HENDERSON MANUFACTURING
COMPANY BRIEF

COMPANY OVERVIEW
Henderson is a large manufacturer of industrial storage tanks that are used by companies in the oil and gas industry.

FINANCIAL MODEL
You have been provided with three years of annual historical financial statements for Henderson. The most recent statement available to you is 2020. Your task is to build an integrated annual model for the Company for the next 5 years (2021-2025) using historical data and the following assumptions. Assume all figures are in dollars unless stated otherwise.

Sales
- In 2021, net revenue was $594.44 per unit (ie. gross revenue of $694.44 per unit, less freight & warehousing costs of $100.00 per unit).
- This is a cyclical industry and the sales prices are expected to average $800 in 2021, $725 in 2022, $825 in 2023, $800 in 2024 and $750 in 2025.
- Freight & warehousing costs are expected to increase at inflation.
- Henderson's factory has a capacity of 420,000 units per year.
- The company expects sales volumes to grow at 5.0% in 2021 and 4.0% every year thereafter.

Operating Costs
- A breakdown of the forecasted operating costs for 2022 is provided below.

Description	Units	Amount
Variable Costs		
Raw Materials	$	226.00
Utilities	$	66.20
Total Variable Costs	$	292.20
Fixed Costs		
Rent	$MM	23.50
Operating Labour	$MM	43.50
Other	$MM	2.00
Total Fixed Costs	$MM	69.00

- Operating costs are expected to grow at inflation thereafter.
- SG&A is expected to be $3.9 million in F2021 and grow at inflation thereafter.

Capex and Depreciation
- The company plans to invest $16.0 million on capex in 2021, $17.0 million in 2021, $17.3 million in 2023, $17.5 million in 2024 and $18.0 million in 2025.
- Henderson uses the Straight-Line method of depreciation.
- Existing assets have a remaining useful life of 25 years while new assets will be depreciated over 30 years.

Working Capital

- Based on the historical data, please make reasonable assumptions for the working capital days over the next five years.

Income Taxes

- The Company's tax rate is 35%.
- The aggregate reduction in government pre-tax earnings due to timing differences between accounting and government rules is expected to be $5 million per year for the next five years.

Debt

- The senior secured term debt and revolver pay interest at a fixed rate of 6.0%.
- Excess cash earns interest income at a rate of 1.0%.
- Amortization on senior secured term debt will be $25 million per year until the debt is repaid.
- The Company will draw on its revolver if it ever has a cash shortfall.
- The revolver has a cash sweep such that whenever a revolver balance is outstanding, all excess cash flow after dividends and share repurchases is used to pay off the revolver.

Equity

- The company has 14.8 million common shares outstanding and the stock recently closed at $11.50.
- The dividend for its common shares is expected to be based on a payout ratio of 20.0% of Net Income.

Other Assumptions

- Feel free to make any other reasonable assumptions that you may need to build the model.