ACT EDUCATION

ACT EXAMINATION PAPER

Diploma in Treasury Management (AMCT)

Unit 1: Corporate finance for treasury

July 2026

This is a past paper for Unit 1 of the Diploma in Treasury Management (AMCT)

Based on the syllabus assessed from 1 August 2022.

INTRODUCTION

This past paper has been produced by the Awarding Body at the Association of Corporate Treasurers (ACT) to assist students in their preparation for the Diploma in Treasury Management assessments. It is important to highlight that the answers provided in this paper are not exhaustive and that any other reasonable answers would be awarded marks where necessary in a marked assessment. It contains a past exam for the specified unit as well as past answers. Ideally, students should have completed the majority of their Diploma in Treasury Management studies for Unit 1 before attempting this past paper.

Students should allow themselves 180 minutes to complete the exam plus an additional 25 minutes reading time. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time. Although the past exam in this guide is typical of a Diploma in Treasury Management assessment, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular exam.

To prepare properly for the examination, candidates students make full use of the tuition options where available and read as widely as possible to ensure that the whole syllabus has been covered.

ASSESSMENT TECHNIQUE

This paper is a professional paper that as well as testing theory expects application to practice at a managerial level.

The best way to approach written assessments is to work methodically through the questions. You should not spend too much time on any one question if you are struggling to think of an adequate answer. Remember you can flag any question to come back to later should you want to continue your way through the exam.

When all of the questions have been answered, it is prudent to use any remaining time to go through each question again, carefully, to double-check that nothing has been missed. Altering just one response could make the difference between passing and failing.

Please ensure you show your workings within your answer when prompted as this means there are marks available for the workings out. You will be able to make rough workings on a piece of paper during the exam and on screen should you wish to, however these will not count towards your final mark.

ASSESSMENT INFORMATION AND TEST SPECIFICATION

The diploma in treasury management assessments for units 1 and 2 each have four written questions, of which you must answer three, and will involve a pre-seen case study workbook that is released no later than two weeks prior to the assessment date. The papers will be split into sections a and b and can be made up of either one case study or two case studies; each unit exam is worth a total of 100 marks.

For the purpose of this past paper the questions follow each case study. Diploma in treasury management assessment test specification:

Section	Amount of questions	Marks available
Section A	1 case studybased question	50
Section B	3 shorter case study-based questions, of which candidates chose to only answer two	50
Total	**3**	**100**

Under exam conditions, **3 hours** (180 minutes) is allowed for the Diploma in Treasury Management assessments plus an additional 25 minutes reading time.

When you take your actual exam, you will be sitting online using your own PC/Laptop. You have access to an online scientific calculator, but for the purpose of this past paper, you may use a non-programmable scientific calculator.

In order for you to determine how well you have performed, sample mark schemes are provided after each question. Please note that these are mark schemes only and not model answers. They provide lists of points that are expected to be covered within answers, although the content of your answers must be much more detailed (satisfying the command word used in the question, for example 'analyse'). As with all mark schemes, the content is indicative only, i.e. the lists of points featured are not exhaustive. It is highly likely that there are other perspectives and, provided these are valid and supported fully, marks would be awarded for these in a live exam. There are also references to the relevant Learning Outcomes if you need to revisit the associated material.

SECTION A

QUESTION 1: CASE STUDY

1 long form question worth 50 marks based on a pre-seen case study. This question should test knowledge, analysis, application insight, evaluation and justification as appropriate to level descriptors. This is a professional paper and application to practice should be at 'management' level.

Total available for Section A: 50 marks

Bright Future Education Limited (BFE) is a South African listed company established in 2005, operating 47 independent schools across South Africa and Botswana. BFE is listed on the Johannesburg Stock Exchange (JSE) under the symbol BFE and serves approximately 28,000 students across all education grade levels, with a strong reputation for academic excellence and innovation in educational delivery.

Current financial position (Year ended 31 December 2025)

BFE's audited financial statements for 2025 reveal the following:

Financial item	**Amount (ZARm)**
Total revenue	1,850
Operating profit (EBIT)	385
Profit before tax	322
Total assets	3,200
Current assets	580
Fixed assets (property, plant & equipment)	2,620
Shareholders' equity	1,450
Total debt outstanding	850
Other liabilities	900
Cash balance	125
Annual depreciation & amortisation	95
Share and tax information	
Number of shares outstanding	420m shares
Tax rate (effective)	20%

Market data (28 February 2026)

One of BFE's shareholders, Renaissance Education Trust (RET), has elected to wholly acquire the business. At the time of the acquisition announcement, BFE shares were trading at ZAR18.50 per share. The three-month volume-weighted average price (VWAP) prior to announcement was also ZAR18.50 per share. Average daily trading volumes have been approximately 4.2m shares.

Debt structure

BFE's existing debt comprises institutional bonds totalling ZAR850m, with fixed coupon rates averaging 7.25% per annum and maturity dates ranging from 2026 to 2038. The bonds are unsecured and include standard financial covenants on leverage ratios and interest coverage.

