

Communicating to the capital markets on IFRS 16

John Forbes

Director

KPMG Makinson Cowell

Delivered by

KNect365
Finance

Communicating to the capital markets on IFRS 16

John Forbes

25 March 2019

Introduction

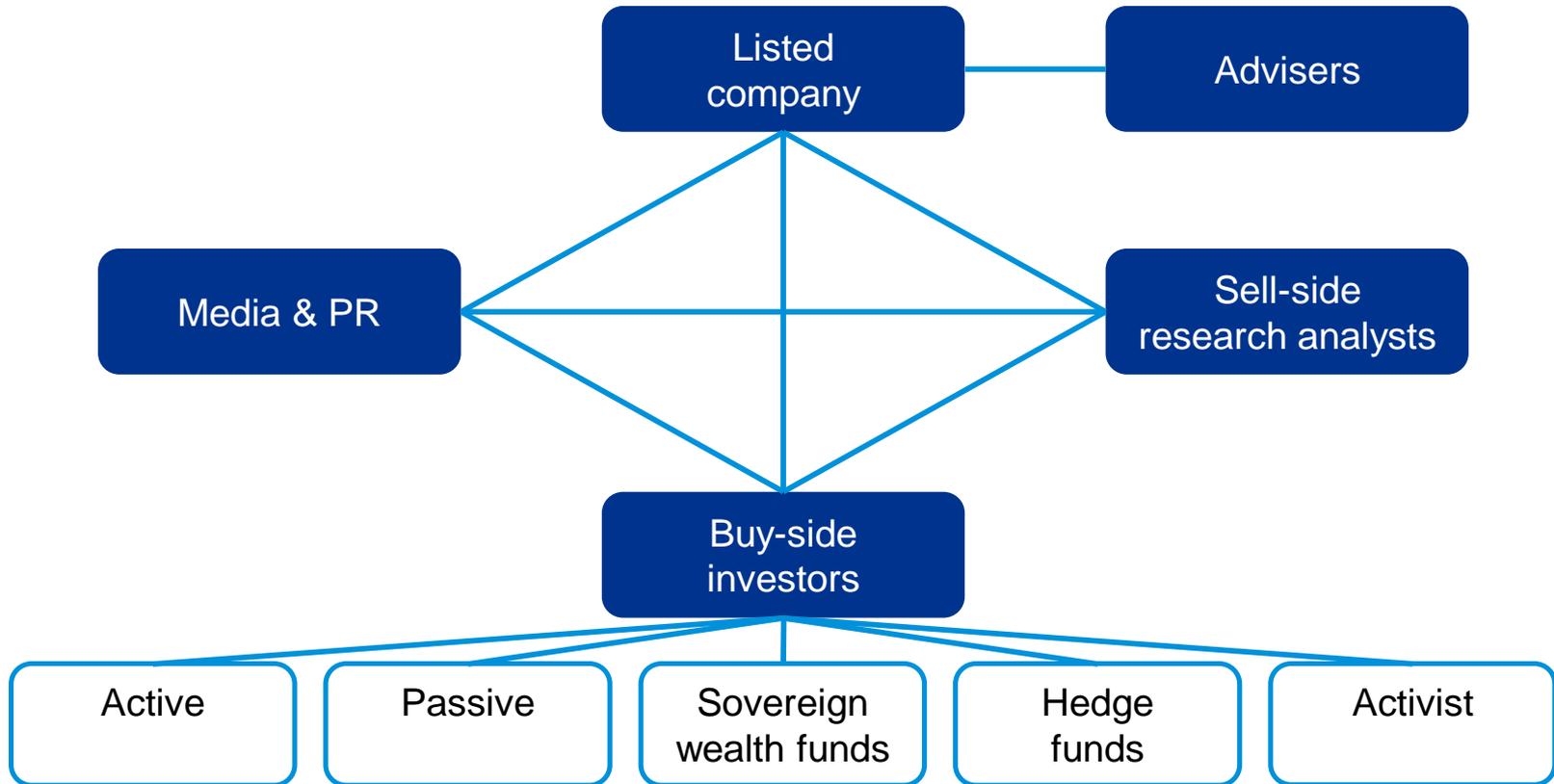
Makinson Cowell

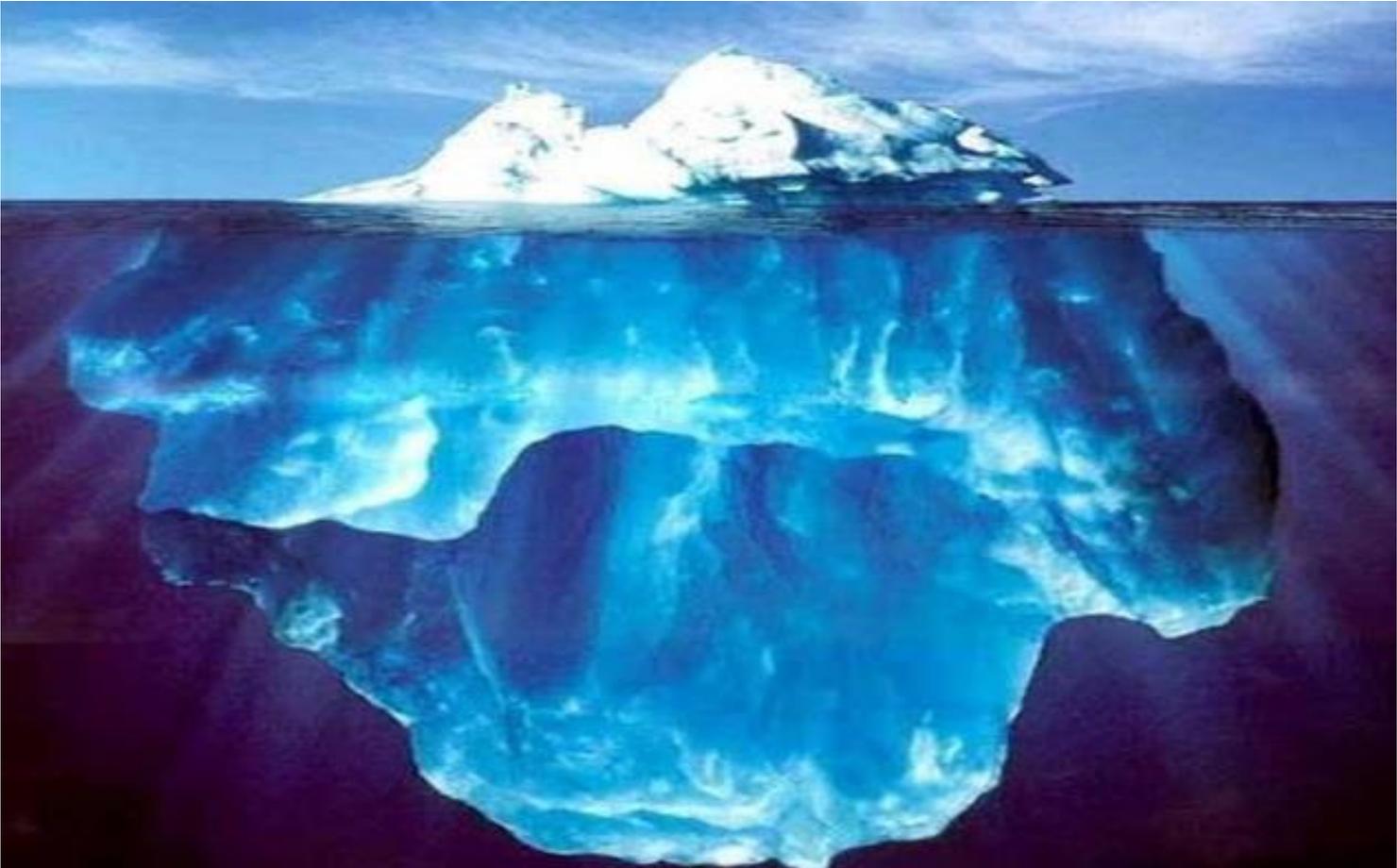
- We started in 1989 and were acquired by KPMG UK in 2013
- Our 40-strong team is based in London and New York
- We have strong access and insights into institutional investors
- We help companies communicate to and build direct relationships with these institutions
- We work for many companies on ongoing, multi-year retainers and also do standalone projects

