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CIMA F3 Financial Strategy Sample Questions (Q235-Q240):

NEW QUESTION # 235
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. $65.0 million

- B. $32.0 million
- C. $50.2 million
- D. $41.6 million

Answer: D

Explanation:
In CIMA F3, equity valuation using P/E multiples is based on earnings available to ordinary shareholders (i.e. profit after interest and tax). The syllabus emphasises that when valuing a potential takeover target, you should (1) derive maintainable post-tax earnings and then (2) apply a P/E multiple that reflects prices actually paid in comparable acquisitions, not just average stock-market multiples.
Calculate maintainable earnings:
Profit before interest and tax (PBIT) = $5m
Less interest on 10% bonds: 10% × $10m = $1m
Profit before tax = $4m
Tax at 20% = $0.8m
Earnings for equity = $3.2m
Select the appropriate P/E multiple:
F3 explains that "takeover P/Es" are usually higher than sector trading P/Es, reflecting the control premium.
Here we have:
Overall market P/E = 20
Retail sector P/E = 10
Recent retail takeovers P/E = 13
For a takeover valuation we use the 13× multiple from recent sector takeovers.
Compute equity value:
Equity value=3.2m×13=41.6m\text{Equity value} = 3.2\text{m} \times 13 = 41.6\text{m}Equity value=3.
2m×13=41.6m
Debt's market value (90% of $10m) is not added here because the P/E method already gives the equity value.
So, a reasonable expected equity value in a takeover is $41.6 million.

NEW QUESTION # 236
Which THREE of the following non-financial objectives would be most appropriate for a listed company in the food retailing industry?

- A. Reduce production time
- B. Reduce customer complaints
- C. Reduce raw material wastage
- D. Increase customer service quality
- E. Improve staff morale

Answer: B,D,E

Explanation:
For a listed company in the food retailing industry, the most relevant non-financial objectives are typically focused on customers and people, because success depends heavily on service quality, shopping experience and motivated staff.
A). Reduce customer complaints - Very appropriate. Complaints are a direct indicator of service problems, product quality issues, or process failures. Reducing complaints improves reputation and customer retention.
B). Increase customer service quality - Core objective for food retailers. Better service quality (speed at checkout, helpful staff, availability of products) improves competitive position and supports long-term sales growth.
D). Improve staff morale - Also highly relevant. Retail is labour-intensive and customer-facing. Motivated staff deliver better service, are more productive, and turnover is reduced.
Options C (Reduce production time) and E (Reduce raw material wastage) are more typical of manufacturing businesses, not retailers, who primarily buy finished goods rather than "produce" them. A retailer might track stock wastage or shrinkage, but the wording "raw material wastage" points clearly to a production environment.
So the best three for a listed food retailer are A, B and D.

NEW QUESTION # 237
Z wishes to borrow at a floating rate and has been told that it can use swaps to reduce the effective interest rate it pays. Z can borrow floating at Libor ' 1, and fixed at 10%.

Which of the following companies would be the most appropriate for Z to enter into a swap with?

- A. Company C - it can borrow at L +1 1/2 and fixed at 9%
- B. Company D - it can borrow at L +1 1/2 and fixed at 10.5%
- C. Company E - it can borrow floating at L +1 1/2 and fixed at 12%
- D. Company A - it can borrow floating L +1 1/2 and fixed at 9.5%

Answer: A

NEW QUESTION # 238
Listed company R is in the process of making a cash offer for the equity of unlisted company S.
Company R has a market capitalisation of $200 million and a price/earnings ratio of 10.
Company S has a market capitalisation of $50 million and earnings of $7 million.
Company R intends to offer $60 million and expects to be able to realise synergistic benefits of $20 million by combining the two businesses. This estimate excludes the estimated $8 million cost of integrating the two businesses.
Which of the following figures need to be used when calculating the value of the combined entity in $ millions?

- A. 7, 10, 20, 50, 200
- B. 20, 50, 60, 200
- C. 8, 20, 50, 200
- D. 8, 20, 50, 60, 200

Answer: D

Explanation:
Explanation
Calculation_F0
Calc_Set1

NEW QUESTION # 239
A venture capitalist invests in a company by means of buying
* 6 million shares for $3 a share and
* 7% 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 8 million shares in issue What is the minimum total equity value for the company in 3 years' time required to satisfy the venture capitalist's expected return?
Give your answer to the nearest $ million

Answer:

Explanation:
41
Workings Equity investment by the venture capitalist6 million shares at $3 eachEquity invested = 6m × $3 = $18 millionRequired return on equityTarget return = 20% per year, compound, for 3 yearsFuture value of equity stake in 3 years:18×(1.2)3=18×1.728=31.104 million18 \times (1.2)