Dividend history

BFE has maintained consistent dividend payments over the past five years:

2021: ZAR0.22 per share

2022: ZAR0.25 per share

2023: ZAR0.27 per share

2024: ZAR0.28 per share

2025: ZAR0.275 per share.

Shareholder base (28 February 2026)

Shareholder category	Shares (m)	Ownership (%)
Renaissance education trust	131	31.2
Local Institutional investors	119	28.3
International institutional investors	59	14.2
Employee share scheme	35	8.3
Retail shareholders	76	18.0
Total	**420**	**100**

RET, established in 1998 as a registered public benefit organisation, is BFE's major shareholder and has recently indicated its intention to acquire all outstanding shares and convert it into a non-profit organisation.

Historical financial performance

BFE's five-year revenue growth has averaged 8.3% annually. The operating margin has expanded from 15.2% in 2020 to the current 20.8% in 2025, reflecting improved operational leverage and cost management. BFE has generated consistent positive operating cash flows throughout this period.

The acquisition proposal and financing structure

Renaissance Education Trust's offer

On 28 February 2026, RET announced a binding offer to acquire all outstanding BFE shares it does not own, at ZAR22.75 per share for the 68.8% (289m shares). RET commits to converting BFE to non-profit status within 24 months of acquisition, subject to approvals from the JSE, the Companies and Intellectual Property Commission (CIPC), and the South African Revenue Services (SARS).

Transaction financing structure

RET is financing the total acquisition through multiple sources listed below.

Debt component: ZAR4.2bn

Commercial bank facilities: ZAR2.1bn (7-year amortising term loan).

Concessional development finance facilities: ZAR2.1bn (12-year term loan from multilateral development finance institutions).

Equity Contribution: ZAR5.352bn

RET internal resources: ZAR2.8bn.

Donor contributions and restricted purpose grants: ZAR1.65bn.

Impact investor equity commitments: ZAR902m.

Commercial banks have indicated a borrowing cost of 6.85% per annum for their facilities, while development finance institutions have offered concessional rates of 4.50% per annum, reflecting their mandate to support educational development initiatives.

Post-acquisition capital structure

Following completion of the acquisition, the combined group will comprise:

existing BFE debt: ZAR850m at 7.25% average coupon

new acquisition debt: ZAR4.2bn (comprising commercial and concessional components)

total equity capital: Combined investments from RET and new equity providers.

Regulatory and market context

The JSE requires approval for BFE’s delisting, impacting its listing status and dividends. Converting to non-profit needs SARS’s confirmation as a public benefit organisation for tax exemption, with profits used for public benefit. South Africa's private education sector has expanded, and BFE's market share has grown over the past decade. However, political and social pressures for educational equity threaten the sustainability of private, fee-paying education in a developing economy.

Comparable valuation metrics

For valuation purposes, comparable listed education companies in the Southern African region currently trade at the following multiples:

- average P/E (price-to-earnings): 18.5x

- average EV/EBITDA: 19.8x
- average price-to-book: 2.4x
- dividend yields: range from 1.2% to 2.8%.

Key assumptions for financial analysis

RET has committed to the following operational assumptions post-acquisition:

- annual tuition fee increases consistent with inflation expectations
- expansion of bursary programs targeting disadvantaged students
- increased investment in educator professional development and remuneration
- modernisation of educational infrastructure and technology systems
- annual capital expenditure increasing to approximately ZAR180m (from historical maintenance levels).

Non-profit conversion and strategic implications

Strategic rationale for non-profit conversion

RET's stated objectives for converting BFE to non-profit status include:

1. removal of profit-maximisation pressures to allow focus on educational outcomes and accessibility
2. reinvestment of operational surpluses into expanded facilities, educator development and learning resources
3. implementation of comprehensive bursary programs targeting students from disadvantaged backgrounds
4. enhanced alignment with stakeholder interests, including students, parents, educators and communities
5. establishing BFE as a leading organisation in ESG performance within the Southern African education sector.

Current dividend policy and cash distribution framework

Under the current for-profit model, BFE's dividend policy targets about 45% payout of net profit. Shareholders expect yearly cash distributions. After converting to non-profit, surpluses will be reinvested in mission-critical activities instead of being paid out.

RET has identified the following priority areas for reinvestment of retained earnings:

- educator salary enhancement and professional development programs
- bursary and financial assistance for disadvantaged students
- capital maintenance and facility improvements
- educational technology and curriculum development initiatives.

Revenue and cost structure analysis

Operating costs are mainly educator salaries and benefits (45% of revenue) and facility maintenance (22%). Administrative costs are about 14%. Tuition fees have increased by an average of 6.2% annually, with some increases below inflation to assist affordability. Post-acquisition, RET aims to balance fee sustainability and accessibility.

Financial sustainability considerations

RET has conducted detailed financial modelling projecting BFE's operational performance under non-profit governance, assuming:

conservative revenue growth projections

incremental cost increases from educator remuneration enhancements and bursary program expansion

stabilisation of operating margins once transition adjustments are absorbed

debt service obligations from the ZAR4.2bn acquisition financing.

