Empowering Investors

Veritas Advanced Accounting Training

NEW 2023 Module

The Secrets of Free Cash Flow

Instructor

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Contact sales@veritascorp.com
to discuss your training needs.

VERITAS INVESTMENT RESEARCH

NEW 2023 Module

The Secrets of Free Cash Flow

"Revenue is vanity, profit is sanity, but cash is king."

That well-known statement rings particularly true in today's markets, where capital costs are high and the liquidity taps are tight.

Unfortunately for investors, there are multiple ways of measuring cash flow. Worse yet, management teams have numerous ways of obscuring free cash flow calculations and making it look like there is more cash flow than there actually is.

This course will give you the tools to ask the right questions, identify warning signs and make adjustments to management's non-GAAP free cash flow calculations (FCF) so you can verify how much free cash flow there is.

Agenda:
- FCF: key non-GAAP metric;
- Cash flow myths;
- Operating and free cash flow tricks: real-life examples;
- Intercompany comparability;
- Maintenance capex considerations;
- Incorporating 'unusual' costs in cash flow analysis;
- Stock-based compensation considerations;
- Warning signs;
- 10 Questions for management.

Companies Discussed:

- Airlines (Air Canada, Westjet)
- Amaya
- Badger Infrastructure Solutions Ltd.
- Brookfield Business Partners LP
- Brookfield Renewable Partners LP
- Canadian Telcos (BCE Inc., Telus Corp., Rogers Communications Inc., Shaw Communications Inc., Quebecor Inc. , Cogeco Communications Inc.)
- Fleetcor Technologies Inc.
- Grocers (Loblaw Companies Ltd., Empire Company Ltd.)
- Netflix Inc.
- Shopify Inc.
- SNC-Lavalin Group Inc.
- Torstar Corp.
- Twitter Inc.
- WSP Global Inc.

Case Studies:

- Brookfield Renewable Partners
- Bombardier
- Carillion

We anticipate this module will take 2 to 3 hours.

Veritas Advanced Accounting Training

Why Take Veritas Training?

When the story falls apart, it falls apart fast. Time and time again, we see that the warning signs were always there. And yet, somehow, the market responds with great surprise when the reality of underlying business challenges and deteriorating fundamentals eventually surface.

The objective of our training is to help you make better business and investment decisions. We use real-life examples and walk participants through actual financial statements to teach you how to proactively identify warning signs in the accounting and assess their potential impact on reported results and shareholders.

Participants benefit from our experience in identifying blow-ups often long before they occur.

We can tailor courses for groups and organizations. We can discuss specific sectors or companies of interest, and adapt our curriculum around your organization's specific investment or business needs.

Who is this training for?

For over twenty years, we have trained regulators, portfolio managers, enforcement officers, business professionals, bank lending professionals, legal professionals, investment advisors, accountants, university students and individual investors.

More customized and group training options

1. Reading Financial Statements like a Forensic Accountant
2. Avoiding the Bombs
3. Acquisition Accounting: Explosive Growth or Ticking Time Bomb?
4. Understanding Stock Option Accounting
5. Understanding & Using Non-GAAP Metrics
6. New Accounting Standards: IFRS 9, 15 & 16 - An Investor's Approach
7. Staying Vigilant: Lessons from COVID-19 Accounting Distortions and Past Blowups (Wirecard and Carillion)
8. Growth Companies: Is the Growth Real?

Each module varies from 1.0 to 4.0 hours.

We can mix and match modules based on your customized needs.

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VERITAS INVESTMENT RESEARCH

Veritas Advanced Accounting Training

100% of participants have told us they would take another Veritas training course. Here is what they said:

"I love their passion and how they dig into the details."

"It helps study certain aspects of financial history that are sure to repeat themselves."

"I now feel more comfortable screening for, recognizing and calling out red flags."

"Good for key takeaways you can apply to your investment process without being too time-consuming."

Accreditation

All Veritas training courses meet mandatory professional development requirements for CPA and CFA designations.

Subsidies

Training subsidies may also be available to certain groups that supports and develops highly skilled personnel. Contact us to find out more.

Instructor

Dimitry Khmelnitsky

CPA, CA, VP and Head of Accounting & Special Situations

Dimitry is Head of the Accounting & Special Situations Group, focusing on organizations that pose a financial risk. He is also Head of Training, helping our clients and their analysts on analyzing complex accounting issues. Dimitry was the #3 ranked Special Situations analyst for Canadian stocks in 2020, as voted on by Canadian, U.S. and European investors, according to Brendan Wood International. He was #1 ranked in 2019 and #3 in 2018.

