NXT ANALYTIC

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Pandemic Impact Portfolio Analysis

November 2020

Summary

This portfolio analysis summarizes and expands on the individual research reports produced for each of the 15 companies listed below. To begin, each company is succinctly summarized through a series of positive and negative takeaway statements. Then, a table arranged by industry type enables comparative analysis of each company's key pandemic-relevant data findings within a positive and negative overview framework. Finally, each company is charted according to its respective risk and valuation profiles to again facilitate comparative analysis, across different industries as well as companies.

By the end, the overall conclusion will be that the portfolio is able to withstand the negative pandemic effects, through a combination of the companies performing better (even when impairment to cash flows is introduced) and the extent of impact to these companies not being as significant as expected, together with the reasons why as ascertained from the combined analysis sections.

Portfolio Holdings Summary

In this first section, each company is presented with its most pertinent and/or recent 'non-data' findings (a more comprehensive written analysis can be found via the respective research reports):

Company	Ticker	Industry
▶ Canadian Utilities Ltd.	CU	Energy - Non-Renewable and Renewable

+Ve Takeaways

Has one of its main business divisions in utilities, such that utility stocks like CU make for a lasting defensive play because they are generally less volatile (making them apt in the current market) while outperforming in low interest rate environments.

-Ve Takeaways

Is also engaged in the natural gas business, which has been especially impacted by the Covid-19 pandemic where global demand for energy consumption has fell sharply, collapsing gas prices that are rebounding still short of pre-pandemic levels.

Company	Ticker	Industry
▶ Enbridge Inc.	ENB	Energy - Non-Renewable and Renewable

+Ve Takeaways

Has contracts not tied to commodity prices (rather, they're tied to volumes), so should oil prices rebound long term to ensure enough supply flow (and most forecasts call for increased continental oil production through 2030), then ENB is sheltered.

-Ve Takeaways

Has its core businesses in oil and gas, which has been especially impacted by the Covid-19 pandemic where global demand for energy consumption has fallen sharply, collapsing oil and gas prices that are rebounding still short of pre-pandemic levels.

Company	Ticker	Industry
▶ Northland Power Inc.	NPI	Energy - Non-Renewable and Renewable

+Ve Takeaways

Has both renewable energy and utility assets and is well diversified by both location and generation method; Has consistently increased both its revenue and income in each of the last three years, allowing it to invest in several ambitious projects.

-Ve Takeaways

Has seen its share price rise steadily over several years to all-time highs post-economic collapse, so while indicative of NPI being ideal stock to already own, there is perhaps no discernible discount/bargain to be had for buying it presently.

Company	Ticker	Industry
▶ Pembina Pipeline Corp.	PPL	Energy - Non-Renewable and Renewable

+Ve Takeaways

Has billions of dollars worth of available cash, borrowing capacity, and new projects expected to come into service throughout 2020 and early 2021, meaning there is expected contribution to incremental adjusted EBITDA in the near future.

-Ve Takeaways

Has a strong focus on its heavy oil infrastructure, in particular its oil sands products which is said to be Canada's fastest-growing greenhouse gases emissions source, thus impairing the country's ability to meet its 2030 carbon reduction targets.

Company	Ticker	Industry
▶ TC Energy Corp.	TRP	Energy - Non-Renewable and Renewable

+Ve Takeaways

Has predictable and growing cash flows from operations, cash on hand, substantial committed credit facilities, and various other financing levers available to it, allowing for the continuation of funding its obligations, capital program, and dividends.

-Ve Takeaways

Has announced (at May 31, 2020) that it was moving forward with construction (as of April 2020) of the controversial Keystone XL pipeline project, yet as of early July it faced delays as a U.S. Supreme Court upheld a key permit block.

Company	Ticker	Industry
▶ Canadian Natural Resources Ltd.	CNQ	Energy - Non-Renewable and Renewable

+Ve Takeaways

Has maintained capital flexibility, strong credit ratings, and production levels throughout 2020; At June 30, 2020, liquidity was strong at approximately $4.1 billion after successfully completing the issue of two US dollar denominated bonds.

-Ve Takeaways

Is the largest independent natural gas and heavy crude oil producer in Canada, meaning it is, at worst, as susceptible to the volatile energy market (in terms of the aforementioned pandemic impact on oil and gas commodities) as its peers.

