Question #1 of 102

A combination of two firms in entirely different industries is *most likely* to be called a:

A) horizontal merger.

B) conglomerate merger.

C) heterogeneous merger.

Question #2 of 102

Which of the following orderings is the *most* accurate with regard to the steps involved in valuation using comparable transaction analysis?

A) Identify recent takeovers of comparable companies, calculate relative value measures, apply relative value measures to target firm, estimate takeover premium, estimate

B) Identify recent takeovers of comparable companies, calculate relative value measures, apply relative value measures to target firm.

C) Identify comparable companies, calculate relative value measures, apply relative value measures to target firm, estimate takeover premium, estimate takeover price.

Question #3 of 102

Use the following data to calculate the EPS of the combined firm following the merger. Topeka Industries has EPS of $4.00, a market price of $90 per share, and 500,000 shares outstanding. Omaha Company has EPS of $2.00, a market price of $25, and 500,000 shares outstanding. If Topeka acquires Omaha in an all-stock transaction, what is the EPS of the combined company?

A) $4.70.

B) $3.00.

C) $3.57.

Question #4 of 102

Merger synergies are usually realized from:

A) increasing market share.

B) decreasing costs and/or increasing revenues.

C) merger tax benefits.

Question #5 of 102

Grogan Medical Devices (GMD) is a leading manufacturer of cardiac treatment devices including defibrillators and pacemakers. Over the last three months, problems have been discovered with a GMD defibrillator model, resulting in a massive product recall. As a result of the recall, and the potential impact on future sales, the price of GMD's stock dropped to its current level of $18 per share.

As a result of the drop in the price of the stock, two firms have expressed interest in acquiring GMD. Paulsgrove Corporation (Paulsgrove) is a large health care conglomerate with businesses in consumer products, pharmaceuticals, and cardiac treatment devices. The management team at Paulsgrove sees a merger with GMD as a means to combine its current defibrillator and pacemaker operations with those of GMD, creating the worldwide leader in those two product lines.

Bailey Scientific (Bailey) is a specialty manufacturer of stents used to open clogged arteries during heart surgery. Bailey sees a merger with GMD as a natural extension of its existing heart treatment product line, and believes using its existing stent product specialists to also market defibrillators and pacemakers could result in significant cost savings. They also believe that there would be benefits from expanding the size of Bailey's operations.

What would be the *best* description of the type of merger if GMD were to merge Paulsgrove or if GMD were to merge with Bailey respectively?

	Merger with Paulsgrove	Merger with Bailey
A)	Horizontal merger	Vertical merger

B)	Horizontal merger	Horizontal merger
C)	Conglomerate merger	Horizontal merger

Question #6 of 102

Which of the following statements regarding a cash offer are *least* accurate?

A) If the synergies are less than expected, the acquirer will bear the cost.

B) The target's payoff is fixed, regardless of the synergies realized.

C) The target assumes some of the risk regarding the value of the synergies.

Question #7 of 102

Which of the following motives for mergers *least likely* makes economic sense?

A) Surplus funds and vertical integration.

B) Diversification and reduced borrowing costs.

C) Complementary resources and eliminating inefficiencies.

Question #8 of 102

The difference between a spin-off and a split-off is that in a spin-off:

A) the parent's existing shareholders receive shares in the new firm on a pro-rata basis, whereas they must surrender their shares in the parent to obtain shares of the new

B) shares in the new firm are distributed on a pro-rata basis to existing shareholders, but are sold via a public offering in a split-off.

C) the parent's existing shareholders must surrender their shares in the parent to obtain shares of the new firm, whereas they receive shares in the new firm on a pro-rata basis

Question #9 of 102

In general, in order for earnings per share bootstrapping to occur, which of the following is *most* accurate?

A) The net income of the target must be greater than that for the acquirer.

B) The P/E ratio of the target must be greater than that for the acquirer.

C) The price-to-earnings (P/E) ratio of the acquirer must be greater than that for the target.

Question #10 of 102

Which of the following statements regarding the distribution of the benefits from a merger are *least* accurate?

A) The winners curse implies that in a contested takeover, on average, the winning bidder overpays for the target.

B) Short-term performance around the date of a merger suggests that target management suffers from reference dependence in attempting to extract value for shareholders.

C) Long-term performance following a merger transaction suggests that the acquiring firm is unable to capture the synergies expected prior to the merger.

Question #11 of 102

An analyst has identified three companies that they believe are comparable to a firm under evaluation as a takeover candidate. The relative value measures that they have selected are price-to-earnings (P/E) and price-to-sales (P/S), and the average values of these ratios are 13.2 and 1.3. The target firm has earnings per share of $3.75, and sales per share of $36.08. If the estimated takeover premium is 25%, what is the estimated takeover price per share?

A) $61.88.

B) $60.25.

C) $58.63.

Question #12 of 102

Which of the following statements regarding equity carve-outs is *least* accurate?

A) The management team and operations are separate from the parent company.

B) The parent company usually maintains a controlling interest in the new firm.

C) Shares of the subsidiary are usually issued in a public offering.

Toulouse Tempered Steel Industries (TTS) is weighing its strategic options following a wave of mergers in the industry across Europe and worldwide. Pascal LaPage, managing director of TTS is wondering whether it makes sense for the firm to position itself as a standalone entity, or if the firm should be pursuing a merger/acquisition of another firm that would provide a good strategic fit. Lyon Bank has been the firm's primary lender for many years, and Alaine Clamon, CFA, from Lyon's corporate finance department is due to meet with LaPage and other members of the firm's finance group to discuss some strategic options.

Clamon begins his presentation with the underlying rationale for considering a merger or acquisition as a strategic alternative. Some justifications for mergers cited by Clamon are the pursuit of economies of scale, the elimination of operating inefficiencies, and diversification of the firm's assets. LaPage asks his staff to keep these justifications in mind as they seek suitable candidates for evaluation.

