
BUSN3049: CORPORATE FINANCE

ASSIGNMENT – SEMESTER 1, 2020

DISCUSSION QUESTIONS AND PRACTICAL EXERCISES

General Assignment Format/expectations

The assignment for this intake of the topic should be submitted prior to the due date using the assignment cover page which will be available on FLO for this topic and completed with all relevant student details (name / student ID number listed in alphabetical order; family name / other names).

This Assignment is to be completed by students on an individual basis and is designed to assess students' abilities to show a sound understanding of the relevant financial principles covered in the topic and to apply these in a practical context.

All students are expected to be able to articulate and communicate such knowledge and skills of the relevant topics by applying logical, critical and creative thinking for effective problem solving in the context of the topics covered.

This assignment consists of a number of practical exercises and discussion. As the exercises / questions are not related, there is no need for students to prepare an introduction or executive summary for this assignment.

Please note that students are expected to be able to prepare and submit all parts of this assignment by the due date regardless whether or not there are subject areas included in the study schedule after the relevant assignment is due for submission. Also note that there is also no necessity to spend time in submitting the actual assignment questions provided to you – all that is required for this topic is for students to respond to the assignment questions, not merely rewrite them!

Word limit

The word limit indicated for questions included in this assignment excludes any calculations that may be made and has been included to ensure that students address each question fully but do not include irrelevant information.

The emphasis undertaken by students should be on answering the specific assignment question given, not including everything the student can find on a particular issue. This word limit represents the maximum word count per question within a tolerance of 20%. That is, it is possible to include a slightly greater number of words than the specified limit if it is considered necessary to enhance the relevant discussion.

The word limit should be seen as a guide to the depth to which students are expected to answer the selected questions. It should also be recognised that it is certainly possible to adequately answer many of the questions in less than the specified word limit.

Word limit cont.

Note: The focus on this assignment is on the accuracy and completeness of the content provided and this should, to a large extent, override any concerns about the word limit. Please do not include a word count when submitting this assignment —this would adversely affect students mark for the layout and presentation component of the submitted assignments.

Presentation

This submitted assignment should be presented in a professional manner, that is, word processed or equivalent, in a format appropriate to its purpose, audience and setting. The emphasis on the allocation of marks in this assignment will be on the content and processes provided by students for each question.

Student solutions to practical questions should be developed on a logical and complete basis and discussion-based questions require students to respond in a manner that is focused on the given question and includes sentences that build on each other, rather than repeating the same type of information.

It is most important that students prepare a solution to the specific assignment question given, not a similar question which students may have reference materials for. This has been the principal reason in past intakes of this topic as to why students have lost marks for specific assignment questions. Students should constantly refer back to the question given when preparing their written submissions to ensure the relevance and appropriateness of such submissions. Each sentence in this submitted assignment should clarify and / or justify existing points made, or introduce a new point, as there is no need to ensure that the word limit is reached for any question.

Note: All opinions included by students in assignment questions need to be justified in their own words. That is, it is not acceptable to simply quote a reference from a textbook or journal article as justification for an opinion included in the submitted assignment without stating the context that this support is given. It is expected however, that the significant majority of the assignment can be prepared without requiring the use of direct quotes.

Please note that there is a specified allocation of marks for the layout and presentation for this assignment. In particular, the Topic Coordinator is looking for student submissions to make intelligent use of headings and sub-headings, ensure that the submitted information is well-spaced and also that the content includes sentences that build on each other rather than merely repeats the same type of information.

Each assignment page should be numbered and each question and sub-section (a), b), i), ii) etc.) should be clearly identified. Students should use a spell / grammar checker if required.

Appropriate page margins and text spacing should be included as part of the student submission so that the marker can easily follow the points made in the submission.

It is expected that students will include ‘real-world’ examples, where relevant to acknowledge the practical nature of the topic and the application of the textbook theory included in the topic materials.

A bibliography detailing all reference materials used in this assignment is expected to be included to support your assignment discussion – it is expected that this assignment submission will include a bibliography detailing a number of reference materials. For this submitted assignment it is expected that the assignment submission will list in the bibliography (and be used in the submitted assignment) at least 3 *additional references* used in the assignment that are not comprised of either;

Presentation cont.

