McLAREN GROUP LTD

Company Brief

COMPANY OVERVIEW

McLaren GROUP LTD is a world leader in industrial monitoring device design, development and marketing. The Company provides its consumers with a variety of cost-effective products for use on many types of machinery. The Company's origin dates back to 1942 when founder Laurence Nicern obtained his first patent for an industrial monitoring device.

FINANCIAL MODEL

You have been provided with McLaren's annual historical financial statements for three years. The most recent statement available to you is 2021. Your task is to build an integrated annual model for the Company for the next 5 years (2022-2026) using the historical data and the following assumptions. Assume all figures are in dollars unless stated otherwise.

- **Sales**
  - In 2021, net revenue was $10,735 per unit (ie. gross revenue of $11,000 per unit, less freight & warehousing costs of $265 per unit).
  - This is a cyclical industry and the sales prices are expected to average $11,200 in 2021, $11,350 in 2022, $11,500 in 2023, $11,700 in 2024 and $11,900 in 2025.
  - Freight & warehousing costs are expected to increase at inflation.
  - Henderson's factory has a capacity of 15,500 units per year.
  - The company expects sales volumes to grow at 4.0% for the next five years.

- **Operating Costs**
  - In F2020, 30% of the Cost of Sales was classified as variable costs and the remainder as fixed.
  - Cost inflation is expected to be 1.5% per year for the next five years.

SG&A is expected to be $9.5 million in F2020 and may grow at inflation thereafter.

- **Capex and Depreciation**

The company plans to invest $25.0 million in CAPEX in 2021, $25.0 million, in 2022, and $20.0 million for the next three years.

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.

Depreciation expense is included as a separate line on the Income Statement and not included in the Cost of Sales or SG&A.

- **Working Capital**

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

- **Income Taxes**

The Company's tax rate is 35%.

It is expected that the Company's pre-tax income for government purposes will be $20 million lower than the pre-tax income for accounting purposes every year in the forecast due to temporary timing differences.

- **Debt**

The interest rate on the fixed rate term debt and the revolving credit facility (revolver) is 3.8%. The variable rate term debt pays interest at a variable rate equal to LIBOR plus 125 basis points (100 basis points = 1.0%). The annual rate for LIBOR is expected to remain constant at 1.1%.

Excess cash earns interest income at a rate of 0.5%. Amortization on the fixed rate debt will be $12 million annually until the debt is repaid. Amortization on the variable rate term debt will be $5 million per year until it is repaid. Assume that debt amortization payments occur either in the middle or the end of each year.

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 available after mandatory debt repayments, share issuances/repurchases and dividends go towards paying off the revolver.

The Company is not required to maintain a minimum cash balance.

- **Equity**

The Company plans to issue an additional $15 million of Preferred Shares in the middle of 2022 that will have an 8.0% dividend yield consistent with the Company's other Preferred Shares.

The Company plans to spend $30 million on Common Share repurchases. SCEC expects to introduce the new dividend for its Common Shares beginning in 2021. This dividend is expected to be based on a payout ratio of 20% of Net Income to Common each year.

- **Other**

The Company incurred significant Cost Adjustments from 2015 to 2017, mostly due to restructuring charges. Assume that these charges will not continue in the future years.

Assume that Goodwill, Intangibles, Other Long-Term Assets, Other Long-Term Liabilities, and Other Shareholders' Equity will remain constant over the forecast period.

- **Other Assumptions**

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