

Exam Strategic Financial Management

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Roman Goncharenko:

Explain following statements:

1. Difference between acquisition and takeover
2. Explain major point of Grossman and Hart
3. Difference between stock and asset acquisition
4. Problem with long term event studies
5. Main goal of state interference in M&A

True/False statements (and explain):

1. All valuation methods lead to the same results -> False, only spreadsheet approach and formula approach lead to the same results, while comparables method can lead to different results.
2. If the raider has to incur a certain cost (e.g. learning about the firm), takeovers will be more probable -> True, see task 1, question c.
3. ...
4. ...

Multiple choice:

1. Which of the following statements apply to a cash acquisition (can be multiple statements):
 - a. cash payments is the simplest/most common form of payment
 - b. companies can use internal funds or take on more debt to fund the payment
 - c. cash payment doesn't change the ownership structure of the bidding firm
 - d. cash payment creates a tax liability
2. Which statements of the following are true (about empirical evidence of M&A). Tick all of them.
 - a. Bidding returns are on average lower than target returns
 - b. Combined return is on average positive
 - c. ...
 - d. ...

Computation:

Compute the value of a firm using the method of comparables → had to compute 3 average multiples, using those average multiple you had to compute 3 values of the firm and then take the average of those 3 values.

Nico Dewaelhyns:

True/False statements (explain):

1. Companies in Anglo-Saxon countries are more likely to take on large debt strategies than companies in Continental countries. → True, Anglo-Saxon countries have a more efficient bankruptcy system, thus lower costs of financial distress than Continental countries. Therefore it's more likely that large debt strategies are used in Anglo-Saxon countries
2. Something about if the loss of value of existing bondholders is the most important factor in LBO's.
3. During a recession empirical evidence is found that share repurchases decrease in number, which is consistent with Rapaport's model.
4. In the United States takeover defenses which focus on protecting board control are the most effective. → True, as in the US the board of directors has the most power and bidding firms are focused on convincing the power centre, they will try to convince the board of directors of the takeover. Therefore the most effective takeover defenses are the defenses that focus on protecting board control.
5. If a parent company has a lot of growth opportunities, it's more likely to do a carve-out than a spin-off.
6. ...
7. ...

Multiple choice questions:

1. Which type of repurchases creates the least amount of value?
 - a. OMR
 - b. TPR
 - c. FPT
 - d. DAR
- 2)

Computations:

1. Company wants to do a FPT repurchase with the goal of increasing the share price to 27 after the repurchase. Currently the market cap of the company is 242 million and 10 million shares are outstanding. Company plans on repurchasing 30% of the shares. Value creation because of the repurchase will be 24 million.
 - a. What should the tender price be, such that the share price after the repurchase will be 27? → was something around 25
 - b. Using Vermaelen's model, what's the value distribution between the tendering and non-tendering shareholders?
 - c. Do you think the repurchase will be successful? Why (not)?
- 2) Text about an acquisition offer (stock offer).
 - a. If you're a merger arbitrage fund, what would your strategy be? What would you're expected pay-off be if the deal succeed?
 - b. Calculate the market's predicted rate of deal success (1-p).
 - c. If the offer was transferred to a full cash offer of equal magnitude, what would the effect be to the share price of the bidding/target firm?