

SECTION 4:

COMMON PITFALLS – LESSONS LEARNED FROM PAST MARKER FEEDBACK COMMENTS

Common Pitfalls – Lessons Learned from Past Marker Feedback Comments

The following section highlights actual marker feedback comments from the CICBV from past exams. We have grouped these comments into seven “common pitfalls” which writers have encountered over the years. Keep these in mind as you practice, practice again, and track your progress over time: avoid falling victim to these common mistakes!

Common Pitfall #1: Too much ‘boiler-plating’ and repeating of case facts without the ‘value-add’

There have been numerous comments from markers over the years which criticize too much ‘dumping’ of case facts (and reporting standards) without any impactful analysis to provide a professional response. Not only does ‘boiler-plating’ not score a candidate marks (due to internal maximums), it also takes away from time that could be spent on higher ‘value-add’ analysis.

“Comments must be tailored to the specific situation presented.” (2002)

“Comments must be tied to case facts in order to score marks.” (2002)

“As was the case in prior years, Candidates appeared to spend an inordinate amount of time documenting generic reporting commentary.” (2002)

“Candidates were expected to demonstrate an appropriate level of professionalism in their response. Instead, many candidates ‘dumped’ points and failed to tie them back to the reasonableness of [other valuator]’s value conclusion.” (2005)

“As in the past, many candidates listed general assumptions that were not tied to case factors in their valuation analysis. Various assumptions were acceptable – addressing the critical assumption areas was paramount.” (2005)

“While candidates were not rewarded for simply repeating case facts, marks were available for considered case facts, in context. As an example, candidates could have considered [subject company]’s focus on vinyl products (which are increasingly popular) in their risk or capitalization rate assessment. Additionally, foreign exchange rates trends/history/normalization should have been considered by Candidates in their valuation analysis, but not necessarily awarded in the [economic overview] section.” (2006)

- This comment highlights the need for the importance of finding ways to efficiently integrate case facts to support your analysis, without repeating them unnecessarily in the background/industry/economic overview section.

“Many Candidates allocated too much time in this area without significantly linking comments to any analysis or conclusions.” (2007)

[With respect to company overview, industry overview, and economic overview]: "Candidates that did well in these three sections have avoided 'dumping' points and have linked their facts to the case at hand and their valuation implications." (2008)

"Minimal marks were awarded for simply restating case facts." (2009)

"Less successful candidates had papers that did not address all of the required, spent too much time on reporting or boilerplate text or repeating case facts unnecessarily." (2013)

Common Pitfall #2: Missing out on easy marks

As the following comments suggest, time after time, candidates have violated Golden Rule #3 by missing out on too many 'easy marks'. We discuss frequently tested 'easy mark' areas in Appendix A.

"Candidates do not appear to thoroughly understand the mechanics and technical aspects of a discount rate/capitalization rate... very few Candidates calculated the WACC." (2002)

"Almost all candidates incorrectly included redundant assets in their implied multiple calculations." (2002)

"Candidates generally did not critically consider the comparability and relevance of the market multiples to the subject company." (2002)

"In general, Candidates did not appear to understand the mechanics of the DCF calculations as it applied in this situation..." (2002)

"A simple continuity schedule for the losses would have yielded candidates many easy marks and demonstrated an understanding of certain constraints on the value of these losses, both quantitatively and qualitatively." (2005)

"Very few candidates provided a build-up of their selected WACC addressing the various elements of the cost of equity – specific risk factors to the business were not addressed in any depth by candidates. The development of the WACC was not done in enough detail for candidates to obtain significant marks in that section." (2009)

"A number of Candidates chose a valuation approach without providing their rationale for doing so ... adequate support/rationale was required to earn marks in this section." (2009)

"While the setting for this case may have been unfamiliar to some Candidates, major mark areas awarded valuation first principles (i.e. forecast cash flows, discount rates, and marketability/minority risk factors)." (2006)

"Just describing the companies was not sufficient; candidates had to then relate each descriptive point to whether or not the company being looked at was therefore comparable." (2010)

"Many candidates did not explain their rationale for choosing their valuation methods for each of the three assets." (2010)

"Background marks were limited but still available and a reasonable background was needed." (2010)

"Those who chose to apply boilerplate topics here were not rewarded and wasted valuable time as this was an internal memo to the partner, not a valuation report." (2010)