Company	Ticker	Industry
▶ Inter Pipeline Ltd.	IPL	Energy - Non-Renewable and Renewable

+Ve Takeaways

Has stabilised its financial uncertainty with well managed debt covenants and stable cash flows, allowing it to explore growth opportunities that can be realized within the next year or so (e.g. Heartland Petrochemical Complex (HPC)).

-Ve Takeaways

Has experienced stalled construction as a consequence of the pandemic via lowered construction site staffing (at its HPC) to impact near-term planned productivity and capital costs, forcing it to find ways of offsetting these damaging, rising expenses.

Company	Ticker	Industry
▶ Keyera Corp.	KEY	Energy - Non-Renewable and Renewable

+Ve Takeaways

Has all business segments performing well (as at Q2 2020), maintaining a strong financial position with a net debt to adjusted EBITDA ratio of 2.5 X (as of June 30, 2020), access to a $1.5 billion line of credit, and minimal long-term debt maturities.

-Ve Takeaways

Has had to reduce its 2020 capital program to preserve its financial flexibility, with examples such as suspending its dividend reinvestment plan and reducing its overall cost structure by having senior figures agree to reductions in their compensation.

Company	Ticker	Industry
▶ Vermilion Energy Inc.	VET	Energy - Non-Renewable and Renewable

+Ve Takeaways

Has strong operational results (as at Q2 2020), specifically through its North American business units which benefited from new production coming online, with both Canadian and US business units achieving record quarterly production.

-Ve Takeaways

Has had to minimize its capital expenditures (as at Q1 2020) for the remainder of the year, with examples including reducing its projected annualized cash outlays for dividends (by suspending the monthly dividend in its entirety as of mid-April 2020).

Company	Ticker	Industry
▶ Brookfield Asset Management	BAM-A	Financial Services - Investment Management

+Ve Takeaways

Has seen very strong performance in its asset management business and has had its best fundraising period ever (as at Q2 2020), with US$23 billion of capital added to its franchise, increasing total capital for deployment to US$77 billion.

-Ve Takeaways

Has recorded rising net income losses of US$157 million (as at Q1 2020) and US$656 million (as at Q2) due mainly to its commercial real estate business being hit hard by the pandemic (with contributing factors such as more businesses 'WFH').

Company	Ticker	Industry
▶ Fairfax Financial Holdings Ltd.	FFH	Financial Services - Investment Management

+Ve Takeaways

Has recorded net earnings of $434.9 million and net investment gains of $644.1 million (as at Q2 2020) to contrast its net losses of almost $1.3 billion and $1.5 billion (as at Q1 2020) respectively; Evidence of underwriting performance improvement.

-Ve Takeaways

Has a value investing strategy with drawbacks, such as difficulty in identifying undervalued shares even for experts, where estimating the intrinsic value requires going beyond investors' control (e.g. Changes in management, behaviour of peers).

Company	Ticker	Industry
▶ Great-West Lifeco Inc.	GWO	Financial Services - Investment Management

+Ve Takeaways

Has seen quarter-to-quarter improvement as a result of market recoveries, is in a strong capital position, has positive net cash inflows, and its assets under administration increased due to in-period market improvements (as at Q2 2020).

-Ve Takeaways

Has been affected by pandemic-related challenges and impact on investment credit rating downgrades and real estate values, and while equity and fixed income markets have improved (as of March 31, 2020) interest rates have remained low.

Company	Ticker	Industry
▶ Manulife Financial Corp.	MFC	Financial Services - Investment Management

+Ve Takeaways

Is the largest insurance company in Canada, and as such has the capital position and financial flexibility required to endure affected operating conditions; Has accelerated the rollout of digital tools and platforms to support changing business models.

-Ve Takeaways

Has a current share price that can be considered to be, at worst, fair value, yet is still short of its all-time highs as of late-2007 (i.e. Due to the 2007-8 financial crisis, causing its shares to crash but not fully recover to the same heights ever since).

Company	Ticker	Industry
▶ Power Corporation of Canada	POW	Financial Services - Investment Management

+Ve Takeaways

Has core holdings and ownership stakes across a variety of business lines, including majority owning Great-West Lifeco Inc. and investing in fintech companies including WealthSimple and Personal Capital (both leaders in their respective niches).

