DIPLOMA IN CORPORATE FINANCE
SPECIMEN PAPER

CORPORATE FINANCE
TECHNIQUES & THEORY

DATE OF EXAM	SPECIMEN PAPER
3 HOURS	2.00 pm – 5.00 pm
RUBRIC	SECTION A – **FIVE** questions in this section are to be answered
	SECTION B – **BOTH** questions in this section are to be answered

NOTES TO CANDIDATES

1. Please insert your Candidate Number on the cover of your Answer Book. **Do not insert your name.**

2. Show **all** workings in your Answer Book.

3. Candidates may attempt the sections in any order. Please indicate clearly in your Answer Book which questions you are answering.

4. Please insert in the box provided on the cover of your Answer Book the numbers of the questions you have attempted in the order in which they appear in the Answer Book.

5. You may use the calculator provided or one approved by the Chartered Institute for Securities & Investment.

6. You must hand your Answer Book to an invigilator before you leave the Examination Hall. **Failure to do so will result in disqualification.**

7. Candidates are reminded that no marks will be awarded for illegible work.

8. The decision of the Exam Panel is final and no correspondence will be entered into concerning the grade awarded.

9. Once submitted, the examination scripts become the property of the Chartered Institute for Securities & Investment and will not be returned to candidates.

PLEASE TURN OVER WHEN INSTRUCTED

SECTION A TOTAL 50 MARKS

Answer FIVE questions in this section

1 Aggressor plc (Aggressor) has built up a stake of 3% in the shares of Target plc (Target). Aggressor has made a private approach to Target that was rejected by its board. There has been much market commentary and speculation as to the intentions of Aggressor towards Target and the Takeover Panel has issued a Put Up or Shut Up Order to Aggressor. Aggressor intends to make a hostile cash bid for Target and to take its offer directly to the shareholders.

Requirements

(a) Discuss the disclosure obligations of both Aggressor and Target in relation to Aggressor's stake in Target. (2 marks)

(b) Discuss the implications for Aggressor of a Put Up or Shut Up order. (2 marks)

(c) Target is seeking a "White Knight" as a defence against the potential hostile bid by Aggressor. Discuss whether Target is able to offer Inducement Fees to such a company and whether there are any limitations on such fees. (3 marks)

(d) Assume that Aggressor's hostile offer for Target is successful. Briefly discuss the obligations that Aggressor has in relation to any public statement of its intentions for Target after the end of the offer period. (3 marks)

2 Zeta plc (Zeta) owns 25% of the 10 million issued shares of Gamma plc (Gamma). The board of Zeta is considering one of the following transactions:

i) The purchase of 1 million warrants on Gamma shares that are yet to be issued.

ii) The purchase of 750,000 Gamma shares from ABC plc.

Requirements

(a) Discuss the implications of each of these transactions. (5 marks)

(b) Discuss the implications of Zeta pursuing a third option by obtaining irrevocable undertakings from certain shareholders in Gamma to sell 20% of its shares. (5 marks)

3 Venture plc (Venture) is a premium listed company and is considering making an offer for Sporting Ltd (Sporting). The following are extracts from the latest financial statements of the two companies for the year ended 31 March 2012:

	Venture (Consolidated figures)	Sporting
	£ millions	£ millions
Turnover	400	500
Profit before interest and tax	40	12
Interest	4	-
Profit before tax	36	12
Tax	11	4
Profit after tax	25	8
Fixed assets	240	80
Current assets	32	12
Current liabilities	(26)	(16)
Long term liabilities	(31)	-

Venture has 60 million shares in issue with a market value of 600p each. The two directors of Sporting, who each own 50% of the Sporting shares, have indicated that they would be willing to accept £80 million in total for their shares.

Requirements

(a) Discuss how this transaction be classified in accordance with the UK Listing Rules (you are required to calculate all ratios). (4 marks)

(b) Set out the requirements of the classification that you have determined for the transaction in (a) above. (3 marks)

(c) Discuss the implications when a proposed transaction is a reverse takeover. (3 marks)

4 Totalclean Ltd (Totalclean) is based in Manchester UK and specialises in the cleaning and redecorating of houses and apartments at the time of tenant changeovers. The company was founded ten years ago by a Fred and Edith Smith (the Smiths). The Smiths are the sole directors and shareholders of the company. Totalclean has been profitable and achieved an EBITDA of £150,000 for the year ended 31 May 2012.

Totalclean has the opportunity to gain a cleaning and redecorating contract with a firm that has many apartments that are leased to students in Liverpool, Manchester and Leeds. To fulfil the contract, Totalclean will have to invest a further £200,000 in equipment, vehicles and working capital. It has been estimated that the contract has a positive net present value of £50,000.