Module Library

Module 1: Reading Financial Statements like a Forensic Accountant

Key Takeaways:

- Accounting red flags
- Questions to ask management to see what they are trying to hide

The absolute starting point for all financial statement users.

- Inside the head of a convicted fraudster
- Understand the limitations of audit
- Learn how to separate business prowess from accounting prowess
- Learn the step-by-step process to detect warning signs and analyze financial disclosure
- Where to look
- Introduction to interpreting Non-GAAP measures, earnings nd cash flow manipulation and common accounting pitfalls

Case Studies: A former high flying public company that went bankrupt following accounting fraud (we will reveal the company name after the case study). Plus: Valeant, Redknee, SNC-Lavalin, Amaya, MDA, Canadian Pacific Railway, BCE, Just Energy, Fleetcor, GardaWorld, Element Financial

Module 2: Avoiding the Bombs

Key Takeaways:

- Learn to minimize surprises by proactively identifying the key risks that could lead to a bomb
- Learn how to design the right questions for management and understand their responses

This is a post-mortem class that digs into three of the largest accounting scandals in recent memory: Valeant, SinoForest and SNC-Lavalin. Ensure you do not get caught repeating history.

- Review financial statements and other disclosures from Valeant, Sino Forest and SNC
- What were the warning signs?
- Where to look in the financial statements to find the details
- Understanding the role of non-financial information
- How to enhance your due diligence process and risk management tools.

Accounting Issues Covered:

- Revenue Recognition
- Business Combinations
- Fair Value Reporting
- Provisions and Contingencies

Case Studies:
Sino Forest, SNC-Lavalin and Valeant

Module 3: Acquisition Accounting: Explosive Growth or Ticking Time Bomb?

Key Takeaways:

• Develop a practical approach to identify common 'red flags' using real life examples from major North American companies - past and present

History has shown that seldom do companies realize enough cost savings to cover the premium they have paid. In roughly half of the transactions, annual total shareholder returns are, on average, negative 2%. Is it different this time?

• Learn how to parse through accounting disclosures to identify key operating trends
• Make sense of consolidated financial statements
• Common 'red flags' using real life examples from major North American companies - past and present
• Calculate true organic growth
• Understand the purchase price equation

Case Studies:
Chicago Bridge & Iron, Loewen Group, Nortel,

Illustrative Examples:
Bank of Montreal, Constellation Software, Amaya, MDA, Martinrea, Redknee, Tetra Tech, Valeant Pharmaceuticals

Module 4: Understanding Stock Option Accounting

Key Takeaways:

• Develop a practical approach to incorporating share-based compensation in valuation

Stock options have garnered varying attention over time. Yet the argument continues unabated over how to account for the costs.

• Learn how different options are valued and accounted for
• Understand the cash flow implications
• Learn how to include the expense for analytical and valuation purposes

Case Studies:
Expedia

Illustrative Examples:
RBC, MDA, Shopify

Module 5: Understanding & Using Non-GAAP Metrics

Key Takeaways:

- Understanding the impact non-GAAP metrics have on financial reporting and executive compensation.
- How to incorporate ‘non-recurring’, ‘unusual’ and ‘non-cash’ items in valuations.
- Questions financial statement users can incorporate into their normal due diligence process to assess the validity of certain adjustments proposed by management.
- Approaches that can be taken to incorporate management compensation into company analysis.

After the dust settled on the dot-com bust, the use of non-GAAP metrics has grown exponentially among North American reporting issuers. The situation today is at the point where non-GAAP metrics have largely supplanted audited GAAP results and are more often used for decision making.

We delve into the most common adjustments being used and provide a framework for modelling and valuation purposes.

- Non-GAAP reporting framework: key considerations
- Problems with EBITDA and Free Cash Flow
- How to think about most common adjusting items:
- Capex; Stock options; Restructuring; Acquisitions; Taxes; Other costs; Working capital and Discontinued operations
- The link between non-GAAP metrics and executive compensation

Case Studies:

Bombardier, Houghton Mifflin Harcourt and The Stars Group, Royal Bank of Canada

Illustrative Examples:

Twitter, Concordia International, Cap REIT, BCE, Various North American Retailers, Imax, Agnico, Yamana Gold

Module 6: New Accounting Standards: IFRS 9, 15 & 16 - An Investor’s Approach

Key Takeaways:

- How to prepare for the new accounting presentation
- Key questions to ask management

2018 and 2019 marked the implementation of three very important international Accounting Standards: IFRS 9: Financial Instruments; IFRS 15: Revenue Recognition; and IFRS 16: Leases.

