

**Instituto Superior de Economia e Gestão
Universidade de Lisboa
Master in Finance
Mergers, Acquisitions and Corporate Restructuring 2016/2017
12 June 2017
Test**

Duration: 1:00 hour + 15 minutes tolerance

Name: _____ N.º: _____

Class: _____

Read the following instructions before starting the exam:

- Please answer to the questions in a sequential manner. If you do not know the answer to a question, leave enough blank space so as to readdress the questions later on.
- Read the problem and the questions. Before starting to solve a question, reflect on the necessary iteration sequence to solve it and on the presentation of the results on each step of your answer, so that your logic can be considered. While rushing you may commit a calculation error, but if you present the calculation sequence and the results throughout each step, the professor may still assess your knowledge and you may still obtain a good mark on that particular question. If only the final results are presented and you do a mistake on a calculation, the entire exercise will be considered wrong and you will not have a score.
- Do not forget to write all of the assumptions that you feel the need to use. If you do not do so, in some situations it may not be understood if you really know the answer or if you have randomly got the answer correctly, hence a discount will be applied.
- Do not stop on a problem if you do not know how to solve it immediately or if you experience some difficulties. Leave enough space in blank and return to the question at the end of the exam if you still have enough time.
- The total value of each question provides you an idea of the relative time that you should deploy onto each question.
- The exam does not have consultation.
- It is not allowed any conversation between colleagues or calculator exchanges.

Part II. (11.0 points)

PORTUGAL HOTELS is a company with head-office in Lisbon operating on the hotel sector in Portugal that started its activity on the year of 2014. In a short period of time it has reached a very good reputation especially in the segment of accommodation for tourists on Baixa/Chiado, one of the main touristic district in Lisbon.

The non-audited accounts as at **31-12-2015** are the following (in Euros):

Sales		2 750 000
Net profit		140 000
Income taxes		49 500
Financial Expenses		55 000
Accumulated Depreciation	(31-12-2014)	150 000
Accumulated Depreciation	(31-12-2015)	320 000
Operational profit		265 000
Total assets		3 250 000
Net fixed assets		2 130 000
Accounts receivables (clients)		210 000
Inventories		195 000
State accounts receivables		19 000
Cash & Banks		55 000
Equity		1 350 000
Long term debt		1 700 000
Accounts payables (suppliers)		125 000
State accounts payable		30 000
Short term loans		45 000
Increase / (Decrease) balance sheet items compared to 2014:		
-	Fixed assets	100 000
-	Trade accounts receivables	25 000
-	Inventories	(12 000)
-	State accounts receivables	15 000
-	Trade accounts payables	(13 000)
-	State accounts payables	11 000
-	Long-term loans	(50 000)
-	Short-term loans	20 000

In 2015 the income tax rate for corporations (IRC in Portuguese) was 21% to which should be added the municipal tax rate (“derrama” in Portuguese) which is 1,5% for Lisbon municipality.

a) Calculate the operational cash flow (also known as free cash-flow to the firm - FCFF). **(3.0 points)**

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- b) Present a proposal for the company value at 31-12-2015 considering the **below assumptions** and **any other** that you may find that is relevant, namely concerning occupancy rate. **(3.0 points)**
- i) Company's levered beta is 0.95
 - ii) Risk free rate 2.0%
 - iii) Interest rate of debt: Euribor plus 3.0% spread
 - iv) Effective tax rate observed in 2015
 - v) Expected **real** growth rate for the company in perpetuity 0.25%
 - vi) Inflation rate 0.5%
- c) Equity value at 31-12-2015 **(1.5 points)**
- d) Calculate the EBITDA for 2015 and identify what is the multiple that is compatible with your previous calculations. Calculate also the multiple for sales. **(2.0 points)**.
- e) If you were asked to make some simulation exercise what variables would you consider? Justify your answer with a specific example. **(1.5 points)**

Part II. (3.0 points)

Each correct answer will be graded with **0.5 points**. If the answer is not correct it will be deducted **0.10 points**.

1. An acquisition of a tire manufacturing company by an auto producer company is an example of an
 - A) Horizontal acquisition
 - B) Congeneric acquisition
 - C) Conglomerate acquisition
 - D) Vertical acquisition
 - E) It can be horizontal or vertical depending if the tire manufacturing company is upstream or downstream in relation to the auto producer company

2. Suppose you are a rational manager in an efficient market. Your firm working in the IT sector is worth €10 million. You are considering making a bid for a target firm that is estimated to be worth €2 million. The merger is also expected to reduce costs because of economies of scale and the net present value of this cost reduction is €1 million. The maximum you should be willing to pay to buy the target firm is:
 - A) €1 million
 - B) €2 million
 - C) €3 million
 - D) Between €2 and €5 million
 - E) The answer cannot be found with the information given
3. In the situation above, the minimum you should expect to pay for the target is:
 - A) €1 million
 - B) €2 million
 - C) €3 million
 - D) Between €3 and €4 million
 - E) The answer cannot be found with the information given
4. In the long run, a successful acquisition is one that:
 - A) Enables the acquirer to make an all-equity purchase, thereby avoiding additional financial leverage.
 - B) Enables the acquirer to diversify its asset base.
 - C) Total shareholder return improves in comparison to its competitors
 - D) The acquisition increases financial leverage.
 - E) None of the above
5. The restructuring of a corporation should be undertaken if:
 - A) The restructuring can prevent an unwanted takeover.
 - B) The restructuring is expected to create value for shareholders.
 - C) The restructuring is expected to increase the firm's revenue.
 - D) The interests of bondholders are not negatively affected.
 - E) None of the above
6. What is an earn-out?
 - A) A contractual provision stating that the seller of a business is to obtain additional future compensation based on the business prior financial performance.
 - B) A contractual provision stating that the buyer of a business is to obtain additional future compensation based on the business achieving certain future financial goals.
 - C) A contractual provision stating that the seller of a business is to obtain additional future compensation based on the business achieving certain future financial goals.
 - D) Earn out is the definition of the future results a company is expected to generate.
 - E) None of the above