VPM's DR VN BRIMS, Thane Programme: MMS (2022-24) Third Semester Regular Examination Jan – February 2024			
Course Name:	Corporate Valuation and Mergers & Acquisition	**Course Code**	**F305**
Roll No.		**Marks**	**60**
Total No. of Questions	6	**Duration**	**3 Hours**
Total No. of printed pages	4	**Date**	**01/02/2024**

Course Outcome Statements:

CO1. DEFINE basic terminologies used in Corporate Valuation and Mergers & Acquisitions

CO2. EXPLAIN the concepts & theoretical frameworks in relation to Corporate Valuation and Mergers & Acquisition

CO3. MAKE USE OF Dividend Discount Models, Free Cash Flow models, relative valuation models to find the appropriate value of companies; carry out due diligence, measure synergy, application of alternative business restructuring strategies and pre-offer, post-offer defence mechanism.

CO4. EXAMINE valuations arrived from DDM, FCF based models, valuations of Mergers & Acquisitions, appropriateness of the alternative business restructuring strategies and pre-offer, post-offer defence mechanism

CO5. RECOMMEND 'Merger Acquisition Deals' and 'investment Avenues' based on appropriate evaluation of financial information

CO6. DEVELOP a Valuation Report for a public listed company in the Indian stock market using both absolute valuation and relative valuation techniques.

Instructions: - **Q. No 1** (All Questions are Compulsory)			**Marks**	**BL**	**CO**
Q. No.		**Questions**			
Q. 1		Case/Case-let Study (500-800 words)			
	a.	**Ocean and Whistle Accounting** Financial Information Latest year's revenue: $700m Latest year's net income: $ 135.3m Valuation Considerations (for Standalone Valuation) Average EV/revenue multiple in industry: 2.3x Average EV/net income multiple in industry: 10.5x Synergy Considerations The present value (PV) of the additional future cash flows derived from the maximum anticipated revenue synergies is $655m. However, it is uncertain whether these synergies will materialize the present value (PV) of the incremental future cash flows derived from the maximum anticipated cost synergies is $125m. However, it is uncertain whether these synergies will materialize Recent Accounting Scandals OW has been subject to data breach where confidential data of its 3 key clients have been stolen. The data has been leaked to their competitors. The clients can take legal action which may cost OW $150mn	**6**	**Level 4**	**CO4**

		Analyze the financial performance of OW Company if it was a target firm and you are thinking of acquiring it.			
	b.	XYZ Corporation is a well-established company in the technology sector known for its innovative products and strong market presence. Recently, the company's stock price has seen a steady increase, attracting the attention of various potential acquirers. Hostile Takeover Attempt: An aggressive competitor, ABC Inc., sees an opportunity to acquire XYZ Corporation to gain a competitive advantage in the market. ABC Inc. starts acquiring a significant number of shares in the open market, gradually moving towards a controlling stake in XYZ Corporation. ABC is considering following strategies -Implementation of Poison Pill Strategy -Rights Issuance -Dilution of Shares **Assess** the effectiveness of various defensive tactics employed by companies to thwart a hostile takeover attempt?	**6**	**Level 5**	**CO5**
Q. 2		Answer **Any one** from the following.			
	a.	Evaluate the performance of these 3 automobile companies and infer your observation. Tesla had a market capitalization of $50.5 billion. On top of that, its balance sheet showed liabilities of $17.5 billion. The company also had around $3.5 billion in cash in its accounts. Ford had a market capitalization of $44.8 billion, outstanding liabilities of $208.7 billion, and a cash balance of $15.9 billion. Lastly, GM had a market capitalization of $51 billion, balance sheet liabilities of $177.8 billion, and a cash balance of $13 billion	**6**	**Level 5**	**CO5**
	b.	Tech Innovations Inc. is a rapidly growing startup in the artificial intelligence sector. The stock of Tech Innovations is currently trading on the stock exchange. The company's stock is known for its volatility due to the dynamic nature of the tech industry. Option Details: An investor is considering purchasing a call option on Tech Innovations Inc. The call option has a strike price of $120 and expires in six months. The investor is interested in evaluating the option's value under different market conditions. Market Conditions: Volatility:	**6**	**Level 5**	**CO5**

