

**Instituto Superior de Economia e Gestão
Universidade de Lisboa
Master in Finance
Mergers, Acquisitions and Corporate Restructuring 2015/2016
30 June 2016
Exam**

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 (no more than 40 minutes per each exercise).
- The exam does not have consultation. It is not allowed any conversation between colleagues or calculator exchanges.

Part I

ISSE is a worldwide facility services provider delivering integrated cleaning, office support, property service, catering, security and facility management service solutions. Most operations are conducted through operating entities owned by ISSE Global, a wholly owned subsidiary of ISSE World Services. The company's services are provided in more than 60 countries throughout Europe, Asia, North America, Latin America and the Pacific. Western Europe accounted for 61% of total revenues in 2015. ISSE was established in 1903 as a security company and entered the cleaning services business in 1938. Historically, the company has expanded both organically and through acquisitions. In 2005, the company was acquired by funds advised by EQT Partners (EQT) and Goldman Sachs Capital Partners, which, as of 31 December 2011, together held 98% of total share capital. The remaining 2% is held by the company's management.

Some relevant notes concerning the company and its activity.

The business in which the company operates has a volatility of cash flows slightly lower than the economy.

The company can finance itself at an interest rate of about Euribor plus a spread of 2,5%

On 2015 the company made a relevant investment on new equipment and machinery that will start to be depreciated on 2016.

On 2015 the accounts receivables period increased due to an abnormal event that took place with a client that is already solved in 2016.

Financial Statements (2013 – 2015) for the Portuguese subsidiary – non audited accounts

1. Historical Balance Sheets

Balance sheet			
ASSETS	In thousands of Euros		
	2015	2014	2013
Non-current assets	69 346	54 300	53 227
Intangible assets	31 660	31 127	31 229
Goodwill	1 731	755	90
Property, plant and equipment	22 851	10 750	11 586
Investment in subs and associates - Equity method	855	1 031	1 676
Deferred tax assets	12 249	12 387	10 396
Current assets	177 360	152 002	143 269
Inventories	4 474	6 909	10 403
Accounts receivable	104 489	92 830	83 285
Advances to suppliers	0	0	0
State and other public entities	2 057	3 211	3 378
Other current receivables	15 853	5 481	4 080
Shareholders	0	0	0
Cash and cash equivalents	40 452	27 157	28 088
Deferred assets	10 035	16 414	14 035
TOTAL ASSETS	246 706	206 302	196 496
EQUITY AND LIABILITIES			
Equity			
Share capital	15 701	15 701	15 701
Treasury shares	-371	-490	-603
Share premium	43 560	43 560	43 560
Retained earnings	33 481	31 206	21 063
Non-controlling interests	10 613	9 811	5 724
Sub-total	102 984	99 788	85 445
Net profit of the year	7 906	2 651	13 053
Total EQUITY	110 890	102 439	98 498
Liabilities			
Non current liabilities			
Provisions	2 436	1 721	1 633
Interest-bearing liabilities	27 037	13 778	9 629
Pensions and other post-employment benefits	0	0	0
Deferred tax liabilities	100	100	909
Other non-current liabilities	70	308	927
Current liabilities	106 173	89 706	86 650
Accounts payable	59 755	60 935	57 101
State and other public entities	916	17	311
Shareholders	0	0	0
Interest-bearing liabilities	17 246	5 279	5 333
Other current liabilities	28 256	23 475	23 905
Total liabilities	135 816	103 863	97 998
Total equity and liabilities	246 706	206 302	196 496

2. Historical Income Statements (2013-2015)

Income Statement (by nature)			
In thousands of Euros			
Income Statement (by nature)	2015	2014	2013
Sales	81 708	96 918	103 975
Services rendered	137 795	132 715	132 356
Cost of inventory sold and consumed	-65 126	-86 917	-90 125
Payroll costs	-75 936	-76 210	-75 607
External supplies and services	-52 228	-51 720	-50 378
Restructuring costs	0	-3 496	0
Other gains/(losses) - net	-725	-543	1 947
Profit before taxes, depreciation and financing expenses	25 488	10 747	22 168
(Expenses) / reversals of depreciation and amortisation	-5 757	-6 125	-5 478
Impairment of depreciable / amortisable investments (Expenses / reversals)	0	0	0
Operational results (before tax and financing expenses)	19 731	4 622	16 690
Interest and similar income	4 731	3 770	5 256
Interest and similar expenses	-4 721	-4 626	-5 371
Share of loss of associates	-176	-645	-255
Profit before tax	19 565	3 121	16 320
Income tax	-2 376	-884	-2 628
Profit from discontinued operations	0	703	0
Net profit for the year	17 189	2 940	13 692

Questions:

In your answers you should support all the assumptions that you consider to be appropriate.

1. Determine: (4.5 points)
 - a. Free Cash Flow to Firm (FCFF) and Free Cash Flow to Equity (FCFE) for 2015 and 2014

2. Explain the meaning of *Normalized Free Cash Flow* and its use and calculate it with reference to the company's accounts. **(3,0 points)**

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3. Calculate the cost of equity (K_e) and the Weighted Average Cost of Capital (WACC). For your answer indicate all the assumptions that you followed **(2,5 points)**

4. Present for the Portuguese subsidiary company of ISSE Group an estimate of **(i) Company Value** and for **(ii) Equity Value** as at 31 December 2015. **(3.5 points)**

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5. What other methods you could consider for the valuation of ISSE. Explain the advantages and disadvantages of each of the methods. *(3.5 points)*

Part II. (3.0 points)

Assume that the Funds that own ISSE pretend to sell the company. Other Funds demonstrated their preliminary interest in buying the company. Assume that you were asked to provide support to the management of ISSE to help on the sale of the company to the potential acquirers. Detail how you would structure the negotiation process.