"Most candidates performed well with respect to the WACC determination but some missed available marks on specific risk rationale or on the terminal value calculation." (2011)

"Few candidates provided solid analyses of recent transactions." (2011)

"A large number of candidates failed to assess comparable companies." (2011)

"Very few candidates attempted to value [Company B]." (2012)

"It was surprising to see some candidates did not understand the simple concept of Enterprise Value in their analysis." (2012)

"A large number of candidates did not adjust for working capital and capital expenditures in the DCF." (2013)

"Although the question specifically mentioned that the broad/macro economic analysis was to be completed by a junior associate, candidates were still expected to briefly touch on [subject company's] business and the North American bicycle industry." (2015)

Common Pitfall #3: Exceeding time on internal maximums

Spending too much time on areas which are constrained in terms of marks (by internal maximums) can be a costly time management error. The following comments illustrate examples where candidates have, in the past, generally exceeded time limits on individual questions (or components of a question); in these cases, the candidates likely missed out on marks in other parts of the exam.

"Both parts of the required were important in the case setting. A good response required candidates to address both Part I and II of the required, as approximately 40% of marks available could have been earned in Part II. Many of the marks in Part I were considered easy, and as a result, there were internal maximums to ensure that candidates provided a response that covered both breadth and depth of the issues at hand." (2006)

"An exhaustive list of items reviewed (for the 'Scope of Review') was unnecessary to earn full marks in this area." (2007)

"Given time constraints, an extensive background section was not necessary. However, a reasonable discussion of key/relevant background information with respect to [subject company] was needed." (2011)

"Given that a calculation report was required, the CICBV standards do not require a section on the economy and industry, as such, no marks were available for this section." (2012)

"Candidates were not expected to recreate the full analysis of the discount rate for the value of IP, [Company A] and [Company B]. Given the inter-relation of the rates of return, candidates were expected to perform the analysis at the [Company A] level first and then use the analysis as the basis to derive rates of return for the IP and [Company B]. This was not understood by candidates." (2012)

“Some candidates spent an inordinate amount of time on each comparable as marks were limited in this section given the analysis was similar from comparable to comparable. The comparable transactions were relatively less complex to address than the precedent transactions and the marking key reflected this fact.” (2012)

Common Pitfall #4: Failure to understand role or reporting requirements

It is critical to understand your role in an MQE question (as well as what deliverable you are being asked to provide). The examples below highlight instances where candidates have gotten this wrong – and in recent years, the Institute has punished candidates quite heavily for making these types of mistakes.

“Candidates should be highly cognizant and sensitive to the type of comments that are not appropriate in a formal valuation report ...” (2002)

“A formal valuation report was not required. It is imperative that given the time constraints of a professional examination, Candidates provide only the requested advice and not get sidetracked.” (2002)

“A formal valuation report was not requested and not required.” (2002)

“In addition, some Candidates directed their response to [client] instead of the Partner, despite formally addressing their response to the Partner.” (2005)

“Despite being asked to write a ‘memo’, Candidates were expected to recognize that if a valuation conclusion was being provided to an external party, the memo must meet the minimum standards of a Calculation of value report. Responses varied in this regard.” (2006)

“Many candidates drafted a report meeting CICBV standards ... this was an unnecessary use of time, given the internal use nature of the memo.” (2007)

“A number of candidates spent time preparing a memo to value the company at a prior date, when in fact it had already been done and a fairness opinion had been obtained.” (2007)

“Some candidates automatically assumed an independent role, despite case facts to the contrary. In a few cases, Candidates argued against this advisory role.” (2008)

“Candidates did not understand their role as they proceeded to prepare a report, which was not required.” (2009)

“Those who chose to apply boilerplate topics here were not rewarded and wasted valuable time as this was an internal memo to the partner, not a valuation report.” (2010)

“Professional capability marks were available for explicitly addressing [client]’s concerns in a separate memo rather than in the main body of the valuation report. A number of candidates did not prepare a separate memo.” (2010)

“Few candidates acknowledged that they were not independent and that the communication would not be useful for litigation.” (2010)

“Professional capability marks were available for explicitly addressing Counsel’s concerns in a separate memo rather than the main body of the valuation report. A number of candidates did not prepare a separate memo.” (2011)

- Note that this is a similar comment to one that was made in 2010.

