Mock 1: Answer Plan

Strategic Case Study – May & August 2026

Answer Planning Technique

Please refer to the recorded "Answering Technique" webinar for an in-depth guide to answer planning. Visit https://www.studyattcs.com/product/strategic-case-study and create a free account by clicking the "Start Free Trial" button. The video can then be accessed in the student dashboard under the "Videos" tab.

Replicate the same technique when practicing at least five mock exams & in the real exam.

Steps to follow

1. Read the scenario & reference material: 5 minutes.
2. Reiterate each requirement in your own words. Keep it simple.
3. Develop headings and sub-headings.
   a. Headings: Bold & Underlined
   b. Subheadings: Bold
4. Develop each answer plan on the answer screen: 30 minutes.
5. Type the final answer. Simply expand the answer plan: 25 minutes

Reiterating the Requirements

TASK 01

- Evaluation: Divest extrusion printing to fund medical 3DP (40% = 20 marks)
- Director's bonus (35% = 17.5 marks)
- Should disposal proceeds be used for a share buy back? (25% = 12.5 marks)

TASK 02

- Evaluate strategic opportunity: KMC (40% = 20 marks)
- KMC: Strategic objectives & KPIs (40% = 20 marks)
- Implication of calling off dividend (20% = 10 marks)

TASK 03

- How to finance cloud investments (50% = 25 marks)
- Borrowing C$ 50m. How to deal with breach of debt covenants. (30% = 15 marks)
- How to manage currency risks (20% = 10 marks)

TASK 01

<u>Exit Strategy</u> (20 Marks)

Strategic rationale for divestment

- Medical 3DP
    - Growing demand for highly customised medical products
    - 3D printing offers speed & accuracy
        - Advantages over traditional manufacturing
- Strategic alignment
    - Mission: Transforming customers through innovative design & production
    - Vision: Expanding additive manufacturing across industries + Market leadership

Financial case

- Revenue has fallen by 19%
    - Supports caution over profitability & funding
- Disposal releases capital
    - Selling extrusion reduces need for external finance
    - Useful: Debt (E$1,350 million) Vs. Bank balance (E$136 million)
- Cash flow benefits
    - Eases short-term cash pressure
    - Can fund investment into a higher-growth medical segment

Drawbacks of divestment

- Reduced product range
    - Legacy extrusion line still forms part of wider offering
    - Narrows ability to serve low -budget customers
- Reduced flexibility
    - Unable to meet full range of customer requirements
    - Weaken cross-selling opportunities in customer segments
- Risks of moving into medical 3D printing
    - High quality & compliance demands
    - Must be defect-free & materials require EHS approval
    - Failure risks: Quality, Compliance, & Reputational risk

- Capability & investment
    - New technical expertise
    - Tighter controls & stronger regulatory engagement
    - Further investment needed: Approved materials &high-precision processes

Investor/share price concerns

- Disposal may be interpreted negatively
    - Seen as a retreat / defensive response to weak performance
    - Undermines confidence in growth narrative
- Share price sensitivity
    - Beta of 2.3
        - Shares are highly volatile to news
        - Divestment: Negative reaction

Opportunity-cost issue

- Extrusion still has strategic value?
    - One of the core 3D-printing technologies
    - Has relevance in lower-cost segments
- Risk of sacrificing future upside
    - Selling now may remove access to future opportunities
        - Block pathway for customers who may later upgrade

Overall evaluation

- Divestment should not proceed automatically
    - Only sensible if legacy small extrusion printer segment is:
        - Non-core
        - Underperforming
        - Unlikely to support future strategy
- Medical segment is attractive, but entry conditions matter
    - Disposal proceeds must be used effectively
    - Has capability to compete successfully in medical 3DP
- Safer alternative
    - Partial disposal
    - Managed phase-out
    - Separate business restructuring
        - Greater strategic flexibility than a full disposal

<u>Director's Bonus (17.5 Marks)</u>

- Governance considerations
    - Bonuses should reward realized performance, not projected outcomes
    - Divestment's benefits (release capital, sharper strategic focus & medical entry) remain unproven
    - Expansion benefits are yet to be realized
    - Premature reward: Weak alignment with good governance practices
- Shareholder considerations
    - Bonuses should be aligned with:
        - Shareholder interests
        - Long-term value creation
    - Potential shareholder pushback
        - Recent revenue dip
        - Divestment & expansion benefits are yet to be realized
            - Board appears self-serving
- Ethical considerations
    - Timing appears ethically questionable
        - Board's fiduciary duty: act in the best interests of the company
        - Seeking bonuses for planned success; not sustained success
        - Expansion introduces new risks: Quality, compliance & reputation
- Remuneration Committee Role
    - Bonus adjustments must go through the RC
    - Formal approval subject to KPI achievement
        - Successful completion of divestment, effective use of disposal proceeds, revenue growth in new segment, profitability, ROI, compliance & quality
- Recommendations
    - Defer bonus until:
        - Divestment & the expansion proves strategic
        - Expansion is profitable
        - Expansion is supported by performance indicators

Share Buyback **(12.5 Marks)**

Benefits of a buyback

- Signals management confidence in KM's future after divestment
- Reinforces that KM is undervalued especially if investors view:
    - Disposal as exit from a weaker activity
    - Funds redirected into higher-growth medical printing
- Reducing issued shares:
    - Improve EPS
    - Support share price
- However, benefits are not automatic
    - SHs will assess whether buyback is the best use of funds

When a buyback is sensible

- If divestment releases genuine surplus cash
- If sale proceeds exceed money needed for medical expansion
    - Returning excess cash:
        - Show financial discipline
        - Not holding unnecessary cash but rewarding SHs

Stronger case: Retaining proceeds

- Retain funds to support medical printing
    - Medical printing is strategically attractive
        - Requires highly accurate, reliable & customised products
        - Will require significant continuing investment: Tech, QA, specialist expertise, regulatory capability
    - Excessive cash return via buyback
        - Weaken ability to build a credible position in medical printing

Strategic / SH value concerns

- Buyback may be seen as short-termist
    - Supporting SP is not the same as creating long-term SH value
- Divestment supports move into a better market
    - Retaining funds better align with SH interests
- If SHs think Board lacks foresight in reinvestment opportunities
    - Negative SH reaction

Financial risk

- Risk of using disposal proceeds too early for buyback
- If KM needs funds for medical-printing expansion, it must:
    - Borrow more
    - Raise new equity
        - Makes buyback appear poorly judged
        - Weakens confidence in Board's capital-allocation decisions

Overall evaluation

- Do not commit immediately to a share buyback
- Exercise only if surplus cash remains after funding medical expansion
- Priority: Strategic reinvestment, not short-term SP support

Answer Plans for Sections 2 and 3 are available through the ***Premium Course****. Please visit* https://www.studyattcs.com/product/strategic-case-study *to upgrade.*