysts expected 2019 to be healthy for the wrapping paper industry. Strong demand, limited supply, and limited new capacity are expected to cause the industry to operate at nearly 100% utilization. High % of costs in the industry are fixed, high operating rates → high profits. Wrapping paper sales were predicted to rise nearly 7% as real GNP and consumer demand strengthened with the economic recovery. Much of the measured sales increase was due to an expected inflation of 5%. Yet, only 1–2% of new capacity was expected to become available before the end of 2021. Wrapping paper makers would therefore have to operate at historically high levels of production, with operating rates expected to be stable at around 96% (operating 350 days a year). Wrapping paper prices were expected to rise from $740 per ton in 2004 to $882 by the end of 2023.

* Product market strategy: how to win competition?

Have different designs, unique designs that are different from other competition. In addition, iit is important to have considered on the price, design, and wrapping quality

**Evaluating the project:**

* What are the options other than building a new plant? Have they investigated alternatives? What were the outcomes?

The option was to find a suitable mill and plant to buy from other businesses. Sungreen even has created a survey by rating different US wrapping paper mills depending on age, capacity and so on. C. Lahey called the owner with the 11 A rated mills to see whether they wanted to cooperate but got rejected. In addition, one firm was interested in working with Sungreen, Continental Group, Inc. This one also failed because Sungreen lost the bid to Cyperus Corp.

* To evaluate the project (building their own plant), what information does the CFO need?

1. Need to know Future Cash Flows from:
   1. Pro forma IS and BS
2. Budget for the new project
3. The capacity of the new mill