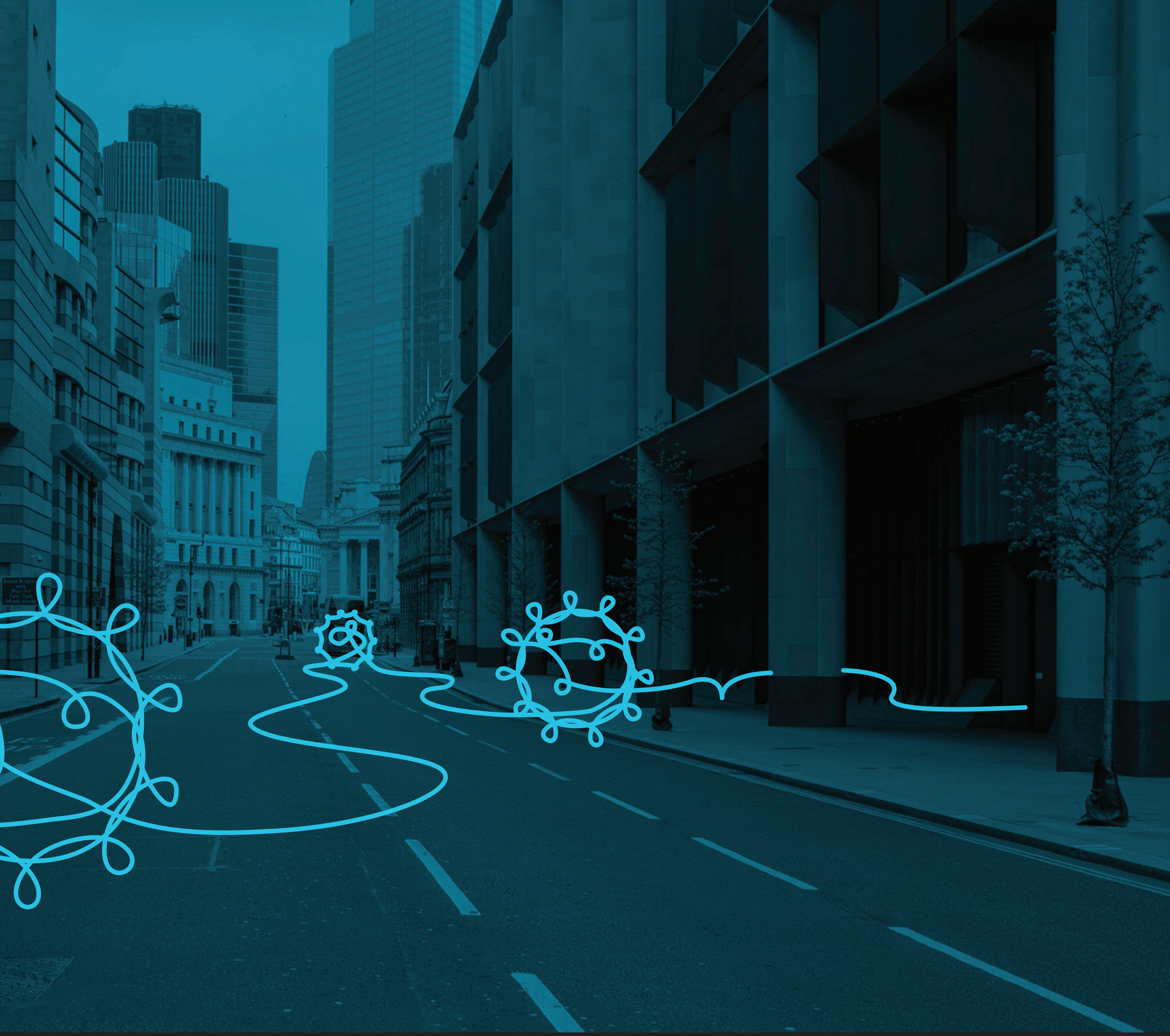


NAVIGATING IN UNCERTAINTY

July 2020

LODEROCK

INTRODUCTION

The COVID-19 pandemic swiftly affected global economies and markets in early 2020, causing significant volatility in the capital markets. While equity and debt prices have bounced back dramatically from their March lows, many investment professionals believe considerable risk remains as evidenced by record-high cash balances among funds. Uncertainty remains connected to multiple pandemic-related issues, including the potential for a resurgence in cases as economies reopen. However, there are also numerous questions about how the global economic recovery will play out as stimulus eventually ends and as people change their behaviours — some for just the near term but others potentially permanently.

