



# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

**A. M. E. C. E. A**

**MAIN EXAMINATION**

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**AUGUST – DECEMBER 2015 TRIMESTER**

**FACULTY OF COMMERCE**

**MBA REGULAR / EVENING PROGRAMME**

**CFI 610: STRATEGIC FINANCIAL MANAGEMENT**

**Date: DECEMBER 2015**

**Duration: 3 Hours**

**INSTRUCTIONS: Answer ANY FOUR Questions**

- Q1. a) i The misuse of finance theory has contributed to the divergence of practices by strategic managers and operational managers.

Required:

Cite FOUR examples of the use of unrealistically high discount rates.

**(8 marks)**

- ii According to Brealey and Myers's second law "The proportion of proposed projects having positive NPV is independent of top management's estimate of the opportunity cost of capital"

Required:

Analyze the consequences of the above mentioned practices of strategic level managers.

**(7 marks)**

- b) Read "Tesla Motors: The Evolution of Governance from Inception to IPO" case and justify the antitakeover protection and restrictive covenants and CEO compensation for entrepreneurial company like Tesla Motors. Go to Appendix 1 for "Tesla Motors: The Evolution of Governance from Inception to IPO" case.

**(10 marks)**

- Q2. a) In the past, empirical evidence of a relationship between corporate financial performance (CFP) and corporate social performance (SCP) was

at best ambiguous. Citing empirical evidence you are required to support the complementary nature of CFP and CSP and recommend a strategy for stakeholder management that would complement CFP. **(15 marks)**

- b) The financial strategy of multinational firms is driven largely by the existence of unresolved information asymmetry between the multinational firm and its shareholders.

Required:

Prepare an explanation on how information asymmetry influences the choice of financial strategy at multinational firms. **(10 marks)**

- Q3. a) Dr. Kibet arap Kiptanui, the new Chief Executive Officer of Uchumi Supermarkets Limited has taken office at difficult time. The company has suffered trading losses for a couple of years. The losses are attributed to competition and operational inefficiency. Dr. Kiptanui wants to find out where the value gaps exists. With the approval of the Board Dr. Kiptanui has selected Tesco plc as a benchmark. Tesco plc is the second largest supermarket chain by sales worldwide. Using the most recent financial statements for the financial year ending in 2014, calculate the following indicators of financial and operational performance.

Performance Domain	Performance indicator
Operational Efficiency	Number of days of inventory
	Number of days of receivables
Liquidity	Current ratio
Profitability	Operating profit margin
Activity	Total asset turnover
Financial leverage	Total debt to asset ratio

Using Tesco plc as a benchmark, prepare a report assessing Uchumi Supermarket's performance. Report on the value gaps at Uchumi Supermarkets. Go to Appendix 2 for Uchumi Supermarkets Ltd's financial statements. Go to Appendix 3 for Tesco plc's financial statements. Go to Appendix 4 for a list of relevant financial formulae. **(15 marks)**

- b) Mr. Juma Kibo, founder and CEO of Pharma Limited, a company that is developing affordable medication and clinical tests for sale on the African

continent is fund raising for the company's planned expansion in the forthcoming financial year. It is considering a private equity investment though he knows little about this source of financing.

Required:

Prepare a report providing Mr. Juma an overview of the activities of private equity partnerships. **(10 marks)**

Q4. Read the "Slalom to the Finish: Carlyle's Exit from Moncler" and answer the following questions. Go to Appendix 5 for the "Slalom to the Finish: Carlyle's Exit from Moncler" Case.

a) Critically examine the option for Carlyle's exit from Moncler. **(18 marks)**

b) Justify the appropriate exit strategy from Moncler. **(7 marks)**

Q5. Read the "Durr: Disintermediation in the German Mid-Cap Corporate Bond Market" case and answer the following questions. Go to Appendix 6 for the "Durr: Disintermediation in the German Mid-Cap Corporate Bond Market" Case.

a) Compare the terms and characteristics of the 2004 and 2010 issues by Durr.

b) Assess the circumstances that lead to the issuance of the 2010 bond on terms favourable to Durr. **(25 marks)**

**\*END\***