



*“How much truth can a spirit bear,
how much truth can a spirit dare? ...
that became for me more and more
the real measure of value.”*

— FREDERICH NIETZSCHE

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Unmasking Deception: A Comprehensive Guide for Long-Term Investors to Detect Fraud

By Gabriel Grego

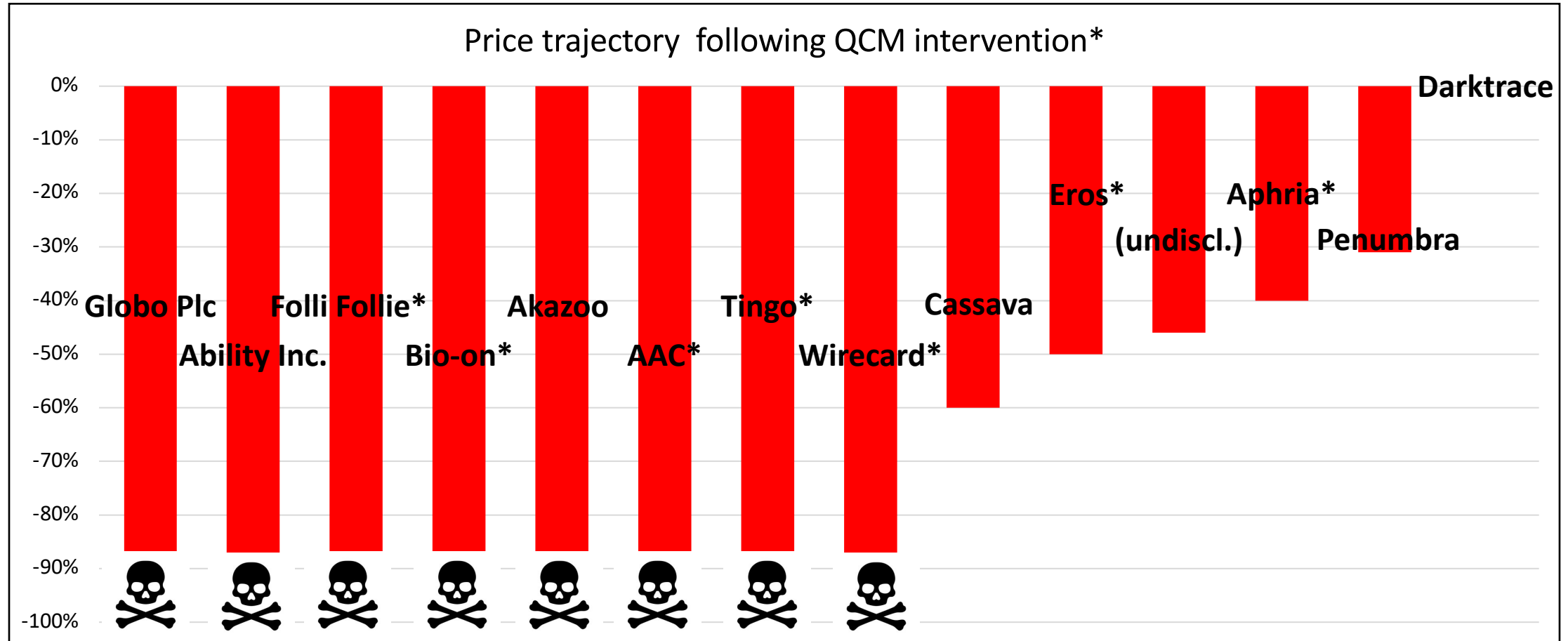
Founder, Quintessential Capital Management

Introduction

- Brief introduction about QCM and our experience
- A compelling hook about the hidden dangers in the investing world
- Objective of the presentation



Public short campaigns with QCM involvement



Why is detecting fraud important?

- Toronto U: study on corporate fraud
- only **1/3 of frauds** in public companies actually come to light
- **40 percent** of companies committing accounting violations
- **10 percent** are committing securities fraud
- destroying 1.6 percent of equity value each year

The New York Times

DealBook / Business & Policy

DEALBOOK NEWSLETTER

Just How Common Is Corporate Fraud?

A new study estimates that on average 10 percent of public companies commit securities fraud each year.

Give this article



Due Diligence: Your First Line of Defense

- Potential losses if you invest in a fraud can be catastrophic
- Frauds often look like value plays
- Develop a skeptical attitude
- Good habit in deep diving when researching ideas



Evaluating Company Characteristics

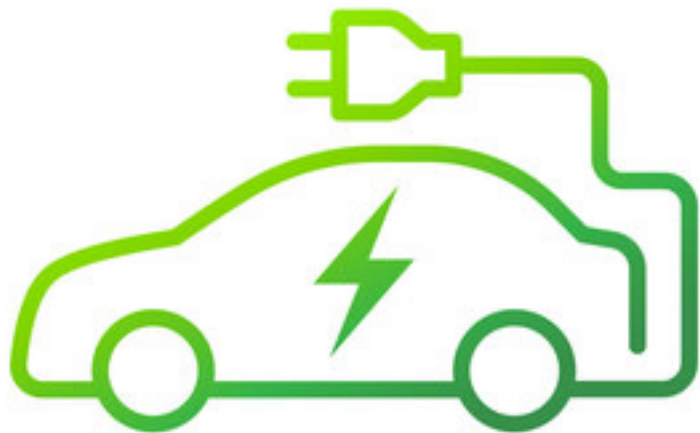
- Danger lurks in "hot" or **popular industries**
- Complications operating across **multiple jurisdictions**
- Issues with companies that excessively leverage **political or social trends** for their promotion