Clamon states that a pure asset purchase does not require approval from target shareholders for relatively small purchases but the acquirer pays capital gains tax on it. He cautions the board of TTS about possible antitrust actions. Specifically Clamon warns against getting into a situation where the Herfindahl-Hirschman Index exceeds 1250, wherein antitrust action would be virtually certain.

A member of staff asks Clamon about types of takeover defenses that might by employed by either Aragon or Brittany. Clamon replies that these fall broadly into two categories, pre-offer and post-offer defenses. As examples of pre-offer defenses he describes staggered boards and supermajority voting provisions. As an example of post-offer defenses he describes the crown jewel defense. Clamon gives an example of a strategy covered in the news lately. The strategy involved Atlas Software's CEO recruiting the CEO of Paragon Textile, his friend, whereby Paragon bought just enough Atlas shares to block a hostile merger. Clamon notes that, obviously, TTS must take care to account for the ramifications of the presence of any takeover defenses.

Question #13 of 102

Which of the following is *least likely* to represent a traditional type of merger between two firms?

A) Conglomerate.

B) Horizontal.

C) Syndicate.

Question #14 of 102

With regard to his list of sensible motives for undertaking a merger, Clamon is:

A) correct with regard to operating inefficiencies, but incorrect with regard to diversification.

B) incorrect with regard to operating inefficiencies, but correct with regard to diversification.

C) correct with regard to operating inefficiencies, and correct with regard to diversification.

Question #15 of 102

With respect to the takeover defenses he described, Clamon is:

A) correct with regard to the pre-offer defenses listed, but incorrect with regard to the post-offer defense listed.

B) incorrect with regard to the pre-offer defenses listed, but correct with regard to the post-offer defense listed.

C) correct with regard to the pre-offer defenses listed, and correct with regard to the post-offer defense listed.

Question #16 of 102

With regard to the strategy employed by the CEO of Atlas, it is *most* accurately classified as:

A) White knight defense, a post-offer takeover defense strategy.

B) Poison put, a pre-offer takeover defense strategy.

C) White squire defense, a post-offer takeover defense strategy.

Question #17 of 102

With respect to pure asset purchases, Clamon is:

A) incorrect with regard to approval from shareholders and incorrect about who pays capital gains tax.

B) correct with regard to approval from shareholders and correct about who pays capital gains tax.

C) correct with regard to approval from shareholders but incorrect about who pays capital gains tax.

Question #18 of 102

Which of the following is *least likely* to represent a valid reason for divestiture?

A) Infusion of cash.

B) Lack of profitability.

C) Synergy.

Question #19 of 102

Felix Hernandez is evaluating a prospective merger between two firms of relatively equal size. The acquirer is planning to borrow the entire purchase price and pay for the merger in cash. Which method of estimating the target's intrinsic value and potential merger synergies is likely to be *most* useful?

A) Comparable company analysis because the values are market-based.

B) Discounted cash flow analysis because it will allow him to incorporate changes in the capital structure and cost of capital that are likely to result from the way the acquirer

C) Comparable company analyses because the assumption that similar assets should have similar values is fundamentally sound.

Question #20 of 102

Which of the following is *most likely* to be used to describe a merger between competitors?

A) Vertical merger.

B) Horizontal merger.

C) Conglomerate merger.

Question #21 of 102

Burger World is interested in obtaining a controlling interest in Snappy Auto Repair. This potential merger is best described as a:

A) horizontal merger.

B) conglomerate merger.

C) market extension merger.

Question #22 of 102

Suppose that a manufacturer of steel bridge beams (BridgeCo) acquires its main supplier of the steel (SteelCo) used to make the beams. After the merger is completed, the only surviving entity is BridgeCo. This is *best* described as a:

A) horizontal merger.

B) vertical merger.

C) subsidiary merger.

Question #23 of 102

Which of the following orderings is *most* accurate with regard to the steps involved in valuation using comparable company analysis?

A) Identify comparable companies, calculate relative value measures, apply value measures to target firm, estimate takeover premium, and calculate the estimated

B) Calculate relative value measures, identify comparable companies, apply value measures to target firm, estimate takeover premium, and calculate the estimated

C) Identify comparable companies, apply value measures to target firm, calculate relative value measures, estimate takeover premium, and calculate the estimated takeover

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Question #24 of 102

Conglomerate mergers are *least likely* for companies in which stages of the industry lifecycle?

A) Pioneer/Development, Rapid Growth.

B) Stabilization, Decline.

C) Mature Growth, Stabilization.

Question #25 of 102

The theoretical price range for a merger transaction is between the pre-merger price of the target (V_T), and:

A) V_T + synergies resulting from the merger – the takeover premium.

B) V_T + synergies resulting from the merger.

C) V_T + the takeover premium.

Question #26 of 102

If a firm acquires the distributor of its products, the transaction is *most likely* to be classified as:

A) a vertical merger.

B) a horizontal merger.

C) backward integration.

Question #27 of 102

Which of the following statements concerning valuation using comparable transaction analysis of takeover candidates is *least* accurate?

A) A disadvantage is that since the approach uses data from actual transactions, it can be difficult to estimate the takeover premium.

B) An advantage is that estimates of value are derived directly from actual transactions, rather than from assumptions and estimates about the future.

C) An advantage is that by using real transactions data as the basis of evaluation, the risk of future litigation concerning the proposed takeover price is reduced.

Question #28 of 102

What form of acquisition is *most likely* to be associated with a hostile takeover, and which defense is *most likely* to be employed by the target's management to fend off the unwanted offer?

A) Asset purchase and greenmail.

B) Stock purchase and poison pill.

C) Stock purchase and greenmail.

Question #29 of 102

During negotiations over the method of payment to be made by the acquirer, which of the following issues would *least likely* be considered?