BFE's balance sheet includes significant tangible assets, including school properties and educational infrastructure (ZAR2.62bn of property, plant, and equipment). These assets are essential to BFE's educational mission and represent valuable collateral supporting the acquisition financing structure.

Intercompany funding and tax optimisation

Following the acquisition, BFE will operate as a subsidiary within RET's group structure. Treasury management will need to consider:

South African thin capitalisation rules limiting interest deductibility in relation to equity

withholding tax implications on intercompany interest and dividend flows

transfer pricing documentation requirements for intercompany transactions

optimal capital structure balancing debt tax benefits with covenant compliance and financial flexibility.

Corporate governance transformation

BFE currently follows standard JSE-listed company governance with nine directors, including independent and shareholder reps. After conversion, it will shift to non-profit governance with an expanded, diverse board of educators, parents, community representatives, and others. This change alters the principal-agent relationship, with management now accountable to RET and educational communities rather than external shareholders.

Shareholder value maximisation versus stakeholder value creation

Currently, BFE's decisions focus on maximising shareholder wealth. The ZAR22.75 per share offer reflects management's and RET's view of fair value based on discounted future cashflows. After conversion, BFE will prioritise stakeholder value, including students, parents, educators, and communities, marking a major shift from shareholder-centric goals.

ESG and impact measurement framework

RET commits to comprehensive ESG measurement frameworks following the acquisition. Unlike traditional financial-focused reporting, BFE will report on:

- educational impact e.g. student performance, university entrance, subject scores
- equity e.g. disadvantaged backgrounds, gender balance, geographic diversity
- educator development e.g. qualifications, training hours
- environmental sustainability e.g. carbon footprint, water use, renewable energy
- community engagement and social impact.

Annual reports will track financial and social impact, ensuring accountability for both.

Tax status and financial implications

Converting to a non-profit and registering as a public benefit organisation with SARS exempts BFE from corporate income tax if profits serve its public benefit. This change impacts its tax status compared to the current for-profit, affecting:

tax-deductible interest expense benefits

distributable profits available for dividends

retained earnings policies

financial planning and forecasting.

QUESTION 1

a.	Analyse whether the acquisition offer represents fair value for BFE shareholders using relevant equity valuation multiples.	12 marks
b.	Calculate BFE's enterprise value (EV) based on the acquisition offer. In your answer, you must also briefly discuss the EV/EBITDA multiple implied by the transaction.	7 marks
c.	Assess the implications of the increase in leverage following the acquisition.	9 marks
d.	Discuss the implications of converting BFE from a listed company to a non-profit. In your answer, you must mention how ESG considerations may shape its governance and reporting.	12 marks
e.	Examine the role of treasury in managing the acquisition financing structure.	10 marks
		Total: 50 marks

Mark scheme

Q1a

Calculation Step	Formula	Result
Net profit	322 × (1 − 20%)	257.6m
Earnings per share (EPS)	257.6 / 420	0.613
P/E ratio	22.75 / 0.614	37.1×
Book value per share	1450 / 420	3.45
Price-to-book ratio	22.75 / 3.45	6.6×
Control premium	(22.75 − 18.50) / 18.50	23%

1 mark per line

Metric	BFE Offer	Sector Average
P/E	37.1×	18.5×
Price-to-book	6.6×	2.4×

1 mark per line

Analysis

- The implied P/E ratio is significantly higher than the sector average, suggesting the offer reflects a strong valuation.
- The price-to-book multiple also exceeds industry norms, indicating that the market places significant value on BFE's assets and future earnings.
- The 23% takeover premium is consistent with typical acquisition premiums in listed company transactions.
- BFE's strong operating margins and stable tuition revenues may justify a higher valuation multiple.

1 mark per line

Total marks: 12

Q1b

Calculation Step	Formula	Result
Equity value	22.75 × 420	9,555m
EBITDA	385 + 95	480
Enterprise value	9,555 + 850 − 125	10,280m
EV / EBITDA	10,280 / 480	21.4×

1 mark per line

Interpretation

- The implied EV/EBITDA multiple of 21.4× is slightly higher than the sector average of 19.8×.
- This suggests RET is paying a strategic premium for control of BFE.
- The premium may reflect BFE's strong profitability, growth prospects and valuable property assets.

1 mark per point.

