Course: Corporate financial decision making for value creation
Assignment 1: assignment 1
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Part A: project evaluation

NPV of projects A and B

Time	Cashflow project A		Cashflow project B	
0	$	-50.000	$	-60.000
1	$	30.000	$	32.000
2	$	25.000	$	26.000
3	$	20.000	$	24.000
4	$	15.000	$	18.000
5	$	9.500	$	5.000
NPV	$	29.104	$	24.009

Discount rate p.a.
10%

What would be an appropriate investment decision?

Given the projects are independent the appropriate investment decision is to invest in both projects (A and B) as the NPV of both projects is positive and thus create value for the organization.

Part B: explaining variations in debt levels

Critically evaluate the following statement: One of the main insights provided by the pecking order theory, as opposed to other theories of capital structure, is that it helps to explain why firms operating in different industries might have very different leverage levels.

The pecking order theory helps to explain why some types of financing are more preferred than others. However, inherent business risk is also an important factor in explaining the optimal amount of debt a firm can take on. This is outside the scope of the pecking order theory.

Part C: mergers and acquisitions

Would you classify this acquisition of Anhauser-Busch by InBev as a horizontal, vertical or conglomerate acquisition?

I would classify this deal a horizontal acquisition. Both firms (Inbev and Anheuser-Busch) were beer brewing organizations operating in the similar markets at the same part of the production chain. This makes the acquisition horizontal instead of vertical (different part in the production process) or conglomerate (different sectors) acquisitions.

What control premium did Anheuser-Busch shareholders receive from the deal?

Price per share paid by Inbev: $70 (Source: http://www.cnbc.com/id/25665930)
Original price: $50.55
Premium: 1 - (70/50,55) * 100% = 38,47 --> 34%

Part D: risk management

Critically evaluate the following statement: The opposite financial outcome to buying the right to buy is buying the right to sell.

Although there is a difference between buying the right to buy and buying the right right to sell these involve the same action (buying an option). A more opposite action to buying a right to buy would be selling the right to buy as this involve the same right (the right to buy) but a different action (buying vs. selling).

Critically evaluate the following statement: Hedging with forward contracts enables a firm to always be better off financially at contract maturity than if it did not hedge.

Hedging can be financially interesting as it can, for example, decrease taxes. However the cost of these contracts might outweigh the benefits if these bought right are not exercised due to the costs of the contracts.