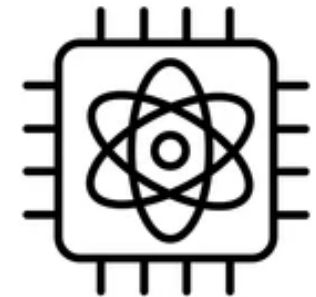
Danger lurks in: "hot", popular industries

 ***bitcoin***

ESG



CANNABIS

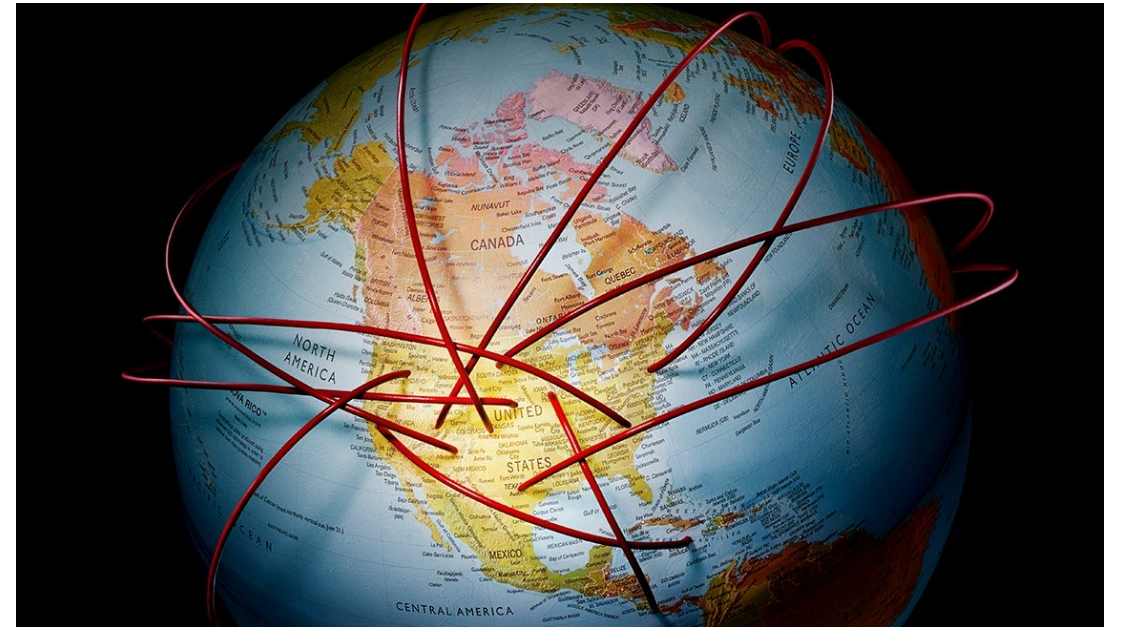


quantum computing

shutterstock.com • 1227100366

Danger lurks in multiple jurisdictions

- HQ, trading exchange, operations, sales, etc.
- Multiple jurisdictions make fraud detection and law enforcement much more challenging



Profiling the Management: Beyond Charisma

- Dangers of overly **charismatic leadership**
- Importance of transparency, credibility, and track record over charm
- Leaders with murky pasts, low educational background or highly promotional tendencies



Profiling the Management: Beyond Charisma

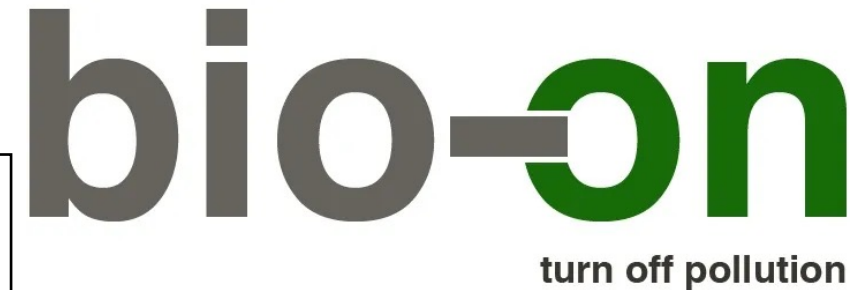


Dissecting the Company's Behavior

- Companies that are excessively **promotional** or make **exaggerated claims**
- Potential risks associated with companies that sponsor **high-profile events or causes** to increase their visibility and credibility
- Attacking, rather than engaging, **short sellers** is a HUGE red flag



Exaggerated claims: Bio-on



Bio-on presents a revolutionary new technology to eliminate oil pollution in the sea within 3 weeks

June 05, 2017 09:09 ET| Source: [Bio-on](#) [Follow](#)

Bio-on and Hera create Lux-on the new challenge to produce bioplastic from CO2.