A) The distribution of the risk and reward from the transaction.

B) The relative valuations of the firms involved.

C) The relative tax-effect on the acquiring firm's shareholders.

Question #30 of 102

An analyst has identified three companies (AAA, BBB, and CCC) that have recently been taken over and are comparable to a firm under evaluation as a takeover candidate. The relative value measures they have selected are the price-to-earnings (P/E) and price-to-sales (P/S). The takeover price, earnings per share, and sales per share, for each company, respectively, are as follows:

	Takeover Price	EPS	Sales per Share
AAA	65	4.80	48.00
BBB	149	10.40	118.75
CCC	26	1.80	19.50

What values for these ratios should be applied to the target firm?

A) P/E = 13.5x, P/S = 1.25x.

B) P/E = 14.3x, P/S = 1.33x.

C) P/E = 14.1x, P/S = 1.31x.

Question #31 of 102

Firms are *most likely* to seek mergers in order to gain access to capital during which industry lifecycle stages?

A) Pioneer/Development and Decline.

B) Pioneer/Development and Rapid Growth.

C) Rapid Growth and Mature Growth.

Question #32 of 102

There are 12 firms in an industry, 10 of them have a market share of 7% each, and 2 of them have a market share of 15% each. If 2 of the 7% market share firms agree to merge, calculate the pre- and post-merger Herfindahl-Hirschman Index, and evaluate the likelihood that the merger will be challenged on antitrust grounds.

A) Pre-merger HHI = 833; Post-merger HHI = 972; Unlikely.

B) Pre-merger HHI = 940; Post-merger HHI = 1038; Unlikely.

C) Pre-merger HHI = 940; Post-merger HHI = 1038; Possible.

Question #33 of 102

Which of the following characteristics is *least likely* to be indicative of a merger and acquisition transaction that creates value for the acquirer?

A) The number of bidders is high.

B) The buyer is strong.

C) The initial market reaction is favorable.

Question #34 of 102

When a merger occurs, the two main forms for the acquisition are:

A) asset purchase or liability assumption.

B) asset purchase or subsidiary carve-out.

C) stock purchase or asset purchase.

Question #35 of 102

A takeover defense that allows the firm's existing shareholders to purchase additional shares of the company's stock at attractive prices is a:

A) pre-offer defense and is called a poison put.

B) post-offer defense and is called greenmail.

C) pre-offer defense and is called a poison pill.

Question #36 of 102

Which of the following statements concerning valuation using discounted cash flow analysis of takeover candidates is *least* accurate?

A) A disadvantage is that the model is difficult to apply when free cash flows are negative.

B) An advantage is that the estimate is based on forecasts of fundamental conditions in the future rather than on current data.

C) A disadvantage is that the model is difficult to customize.

Question #37 of 102

When Firm A acquires Firm B, and, even though there are no real economic gains resulting from the merger, Firm A's earnings per share increase, this is called:

A) synergies.

B) compression.

C) bootstrapping.

Question #38 of 102

Which type of merger is *most likely* when the motivation for merging is to bootstrap earnings per share (EPS), and what does this imply about the lifecycle stage of the acquirer and the target?

A) Conglomerate and same stage.

B) Horizontal and different stages.

C) Conglomerate and different stages.

Question #39 of 102

Which of the following is most likely to represent both a vertical merger and backward integration? An automobile manufacturer purchasing a:

A) car dealership.

B) ridesharing firm that connects drivers and passengers.

C) tire manufacturer.

Question #40 of 102

Oak Industries is considering making a bid for Tidy Trim Makers. The following data applies to the analysis:

	Oak Ind.	Tidy Trim
Pre-merger stock price	$55	$80
Number of shares outstanding	400m	20m
Pre-merger market value	$22,000m	$1,600m
Estimated synergies	$700m	

If Oak Industries is confident that the merger synergies will be at least $700m or greater, the merger price should be between:

A) $1,600m and $2,300m and be paid for with stock.

B) $1,600m and $2,300m and be paid for with cash.

C) $700m and $2,300m and be paid for with cash.

Question #41 of 102

Achieving international business objectives is sometimes used as the rationale for a merger. Which of the following are *least* likely to be valid objectives that can be realized from a cross-border merger? The merger:

A) gives the acquiring firm the ability to use technology in new markets.

B) provides the ability to work around trade barriers.

C) achieves a reduction in exchange rate exposure.

World Beaters, a maker of electric mixers and other kitchen appliances, is considering a hostile takeover of Gadgets N' More, a catalog retailer specializing in products for the kitchen. World Beaters is planning to use its own stock for the acquisition.

Lars Clausen, deputy chief financial officer for World Beaters, is preparing a report on the potential merger for senior management.

After a review of financial literature on mergers and extensive interviews with managers of both World Beaters and Gadgets N' More, Clausen submits a report recommending against the merger. The reasons for his disapproval are listed below:

- Gadgets N' More's stock price reflects a higher growth rate than World Beater's, and aquisition will increase per-share profits.
- Shareholders will not benefit from World Beater's new lower financing rates post acquisition.
- Because the merger must be an acquisition of assets, World Beaters will need shareholder approval from Gadgets N' More.

Regardless of the recommendations to the board, Clausen sets out to compute a fair price for the acquisition of Gadgets N' More. He analyzes the recent acquisition of Tera Inc by King Inc at a price of $34 per share of Tera Inc. Prior to media reports about the acquisition, Tera's stock was trading at $28 per share. However, when the pending acquisition was leaked in the popular media, Tera's stock price jumped to $38.

Clausen then evaluates Gadgets N' More's corporate governance. He notes that the company's on corporate governance practices include the following statements:

Statement 1:	Senior management assesses the board's performance annually.
Statement 2:	At least 75% of the audit committee of the board should be independent.

