

MLM

Masters in Law and Management

Corporate Restructuring

Final Exam

23/1/2020

Suggestion: Max of 10 lines per answer

Company XYZ has been in operation for more than 20 years. It generates annual profits of €2 million, out of an Ebitda of €6 million, with assets in place of €10 million and net debt of €12 million. A financial information site reports that comparable firms are trading between 10 to 12 times Ebitda. The company has been operating under an exclusive concession contract, which protects it from competition. The current concession may be revoked or extended by the Government.

- (10%) Assuming that the Government announces that the concession will be extended indefinitely, how much is this firm potentially worth? How much is the value of the firm's equity? How much is the corresponding book value? Explain the difference.
- (20%) Suppose now that the Government announces that it will not renew the concession, which should terminate at the end of the year. The concession will be awarded to another company. XYZ has no other activity. Internal estimates indicate that on the event of a liquidation the company's assets could be sold for 70% of their book value. What impact has this information on the value of the firm? What is the impact of the Government's decisions on the company's creditors? How much do they gain (or lose)?
- (20%) Company ABC is sold to company KGB for €40 million (equity value), a premium of 30% over its stock market valuation. The company is trading at multiples close to those of its peers. A shareholder of ABC sues the management arguing that the company was sold too cheaply because ABC's book value of equity is €50 million. Is KGB getting a bargain? What should KGB take in consideration in deciding on much to pay? Explain which factors may contribute to that premium over the market price.
- (20%) What is a spin-off? Suppose company Holdco owns 100% of company Sub and decides to spin it to its shareholders, who will receive 1 share of Sub per each share they own of Holdco. Are these shareholders getting a financial gain? How could they gain value from this transaction?
- (30%) Company Doomo generates an annual Ebitda of €2 million out of a very stable business. Mistakes made in the past led it to accumulate €20 million in debt, of which €5 million are secured by the company's assets (which have a liquidation value of €4 million). Comparable firms trade at around 6x Ebitda. Banks are demanding the immediate closure of the firm and the foreclosure of collateral. As the bankruptcy judge, how would you decide? Should the company be closed? Should it be restructured? In the latter case, how would you restructure the firm, what much would the new debt be and what new capital structure this company would get (make a hypothesis based on the information available)?

A - L

70 - 100
2 - 70

CF

W

NVE =

100

+ 30% = 130

5 debt
40M

2019/2020

Duration: 3h

What is expected and will be especially valued:

- a direct and simplified approach (but keep in mind that a direct and simplified approach is not the same as a *simplistic* approach);
- clear and unambiguous reasoning;
- integration of concepts and argumentation;
- a personal opinion.

Consider the following statements and questions:

1. Why do tax systems insist on taxing corporate income? (2 points)
2. The option of debt financing over equity can be a result of tax system rules, but it may also create difficulties for corporate management. Do you agree? (3 points)
3. Please describe and critical consider how taxation of dividends is promoted under the European Union legal system. (4 points)
4. Considering the *Marks & Spencer* ECJ Case (C-446/03) explain how, within EU Corporate Groups, cross border loss compensation is possible and which main tax principles are present in that option. (3 points)
5. In order to promote a fair and alternative approach to the difficulties presented by the existence of various tax systems, the European Commission has developed a proposal on corporate income tax. Please critical analyse its most important aspects. (4 points)
6. Is it possible to argue that aggressive tax planning is a special action that does not adequately take into consideration corporate social responsibility? (2 points)

ADDITIONAL ASSESSMENT ELEMENTS: 2 points

- Quality of writing;
- Systematization, synthesis and clarity of exposition;
- Ability to relate multiple problems and concepts on different levels.

If you studied, take a deep breath and demonstrate your work

Manage time in your favor

Don't value uninteresting aspects

Opt for the quality of the ideas and concepts presented, as well as the writing

A student who is never required of something he is not capable of, will never do all that he is capable of.

JOHN STUART MILL

Handwritten notes:

- top - how still good!
- ext - interval + factor of ex
- neuhouische
- o 9 istro lewa a
- frage istro
- taxe authority
- what is it
- why it was
- how - o
- intergen
- cross pr
- + ches
- critic
- + re
- decide
- des ergebnisse
- can
- the