Total marks: 7

Q1c

Key points

- Significant increase in total debt
    - Debt rises from ZAR850m to approximately ZAR5.05bn.
- Higher financial risk
    - Increased interest payments place greater pressure on operating cash flows.
- Potential covenant pressure
    - Existing bonds include leverage and interest coverage covenants.
- Credit rating impact
    - Higher leverage could widen credit spreads and increase borrowing costs.
- Reduced financial flexibility
    - Higher debt levels may restrict future borrowing capacity.
- Mitigating factors
    - Stable tuition fee revenues provide a predictable cash flow.
    - Strong property asset base provides collateral support.
    - Concessional development finance lowers borrowing costs.
- Overall assessment

1 mark per point

○ While leverage increases financial risk, the stability of the education sector and concessional financing help mitigate this risk.	**Total marks: 9**

Q1d

Shift in corporate objectives: • Transition from shareholder wealth maximisation to stakeholder value and educational outcomes. Dividend policy changes: • Under the listed structure, BFE distributed around 45% of profits as dividends. • Under the non-profit model, surpluses will be reinvested into educational initiatives. Governance transformation: • Governance will shift toward stakeholder representation, including educators, parents and community representatives. Accountability framework: • Management will be accountable primarily to the RET and educational stakeholders rather than external shareholders. ESG integration: • ESG principles will likely become central to strategy and reporting. Social impact metrics: • Reporting may include measures such as: • student performance outcomes • bursary programme reach • educator development metrics • community engagement. Environmental considerations: • Schools may adopt sustainability practices such as energy efficiency and responsible resource use. Enhanced transparency: • Integrated reporting may combine financial performance and social impact reporting. Strategic positioning:	1 mark per point

- ESG alignment may enhance BFE's reputation and attract impact investors and development finance funding.

Total marks: 12

Q1e

Liquidity management

- Treasury must ensure sufficient operating cash flows to service the **ZAR4.2bn acquisition debt** and existing ZAR850m bonds.

Debt covenant monitoring

- Monitoring compliance with lender covenants such as **leverage ratios and interest coverage requirements**.

Funding relationship management

- Maintaining effective relationships with **commercial banks and development finance institutions** providing the acquisition financing.

Capital structure management

- Ensuring the balance between debt and equity remains sustainable and aligned with long-term financial stability.

Interest rate risk management

- Monitoring exposure to potential changes in borrowing costs and managing interest rate risk where applicable.

Debt repayment planning

- Structuring repayment schedules and cash flow forecasts to ensure timely servicing of principal and interest obligations.

Refinancing strategy

- Evaluating opportunities to refinance debt in the future if more favourable borrowing terms become available.

Financial risk management

- Monitoring financial risks such as liquidity risk, refinancing risk and interest rate risk associated with the increased leverage.

Cash flow forecasting

- Developing robust financial forecasts to support long-term operational planning and investment decisions.

Financial reporting and transparency

1 mark per point.

- Ensuring accurate financial reporting and communication with lenders and other stakeholders regarding the organisation's financial performance.

This mark scheme is not exhaustive – all valid points within answers will be awarded marks.

Syllabus Ref: 1.1.1, 1.1.2, 1.1.3, 1.2.1, 1.2.2, 1.2.3, 1.4.1, 1.4.2a, 1.4.2b, 1.5.2, 1.5.3

Total marks: 10

Total: 50 marks

SECTION B – 50 MARKS

Answer TWO of the following THREE questions. (2 x 25 marks).

Questions test knowledge, analysis, application, insight, evaluation and justification as appropriate to level descriptors. This is a professional paper and application to practice should be at 'management' level. Candidates are expected to be able to synthesise knowledge from different elements of the syllabus rather than be tested on discrete areas.

Total available for Section B: 50 marks

QUESTION 1: CASE STUDY

Maschinenbau Engineering GmbH (MEG) is a German manufacturer of heavy machinery based in Stuttgart. Founded in 1978, MEG offers machining centres, robotics, and automation systems to automotive, aerospace, and construction sectors in 45 countries. With EUR2.8bn in annual revenue and 8,200 employees, MEG has 12 manufacturing plants in Germany, Poland and the Czech Republic, serving over 3,500 customers worldwide.

Financial position and working capital challenge

MEG's business model involves capital-intensive operations with extended production cycles averaging 4-6 months. MEG's revenue streams comprise direct equipment sales (68%), service contracts (22%), and spare parts (10%). Operating margins stand at 5% of revenue, with EBITDA of EUR 210 m (7.5% margin).

Working capital position (31 December 2025):

Component	EURm	Days
Trade receivables	685	89
Inventory (total)	1,050	140
Trade payables	(520)	67*
Net working capital	**1,215**	**43.4% of revenue**

***Current payment terms for suppliers in Supply Chain Finance program**

Capital structure:

- shareholders' equity: EUR890m
- long-term debt: EUR450m (senior secured notes, 2028-2033)
- revolving credit facility: EUR300m (35% drawn = EUR105m)

- trade finance facilities: EUR85m
- cash: EUR125m
- net debt: EUR515m
- net debt/EBITDA covenant threshold: 3.0x.

Treasury challenges

MEG faces several critical challenges:

1. **working capital intensity:** at 43.4% of revenue, working capital significantly exceeds the industry benchmark of 35-38%, tying up EUR1,215m in operating assets
2. **growth constraints:** strategic plans target 12% annual growth over three years, requiring EUR140-160m additional working capital investment annually if current ratios persist
3. **supplier pressures:** MEG's 850+ suppliers (many SMEs) request earlier payment terms (30-45 days vs. current 67 days), threatening supply chain stability. Suppliers face borrowing costs of 5-8% p.a.
4. **customer demands:** large automotive and aerospace customers increasingly demand extended payment terms (120-150 days), while competitive pressures make resistance difficult
5. **bank constraints:** relationship banks indicate that further RCF increases require higher fees and more restrictive covenants.