Gadgets N' More has 78 million shares outstanding while World Beaters has 223 million shares outstanding. Gadgets N' Mores stock was trading at a price of $20 per share pre-announcement while World Beater's stock was trading at $43 per share. Clausen estimates the total present value of cost savings due to the merger to be $200 million.

Question #42 of 102

Which of Clausen's arguments against the merger is *least* valid?

A) Because the merger must be an acquisition of assets, we will need approval from Gadgets N' More shareholders.

B) Shareholders will not benefit from World Beaters’ new lower financing rates.

C) Gadgets N' More has a higher growth rate than World Beater's, and a purchase will increase per-share profits.

Question #43 of 102

World Beaters's proposed purchase of Gadgets N' More is *best* described as a:

A) horizontal merger.

B) vertical merger.

C) conglomerate merger.

Question #44 of 102

The acquisition premium paid under the Tera acquisition is *closest* to:

A) 58%

B) -11%

C) 21%

Question #45 of 102

Gadgets N' More's corporate governance practice referred to in Statement 1 is *most likely* to be:

A) ineffective due to the frequency of the assessment.

B) ineffective because the board should be allowed to self-asses their own performance.

C) effective.

Question #46 of 102

Statement 2 of Gadgets N' More's corporate governance practices is:

A) Likely to be an effective corporate governance practice.

B) Unlikely to be an effective corporate governance practice because a lower percentage of board members should be independent.

C) Unlikely to be an effective corporate governance practice because a higher percentage of board members should be independent.

Question #47 of 102

If World Beaters's board accepts a 1:2 stock exchange offer (1 share of World Beaters per 2 shares of Gadgets N' More), the takeover premium paid to shareholders of Gadgets N' More is *closest* to:

A) 8.3%

B) 11%

C) 7.5%

Question #48 of 102

There are 6 firms in a given industry, each with an equal market share. Suppose that 2 of the firms decide to merge. Calculate the pre- and post-merger Herfindahl-Hirschman Index, and evaluate the likelihood that the merger will be challenged on antitrust grounds.

A) Pre-merger HHI = 1673; Post-merger HHI = 2224; Virtually certain.

B) Pre-merger HHI = 1673; Post-merger HHI = 2503; Virtually certain.

C) Pre-merger HHI = 1673; Post-merger HHI = 2224; Possible.

Question #49 of 102

Which of the following statements concerning M&A activity is *most* accurate? Mergers based upon a desire to diversify usually do:

A) make sense from the shareholders' standpoint, and also usually make sense from the management's standpoint.

B) not make sense from the shareholders' standpoint, and do not make sense from the management's standpoint.

C) not make sense from the shareholders' standpoint, but may make sense from the management's standpoint.

Question #50 of 102

Fuel Cell Enterprises is in a new and rapidly-evolving industry, and is being evaluated as an acquisition candidate by Auto Giant, Inc. There are about 10 firms that broadly resemble Fuel Cell, but none of its competitors have been taken over up to this point. Because of the nature of the firm's technology, the level of risk is difficult to estimate and may change rapidly as the technology matures. Which type of analysis is likely to be *most* appropriate in the valuation of Fuel Cell?

A) Comparable transaction analysis.

B) Comparable company analysis.

C) Discounted cash flow analysis.

Question #51 of 102

When the attitude of the target firm's management is unfriendly with regard to the proposed merger, which of the following statements is *most* accurate? The offer is said to be:

A) hostile, and the acquirer can resort to a proxy battle to persuade the target firm's shareholders, or a tender offer to replace members of the target's board of directors.

B) hostile, and the acquirer can resort to a tender offer to the target firm's shareholders, or a proxy battle to replace members of the target's board of directors.

C) antagonistic, and the acquirer can resort to a proxy battle to persuade the target firm's shareholders, or a tender offer to replace members of the target's board of directors.

Question #52 of 102

The difference between a white knight defense and a white squire defense is that the white knight:

A) takes over the entire firm, whereas a white squire only takes a minority interest.

B) takes a minority interest, whereas a white squire takes over the entire firm.

C) is a post-offer defense, whereas the white squire is pre-offer.

Gazelle Bancorp was formed 11 years ago to address what its founders deemed unmet consumer needs. Apparently, they were correct in their assessment, and Gazelle has grown rapidly as a niche player. This has attracted the attention of the other banks in its market, and rumors are swirling that two of its competitors are contemplating takeover bids for Gazelle. The firm's management has approached Omega Financial for advice on strategies it can employ should the firm become a takeover target.

Ionnias Padras, CFA, has been assigned as the lead advisor to Gazelle's management. In advance of their initial meeting, he has prepared a list of questions and discussion points. With this information he hopes to built a coherent strategy either to fend off the potential suitors or to realize maximum value for Gazelle's shareholders, should a takeover be consummated.

During the course of his meeting with management, Padras asks the bank managers a series of questions, and the answers he received are provided below each question.

Q1:	What is your growth rate, and how does it compare to your potential acquirers?
A1:	*Our profits have been growing at a rate of approximately 10% per year, while our potential acquirers' profits have been growing in line with the overall economy, which is about 3 to 4% per year.*
Q2:	Do you have any takeover defenses in place, and, if so, what are they?
A2:	*We have established a set of compensation arrangements to enhance management's security. If a merger were to occur, our top 7 management personnel would each be paid 4 years salary. This is contingent upon the managers agreeing to remain in their jobs until the merger is completed.*
Q3:	How many banks are operating in the market, and what are their market shares?
A3:	*There are 11 other comparable financial institutions in our market. 8 of these institutions have a market share of 6% each, 3 of them have a market share of 15% each, and we have a share of 7%.*