“Candidates were generally good at addressing the terms of reference but struggled with the issue of independence in their assigned role.” (2011)

“Some candidates appeared to waste time preparing full standard 110 reports when the question clearly asked for an internal memorandum.” (2011)

“Preliminary comments on the fairness of the transaction were asked for. As such, no marks were awarded for the preparation of the fairness opinion itself. However, when applicable, candidates needed to support assumptions made. This was not understood by all candidates as some did write a complete fairness opinion.” (2012)

“A note to candidates is that a limited critique report is not meant to contain a valuation conclusion... The CICBV reporting standards for limited critique reports do not contain conclusions regarding valuation calculations or damage quantifications. Candidates who did so were not awarded any marks for the valuation analysis that they prepared. Candidates are reminded that adhering to CICBV standards is critical for a CBV in their day-to-day activities.” (2013)

“Several candidates treated the memo to the partner as a valuation report and spent an inordinate amount of time writing a valuation report. The question explicitly stated to ‘prepare valuation schedules and provide commentary on the approach utilized and key assumptions’. Candidates who wrote a valuation report were not rewarded any marks and did so to the detriment of performing valuation analysis that would have earned marks for the candidates.” (2013)

- *Authors’ Note:* On this question, the determination of whether or not to write a full-blown valuation report could have been solved by the use of the CICBV’s decision tree in Practice Bulletin No. 5 (given that it was an internal communication). In this example, the Institute harshly penalized writers for not understanding the circumstances in which reporting standards apply.

“A few candidates failed to answer [client]’s questions on whether the offer was reasonable and how much her equity interest was worth. The examiners consider this to be unacceptable given that the candidates’ role as a senior manager at the firm is to respond directly to the partner’s request and to undertake all reasonable and necessary calculations to support the response. Candidates should devote greater attention to their role and mandate as it may assist in guiding them through their response.” (2014)

“Most candidates failed to prepare a separate appendix to the estimate report despite the Required of the question specifically asking for this.” (2015)

Common Pitfall #5: Time mismanagement and failure to rank issues/requireds appropriately

Time mismanagement often results in responses which neglect to cover all of the required aspects of a question, as the following comments demonstrate.

“Candidate responses on this question were weak, not practical, and often did not address each of the issues on which the client requested advice.” (2002)

“Candidates spent an inordinate amount of time providing comments that ‘critiqued’ the [other valuator’s] report, and in some cases, did not prepare revised valuation calculations despite being specifically required to do so. Many Candidates prepared superficial value calculations and it was clear which Candidates did not allocate their time properly.” (2005)

“An inordinate amount of time was directed towards the valuation report.” (2006)

“It was obvious that below average respondents did not allocate sufficient time to their response to earn available marks for depth of analysis, especially in the selection of a discount rate. This was surprising given that many of the calculations expected were provided in the question narrative.” (2007)

“... Many candidates did not allocate their time properly and many candidates failed to provide a concluding opinion stemming from their analysis.” (2007)

“Candidates demonstrated limited professional judgement on this question, too much time was spent on minor issues while major issues were not addressed.” (2009)

“Markers sensed that candidates ran out of time for this question.” (2009)

“Some candidates showed poor time management by missing several sections of the report as outlined below. It appeared that these candidates likely spent too much time on the first question, thus not leaving enough time to address this particular question in sufficient length.” (2012)

“A small number of candidates prepared the two approaches noted above, and in those instances, these candidates were rewarded by covering a large section of the marking key.” (2012)

“It appeared that candidates had difficulty managing their time with this question as a very small amount of them quantified the impact of the calculation errors... these marks tested the tax knowledge of candidates and were relatively easy marks to obtain.” (2013)

Common Pitfall #6: Failing to provide a conclusion

Candidates have continued to miss out on “conclusion” marks consistently in virtually every exam since 2005. Get in the habit of concluding often so that you don’t leave these easy marks on the table!

