



OWNERSHIP  
MATTERS

---

# **Ownership Matters**

**AASB Research Forum: 30 November 2020**



## How financial statements get used by professional investors

- Reliance on numbers in presentations and via platforms such as Bloomberg and from broker feeds
- Condensed nature of reporting season makes detailed review of financial statements difficult
- Focus on P&L and balance sheet; reliance on proxies for cash flow such as EBITDA
- 'Street' earnings often given a high weight



## Financial statements: Key aspects

- Analysts tend to focus on core financial statements: P&L, balance sheet & (in times of stress) cash flow
- Working capital notes when trying to reconcile cash flow but management explanations again given high weight
- Business combinations & discontinued operations
- Plant & equipment and software notes
- Key audit matters a useful guide to what the auditor thinks is important



## The bad and the ugly

- Critical information often absent: Combining provision or asset balances, omitting details such as useful lives of software or even software balances, 'other income' or 'other expenses'
- Cash flow manipulation tools such as factoring & supply chain financing often not disclosed
- AASB 16 (disruptive; but not all changes are bad – AASB 15)
- Indirect cash flow is a curse although revealing about investor confidence in cash flow being misplaced
- Related party disclosure rules in Australia are shockingly lax



## The thorny issue of materiality

- The formal definition of materiality and what is considered material by investors (and management) are very different
- If a company has guided for growth in earnings of 5% - 8% and delivers 3%, investors are likely to consider this material
- The difference is also likely to be material to management incentives