Spring Examinations 2015

FINM01015N

MODULE TITLE: Financial and Business Strategy
LEVEL: Seven
TIME ALLOWED: Two hours plus 15 minutes reading time. Students must not commence answering the questions until the reading time has ended.

Instructions to students:

- Enter your student number not your name on all answer booklets.
- During the 15 minutes reading time, students are permitted to make notes on the examination paper but not the answer booklet. Students should begin answering the questions after the reading time has ended.
- Section A – This section contains one compulsory question worth 50%.
- Section B – This section contains three questions. You must attempt two questions from this section; each is worth 25%.
- Please write clearly in your answer booklets. If you have used any calculations to support your arguments you should indicate how you arrived at your figures.
- Students may bring the previously circulated case study and any notes and books into the examination room.
- The use of a silent calculator is permitted.
- No papers should be handed in other than the answer booklets.
- You will only be given credit for work written in your answer booklets.

<table>
<thead>
<tr>
<th>No. of Pages</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Questions</td>
<td>4</td>
</tr>
</tbody>
</table>
Section A

This section contains one compulsory question.

Question 1

Undertake a strategic appraisal of the Virgin Group. To what extent does the management style of Richard Branson ensure the continued success of the Group?

(50 marks)

End of Section A
Section B follows overleaf
Section B

Answer two questions from this section.

Question 2

A company is considering which of two mutually exclusive projects it should undertake. The finance director thinks that the project with the higher NPV should be chosen, whereas the managing director thinks that the one with the higher IRR should be undertaken, especially as both projects have the same initial outlay and length of life. The company anticipates a cost of capital of 10% and the net cash flows of the projects are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Project A (£000s)</th>
<th>Project B (£000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>-200</td>
<td>-200</td>
</tr>
<tr>
<td>1</td>
<td>35</td>
<td>218</td>
</tr>
<tr>
<td>2</td>
<td>80</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>90</td>
<td>10</td>
</tr>
<tr>
<td>4</td>
<td>75</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>20</td>
<td>3</td>
</tr>
</tbody>
</table>

You are required to:

a. Calculate the NPV and the IRR of each project.  

(12 marks)

b. Recommend with reasons, which project you would undertake (if either).  

(7 marks)

c. Explain the inconsistency in the ranking of the two projects in view of the remarks of the directors.  

(6 marks)

(Total: 25 marks)

Question 3

What are the major justifications likely to be put forward to explain the following type of acquisitions:

a. Horizontal acquisitions

b. Vertical backward and forward acquisitions

c. Conglomerate acquisitions

(25 marks)
Question 4

Discuss the implications of using the Virgin Brand and Richard Branson’s celebrity status to secure Equity Partners (see page 12 of the case study) to achieve a high level of financial gearing, on the company’s weighted average cost of capital and the level of financial risk to which the company is exposed.

(25 marks)