-Ve Takeaways

Has a current share price that can be considered to be, at worst, fair value, yet is still short of its all-time highs as of late-2007 (i.e. Due to the 2007-8 financial crisis, causing its shares to crash but not fully recover to the same heights ever since).

Company	Ticker	Industry
▶ BCE Inc.	BCE	Technological/Digital Services

+Ve Takeaways

Is Canada's largest communications company, providing broadband wireless, TV, Internet, and business communications services, so has largely benefitted as a result of the pandemic via factors such as increasing WFH and SAH trends.

-Ve Takeaways

Has suffered from a low new subscriber count (as at Q2 2020), with over 21,000 new subscribers registered (or 1/5 of almost 103,000 subscribers last year), due to markets being shut down and lack of promotional activities that BCE could engage in.

Pandemic-Relevant Data Review

In this second section, an assortment of data findings is tabulated, utilizing commonly used financial ratios as well as novel scoring and rating systems (as originally devised at NXTanalytic), and presented to create a visual summary designed to provide the user a fast take on the effects of pandemic impact factors, key financial ratios, and how a reduction in cash flow could affect each company:

	Pandemic Impact Factors						Financial Leverage Ratios & Ratings						Cash Flow Stress Test				
Ticker of Company	In Person (Businesses, Crowds & Groups)	Increased Health Regulations	Supply Chain Risk	WFH & SAH	Health & Safety	Travel, Tourism, Hospitality & Entertainment	Financial Leverage (<2.0 is 'good')	Debt-to-Capital (<1.0 is 'good')	Debt-to-Assets (<1.0 is 'good')	Debt-to-Equity (<1.0 is 'good')	EBIT/Interest (>4.0 is 'good')	Interest Coverage ('B' or better is 'good')	EV/FCF Ratio (0.0 - 20.0 is 'good')	EV/FCF Rating ('B' or better is 'good')	EV/FCF Rating @ 10% Impairment	EV/FCF Rating @ 20% Impairment	EV/FCF Rating @ 30% Impairment
Energy - Non-Renewable and Renewable																	
CU		-2	-1				2.93	0.57	0.45	1.31	2.01	C+	74.34	D-	D-	D-	D-
ENB	-8	-3	-1				2.35	0.48	0.39	0.92	3.08	B-	54.49	D-	D-	D-	D-
NPI	-8	-3	-1				5.74	0.78	0.62	3.57	1.70	C	54.50	D-	D-	D-	D-
PPL	-8	-3	-1				2.00	0.39	0.32	0.64	5.78	B+	70.81	D-	D-	D-	D-
TRP	-8	-3	-1				2.98	0.54	0.39	1.17	2.89	C+	-265.62	F	F	F	F
CNQ	-8	-3	-1				2.31	0.42	0.31	0.71	8.00	A	-1753.74	F	F	F	F
IPL	-8	-3	-1				3.28	0.59	0.44	1.43	2.73	C+	-186.33	F	F	F	F
KEY	-8	-3	-1				2.54	0.51	0.40	1.02	1.57	C	143.99	D-	D-	D-	F
VET	-8	-3	-1				4.23	0.67	0.49	2.07	5.66	B+	-78.65	F	F	F	F
Financial Services - Investment Management																	
BAM-A		-6	-2				2.85	0.07	0.03	0.07	1.87	C	-105.24	F	F	F	F
FFH		-6	-2				4.29	0.35	0.13	0.55	5.49	B+	45.29	D	D-	D-	D-
GWO		-2		4	2		17.48	0.20	0.01	0.25	16.09	A++	9.04	A	B+	B+	B+
MFC		-6	-2				7.74	0.34	0.07	0.51	4.13	B	4.83	A++	A+	A+	A+
POW	-8	-3	-1				13.08	0.23	0.02	0.30	4.85	B	10.91	B+	B+	B+	B
Technological/Digital Services																	
BCE	-7.4	-2		4		-0.2	2.89	0.57	0.45	1.31	4.39	B	40.43	D	D	D-	D-

