



**STRATHMORE BUSINESS SCHOOL**  
**BACHELOR OF FINANCIAL SERVICES**  
**SPECIAL EXAMINATION**  
**AMS 4201: INVESTMENT BANKING**

**DATE:** Fri, 26<sup>th</sup> April 2024

**TIME:** 10:30 – 12:30

**Instructions:**

Answer Question ONE (**COMPULSORY**) and any other **TWO** questions.

**Question One**

a). Initial Public Offerings (IPOs) can vary significantly in their outcomes, with some being successful and others failing to meet expectations. Using relevant examples examine a case of successful IPO and an unsuccessful IPO **(10 marks)**

b) Explain the concept of "conflict of interest" in the context of investment banking and **two** strategies address and resolve such conflicts. **(3 marks)**

c) You are an Investment Banker working at SIB Bank. Your team is evaluating an investment opportunity in BriteTech Inc, a technology firm known for its innovative products and strong growth potential. As part of the due diligence process, you have been tasked with performing a discounted cash flow (DCF) valuation to determine the enterprise value and implied share price of BriteTech Inc. The company has provided their projected EBITDA and working capital for the next five years as follows:

<b>Year</b>	<b>EBITDA</b>	<b>Working capital</b>	<b>Depreciation</b>
1	2,200,000	100,000	100,000
2	2,750,000	120,000	100,000
3	3,300,000	150,000	100,000
4	3,850,000	180,000	100,000
5	4,400,000	200,000	100,000

Additionally, the company's management has shared the Weighted Average Cost of Capital (WACC), the Terminal Growth Rate, and the Terminal Value Multiple they believe are appropriate for the business.

- ✓ Weighted Average Cost of Capital (WACC): 10%
- ✓ Terminal Growth Rate: 3%
- ✓ Terminal Value Multiple: 15x
- ✓ 2,000,000 outstanding shares
- ✓ Tax rate 30%

Assume that the company's free cash flows to the firm are expected to stabilize after Year 5. Using the provided financials and assumptions, perform a discounted cash flow (DCF) valuation for BriteTech Inc:

**Required:**

1. Calculate the Free Cash Flow to Firm (FCFF) for each year. **(8 marks)**
2. Compute the Present Value of FCFF for each year. **(3 marks)**
3. Determine the Terminal Value using the perpetuity and Multiple formula. **(3 marks)**
4. Calculate the Enterprise Value by (use average Terminal value). **(2 marks)**
5. Calculate the implied share price of BriteTech Inc. **(1 marks)**

**Question Two**

- a) Mergers and Acquisitions (M&A) in Kenya's banking sector have displayed a range of outcomes, with some proving successful while others falling short of expectations. Discuss using examples of both successful and unsuccessful M&A deals in Kenya **(10 marks)**
- b) You've been tasked to develop a financial model for a start-up. Discuss five critical factors that contribute to crafting an effective financial model in investment banking, particularly tailored for start-ups. **(10 marks)**

**Question Three**

- a) As an employee of a private equity firm in Kenya, tasked with pursuing a Leveraged Buyout (LBO) opportunity, it's crucial to consider various factors when identifying potential candidates for such transactions. Discuss three factors ensure the successful execution of the LBO transaction and the long-term viability of the acquired company. **(6 marks)**
- b) Company ABC Ltd, a thriving manufacturing enterprise, is contemplating a leveraged buyout (LBO) as a strategic avenue for further expansion and value creation. The company's robust financial performance serves as a solid foundation for this consideration. With an EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) of \$50 million in the last fiscal year and a projected steady growth rate of 6% annually for the next five years, Company ABC Ltd is poised for continued success. As part of the LBO strategy, ABC Ltd aims for a debt-to-equity ratio of 60:40 to optimize its capital structure. Given the prevailing tax rate of 30% and a Weighted Average Cost of Capital (WACC) of 10%, analyzing the financial implications and feasibility of this LBO approach is crucial for Company ABC's strategic decision-making process.

**Required:**

- a). Compute the Free Cash Flow to Firm (FCFF) for each year. **(7 marks)**  
b). Calculate the leveraged Internal Rate of Return (IRR) for the LBO investment using the provided cash flows, equity investment, and WACC. **(7 marks)**

**Question Four**

a) The context of investment banking, due diligence plays a crucial role in evaluating potential transactions such as mergers, acquisitions, or investments. Explain on the process of conducting due diligence and provide insights on how to approach it effectively to ensure successful deal execution. **(8 marks)**

b) Mazao Corp, a leading player in the technology sector, is gearing up to forecast its financials for the upcoming year to facilitate strategic planning and informed decision-making. The company's financial data from the previous fiscal year serves as the baseline for this projection. Given the evolving market dynamics and Mazao Corp's growth trajectory, the company aims to estimate its free cash flow, a critical financial metric, for the next fiscal year. The financial information for the last fiscal year is provided as follows:

- ✓ Net Income: \$15 million
- ✓ Depreciation and Amortization: \$3 million
- ✓ Changes in Working Capital: -\$2 million
- ✓ Capital Expenditures: \$5 million
- ✓ Interest Expense: \$4 million
- ✓ Tax Rate: 30%

**Required:**

- 1) Calculate the operating cash flow (OCF) **(5 marks)**  
2) Calculate the free cash flow to the firm (FCFF) **(5 marks)**  
3) Calculate the free cash flow to equity (FCFE) using the FCFF **(2 marks)**

**Question Five**

a). Examine the evolving functions and responsibilities of investment banks in response to changes in the financial landscape and market dynamics **(5 marks)**

b). Using a Kenyan example, discuss the pivotal role investment banks play in facilitating Initial Public Offer (IPOs) **(6 marks)**

c). Explore the difference between loan syndication and asset-backed securities within the domain of Capital Markets Services in Investment Banking. **(3 Marks)**

d) Explore three different methods used for valuing a company and analyze their relevance and significance in the context of today's dynamic business environment. **(6 marks)**