	Potential acquirer 1 has a share of 15%, while potential acquirer 2 has a share of 6%.
Q4:	Do you consider any of your current competitors similar to Gazelle? Were there other banks previously present in the market that have been taken over recently?
A4:	*None of the current competitors have business models or growth rates that are comparable to Gazelle. There are three previously independent institutions that have business models and growth rates similar to ours, and are our direct competitors. These banks were taken over by other banks within the past 3 years.*
Q5:	What is Gazelle's current market price and how many shares are outstanding? If your firm were to merge with either of its potential suitors, what is your estimate of the synergies available? Is there any chance that your board would agree to a takeover if the price were right?
A5:	*Our current share price is $43, and there are 50 million shares outstanding. We estimate that the present value of potential cost reductions and revenue enhancements for an acquirer would be approximately $500m. The board can probably be convinced to accept an offer it believes to be adequate.*
Q6:	Describe the structure of your banking operations. Is there any other course of action that you would consider that might make the bank less attractive as a takeover target?
A6:	*Gazelle is a combination of a traditional, full service bank, and a 24/7 provider of personal financial services. For example, we have been able to obtain exclusive agreements with the 2 largest grocery chains in our market to open branch offices in their stores. We have similar agreements with other 24/7 retail establishments, and consumers have found the ability to bank at any time of the day extremely attractive. We believe that this is the part of Gazelle that our prospective suitors are seeking.*

Question #53 of 102

Based upon the information provided to Padras, does it appear that the potential suitors are seeking to bootstrap their earnings? What stage of the industry lifecycle is Gazelle *most* likely in?

	Bootstrap Earnings	Industry Life Cycle
A)	Yes	Rapid growth
B)	No	Rapid growth
C)	No	Mature growth

Question #54 of 102

What type of take-over defense does Gazelle have in place, and is this likely to be sufficient to fend off a potential suitor?

	Take-Over Defense	Defense Sufficient
A)	Greenmail	No
B)	Golden parachute	No
C)	Golden parachute	Yes

Question #55 of 102

If both of the prospective acquirers were to make bids, what are the probable antitrust ramifications for potential acquirer 1 and potential acquirer 2, respectively?

A) Antitrust action virtually certain because change in HHI is greater than 100; small chance of antitrust action because change in HHI is less than 50.

B) Good chance of antitrust action because change in HHI is greater than 100; small chance of antitrust action because change in HHI is less than 100.

C) No chance of antitrust action because change in HHI is less than 100; no chance of antitrust action because change in HHI is less than 50.

Question #56 of 102

Based upon the information provided, what type of valuation methodology is *most* likely to be used by the potential acquirers?

A) Comparable firm.

B) Comparable transaction.

C) Discounted cash flow.

Question #57 of 102

What is the probable price range for an offer for Gazelle? If one of the acquirers makes an offer of $55, should the board accept it?

	Price Range	Accept
A)	$43 to $53	No
B)	$43 to $53	Yes
C)	$43 to $63	Yes

Question #58 of 102

If Gazelle were to separate itself into two parts, the traditional bank and the 24/7 bank, and to sell off the 24/7 bank in a public offering, what would the action be called from the standpoint of the sale and from the standpoint of a takeover defense?

	Sale	Takeover Defense
A)	Equity carve-out	Crown jewel defense
B)	Equity carve-out	Leveraged recapitalization defense
C)	Split-off	Crown jewel defense

Question #59 of 102

Gambit Enterprises is being evaluated as an acquisition target. An analyst believes that the firm will have free cash flow (FCF) of $500m during year 5, after which the growth rate in FCF is expected to be 4% indefinitely. The weighted average cost of capital (WACC) for Gambit is 10%. What is the estimated value of the firm at the end of year 5?

A) $8667m.

B) $9167m.

C) $8333m.

Question #60 of 102

Regarding divestitures as corporate restructuring, when a firm divests of assets because of a desire to focus on its core business, this is *most* consistent with the rationale of:

A) lack of profitability.

B) individual parts being worth more than the whole.

C) assets no longer fitting the long-term strategy.

Question #61 of 102

Burger World has purchased a large farming company so it can control the quality of the french fries it serves in its restaurants. This merger is best described as a:

A) horizontal merger.

B) vertical merger.

C) diversifying merger.

Question #62 of 102

Froogal Inc. operates in an industry where the current Herfindahl-Hirschman Index (HHI) is at 1,500. The company is considering merging with a competitor that would increase the HHI by 75. Is the merger likely to attract anti-trust action?

A) Not enough information about the number of competitors.

B) Yes, because the industry pre-merger is considered highly concentrated and the change in HHI is greater than 50.

C) No, because the industry pre-merger is considered moderately concentrated and the change in the HHI is less than 100.

Question #63 of 102

A conglomerate is *most likely* to participate in which type of merger?

A) Vertical merger.

B) Diversifying merger.

C) Horizontal merger.

Question #64 of 102

An analyst has identified three companies that they believe are comparable to a firm under evaluation as a takeover candidate. The relative value measures they have selected are price-to-earnings (P/E) and price-to-cash flow (P/CF). The market price, earnings per share, and cash flow per share, for each company, respectively, are:

	Market Price	EPS	CF per Share
Company A	55	4.80	6.26
Company B	129	10.40	13.75
Company C	19	1.80	2.10

What values for these ratios should be applied to the target firm?

A) P/E = 12.5x, P/CF = 8.9x.

B) P/E = 11.9x, P/CF = 9.0x.

C) P/E = 11.5x, P/CF = 9.1x.

Question #65 of 102

A spin-off differs from a sale in that a spin-off involves:

A) the divestiture of the subsidiary for cash.

B) the distribution of shares in the subsidiary to the parent's existing shareholders.

C) an exchange of the parent's shares for shares of the subsidiary.

Question #66 of 102

Insofar as reasons for divestitures are concerned, when a firm divests of assets because of rising costs or a change in consumer tastes, this is *most* consistent with the rationale of:

A) a lack of profitability.

