# FINANCE MANAGEMENT


**Brand:** Mehta Solutions
**Product Code:** case1214
**Weight:** 0.00kg

## Price: Rs500

**Short Description**

# FINANCE MANAGEMENT

case study

**Description**

**Case 2: McKenzie Corporations Capital Budgeting**

**Sam McKenzie is the founder and CEO of McKenzie Restaurants, Inc., a regional company. Sam is considering opening several new restaurants. Sally Thorton, the company's CFO, has been put in charge of the capital budgeting analysis. She has examined the potential for the company's expansion and determined that the success of the new restaurants will depend critically on the state of the economy next year and over the next few years.**

**McKenzie currently has a bond issue outstanding with a face value of $34 million that is due in one year. Covenants associated with this bond issue prohibit the issuance of any additional debt. This restriction means that the expansion will be entirely financed with equity, at a cost of $8.4 million. Sally has summarized her**

**analysis in the following table, which shows the value of the company in each state of the economy next year, both with and without expansion.**

| **Economic Growth** | **Probability** | **Without Expansion** | **With Expansion** |
|---|---|---|---|
| **Low** | **0.3** | **$30,000,000.00** | **$33,000,000.00** |
| **Normal** | **0.5** | **$35,000,000.00** | **$46,000,000.00** |
| **High** | **0.2** | **$51,000,000.00** | **$64,000,000.00** |

**Questions:**

1. **What is the expected value of the company in one year, with and without expansion? Would the company's stockholders be better off with or without expansion? Why?**

2. **What is the expected value of the company's debt in one year, with or without the expansion?**

3. **One year from now, how much value creation is expected from the expansion? How much value is expected for stockholders? Bondholders?**

4. **If the company announces that it is not expanding, what do you think will happen to the price of its bonds? What will happen the price of the bonds if the company does expand?**

**Details**

**1. Case study solved answers**

**2. pdf/word**

**3. Fully Solved with answers**