- the specified textbook for the topic, and
- any other materials distributed / made available to students in this topic.

Also note that when preparing assignment solutions to questions requiring the use of a financial calculator, it is sufficient to show the calculator keystrokes without having to also include any financial formulae.

Assignment marks will be deducted if students include in their submitted assignment the provided assignment questions or a word count (as this is not helpful to the submitted assignment) or if submissions merely repeat the direct information already provided in the questions themselves.

Source materials

It is expected that students will use a wide range of source materials to prepare their assignment. It is not sufficient to merely rely on the textbook and other provided materials to develop a satisfactory response to the assignment questions. All source materials should be referenced (in a bibliography at the end of the assignment).

Please note that as previously discussed under the 'Presentation' heading, it is a requirement for this submitted assignment in this topic that no direct reference (such as a quote etc.) should be made to either the prescribed textbook or the provided topic materials. That is, it is acceptable to use the textbook and any other provided topic materials as a general reference for the questions included in this assignment (and of course to list them in your bibliography), but not to make specific reference in the body of the assignment s themselves (by way of specific quotes etc.).

Students should also note that it is not acceptable to simply 'cut / click and paste' information directly from resource materials (including the internet) to produce a response to an assignment question. The submitted assignment is to be in the student's own words. In this respect, please do not be overly concerned about any (perceived) grammatical deficiencies, as this topic is not designed to assess student's language capabilities. Significant penalties will be imposed on any assignment which is found to have used the process of 'cut / click and paste'.

Assignment marking criteria

Markers for this assignment have been instructed to allocate marks based on the processes adopted by students in order to solve the practical problems given, or the development of their answer for discussion questions. It is thus important to be clear in your approach and be specific with your answer wherever possible.

The most common error that students make when responding to discussion questions is not answering the specific question given. Instead, unfortunately many students often write down everything they can find about a particular topic, regardless as to whether it is relevant to the actual question given. Where this occurs, the student is generally only allocated a small percentage of the total marks for the question (less than 30% of the available marks).

Assignment and marking of your assignment will take into account the:

- correctness of your answer to the question or task set;
- clarity of detailing the processes by which you arrived at your answer. Note that for each problem exercise or question, the majority of marks are awarded where the correct process / analysis is detailed, even if the final answer is not in accordance with the suggested solutions;

Assignment marking criteria cont.

- overall presentation, including correct grammar, spelling and punctuation;
- comprehensive coverage reflecting engagement with set readings, text(s) and other relevant course materials; and
- appropriate referencing and acknowledgement of sources.

Feedback

Student feedback for this assignment is facilitated by individual assignment comments on a feedback form returned to students after the marking process is complete.

Individual Assignment Questions

The relevant questions for the individual assignment in this topic are included below.

Note: There is no need to repeat the Assignment questions with your submission.

Question 1 (Total marks for this question = 18)

Read through the attached document included on the FLO site; ‘*Reading 1 – Sift through IPO ‘rubbish’ to find value*’.

Required:

- a) Summarise the principal issues raised in *Reading 1* in a form understandable by a person without your high standard of financial literacy’.
(Students should write no more than 150 words for this part of the question).
(4 marks)
- b) What does the author mean when she refers to;
“It is pretty standard these days to get a new listing on the sharemarket valued at 15 times forward earnings”?
(Students should write no more than 125 words for this part of the question).
(4 marks)
- c) Provide an update as to the overall sharemarket performance of Australian IPO’s listed in say the last year (2019 calendar year). Comment on some of the principal the finance / business related factors that have likely contributed to those IPO’s that are the best performing and those that have been the worst performing over this period.
(Students should write no more than 225 words for this part of the question).
(6 marks)
- d) In Australia, you will find a significant focus by investors on the dividend component of sharemarket returns, particularly in relation to their tax effects. Include an assessment as to the reasons for this emphasis and speculate as to how, say, the use of the (Gordon) dividend growth model as discussed in this topic may need to be adjusted in Australia based on the dividend paying companies tax status.
(Students should write no more than 175 words for this part of the question).
(4 marks)

Question 2 (Total marks for this question = 12)

In the process of designing the firm's optimal financing mix, particularly for listed public companies, industry norms are often used as a starting point in this assessment.

