

PAC ANNUAL CONFERENCE
PROFESSIONAL ACCOUNTING FUTURES

Forensic Analysis @2024

Identifying Flammable Items

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Identifying Flammable Items

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The Forensic Framework: Identifying Investment Opportunities

1) Evaluate the Business & Reporting Control Environment

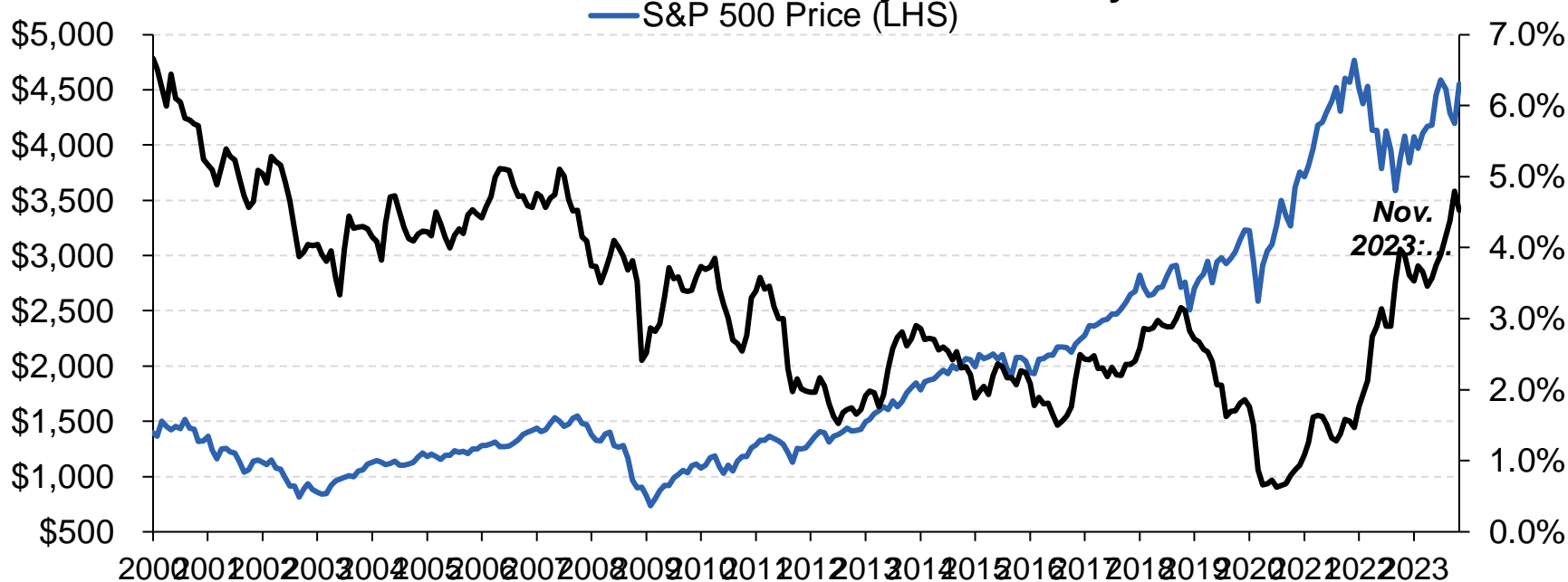
2) Identify Flammable Items

3) Look For Sparks



The CFO's Office Set To Be Busy

S&P500 Index vs US 10-year Treasury



Source: FRED, Refinitiv

We are entering a new investing paradigm...