“Most candidates were able to identify the major weaknesses in [other valuator]’s cost of capital calculation; however, some candidates failed to comment on the overall reasonability of the concluded WACC.” (2005)

“Overall, few candidates actually articulated a logical conclusion as to the potential merits of the premium paid.” (2005)

“Candidates were required to provide a clear conclusion on the value of the shares, as the conclusion forms part of the report requirements.” (2006)

“Most candidates provided a conclusion on the value of [Company A]; however, many candidates did not allocate their time appropriately and failed to compare their concluded value to the offer.” (2007)

“Candidates were expected to conclude on the value and compare their results with the price offered. Marks were awarded if the conclusion was logical with the valuation calculation done by the candidate.” (2008)

“Many candidates did not provide adequate depth in their analysis of the trading multiples of comparable companies. Many noted, for instance, whether a particular company was “bigger” or “smaller” than [subject company], but did not follow through with their assessment of whether the company was, therefore, comparable or not comparable.” (2009)

“Many candidates failed to score on ‘conclusion marks’ – marks were available in various sections to conclude on DCF value, enterprise value, discount rate, and so on” (2009) “Just describing the companies was not sufficient; candidates then had to relate each descriptive point to conclude whether or not the company being looked at was therefore comparable.” (2010)

“Many candidates did not provide explicit conclusions but required the reader to infer the conclusions from their calculation details.” (2010)

“An explicit value conclusions in respect of [shareholder]’s 10% interest in [subject company] as well as a calculation of lost business value was required. Providing overall calculations without an explicit conclusion was not sufficient. Several candidates did not conclude appropriately or did superficially and were not awarded full marks.” (2011)

“Candidates were expected to provide a clear conclusion (whether at the beginning, during or end of the report).” (2011)

“Some candidates provided very superficial analyses of somewhat comparable companies. Just describing the companies was not sufficient; candidates had to then relate each descriptive point to whether or not the company being looked at was therefore comparable.” (2011)

- Note that this is a similar comment to one that was made in 2010.

“An explicit value conclusion was required. Providing calculations without an explicit conclusion was not sufficient.” (2012)

“Many candidates failed to conclude whether the [other expert report] was suitable for the purposes at hand. This may have been due to a lack of time or a lack of knowledge of CICBV reporting standards for Limited Critique Reports but the foregoing conclusion is an important one to make. Candidates are reminded that conclusions are a necessary component of reports and analysis that they prepare.” (2013)

“Few candidates explicitly had a conclusion section in their report, burying it in their analysis instead. Those who included a conclusion section in their report were rewarded for doing so.” (2014)

“Candidates did not adequately conclude if comparable transactions were in fact comparable or not – the analysis was done, but most lacked a conclusion.” (2015)

Common Pitfall #7: Ignoring case facts instead of concluding that they are not relevant

MQE questions often present you with information overload and sometimes details presented are actually ‘red herrings’/irrelevant to a particular issue (as opposed to useful data that can actually be incorporated into your analysis). Generally, however, if the exam question is providing a piece of information, it is there for a reason. If there is a key piece of information that is irrelevant, it is always a safe strategy to indicate to the marker that this is the case (vs. ignoring it completely). Remember, a marker can’t mark what’s in your head!

“Only passing responses attempted more than one method to value the intangibles, and even fewer attempted to reconcile various methods. This was surprising given the significant number of cast facts presented in the question from which to consider at least two approaches.” (2005)

“Only the better candidates considered a market approach, despite information available to determine premium profits and multiples from branded companies with relative ease... Candidates seemed to ignore vital information provided in the case and made unsupported assumptions.” (2005)

“Candidates could have made alternate assumptions regarding the after-tax present value of the RDTOH; however, ignoring the RDTOH was not considered the same as concluding on a \$nil value.” (2007)

“Most Candidates did not consider the rule of thumb that was provided in the question as a potential value indicator.” (2009)

“Acknowledging and somehow reflecting in the valuation management’s historical variances from budget was important. Candidates could also have reflected this ‘forecasting risk’ in the discount rate.” (2010)

“Candidates generally missed deducting the preferred shares or did not provide any discussion as to the rationale for their value.” (2013)

“Several candidates indicated that a DCF approach could not be utilized because ‘projections were not available’. However, the data presented at Appendix H provided analyst growth estimates for a 5 year period and a terminal period.” (2014)

- This comment serves as a reminder that information provided in a question is generally given to you for a reason.

The common pitfalls have a common theme.

“The final conclusion to the partner was generally poorly done as candidates obviously did not have time to finish properly. Candidates generally did a poor job on this question due to the lack of time management... Numerous candidates only performed certain parts of the required although it was obvious that the material was within their reach.” (2010)

Too much ‘boilerplating’ + failure to rank/prioritize issues = poor time management = missing out on ‘easy marks’