December 10, 2018 01:59 ET| Source: [Bio-on](#) [Follow](#)



bio-on Bioplastics Help to Rebuild Human Bones

- *A team of researchers has shown that it is possible to use the revolutionary bioplastics developed by bio-on to create bioactive scaffolds for bone tissue engineering*
- *This is just the beginning. In the future, their use will be extended to other human tissues*
- *Agreement has been reached with Viridhi on advanced materials for biomedical use*

Suspicious company behavior: attacking skeptics

Cassava Sciences files federal lawsuit against short sellers

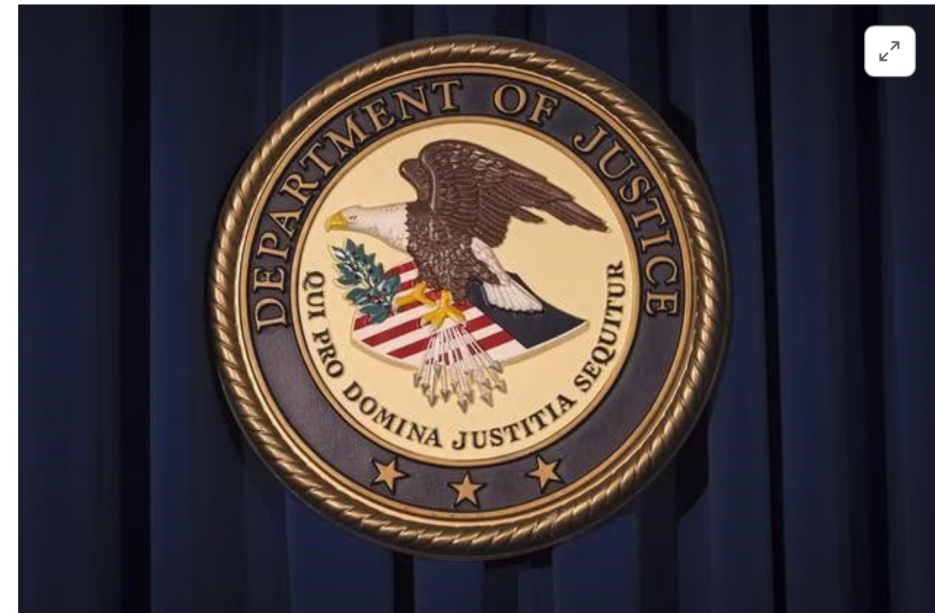
Nov. 03, 2022 9:35 AM ET | **Cassava Sciences, Inc. (SAVA)** | By: Dulan Lokuwithana, SA News Editor | 306 Comments



Exclusive: Cassava Sciences faces U.S. criminal probe tied to Alzheimer's drug, sources say



By Marisa Taylor and Mike Spector

July 27, 2022 7:41 PM GMT+2 · Updated a year ago



Associations & Relationships: Friends or Foes?

- Impact of a company's association with **questionable individuals**
- Company's choice of **service providers**, from law firms to auditors, can be a red flag
- **"Name throwing"** through testimonials, partnerships

 **Texas Department of Public Safety**
Criminal History Search
SERVER: DPSWEBMASTER DATE:9/20/2021 9:41:58 AM
LANG:ENGLISH (UNITED STATES) ORIG:PublicSite 

Criminal History Conviction Search

Search Information

BATCH # 5506835
SEARCH # 25853102
SEARCH SUMMARY [REDACTED] HILDA [REDACTED]
DATE 2021-09-20T09:41:57.9086614-05:00

[REDACTED], HILDA [REDACTED] (SID: 07099282)

SID 07099282
DATE LAST UPDATED 6/30/2021
SEX FEMALE
RACE WHITE
ETHNICITY HISPANIC
HEIGHT 5'1"
WEIGHT 150 LBS
EYES BROWN
HAIR BROWN
PLACE OF BIRTH TEXAS

NAME(S) [REDACTED] HILDA [REDACTED]
[REDACTED], HILDA [REDACTED] (PRIMARY)
BIRTH DATE(S) 3/13/1958 (PRIMARY)

ARREST SUMMARY

DATE OF ARREST	SEQUENCE CODE	TRACKING NUMBER	AGENCY DESCRIPTION
<u>5/22/2003</u>	A	9076831939	DALLAS COUNTY SHERIFFS OFFICE
<u>9/9/2013</u>	A	9181201680	IRVING PD



Serial “pump & dumper” Barry Honig



Florida businessman agrees to proposed judgment in \$27 million ‘lucrative market manipulation,’ SEC filing says



Reading the M&A Tea Leaves

- Dangers in companies with **aggressive M&A** activities, particularly in obscure or less transparent jurisdictions
- Potential mechanism to hide fraudulent activities or inflate company value

