

Chartered Banker

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CORPORATE FINANCE

Assignment 2

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Important Assignment Information

ASSIGNMENT LENGTH

For assignments submitted on or after **1st September 2008**, there is a **maximum** word count of **2,500 words**.

From that date, if you fail to adhere to the maximum word count, a deduction will be made to your final assignment mark. Specifically, if you exceed the 2,500 limit, you will be deducted **1%** for every **100 words** or **part** of **100 words** over the limit.

For example, if you write a total of **2,614** words, a **2%** deduction will be made to your mark. For clarification, the word count includes all references and attached appendices.

PASS COMPENSATION AWARD

In recognition of the importance attached to the assignments, an award of **Pass Compensation** will be made to you if you score between 45% and 54% in the final exam and if you complete the required assignment(s) under the following conditions:

1. The assignment mark must be 60% or above – where two assignments are required, then the average mark must be 60% or above **and**
2. Assignments must be in the hands of the Tutor **at least** one month prior to the **chosen examination date for each subject**.

For example, if you enrol to sit a **full** credit subject examination on **15th December**, you must have sent **both** assignments to your tutor by **15th November**.

Similarly, if you enrol to sit a **half** credit subject examination on **2nd March**, you must have sent the **sole** assignment to the tutor by **2nd February**.

Please also note the following:

- (a) Where an assignment is marked at less than 60%, this may show up as **'Fail'** in the web-based student record – this is purely with reference to the Pass Compensation award and does not necessarily mean it is a sub-standard submission
- (b) You are **not** permitted to **re-submit** an assignment in order to gain a higher mark
- (c) In the event that you fail an exam and have not completed the required assignment(s), you can subsequently complete the required assignment(s) – these will then count towards any re-sit examination undertaken. Submission dates for these assignments must comply with the relevant timescales as stated in **2** above.

Question 1

XYZ Ltd decides in December that it needs to borrow £6m to finance construction of a new plant it has been planning for some time. The treasurer is worried that short-term interest rates may rise before the funds are required in the following May.

Show how the treasurer can protect XYZ Ltd against an interest rate rise and set out the calculations on how effective her action is.

The following rates are available from the market:

INTEREST RATE FUTURES sterling 3 months.

December 95 March 94 June 93 September 92

In May, when she comes to draw down the loan, the market rate for her borrowing is 8%.

(TOTAL 20 MARKS)

Question 2

(a) Describe what is meant by overtrading. Analyse its causes and explain the steps management should take when overtrading develops.

(8 marks)

(b) Explain the cash conversion cycle of a business and discuss its uses.

(5 marks)

(c) Describe four reasons for a company to launch a takeover bid.

(4 marks)

(TOTAL 17 MARKS)

Question 3

- (a) Distinguish between hard and soft capital rationing and describe situations where each might arise.

(5 marks)

- (b) Discuss the reasons why acquisitions sometimes fail to enhance shareholder value.

(3 marks)

- (c) Assess some of the problems the directors of a company initiating a takeover may face during the bidding process.

(6 marks)

(TOTAL 14 MARKS)

Question 4

- (a) You have a customer who is about to start exporting. You are approached and asked to explain forward contracts and futures contracts and describe the differences between them as your customer is unclear about this.

How would you answer your customer? Include in your answer the advantages and disadvantages of each product.

(15 marks)

- (b) Explain what is meant by project finance and describe how it operates.

(6 marks)

- (c) Define each of the following terms:

- Hedging
- Derivatives

(4 marks)

- (d) Explain what the Private Finance Initiative is.

(4 marks)

(TOTAL 29 MARKS)

Question 5

The directors of ABC plc are considering making a takeover bid for XYZ plc for £90m. Both companies are listed companies and both ungeared. ABC has on issue 50 million ordinary 50p shares with a market value of £6 each. XYZ has 20 million ordinary £1 shares on issue worth £4 each on the market. The directors of ABC and its senior executives have calculated, as best they can, that there would be savings through synergies of £20m.

Evaluate the takeover bid on the basis that it is an:

- (a) All cash deal
- (b) All share deal.

Include in each evaluation the proportion of the combined company ABC is giving to XYZ's shareholders and how the £20m synergies will be divided between the shareholders.

Assume that the market capitalisation of both companies is equal to the present value of their future cash flows.

In addition, work out the post-takeover value of the share price in an all share deal

(TOTAL 20 MARKS)

TOTAL ASSIGNMENT MARKS – 100