

Ollscoil na hÉireann, Gaillimh
National University of Ireland, Galway

Summer Examinations 2000

MBA Degree Examination

Cases in Financial Management (AY 515)

Professor R. W. Scapens
Professor S. Collins

Time Allowed: Three Hours.

Answer the questions on page 2.

Present Value Tables, and a table of Financial Formulae are attached.

Questions

(These questions relate to the Liffey Fashions case)

1. Lansdowne's decision to enter the market for women's clothing through acquisition was based on perceived barriers to market entry. Discuss this motive for mergers and acquisitions. (10 Marks)
2. Estimate the future Free Cash Flows (FCF) of Liffey Fashions Ltd, on the assumption it is successfully merged with Lansdowne plc. (15 Marks)
3. Ignoring the Distribution Centre project, recommend and calculate an appropriate cost of capital for the valuation of Liffey Fashions Ltd. as a potential subsidiary of Lansdowne plc. Justify your recommendation. (10 Marks)
4. Ignoring the Distribution Centre project, estimate the value of the equity in Liffey Fashions, assuming Lansdowne plc. acquires 100% of the equity share capital of the company. (10 Marks)
5. Estimate the weighted average cost of capital O'Shea should have used in assessing the value of the Distribution Centre project to Lansdowne plc. Explain why this cost is appropriate. (10 Marks)
6. Brian O'Shea (Executive Director for Strategic Planning for Lansdowne plc.) has identified the strategic benefits of the Distribution Centre project. In these circumstances, and assuming that neither O'Rourke nor Carroll have recognised this opportunity, is this project relevant to the valuation of, and the decision to acquire, Liffey Fashions? Explain and justify your view. (10 Marks)
7. Calculate the maximum cash per share offer, and the maximum share for share offer which Lansdowne plc. could afford to bid for the share capital of Liffey Fashions Ltd. (15 Marks)
8. In the circumstances outlined in the case, what offer would you recommend for the shares of Liffey Fashions Ltd., and what form of consideration would you suggest? Carefully explain the rationale for the conclusions you reach. Estimate the effect your proposed offer would have on the share price of Lansdowne plc., and on the value of the merger to Lansdowne's shareholders, assuming the market assesses the benefits and costs of the merger as you have done. (20 Marks)

(Total: 100 Marks)

End of Case Questions

The Case Description begins on the next page