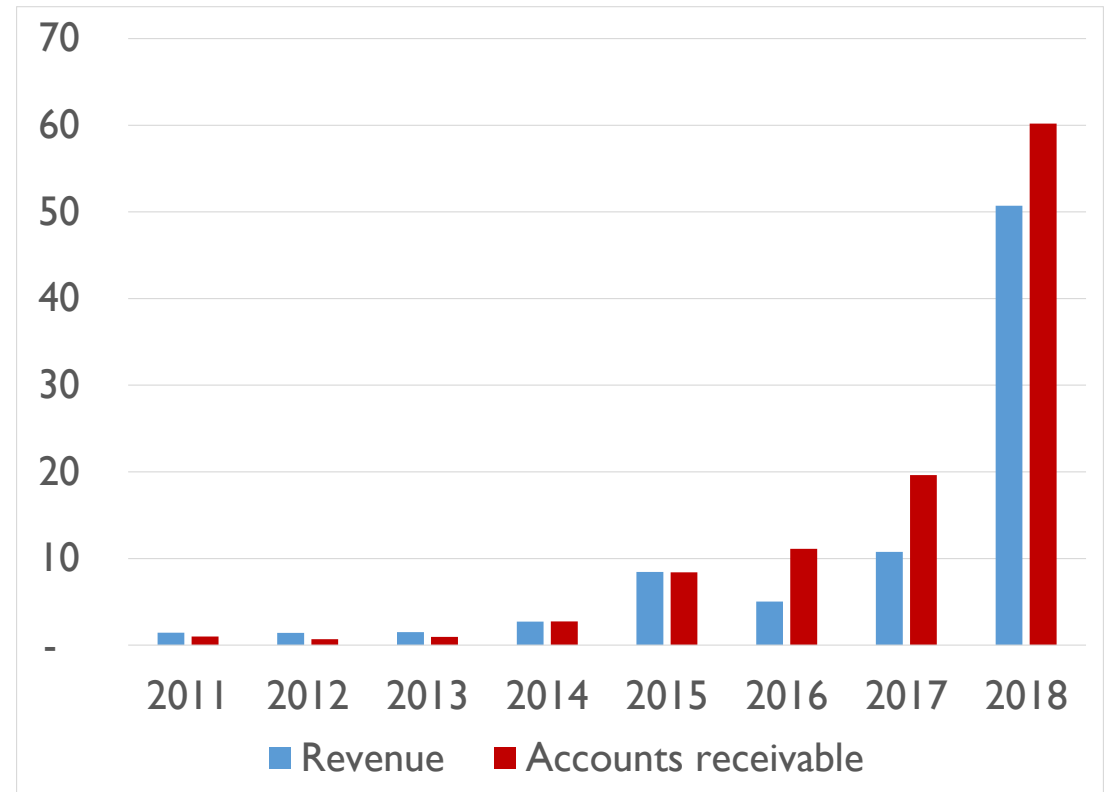
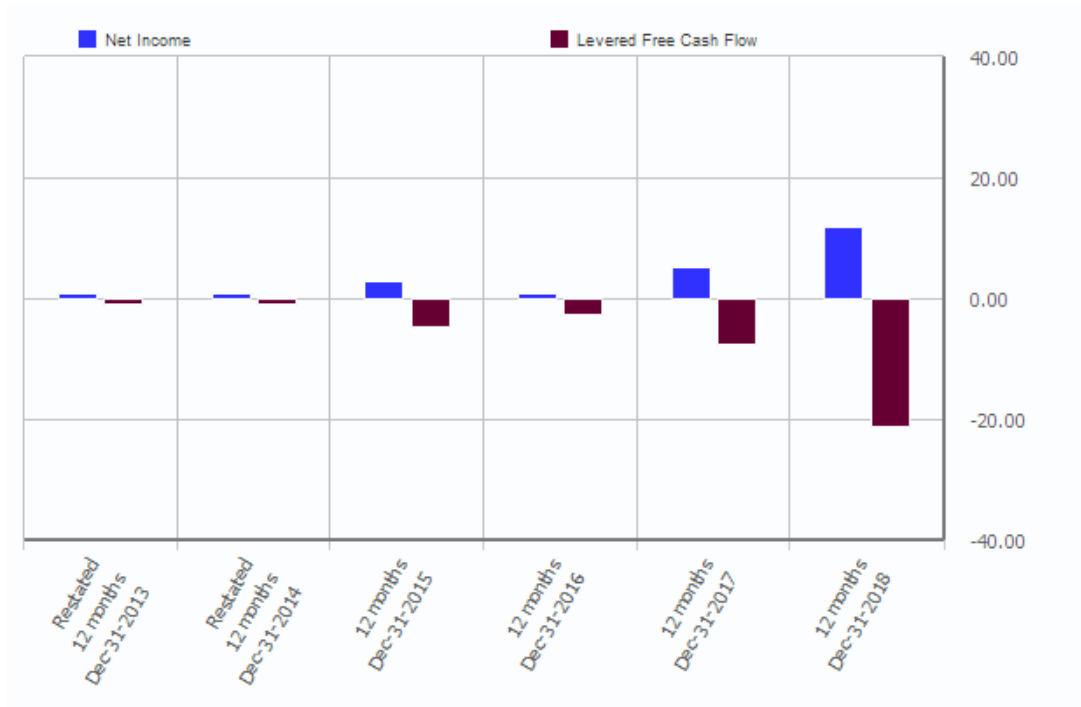


