SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Integrative Business Solutions (IB)

EXAMINATION DATE: 18 September 2020

Section 1

About the company in the case study

Nimblevan (NV) Pte Ltd is a privately owned Singaporean company that performs last mile logistics services. NV uses complex algorithms to make a success of this segment of the industry, which did not suit the business models of the traditional logistics providers. However, recently the large logistics providers have begun to operate more successfully in the last mile segment, creating more competition.

As with previous IB examinations, candidates received Advanced Information (AI) documents approximately three weeks before the examination date to undertake research, analysis and preparation. The AI documents for this exam comprised of 12 exhibits, which included:

- financial performance
- information about the company's operations, including the use of technology
- some information and financial projections for TeleportDelivery (TD) whose owners are requesting NV's cooperation in the management of this.
- Some information about a legal case being pursued against the company by a freelance driver who was injured while carrying out work for NV.

The Examination Day Documents (EDD) were given to candidates on the examination day itself. The EDD consisted of 28 pages and five additional exhibits, of which two covered the requirements. The other three exhibits provided:

- more recent information on the performance of the company
- information about a proposal from Teleport to allow NV to either acquire TD, or to run it as a licensee for three years
- an email bringing some internal control weaknesses to the attention of the board.

The exam required candidates to combine their knowledge of the AI and their research with the additional information provided in the EDD to answer the questions. In broad terms, the requirements were as follows:

Requirement 1 - An executive summary (10 marks)

Requirement 2 - Analysis of the logistics industry, value chain and performance analysis (35 marks)

Requirement 3 - Evaluation of strategic options and funding arrangements (35 marks)

Requirement 4 - Ethical considerations and internal control improvements (20 marks)

The structure of the AI and EDD, the level of difficulty and the domain knowledge required of the examinations were similar to the previous year.

General comments on the overall performance of Candidates

Overall performance in the exam was above previous sittings. Candidates appeared to be familiar with the information in the advanced information and to understand well the business issues and challenges facing NV. There was evidence of additional research, particularly relating to government incentives for the logistics and technology investments, and demonstration of such research was rewarded.

An interesting trend was that candidates performed better on the discursive question and less well on the calculations.

Time management appears to have been an issue for many candidates. Some candidates did not answer all the questions or rushed the executive summary.

Section 2

Analysis of individual questions

Requirement 1

Generally, performance in the executive summary was barely a pass. As this is the last requirement attempted, many candidates appeared to run out of time and did not give this part of the exam sufficient focus. Most candidates did not provide a summary on the computations which are crucial on the context of the summary.

Better candidates did a good summary of the key points made in their answers to the other requirements.

Candidates should also be aware that the executive summary should not be more than 1,400 words.

Compared to previous performances, a significantly higher portion of candidates earned the bonus mark for signing off the report, and in some cases, this extra mark enabled marginal candidates to pass.

Requirement 2

2(a)

This question was well answered by most candidates because they had prepared well for the exams. Candidates were able to identify the relevant factors in the environment and relate them to the dynamics of the industry. There was also evidence of additional research into areas such as government incentives, which

was pleasing to see. A few candidates focussed too much on the internal technology being used by NV rather than the external technology that is available to all.

2(b)

Performance on this part was disappointing. Few candidates seemed to know the Porter's value chain model. Those that did know the model were able to identify the activities performed by NV and match them to the activities in the value chain, but few went on to analyse the drivers of value, which was worth half the marks in the question. Only a handful of candidates covered the infrastructure aspect.

Several candidates, who did not know the model, wrote about how the activities of NV add value and were rewarded for this, as ultimately that is the skill that we want candidates to demonstrate.

It is disappointed to observe many candidates used Porter's Five Forces model, or even SWOT analysis, which had little relevance here.

2(c)

Performance was fair on this question part. Candidates knew the financials ratios, but more importantly were able to discuss their meaning and relate them to the industry trends and other relevant information in both the AI and EDD.

One weakness reported by the markers was that some candidates did not show their workings for the ratios. In such cases, marks are awarded if the answers are correct, but no marks are awarded with no workings for incorrect answers. A second weakness was that some candidates did not analyse the non-financial performance. If non-financial key performance indicators are provided in the exhibits, it is expected that they will be used.

Candidates should draw an overall conclusion at the end of a performance evaluation question, but some candidates did not do this.

Requirement 3

3(a)(i)

Many answers to this question were limited to calculations of the NPV of the cashflows using two discount rates, with no discussion. In a question requiring you to advise, some discussion is expected, for example about reservations there might be with the underlying cash flows and how these would impact on the valuation.

Those candidates that excelled in this question were those who remembered that valuation has 3 main approaches, with each being explored and discussed as to its salience, and that there should be professional scepticism shown within the assumptions of a cashflows / NPV forecast.

Few candidates calculated the value using multiple of sales, even though this had been mentioned in the exhibits. Some used net assets based valuation, and even though such methods were not in the model solution, credit was given for these.

As a technical point, when recalculating the NPV using an alternative discount rate, quite a few candidates omitted to recalculate the terminal value of the cash flows, which should have been done by using the alterative rate in the Gordon's growth model.

3(a)(ii)

The performance to this question part is fair. Many candidates answered the question generally without citing the benefits and disadvantages of the options specifically relating to the case.

Several candidates did not mention the "obvious" benefits of an acquisition, such as the entry into overseas markets and the retail package model, possibly thinking it was "too obvious". Candidates may have overlooked the fact that it is an important skill to be able to extract key points amidst a barrage of information.

There are a few candidates offered very poorly structured answers, such as discussing the advantages of both options in the same point. Some candidates gave textbook answers, describing advantages of acquisitions in general terms, without relating these to the specific circumstances of NV.

Some candidates demonstrated business acumen by discussing strong points such as how the licensing agreement with TD could lead to a leakage of IP and strengthen a future competitor.

3(b)(i)

Most candidates could not answer this question and performance in this question was generally disappointing. It should have been a straightforward calculation, using cash flows given in the exhibits, and making one or two adjustments for these to take account of interest, or in the case of Option 2, the payment of a license fee.

Some recalculated the free cash flow, even though it was already provided in the exhibits. Few candidates deducted the interest in the case of Option 1. Of those that did, too few calculated the interest for three different levels of ownership that were on offer. Candidates also failed to disclose any assumptions they had made.

3(b)(ii)

Here, candidates demonstrated poor knowledge of financial reporting issues, while knowledge of tax implications was very good. Only a minority recognised that goodwill should be calculated and tested for impairment annually.

Some candidates were able to provide detailed discussion of various tax reliefs available, of which has not been mentioned in the exhibits, so this showed that plenty of research had been done.

3(c)

Candidates performed well on this question, demonstrating a good knowledge of the different sources of finance and their relative advantages and disadvantages. Stronger candidates also calculated the impact of taking on more debt on the gearing ratios.

Requirement 4

4(a)

Performance was disappointing on this part, with few students giving a balanced evaluation of the ethical considerations. Many students were able to point out the negative ethical aspects of the use of freelance drivers, but few also mentioned the positive aspects, such as providing flexible employment opportunities and inclusivity.

Some candidates gave advice about what NV should do in relation to the legal case without discussing whether the use of freelance drivers is ethical or not.

4(b)

This question was performed well by most candidates, who were able to identify fundamental control weaknesses and propose sensible recommendations to overcome these. Some candidates appeared to have run out of time and did not attempt this question. Some shrewd candidates who were short of time chose to answer this question over others.