		The stock of Tech Innovations is known for its volatility, reflecting the unpredictable nature of the tech industry. This volatility is a key factor in determining the option's value. Interest Rates: The risk-free interest rate is moderate, reflecting the prevailing economic conditions. American Option: The call option is of American type, allowing the investor to exercise it at any time before or at expiration. Based on the above data, compare Black-Scholes v Binomial option pricing as valuation methods.			
Q. 3		Answer **Any one** from the following.			
	a.	Swara Ltd pays an annual dividend of $3 per share. The expected growth rate for the dividends is not constant but follows a pattern: Year 1: 5% Year 2: 8% Year 3: 10% After Year 3, the growth rate becomes constant at 6%. The required rate of return (discount rate) for the stock is 12%. **Calculate** the intrinsic value of stock.	**6**	**Level 4**	**CO4**
	b.	Urja Ltd. Corporation, a multinational company operating in the manufacturing sector, is facing a critical decision regarding its capital structure. The management team is evaluating the optimal leverage ratio to ensure long-term success and sustainable growth. Business Context: Current Financial Position: Urja Ltd. is financially stable but has been relying predominantly on equity financing. The management recognizes the potential benefits of debt financing in terms of tax advantages and leveraging returns on equity. Market Conditions: The industry is experiencing moderate growth, and Urja Ltd. has identified strategic opportunities for expansion, including potential acquisitions and research and development initiatives. Risk Factors: The global economic environment is uncertain, with potential fluctuations in interest rates and currency exchange rates. The management is concerned about taking on too much debt, leading to increased financial risk. **Analyse** the strategic considerations that management should take into account when deciding on an optimal leverage ratio for long-term success."	**6**	**Level 4**	**CO4**

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<tr><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Q. 4</td><td></td><td>Answer Any two from the following.</td><td></td><td></td><td></td></tr>
<tr><td></td><td>a.</td><td>The PEG ratio provides a more comprehensive view than just the P/E ratio alone. Calculate the PEG ratio given below and draw your inferences about the same.
<table>
<tr><td>Particulars</td><td>Company A</td><td>Company B</td></tr>
<tr><td>Price</td><td>50</td><td>50</td></tr>
<tr><td>EPS</td><td>2.50</td><td>5.0</td></tr>
<tr><td>P/E</td><td></td><td></td></tr>
<tr><td>EGR</td><td>20%</td><td>5%</td></tr>
<tr><td>PEG Ratio (P/E)/EGR</td><td></td><td></td></tr>
</table>
</td><td>6</td><td>Level 3</td><td>CO3</td></tr>
<tr><td></td><td>b.</td><td>MK Ltd. is considering acquiring NN Ltd. The following information is available:
<table>
<tr><td>Company</td><td>Earnings after Tax (Rs.)</td><td>No. of Equity Shares</td><td>Market Value Per Share (Rs.)</td></tr>
<tr><td>MK LTD</td><td>6000000</td><td>1200000</td><td>200</td></tr>
<tr><td>NN LTD</td><td>1800000</td><td>300000</td><td>160</td></tr>
</table>
Exchange of equity shares for acquisition is based on current market value as above. There is no synergy advantage available.
Required :
(i) Find the earning per share for company MK Ltd. after merger, and
(ii) Find the exchange ratio so that shareholders of NN Ltd. would not be at a loss.</td><td>6</td><td>Level 3</td><td>CO3</td></tr>
<tr><td></td><td>c.</td><td>Exxon's statement of cash flows shows that the company ha
has $8519 million in operating cash flow in 2018. The comp
invested in new plant and equipment, purchasing $3349 mi
The purchase is a capital expenditure (CAPEX) cash outla
same period, Exxon paid $300 million in interest, subject to
a 30% tax rate. Calculate FCFF</td><td>6</td><td>Level 3</td><td>CO3</td></tr>
<tr><td>Q. 5</td><td></td><td>Answer Any two from the following.</td><td></td><td></td><td></td></tr>
<tr><td></td><td>a.</td><td>Explain accretion and dilution in detail?</td><td>6</td><td>Level 2</td><td>CO2</td></tr>
<tr><td></td><td>b.</td><td>Explain the following- spin offs and demerger- support your answer with examples?</td><td>6</td><td>Level 2</td><td>CO2</td></tr>
<tr><td></td><td>c.</td><td>Explain the points to be considered while writing a valuation report?</td><td>6</td><td>Level 2</td><td>CO2</td></tr>
<tr><td>Q. 6</td><td></td><td>Answer Any two from the following.</td><td></td><td></td><td></td></tr>
<tr><td></td><td>a.</td><td>Recall different types of valuation methods. – Chapter 1</td><td>6</td><td>Level 1</td><td>CO1</td></tr>
<tr><td></td><td>b.</td><td>What is due diligence in Merger and Acquisition? How does right due diligence impact the valuation of the deal.</td><td>6</td><td>Level 1</td><td>CO1</td></tr>
<tr><td></td><td>c.</td><td>What are the types corporate restructuring strategies?</td><td>6</td><td>Level 1</td><td>CO1</td></tr>
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