Financial Statements: The Numbers Don't Lie

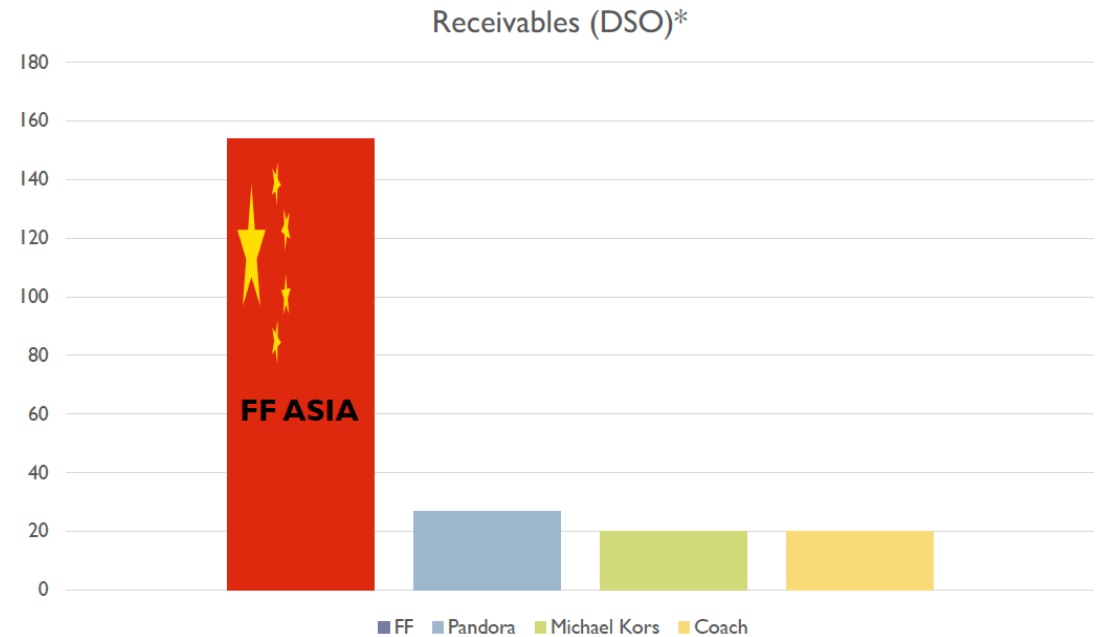
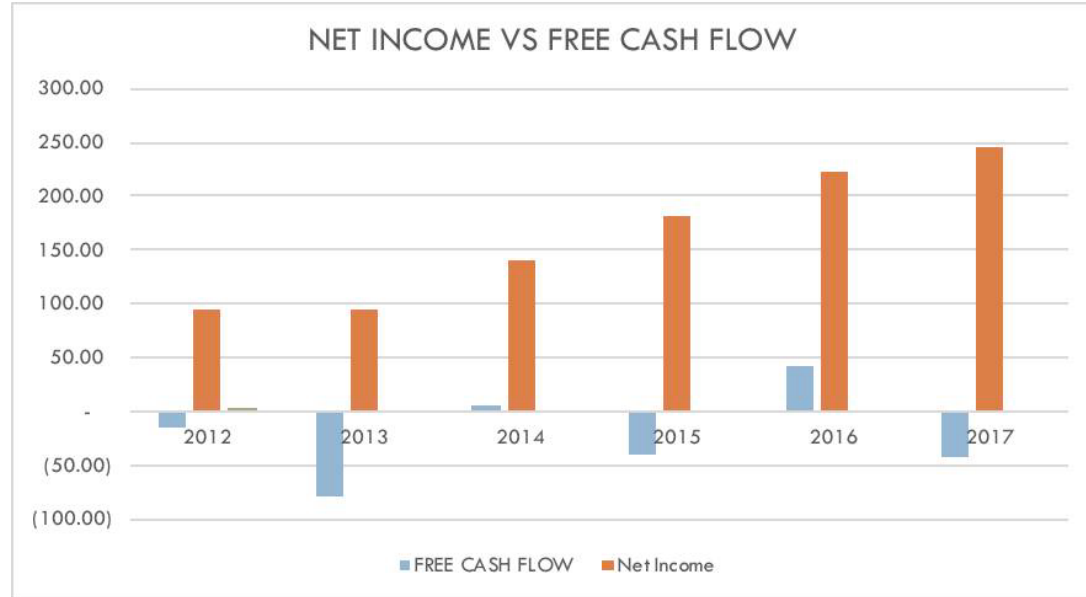
- **Lack of free cash generation**
- **Inflated working capital or investments**
- **Strategic changes in auditors,**
- **Conspicuous related-party transactions**



