

FNCE 20005 Corporate Financial Decision Making 2021

TUTORIAL 7: Corporate Takeovers & Restructuring - Part 1

Answers to Section B questions to be submitted on Canvas by 10am on Monday, September 27th

SECTION A

Question 1

Assume that a firm has 100 million shares outstanding. The shares are trading on the market at \$50 per share. The firm has issued 2 tranches of equity call options to its employees. The first tranche is 2 million options with an exercise price of \$40. The second tranche is 3 million options with an exercise price of \$50. The firm also has \$100 million outstanding in convertible bonds, with a conversion price of \$20. The convertible bond uses a net share settlement method of conversion, where only the value in excess of the par value is converted into shares. What is the fully diluted number of shares outstanding for this firm?

Answer:

$$100 + 2 - (2 * 40)/50 + (50 * (100 / 20) - 100)/50 = 103.4$$