INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Subject: Business finance 1

Chapter: Unit 4

Category: Practice question

1. CB1 September 2021 Q13

A quoted company merged with a slightly smaller competitor as part of an expansion strategy, but the acquisition has failed to deliver the planned synergies.
Outline possible reasons that would explain the problems associated with this merger.

2. Define each of the following terms:

(i) Synergy; merger
(ii) Horizontal merger; vertical merger; congeneric merger; conglomerate merger
(iii) Friendly merger; hostile merger; tender offer; target company; acquiring company
(iv) Operating merger; financial merger; equity residual method; market multiple analysis
(v) White knight; white squire; poison pill; golden parachute
(vi) Arbitrage
(vii) Joint venture; corporate, or strategic, alliance
(viii) Divestiture; spin-off; leveraged buyout (LBO); carve-out; liquidation

3. What are the different methods of achieving internal growth?

4. What are the different methods of achieving external growth?

5. When evaluating a potential target company, what factors might an acquirer consider?

6. What are the uses of cash with reference to cash budgeting?

7. How is credit policy managed?

8. How is inventory policy managed?

9. How are long term financial plans developed?

10. You are being appointed as the financial manager of a Teak wood, a large manufacturing company of wood and wooden articles. The company has massive operations in the Southeast Asia and Middle East. The owners of the company is the kingdom of Abu Dhabi

Explain in the current context what will be your objective as a financial manager and how will you achieve the same.

11. Peter Group is an Indian multinational conglomerate headquartered in Ahmedabad, India. The member companies of the group have presence in Energy, Real Estate, IT, Steel and Automotive sectors. The group has been earned global recognition for more than 20 years. Most of the businesses of the group have grown organically in the recent times under the dynamic leadership of the Group CEO, Mr. Parker. Mr. Parker is looking to expand the business in Real Estate sector of its company RDJ Properties Ltd. by entering into a merger agreement / taking over Strange Properties Ltd.
    a. State the type of merger between RDJ Properties Ltd. and Strange Properties Ltd. Also, describe other types of mergers that Peter Group can enter into. What is the biggest risk if one of the member companies of Peter Group enters into a merger with Moon Pharma? .
    b. The potential merger of Peter Group with Strange Properties Ltd. is done in order to increase competitiveness and market share whereas the merger with Moon Pharma is with an aim to achieve diversification. Explain what could be the other major motives for merger?
    c. The risk advisor of Mr. Parker has raised concerns over the idea of merger. What can be the potential problems with merger?