Note: Please refer to the Pandemic Factor Screening and Scoring and Financial Stress Test Analysis sections for the relevant column heading descriptions and explanations. **Note:** The scoring and ratings color scheme is based on green filled cells = 'good'/'positive', and red-brown filled cells = 'bad'/'negative'; please see disclaimer for more detail. **Disclaimer:** The intent of the table's contents as displayed is to facilitate the formation of logic-based assumptions about a given company/industry for the user. Excluding the data which has been ascertained via publicly available means (e.g. Financial ratio figures), it is in the sole and considered opinion of NXTanalytic about how a given company is regarded per given criterion, either positively or negatively, by way of the color scheme employed (which itself is based on the scoring/ratings system as defined per given criterion). It is also in the sole and considered opinion of NXTanalytic that the collective information is both quantitatively and qualitatively sufficient for the user to formulate said assumptions to an appreciably and relatively strong level, in particular, to identify a given company's investment potential.

Notes and Overview

The table above looks at the three main categories and provides key observations, including trends and company-specific conclusions:

1. **Pandemic Impact Factors (please see the Notes section for Impact Factors definitions)**
    - Virtually all of the companies (14 of 15) have been negatively impacted overall by the Covid-19 crisis, with the biggest detrimental impact in most cases being the 'In Person (Businesses, Crowds & Groups)' (10 of 15).
    - For BCE, which is in an industry that benefits from the 'WFH & SAH' pandemic-related impact to its businesses to give a positive score of 4, it has still had to endure the negative impact surrounding health concerns involving human-to-human interaction (e.g. Front-line employees, such as retail customer representatives and field technicians, are unable to avoid making contact with the public in environments that are, at times, uncontrollable), causing a greater detrimental impact at a combined negative score of -9.4.

2. **Financial Leverage Ratios & Ratings (please see the Notes section for Ratios definitions)**
    - Effectively establishes an overall health and survivability current snap-shot for a given company (albeit using the latest available financial figures, in this case the Q2 2020 announcements), which lends itself to be of greater use when re-evaluating that company in the context of a downturned economy (e.g. If the overall 'picture' looks 'bad' now, then it is very likely going to suffer even more, or, will not be in a position to see itself through the financial hardships).
    - The EBIT/Interest ratio and Interest Coverage rating criteria are especially valuable in that regard, with GWO the likeliest of all companies for continuing to survive and function sufficiently due to having the only A++ rating.
    - For KEY, the need to analyze both the scoring system and color coding in combination is made apparent, where despite having a 'bad' Debt-to-Equity ratio, it is nonetheless only barely so (at 1.02 X), such that the overall health picture of the company can/should be considered more positive in relative terms.

3. **Cash Flow Stress Test (please see the Notes section for Stress Test definitions)**
    - It stands to reason that all companies would be negatively impacted to varying extents by impairment/suppression to their available cash flows. In this case, it appears that companies in the 'Energy - Non-Renewable and Renewable' industry are more adversely affected than those in the 'Financial Services - Investment Management' industry.
    - For GWO, MFC, and POW, the strong assumption is that they can all endure elevated operating costs due to the pandemic effects while still accessing sufficient liquidity, allowing them to continue operating under such circumstances.
    - For GWO, which has an actual EV/FCF rating at A (going down two grades to B+ as of 10% impairment), the magnitude of the progression of deterioration is relatively greater than for POW, despite it having an actual EV/FCF rating at B+ (but going down only one grade to B, and, as of 30% impairment instead). In other words, POW has relatively more valuation associated with it when impaired compared to GWO.

Company Risk/Valuation Review

In this third and final section, two additional financial ratios are introduced to generate a risk/valuation profile for each company, where the definition of risk in this case refers to the basic viability of a given business and whether or not that company is able to make sufficient sales and generate sufficient revenues to cover its operational expenses (at worst) and turn a profit (at best). Consequently, this gives an insight to the level of assurance that can then be associated with investing in that business.

1. **Net Debt to EBITDA Financial Ratio**
   - An indication of how well a company can cover/decrease its debts, or, quantifying where a company is at (now) in terms of its financial stability (where the greater the number, the more likely that company is less able to handle its debt burden and/or is less likely able to borrow the required additional funds).
2. **Enterprise Value (EV) to EBITDA Financial Ratio**
   - An indication of a company's 'attractiveness' by way of comparing its value (debt included) to its cash earnings less non-cash expenses, or, quantifying a level of value in that company with respect to investment (where the lower the number, the more likely the stock is undervalued (ergo, making it more attractive)).