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Areas of Risk @2024

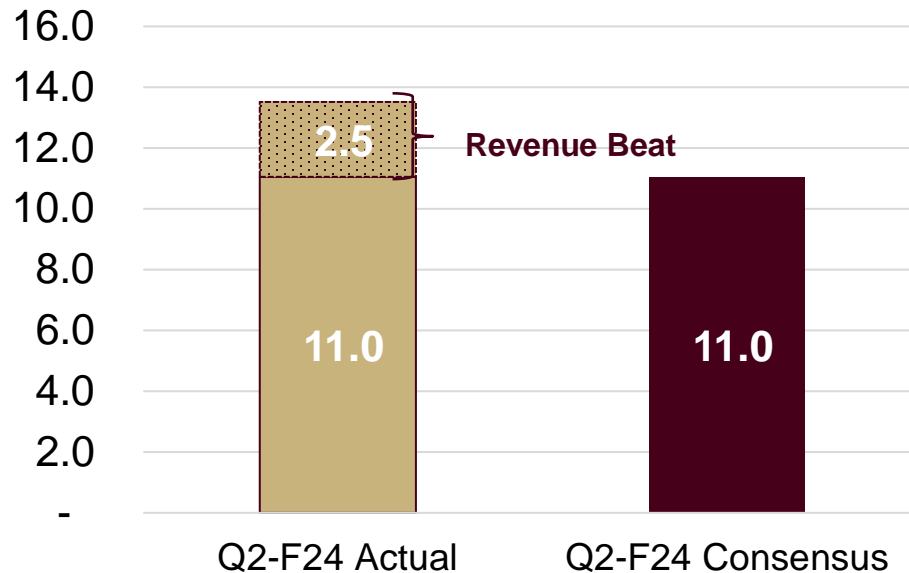
1) Related Party Transactions

2) Accounting Estimates & Assumptions



Related Party Transactions: Follow the Cash - Nvidia

NVDA: Q2-F24 Revenue (\$bn): Consensus Vs. Actual



What We Know:

- The revenue beat was ~\$2.5 billion
- In April 2023, NVDA invested \$100 million in CoreWeave; total \$411M raised in a consortium
- CoreWeave purchased \$2.3B NVDA H100 chips
- CoreWeave raised \$2.3B debt secured by the chips

What We Don't Know:

- The total \$ of chip sales from NVDA to CoreWeave
- Whether chips were delivered to CoreWeave in Q2
- Whether CoreWeave paid for the chips by Q end

Source: Bloomberg, Veritas

Invest in Sub, then Sell to Sub



Related Party Transactions: What is Revenue?

Microsoft (MSFT)

- In January 2023, MSFT announced \$10 billion multiyear investments in ChatGPT creator OpenAI
- As a result, as OpenAI's exclusive cloud provider, MSFT Azure will power all OpenAI workloads
- During Q3 2023 earnings call, MSFT clarified *"like any other customer who has a commercial relationship with us, we recognize revenue on that behalf"*

Arm Holdings (ARM)

- Per IPO prospectus, "we depend on our commercial relationship with Arm China to access to PRC market, and a significant portion of our total revenue is generated from Arm China, a related party..."
- FY 2023, 2022, and 2021, revenue attributable to our relationship with Arm China were approximately 24%, 18%, and 20% of our total revenue, respectively."

NVIDIA (NVDA)

- Between February 2023 to September 2023, 22 investments \$4.5 billion deal value, including co-investors.
- Many AI-related start-ups that use NVIDIA chips and/or NVIDIA DGX Cloud

Source: Company filings, Bloomberg, FactSet, Veritas

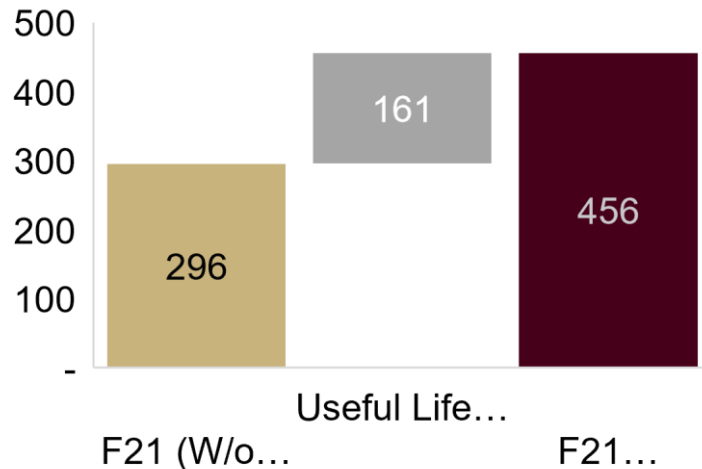
When does it matter?



Accounting Assumptions: Extending Useful Life - Microsoft

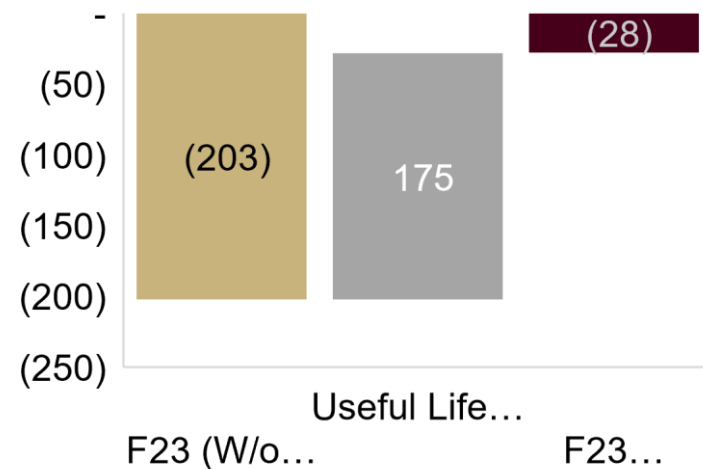
F2021: 35% of Operating Income Expansion

