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 satisify 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