Below are extracts from the Balance Sheet of Totalclean as at 31 May 2012:

NON-CURRENT ASSETS	£	£	£
Vehicles and equipment			600,000
CURRENT ASSETS			
Stocks	15,000		
Debtors and prepayments	450,000		
Cash	20,000	485,000	
CURRENT LIABILITIES			
Trade creditors and accruals	350,000		
Bank overdraft	250,000	600,000	
NET CURRENT LIABILITIES			(115,000)
NET ASSETS			485,000
SHAREHOLDERS FUNDS			485,000

(Note: The bank overdraft is secured by a fixed and floating charge on Totalclean's assets and the Smiths have also given personal guarantees to the bank.)

It is noted that the Smiths do not have any further security for a loan or any further financial resources to invest in Totalclean.

Requirements

(a) Discuss the most appropriate way for Totalclean to raise the additional £200,000 (ie by debt, equity or a combination of both). (4 marks)

(b) Suggest and briefly discuss two sources of unquoted finance that might be appropriate for Totalclean. (6 marks)

5 (a) Discuss what methods are available for a listed company to translate surplus cash into shareholder value, other than by investing in projects. You should state the advantages and disadvantages of the methods that you mention in your discussion. (6 marks)

(b) Discuss the implications of not taking the translating surplus cash into shareholder value. (4 marks)

6 Atlas Ltd (Atlas) is a large private company based in the United Kingdom. Atlas intends to arrange debt finance and purchase a manufacturing company in Esperanza, a country which in the last ten years has had many changes in government and high inflation. However, there is hope that the current government of Esperanza, which is encouraging foreign direct investment in the country, will provide a stable business environment. The products that Atlas produces in Esperanza will be exported to the United States of America and Australia.

Requirements

(a) Identify the foreign exchange rate risk associated with Atlas's operations in Esperanza and discuss how these risks might be hedged. You should include the advantages and disadvantages of any derivative instruments that you mention. (7 marks)

(b) Briefly discuss how currency swaps might assist Atlas in financing the purchase of the manufacturing company in Esperanza. (3 marks)

7 Your firm has been asked by a client company to give a presentation to the board on the use of warrants and options in corporate finance.

Requirements

Prepare brief notes for the presentation on the following areas:

(a) The similarities and differences between warrants and options. (4 marks)

(b) Why a company might wish to issue warrants. (3 marks)

(c) The meaning and significance of the Capital Fulcrum Point. By way of illustration you should use the following information in your notes:

Exercise price	400p
Share price	380p
Warrant price	80p
Period to expiry	4 years
Estimated share price in 4 years	506p

(3 marks)

SECTION B TOTAL 50 MARKS

Answer BOTH questions in this section

8 *Carpetright profit warning on 'disappointing' bed sales.*

Carpetright has issued its sixth profit warning in under 18 months on the back of disappointing bed sales and poor trading across continental Europe, sending its shares down 26 to 578.5p.

(Source: The Telegraph 24 April 2012)

Your firm has been asked to provide a report on Carpetright plc (Carpetright) for a group of concerned shareholders. You have been asked by a partner in your firm to provide analysis and comment upon two areas that will be included in the report. You have available, in the Information Booklet, Excel spreadsheets, financial information relating to the company and a selection of comparable companies.

Requirements

(a) Discuss the financial health and trends of Carpetright. Where possible, you should refer to the comparable company information. You must include your conclusions regarding the financial health of Carpetright. (15 marks)

(b) Discuss two refinancing alternatives that might be available to the company. You should ensure that you state the advantages, disadvantages and feasibility of each alternative. (10 marks)

9 McBride plc (McBride) is engaged in the production, distribution, and sale of private label household and personal care products to retailers in the United Kingdom and continental Europe. It is now January 2012 and your firm acts for Acquisitive plc (Acquisitive) which is considering making an approach to the Board of McBride with a view to making a cash offer for its ordinary shares. A partner in your firm is due to attend a meeting with the Board of Acquisitive and has asked you, as a member of his team, to prepare a range of values for the ordinary shares of McBride and to make a recommendation of an offer price. The partner has also asked you to prepare briefing notes on the topics set out in requirement (c) below.

In addition to the Excel spreadsheets contained in the Information Booklet, you have the following information available to you:

i) The current share price is 127p and there are 179,151,118 shares in issue.
ii) The company has net debt of £90.3 million.
iii) The company has an equity beta of 0.35.
iv) The risk free rate is 1.1% and equity risk premium 5%.

Requirements

(a) Estimate a range of values for the ordinary shares of McBride based on:

i) Discounted cash flow using a four year time horizon and assuming a growth rate of 2% thereafter (Note: You are provided with estimates of revenue and EBITDA for the time horizon). (8 marks)

ii) A broad range of multiples. (6 marks)

Note: In both valuations you should state your assumptions, reservations and any further information requirements.

(b) Make a recommendation of a likely offer price for the ordinary shares of McBride. (3 marks)

(c) Prepare briefing notes for the partner in your firm on loan stock or shares as alternatives to cash as the consideration for the shares of McBride. (8 marks)