LodeRock Advisors conducted a survey of its Canadian institutional contacts to better understand how their thinking has changed in a COVID world. The survey focused on four main areas: the profile of the economic and market recovery, the outlook for capital structures and capital allocation, the potential impact of COVID-related themes, and how companies should focus their communications efforts going forward.

This publication details our findings. In general, investors remain cautious with most concerned about the impact of COVID-19 on the economy. Almost all pointed to the autumn as an important timeline as government stimulus will end and new COVID-19 cases could see a resurgence. This viewpoint is significantly at odds with the market's incredible rebound, adding further to the uncertainty. Investors feel strongly that companies should focus on de-levering their balance sheets in anticipation of potential future pandemics. COVID-based themes such as online commerce, remote working and supply chain restructuring were also top of mind. Do these themes apply to your company? Finally, there was a strong view that communications strategies needed to adjust by providing more context on the business environment in lieu of guidance.

This is clearly a time of potentially significant change. LodeRock Advisors endeavors to remain informed about institutional investor sentiment as we help our clients formulate impactful capital markets communications strategies. Our key conclusions from this survey suggest there is an opportunity for companies to adjust their messaging and, in the process, gain greater credibility with the market. We think now is a time to be informed about how the market is shifting, and to be ready to respond.

HIGHLIGHT SUMMARY –
BE READY / BE INFORMED

Section 1:
Economies are Reopening but Fund Managers Remain Cautious

- Respondents are looking for signs that support the shape of the economic recovery
- COVID-related attributes rank higher than economic and market as indicators of market stability
- Capital remains on the sidelines as investors mitigate risk
- It's not you, it's the Fed – avoid the mentality that everything is normal because the markets, or your stock price, have rebounded
- Be ready for the autumn – stimulus dissipates, real economy, election, deficit management
- Key takeaway: Risk remains elevated – understand the disconnect between the market and economy

Section 2:
Capital Structure and Allocation

- The markets want lower leverage and prioritize balance sheet health ahead of investments beyond organic growth
- Be clear in your communication strategy to justify the allocation of capital as you make new investments
- Key takeaway: A greater understanding of the market's evolving view of balance sheet risk should underpin decisions on cash allocation

Section 3:
COVID Themes

- New opportunities are emerging at an accelerated pace
- What themes does your business play into?
- Is your business prepared and communicating how you are impacted?
- Key takeaway: Market moves have been thematic and, where relevant, your communications strategy should capture important market trends

Section 4:
Communications: Less Guidance, More Context

- It is time to act
- Talk to how you are investing and the strategic actions you are taking to improve your competitive position for the next 2-3 years
- There is greater downside in saying nothing if your comps are speaking
- Help investors assess downside risk
- Investors keep a "mental credibility score"
- Key takeaway: COVID has created uncertainty - now is a time to build credibility

Methodology

The survey was conducted from April 30 through to May 29, 2020. A total of more than 130 individuals were contacted and 48 complete responses received. By the nature of using a pre-selected sample, the survey results are not a statistical analysis without bias. Professional institutional investors accounted for 41 of the responses and sell-side research analysts/sales representatives 7 of the responses. The survey format consisted of a mix of live telephone interviews (30) and online format (18).

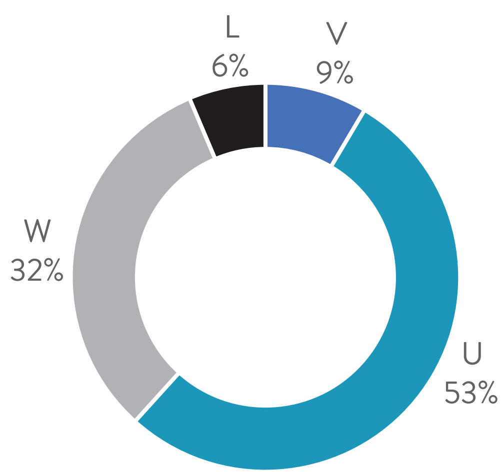
LodeRock Advisors committed to keep the identity of each respondent and their individual responses anonymous.