Understand the key provisions of the new accounting standards and how to use the information to make investment decisions.

Case Studies:

Canadian Banks, Canadian Telcos, Bombardier, Constellation Software, OpenText, Canadian Auto parts manufacturers, Best Buy, Nordstrom, Starbuck and QSR

Module 7: Staying Vigilant: Lessons from COVID-19 Accounting Distortions and Past Blowups (Wirecard and Carillion)

Special Case Studies:

• Carillion plc: The UK's 2nd largest construction company collapsed under the weight of its debt in early 2018. What did investors miss?

• Wirecard AG: After years of growing cash flows, net income and EBITDA, the company announced that the equivalent of $3.2 in cash had gone missing and it was insolvent. The statements were "audited" – join us as we go through Wirecard's financial disclosures to ensure we don't repeat this oversight.

Not since WWII has there been an exogenous force that has wreaked such havoc on the global economy. Government support stimuli have cushioned the decline, but the longer the economy takes to grow into the stock market's valuation, the more apt a management team will be to use accounting techniques to ensure that stakeholders do not become impatient. You will learn how to apply our forensic analysis framework to uncover companies that are:

- Inflating Cash Flow: They do this by using complex off balance sheet financing to understate debt. Some companies are using definitions that exclude material recurring cash costs.
- Inflating Earnings: Inconsistent and unusual treatment of "one-time" government assistant and COVID-related costs blurs analysis. Learn how companies use accounting assumptions to inflate earnings metrics.
- Managing Loan Loss Provisions: How to use IFRS 9 disclosures to assess the risk of unexpected loan losses.
- Boosting Same Store Sales: Restaurant companies and food processors take liberties to show performance.
- Avoiding Interest Expenses: Creative techniques companies use improve their earnings and debt metrics.
- Covering Up Bad Debt: Customers are having a harder time making payments. Learn how companies are covering it up.

Case Studies:

Brookfield Property Partners L.P., Crombie REIT, Restaurant Brands International Inc., Starbucks Corp., McDonald's Corp., Recipe Unlimited Corp., WSP Global Inc., Iamgold Corp., TC Energy Corp., Dexcom Inc., Medtronic PLC, Cooper Companies Inc., Ulta Beauty Inc., Teck Resources Ltd., Jamieson Wellness Inc, The Boeing Company, Premium Brands Holdings Corp., UPS - United Parcel Service, Inc., Coty Inc., Bank of Nova Scotia , National Bank of Canada, The Toronto-Dominion Bank, Bank of Montreal, Canadian Imperial Bank of Commerce and Royal Bank of Canada

Module 8:
Growth Companies Accounting:
Is the Growth Real?

In this training, attendees will develop a framework to evaluate growth companies, whether the companies are growing organically or by acquisition. We'll cover:

• **Accounting over incentives**: How companies allocate promotions, refunds, and discounts affects the topline, which is especially important for stocks trading on revenue multiples.

• **Acquisition accounting**: Investors need to pay attention to:

- Deferred Revenue Waterfalls: As the song goes: Don't go chasing waterfalls. But what happens when an acquisition's waterfall distorts organic growth?
- Goodwill Impairment: Acquirors must annually test acquired goodwill for impairment. However, some assumptions might seem unrealistic.
- Net to Gross Adjustments: When a company converts an acquisition from net to gross revenue, it creates another pitfall for investors.

• **Capitalized Costs**: Some companies capitalize costs to inflate reported EBITDA while others don't, making comparability complicated.

• **Know your KPIs**: Companies will point to non-GAAP KPIs as a sign of progress. But without diving into the comparability and measurement methods, investors might get fooled.

- Renewal rate/Churn: Growth companies love disclosing high retention rates. But what lurks behind the measure?
- Merchant disclosures: This is yet another popular disclosure. We look at where merchant disclosures shine and where they don't.

Companies discussed:

- Airbnb Inc.
- Constellation Software Inc.
- Descartes Systems Group Inc.
- Lightspeed Commerce Inc.
- Lyft, Inc.
- Nuvei Corp.
- OpenText
- Shopify Inc.
- Uber Technologies, Inc.

Case Study:

We wrap up our presentation by looking at some signs of trouble at Lightspeed before the crash, both on an accounting/disclosure and business level.