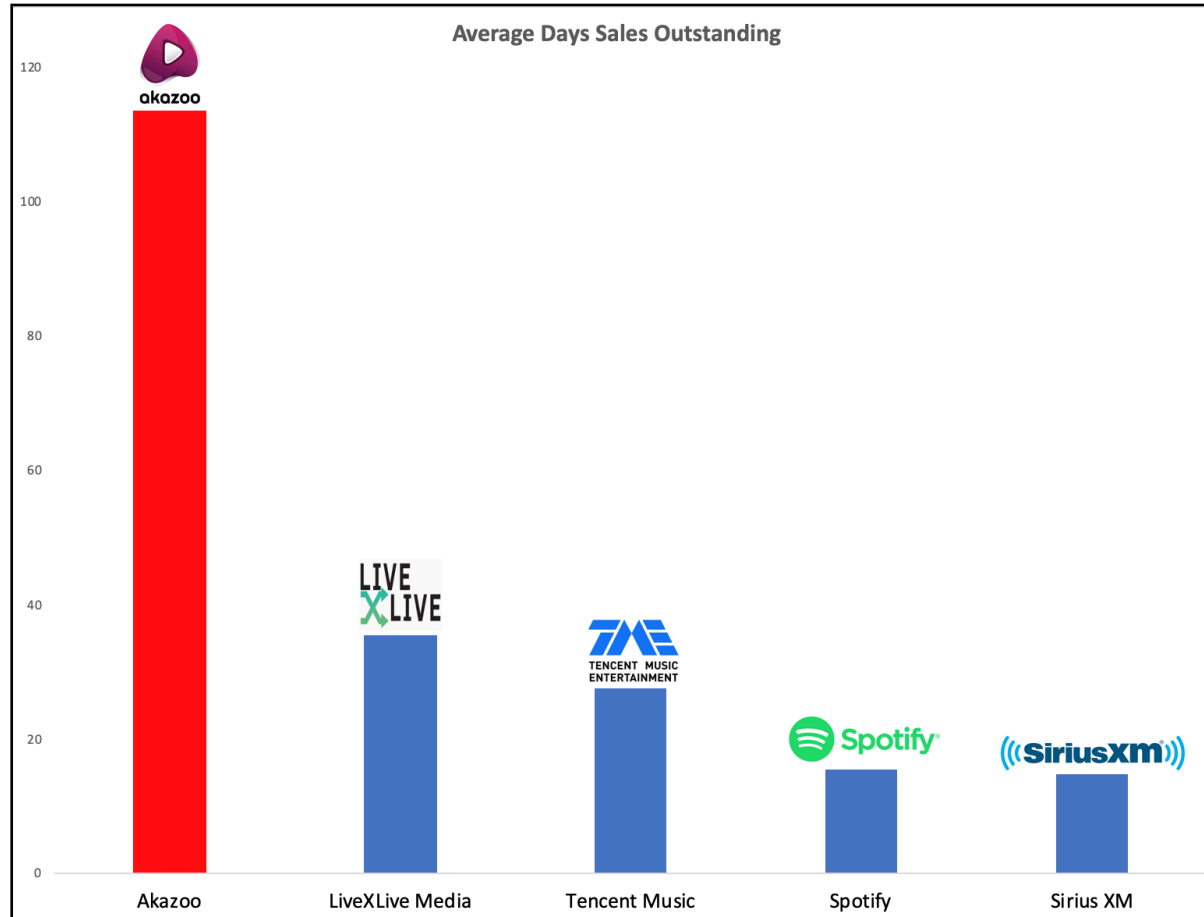
Spotting Accounting Red Flags: Bio-on



Spotting Accounting Red Flags: Folli Follie



Spotting Accounting Red Flags: Akazoo



Spotting Accounting Red Flags: “strategic” auditors changes

Bio-on S.p.A. Auditors

Create Activity
 Add to Binder
 1 Item

Customize View

Time frame: All History From: 2013

Include auditors of: Current subsidiaries Current investments

Viewing 1-5 of 5 Auditors

Period Audited	Auditor
FY 2018	Ernst & Young S.p.A
FY 2017	Ernst & Young S.p.A
FY 2016	PricewaterhouseCoopers SpA
FY 2015	PricewaterhouseCoopers SpA
FY 2013	PricewaterhouseCoopers SpA