SECTION 1:

ECONOMIES ARE REOPENING BUT FUND MANAGERS REMAIN CAUTIOUS

1. MANAGERS ARE LOOKING FOR SIGNS THAT SUPPORT THE SHAPE OF THE ECONOMIC RECOVERY

Of the four standard recovery options (V,W,U,L-shape) which shape most closely reflects the base case assumption for your investment strategy:



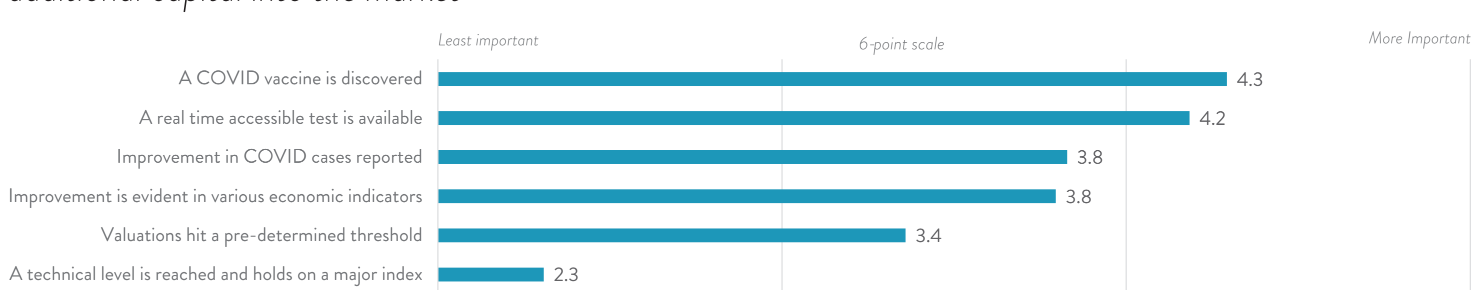
Analysis:

- The market has recovered much faster than expected as the S&P has continued to move higher in May and June following a 12% bounce in April
- The U answers are effectively now W's suggesting 85% of fund managers are preparing for more turbulence ahead
- Investors are still navigating many macro unknowns – unemployment, second (subsequent) waves of COVID, the U.S. election....

2. COVID-RELATED FACTORS RANK HIGHEST AS PREDICTORS OF MARKET STABILITY

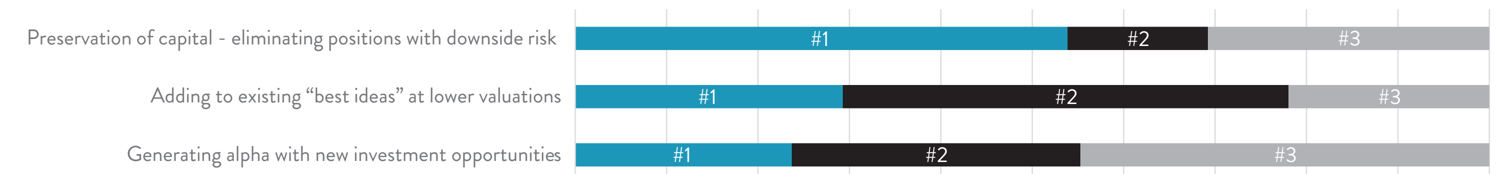
Policy response and quantitative easing cited as current drivers of rebound in the markets:

Please rate the level of importance of each of the following events as a milestone for you to deploy additional capital into the market



3. CAPITAL REMAINS ON THE SIDELINES AS INVESTORS HAVE BEEN MITIGATING RISK

In the current environment, please rank your priorities



Analysis:

- *It's not you, it's the Fed* – avoid the mentality that everything is normal because the markets, or your stock price, has rebounded
- Respondents took a more negative view on the economy than what is priced into the market -> stimulus is causing the disconnect
- Capital on the sidelines helps the market grind higher; consider the W may be asymmetric
- Rates will stay low and low employment rates make inflation unlikely
- The upcoming U.S. election incentivizes public spending, but there may be an unprecedented reversal to contain the deficit regardless of who wins
- Monetary easing may result in increased currency volatility
- Consider the economy – *how is your business hedged against uncertainty?*
- With significant capital on the sidelines, when investors deploy capital in new opportunities expect the *credibility of the story and the management team to matter*
- *Transparency* – you won't be penalized severely in being open as the market acknowledges the disconnect on fundamentals
- *Summer may be a dead zone but be ready for the autumn* – stimulus dissipates, real economy, election, deficit management
- *Raising capital* – if your stock has recovered and the appetite exists, now is an opportunistic time, but clear communication of your strategy and use of proceeds are required

