**SIA Module worksheet week 4**

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| Seminar **Questions** (to check and/or develop your relevant knowledge on investment appraisal) | **Answers** (write here in your own words & underline key concepts) | e.g. **Illustrate** from last year’s case study – find this data in the annual report of the target company or the exemplar assessment | NB - **Find** the equivalent data for the assessment case study you are tasked with analysing from the available data |
| 1. What are the main rationales for business acquisitions? | See Lecture 4 slide 6 for types of synergy, market entry, market position, speed of growth, asset stripping etc. | What is the main rationale stated in the case study for this acquisition? To expand into the US food delivery market |  |
| 1. Why might some business acquisitions be judged as failures? | See Lecture 4 slide 7 for problems of bidding too much or too little, costs of financing, levels of debt, continuity, tax … | Which of these potential problems are most likely to apply in this case? Paying too much |  |
| 1. How can we work out a suitable enterprise value and hence equity value to pitch a successful bid price? | Asset-based values (balance sheet net assets value plus any revaluation of property assets or inherent goodwill)  Earnings-based values (PE-based or free cash flow based) | Look back to week 3 to identify an asset-based valuation for the target company and work out the difference between this and the bid price? BS value $1.5bn, bid price $7.3bn, so the difference (premium) is $5.8bn |  |
| 1. Define the following terms    1. PE ratio    2. Beta    3. Rf    4. Rm    5. CAPM | See glossary | Find the values for each term for the bidder company or **sector**:   1. PE ratio 64.69 for rest/dining 2. Beta 1.56 3. Rf Rf rate = 3.18% 4. Rm Rm = 5.75% 5. CAPM Ke = 3.18+(5.75-3.18) x 1.56 = 7.19% cost of equity |  |