Viewing 1-5 of 5 Auditors

FOLLI FOLLIE Commercial Manufacturing And Te

Create Activity
 Add to Binder
 1 Item

Customize View

Time frame: All History From: 2003

Include auditors of: Current subsidiaries Current investments

Viewing 1-28 of 28 Auditors

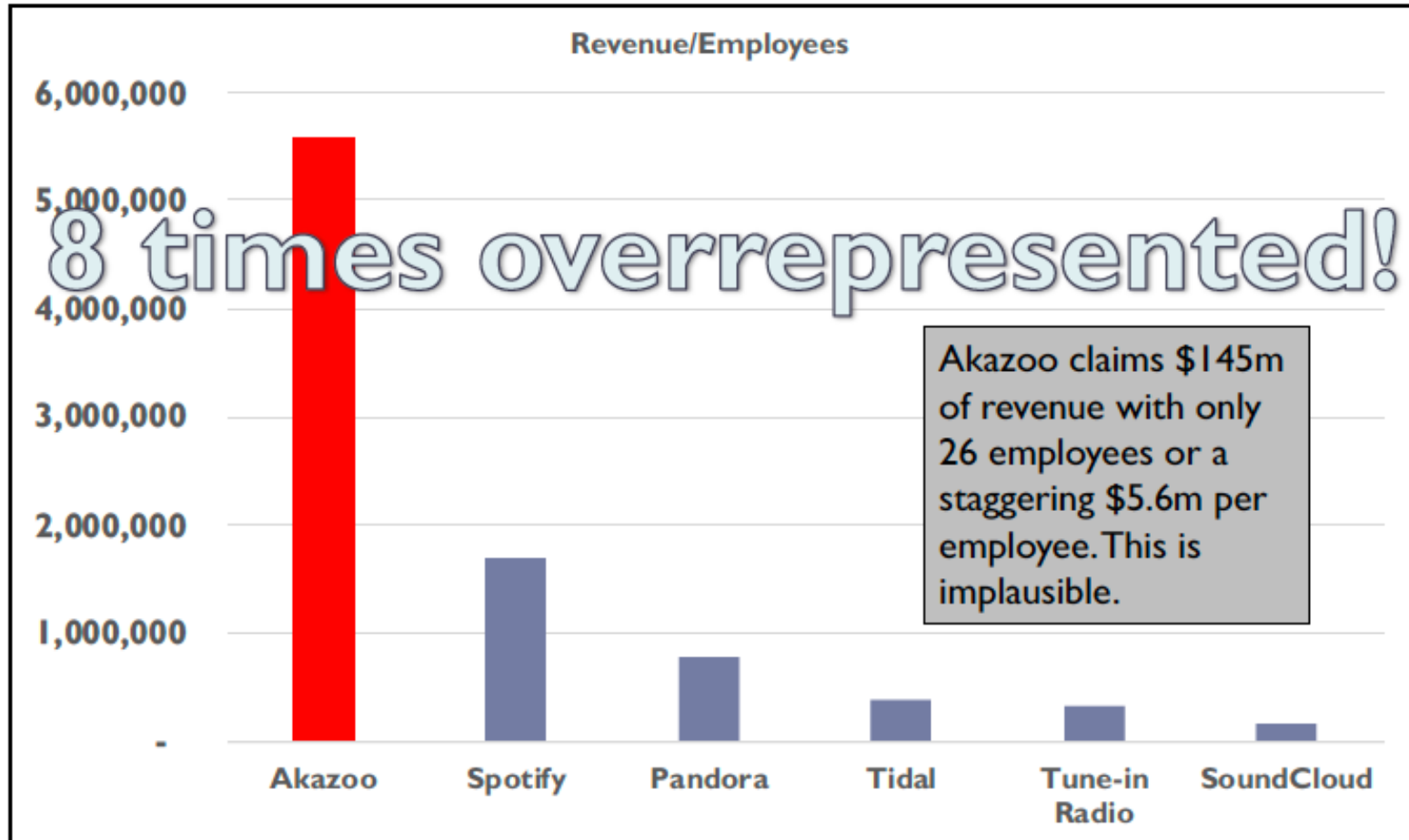
Period Audited	Auditor	Opinion
FY 2019	PricewaterhouseCoopers LLP	Adverse Opinion
FY 2018	PricewaterhouseCoopers LLP	Adverse Opinion
FY 2017	Ecovis VNT Audting	Unqualified
FY 2017	PricewaterhouseCoopers LLP	Adverse Opinion
FY 2016	Ecovis VNT Audting	Unqualified
FY 2015	ECOVIS S.A	Unqualified
FY 2014	Baker Tilly	Unqualified
FY 2013	Baker Tilly	Unqualified
FY 2012	Baker Tilly Hellas AE	Unqualified
FY 2011	Baker Tilly Hellas AE	Unqualified
FY 2010	Baker Tilly Hellas AE	Unqualified
FY 2009	Baker Tilly Hellas AE	Unqualified

Assessing Operational Consistency

- Excessive **revenue per employee** or **decreasing headcount** despite strong revenue growth can be suspicious
- Explore **discrepancies** between online visibility (website visits, social media presence) and claimed business performance