KEY MESSAGE:

Risk remains elevated – understand the disconnect between the market and economy

“There is quite a bit of optimism about the magnitude of stimulus, but I believe there has been significant damage to certain segments of the economy for a V shaped recovery. There are a number of industries that will not recover quickly and will be a drag on growth which will prolong the recovery.”

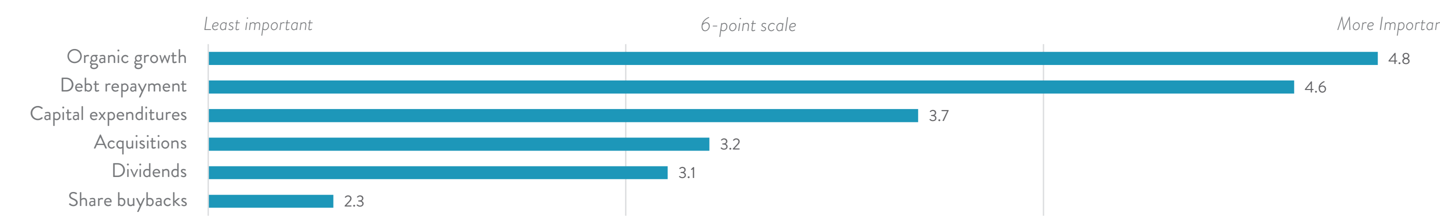
“I think the path to normalcy is being drawn out as this shut down has had a severe impact on employment. It is going to be difficult to recover. I don’t think you change your thesis/strategy, but you probably trip over the edges and get rid of companies that are impaired financially or strategically and then add to quality.”

“Fascinating to see on a macro level. I don’t see how the economy gets back in any meaningful way in a few months, even a year or a year and a half. The policy response has been so significant that markets are sort of behaving again. What the BoC and Fed are doing is sort of backstopping the credit markets. I think the economy is going to be in rough shape. The economy is going to be choppy for the next year to two years but the market is taking its cues from fiscal and monetary policies.”

SECTION 2:

CAPITAL STRUCTURE & ALLOCATION: THE MARKET WANTS TO SEE LOWER LEVERAGE

Understanding there are different characteristics for each issuer coming through the recovery, rate the level of importance of the following uses of cash



Analysis:

Debt Repayment: Make sure your balance sheet is in a good place before you spend in areas outside of organic growth

Capex and M&A: Be clear in your communication strategy to justify the allocation of capital if you invest in these areas

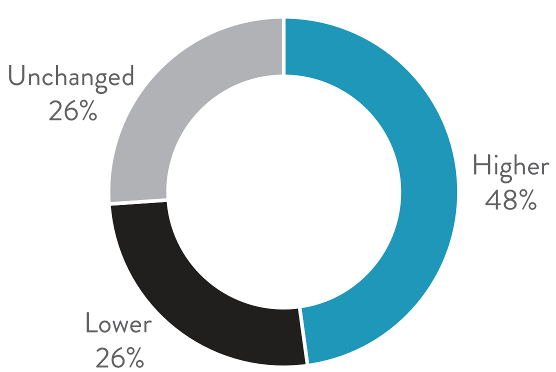
Dividends: With the prominence of income funds, there is great demand for dividend stocks. How you signal is important. Understand that there is a cap to the dividend payout ratio – more is not optimal

Share buybacks: There will be less tolerance for share buybacks enabled by cheap debt. If you’re buying back stock, you should not have higher ROIC capital allocation options in the business