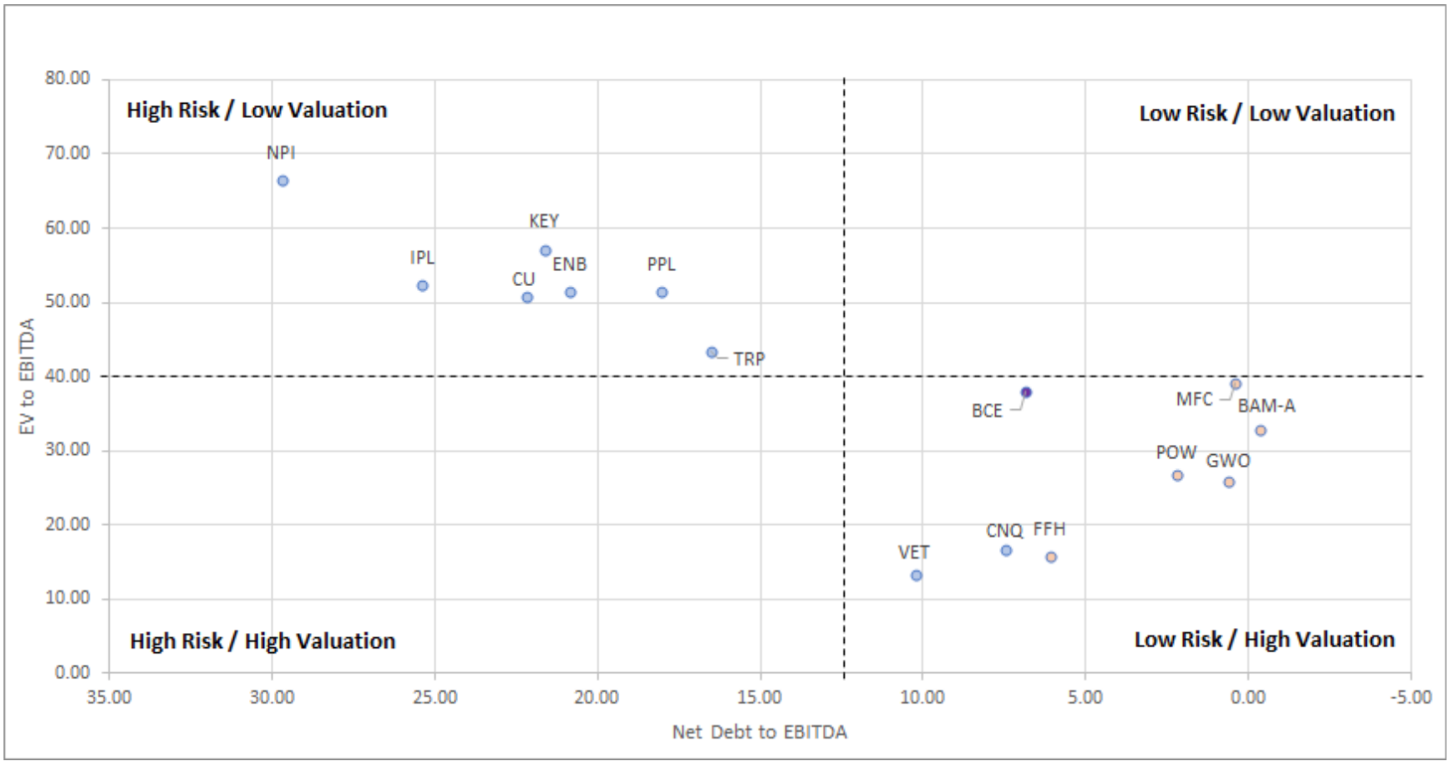
The following is a table consisting of each company together with its respective 'Net Debt to EBITDA' and 'EV to EBITDA' values, employing the same color scheme as used in the table in Section 2 to differentiate between the three industry types:

Name of Company	Ticker	Net Debt to EBITDA	EV to EBITDA
Canadian Utilities Ltd.	CU	22.15	50.79
Enbridge Inc.	ENB	20.86	51.38
Northland Power Inc.	NPI	29.67	66.42
Pembina Pipeline Corp.	PPL	18.05	51.47
TC Energy Corp.	TRP	16.53	43.46
Canadian Natural Resources Ltd.	CNQ	7.47	16.67
Inter Pipeline Ltd.	IPL	25.41	52.37
Keyera Corp.	KEY	21.60	57.19
Vermilion Energy Inc.	VET	10.25	13.33
Brookfield Asset Management	BAM-A	-0.32	32.95
Fairfax Financial Holdings Ltd.	FFH	6.10	15.80
Great-West Lifeco Inc.	GWO	0.63	25.94
Manulife Financial Corp.	MFC	0.43	39.08
Power Corporation of Canada	POW	2.22	26.83
BCE Inc.	BCE	6.86	37.98

Note: Values are accurate as of end of business day at September 17, 2020

The following is a chart consisting of each company as plotted via the x-axis ('Net Debt to EBITDA') and y-axis ('EV to EBITDA'), in reference to the respective values as per the table above. It is also segmented into labelled quadrants, serving to broadly differentiate the extremes of both risk and valuation in conjunction to allow for more incisive comparative analysis and discussion as a result:

Company Risk/Valuation Chart



Notes and Overview

The following looks at the above chart, specifically focusing on the four quadrants, and provides key observations, including trends and company-specific conclusions:

1. **Low Risk/Low Valuation**
   - The notion of a company that is not viewed as being particularly valuable, due to factors such as being unable to meet its financial obligations (thus raising its risk profile), means this quadrant area is empty (as expected).

2. **High Risk/High Valuation**
   - The notion of a company being highly valued lends itself to it being regarded as particularly safe and reliable (or, not at a high enough risk level that would concern either company or investor), so again this quadrant area is empty (as expected).

3. **Low Risk/High Valuation**
   - All of the 'Financial Services - Investment Management' companies are found in this 'best' quadrant, and are mostly grouped quite closely to one another (four of five), suggesting the industry as a whole can be predictably generalized as being relatively safe and attractive (or, not risky and of value).

- Only two of the 'Energy - Non-Renewable and Renewable' companies are found here (namely CNQ and VET), and have more risk associated with them relative to all of the 'Financial Services - Investment Management' companies.
- Despite being the only 'Technological/Digital Services' company under review (so a trend analysis is not possible), BCE is nonetheless confirmed as being at relatively low risk as a relatively valued stock (as expected, per the prior analyzes).

4. High Risk/Low Valuation

- There are more 'Energy - Non-Renewable and Renewable' companies found here (9 of 11), the 'worst' quadrant in terms of having raised financial risk together with a relatively unattractive value placed on a given company, which further attests to how volatile the industry is (especially during this pandemic).

Analysis Summary and Overview

The following alternates between a bullet point statement based on the analysis sections accordingly and a subsequent explanatory summation as it pertains to how it affects the portfolio as a whole:

The net negative pandemic impact factors affect almost all companies (14 of 15).

- The pandemic has large-scale impacted companies and industries, regardless of the nature of their respective businesses, and so the portfolio itself is a testament to that fact.

The 'bad' cash flows (actual and impairments) are associated with most of the companies (12 of 15).

- As the pandemic has increasingly affected operating costs for companies, so too have their cash flows been majorly and negatively impacted, so again the portfolio is a testament to that fact.

Whether a company has a 'good' or 'bad' actual cash flow rating, impairments to this, even at 30% impairment, does not alter the overall 'good' or 'bad' condition for any of them (15 of 15).

- A company's underlying financial viability is found not to change substantially even when cash flows get more and more suppressed, which then speaks to the portfolio overall having a greater resiliency.

There are no impairments to actual cash flows (in terms of the ratings not altering, even at 30% impairment) associated with more than half of the companies (9 of 15).

- As a consequence of companies being seen to be doing their due diligence in terms of either conserving or generating extra capital in order to continue operating, this in turn further strengthens the portfolio to withstand a downturned economy.

Of the companies that have impairments to actual cash flows (in terms of the ratings altering), the magnitude of deterioration from actual down to 30% impairment is by no more than two grades for all (6 of 15).