John Forbes

- Has advised Benelux companies on capital markets communications since 2001
- Previously a forensic accountant at Deloitte
- UK Chartered Accountant

The capital markets network





Changing accounting and disclosures

- Sophisticated capital markets audiences are used to dealing with changing financials:
 - IFRS 16 is just the latest in a succession of new accounting standards
 - Companies also adjust their segment disclosures from time to time ...
... and change their accounting policies for existing standards
- Analysts and investors expect open and timely communications from companies with appropriate disclosures for them to update their models
- Companies are also answerable to:
 - Stock exchange and other regulators
 - Their Boards and Audit Committees



Capital markets communications on IFRS 16 so far

- Early adopters
 - Adopted with IFRS 15
 - Full retrospective or modified retrospective methods used

- Adopters w.e.f. 1/1/19
 - 2018: some indicative statements of expected impact
 - 2019: (31 Dec year-ends) IAS 8 statements, 2019 outlook statements

- Detailed disclosures separate from results announcements
 - Press release with restated numbers
 - Teach-in events



Investor perspective
PROCESS

1. What important (discretionary) choices have you made in setting your new accounting policies, and why?
2. Tell us about the implementation process (time, cost, complexity etc.)

Investor perspective Strategy & operations

3. Is this more than “just a change in book-keeping”? Will it lead to changes in your strategy or operations?
 - Will it lead to changes in your capital allocation priorities?
 - Will it affect how you invest in & manage tangible assets (e.g. lease or buy)?
 - If you are a lessor, what are your lessees doing?

4. Does it move the needle for your financial and capital allocation strategy?

Financial metrics

5. Which reporting metrics will it affect and by how much compared to old basis?
 - Income statement: EBIT(DA), depreciation, interest, net result/EPS
 - Does it lead to any changes for your tax affairs?
 - Cash flow statement: line items (classifications) and KPIs
 - Balance sheet: line items, net debt and net assets
 - Returns on net assets/ equity/ average capital employed
 - Different effects per segment

Understanding & modelling

6. Help us reconcile your pre- and post-adoption numbers in the transition year?
 - For example (assuming modified retrospective) Q1 2019 vs. Q1 2018
 - Do you run parallel accounting systems during the transition year?

7. How does it effect your guidance for future financial performance?
 - Guidance set post-adoption (e.g. “outlook” in FY 2018 results statement)
 - Multi-year guidance set pre-adoption

8. What does it mean for our long-term financial models?
 - Re-set of several years of historic data
 - Future trends based on current lease portfolio
 - Consequences of potential changes to lease portfolio



