Perspective
Investment Management

**www.perspectiveim.co.za**
Unit 22, Victoria Junction, Prestwich St., Cape Town 8001

Daniel's Perspectives – January 12th, 2018

## There's always some new shenanigan!

Former high-flying JSE listed 'Company XYZ' announced in late 2017 that they are 'unwinding' an acquisition made back in 2015 due to 'underperformance', by selling it back to the former shareholders at a valuation equal to the original cost. They're booking a substantial write-down that consists of cumulative profits that had been booked to the accounts in the 2016, 2017 and 2018 financial years and a loss on the material decline in its share price, which they used to partially pay for the acquisition. Their formal statement concludes *"there will be no impact on headline earnings per share"*.

Their public disclosure lacks in terms of making sense of the numbers. What interests me more is that they've been booking revenue and profits, which is not immaterial in comparison to their overall level of bottom line profits, to their accounts since the acquisition. This contributed to them continuing to achieve earnings growth, with no mention that I can find of negative impacts or deteriorating conditions. But, suddenly in late 2017 they disclose that they've *"been in discussion with the previous shareholders about unwinding the transaction for some time*", and that it was due to *"a significant underachievement against profit warranties"*. Wow.

2018 marks my 23rd year in the markets, but this is the first time I've seen something quite like this. I have many questions, starting with how a company can include contributions from an acquisition in their calculation of headline earnings, but when it goes wrong and is unwound I am to believe that it somehow doesn't affect that same calculation? At what point can shareholders believe that any acquisition is beyond the point of being 'unwound'?

Our work continues...

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