

Corporate Finance 15.402
Assignment 1: Wilson Lumber 1 (REQUIRED)

Your job is to evaluate Mr. Wilson's loan application for the Northrup Bank, and ultimately, to decide whether or not to grant a loan. To start with (in session 1), Mr. Dodge needs a memo from you describing Wilson's business, the likely reason(s) for his funding need, and the possible ways in which it can be financed. Ideally, your memo should be typed, short, precise and to the point.

1. Briefly describe the lumber business and the key factors for success in this business.
2. From an operational standpoint (not financial) – how well is the Wilson Lumber Company doing?
3. Describe the company's financial policy over the previous few years.
4. Why does Mr. Wilson have to borrow money to support his business despite a record of profitable operations?
5. What are Wilson's alternatives to borrowing money from Northrup?

For question 4, you may want to do the following:

- a. Prepare a statement showing the sources of funds and the uses of funds for the period from 1982 through the first quarter of 1985. This will help you realize where the money is coming from and where it is going. What are the main sources and uses of funds?
 - i. Compare Wilson's balance sheet in 1982 and 1985-Q1
 - ii. Classify Assets that have increased as a use of funds, and those that have decreased as a source of funds.
 - iii. Classify Liabilities that have increased as a source of funds and those that have decreased as a use of funds.
- b. You may also want to calculate and analyze those financial ratios that you feel explain Wilson's need for funds.