

OC MANUFACTURING COMPANY

OC Manufacturing Company has been a customer of your bank for 10 years. Recently, the account officer handling this relationship left the bank and is now working at a competitor bank. You have been assigned as the new account officer. In your recent meeting with the company CFO, you learned of a contract to be awarded to OC Manufacturing. The contract, however, will require additional debt. The CFO has asked you for a \$1,000,000 loan to purchase equipment and a \$750,000 increase in the existing line of credit. Obviously, a fast and competitive response is imperative given that the former account officer has been calling on OC Manufacturing. The cost for the equipment is \$1,250,000 with the \$250,000 in down payment being provided by Oliver Crust, Jr. through a loan to the company. The company is requesting a 5 year payback on the equipment stating that the equipment can be used for other jobs beyond the current contract.

OC Manufacturing Company is a 20 year old metal fabrication company that makes parts, primarily for industrial machines and construction vehicles. The company is owned by Oliver Crust, Jr. who inherited the company from his father 2 years ago. He has worked in all areas of the company over that last 12 years since obtaining his MBA. Approximately 4 years ago, the company expanded its plant with the financial assistance from your bank. Your bank provided a \$3,750,000 real estate loan with a 5 year call/20 year am at 4.00%, a \$3,500,000 machinery & equipment loan on a 7 year note floating at Prime and a \$1,000,000 line of credit at a floating rate of Prime + .25%. The company has had a satisfactory payment record.

The company was recently awarded 3 year contract to provide cabin doors and ladders for Komatsu construction vehicles used primarily in residential development. The contract is worth \$3,000,000 in annual sales. After a 10% decline in sales two years ago, the company rebounded with a 6% sales growth last year. The margins, however, continued to shrink resulting in low profitability. With this contract, the CFO expects to gain some efficiency in both cost of goods sold (labor) and operating expenses. The CFO has provided you with the most recent financial statements.

Your challenge, working with others in your team, is to analyze the request, reach a decision and make a proposal on Friday morning. **At a minimum, your presentation should include the following:**

- 1) Summary of the loan requests
- 2) Recommendation for loan/line structure
- 3) Financial analysis (actual & projected) with an emphasis on cash flow coverage and leverage
- 4) Recommendation for covenants
- 5) Listing of strengths and weaknesses (risks) associated with this financing. Strengths and weaknesses should be both financial and non-financial.

If you choose not to make the loan, you must be prepared to defend your decision in light of the Bank's current focus on C&I loan growth.

Oliver Crust, Jr.

Current Financial Condition

Assets

Cash	357,000
Stocks/Investments	
- Edward Jones	250,000
- Fidelity (401k)	260,000
- OC Manufacturing (100%)	6,000,000
Receivables	150,000
Real Estate	
- Residence	650,000
- Condo	225,000
Personal Assets	
- Automobiles	45,000
- Boat	80,000
- Household Furnishings	100,000
Cash Value Life Insurance	75,000
Total Assets	8,192,000

Liabilities

Unsecured Loans	14,000
Automobile Loans	38,000
Boat Loan	37,000
Home Equity Line	125,000
1 st Mortgage Loan	506,000
Total Liabilities	720,000

Net Worth	7,472,000
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Annual Income

Salary	150,000
Distribution	150,000
Loan Repayment	<u>50,000</u>
Total	350,000

OC Manufacturing Company, Inc.

