



# KC5 – Corporate Strategy and Contemporary Issues

## December 2017

### Examiner's Comments

#### 1. General View

The examiner has designed the pre-seen of this case study in such a manner that candidates could score approximately 20 -25 marks out of the 80 marks by carrying out a proper analysis of the facts provided in the pre-seen.

#### 2. Presentation Skills:

The evaluation of presentation skills by writing a professional report is an essential part of this examination although the examiner had not allocated marks for it. In general, a majority of the candidates lacked proper knowledge in writing /compiling a professional report.

#### 3. Re-assessment of Corporate Management :

Except for a few candidates, others understood the requirements and obtained above 12 marks out of 22. A majority of candidates, could not identify and re assess the risk management practices of the company.

#### 4. Conflicts:

Though a majority of candidates obtained average marks, they did not have a clear understanding about the requirements, since they mentioned only the resignation of Sudath Silva in brief without explaining the repercussion of recruiting a person from outside to fill the vacancy and how it will affect the performance of the company.

#### 5. Restructuring Proposal offered by the bank:

Almost all candidates could not understand the examiners requirements, hence they could not present the answer properly. Only a few touched on the relevant accounting standard and assessed the impact to the balance sheet and performance of the company in brief. This area was poorly attempted.

**6. Structuring Methods and Regulatory issues.**

Although, a majority of candidates could obtain 6 to 8 marks out of the 10 marks, they did not have a clear strategy to propose a rights issue in order for CIC to acquire a controlling interest of SAL. Some of the candidates proposed debt financing strategies such as debenture issues, long term bank loans etc. Majority of candidates did not understand the examiners requirement of finding alternate methods in which the envisaged investment (acquire controlling interest of SAL by CIC) could be structured within the present regulatory framework and related issues.

**7. Offer made by the investor**

Marks were allocated for solving the equation given in the pre-seen and also for the identification of the correct revenue / contribution and cost of advertising for the next five years which the candidates could have worked out prior to the examination. It is very sad to mention that some of the candidates did not have technical knowledge about the free cash flow, hence they considered unnecessary inflows and outflows when preparing the free cash flow to derive the NPV of the FCF in order to value the company shares which should be compared with the offer price provided by CIC. The adjusted net assets value was not correctly computed, since some of the essential adjustments were not considered.

Candidates also failed to consider other factors which will affect the forecasted revenue and contribution in the FCF which affects the share value. None of the candidate discussed other valuation methods against the offer price and computed the price using FCF.

**8. Tax implication ;**

Majority of the candidates obtained average marks, since the explanation discussed only the tax loss. Other factors were not considered although it was expected by the examiner.

**9. Sustainability practices and reporting**

Majority of the candidates scored below the average and some of them did not attempt it due to a lack of technical knowledge on reporting sustainability practices of a company.