



UNIVERSITY  
OF  
JOHANNESBURG

## Department of Finance and Investment Management

### Financial Strategy

FNB15X7

---

#### LAST ASSESSMENT OPPORTUNITY

23 November 2016

---

**Time: 3 Hours 20 minutes (200 Minutes)**

**Marks: 100**

**Assessor:** Mr K Thomas

**Internal Moderator:**

Mr B Mogapi

**External Moderator:**

Ms B Sinclair

#### INSTRUCTIONS:

- Question 1 and 2 of the assessment consists of 7 pages (including the cover page).
- Remove the password from all the files (File / Protect Document / Encrypt with Password).
- Answer questions 1 and 2 in the MS Word and MS Excel **answer templates** provided. Show all calculations and workings clearly.
- The question 3 objective test questions (OTQ's) are available separately on uLink. The OTQ's are not printed in the question paper and **MUST** be answered electronically.
- Silent, non-programmable financial calculators may be used.
- Where applicable, round all calculations to two decimal places, unless stipulated otherwise.
- You are allowed 15 minutes reading time at the start of the assessment. The purpose of the reading time is to allow you an opportunity to read through the question paper and, if you wish, make annotations on the question paper as well as to plan your answers.
- You are allocated 5 minutes to upload your answers to uLink.
- **The printed question paper MUST be handed in at the end of the assessment.**
- Good Luck!

Question	Topic	Marks	Time
	Reading and Uploading Answer Templates	---	20 minutes
1	Case Study Question – Formulation and Financing	50	90 minutes
2	Scenario Question – Corporate Finance	25	45 minutes
3	Objective Test Questions – Various Topics (See uLink)	25	45 minutes
		<b>100</b>	<b>200 minutes</b>

## QUESTION 1

**[50 marks]**

You are provided with the unseen case material below. This unseen case material should be read in conjunction with the pre-seen material (including appendices) in answering the required for question one.

### Introduction

Glory is a soccer club that plays in the Veldounian Soccer League. All of the clubs playing in the league are based in Veldoun, a large and prosperous country in Southern Asia. Glory was founded in 2006 by Dr Kartar Sanghera, the founder of Glorious Energy Group, a major quoted conglomerate and one of the country's largest companies.

### Background

Glory Soccer Club (Glory) is a quoted company. As mentioned above, Kartar founded Glory in 2006 and floated the company on the Veldoun Stock Exchange in 2008. He retains 35% of the equity. Many of the other shares have been purchased by the club's fans. No other shareholder owns more than 3% of the issued equity.

### Objectives

Glory has formulated the following financial and non-financial objectives in line with their primary objective of creating a world class soccer club as well as their key performance areas:

- Increase revenue in total and for each revenue category by 10% per annum for the next three years;
- Maintain employment costs (i.e. amortisation of players' registrations, players' salaries and bonuses as well as other wages and salaries) below 50% of total revenue for the foreseeable future; and
- Maintain an average match attendance of 65% for home games for the next two seasons.

Revenue by category for 2014 and 2015 is provided in note 1 on page 25 of the pre-seen. For ease of reference, revenue by category for 2014 and 2015 is provided below again, in addition to the revenue by category for 2013. The 2013 revenue and revenue by category is not provided in the pre-seen.

Revenue category	Year Ended		
	30 June 2015 V\$000	30 June 2014 V\$000	30 June 2013 V\$000
Ticket sales	34 394	32 362	27 168
Broadcasting rights	50 028	47 839	46 725
Merchandise	56 281	53 467	50 349
Sponsorship	15 634	7 035	6 507
	<u>156 337</u>	<u>140 703</u>	<u>130 749</u>

The employment costs for 2014 and 2015 are provided in note 2 on page 25 of the pre-seen. For ease of reference, employment costs by category for 2014 and 2015 are provided below again.

Employment costs	Year Ended	
	30 June 2015 V\$000	30 June 2014 V\$000
Amortisation of players' registrations	23 238	18 126
Players' salaries and bonuses	27 600	24 324
Other wages and salaries	31 427	30 897

## **QUESTION 1 (CONTINUED)**

**[50 marks]**

### **Expansion of stadium**

The original design of Glory's stadium allows for a 25% increase in seating capacity. Kartar believes that attendance at Glory's home matches can only increase over the next few years. He feels that if Glory is not in a position to exploit demand for tickets then the club will be excluding potential supporters, who almost certainly will remain loyal to the club and generate additional revenues for many years. If Glory increases its stadium capacity to its maximum possible capacity (i.e. 60 000 seats), then it will have the largest soccer stadium in Veldoun.

Kartar has commissioned an architect to prepare plans for the stadium expansion. The work will take 18 months to complete, but will have relatively little impact on operations. It will take at least six months to obtain the necessary permits from the Government for the extension and at least three months to have the necessary safety inspections performed before it can be opened to supporters. The Board of Directors have not yet met and approved the stadium expansion.

### **Financing of stadium expansion**

Kartar has proposed utilising a fully underwritten rights issue to fund the stadium expansion. He has offered to underwrite the rights issue himself. The stadium expansion will cost an estimated V\$36 million to complete.

Kartar has proposed that, as part of the rights issue, that the ordinary shares be issued at a 20% discount on the current market price of 45 cents (i.e. V\$0.45) per share. Glory has 500 000 000 shares of V\$0.20 par value in issue currently, resulting in ordinary share capital of V\$100 million (meaning that Glory has a share premium of V\$20 million if the share capital and premium are reconciled to the statement of financial position in the pre-seen on page 24).

