CISI
CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT

ICAEW

Diploma in Corporate Finance

Corporate Finance Strategy & Advice

Date of exam	Monday 1 December 2014
4 hours	1.00 pm – 5.00 pm
Rubric	Answer **all** the questions

Candidates are reminded that no marks will be awarded for illegible work.

Notes to candidates

1. Please insert your candidate number on the cover of your answer book. **Do not insert your name.**
2. Show **all** workings in your answer book.
3. Candidates may attempt the sections in any order. Please indicate clearly in your answer book which questions you are answering.
4. Please insert the numbers of the questions which you have attempted, in the order in which they appear in the answer book, in the box provided on the cover of your answer book.
5. You may use the calculator provided or a model approved by the CISI.
6. You must hand your answer book to an invigilator before you leave the examination hall. **Failure to do so will result in disqualification.**
7. The decision of the exam panel is final and no correspondence will be entered into concerning the grade awarded.
8. Once submitted, examination scripts become the property of the CISI and the ICAEW. They are not returned to candidates.

Please turn over when instructed to do so.

CASE STUDY	**TOTAL 100 MARKS**

Answer ALL questions

Assume that it is now 31 October 2014

The Flybe Group plc (Flybe) is listed on the main market of the London Stock Exchange. The flotation of Flybe occurred in late 2010 and Rosedale Aviation, which represented the interests of the family of the late Jack Walker, was left with a substantial holding. In November 2013 Rosedale Aviation sold its remaining 48% holding in Flybe. The following article relating to Flybe appeared in the *Guardian*.

"Rosedale Aviation Holdings, which is controlled by the family trust of the late Jack Walker, told investors it had sold its entire holding of 36m shares, bringing the curtain down on two decades of involvement in the airline.

Flybe's chief executive, Saad Hammad, who earlier this week announced 500 job cuts, described the sale as a "milestone for the company".

The new owners are bluechip city firms, although a Flybe spokeswoman declined to give details.

Hammad indicated that existing shareholders had also bought more shares. Institutions with large holdings include the owner of British Airways, International Airlines Group, Aberforth Partners and the billionaire financier George Soros's Quantum Partners.

Although the sale had not been expected, one City watcher said it appeared to be "well choreographed", coming just days after Flybe's share price hit highs of 116p on news that the company had returned to profit. The shares fell just over 10% after news of the sale, to 94p on Wednesday.

Hammad, a former easyJet executive, has unleashed a fresh cost-cutting *drive since he took over in August, helping Flybe's shares recover from their nadir of 40p.*

Hammad said the economic environment remained challenging, but added that the turnaround of Flybe was gaining momentum. "This [share sale] transaction marks another milestone in Flybe's history. I would like to thank Rosedale Aviation for their support over many years. I would also like to take this opportunity to welcome aboard our new shareholders and thank existing investors who have increased their holding as part of this transaction."

Walkersteel took over the airline in 1983, just a few years after the creation of the then Jersey European Airways. Under Jersey-registered Rosedale Aviation, the Walker family has been reducing its stake, trimming it down to just under 50% in 2010 when Flybe floated on the stock exchange."

Since the flotation the results of Flybe have not been good and it has only recently returned to making profits. In February 2014 Flybe raised £150 million by way of a firm placing and open offer. In June 2014 the following article appeared in *The Herald*:

"The regional air carrier booked pre-tax profits of £8.1 million for the year ended March 31, which followed a £41.1 million loss the year before.

Exeter-based Flybe generated cost savings of £47 million last year as it made 133 staff redundant across its operations in Scotland and closed regional bases in Aberdeen and Inverness.

Savings were also made by axing and reducing the frequency on its worst-performing routes.

The company, which expects savings to rise to £71 million this year, has axed 1100 jobs so far.

Chief commercial officer Paul Simmons said the restructure, allied to a £150 *million share issue which strengthened its capital base in February, had given the company a solid platform for future growth".*

Mr Simmons said: "Have we achieved it quicker than we thought? Maybe, but it's not the end game where we are now.