Proposed supply chain finance solution

Following discussions with some banking partners, MEG is evaluating a comprehensive SCF program.

Supplier finance (reverse factoring)

- Target: 200 suppliers representing EUR1,100m annual spend (75% of procurement/total cost of sales).
- Suppliers receive early payment option (10-15 days) at 2.8% p.a. (linked to MEG's credit rating).
- MEG extends payment terms from 67 to 90 days.
- Suppliers benefit from lower financing costs vs. their typical 5-8% rates.

Dynamic discounting

- MEG offers early payment (10-30 days) for negotiated discounts (1.5-2.5%).
- Target: EUR250m annual spend across 150 suppliers.
- Utilises MEG's excess cash during strong cash generation periods.

Receivables finance

- Selected customers get extended terms (120 days vs 89 days) and a bank purchases receivables without recourse, enabling MEG to receive payment quickly after invoicing.
- Bank purchases approved receivables without recourse.
- Estimated impact: EUR85m additional receivables financed annually.

Implementation requirements

- Technology investment: EUR2.8m (12-month implementation).
- Ongoing platform fees: EUR450,000 annually.
- SAP ERP integration for automated invoice processing.
- Supplier onboarding platform and multi-bank connectivity.

QUESTION 1

a.	Calculate the working capital improvement MEG would achieve from extending its trade payable days from 67 to 90 days for suppliers in the SCF programme. In your answer, you must discuss the significance of this improvement for MEG's liquidity position.	8 marks
b.	Analyse the implications of MEG's current working capital structure for its liquidity position and planned growth strategy.	8 marks
c.	Evaluate the proposed supply chain finance programme as a treasury solution for MEG.	9 marks
		Total: 25 marks

Mark Scheme

Q1a

Step	Calculation	Result
Procurement in SCF	Given	1,100
Daily procurement	1,100 / 365	3.01
Increase in payable days	90 – 67	23
Working capital release	3.01 × 23	EUR69.3m

1 mark per line

- The extension of payment terms releases approximately EUR69m of working capital.
- This reduces the amount of cash tied up in operating activities.
- The improvement strengthens MEG's short-term liquidity.
- The released cash can help finance the additional EUR140m–160m working capital required for growth.

Total marks: 8

Q1b

MEG's working capital structure has several implications for liquidity and growth.

High working capital intensity

- Net working capital is EUR1,215m, equivalent to 43.4% of revenue.
- This exceeds the industry benchmark of 35–38%, indicating inefficient use of working capital.
- Large amounts of cash are tied up in operational assets.

1 mark per point.

Long cash conversion cycle

- MEG's cash conversion cycle is 162 days.
- Cash invested in operations takes over five months to return as cash receipts.
- This is driven by:
    - high inventory levels (140 days)
    - extended receivable collection periods (89 days).

2 marks

Liquidity pressure

- High working capital requirements reduce available liquidity.
- Treasury must finance the working capital through bank facilities or internal cash generation.
- This increases dependence on external funding.

2 marks

Growth funding requirements

- MEG plans to grow revenue by 12% annually.
- If working capital ratios remain unchanged, MEG would need EUR140m–160m additional working capital each year.
- Rapid expansion without adequate funding could create overtrading risk.

2 marks

- MEG's current working capital structure is capital intensive and inefficient.
- Improving payables, inventory management, or receivables financing would support growth while reducing liquidity strain.

Total marks: 8

Q1c

The proposed supply chain finance (SCF) programme offers several advantages but also introduces potential risks.

Improvement in working capital efficiency

- Extending payment terms increases trade payables, releasing working capital.
- This improves liquidity without increasing traditional bank borrowing.
- Cash freed from working capital can support expansion and investment.

Benefits for suppliers

- Suppliers receive early payment within 10–15 days.
- Financing cost of 2.8% is significantly lower than their typical borrowing cost of 5–8%.
- This improves supplier financial stability and strengthens supply chain relationships.

1 mark per line.

Receivables finance benefits

- Receivables finance allows customers to receive extended credit while MEG receives payment earlier.
- This supports sales growth while protecting MEG's cash flow.

Treasury funding diversification

- SCF reduces reliance on traditional bank debt.
- It introduces alternative working capital financing sources.
- Dynamic discounting allows treasury to deploy surplus cash efficiently.

Potential risks

- Some SCF programmes may be viewed as quasi-debt, increasing perceived leverage.
- Overextension of supplier payment terms may damage supplier relationships if not managed carefully.
- Implementation requires technology investment and supplier onboarding.

The SCF programme is a strategically effective treasury solution because it:

- improves liquidity
- reduces working capital pressure
- strengthens supplier relationships
- supports MEG's growth strategy.

However, treasury must ensure transparent programme governance and supplier engagement.