B) assets no longer fitting the long-term strategy.

C) individual parts are worth more than the whole.

Question #67 of 102

Which of the following statements regarding bootstrapping and its effect on earnings per share (EPS) is CORRECT? Bootstrapping:

A) decreases current EPS and increases future EPS.

B) increases current EPS and decreases future EPS.

C) increases current EPS and increases future EPS.

Question #68 of 102

The quick change oil industry has been in a consolidation phase for about a decade, during which time the number of firms has shrunk from more than 50 to 15. An analyst is evaluating one of the remaining 15 firms as an acquisition target, and has come up with the following estimated acquisition prices:

Methods of Analysis	Price per Share
Discounted CF	$50
Comparable Company	$48
Comparable Transaction	$57

Under the circumstances, which of these estimates is *most likely* to represent the ultimate acquisition cost, and why?

A) Discounted cash flow (CF), because this considers expectations for the future as well as current data.

B) Comparable company, because there is a large enough sample to ensure that valuation is correct, on average.

C) Comparable transaction, because a sufficient number of transactions have occurred for intrinsic value to be relatively well-understood by market participants.

Question #69 of 102

A combination of two firms in the same line of business is *most likely* to be called a:

A) horizontal merger.

B) oligopolistic merger.

C) syndicate merger.

Question #70 of 102

Big Steel is considering making a bid for Small Steel. The following data applies to the analysis:

	Big Steel	Small Steel
Pre-merger stock price	$75	$100
Number of shares outstanding	500m	40m
Pre-merger market value	$37,500m	$4,000m
Estimated synergies	$600m	

If Big Steel buys Small Steel by exchanging 1.45 shares of its stock for each share of Small Steel, what are the gains to Big Steel and Small Steel, respectively?

	Big Steel	Small Steel
A)	$100.8m	$491.3m
B)	$246.2m	$353.8m
C)	$223.9m	$376.1m

Question #71 of 102

Gambit Enterprises is being evaluated as an acquisition target. For the upcoming year an analyst has estimated the following values: net income = $300m, net interest after tax = $100m, change in deferred taxes = +$25m, depreciation = $200m, change in net working capital = +$30m, CAPEX = $250m. Calculate the firm's estimated free cash flow.

A) $405m.

B) $345m.

C) $295m.

Clothing Tree is a Milan-based holding company. The holding company comprises individual firms with unique brands that produce and sell products ranging from infant and children's clothing, to fashion wear, to work uniforms, to undergarments. The firm's founder and chairman, Romano Nocci, says that "since we assume that people will continue to wear clothes, we continue to believe that this is a good business for the long haul."

However, in spite of his overall belief in the soundness of the clothing market, he realizes that tastes and fashions change, and believes that the firm should constantly be on the lookout for suitable candidates to add to the Clothing Tree empire. He also believes that it may make sense to restructure the firm by creating a new holding company, Family Tree, to own the Clothing Tree plus two new divisions—Food Tree and Drug Tree.

The Food Tree would be a holding company formed to acquire companies in all phases of the food business. The Drug Tree would be a holding company formed to acquire companies in all phases of the non-prescription pharmaceuticals market. Both of these product lines are necessary goods, so Nocci believes that they would fit well with the firm's existing clothing businesses.

To help implement this acquisition strategy, Nocci has hired Zurich Investment Advisers. Armando Palocci, CFA has been assigned to be the lead advisor in this effort. When Palocci and his team met with Nocci and other key Tree managers, they discussed a wide-ranging set of subjects relating to the nascent acquisition plans. These discussions are summarized in the paragraphs below.

Palocci asks whether additions to the Tree empire will continue to maintain their identities. For example, if Food Tree were to purchase Parma Foods, would the company be operated as a subsidiary and maintain its identity, or would it be combined with other acquisitions and rebranded as Food Tree? Nocci indicates that this would likely depend upon the value of maintaining the brand versus the efficiencies that could be gained from combining acquisitions.

Does the Tree want to avoid firms that have takeover defenses in place? If so, which types of defenses? Nocci responds that he "would prefer to avoid firms that have pre-offer defenses, such as poison pills and pac-man defenses in place because these make the cost of an acquisition prohibitive. However, if a firm has shown a willingness to pay greenmail in the past, he would not be averse to testing the management again on this count."

Some of the acquisition targets will likely have business interests in the U.S. and Canada, as well as Europe. Palocci describes to Nocci how industry concentration is measured in the U.S., and what might cause an acquisition to be challenged on antitrust grounds. Nocci indicates that whether or not it makes sense to run the risk of an antitrust challenge will depend, in part, on the potential gains from the merger. Thus, they must be evaluated on a case by case basis.

Palocci and Nocci conclude their discussions with a review of acquisition target valuation methods, the evidence concerning the distribution of merger benefits, and strategies that the firm might employ if it were to purchase a firm with several divisions, some of which it does not wish to keep.

Question #72 of 102

If Food Tree is successful in purchasing a food company for which it maintains the firm's existing identity and brands, the first such purchase would be classified as a:

A) subsidiary, horizontal merger.

B) subsidiary, conglomerate merger.

C) statutory, conglomerate merger.

Question #73 of 102

With regard to Nocci's description of the types of takeover defenses he would prefer to avoid, he is:

A) correct with respect to the poison pill defense, and correct with respect to the pac-man defense.

B) correct with respect to the poison pill defense, but incorrect with respect to the pac-man defense.

C) incorrect with respect to the poison pill defense, and incorrect with respect to the pac-man defense.

Question #74 of 102

With respect to antitrust challenges in the United States, Palocci should have told Nocci that the decision to challenge is based upon a:

A) quantitative measure of industry concentration, but that the issue is not clear-cut.

B) quantitative measure of industry concentration, and that the issue is clear-cut once the change in the measure is known.

