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Brookfield

COVID-19 Initial Impact Report

Brookfield Asset Management Inc.

Ticker: TSE: BAM-A

SEPTEMBER 2020

Summary

BAM is a global alternative asset manager with a portfolio of real estate, infrastructure, renewable power, private equity, and credit assets located across 30 countries. The Company has over US$515 billion of assets under management and over US$264 billion in fee-bearing capital invested on behalf of large institutional investors, sovereign wealth funds, pension funds and individuals. BAM has seven operating segments: Asset management, Real estate, Renewable power, Infrastructure, Private Equity, Residential development, and Corporate Activities. The Company has controlling stakes in Brookfield Property Partners (BPY), Brookfield Renewable Partners (BEP), and Brookfield Business Partners (BBU), along with a 30% stake in Brookfield Infrastructure Partners. BAM is headquartered in Toronto, Canada and has more than 150,000 employees across its businesses.

Market Data

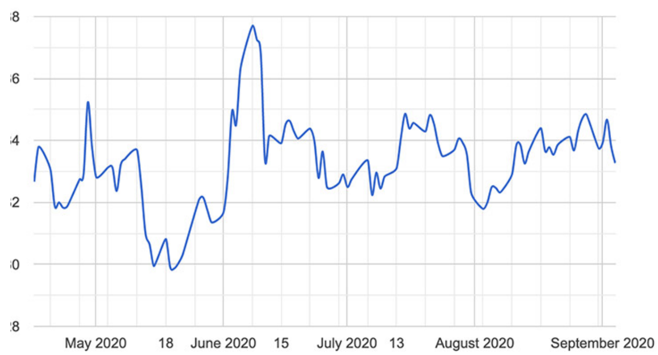
Financial Data Stated in Millions

Share Price	Market Capitalization	Net Debt
45.26	50,240	305

Total Debt	Cash & Equivalents	Enterprise Value
7,083	6,778	136,523

Basic Shares O/S
1,006

Stock Chart



Brookfield just might Stay Knocked Down due to the Pandemic BAM

Brookfield Asset Management Inc. ("BAM" or "the Company") is an asset management company with interests across several business lines, most notably in real estate. As one of the world's largest investors in real estate, the Company has a 51% stake in Brookfield Property Partners (BPY), which is its primary vehicle for real estate investments, owning 93 million square feet of office space along with 120 million square feet of retail space. This in turn has exposed BAM to the very significant impact that the Covid-19 pandemic has had (and will continue to have) on the real estate market, where a number of factors including job losses, inability to make rental payments, and decline in travel and tourism have negatively affected much of its portfolio mix that includes office, retail, multifamily, and hospitality.

As businesses become more comfortable, and capable, of having their employees working from home, along with a dramatic and perhaps irreversible shift in consumer behaviour with respect to doing more and more of their business online, this sees companies like BAM not only impacted now but also for the foreseeable and long-term future. However, the Company has the relative advantage of being able to broaden its customer base by operating across its many business lines (including renewable energy), such that through the power of diversification as a major financial organization, BAM may yet still emerge in solid financial shape.

Key Factors: While BAM is an asset manager with exposure to multiple industries, the pandemic has had a notable impact on its important real estate business, specifically commercial real estate which includes office and retail spaces. With businesses promoting work from home practices, along with brick-and-mortar retailers being forced out of business due to the lockdowns (and subsequent inability to afford rent payments), BAM's revenue stream has been directly and drastically affected.

Financial Stress Test: BAM has great financials overall on the face of it, with ample liquidity available to meet its debt obligations (e.g. The Company accessed the investment grade debt market subsequent to the first quarter end, raising approximately US$1.3 billion of long-term financing across BAM and its public affiliates. It also obtained US$2 billion in temporary incremental credit facility capacity to be used for new investment opportunities).

Brookfield Asset Management Inc. Pandemic Impact Factors Review

NXTanalytic considers 7 factors and 30 specific indications that we believe will impact companies during and after the Covid-19 pandemic. These factors include: Online Business Profiles, Dealing with Consumers In Person, Effect of Increased Health Regulations, Supply Chain Risks, Travel, Changes and Disruption in Tourism, Travel and Hospitality, Increased Demand for Health Care and Health Safety, WFH and SAH.