BALANCE SHEET

	<u>12/31/2022</u>	<u>12/31/2023</u>	<u>12/31/2024</u>
ASSETS			
Cash	\$ 197,152	\$ 182,324	\$ 148,934
Accounts Receivable	\$ 1,037,964	\$ 1,269,948	\$ 1,287,124
Inventory	\$ 678,271	\$ 654,948	\$ 626,872
Prepaid Expenses	\$ 57,933	\$ 61,328	\$ 49,201
Total Current Assets	<u>\$ 1,971,320</u>	<u>\$ 2,168,548</u>	<u>\$ 2,112,131</u>
Land	\$ 980,000	\$ 980,000	\$ 980,000
Buildings & Improvements	\$ 3,520,000	\$ 3,520,000	\$ 3,520,000
Machinery & Equipment	\$ 6,388,735	\$ 6,518,244	\$ 6,659,759
Accumulated Depreciation	\$ (2,130,057)	\$ (2,694,367)	\$ (3,286,259)
Total Net Fixed Assets	<u>\$ 8,758,678</u>	<u>\$ 8,323,877</u>	<u>\$ 7,873,500</u>
TOTAL ASSETS	<u>\$ 10,729,998</u>	<u>\$ 10,492,425</u>	<u>\$ 9,985,631</u>
LIABILITIES			
Accounts Payable	\$ 500,348	\$ 549,124	\$ 586,220
Accrued Expenses	\$ 97,607	\$ 92,840	\$ 104,833
Line of Credit	\$ 700,000	\$ 1,000,000	\$ 1,000,000
Current Portion Long Term Debt	\$ 629,352	\$ 634,696	\$ 640,261
Total Current Liabilities	<u>\$ 1,927,307</u>	<u>\$ 2,276,660</u>	<u>\$ 2,331,314</u>
Long Term Debt, net of current portion	<u>\$ 5,996,429</u>	<u>\$ 5,361,733</u>	<u>\$ 4,721,472</u>
Due to Shareholder	\$ 250,000	\$ 200,000	\$ 150,000
TOTAL LIABILITIES	<u>\$ 8,173,736</u>	<u>\$ 7,838,393</u>	<u>\$ 7,202,786</u>
OWNER'S EQUITY			
Common Stock	\$ 1,000	\$ 1,000	\$ 1,000
Additional Paid in Capital	\$ 249,000	\$ 249,000	\$ 249,000
Retained Earnings	\$ 1,860,293	\$ 2,306,262	\$ 2,404,032
Net Income	\$ 595,969	\$ 197,770	\$ 228,813
Distributions	\$ (150,000)	\$ (100,000)	\$ (100,000)
TOTAL OWNER'S EQUITY	<u>\$ 2,556,262</u>	<u>\$ 2,654,032</u>	<u>\$ 2,782,845</u>
TOTAL LIABILITIES & OWNER'S EQUITY	<u>\$ 10,729,998</u>	<u>\$ 10,492,425</u>	<u>\$ 9,985,631</u>
	\$ -	\$ -	\$ -

OC Manufacturing Company, Inc.

INCOME STATEMENT

	<u>12/31/2022</u>	<u>12/31/2023</u>	<u>12/31/2024</u>
REVENUES	<u>\$ 12,277,319</u>	<u>\$ 11,136,682</u>	<u>\$ 11,809,678</u>
COST OF GOODS SOLD			
Materials	\$ 6,390,195	\$ 5,843,992	\$ 6,364,276
Labor	\$ 2,712,179	\$ 2,522,879	\$ 2,637,472
Depreciation	\$ 544,061	\$ 569,929	\$ 587,070
Total Cost of Goods Sold	<u>\$ 9,646,435</u>	<u>\$ 8,936,800</u>	<u>\$ 9,588,818</u>
Gross Profit	<u>\$ 2,630,884</u>	<u>\$ 2,199,882</u>	<u>\$ 2,220,860</u>
OPERATING EXPENSES			
Salaries & Wages	\$ 523,672	\$ 506,135	\$ 525,213
Officer Compensation	\$ 139,000	\$ 147,000	\$ 151,000
Repairs & Maintenance	\$ 163,861	\$ 182,976	\$ 174,297
Utilities	\$ 235,694	\$ 217,132	\$ 221,678
Bad Debts	\$ 30,000	\$ 15,000	\$ 20,000
Other Operating Expenses	\$ 480,712	\$ 490,951	\$ 500,237
Depreciation	\$ 22,892	\$ 26,192	\$ 27,604
Total Operating Expenses	<u>\$ 1,595,831</u>	<u>\$ 1,585,386</u>	<u>\$ 1,620,029</u>
Net Operating Profit	<u>\$ 1,035,053</u>	<u>\$ 614,496</u>	<u>\$ 600,831</u>
OTHER INCOME/(EXPENSES)			
Gain (Loss) on Sale of Assets	\$ (12,963)	\$ 4,216	\$ 19,094
Interest Expense	\$ (426,121)	\$ (420,942)	\$ (391,112)
Total Other Income/(Expenses)	<u>\$ (439,084)</u>	<u>\$ (416,726)</u>	<u>\$ (372,018)</u>
NET PROFIT	<u>\$ 595,969</u>	<u>\$ 197,770</u>	<u>\$ 228,813</u>