- This provides yet more evidence of the inherent sturdiness found in cash flows, and in turn the portfolio as a whole; additionally, only one company was found to be impaired by two grades (the remaining five only by one grade), namely GWO, and it fell from A to B+.

The 'good' interest coverage ratios and ratings are associated with more than half of the companies (8 of 15), and, more than half of those 'good' companies have 'bad' cash flows (5 of 8).

- The implication of this is that poor and/or impaired cash flows does not equate to an inability to cover debts adequately (due to having 'poor' interest coverage), which further benefits the portfolio (a good example of this is seen for CNQ, with an interest coverage rating at A despite a EV/FCF rating at F).

The risk/valuation chart shows that more than half of the companies (8 of 15) are at low risk and high valuation relatively.

- Affirms the fact that from a general investing perspective, buying stocks even in this current market is still viable (and so too is holding onto this portfolio); referring again to CNQ, despite having the worst EV/FCF ratio of all companies (at -1753.74 X), it is nonetheless one of these 8 'desirable' companies.

Notes and Definitions

Pandemic Factor Screening and Scoring

NXTanalytic research is based on the thesis that consumer and business behaviour and practices will be changed significantly as a result of the pandemic and its aftermath. We have developed a group of seven major factors that we believe indicate whether a company has an increased risk or reward profile.

We approach our analysis in the context of three time periods:

Near term effect of the pandemic.
A Resulting Recession/Bear Market.
Longer Term Psychological Effects: Changes in consumer and business behavior and practices as a result of the pandemic.

Scoring and Rating for Factor Exposure

We objectively score businesses based on positive and negative factors and how significantly they may be affected by each applicable factor. Our model generates a total regression score by generating a coefficient of the risk and reward scores given to the company by an experienced analyst.

We generate a Total Regression Score, a Covid-19 Risk Rate and a Covid-19 Benefit Rate.

Online Businesses: Due to social distancing and lockdowns and Work From Home, businesses that operate online, or produce the tools for companies to adapt to more demand for online services should experience a surge in demand due to the coronavirus, Covid-19 outbreak. Consumers will more rapidly move online across many categories. Trends already in place will accelerate. Companies whose businesses are online or are rapidly moving online are better prepared to serve the market while those based on bricks and mortar are more likely to be challenged.

Dealing with Consumers In Person: Businesses that deal with large numbers of people in close proximity to each other will be negatively affected long term. Regardless of how long the pandemic will continue, its psychological, economic and financial effects, have inevitably altered the perception of risk from exposure to large group settings. Consumers are going to avoid gathering in large groups – particularly individuals over 60. We believe consumers will be fearful of the virus and we are assuming that even when the rate of infection has slowed through social distancing and other "curve flattening" efforts, the virus will be a threat for more than a year or until widespread vaccination has taken place. Even after vaccination efforts minimize the immediate threat consumer behavior will be changed long term and concern over future pandemics will be heightened for many years.

Increased Health Regulations and Restrictions: Restrictions on travel and trade as a result of the pandemic are likely to remain in place for months or years and public health regulations will become stricter and more widespread. It's highly probable that enhanced screening, permit and visa requirements, reductions in ease of travel and transport of goods will be impacted or implemented. Governments, in an effort to restore consumer confidence, will enforce new regulations designed to protect consumers from the current pandemic and future pandemics will overshoot and result in impairing businesses who rely on international supply chains, movement of large numbers of people, or are otherwise perceived as presenting a high risk of infection to consumers.

Supply Chain and Cross Border Risks: The fact the virus can remain alive for many days on inanimate objects and surfaces is a good example of a pending supply chain issue. Perishable product supply chains designed to move items from producer to consumer in days could be significantly impacted. Overall we believe that businesses that ship goods internationally or rely on global supply chains are at risk of business interruption as the pandemic circulates globally. Further, companies with long international supply chains in countries with poor healthcare systems will likely be pressured to replace suppliers and build new supply chains closer to home markets in order to avoid new border restrictions and the potential of localized lockdowns put in place to handle future outbreaks.

Travel, Tourism, Hospitality and Entertainment: The most obviously impacted sectors are businesses on the front line of day to day consumer interaction. Restaurants, coffee shops, event venues, bars, pubs, hotels, resorts, etc could experience a prolonged or permanent change in consumer demand or be required to spend significantly on technologies and services designed to mitigate consumer concerns over health risks. Consumers will likely continue to avoid contact with crowds or reduce visits to brick and mortar hospitality and entertainment focused businesses. Companies in these sectors will need to change business practices and deploy technologies and systems designed to protect customers – many of these do not exist yet or are expensive.

