



## **Mini Mock – Suggested Answers**

Strategic Case Study – November 2023 / February 2024



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## Section 1

### Financial Analysts' Comment

According to the financial analyst, implementing this strategy will lead to higher net operating cash flows in the future, resulting in increased profitability. Although the initial cost of introducing cobots within our clients' warehouse operations may be significant, operational efficiencies will eventually lead to cost savings.

Introducing cobots will open new revenue streams as well, since environmentally conscious customers will prefer to use them. However, Robobryce needs to closely monitor any additional operating costs the clients will have to incur due to this venture, such as in relation to software integration.

The increased cashflows would mean that Robobryce will be able to pay higher dividends, which would satisfy its shareholders. Further, the existence of additional revenue will increase profits, which would further increase the share price, thereby strengthening investor confidence.

The increased beta implies that the volatility of Robobryce's shares would increase. The current beta of the company stands at 0.91, which is lower than 1.00. This indicates that Robobryce's stock is relatively less risky, when considered as part of a diversified portfolio.

The increased beta (post diversification), will make our shares riskier, imposing a downward pressure on Robobryce's share price. The higher beta will also increase the cost of equity. This might discourage the board from seeking equity when pursuing expansion imperatives.



However, the additional risk will not be a major problem, given the probability for enhanced revenues and profitability in the future.

Robobryce's move to include cobots within its product range brings forth an intersection of systematic and specific risks. The systematic risk, pervasive across the entire industry, remains ever-present. On the other hand, the new endeavour introduces specific risks tied to the production, operation, and upkeep of cobots, and these need to be monitored and controlled appropriately.

### **Director's Salaries**

It is legitimate that directors seek for additional remuneration. Yet, the directors should not have a final say in the decision to increase their own salaries. Any conflict of interest will be avoided when directors' salaries are determined by the Remuneration Committee of Robobryce, which comprises mostly of Independent Non-Executive Directors (INEDs).

Alternatively, the board members might feel that they are overburdened with work. Including cobots within its portfolio increases the business risks and this may have made board responsibilities more complex and challenging.

Thus, the Remuneration Committee should compare salaries with other comparable companies within the warehouse automation industry to establish the best rate of pay.



It should also be noted that remuneration paid to executive directors should encourage strategic success of Robobryce. To attract and retain executive directors who are skilled and competent, Robobryce needs to make sure that they are well remunerated.

However, the salaries should not be excessive, which could lead to shareholders seeing the directors as greedy individuals, operating out of mere self-interest.

If the directors feel that their workload has increased significantly, the Nomination Committee should consider a board restructuring. If the board members cannot cope with their responsibilities, then at least an additional board appointment should be made.

Further, increasing salaries in relation to increased workload could come to a point where the board members are overstretched and they will not be willing to do anything about it, since they might fear a salary reduction when their workloads are reduced to original limits.

### **Strategy: Reducing the impact of Carbon laws**

As a starting point, Robobryce should aim to identify the stakeholders whom it will have to deal with to address this criticism.

Robobryce should consider how best to deal with the environmentalists, who have a high interest in sustainability issues but relatively little power of their own. They could, however, harness the power of other powerful stakeholders such as the government.

There is little point in negotiating directly with the environmentalists themselves because they are unlikely to withdraw their complaints about the industry under any circumstances. Indeed, any direct engagement with environmentalists or any of the other lobbyists could simply generate additional adverse publicity.

Robobryce should aim to engage with these environmentalists through media. Robobryce should aim to offer its own perspective of any point raised by environmentalists to ensure that the public recognize that Robobryce is not necessarily as guilty as suggested, with regards to harming the environment.

Robobryce should also engage directly with the government. The government has a great deal of power, and it appears that their level of interest is high in this instance as per the information which appears on the article and its election promises.

The law would clearly not apply to Robobryce alone; many others in the industry would be left in a position where they would face disruption in business activities which would inevitably affect business operations adversely. Thus, costs will rise, at the same time, harming the relationship between us and clients.

Robobryce could potentially make changes that would convince the government that the proposed change in the law is unnecessary. This would allow the government to claim that it has taken steps to address the issue and avoid losing the support of citizens who would be negatively affected by the change.



Robobryce should aim to work with its multiple stakeholders (such as its suppliers, logistics providers etc.), with a view to reduce emissions in manufacturing and transportation. At the very least, Robobryce should be able to count on support from its connected stakeholders, who would lose sales if the law were imposed.