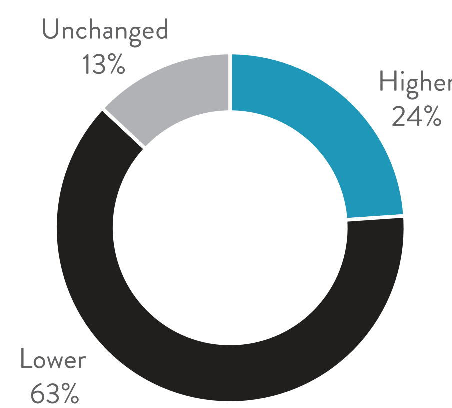
CORPORATE YIELDS

- 74% of respondents expect unchanged or higher corporate yield despite lower rates
- Spreads may widen as there is a greater perception of risk for issuers (non-investment grade)
- 63% of respondents expect less corporate leverage going forward

In 24 months, what will absolute yields look like for corporate bonds?



What is your assumption on corporate leverage trends going forward?



Analysis:

- *Capital allocation will be scrutinized: Have a clear communications strategy on why and how COVID-19 has changed or not changed your capital allocation strategy*
- *CFOs should expect increasing investor interest in cost of capital, ROIC and hurdle rates; ambiguity on these items will stall interest*
- *Equity will drive your cost of capital as real / perceived cost of debt increases – managing your shareholder base matters*

KEY MESSAGE:

A greater understanding of the market's evolving view of balance sheet risk should underpin decisions on cash allocation

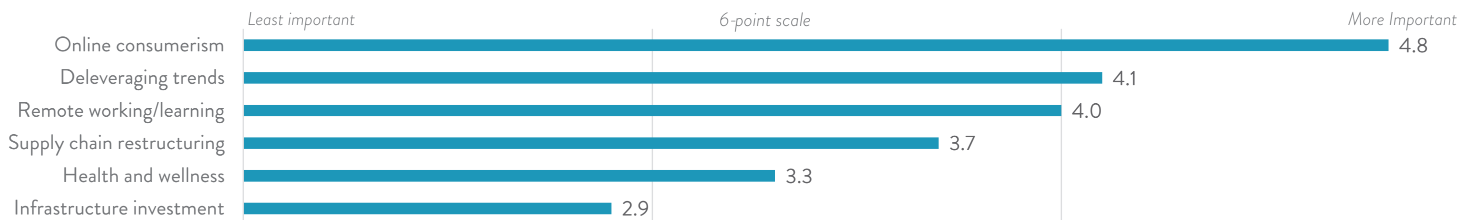
"I rank organic growth as the most important because you want to see who can grow in the current economic backdrop as those companies should hold or expand their multiples if there is growth scarcity."

"Depends on company – solid track record managements get leeway to use leverage and to buy shares or M&A. Relative to pre COVID, riskier uses like M&A, buybacks and even capex have gone down the list while debt repayment has gone up. Canada is unique in dividends, where the investment community treats them more sacrosanct then in other markets like Europe."

"Downside risk always becomes more important during times of stress, so factors that impact cashflow/leverage will be the most important factors to focus on."

SECTION 3:
COVID THEMES: SOME THINGS WILL CHANGE FOR GOOD

A number of themes are emerging as opportunities post-recovery. As it relates to your investment process, please rate the level of importance of each of the following investment themes, using a six-point scale where six is extremely important and one is not important at all?



Analysis:

- *Online consumerism and remote work/learn are trends that appear to have legs long-term coming out of COVID, a structural change is taking place*
- *Respondents felt each of these themes were relatively important, just because a theme ranks lower is not indicative that it is not a good opportunity*
- *Secondary business trends that are derivatives of primary trends exist that can lead to additional opportunities*

What themes does your business play into? Some trends are accelerating. Are you communicating how your business is adapting?

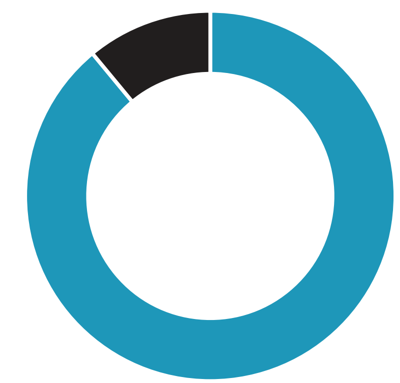
- *Explain how your business is adjusting or relevant in this environment*
- *If you can address one or more of these themes, it could support multiple expansion*
- *Consider how they affect not just investors but your employees*

KEY MESSAGE:

Market moves have been thematic and where relevant your communications strategy should capture important broader market trends

SECTION 4:
COMMUNICATIONS: LESS GUIDANCE, MORE CONTEXT

Given the current uncertainty, would you generally prefer companies widen the range of guidance or revoke guidance altogether?



