

The Cartwright Lumber Company

CASE STUDY 1

PR Strategic Finance
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Wintersemester 2015/ 2016
07.01.2016

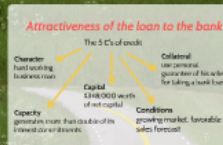
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Company	Year	2014	2015	2016
Revenue		100	110	120
Profit		10	11	12
Assets		20	22	24
Liabilities		10	11	12
Equity		10	11	12

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The Situation

- Mark Cartwright is looking for a loan to satisfy the needs of the Cartwright Lumber Company
- interested in a line of credit from Northrop National Bank (maximum loan \$445,000)
- currently, business relations with Suburban National Bank (maximum loan \$250,000)
- rapid growth and shortage of cash, lack of sales staff => **problem** S&B constraints

→ Solution: take the line of credit from NNB

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The Situation

- Mark Cartwright is looking for a loan to satisfy the needs of the Cartwright Lumber Company
- interested in a line of credit from Northrop National Bank (maximum loan: **\$465.000**)
- currently, business relations with Suburban National Bank (maximum loan: **\$250.000**)
- rapid growth and shortage of cash, lack of sales staff => **problem:** SNB constraints



Solution: take the line of credit from NNB

Attractiveness of the loan to the bank

The 5 C's of credit

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graph TD; A[The 5 C's of credit] --> B[Character]; A --> C[Capital]; A --> D[Capacity]; A --> E[Collateral]; A --> F[Conditions];
```

Character

hard working
business man

Capital

\$348,000 worth
of net capital

Capacity

generates more than double of its
interest commitments

Collateral

use personal
guarantee of his wife
for taking a bank loan

Conditions

growing market, favorable
sales forecast

Ratio Analysis

Cartwright Lumber Company Financial Ratios			
	2001	2002	2003
Profitability Ratios			
Return on Invested Capital	0,10	0,11	0,12
Return on Equity	0,11	0,11	0,13
Activity Ratios			
Total Asset Turnover	2,86	2,74	2,89
Average Sales per Day	4,65	5,52	7,38
Nr of days sales are unpaid	36,77	40,22	42,95
Inventory Turnover	5,11	4,41	4,67
Fixed Asset Turnover	13,47	14,38	17,16
Leverage Ratio			
Debt Ratio	0,55	0,59	0,63
Interest Earned	3,85	3,05	2,61
Average Purchases per Day	35,43	45,93	45,80
Accounts Payable Turnover	0,10	0,13	0,13
Liquidity Ratios			
Current Ratio	1,80	1,59	1,45
Quick Ratio	0,88	0,72	0,67

Income Statement

Net sales		\$1,697	\$2,013	\$2,694	\$718	3,600
Cost of goods sold						
Beginning inventory		183	239	326	418	418
Purchases		1,278	1,524	2,042	660	2736
		\$1,461	\$1,763	\$2,368	\$1,078	\$3,154
Ending inventory		239	326	418	556	562
Total cost of goods sold		\$1,222	\$1,437	\$1,950	\$522	\$2,592
GROSS PROFIT		475	576	744	196	\$1,008
Operating expense (b)		425	515	658	175	900
Interest expense		13	20	33	10	75
Net income before taxes		\$37	\$41	\$53	\$11	97
Provision for income taxes		6	7	9	2	21
Net income		\$31	\$34	\$44	\$9	\$76

(a) In the first quarter of 1990 sales were \$698,000 and net income was \$7,000.

(b) Operating expenses include a cash salary for Mr. Butler of \$75,000 in 1988, \$85,000 in 1989, \$95,000 in 1990, and \$22,000 in the 1st quarter of 1991. Mr. Butler also received some of the perquisites commonly taken by owners of privately held businesses.

Financial Forecasting

Balance Sheets at December 31, 2001 - 2003 and March 31, 2004 (thousand of dollars)

				1st Qtr.	Year End
	2001	2002	2003	2004	2004
Cash	58	49	41	31	54
Accounts receivable, net	171	222	317	345	432
Inventory	239	325	418	556	562
Current assets	468	596	776	932	1048
Property, net	126	140	157	162	216
Total assets	594	736	933	1094	1264
Notes payable, bank		146	233	247	661
Notes payable, Mr. Stark	105				
Notes payable, trade				157	
Accounts payable	124	192	256	243	75
Accrued expenses	24	30	39	36	54
Long-term debt, current portion	7	7	7	7	7
Current liabilities	260	375	535	690	797
Long-term debt	64	57	50	47	43
Total liabilities	324	432	585	737	840
Net worth	270	304	348	357	424
Total liabilities and net worth	594	736	933	1094	1264