Case Study 1

1.2.1 Acquisition and Funding Strategy Exercise[1]

Unit:	Study Unit 3 – Strategic Treasury Solutions
Case:	Case study 1 – Treasury opportunities
Date:	1 September 2016
Summary:	Exercise examining how Victor's funding strategy supports its acquisitive business strategy from a corporate finance and a risk perspective.
Key words:	investment appraisal, acquisition, strategy, adjusted present value, WACC, risk management

In this exercise you will examine aspects of how Victor's financial strategy interacts with its acquisition strategy. Both Victor's funding structure and its investment appraisal methodology are interesting aspects of this case study.

Use the background case material for Victor, your text book, readings and any other resources you consider applicable. This case introduces some new content (Adjusted Present Value): read Chapter 8 (pp 376 – 381) in Damodaran, A. (Fourth edition) Applied Corporate Finance for background.

Question 1
How appropriate is Victor's investment appraisal logic in supporting its acquisition strategy?

Student notes
- What are the characteristics of APV compared to other DCF methodologies? Why do you think that Victor has chosen APV appraisal methodology over WACC (or other alternatives)?
- What viable alternatives might there be?

Question 2
Critically assess Victor's funding structure from a risk management standpoint: how does it mitigate the risks inherent in Victor's acquisition strategy?

Student notes
- Begin by identifying risks inherent in the acquisition strategy (suggest 5-6 maximum). To assess the importance of each risk identified, consider the probability of it occurring

[1] Post your responses to the various questions and discuss your thoughts and responses in the Case study 1 forum in light of the answers posted by fellow group members and the model answer released by the tutors. You are expected to post during the Case study 1 timeline – see course site U3/Case 1 for dates.

(high/medium/low) and its possible impact (high/medium/low). Enter your findings in a table as shown in the example below:

Risk	**Probability**	**Impact**
1. Acquisitions fail to deliver anticipated commercial returns	Medium	High
2.		

- Similarly, identify and assess the risks in obtaining funding (suggest 5-6 maximum again).
- Considering both the Balance Sheet and the extracts from the Notes, how has Victor structured its funding to reduce these risks? What does this structure tell you about Victor's attitude to risk? (Consider the currencies, maturities, instruments used and commitment. What are the characteristics of the instruments used, and how does this portfolio support Victor's strategic aims?)
- Thinking about risk and reward, quantitatively what do you think it costs Victor to maintain this funding structure and reduce the risks we have discussed? In other words, how efficient do you think this structure is?
- Does Victor's attitude to risk correlate with its competitive position?