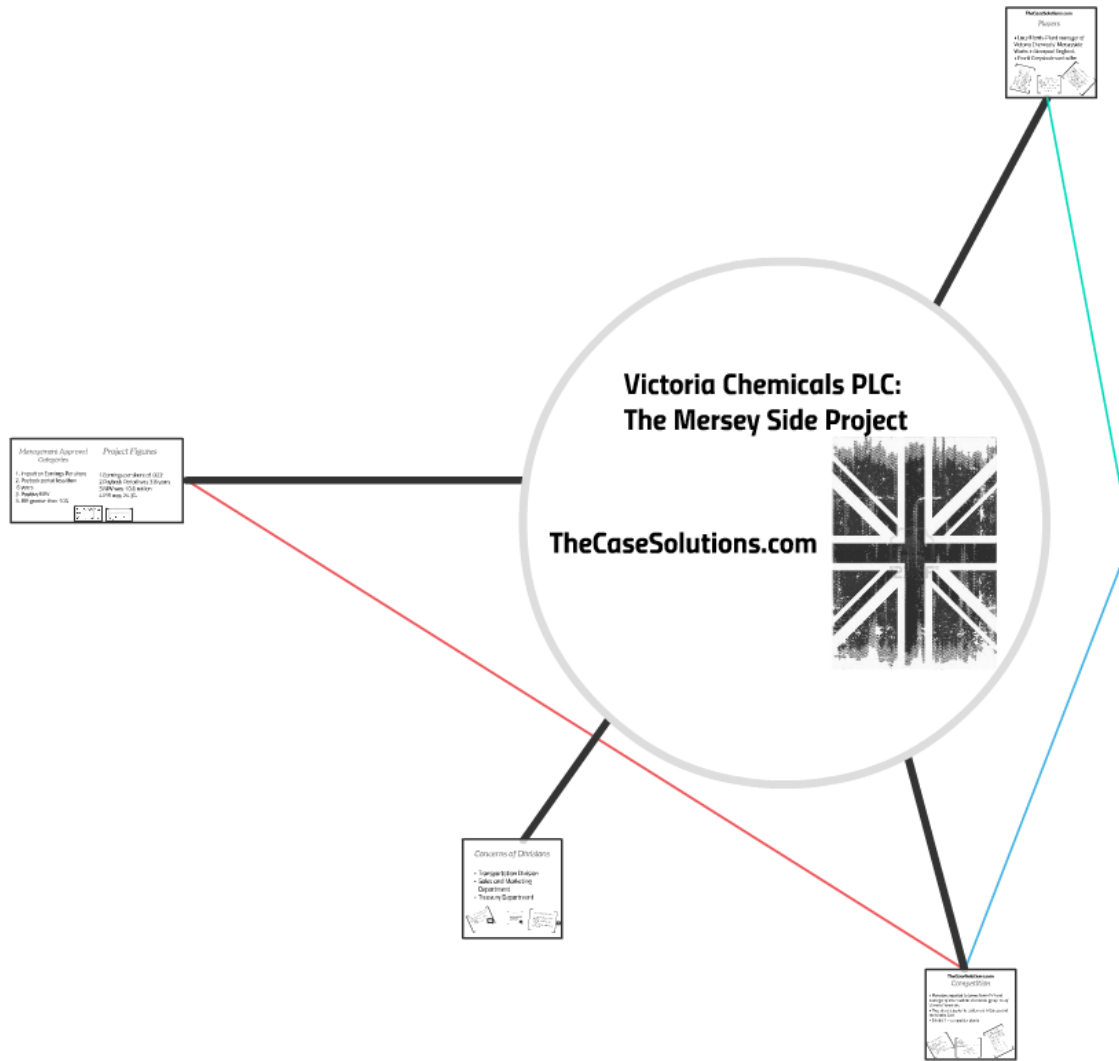


Victoria Chemicals PLC (B):

