

A 45 year old retail company, Retail Co. is looking to expand after a long period of lull due to tough economic headwinds in the past. Over the years, Retail Co stores have been established as a hub for full range organic products and other premium branded consumables.

Currently Retail Co. operates 17 convenience stores and 2 supermarkets with in California, USA. With an appeal to health conscious upper middle income group consumers, Retail Co is looking to make sweeping changes in its existing stores and expand by setting up additional stores including 1 more supermarket and 3 more convenience stores.

As a consultant you are supposed to advise the management on the expansion plans and determine how much the NPV of the project would be. Base your analysis on following historical data and management commentary provided below.

### Past Data

(\$ million)	2014	2015	2016	2017
Convenience Stores (number)	15	17	17	17
Avg Size per convenience store (Sqft)	8000	8100	8100	8100
Sales	252	292	310	305
Supermarkets (number)	1	1	2	2
Avg Size per supermarket (Sqft)	58000	60000	60000	60000
Sales	110	116	239	227
Total Sales	362	408	549	532
Total Size	178000	197700	257700	257700
Cost of Sales	292	326	430	412
Marketing Expenses	29	20	5	5
Compensation Expenses	7	8	11	11
Other Admin and General Expenses	8	10	13	12
Depreciation @ 8% reducing balance	22	23	28	25
Net Property, Plant and Equipments	279	282	346	315
7%, 10 year Bonds Payable	204	220	239	265
Equity	136	146	159	177
Interest Expense	14	15	17	19
Net Working Capital	127	135	170	177
EBIT	3	22	61	66
Net Income	-12	6	45	48

### Management Commentary

- There would be introduction of new layout in all stores including the new ones that should lead to increase in efficiency of space utilization.
- More number of white labeled brands that would be sold as Retail Co in house production would be introduced. These products will offer better margins.

- Supermarket sales are facing increasing competition from online counterparts, to fight it out, increase in marketing spend is required.
- Marketing spend shoots up every time before opening new stores
- Retail Co will maintain same capital structure in the future as well.