



TEST OF PROFESSIONAL EXPERTISE

Part II

Comprehensive Case Study

Case Study Description and Question

Tuesday 31 October 2023

10.00 - 12.30 (2½ hours)

14.00 - 17.00 (3 hours)

Instructions to Candidates

You have been allocated 15 minutes at the start of each exam session to download or print your paper.

These sheets contain the case study description, question and appendices.

Before closing your documents at the end of the exam session you must check that your full, final response has been saved to your hard drive prior to submission. This script MUST be submitted at the end of the PM exam session.

It is your responsibility to monitor the time and ensure that you stop writing in time to upload your response file before the exam window closes – you will not be able to submit after this point.

Use the “Upload File” button to submit your response for marking. This will be considered as your FULL and FINAL response and is the only version that will be marked.

You must only submit your work once, unless instructed otherwise by the assessments team and no other documents will be accepted post-exam under any circumstances.

In submitting this exam, you confirm that your conduct throughout the exam adheres to the [ICAS Academic Integrity Policy](#).

You confirm that you did NOT act in any way that would constitute cheating, misrepresentation or unfairness including, but not limited to, using unauthorised aids and assistance, impersonating another person, and committing plagiarism.

You agree that ICAS will check your work for plagiarism, and you confirm that you understand that assessed work that has been shown to have been plagiarised will be penalised.



BLANK PAGE

This page has been left blank.

CASE STUDY

It is one week later, Sapna Sran, the CFO has asked you to join her for a meeting to discuss some additional reporting that she would like you to complete.

“Hi Max, how has your first week been? I hope you have settled in ok. We really liked the briefing paper that you did last week, please tell me that you weren’t working too late, the quick turnaround was really appreciated, thank you. You’ll get used to the hours by the way, but the perks make up for it. Has anyone shown you how to download the £50 vouchers to use at Lorenzo’s? It’s very easy, any of the head office staff will be able to show you how.

“So, I hope you don’t mind, but I need your help. I’ve been asked to prepare a report for the board, and it needs to be submitted tomorrow. I’m not going to have time to pull it together so I thought you could draft it and email it over to me to review. I’m attending a conference this afternoon; in fact, you probably know about it. Robin is going too, it’s officially called a technical briefing, but it’s a bit of a jolly really. The briefing is for an hour, but Robin and I plan to go to the pub when it finishes. Got to take the perks when you can! If you work on the report this afternoon, I’ll review it this evening.

“There are two parts to the report. Firstly, the sale of Bomerano. The board were recently approached by MB plc (‘MB’). MB has made an offer to acquire Bomerano and the board has accepted. MB has suggested two possible acquisition methods. Please can you prepare a report that analyses the two alternative methods of sale and make a recommendation? Details of the methods are shown in Appendix 1.

“The board had a meeting a few weeks ago to consider the strategic direction of the Lorenzo Group. The board concluded that the group should identify new opportunities in related industries, and this brings me to the second part of the report that I need you to draft.

“Please can you evaluate and recommend whether the Lorenzo Group should acquire Arola Winery S.r.l (‘Arola Winery’), a company incorporated in Italy.

The thinking is that we can sell the Arola wines in the Lorenzo’s chain. Lorenzo is convinced that this will improve the operating profit, so can you calculate what the increase would be please? I think we should include the return on investment too as this can be benchmarked against our usual required return of 18%. Include any other matters that you think would be relevant.

Lorenzo is passionate about this acquisition and is wanting to get the board to sign off on the deal as soon as possible, I trust you can make it look like an attractive proposition. I think it is an excuse for him to spend more time in Italy! I’ll send you the file that I have pulled together, there is some information about the company and some data on vineyards and wine in Appendix 2.

“It has been a while since I was involved in an acquisition, so please can you also briefly advise me of the due diligence process that we need to follow if we do acquire Arloa Winery, it will be fresher in your mind than mine! Can you include this in the report? Thanks.

“It really is a worry off my mind with you working for us. Between you and me, the FC that you are covering for is useless, I hope she doesn't come back after maternity leave. Would you be interested in working for us permanently? Let's chat about it next week, I'm sure we can come to a mutually acceptable agreement, have a think about what sort of salary would make it worthwhile for you.

“I just need to think about how to get rid of the FC, maybe I could change her role, after all she will probably want to work part time, now she has a baby, and that won't work for us, as it isn't a part time role.

“Anyway, that's one for me to worry about.

“Glad we had this chat. So, I'll email the files now, and then if you can prioritise this and send to me later today. Thanks so much, you are a real star.”

You realise that you haven't said a word since you have been in the meeting. There was certainly lots to digest and you had better get started if you are going to make it to the gym this evening. You didn't go last week as you were so busy with work. Is this what your colleagues meant when they said it was hard getting that work life balance right?