Care should be taken to ensure that the tone of any lobbying is managed carefully to avoid creating the impression that the government is being bullied. The focus should be on protecting the livelihoods of employees and the investment of shareholders.

Robobryce should also work with its closest competitor, Pavrobot which will inevitably display a high level of interest in the matter. If both entities can work together, it will result in creating some power to resist the proposed law.

Further, Robobryce should attempt to address the root cause of the criticism. Ideally, it should carry out its own internal investigation to figure out whether the facts which appeared on the magazine is true.

If that is the case, Robobryce should accept their fault publicly, and inform customers of the steps it will take to reduce the emissions, waste, and pollution in the future. The information should be publicized on Robobryce's website as well.

I hope that this information would satisfy your need. Please contact me if you need any further explanations.

Best Regards,

Senior Finance Manager



## Section 2

### **Strategic Options: Data Breach**

Robobryce could do nothing at this early stage. It may be that the concerns expressed by the Head of IT security are unfounded. The report by the Head of IT Security raises some alarming possibilities, but there is no direct evidence that the attempt to compromise users had been effective.

Doing nothing could create the strategic advantage of avoiding an unnecessary controversy over Robobryce's online security. For example, the main target for a thief would be the three-digit security number and it would be extremely reckless for clients to have provided that information.

Robobryce could contact the major credit card companies and warn them that some of their clients' card details could have been hacked. That would have the strategic advantage of demonstrating a proactive response to the threat, while minimizing public exposure.

Unfortunately, data protection rules would prevent Robobryce from releasing the identities of the clients whose accounts have been reviewed since this scare began. Robobryce will have to seek permission of users to share data with designated third parties in response to security threats. Ideally, that should be part of the company's standard terms of business so that permission do not have to be sought.

Robobryce could suspend all services until IT Security has had the opportunity to investigate and resolve the events that it is investigating. The strategic advantage is that this would be a decisive response that would have the added benefit of preventing any further losses of data until the threat of hacks can be evaluated and eliminated.

Clients might be impressed that Robobryce is prepared to lose revenue even though there is no way of knowing whether the attack could ever be repeated. The downtime would also make it easier to upgrade the defenses against the repetition of such cyberattacks.

However, implementing such a measure would cause significant disruption to Robobryce's entire business operations, and a wide range of clients and stakeholders would be negatively impacted, including those who were not affected by the data breach.

Such disruptions to services could have a negative impact on Robobryce's reputation and competitiveness within the market. Furthermore, it goes against the company's vision, which is to enhance efficiency provided to customers.

Robobryce could make a public admission that warns users that their accounts might have been compromised. This is a strategic decision due to the impact that such an admission might have on Robobryce's reputation and the attitude of its clients.





To be effective, Robobryce would have to issue a full press release and make an explicit post on social media, because the hackers could have interfered with the emails, mobile phone numbers and other important information in Robobryce's data files. Also, time is very much of the essence if the hackers are planning to abuse client' credit cards.

The recommended option should fulfil two objectives: it should be an immediate and effective response to the threat of losses, and it should maintain Robobryce's reputation. The public admission will achieve both of those objectives.

Further, it will minimize future losses by alerting users to contact their card providers immediately. It will also serve as a warning to all users that they should be suspicious of any requests for such details that they may receive in the future.

A public admission could also be phrased in such a way as to imply that Robobryce is concerned about the welfare of its clients and that it is acting to address problems.

### **Objectives**

The Head of IT should be asked to reach a tentative conclusion about the cause of this incident by early afternoon so that the Board can decide what action to take, if any, over the services to be offered during the evening rush hour.

It should be made clear that this is a crucial deadline and should indicate the questions to which the Board requires answers. The Head of IT should also be given a clear indication of whether the Board would prefer a tentative answer to no response if a question cannot be answered with certainty.



The Board also needs to know how long it will take for IT Security to identify the users who have been targeted and the specific data that has been compromised. Users will wish to know immediately whether they need to take action to prevent losses, such as cancelling their credit cards.

If that information cannot be released immediately, then the next best option for the Board is to make an announcement as to when the facts will be made available. The Head of IT Security will then have to ensure that Robobryce's credibility is not further affected by failing to meet any such deadline.

The Head of IT should be asked to prepare a credible report highlighting the nature of the attack and the methods used by the perpetrators. Specific criteria should be set for the standard of evidence that the Head of IT Security should meet in collating and interpreting the facts.

