



STRATHMORE BUSINESS SCHOOL
BACHELOR OF FINANCIAL SERVICES
END OF SEMESTER EXAMINATION
AMS 4201: INVESTMENT BANKING

DATE: Thursday, 5th December

TIME: 08:00 – 10:00

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, discuss the disadvantages of going public. **(10 marks)**

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

Year	EBITDA	Working capital	Depreciation
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. Using examples, discuss **five** roles of investment banks during mergers and acquisitions. **(10 marks)**
- b) You've been tasked to develop a financial model for a start-up. Discuss **six** 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. Using examples, discuss **six** factors ensure the successful execution of the LBO transaction and the long-term viability of the acquired company. **(10 marks)**
- b) Using relevant examples, explain the concept of "conflict of interest" in the context of investment banking and **five** strategies to resolve such conflicts. **(10 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. **(6 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) **(6 marks)**
- 2) Calculate the free cash flow to the firm (FCFF) **(6 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 **(8 marks)**
- b). Using a Kenyan example, discuss the pivotal role investment banks play in facilitating Initial Public Offer (IPOs) **(6 marks)**
- d) Explore three different methods used for valuing a company and analyse their relevance and significance in the context of today's dynamic business environment. **(6 marks)**