Subject: News and Insights: Brookfield, Shopify, Veritas' 22nd Anniversary and More

News and Insights

November 1, 2022

We have several items to share with our followers, including comments in the media about Brookfield Asset Management Inc. and Shopify Inc., a Fact-Finder video conference about Canada's efforts to become carbon neutral, recommended reading on independent financial advice, Veritas's 22nd anniversary and more.

Brookfield's Westinghouse Deal Signals Faster Pace for Exits

Dimitry Khmelnitsky, our Vice President Head of Accounting & Special Situations, initiated coverage on Brookfield Asset Management Inc. recently and was quoted in this Bloomberg article about the recent sale of one of its holdings, Westinghouse Electric Co. for US$8 billion.

As the article says, some Brookfield investors had grown impatient about the amount of time it was taking to sell portfolio companies and free up capital for new investments. While Brookfield says more deals are coming, Westinghouse was sold to one of its own affiliates, Brookfield Renewable Partners LP, and uranium miner Cameco Corp.

"The sale of Westinghouse does not prove the company's ability to monetize large assets at attractive valuations, particularly in the current environment, because it was sold in large part to a related party," Dimitry said. "I am not convinced Brookfield Business Partners would have received the same price and generated such an attractive return if the deal was done between truly independent third parties."

*See the article: **Brookfield Eases Concern About Slow Deal Pace With Westinghouse Sale**.*

*If you're interested in purchasing Dimitry's initiation report on Brookfield or his ongoing coverage of the company, please **contact sales**.*

Shopify's Rising Customer Acquisition Costs

Desmond Lau, our Communication Services & Information Technology Analyst, weighed in on the future of Shopify Inc. in this feature in The Globe & Mail's ROB Magazine.

Shopify, which is down ~75% this year, was perfectly situated when COVID-19 hit.

"For them to sign up merchants, it was almost like shooting fish in a barrel. People were desperate to get their stores online," Desmond said. Now that the world has re-opened, it's clear a lot of demand was pulled forward.

In 2021, the company spent 21% of its revenue on sales and marketing, Desmond noted. That has jumped to 25% this year. In consulting terminology, this means Shopify now has a higher cost of customer acquisition, a crucial metric for tech companies.

As the magazine article was published, Shopify reported a better-than-expected Q3-F22, which didn't surprise Desmond as e-Commerce trends appear to have troughed (at least temporarily).

However, for a company currently without earnings, he cautions that Shopify's revenue is highly discretionary and subject to a pullback in a recessionary environment, while the valuation remains high.

At US$34, he estimates that investors need to believe in a 22% revenue CAGR over 10 years, assume a material decline in operating expenditures and assign a 25x free cash flow multiple in order to generate a 10% annual return.

*See the ROB Magazine feature: **Solving Shopify's misery: How Canada's tech saviour lost its swagger — and why investors remain so scared**.*

Fact-Finder Video Conferences
Episode 98: The Energy Re-Mix: Can Canada Get it Right?

Carbon neutrality by 2050 is such a big, talked-about goal that we wanted to share this video conference that our President and CEO Anthony Scilipoti recently hosted for our clients.

The video conference was with Kirk Morrison, a professional engineer with 40 years of experience in the energy and resources, environmental and infrastructure industries. He is currently completing a **business case for the energy re-mix in Canada** for the Canadian Energy & Climate Nexus, as well as developing (and investing in) a green hydrogen project in SE Alberta (Project Portal, Cariboo LCF), and a 15,000 MWh pump storage project in Northern Ontario (Steep Rock Energy, SC Investments). He just completed a trip across Canada looking at how Canadians are working towards cleaner energy (**you can read his posts about it on LinkedIn**). See his **full bio**.

In their video conference, Anthony and Kirk covered:

- Targets: Kirk has calculated that Canada needs to spend $3.4 trillion to be carbon neutral by 2050. "I think we can get to net zero, but I think 2050 is pretty optimistic. Energy costs will need to increase."
- Under-planning: Canada is the seventh largest consumer of renewable energy in the world, but only about one-third of the work required to get to net zero is being done now. "For example, to bring on all the clean generation we've got to bring on three gigawatts a year. We're doing about one gigawatt right now. We need to bring on 15,000 EV charging stations per year. We're doing about 1,000."
- Investment returns: It takes a lot of time to build infrastructure and regulatory approvals are slow. Some commodity prices don't make sense yet from a return on investment perspective. "There's lots of capital out there. There's lots of equity. There's lots of debt, but the initial development capital is tough to get."

*Complimentary access to the replay: **Fact Finding Video 98: The Energy Re-Mix: Can Canada Get it Right? - With Kirk Morrison**.*

Recommended Reading

Investor beware – financial markets are laden with conflicts of interest: Financial markets are laden with conflicts of interest. Professional portfolio managers have them, as do analysts, rating agencies and some financial media. Investors must understand this. No one is watching investors' backs; it is their job to do so. - *George Athanassakos, Professor of Finance and Ben Graham Chair in Value Investing at the Ivey Business School, University of Western Ontario, writing in The Globe & Mail.*

Excerpt from the article: *Analysts have conflicts of interest – that is why their stock recommendations are predominantly buys over sells by a seven to one ratio. There is plenty of academic evidence to indicate that analysts tend to be over-optimistic about a company's earnings forecast, and the more the uncertainty surrounding a company's future, the more over-optimistic they are. Analysts want to generate trading profits for their firms. They are, after all, in the business of selling stocks. Moreover, they are motivated to write positive stories about companies. Why? The chief executive officers of companies for which they write unfavourable stories may get upset at the analysts (or blacklist them) and no longer give them access to company information. Or they may not give business to the corporate finance side of the analysts' investment banking arm.*

Footnote from Veritas: *As you may or may not be aware, Veritas Investment Research doesn't have trading or investment banking operations, so we aren't motivated to be overly optimistic. Many companies also decline to talk to our analysts, which is their option. Our current Buy to Reduce/Sell ratio of stocks under coverage is 1.8 to 1.*

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*We have many subscription options that work for institutional investors, investment advisors, family offices, private investors and others. Please **contact sales** to find out more.*

Careers in Finance

If you missed it, recruiting company Vlaad & Company had a Fall Call about recruitment, retention, and compensation trends for Canadian private equity, asset management, capital markets, and banking.

Anthony was on the recent call discussing how the pandemic affected the buyside and sellside, long-term trends in how the sellside is being paid, a few thoughts on the next five years for investment research and where Veritas finds its talent.

*Watch the replay: **Fall Call 2022**.*

Veritas at 22!
Thank you!

Finally, a special thanks to our clients, investors, advisors, suppliers, families and all those who helped us get to Veritas' 22nd anniversary.

*See Anthony's **post on LinkedIn about it**.*

We look forward to serving investors for many years to come!

Left to Right: Michelle Mercer, Corporate Secretary & Client Relationship Manager; Darryl McCoubrey, Vice President and Head of Research, Utilities & Infrastructure Analyst; Anthony Scilipoti, President & CEO.

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