**THE REQUIRED FOR QUESTION 1 BEGINS ON PAGE 4**

## QUESTION 1 (CONTINUED)

[50 marks]

### PART A

#### REQUIRED:

- 1.1 **Calculate** whether Glory Soccer Club achieved its financial and non-financial objectives for the years ended 30 June 2014 and 2015. (7)

#### NOTE:

- All ratios should be rounded to 2 decimal places.
- Show all workings clearly.
- You **MAY** answer 1.1 in either the space below in MS Word or you can use the attached MS Excel template.
- Please ensure that you upload the MS Excel template into uLink if you make use of it.

#### ANSWER:

- 1.2 **Discuss** possible reasons for Glory's achievement or lack of achievement of its financial and non-financial objectives as calculated in 1.1 above. In addition, **advise** the Directors as to how Glory can improve its performance in relation to its formulated financial and non-financial objectives. (10)

#### NOTE:

- You **MUST** answer 1.2 in MS Word below.

#### ANSWER:

- 1.3 **Evaluate** whether expanding the stadium is a sensible strategic decision for Glory at the present time. As part of your answer **discuss** whether scenario planning will assist in the decision making. (8)

#### NOTE:

- You **MUST** answer 1.3 in MS Word below.
- Up to 2 marks are available for calculations. All calculations **MUST** be presented in MS Word and **NOT** MS Excel.
- For purposes of your calculations in 1.3 above, you may assume that:
  1. All ticket sales only come from Glory's home games; and
  2. The increased capacity will only apply to matches against Waileen.

#### ANSWER:

**QUESTION 1 (CONTINUED)**

**[50 marks]**

**PART B**

**REQUIRED:**

- 1.4 For the rights issue described above, **calculate** the:
- (a) Issue price of one ordinary share in the rights issue;
  - (b) Number of additional shares Glory will need to issue;
  - (c) Terms of the rights issue;
  - (d) Theoretical ex-rights price (TERP) of a Glory share following the rights issue;  
**and**
  - (e) Expected trading price of one Glory right. **(6)**

**NOTE:**

- Show all workings clearly.
- You **MAY** answer 1.4 in either the space below in MS Word or you can use the attached MS Excel template.
- Please ensure that you upload the MS Excel template into uLink if you make use of it.

**ANSWER:**

- 1.5 Assume you are a senior finance manager at Glory Soccer Club. **Prepare** an e-mail addressed to the board of directors in which you:
- (a) **Discuss** the factors that will determine the likelihood that the rights issue will succeed in raising the required finance for the stadium expansion; **and** **(10)**
  - (b) **Recommend** suitable alternative sources of finance to fund the stadium expansion if the directors agree to go ahead with Kartar's stadium expansion proposal. **(6)**

**NOTE:**

- You **MUST** answer 1.5 in MS Word below.
- Marks will be awarded for structure and presentation. **(3)**

**ANSWER:**

**(Total for question 1 = 50 marks)**

## QUESTION 2

**[25 marks]**

### **Background**

Quest Personnel (QP) is a recruitment agency. It has seen rapid growth in recent years and obtained a stock market listing 3 years ago. However, recent profits have been disappointing, largely as a result of poor economic conditions leading to limited employment opportunities.

### **Takeover**

Quest Personnel is planning a takeover bid for Online Staffing Solutions (OSS), a rival recruitment agency in a specialist, growing market that has not been affected to such an extent by the poor economic conditions. Online Staffing Solutions has an advanced information technology and information system which was developed in-house and which Quest Personnel would acquire the rights to use. Quest Personnel plans to adopt Online Staffing Solutions' information technology and information system following the acquisition and this is expected to be a major contributor to the overall estimated synergistic benefits of the acquisition, which are estimated to be in the order of R8 million.

### **Financial information**

Quest Personnel has 30 million shares in issue and a current share price of R6.90 before any public announcement of the planned takeover. Quest Personnel is forecasting growth in earnings of 6% per year for the foreseeable future.

Online Staffing Solutions has 5 million shares in issue and a current share price of R12.84. It is forecasting growth in earnings of 9% per year for the foreseeable future.

### **Bid offer**

The directors of Quest Personnel are considering 2 alternative bid offers:

- Bid offer A - Share based bid of 2 Quest Personnel shares for every 1 Online Staffing Solutions share; or
- Bid offer B - Cash offer of R13.50 per Online Staffing Solutions share.

## QUESTION 2 (CONTINUED)

[25 marks]

### REQUIRED:

2.1 Assuming the synergistic benefits are realised, **evaluate** bid offer A and bid offer B from the viewpoint of:

- (a) Quest Personnel's existing shareholders; and
- (b) Online Staffing Solutions' shareholders.

(11)

### NOTE:

- Up to 7 marks are available for calculations.
- You **MAY** answer 2.1 in either the space below in MS Word and/or you can use the attached MS Excel template for the calculations only.
- Please ensure that you upload the MS Excel template into uLink if you make use of it.

### ANSWER:

### REQUIRED:

2.2 **Advise** the directors of Quest Personnel on the potential impact on the shareholders of both Quest Personnel and Online Staffing Solutions of **not** successfully realising the potential synergistic benefits after the takeover.

(8)

### NOTE:

- Up to 5 marks are available for calculations.
- You **MAY** answer 2.2 in either the space below in MS Word and/or you can use the attached MS Excel template for the calculations only.
- Please ensure that you upload the MS Excel template into uLink if you make use of it.

### ANSWER:

### REQUIRED:

2.3 **Advise** the directors of Quest Personnel on the steps that could be taken to minimise the risk of failing to realise the potential synergistic benefits arising from the adoption of Online Staffing Solutions' information technology and information system.

(6)

### NOTE:

- You **MUST** answer 2.3 in MS Word below.

### ANSWER:

A REPORT FORMAT IS NOT REQUIRED FOR QUESTION 2

(Total for question 2 = 25 marks)

[CIMA Adapted]

**Total = 100**