This mark scheme is not exhaustive – all valid points within answers will be awarded marks.

Syllabus Ref: 1.2.1, 1.4.4, 1.5.1

Total marks: 9

Total: 25 marks

QUESTION 2: CASE STUDY

Clover Pies Ltd (CPL), founded in 1985 by the Floyd family, is a British producer of premium frozen and fresh pies, operating in Yorkshire and the Midlands. It has been listed on the London Stock Exchange's Alternative Investment Market (AIM) since 2018 to fund expansion.

With GBP185m in annual revenue and around 850 employees, it is known for quality ingredients and innovation.

Current financial position (Year ended 31 December 2025)

CPL's recent financial performance reflects the challenges and opportunities facing the UK food manufacturing sector.

Income statement

Item	**Amount (GBPm)**
Revenue	185.0
Cost of sales	(128.5)
Gross profit	**56.5**
Operating expenses	(32.4)
Operating profit (EBIT)	**24.1**
Finance costs	(2.8)
Profit before tax	**21.3**
Tax (19%)	(4.0)
Profit after tax	**17.3**

Balance sheet

Item	**Amount (GBPm)**
Non-current assets (property, plant & equipment)	68.5
Current assets	42.8
Total assets	**111.3**
Other Current liabilities	(17.4)
Short-term financial debt:	(11.2)
Long-term debt	(35.0)
Shareholders' equity	**47.7**

Share capital structure:

- ordinary shares outstanding: 95m shares
- current share price (31 December 2025): GBP2.45 per share.

Dividend history:

- 2023: 8.5p per share
- 2024: 9.2p per share
- 2025: 10.0p per share (proposed final dividend 6.5p + interim dividend 3.5p already paid).

Strategic context and treasury considerations

Dividend policy review

Treasury is reviewing its dividend policy, which has traditionally increased dividends annually to signal confidence and reward shareholders. The current payout ratio is 54.9% (GBP9.5m dividends/GBP17.3m profit after tax).

However, several factors are prompting reconsideration:

1. **capital investment requirements**: CPL has allocated GBP28m over two years to modernise facilities, boost automation and expand storage, vital for competitiveness and retail demands
2. **working capital pressures**: CPL faces longer supermarket receivables payments (75 days) than paying suppliers in 45 days, straining working capital and requiring careful cash management
3. **debt covenant compliance**: CPL's GBP35m loan due 2029 has covenants: interest cover above 4.0x and net debt/EBITDA below 2.5x. Current ratios are within limits (interest cover 8.6x, net debt/EBITDA 1.4x), but capital expenditure could reduce headroom.

Share buyback proposal

The board is considering a share buyback instead of maintaining the dividend policy. With GBP12.5m in cash, directors believe repurchasing up to 8m shares at GBP2.45 per share (about 8.4%) for GBP19.6m would boost earnings per share, signal confidence and offer tax advantages. Funding includes cash reserves and a GBP7.1m revolving credit.

Treasury has modelled the impact of the buyback financing; including the cost of the revolving credit facility and the loss of interest on cash reserves, the pro-forma Profit After Tax for the year is expected to be GBP16.52m.

Shareholder considerations

CPL's shareholders include the Floyd family (28.5%), institutional investors (42%), retail investors (22.5%), and an employee share plan (7.0%).

Institutional investors value steady dividends, while the Floyd family is flexible in its use of capital. Retail shareholders prefer regular dividends for income.

Treasury management implications

The treasurer must balance the following competing priorities:

1. **cash flow considerations**: CPL generates GBP22m-25m of operating cash flow a year. After dividends (GBP9.5m) and planned capex (GBP14m a year for two years), free cash flow is limited. A buyback would further reduce cash and may require borrowing.
2. **signalling effects**: dividends and buybacks both send market signals. Maintaining or raising dividends suggests confidence; buybacks may signal undervaluation. Cutting dividends to fund buybacks may be viewed negatively by income investors.
3. **financial flexibility**: holding cash preserves flexibility for supply chain disruption and opportunities such as acquisitions. Using cash for buybacks or dividends reduces this flexibility.
4. **covenant compliance**: current headroom is adequate, but planned capex and a buyback could weaken interest cover and raise net debt/EBITDA, increasing the risk of lender renegotiation.

QUESTION 2

a.	Calculate the following: i. CPL's current earnings per share (EPS) ii. the EPS after the proposed share buyback iii. the percentage increase in EPS.	6 marks
b.	Analyse the factors the treasurer should consider when assessing the proposed share buyback.	13 marks
c.	Evaluate whether CPL should maintain its current dividend policy.	6 marks
		Total: 25 marks

Mark Scheme

Q2a

- Current EPS: Profit after tax = GBP17.3m ÷ 95m shares = GBP0.182 (18.2p).
- Shares after buyback: 95m − 8m = 87m shares.
- New EPS: GBP16.52m ÷ 87m = GBP0.1899 (18.99p).
- Percentage increase: (18.99 − 18.2) ÷ 18.2 ×100 = +4.28% increase.

