3 Doric Co has two manufacturing divisions: parts and fridges. Although the parts division is profitable, the fridges division is not, and as a result its share price has declined to $0.50 per share from a high of $2.83 per share around three years ago. Assume it is now 1 January 2013 .

The board of directors are considering two proposals:

(i) To cease trading and close down the company entirely, or;

(ii) To close the fridges division and continue the parts division through a leveraged management buyout.. The new company will continue with manufacturing parts only, but will make an additional investment of $50 million in order to grow the parts division after-tax cash flows by 3.5% in perpetuity. The proceeds from the sale of the fridges division will be used to pay the outstanding liabilities. The finance raised from the management buy-out will pay for any remaining liabilities, the funds required for the additional investment, and to purchase the current equity shares at a premium of 20%. The fridges division is twice the size of the parts division in terms of its assets attributable to it.

Extracts from the most recent financial statements:
Financial Position as at 31 December 2012

	$m
Non-Current Assets	110
Current Assets	220
Share capital ($0.40 per share par value)	40
Reserves	10
Liabilities (Non-current and current)	280

Income Statement for the year ended 31 December 2012		$m
Sales revenue:	Parts division	170
	Fridges division	340
Costs prior to depreciation, interest payments and tax:	Parts division	(120)
	Fridges division	(370)
Depreciation, tax and interest		(34)
Loss		(14)

If the entire company's assets are sold, the estimated realisable values of assets are as follows:

	$m
Non-current assets	100
Current assets	110

The following additional information has been provided

Redundancy and other costs will be approximately $54 million if the whole company is closed, and pro rata for individual divisions that are closed. These costs have priority for payment before any other liabilities in case of closure. The taxation effects relating to this may be ignored.

Corporation tax on profits is 20% and it can be assumed that tax is payable in the year incurred. Annual depreciation on non-current assets is 10% and this is the amount of investment needed to maintain the current level of activity. The new company's cost of capital is expected to be 11%.

Required:

(a) **Briefly discuss the possible benefits of Doric Co's parts division being divested through a management buy-out.** (4 marks)

(b) **Estimate the return the liability holders and the shareholders would receive in the event that Doric Co is closed and all its assets sold.** (3 marks)

(c) **Estimate the additional amount of finance needed and the value of the new company, if only the assets of fridges division are sold and the parts division is divested through a management buy-out. Briefly discuss whether or not the management buy-out would be beneficial.** (10 marks)

(d) **Doric Co's directors are of the opinion that they could receive a better price if the fridges division is sold as a going concern instead of its assets sold separately. They have been told that they need to consider two aspects when selling a company or part of a company: (i) seeking potential buyers and negotiating the sale price; and, (ii) due diligence.**

Discuss the issues that should be taken into consideration with each aspect. (8 marks)

(25 marks)