Server: from 3 years to 4 years
 Network equipment: from 2 years to 4 years



F2023: 86% of Operating Income Contraction

Server: from 4 years to 6 years
 Network equipment from 4 years to 6 years



Source: Company filings, Veritas estimates

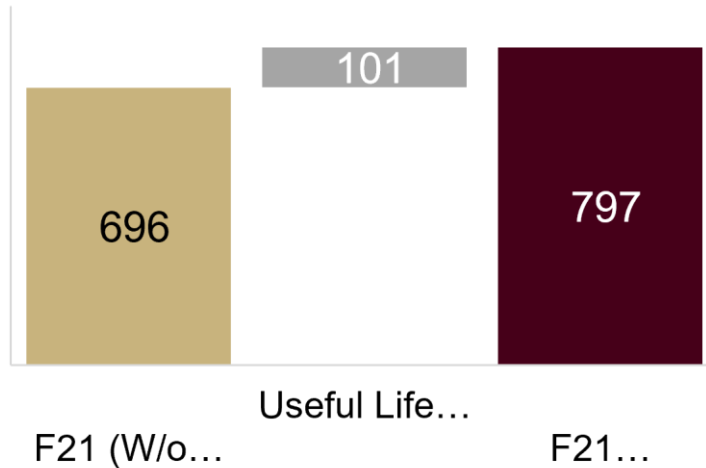
If computer hardware lasts longer...will revenues slow?



Accounting Assumptions: Extending Useful Life – Alphabet

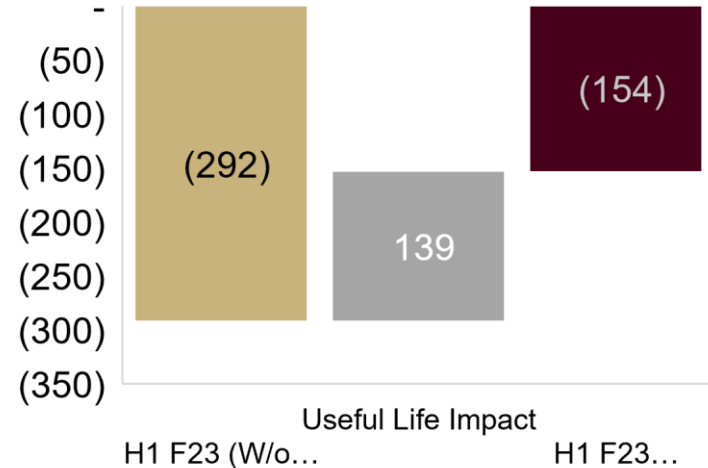
F2021: 13% of Operating Income Expansion

Server: from 3 years to 4 years
 Network equipment: from 3 years to 5 years



F2023: 47% of Operating Income Contraction

Server: from 4 years to 6 years
 Network equipment from 5 years to 6 years



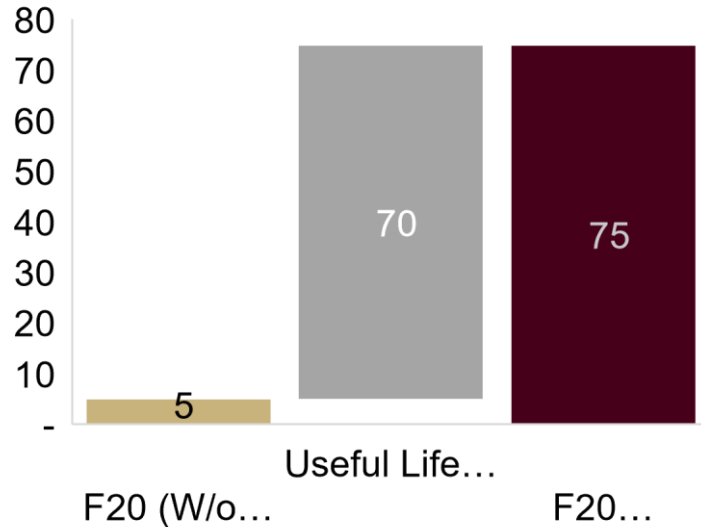
Source: Company filings, Veritas estimates

If computer hardware lasts longer...will revenues slow?