COVID-19 Factor Analysis

Net Benefit	Total Regression Score
NEGATIVE	-8.0

Covid-19 Risk Rate	Covid-19 Benefit Rate
-8.0	0.0

Pandemic Impact Factor Analysis

BAM is a major player in the global commercial real estate industry, an industry that has been shaped drastically by the pandemic as more and more businesses have either moved away from the pricier city/urban scapes in order to still be operational, have foregone the physical world altogether in order to join the increasing digital way of working, or have simply stopped operating altogether as reflected by the crisis in the economy. Thus, the Company has to rethink how these empty spaces can be filled once more, and one such outside-of-the-box idea has seen BAM's subsidiary BPY recently signing a deal with entertainment company 'Kilburn Live' in order to turn some of its parking lots into drive-in theaters and virtual concerts. This repositioning to take advantage of the general public's desperation to leave their home and be entertained (especially during the summer and early fall seasons) is a sound step to take, and allows for other unconventional uses where space is otherwise just going to waste (e.g. Converting retail buildings into self-storage facilities).

Another key business interest is in renewable energy, where BAM is one of the world's largest investors in renewable power, with over 19,000 megawatts of generating capacity and assets located in North and South America, Europe, India, and China, comprising a diverse technology base of hydro, wind, utility-scale solar, distributed generation, storage, and other renewable technologies.

The International Energy Agency says the demand for renewables is expected to surge, as social distancing and lockdown measures have helped propel a shift towards more reliable and cleaner sources of energy. So while there has been a reduced global energy demand resulting from these measures, nonetheless this has opened opportunities for the renewables sector to accelerate and strengthen its position in the energy industry.

Relevant Factors

- **In Person (Businesses, Crowds & Groups):** BAM's ability to earn steady revenue is deeply linked to keeping occupancy numbers high in their numerous office spaces and retail malls. With the pandemic bringing about a major change in both employee and consumer behaviour in terms of lessening the demand for such spaces (both from a financial inability and health safety point of view), the Company needs to find ways to adapt to this seemingly irreversible trend in order to start achieving a measure of profitability for this business line.
- **Increased Health Regulations:** With major changes happening and continuing to happen in the financial services and real estate sectors in order to protect the well-being of all affected people, the costs involved will have to be carried by the likes of BAM which will undoubtedly disrupt its cash flows by way of suppressing them. Also, until a vaccine is broadly distributed and global restrictions are greatly eased, the industry as a whole will not be able to return to full normal, and that particular time frame is going to be counted in terms of years, not months.

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:

1. Near term effect of the pandemic
2. A Resulting Recession/Bear Market
3. 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.

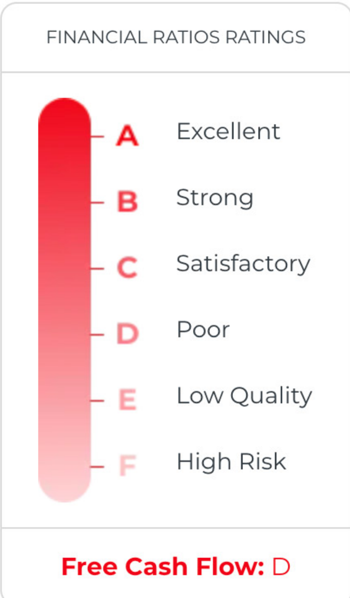
Supply Chain and Cross Border Risks: The fact the virus can remain alive for many days on inanimate objects and surfaces is a good example of a pending supply chain issue. Perishable product supply chains designed to move items from producer to consumer in days could be significantly impacted. Overall 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.

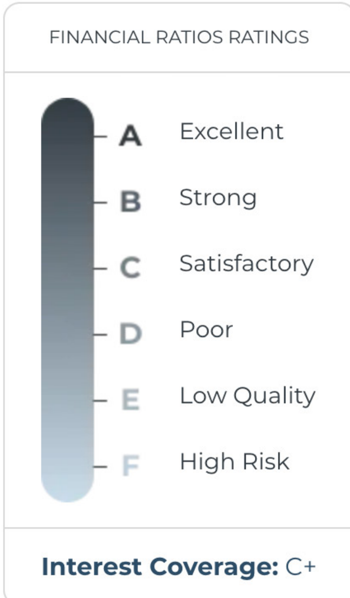
Travel, Tourism, Hospitality and Entertainment: The most obviously impacted sectors are businesses on the front line of day to day consumer interaction. Restaurants, coffee shops, event venues, bars, pubs, hotels, resorts, etc could experience a prolonged or permanent change in consumer demand or be 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





NXTanalytic reviews a series of financial measures designed to provide a snapshot of the company's financial health and ability to deal with the challenges or opportunities created by the pandemic, the recession and post pandemic economic environment.