C) qualitative measure of industry concentration, but that the issue is not clear-cut.

Question #75 of 102

Food Tree is likely to have to evaluate potential acquisition targets that are temporarily experiencing financial distress or earnings problems that can be solved with an application of the Tree's financial strength and management expertise. That said, the food industry, by and large, consists of firms that have relatively predictable revenue and cost patterns, and the level of investment risk is well-understood. All else being equal this set of circumstances would seem to argue for which of the following valuation approaches?

A) Comparable transaction.

B) Comparable company.

C) Discounted cash flow.

Question #76 of 102

Suppose that Drug Tree has identified three comparable companies relative to a target under evaluation. The valuation metric is price to sales (P/S). The three comparable companies have P/S ratios of 2.17, 1.98, and 2.09. The target has sales of €600m. What value of the P/S should be applied to the target, and what is the estimated value?

	P/S	Estimated Value
A)	2.17	€1302m
B)	1.98	€1188m

C) 2.08 €1248m

Question #77 of 102

Palocci advises that if the Food Tree purchases a firm that includes a division that does not fit the Tree's strategic plan, the firm can sell the division via divestiture, equity carve-out, spin-off, or split-off. However, he tells Nocci that only the divestiture will provide Food Tree with cash after completion, because the others all involve the distribution of stock in the division. Palocci's advice is:

A) correct with respect to the alternatives, and correct with respect to the provision of cash.

B) incorrect with respect to the alternatives, and incorrect with respect to the provision of cash.

C) correct with respect to the alternatives, but incorrect with respect to the provision of cash.

Question #78 of 102

Which of the following statements regarding merger synergies are *least* accurate?

A) The more confident the acquirer is that synergies will be realized, the more likely they will make a cash offer.

B) In a stock offer, if estimates regarding the value of the synergies are too high, the target shareholders will bear some of the downside.

C) In a stock offer, all of the risks and potential rewards shift to the target shareholders.

Question #79 of 102

In the advanced widget industry, there are 10 firms, each with the same market share. Two of the firms are contemplating a merger. What is the likely antitrust action, and which U.S. federal regulatory agency is responsible for taking any action deemed necessary?

A) Possible challenge; Federal Trade Commission.

B) Certain challenge; Federal Trade Commission.

C) Possible challenge; Commerce Department.

Question #80 of 102

When bootstrapping, the acquiring firm:

A) increases current earnings per share (EPS) without creating any economic gains.

B) increases current and historical earnings per share (EPS) by the amount of the synergy created between the companies.

C) decreases current earnings per share (EPS) because of the increases in the total number of shares outstanding.

Riley Industries is a manufacturer of after-market automobile parts that are distributed and sold throughout the United States. The company possesses significant market share, with last year's sales exceeding $450 million. Gross sales of Riley Industries, plus two other comparable-sized competitors, represent roughly 60% of parts sold to the major auto parts retailers in the U.S. last year. Of the remaining 40% of sales, market share is highly fragmented, with no single supplier exceeding 5% of the market's overall market sales. Riley Industries' management has proposed a merger with Durable Parts, a small manufacturer with sales of $50 million per year. The merger with Durable Parts would give Riley Industries an additional manufacturing facility in a central region of the country where Riley Industries does not currently have production operations. Previously, Riley Industries' management had considered the possibility of constructing a new facility in that area, and Durable Part's relatively new facility can provide the additional capacity that Riley Industries is seeking in order to meet increasing demand.

The proposed merger is structured as a stock purchase, in which the shareholders of Durable Parts receive shares of Riley Industries' common stock. The proposed exchange ratio is 1:5, meaning that for every 5 Durable Parts shares owned, shareholders will receive one share of Riley Industries.

	Riley Industries	Durable Parts	Riley — Post Merger
Stock Price	$50.00	$10.00	$50.00
EPS	$3.50	$2.25	
P/E Ratio	14.29	4.44	
Total shares o/s	9,000,000	3,000,000	

Neither the management nor the shareholders of Durable Parts had anticipated being the target of a merger transaction. Several members of the board have expressed their desire to remain an independent entity, and have proposed seeking a friendly third party that would be willing to purchase a minority stake in the company without buying controlling interest. This would block Riley Industries from gaining enough shareholder approval to purchase the entire operation. The board acknowledges that there is some additional risk involved in the pursuit of this strategy, but is not aware of any other viable options that would allow Durable Parts to remain an independent company.

Additionally, the same members of Durable Part's board of directors have instructed the company's accountants to estimate the Herfindahl-Hirschman Index (HHI) for the industry, both pre- and post-merger. They estimate the pre-merger HHI is 975, while the post-merger HHI is 990. They believe that the increase in post-merger HHI indicates that Riley Industries should not continue to pursue the merger because of a likely antitrust challenge.

Question #81 of 102

The impetus behind the merger of Riley Industries with a Durable Parts, a smaller competitor, is to provide Riley with the means to increase its own production capacity. This type of merger is commonly called a:

A) synergistic merger.

B) horizontal merger.

C) consolidation.

Question #82 of 102

The strategy whereby a high P/E firm acquires a low P/E firm in exchange for stock is commonly called:

A) bootstrapping.

B) Backward integration.

C) vertical merger.

Question #83 of 102

Given the above information, the post-merger EPS of Riley Industries is *closest* to:

A) \$3.98.

B) \$3.04.

C) \$3.19.

Question #84 of 102

Riley Industries will give the owners of Durable Parts shares of Riley stock in exchange for the outstanding shares of Durable. Which of the following statements regarding a stock purchase is *most* accurate?

A) The shareholders of the target company will not bear any tax consequences associated with the stock purchase; any taxes due are the financial obligation of the acquirer.

B) Most stock purchases do not involve purchasing the entire company, but rather a portion of the firm or a specific operating division.

C) With a stock purchase, it is the shareholders of the target company that directly receive compensation, not the company itself.