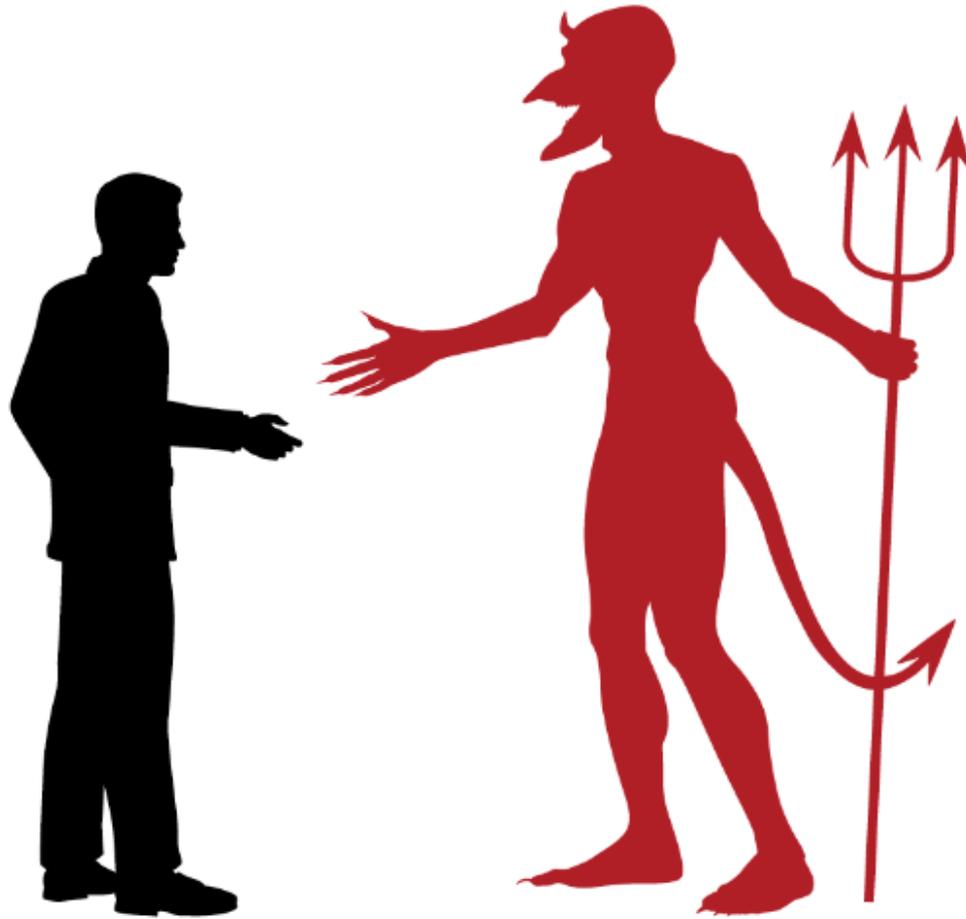
Investor perspective Remuneration

9. Will you have to amend your criteria for variable remuneration?
- Remuneration can be a key focus for shareholder dissent in company AGMs and an area of major sensitivity for Boards
 - Most companies award their executives variable annual and long-term remuneration on top of basic pay
 - The criteria usually include metrics that are affected by IFRS 16 adoption
 - This may also apply to other employees

Investor perspective Equity markets valuations

10. How does it affect how we benchmark your performance and assess your valuation compared to other companies?

- The change in accounting policy should not affect the intrinsic value of the company or its total cash flows ... BUT it may change valuation metrics:
 - EV/EBIT(DA), P/book, P/earnings – **will be affected**
 - FCF yield – **depends on treatment of capex and KPI definitions**
 - Dividend yield - **will not be affected unless dividend is fixed payout %**
- There may be important effects on comparisons between companies
 - Companies within the same sector and across sectors
 - IFRS versus non-IFRS companies



Potentially tricky areas

- Significant accounting policy choices compared to key peers
- Reliance on exemptions
- Choice of discount rate
- Effect on WACC
- Impairments
- Intercompany arrangements
- FX
- Supply contracts



“So what?”



Contact details

John Forbes
KPMG Makinson Cowell
15 Canada Square
London E14 5GL

E: john.forbes@makinson-cowell.co.uk
M: +44 78 800 52 303
T: +44 207 694 3692

kpmg.com/uk/makinsoncowell



This presentation is provided by KPMG LLP. Neither this presentation nor its content may be reproduced for any other purpose without prior written consent from KPMG LLP. This presentation is incomplete without reference to and should be viewed solely in conjunction with the oral briefing provided by KPMG LLP.

This presentation includes publicly available information and reflects prevailing conditions and our views as of this date, all of which are accordingly subject to change. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date of this presentation or that it will continue to be accurate in the future.

Whilst the information presented and views expressed in this presentation and the oral briefing have been prepared in good faith, KPMG LLP accepts no responsibility or liability to any party in connection with such information or views. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. This presentation does not constitute a service proposal which in all respects is subject to the negotiation, agreement and signing of a specific contract.

© 2019 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.