"What we have managed to get is a stable business in terms of the cost base.

"The unfortunate things we had to do in taking cost out during the year really were necessary, and that comes through in the results in terms of the money that is taken out.

"The second side of the equation is that we have been more successful in trading the business in terms of getting more people to fly on the available seats by lowering the average prices.

"We're out of the sick bay and into the starting blocks, but it's not the end result by any means. We have to be very careful, very judicious to grow."

Flybe, which runs services to 64 airports in the UK and Europe, reported a 6.9 per cent increase in passenger numbers to 7.7 million last year. This came in spite of a 1.4 per cent reduction in seat capacity, sparked by the removal of loss-making routes and scaling back flight frequency on others.

Passenger revenue per seat rose by 1.8 per cent to £49.70.

Flybe, which reduced its UK base network from 13 to seven under the restructuring, saw group revenue edge up by one per cent to £620.5 million.

Revenue under management grew 11.1 per cent to £868.4 million, driven by its Flybe Nordic joint venture. Flybe holds a 60 per cent stake in the venture, with the balance held by Finnair.

Asked to assess current conditions in the sector, Mr Simmons said: "The *market can be strong, as demonstrated by us growing our passenger numbers overall on flying fewer seats around.*

"You just have to be quite careful where you fly to, when you fly, what the pricing is. You really have to be quite detailed and numeric in the way your plan your schedules and your operation."

Mr Simmons revealed Flybe will announce a new route to an undisclosed city from Scotland today. The new route builds on the recently-announced service to London City Airport from Edinburgh and Inverness, which launches in October.

He said: "There are no big plans coming - it's just a case of steady growth and growth that's sustainable [so] people can rely on us. We are showing good passenger growth in Scotland as well as the UK." He added that the company will continue to campaign against Air Passenger Duty, claiming it is unfair on regional carriers as it accounts for a disproportionate part of the fares and stating it is levied twice on those routes."

Since the flotation of Flybe there have been many rumours of a takeover of the company and Flybe's Board is becoming increasingly concerned about the potential for a hostile bid. The Board and senior management team (the Team) of Flybe are considering taking the company private and approaching a private equity company with a view to a combination of a management buyout and buyin.

Your firm, City Corporate Finance (CCF), has been asked by the Team to prepare a report and give advice on their plans to take the company private. You have been asked to prepare a report, including your supported conclusions, for a partner in CCF who is due to make the presentation to the Team.

You have the following information available to you:

	Information Book Pages
Annual Report – 31 March 2014	3 - 57
Capital IQ spreadsheets: Financials	58 - 78
Capital IQ spreadsheets: Comparable Companies	79 - 93
Capital IQ spreadsheets: Estimates	94 - 97
Firm placing and placing and open offer	98 - 176
Results of firm placing and placing and open offer	177 - 179

Requirements:

Prepare a report for the partner in CCF which must include:

1. The relative advantages and disadvantages of Flybe either staying as a listed company or going private and your advice to the Team.
   (8 marks)

2. An analysis of the financial health and trends of Flybe and how the financial health might influence the attitude of the shareholders in accepting a takeover offer. (17 marks)

3. An offer price for Flybe using an appropriate multiples valuation; you must state your reservations and assumptions. (12 marks)

4. Using the offer price that you have calculated in (3) above, a realistic capital structure for the take private transaction and whether Flybe is likely to have sufficient cash flows to support any borrowing that may be required. (25 marks)

5. How the Team would be able to take Flybe private and the alternatives available if there are a number of shareholders who refuse to accept an offer (you must include the advantages and disadvantages of the alternatives that you suggest). (15 marks)

6. The Takeover Code implications of the Team making an offer for Flybe.
   (8 marks)

7. Whether a trade sale in the next three to five years is likely to be the best exit route for the Team and its financial backers. (10 marks)

Note: Marks for an appropriate report format: (5 marks)