Required

Prepare:

1. The draft report for the board that covers:
 - The disposal of Bomerano; and
 - The acquisition of Arola Winery; and
2. An email to the SH ethics partner on any matters which you think are relevant.

APPENDIX 1

Possible Acquisition Methods for MB Plc to acquire Bomerano

MB has outlined two possible acquisition methods:

- Acquisition of Bomerano Limited

£1 payment for 100% of the shares and an agreement that the £13 million loan from Lorenzo Holdings is written off.

- Acquisition of the trade and assets of Bomerano

£2 million to acquire the assets, including the brand name of Bomerano. MB would also assume responsibility for all leases, but no other obligations.

Bomerano Forecast Statement of Financial Position 31 December 2023

	£'000	£'000
Non-current assets		
Right of use assets	3,500	
Property, plant and equipment	550	
		4,050
Current assets		
Inventories	10	
Receivables	65	
Cash	20	
		95
TOTAL ASSETS		4,145
Equity		
Share capital	10	
Accumulated losses	(14,440)	
		(14,430)
Non-current liabilities		
Lease liability	3,450	
Bank loan (unsecured)	2,000	
Loan from Lorenzo Holdings	13,000	
		18,450
Current liabilities		
Payables	50	
Lease liability	75	
		125
TOTAL EQUITY & LIABILITIES		4,145

APPENDIX 2

Information on Arola Winery and some data on vineyards

During a recent holiday in Italy, Lorenzo came across an opportunity to acquire a small vineyard and winery called Arola Winery, located in Puglia, Italy. The family-owned winery dates back to the early 1970s when Salvo Arola acquired a 20-acre plot. Over the years he acquired more land, and the site now comprises a 50-acre vineyard, planted with established grapes such as Frappato which is used to make red wine, and Greco which is used to make white wine. The winery uses grapes grown in the Arola vineyards to produce wine.

Salvo is in poor health and his children have no interest in the winery, consequently the family have decided that it is the right time to sell the business. Initial talks suggest that an offer (payable in euros), in the region of £10 million (based on today's exchange rate) is expected.

Unfortunately, due to illness the business has been neglected, and is currently operating with a small loss. There has been little investment in recent years and the business urgently needs to invest in updated equipment. The cost of the equipment, also in euros, is estimated to be approximately £1 million (based on today's exchange rate).

The Arola family have confirmed that annual yields from the vineyards are currently quite low at around four tonnes (4,000 kg) of grapes per acre, however with investment and good management, yields should improve. During Lorenzo's visit he sampled the wines currently produced by the winery. The quality was excellent, better than the wines currently sold in Lorenzo's.

If the acquisition proceeds Lorenzo would bottle the wine under the Lorenzo name, not the Arola name, and sell it exclusively in the Lorenzo's restaurants. The average retail price for a bottle of wine at Lorenzo's is £24 a bottle, and so the plan would be to simply purchase less from one of the existing wine suppliers and sell this wine instead.

Extracts from Modern Wine Magazine

Old vines vs new vines

There is a romantic notion that old vines produce the best wine in the world, this is a difficult concept to prove. It is true that some of the world's best wines come from old vines, typically over 50 years old, but the quality of wine is determined by many things.

Yes, the old vines have long deep roots making them resistant to drought and so they deliver a more consistent quality with each harvest. But there is so much more to consider: the type of soil, the climate, the altitude and aspect of the vineyard. The skill of the wine maker must not be underestimated either, each year blending grapes to deliver the right mix of flavours and the desired level of alcohol.

But wines from young vines can be great too, in addition to excellent quality grapes, the yields can be significantly higher. Typically, young vines might produce a yield of 10,000 kg per acre, which is considerably different to the lower 2,000 kg per acre yields of the so-called old vines. And if you want to think of this in terms of bottles, 1,000 kg is enough for 720 bottles.

Analysing the cost of wine

There are many components to the price of a bottle of wine, and a surprisingly small amount is attributable to the production cost. Let's take a typical bottle sold in a restaurant. The wine maker would normally sell to a distributor with a 50% sales margin. The distributor incurs alcohol duty, typically £2.23 per bottle and must pay shipping costs which tend to average around £0.25 per bottle. The distributor normally then adds a 30% margin when selling to the retailer. Restaurant margins on wine are typically 50%. And finally, the retail price must, of course, include VAT at 20%.

A detailed calculation for sure, so we will leave that for the accountants, but what does it mean? Well, the next time you spend £18 on a bottle of wine in a restaurant reflect that it cost the winery just £1.38 to make it!

END OF PAPER