

Risk indicators

Answers to the exercise Risk indicators in the annual report of TC Innovation A/S

In general the idea is to question everything in the report, including dates, names, amounts, relations and text and in particular:

- identify major components of Income Statement and Balance,
- analyze development in line items in the Income Statement and Balance to understand cash flow,
- find indications of lack of continuity,
- find things that are unusual for that kind of company or business,

Examples:

- The report is filed 23. August 2018 but is signed already 1. April 2018. Why did it take almost 5 month to file it? Or are the signatures dated back in time? Notice that subsequent events are only analyzed up to 1. April 2018 (p. 7).
- It is only the fourth financial year and yet the TC company and its subsidiaries have been able to generate a total turnover of more than 400 Mil. Euro in four continents all over the world according to the management report.
- The company TC Innovation A/S has a turnover of approximately 4 Mil. Euro. There are no Accounts Receivable and it is probably not a cash business. So all the activity of the parent company is internal.
- Office address is on 1. floor, the owner lives on 2. floor in the same building, the auditor and the lawyer companies are probably 1 person companies (because of their names) and there are only 3 employees. It seem a bit humble when you control a 400 Mil. Euro business in four continents.
- It looks like it is the auditor himself who prepares the annual report when you look at the document path in the footer. And are there three versions of the annual report?
- The management report doesn't really say anything at all. And management doesn't demonstrate any kind of business knowledge. It is not clear what they mean with "partners".
- Auditor's conclusion and signature are placed on a page for itself even though there was space enough on prior page. The conclusion doesn't say the name of the company. This way the auditor could always say "Oh, the conclusion page was regarding another company. There has been a simple layout error here and my real conclusion is full of qualifications".
- The company explains on page 6 why they don't do consolidation (addition of parent company and all subsidiaries) because the company is part of another group of companies. So Carl Jakobsen may be the ultimate owner but TC Innovation A/S must be directly owned by another company. They don't say who it is.

- Almost all of the EBIT comes from the result of the subsidiaries in both years. And it is non cash transactions (no dividend paid to TC Innovation A/S).
- A very stable development in the Income statement and Balance. Maybe to stable?
- All subsidiaries make very modest results and equity. It could indicate that not very much money is layered in the companies despite the big total turnover in the companies.
- The single owner Carl Jakobsen is not paid by the company and there is no dividend. Where does he earn his money?
- Very low financial expense despite the company is only 4 years old. They have managed to buy 400 Mil. Euro business and yet have very little loans and equity at the same time? Also no goodwill capitalized (goodwill = price for a subsidiary minus equity of the subsidiary).
- Major balance development is the reduction in cash and intercompany payables. it indicates that major cash flow are internal transactions and that the 400 Mil. euro potential cash flow doesn't pass in and out of TC Innovation A/S but only passes in and out of the subsidiaries.
- The value of subsidiaries 530 almost match the value of the company 649. So again the important activity seems to take place in the subsidiaries.
- All equipment is leased – that probably means computers and accounting system belongs to someone else than the company.
- Subsidiaries operate in very different businesses according to their names. What is the synergy and who can have knowledge in so different markets? Or are the names telling another story? Almost all of them contain a geographical place in Denmark or Scandinavia.
- There is a subsidiary TC 1 and TC 5, what about 2,3 and 4?
- No country shown for the “S.A. company” TC 5.
- The Spanish companies are called “CSF” and is not fully owned by TC. Is “CSF” short for Carl, Sam and Frederick?
- The Spanish companies are investment and leisure and have negative equity. Maybe the companies have private elements?
- Auditor expenses matches accounts payables both years. So probably there are no suppliers at all besides the auditor.