- a) Select 2 industries in Australia and comment on the industry norms used for their typical financing mix. Include in your discussion an examination of why such financing mix is most suitable for these industries.

(Students should write no more than 225 words for this part of the question).
(6 marks)

- b) Comment on the principal factors that contribute to the average capital structure of companies operating in different countries being quite varied. In your discussion, provide some specific commentary on differences between the average capital structure of Australian companies and at least one more country / economy with well-developed financial markets.

(Students should write no more than 225 words for this part of the question).
(6 marks)

Question 3 (Total marks for this question = 20)

Roger Ramjet is the Chief Financial Officer for Moreton Bell Securities Ltd., a company listed on the Australian Securities Exchange (ASX). He has been asked by the Board of Directors to assess the following alternative proposals for the company;

- a) using \$400,000 of company earnings to pay cash dividends of \$1 per share, or
b) buy back existing shares from shareholders for \$21 per share.

Roger has asked Ms. Nigella Lawton, a recent Finance Graduate from the revered Flanniers University Business School to assist him in his evaluation. Nigella has gathered the following current financial information regarding Moreton Bell Securities Ltd.:

<u>Detail</u>	<u>Amount / Value</u>
Number of issued shares	400,000
Earnings available to shareholders	\$800,000
Current share price	\$20
Price / Earnings (P/E) Ratio	10

Required:

- a) Using the funds that would have gone to pay the cash dividend, approximately how many shares can be repurchased by Moreton Bell Securities Ltd. at the \$21-per-share price?

(2 marks)

- b) What would be the company's Earnings Per Share (EPS) after the repurchase?

Explain your calculations by comparing with the EPS before the repurchase and discussing the reasons for the outcome.

(Students should write no more than 100 words for this part of the question).
(4 marks)

Question 3 cont.

- c) In general, what are the differences, if any, in taxation outcomes for an Australian investor either receiving a dividend from an Australian publicly listed company, or participating in a share buyback?

(Students should write no more than 125 words for this part of the question).

(4 marks)

- d) Assuming the company's existing P/E Ratio remains constant after the repurchase, calculate the market price of Moreton Bell Securities Ltd. shares. Explain your answer by comparing with the share price before the repurchase and discuss the reasons for the outcome.

(Students should write no more than 100 words for this part of the question).

(4 marks)

- e) What are the implications for the company if the above price outcomes were to occur in practice? From your understanding of underlying finance theory, what issues are likely to create doubt as to the likelihood of the above outcome actually occurring?

(Students should write no more than 225 words for this part of the question).

(6 marks)

Question 4 (Total marks for this question = 9)

The issue of information asymmetry is a dilemma that arises in situations whenever a company contemplates transactions such as management buyouts, debt for equity swaps or an institutional share placement made at a significant discount to the prevailing market price.

Required:

- a) Comment on the issues that the above statement implies about the relationship between management and its shareholders, and the potential outcomes that may arise following any / all of the above company transactions.

(Students should write no more than 200 words for this part of the question).

(5 marks)

- b) Given the previous discussion, what steps might a Board of Directors take to ensure that the company's actions are ethical to all parties?

(Students should write no more than 150 words for this part of the question).

(4 marks)

Question 5 (Total marks for this question = 8)

The Platinum Monthly Stock-Picker Chronicle ('Platinum') has been the best performed stock tipping service over the last 3 years, with Platinum subscribers being able to consistently (over the last 3 years) 'beat' risk-adjusted rates of return in comparison to alternative stock tipping providers.

In the last year however, the number of subscribers to the Platinum stock tipping service has increased dramatically, to over 5 times the previous membership. It has been found that now, when Platinum provides a stock purchase recommendation, the stock price instantly rises several percentage points. This has reduced and indeed now all-but eliminated the 'excess' returns of Platinum subscribers.