Question #85 of 102

The strategy proposed by Durable's management of seeking a friendly third party to purchase a minority stake in its firm in order to block Riley's proposed merger with Durable is *most* commonly referred to as a:

A) crown jewel defense.

B) white squire defense.

C) white knight defense.

Question #86 of 102

The estimated pre- and post-merger HHI for the industry are 975 and 990 respectively. Which of the following statements regarding these HHI calculations is *most* accurate?

A) A post-merger HHI of less than 1,000 is indicative of a competitive industry and an antitrust challenge is unlikely.

B) Any merger that results in a change in HHI between pre- and post-merger HHI that is greater than 100 is likely to be challenged.

C) Regulators consider a post-merger HHI value greater than 1,800 to be indicative of a "moderately concentrated" industry.

Question #87 of 102

Big Steel is considering making a bid for Small Steel. The following data applies to the analysis:

	Big Steel	Small Steel
Pre-merger stock price	$75	$100
Number of shares outstanding	500m	40m
Pre-merger market value	$37,500m	$4,000m
Estimated synergies	$600m	

If Big Steel buys Small Steel for $110 per share in cash, what are the gains to Big Steel and Small Steel, respectively?

	Big Steel	Small Steel
A)	$500m	$100m
B)	$400m	$200m
C)	$200m	$400m

Question #88 of 102

The Larson Trust holds a broad portfolio of firms. One of the Trust's holdings, Music World, is growing at roughly the same, or slightly slower rate as the overall economy. The Trust is considering selling the firm. What stage of the industry lifecycle is Music World most likely in, and which method of selling the firm is *most* probable?

A) Stabilization phase, divestiture.

B) Stabilization phase, equity carve-out.

C) Decline phase, divestiture.

Question #89 of 102

When a parent company sells a subsidiary or a coherent group of assets with a stated reason to provide a near-term infusion of cash, which method for selling the assets is *most likely*?

A) Equity carve-out.

B) Spin-off.

C) Divestiture.

Question #90 of 102

Which of the following takeover defenses are considered pre-offer defenses?

A) Poison pills, staggered boards and litigation.

B) Liability restructuring, poison pills and supermajority voting provisions.

C) Fair price amendments, poison puts and staggered boards.

Question #91 of 102

When bootstrapping, the acquiring firm purchases:

A) high growth firms with high price-to-earnings (P/E) ratios.

B) slow growth firms with low price-to-earnings (P/E) ratios.

C) high growth firms with low price-to-earnings (P/E) ratios.

Question #92 of 102

Which of the following statements concerning valuation using comparable company analysis of takeover candidates is *least* accurate?

A) An advantage is that data for comparable companies is usually easy to access.

B) An advantage is that the approach implicitly assumes that the market's valuation of the comparable companies is accurate.

C) A disadvantage is that it is difficult to incorporate merger synergies or changing capital structures into the analysis.

Question #93 of 102

Which of the following is *least likely* a criticism of merging purely for diversification purposes?

A) Increasing the size of the firm helps provide job security for management.

B) Empirical evidence finds a diversification discount to conglomerates.

C) Diversification does not increase the overall value of the company.

Question #94 of 102

Based upon short-term stock performance around the merger date, academic studies concerning the distribution of the benefits suggest that:

A) both parties usually gain value.

B) the target usually loses value, but the acquirer usually gains value.

C) the acquirer usually loses value, but the target usually gains value.

Question #95 of 102

When an industry has reached the stabilization stage, the *most* common type of merger is:

A) horizontal.

B) vertical.

C) conglomerate.

Question #96 of 102

Gambit Enterprises is being evaluated as an acquisition target. An analyst estimates the firm's free cash flows as $10m, $20m, $30m, $40m, and $50m over the upcoming 5 years. At the end of year 5, you estimate that the firm's value will be $1000m. If the weighted average cost of capital (WACC) is 8%, what is your estimated value of the firm today?

A) $794m.

B) $881m.

C) $683m.

Question #97 of 102

Which of the following is NOT a commonly used merger classification describing forms of integration?

A) Subsidiary merger.

B) Regulatory merger.

C) Consolidation.

Question #98 of 102

Insofar as reasons for divestitures are concerned, when a firm divests of assets because of reverse synergies, this is *most* consistent with the rationale of:

A) assets no longer fitting the long-term strategy.

B) a lack of profitability.

C) individual parts being worth more than the whole.

Question #99 of 102

When the target of an unwanted takeover turns the table and attempts to take over the firm attempting to acquire it, this is a:

A) post-offer defense and is called greenmail.

B) post-offer defense and is called the white squire defense.

C) post-offer defense and is called the pac-man defense.

Question #100 of 102

Which of the following statements concerning the gains from a merger are *least* accurate?

A) In a cash offer, the target shareholder's gains are capped at the amount of the takeover premium.

B) In a stock offer, the target shareholder's gains are less than those from a comparable cash offer.

C) In a stock offer, gains to the target shareholders are dependent upon the post-merger stock price of the acquirer.

Question #101 of 102

The three broad index value categories for the post-merger competitiveness of an industry, based upon the Herfindahl-Hirschman Index, are:

A) Less than 900, between 900 and 1800, and greater than 1800.

B) Less than 1000, between 1000 and 2000, and greater than 2000.

C) Less than 1000, between 1000 and 1800, and greater than 1800.

Question #102 of 102

An analyst has identified three companies that have recently been taken over which they believe are comparable to a firm under evaluation as a takeover candidate. The relative value measures that they have selected are the price-to-earnings (P/E) and price-to-cash flow (P/CF), and the average values of these ratios are 11.2 and 8.6. The target firm has earnings per share of $2.45, and cash flow per share of $3.05. What is the estimated takeover price per share?

A) $26.84.

B) $26.23.

C) $27.44.