2 marks per line.

Total marks: 6 marks

Q2b

Factor	Explanation
1. Cash availability	The buyback costs approximately GBP19.6m, exceeding CPL's GBP12.5m cash balance, so additional funding will be required.
2. Borrowing requirements	The remaining funding would likely come from the revolving credit facility, increasing CPL's debt levels.
3. Covenant headroom	Additional borrowing could increase leverage and reduce the buffer under the net debt/EBITDA and interest cover covenants.
4. Capital expenditure commitments	CPL plans to invest GBP28m in capital, which will require substantial cash over the next two years.
5. Financial flexibility	Using cash for buybacks reduces liquidity available for operational shocks, supply chain issues, or potential acquisitions.

1 mark per line.

6. Earnings per share impact	Share buybacks reduce the number of shares in issue, which may increase EPS and potentially support the share price.
7. Market signalling	A buyback may signal management confidence in CPL's prospects and that shares are undervalued.
8. Capital structure impact	Repurchasing equity reduces equity capital and increases leverage, altering the firm's capital structure.
9. Shareholder expectations	Different shareholder groups may have different preferences for capital returns, including income through dividends or capital gains through buybacks.

Total marks: 13

Q2c

Advantages of maintaining dividend policy:

- Provides stable income for shareholders, especially retail investors.
- Sends a positive signal of financial stability and profitability.
- Supports investor confidence and share price stability.

Potential drawbacks:

- Current payout ratio is relatively high (=55%).
- Planned capital investment (GBP28m) will require cash resources.
- Working capital pressure from supermarket payment terms (75 days vs 45 days suppliers).
- Maintaining dividends may limit funds available for reinvestment and strategic flexibility.

1 mark per point.

Treasury must balance shareholder returns with investment requirements and liquidity management.

This mark scheme is not exhaustive – all valid points within answers will be awarded marks.

Total marks: 6

Syllabus Ref: 1.1.1, 1.1.3, 1.3, 1.3.1, 1.3.4

Total: 25 marks

QUESTION 3: CASE STUDY

Cryptonord Technologies SA (CTS), a French fintech based in Paris, specialises in blockchain infrastructure, crypto custody and digital asset management for institutional clients. With EUR420m in revenue and 680 employees, CTS serves over 240 clients, including asset managers, hedge funds and corporate treasuries, across France and the Nordics.

Nordic cross-border operations

CTS has expanded into the Nordic countries over the past three years, driven by favourable crypto regulations and high adoption. Nordic offices in Stockholm, Oslo, Copenhagen and Helsinki employ 235 staff members and generate EUR145m in annual revenue (34.5% of total revenue). CTS holds VASP licenses from regulators in these countries.

Strategic capital requirements

The board has approved a five-year strategic plan for:

- technology infrastructure expansion: EUR120m
- regulatory compliance and licensing: EUR45m
- Nordic market penetration: EUR85m
- working capital and liquidity buffer: EUR30m.

Current capital structure (EURm):

- shareholders' equity: 185 (69.5%)
- subordinated debt (maturing 2026): 45 (16.9%)
- bank credit facilities (unutilised): 36 (13.5%)
- total capitalisation: 266.

The annual operating cashflow of EUR68m is insufficient to fund planned investments. Management requires EUR180m-200m external capital over 18 months while maintaining adequate liquidity buffers.

Debt capital markets strategy

Rather than equity issuance (diluting founder ownership of 42%) or relying solely on bank facilities, CTS's treasury team is evaluating debt capital markets through senior unsecured bonds or private placement. Key rationales include:

1. **funding diversification**: reducing reliance on relationship banks, given the banking sector caution toward cryptocurrency businesses
2. **extended maturity**: securing 7-10 year funding versus typical three to five-year bank maturities, reducing refinancing risk during expansion
3. **fixed-rate financing**: current facilities priced at EURIBOR + 285 bp create interest-rate exposure; fixed-rate bonds provide cost certainty
4. **market credibility**: successful debt issuance would enhance institutional client confidence and accelerate client acquisition.

Credit rating imperative

CTS has engaged S&P Global Ratings and Moody's to obtain formal credit ratings essential for accessing public debt markets or attracting institutional private placement investors.

Target rating

Management's analysis suggests a BBB- to BBB+ range based on strong fundamentals:

- EBITDA margin: 28.5%
- return on equity: 24.3%
- net debt/EBITDA: 0.8x
- cash and liquid assets: EUR95m.

Rating challenges

- **industry risk premium**: agencies apply significant premiums to cryptocurrency businesses due to volatility, regulatory uncertainty, and recent failures (FTX, Celsius)
- **revenue sustainability**: questions about performance during cryptocurrency bear markets
- **regulatory evolution**: MiCA (Markets in Crypto Assets regulation) provides European clarity, but global regulatory developments create uncertainty
- **cross-border complexity**: multi-jurisdiction Nordic operations add operational and compliance risk.