Question 5 cont.)

Required:

- a) Comment on the returns available to Platinum subscribers and the manner in which they have been discussed in this question, before and after the significant increase in membership, in terms of your understanding of the Efficient Markets Hypothesis (EMH).

(Students should write no more than 150 words for this part of the question).

(4 marks)

- b) Discuss whether the outcomes presented in this question are consistent with the EMH.

(Students should write no more than 150 words for this part of the question).

(4 marks)

Question 6 (Total marks for this question = 7)

Outline some of the principal factors that lie behind the generally accepted statement that the issue costs for debt are lower than those of equity for publicly listed companies in Australia. When responding, provide some information based on your research to support your discussion.

(Students should write no more than 225 words for this question).

Assessment Layout and Presentation

(4 marks)

Total Assignment Marks = 78

Reading #1 – Assignment (BUSN3049)

FINANCIAL REVIEW

Companies and Markets

Sift through IPO 'rubbish' to find value

Jemima Whytel

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The Australian Financial Review

AFNR

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When you get a call from a broker spruiking the opportunity to invest in a Papua New Guinea-based non-bank lender, it's probably the moment to stop and think about the state of the IPO market.

That's if you have the time. In the past week or so, at least 12 pre-marketing reports have landed on the desks of institutional investors. Some say they are now barely bothering to leaf through them.

PNG's Kina Group, which is aiming for a \$200 million listing and which has already secured cornerstone investors who like its growth profile, is one of the more exotic offerings in a mixed bag of floats that includes everything from sheet retailer Adairs, insurer Greenstone and mortgage broker Australian Finance Group, which will list on Friday. On Thursday, mobile virtual network operator Amaysim was adding to the float warm-up meetings, holding a briefing with investors ahead of formal marketing of the IPO due to start next week.

So far this year, the top 10 IPOs have raised a collective \$1.5 billion. The largest has been accounting software group MYOB, and coming in at number 10 is AirXpanders, a US-based medical device company seeking to raise \$36.5 million.

While it may feel to many as though the floats are coming thick and fast, the ones that are lining up for listings are far smaller than last year's offerings. In 2014, the top 10 IPOs raised a collective \$12.5 billion, according to Citigroup.

These top 10 included Medibank Private, Healthscope, Spotless and Estia Health. However, the sharemarket performance of those top 10 IPOs has been mixed. Medibank is hovering around its issue price, Spotless shares are up more than 40 per cent, and Monash IVF shares are trading lower.

Sift through IPO 'rubbish' to find value cont.

If sifting through the rubbish was important last year, it looks to be even more valuable this year.

The IPO window swung open in June 2013 with IVF roll-up Virtus Health, and since then, hasn't really stopped. In 2013, the top 10 IPOs raised \$4.2 billion, the largest being Pact Group and Nine Entertainment.

But - aside from a really big flop, and there have already been a few less-than-stellar offerings - it's hard to see what will slow the rush of companies coming to market.

Interest rates are low, and investors are eager for yield. Further, a bunch of local fund managers are concerned about being too overweight the major banks and Telstra, and are quick to look for any alternatives.

The upshot? It's pretty standard these days to get a new listing on the sharemarket valued at 15 times forward earnings. And it's worth noting that institutional investors still account for a substantial percentage of the share register in many cases - in the past, one clear indicator of float fatigue has been when retail investors are left with the bulk of the stock.

There are still a few large private equity portfolio assets waiting in the wings.

But for the most part, the big ones have already listed, with the exception of share registry group Link Market Services and possibly Coates Hire, which has eyed a listing before. In both cases, the suggestion is that the private equity funds are focused on improving the businesses before sending them to market (a process that Link is said to be further down the track on). In other words, many of the private equity funds have already flipped the better assets.

Bankers say the market has a short memory: a float window open for two or so years isn't really that unusual if you cast your mind back pre-financial crisis. Looked at one way, there's nothing to worry about in an extended period for IPOs. Looked at another, it's all the more reason to be discriminating about what's on offer.

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