Financial Ratios

FYE – Dec. 31st	Financial Leverage	Debt-to-Capital
2019 A	2.77 X	0.06 X
Debt-to-Assets	**Debt-to-Equity**	**EBIT/ Interest**
0.02 X	0.06 X	2.09 X
EV/ FCF		
41.69 X		

Cash Flow Stress Test

EV/FCF Ratio (when CFFO is 90% of actual)	D-
EV/FCF Ratio (when CFFO is 80% of actual)	D-
EV/FCF Ratio (when CFFO is 70% of actual)	D-

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.

Our opinion

BAM stated through its first quarter 2020 results that business performed well despite the global issues, showcasing the resiliency of its business model and its ability to withstand periods of disruption. The Company was also in a strong financial position, with US$60 billion of available liquidity ready to be deployed globally as opportunities arose. Most of BAM's operations continued to generate favorable operating profits, reflecting the essential and durable nature of its services and activities; however, these were offset by the impact of non-cash, unrealized adjustments, including mark-to-market movements during the last month of the quarter. As a result, BAM recorded a net loss of US$157 million during the quarter, which is in stark contrast to it recording a profit of nearly US$1.26 billion in the same quarter last year.

Into the second quarter, and the magnitude of the net loss was extended further to US$656 million despite BAM declaring that it had its best fundraising period ever, with US$23 billion of capital added to its franchise, increasing total capital for deployment to US$77 billion. There was also very strong performance in its asset management business and continued resiliency within most of its operations to contribute to strong operating results.

Despite having decent enough financials and being of the necessary size and prominence required to cushion even the heaviest of blows, it is still evident that BAM is an investment risk given the substantial setbacks that the real estate industry has faced and will continue to experience, not to mention its alarming net income loss trend that will impact its bottom line regardless of how 'healthy' its cash and cash commitments levels are presently. While the Company also has a strong interest in renewable power, along with other relatively less impacted business lines and ventures that can enable BAM to still maintain acceptable levels of sustainability desired by investors, it remains to be seen that the Company will also show healthy vital signs of value and safety in the months to come.

Stress Test Highlights

Debt-to-Assets: BAM has a tremendous debt-to-assets ratio at 0.02 X to imply it has a very strong balance sheet along with the rest of its leverage ratios which are all at low values.

Interest Coverage: An interest coverage ratio at 2.09 X translates to the Company having somewhat stable revenues, and so can continue to pay its interest expenses on outstanding debt.

EV/FCF: BAM has a somewhat high Enterprise Value-to-Free Cash Flow ratio at 41.69 X, suggesting it is a company that is perhaps more overvalued rather than particularly discounted. Also, a theoretical decrease in the Company's Cash Flow From Operations (CFFO), from actual down to 70% of actual, shows a grading change from D down to just D-, so while that's still 'poor' and of concern, nonetheless it implies a relative worsening of cash flows isn't actually all that impactful.

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.
- **Debt-to-Equity Ratio = Total Debt / Total Shareholder's Equity:** A high Debt-to-Equity ratio generally indicates that a company has been aggressive in financing its growth with debt. This can result in volatile earnings as a result of additional interest expense. If the company's interest expense grows too high, it may increase the company's chances of a default or bankruptcy.
- **Debt-to-Assets Ratio = Total Debt / Total Assets:** The Debt-to-Assets ratio shows the degree to which a company has used debt to finance its assets. This ratio can be used to evaluate whether a company has enough assets to meet its debt obligations. A ratio greater than 1 indicates that the entire company's assets are worth less than its debt.

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No

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No

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No

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No

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No

Has the Analyst received any compensation from the subject company in the past 12 months?

No

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