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QUESTION & ANSWER

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Exam : CIMAPRA19-F03-1-ENG

**Title : F3 Financial Strategy
(Online)**

Version : DEMO

1.CORRECT TEXT

A venture capitalist invests in a company by means of buying:

- 9 million shares for \$2 a share and
- 8% bonds with a nominal value of \$2 million, repayable at par in 3 years' time.

The venture capitalist expects a return on the equity portion of the investment of at least 20% a year on a compound basis over the first 3 years of the investment.

The company has 10 million shares in issue.

What is the minimum total equity value for the company in 3 years' time required to satisfy the venture capitalist's expected return?

Give your answer to the nearest \$ million.

\$ million.

Answer: 34, 35, 34000000, 35000000

2.CORRECT TEXT

A listed company is planning to raise \$21.6 million to finance a new project with a positive net present value of \$5 million. The finance is to be raised via a rights issue at a 10% discount to the current share price.

There are currently 100 million shares in issue, trading at \$2.00 each.

Taking the new project into account, what would the theoretical ex-rights price be?

Give your answer to two decimal places.

\$?

Answer: 2.02, 2.03

3.Which THREE of the following are likely to be strategic reasons for a horizontal acquisition?

- A. Reduction of risk by building a larger portfolio
- B. Acquisition of an undervalued company
- C. To achieve economies of scale
- D. To secure key parts of the value chain
- E. Reduction of competition

Answer: B,C,E

4.A company plans to raise \$12 million to finance an expansion project using a rights issue.

Relevant data:

- Shares will be offered at a 20% discount to the present market price of \$15.00 per share.
- There are currently 2 million shares in issue.
- The project is forecast to yield a positive NPV of \$6 million.

What is the yield-adjusted Theoretical Ex-Rights Price following the announcement of the rights issue?

- A. \$16.00
- B. \$14.00
- C. \$9.00
- D. \$11.00

Answer: A

5.Company T is a listed company in the retail sector.

Its current profit before interest and taxation is \$5 million.

This level of profit is forecast to be maintainable in future.

Company T has a 10% corporate bond in issue with a nominal value of \$10 million.

This currently trades at 90% of its nominal value.

Corporate tax is paid at 20%.

The following information is available:

Which of the following is a reasonable expectation of the equity value in the event of an attempted takeover?

- A. \$32.0 million
- B. \$41.6 million
- C. \$65.0 million
- D. \$50.2 million

Answer: B