Debt issuance alternatives

Public Eurobond (EUR200m-250m, 7-year): Luxembourg listing, institutional marketing, full disclosure. Cost: 4.75-5.50% annually.

Private placement (EUR150m-200m, 10-year): insurance/pension fund marketing, flexible covenants. Cost: 5.25-6.00% annually.

Sustainability-linked bond (EUR200m, 7-year): coupon linked to ESG targets (renewable energy usage, diversity metrics). Potential 15bp-25bp pricing benefit.

Key considerations:

Covenant structures: negotiating leverage limits (likely 3.0-3.5x Net Debt/EBITDA), interest coverage minimums (4.0x EBITDA/Interest), and restricted payment provisions while preserving strategic flexibility.

Currency risk: Nordic revenues in SEK, NOK, DKK versus Euro debt service obligations may require cross-currency hedging.

Market timing: cryptocurrency market volatility introduces execution risk; negative sentiment could trigger rating downgrades or issuance failures.

QUESTION 3

a.	Discuss the key factors CTS's treasury team should consider when choosing between capital markets debt, bank facilities and equity financing.	10 marks
b.	Evaluate the risks that could affect the success of CTS's proposed debt issuance. In your answer, you must also suggest how the treasury team could mitigate these risks.	10 marks
c.	Discuss **FIVE** potential advantages of issuing a Sustainability-Linked Bond (SLB) rather than a conventional bond for CTS.	5 marks
		Total: 25 marks

Mark Scheme

Q3a

Factor	Analysis
Funding diversification	Treasury should diversify funding sources to reduce reliance on a small group of lenders and improve financial resilience.
Cost of funding	The treasurer must compare the cost of bank loans, bond issuance, and equity financing to determine the most efficient capital structure.
Maturity profile	Capital market debt often provides longer maturities, which reduces refinancing risk and improves funding stability.
Interest rate exposure	Fixed-rate bonds can reduce exposure to floating interest rate risk compared with bank facilities linked to benchmark rates.
Impact on leverage	Issuing debt increases leverage, which may affect credit metrics and financial risk.
Financial flexibility	Bond covenants may restrict additional borrowing, dividend payments, or acquisitions, so treasury must assess the impact on strategic flexibility.
Ownership considerations	Debt financing allows companies to raise capital without diluting existing shareholders.

1 mark per point.

Market credibility	Accessing capital markets and obtaining a credit rating may enhance corporate reputation and investor confidence.
Liquidity management	Treasury must ensure sufficient liquidity buffers remain after funding strategic investments.
Investor demand	Treasury should assess whether sufficient institutional investor demand exists for the proposed bond issuance.

Total marks: 10

Q3b

Risk	Explanation	Mitigation
Credit rating risk	If the company receives a lower credit rating than expected, investors may demand a higher yield or avoid the issuance entirely.	Maintain strong leverage metrics and transparent financial reporting.
Investor demand risk	Weak investor appetite for the sector may result in poor bond placement or higher borrowing costs.	Conduct investor roadshows and strengthen investor relations.
Market timing risk	Volatile financial markets may increase borrowing costs or delay issuance.	Monitor market conditions and retain flexibility on issuance timing.
Currency risk	Revenues generated in foreign currencies may create a mismatch with debt service obligations.	Use FX hedging instruments such as swaps or forwards.
Interest rate risk	Interest rates may increase before issuance, raising the cost of funding.	Lock in fixed rates or use interest rate hedging instruments.
Regulatory risk	Changes in financial regulation could affect operations or investor confidence.	Maintain strong compliance and regulatory monitoring.

2 marks per point

Covenant risk	Bond covenants may restrict future financing or corporate actions.	Negotiate flexible covenant terms and maintain covenant headroom.
Liquidity risk	If cash flows weaken, the company may struggle to meet debt obligations.	Maintain strong liquidity reserves and diversified funding sources.
Reputational risk	A failed issuance or poor communication with investors could damage the company's credibility in capital markets.	Maintain strong governance and transparent disclosures.
Strategic execution risk	Expansion projects may not generate expected returns, affecting debt service capacity.	Conduct robust investment appraisal and risk analysis before committing capital.

Total marks: 10

Q3c

Advantage	Explanation
Access to ESG investors	ESG-linked instruments attract institutional investors with sustainability mandates.
Potential pricing benefit	Strong demand for ESG investments may reduce borrowing costs.
Enhanced reputation	Demonstrates commitment to sustainability and responsible corporate governance.
Strategic alignment	Linking financing costs to sustainability targets encourages long-term, responsible business practices.
Investor diversification	ESG instruments broaden the investor base beyond traditional fixed-income investors.

1 mark per point

Total marks: 5

This mark scheme is not exhaustive – all valid points within answers will be awarded marks.

Syllabus Ref: 1.1.1, 1.1.2, 1.1.3, 1.2.1, 1.2.2, 1.2.3, 1.2.4, 1.3.1, 1.3.2, 1.3.3, 1.3.4, 1.4.1, 1.4.2a, 1.4.2b, 1.4.3, 1.5.1, 1.5.4

Total: 25 marks

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