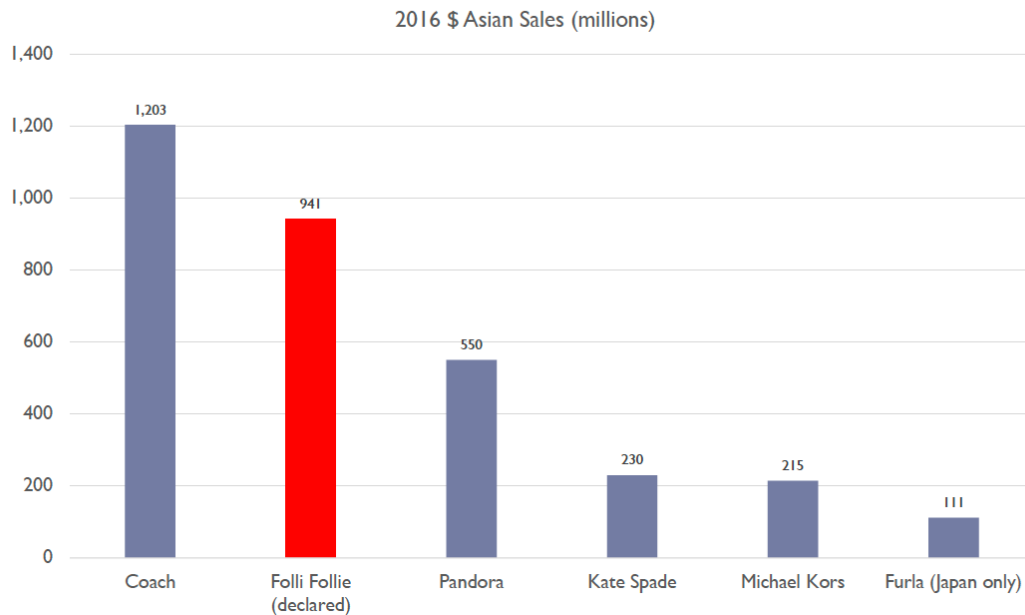


Assessing Operational Consistency: Akazoo

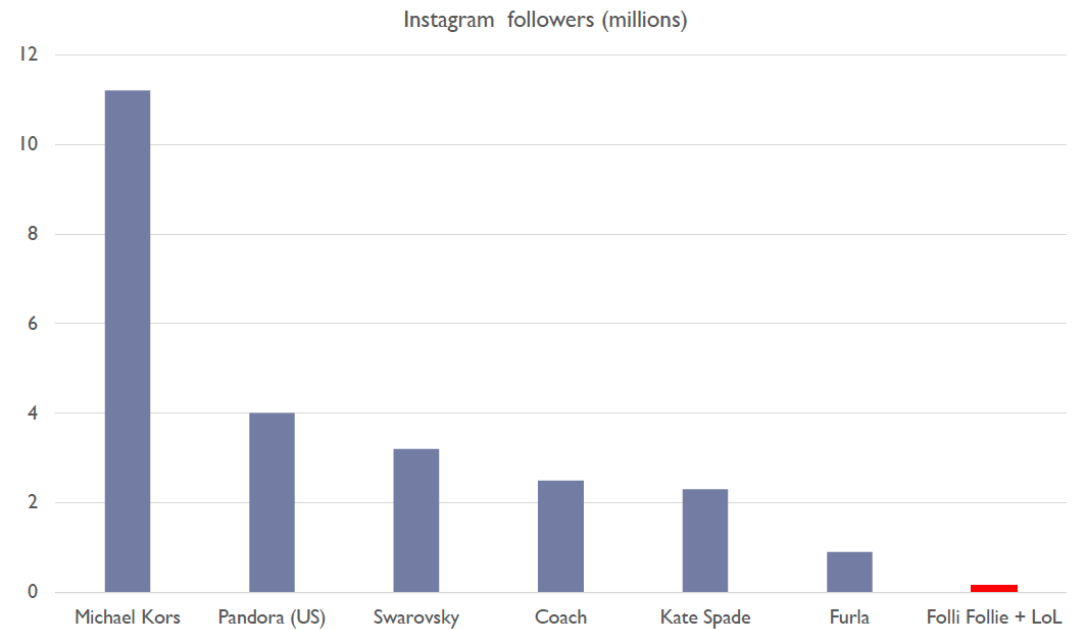


Assessing Operational Consistency: Folli Follie

FF: CLEARLY, A HEAVYWEIGHT IN ASIA...



POPULARITY ON INSTAGRAM ISN'T STELLAR...



Scrutinizing Public Sentiments

- Negative reviews, high employee turnover, and negative press can reflect underlying issues within the company
- These signs have often preceded a company's downfall

1.0 ★★☆☆☆ ✓

Former Employee, more than 1 year

Buy a GAS MASK cause this place is TOXIC

Jun 1, 2022 - Account Executive

✗ Recommend ✗ CEO Approval ✗ Business Outlook

Pros

get that closing title on your resume

Cons

- absolutely cut throat culture, VPs and directors don't care about you as a person and will belittle you on calls
- people steal accounts all the time
- awful CRM that crashes every 5 minutes
- during my time here I've seen 30+ AEs leave in less than a year

Recap & Key Takeaways

- Importance of due **diligence and vigilance** in detecting potential fraud
- Key **red flags** across company characteristics, management profile, company behavior, financials, and public sentiments
- Significance of **skepticism** and continuous learning in the ever-evolving investment landscape
- Use the skills and insights learned today to protect your investments

Thank you + Q&A

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