

Corporate Strategy and Contemporary Issues

Instructions to candidates

- (1) Time allowed: Reading and planning – 20 minutes
Writing – 3 hours
- (2) Total: 80 marks
- (3) The examination will be conducted as an open book examination.
- (4) This question paper should be answered entirely in the **ENGLISH** language.
- (5) Your answer must be submitted in the answer booklets provided at the Examination Hall.
- (6) Any pre-prepared papers included in your answer **WILL NOT** be marked.
- (7) After the instruction to stop writing at the end of the paper, you will be given five minutes to assemble your answer booklet/s.

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JUNE 2018

Glenn PLC

Senior managers of Glenn PLC positively responded to the proposal made by the CEO regarding the new investment on shopping experience expansion. As a result, Glenn decided to go ahead with this new investment and called it X Town. It will first be located in one of the Meal Town Centers (MTCs).

The initial investment of the project is estimated to be Rs. 500 million and the project is expected to run for five years. The investment is expected to be financed by a combination of debt and equity in the ratio of 60% to 40% respectively. X Town would facilitate a novel experience of retail shopping with state-of-the-art technology where customers will be given a wide range of activities.

Jason Hettiarachchi carried out the feasibility study of the X Town project using the net present value (NPV) method. However at a recent board meeting the finance team mentioned that it had calculated the NPV of the project and it was Rs. 5 million at a 17% discount rate that was decided on a 5-year government treasury bond yield and an arbitrary risk premium. However the CEO is somewhat skeptical about the discount rate used. In response to the concerns regarding the discount rate, the finance team presented the following two suggestions as alternatives to be considered.

Suggestion 1

A 12% discount rate, which is the weighted average cost of capital (WACC) of the company based on the existing capital structure.

Suggestion 2

A project specific discount rate of 15% calculated by referring to Gamehut PLC, a proxy company, whose core business is developing game zones. The equity beta of Gamehut PLC was un-g geared and then re-g geared for this calculation.

At a recent meeting Shamil Akbar presented to the board the current situation with respect to the implementation of a new information technology (IT) system to support online selling. Prodigy (Pvt) Ltd (Prodigy) was suggested to be the network service provider, as it has been providing Glenn PLC IT services for a substantial period of time. Akbar is of the view that implementation of the new IT system will significantly reduce operating costs.

Prodigy is well-known to provide an uninterrupted service with a better bandwidth for corporate customers despite the fact that its wireless data transmission is not that fast. However, Prodigy is currently focusing on new technologies that involve the use of fiber optics.

Akbar suggests three payment options for customers to buy goods through the online platform.

1. Payment by credit cards or debit cards through the company website itself.
2. Cash remitting services offered by banks and mobile network services.
3. Physical cash payment at the delivery of goods.

After the proper blueprint of the system is in place, Akbar expects the system to go online directly. However, the proposed payment options were opposed by some board members on the grounds that there are other alternatives.

Takeover bid

A few weeks ago, an offer was made by Seth Mayors PLC (another conglomerate) to the shareholders of Glenn PLC to buy their shares, by issuing 2 new shares of Seth Mayors for every 1 share of Glenn PLC. Seth Mayors currently controls operations of one of the world's prominent fast food chains "Burger Land" and a major hotel chain called "Continents" located in Sri-Lanka. Seth Mayors was performing well continuously in the stock market. However in the recent past it has been experiencing a slight bearish position.

Selected financial information pertaining to the above companies is given in the table below.

	Glenn PLC	Seth Mayors PLC
Current market price per share (Rs.)	49.30	19.70
No. of shares in issue	350,000,000	500,000,000
Earnings per share (Rs.)	7.94	2.20
Long-term liabilities (Rs. billion)	8	10
Net asset value per share (Rs.)	50	12
Current dividend per share (Rs.)	4	1.8
Constant dividend growth	4%	2%

Seth Mayors' current cost of equity is 13%.

The board of directors of Glenn PLC is critical about the takeover bid, and they are concerned about the lack of experience of Seth Mayors in the field of retail business.

For the overall analysis, a team of experts were appointed by Glenn PLC per the directions of the CEO.

Required:

You as the head of the team of experts, having experience in all the business aspects including finance were requested to carry out a comprehensive analysis on the current situation of Glenn PLC, highlighting the following.

- The appropriateness of the discount rate used by the finance team for the new investment proposal
- Implications of the proposed takeover bid
- Relevance of offering own-branded products
- Governance and ethical issues
- Direct implementation of the IT system
- Strategies to be adopted by Glenn PLC with a view to create value in a sustainable manner (You may use any relevant models to support your answer)

Write a report to the board of directors of Glenn PLC based on the findings of your analysis.

Mark allocation	Marks
Executive summary	04
Introduction	02
Analysis and discussion	52
Recommendations	18
Conclusion	04
Total	80