The Merseyside and Rotterdam Projects

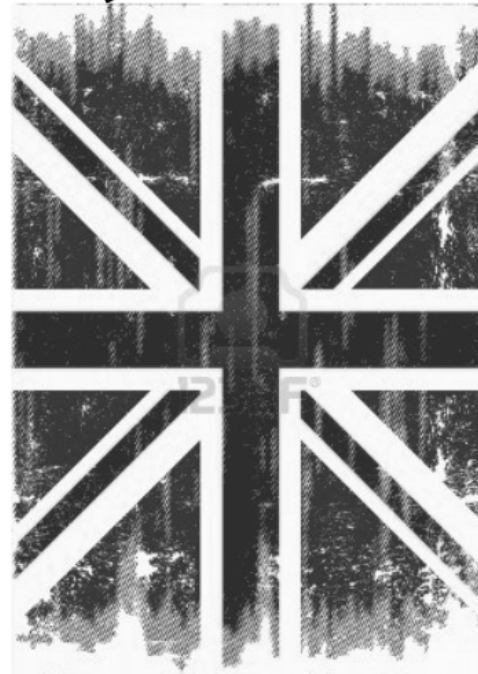


Victoria Chemicals PLC (B):

The Merseyside and Rotterdam Projects

Victoria Chemicals PLC: The Mersey Side Project

TheCaseSolutions.com



TheCaseSolutions.com

Players

- Lucy Morris-Plant manager of Victoria Chemicals' Merseyside Works in Liverpool England.
- Frank Greystock-controller

Urgency

- Victoria chemicals was under pressure to perform because a corporate raider was accumulating shares.
- Earnings had fallen 180 pence per share by end of 2007 from 250 at end of 2006.
- Morris thought now was the time to get funding from corporate for a modernization program.
- After talking to Greystock, Morris began to have doubts.

TheCaseSolutions.com

Their Business

- Victoria Chemicals was a leading producer of polypropylene.
- Polypropylene is used in carpet, medical, packaging film and autos.
- Their production process was old and was built in 1967.
- They had 2 plants, Merseyside and Rotterdam.

TheCaseSolutions.com

Project proposal

- Morris wanted to propose a capital project to sr. management.
- Project was GBP 12 million expenditures to renovate and rationalize the polypropylene production lines and the Merseyside plant.
- Purpose was to make up for deferred maintenance and to exploit opportunities to achieve increased production efficiency.

TheCaseSolutions.com

Project proposal

- Morris wanted to propose a capital project to sr. management.
- Project was GBP 12 million expenditures to renovate and rationalize the polypropylene production lines and the Merseyside plant.
- Purpose was to make up for deferred maintenance and to exploit opportunities to achieve increased production efficiency.

TheCaseSolutions.com

Urgency

- Victoria chemicals was under pressure to perform because a corporate raider was accumulating shares.
- Earnings had fallen 180 pence per share by end of 2007 from 250 at end of 2006.
- Morris thought now was the time to get funding from corporate for a modernization program.
- After talking to Greystock, Morris began to have doubts.

TheCaseSolutions.com

Their Business

- Victoria Chemicals was a leading producer of polypropylene.
- Polypropylene is used in carpet, medical, packaging film and autos.
- Their production process was old and was built in 1967.
- They had 2 plants, Merseyside and Rotterdam.

TheCaseSolutions.com

TheCaseSolutions.com

Competition

- Managers reported to James Fawn EVP and manager of intermediate Chemicals. group ICG of Victoria Chemicals.
- They are a supplier to customers in Europe and the Middle East.
- Exhibit 1 – competitor plants

Capital program

- Morris was new to the position and found much opportunity in production.
 - She found lots of deferred maintenance.
 - Previous manager limited CAPEX to a minimum.
 - New routine and deferrable maintenance is essential.
 - Other opportunities:
1. Relocate tank car unloading areas
 2. Refurbishing poly tank for higher pressure and throughput.
 3. Renovate compounding plant to increase throughput.

TheCaseSolutions.com

Cost

- Cost GBP 12 million.
- 45 day shutdown.
- Customers would have to buy from competitors because Rotterdam was at capacity

Benefits

1. Lower energy requirements
2. 7% throughput increase
3. Increase margins from 11.5-12.5%

Details

- Merseyside production-250k metric tons of poly pellets.
- Price GBP 675 per ton.
- Tax required 30%.
- Depreciation was complete.
- New assets could be depreciated at an accelerated term of 15 years.
- Work in process inventory will increase to 3% of COGS.
- 1st year engineering cost GBP 500k.
- Overhead could be included in project analysis @ 3.5% book value of assets acquired in project year.

Capital program

- Morris was new to the position and found much opportunity in production.
- She found lots of deferred maintenance.
- Previous manager limited CAPX to a minimum.
- Now routine and deferrable maintenance is essential.
- Other opportunities:
 1. Relocate tank car unloading areas
 2. Refurbishing poly tank for higher pressure and throughput
 3. Renovate compounding plant to increase throughput.