



Riara School of Business
Nurturing business innovators

SEPTEMBER DECEMBER 2022 TRIMESTER
EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION

DAY PROGRAMME

RFN 308: ENTREPRENEURIAL FINANCE AND INVESTMENT BANKING

DATE: 28TH NOVEMBER 2022

TIME: 2

HOURS

SPECIAL INSTRUCTIONS

1. Write your REGISTRATION NO. Clearly on the answer booklet(s).
2. Answer Question One and ANY other TWO questions.
3. Questions in all sections should be answered in answer booklet(s)
4. PLEASE start the answer to EACH question on a NEW PAGE.
5. For the questions, write the number of the question on the answer booklet(s) in the order you answered.
6. Write on both sides of each leaf and indicate number of each question at the top of each page.
7. Write the answers in a paragraph form unless stated otherwise.
8. Marks allocated to each question are shown at the end of the question.
9. All rough work must be done on the answer booklet and crossed through!
10. Use supplementary pages only when you have exhausted those in the book.

11. Fasten the supplementary pages to the inside back cover of the booklet

QUESTION ONE (COMPULSORY – (30 MARKS))

- a) The following information relates to Sumaya Ltd
1. Net profit margin is 20%
 2. Sales in year 2021 are sh. 15million
 3. Depreciation in year zero is sh. 5 million
 4. Working capital investment as a percentage of sales is 8%
 5. Tax rate is 30%
 6. Fixed capital investment in year 2021 is sh. 4.5 million
 7. Weighted average cost of capital (WACC) during the high growth phase is 20%
 8. Weighted average cost of capital (WACC) during the high growth phase is 16%
 9. Interest expense on sh. 20 million par value debt year zero is 11%
 10. Net income, fixed capital investment, depreciation, interest expense and sales are expected to grow at a rate of 12% for the next 5 years and then stabilize at a long-term constant growth rate of 6%.

Required:

Determine the value of Sumaya Ltd using free cash flow to the firm (FCFF) approach

(10 marks)

b) Describe **five** roles of an investment bank

(10 marks)

c) Evaluate **five** exit strategies for a venture capital fund

(10 Marks)

QUESTION TWO

a) The following information relates to ABC Ltd.

1. Adjusted net operating profit after tax (NOPAT) is Sh. 100million
2. Total capital is sh. 700 million (no debt)
3. Closing market price per share is sh. 26
4. Total shares outstanding is 84 million
5. The cost of equity is 14%

Required:

Calculate the following

i) Economic value added (EVA)

(3 marks)

ii) Market value added (MVA)

(3 marks)

- b) Venture capital firms finance both early and later stage investments to maintain a balance between risk and profitability. Describe in detail types of finances provided by venture capitalists firms at
- i. Early-stage financing **(6 marks)**
 - ii. Later stage financing **(8 marks)**

QUESTION THREE

- a) Explain the **Four** soft considerations an entrepreneur should have in mind as he negotiates with the VC firms **(4 marks)**
- b) Describe the stages involved in an MBO transaction **(10 marks)**
- c) Explain **four** reasons that may lead to underpricing of an Initial Public Offering by investment banks **(6 marks)**

QUESTION FOUR

- a) ABC ltd is contemplating the purchase of Y ltd. ABC Ltd has 3,000,000 shares outstanding each having a market price of sh30 per share. Y ltd has 2,000,000 shares outstanding each having a market value of Sh.20 per share. The earning per share (EPS) for ABC ltd and Y ltd are Sh. 4 and sh. 2.25 respectively.

The management of both companies are discussing two alternative proposals for exchange of shares as indicated below:

Proposal 1

In proportion to the relative earnings per share of the two companies

Proposal 2

Half of a share of ABC ltd for one of Y ltd.

Required:

- i. The EPS after the merger under each of the two alternatives **(5marks)**
 - ii. An evaluation of the impact of EPS for the shareholders of the two companies under each of the alternatives. **(5marks)**
- b) Discuss the difference between **four** types of preference shares **(10 marks)**