Work From Home and Stay At Home: The most obvious winners are companies who enable consumer cocooning or Work From Home (WFH) and Stay at Home (SAH) behaviour. As these social and business trends become entrenched, demand for a range of new solutions for managing a distributed workforce will provide existing platform companies and new entrants with opportunities to grow market share and fill demand. Companies not offering WFH opportunities will suffer, compromising their ability to attract the best employees. The delivery economy, pioneered by the likes of Amazon.com and any company that focuses on in home exercise, consumer electronics, home entertainment and ecommerce are well positioned to profit from a long term trend towards SAH behaviour. The trend towards non-brick and mortar retail, will accelerate.

Health, Medicine & Safety: Companies focused on the health and safety of consumers and crowds will be positioned to assist businesses who will require new and robust health security solutions in order to attract customers. Heightened focus on health and virus risks will likely spur expenditures on antiviral medications and treatments, vaccines, screening systems and devices, rapid testing, containment and quarantine solutions and services, and telemedicine. Demand for antimicrobial or antiviral materials or other "bio tech materials" and products is likely to be strong in a post pandemic world.

Financial Stress Test Analysis

NXTanalytic completes a financial analysis of each company using data taken from the most recently audited financial statements. Our goal is to provide a snapshot of a company's financial condition and ability to survive a prolonged period of reduced growth, and/or finance growth or restructuring to take advantage of new opportunities.

Cash Flows as a Focus of Screening

Debt Servicing

- **Interest Coverage Ratio = EBIT / Interest Expense:** A powerful measurement of the 'survivability' of a corporation. It reflects the ability of a company to pay interest on the outstanding debt and is thus an important assessment of short-term solvency. If the ratio is underneath 1.0 X, this means that the company cannot currently cover interest charges on its debt from current operational income. This could mean that the company is funding itself through the sale of assets or further financing; which are unsustainable. The higher the ratio, the higher probability to survive in the future financial hardship.

Free Cash Flow Valuation

- **EV/FCF Ratio = Enterprise Value / Free Cash Flow:** Based on our debt servicing thesis we primarily value companies based on their cash flows. We rely on the EV/FCF ratio to assess the total valuation of the company in relation to its ability to generate cash flows. Enterprise Value is the value of the entire company, both its debt and traded equity. When this is divided by its Free Cash Flow we see how much we are paying to buy that cash flow. The lower the ratio the cheaper it is to "buy" the cash flows of the company.

Leverage Ratios

Debt ratios are classic balance sheet health measuring tools used to indicate potential risks to future financing ability (ie. violating debt covenants) or as a barometer of the defensive position of the company if cash flows are ever an issue. They are long-term solvency metrics and reflect the degree to which the company is financing its operation through debt versus equity. If a company has poor leverage ratios (too much debt), it might need to aggressively finance its growth through debt and as a result require more and more cash flow from operations to adequately service its debt. Our view is that companies with less debt are more likely to be able to withstand challenges or fund opportunities created by the pandemic.

- **Financial Leverage Ratio = Total Debt / Total Equity:** The Financial Leverage Ratio is a measure of the degree to which a company is financing its operations through debt. More specifically, it reflects the ability of shareholder equity to cover all outstanding debts in the event of a business downturn.
- **Debt-to-Capital Ratio = Total Debt / (Total Debt + Total Shareholder's Equity):** The Debt-to-Capital ratio measures the amount of financial leverage in a company. This tells us whether a company is prone to using debt financing or equity financing. A company with a high Debt-to-Capital ratio, compared to a general or industry average, may be impared due to the cost of servicing debt and therefore increasing its default risk.

Cash Flow Stress Test Analysis

NXTanalytic completes a simple cash flow stress test by reducing Cash Flow From Operations by three levels: a 10%, 20% and 30% reduction. We then rate the EV/FCF ratio. We use the EV/FCF ratio to assess the total valuation of the company in relation to its ability to generate cash flows as a measure of a company's ability to service its debts from cash flow.

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