Ideally, the report should be supported by evidence that meets the standards required for criminal prosecutions in case the perpetrators are ever caught and brought to trial.

Finally, the Head of IT Security should be tasked with preparing a plan for preventing a recurrence that stands up to scrutiny by an independent expert or consultant. The quality of the plan will be evaluated based on its ability to offer a proportionate and cost-effective response to each of the weaknesses.

The Head of IT Security should be prepared to accept responsibility for the plan, even if he delegates elements of its preparation to members of his staff.

## Section 3

### **Funding Options**

The upgrade, entailing both hardware setup and an annual licensing fee, represents a significant investment of C\$ 500 million (equivalent to T\$ 1,500 million).

### **Hardware and Setup**

For the long-term hardware and setup costs, amounting to C\$ 300 million (T\$ 900 million), Robobryce should consider funding options aligned with the asset's longevity, such as long-term loans or issuing equity.

However, it's important to be cautious of the company's gearing ratio, which currently stands at 49%. Leveraging additional debt risks pushing this ratio beyond 50% (since the actual gearing will increase to 51%), potentially portraying Robobryce as a high-risk entity to lenders and inviting higher interest rates.

Further, securing a loan for this sum (T\$ 900m) may prove difficult due to the nature of the assets being acquired. The investment is primarily in peripherals used for scanning and communication.

These assets are likely to depreciate rapidly, typical for second-hand electronic devices, especially those tailored for Robobryce's specific WMS. This rapid depreciation diminishes their value as collateral.

Additionally, the software setup, an integral part of this investment, holds negligible resale value and therefore cannot be leveraged as security in a lending scenario.



This limitation is compounded by the fact that Robobryce's current debt levels are already higher relative to its property, plant, and equipment, suggesting limited capacity to incur additional debt secured against these assets.

Given these constraints, Robobryce might consider turning to equity financing, specifically through a rights issue, to fund this vital upgrade. A rights issue would allow the company to raise capital directly from its existing shareholders. This approach not only avoids increasing the company's debt load but also aligns shareholder interests with the company's strategic direction.

Convincing shareholders of the long-term value and potential positive net present value of this investment is crucial. This upgrade represents a significant enhancement of a core operational system, and as such, shareholders may appreciate the opportunity to directly contribute to and benefit from this strategic development.

### **Annual License Fee**

With regards to license fees amounting to C\$ 200 million (T\$ 600 million), a more fluid approach is advisable. Given this is a recurring operational expense, it could be financed from working capital, given Robobryce's substantial net current assets of T\$ 3,069 million. This method wouldn't significantly impact the long-term debt profile of the company, and hence, Gearing.

Alternatively, a short-term loan, repayable in one year, could be repaid out of Robobryce's net cash flows from the use of this new software. A short-term loan would not have an impact on the company's gearing ratio as well, so it may not increase perceptions of risk.



Robobryce is well-positioned to negotiate a short-term loan by presenting lenders with a detailed cash flow forecast. The negotiations are further bolstered by Robobryce's strong Interest Cover of 3:1, underscoring its ability to comfortably cover interest expenses with its operating profits.

### **Currency Risk**

Given the volatile nature of the C\$ to T\$ exchange rate, employing forward contracts could be a strategic move. These contracts would allow Robobryce to fix the exchange rate for future C\$ payments, providing a hedge against adverse currency movements. While this wouldn't eradicate currency risk entirely, it would offer a degree of cost certainty.

An alternative strategy is the application of leading and lagging techniques. This would involve strategically timing payments to capitalize on favourable exchange rate movements, thereby optimizing the cost of transactions. If the exchange rate between the T\$ and C\$ appears to be in Robobryce's favour, then it would be possible to make an advance payment of some, or even all, of the annual fee.

Cesco will gladly accept early payment because its revenues are in C\$ anyway and there is no disadvantage to receiving payment at a time when the C\$ is weak against a customer's home currency.

However, Robobryce should consider the potential opportunity costs associated with early payments. Careful monitoring of market forecasts and exchange rates would be essential to execute this strategy effectively.



Lastly, this plan should be communicated clearly to stakeholders to ensure transparency and confidence in Robobryce's fiscal strategy.

I hope that this information would satisfy your need. Please contact me if you need any further explanations.

Best Regards,

Senior Finance Manager