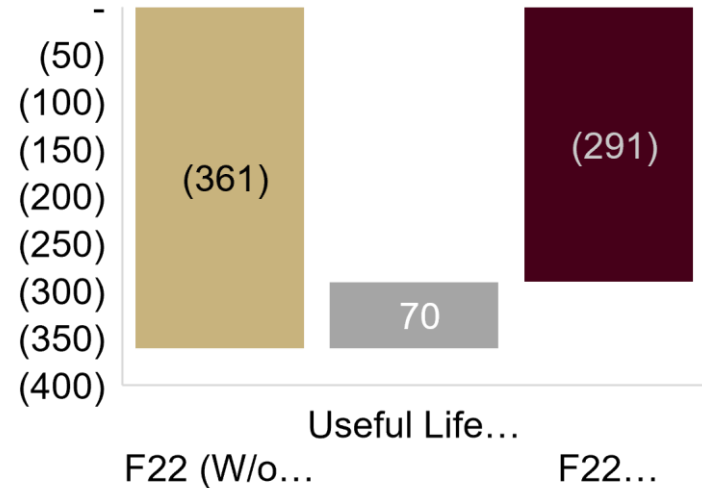


Accounting Assumptions: Extending Useful Life - Amazon

F2020: 94% of Operating Income Expansion
 Sever: from 3 years to 4 years



F2022: 19% of Operating Income Contraction
 Server: from 4 years to 5 years
 Network equipment from 5 years to 6 years

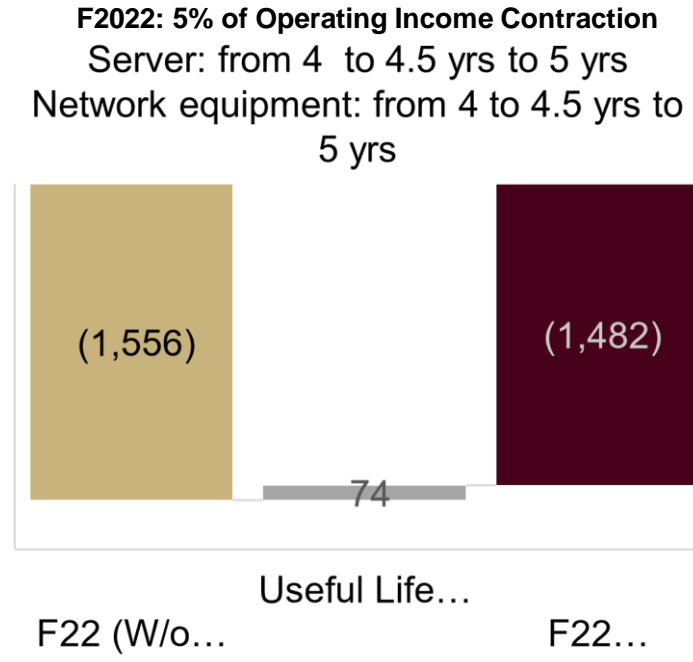
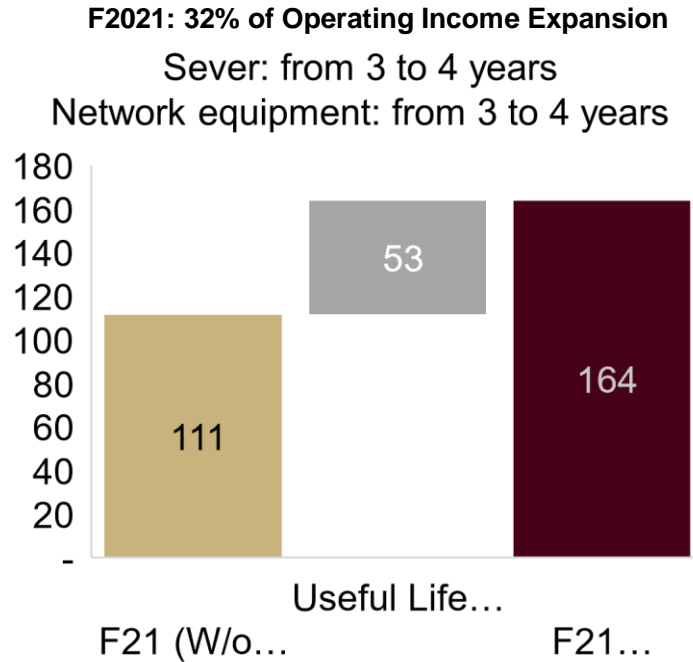


Source: Company filings, Veritas estimates

If computer hardware lasts longer...will revenues slow?



Accounting Assumptions: Extending Useful Life – Meta



Source: Company filings, Veritas estimates

If computer hardware lasts longer...will revenues slow?

Anticipate the Play

Nothing matters, till it matters...

Then it matters a lot.



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