89%

of respondents prefer companies revoke guidance

Analysis:

- *The market has decided removing guidance was an appropriate response to the pandemic*
- *There is asymmetric risk to continuing guidance versus the benefit of retaining it, unless your business model offers certainty on forward visibility*
- *When you bring back guidance, there will be increased pressure to be right*
- *Stock valuations are now based on 2021, not 2020*
- *Macro uncertainties remain and may persist into the Fall*
- *2021 guidance almost signals to the market you know something the market doesn't – it will not appear credible if uncertainties persist*
- *Goal posts help, formal or not*

81%

of respondents said companies should be more proactive in their correspondence to investors

1 in 3

respondents said more access since the pandemic would have been beneficial

Analysis:

- *Be proactive, available and responsive*
- *Transparency is essential – be honest about what you know, don't know, and give us some datapoints*
- *Provide insights, inputs, levers and scenarios over guidance and conclusions*
- *One-on-one's are invaluable and virtual platforms are just as effective*
- *Understand and communicate balance sheet risks/needs and operational factors - drivers in the business, metrics, where do you see trends*
- *Talk to your own competitive position*
    - *Where you are investing, high-grading talent, liquidity*
    - *How are you affecting your FCF outlook 2-3 years down the road*
- *Greater downside in saying nothing if your comps are speaking – investors tend to fill in the vacuum on your business*
- *Help investors assess downside risk*
    - *Do not just focus on how well you are doing or potential opportunities*
    - *Investors want a free option on upside, but to also control the downside*
- *Investors keep a "mental credibility score"*

"Transparency – Trying to provide stakeholders with transparent information so they can make their own decisions on the underlying investments."

"Increased disclosure about the issues or opportunities they are confronting. Market wants more in times like this. Stop me from my imagination running wild."

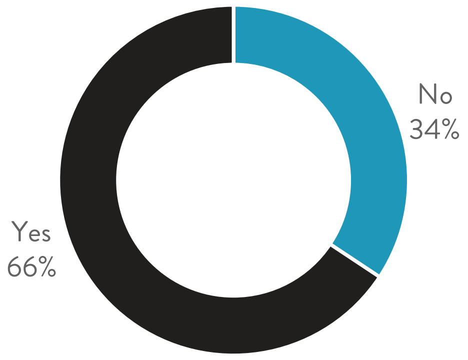
"Just actually communicating… and no surprises, investors (obviously) hate uncertainty. If you have the cash to fund and grow the business through this, then tell people that."

KEY MESSAGE:

COVID has created uncertainty - now is a time to build credibility

WHAT MIGHT GET LEFT BEHIND...

Will ESG investment strategies be a priority post the COVID-19 pandemic?



Analysis:

- *ESG remains important – COVID did not interrupt this trend. Major funds are invested, and funds will continue to flow into ESG investments*
- *Will priorities shift S or E, it may differ by company or sector*
- *What are the parameters?*
    - *Most large institutions come up with their own criteria*
    - *Also an opportunity for companies to establish their criteria*

KEY MESSAGE:

If you don't have a strategy you should, there's no change in this trend

APPENDIX

LODEROCK

Section 1 - Verbatim Responses - Why does the [V, U, W or L] recovery options most closely reflect the base case assumption for your investment strategy?

"I believe Corona virus is a transitory shock that will be discounted by the market very quickly and I don't expect any lingering long term effects."

"I don't think you can apply any past learnings on what this will look like, this is completely different, be prepared for everything. Take a 2-3 year view investing in businesses and management teams so the shape is less important to their investment decision as we don't know how this will turn out exactly, no one does."

"There is quite a bit of optimism about the magnitude of stimulus, but I believe there has been significant damage to certain segments of the economy for a V shaped recovery. There are a number of industries that will not recover quickly will be a drag on growth which will prolong the recovery."

"Deep low with gradual prolonged recovery, as some sectors remain in recession like conditions while others recovery quickly."

"Economy will slowly start again, but productivity will be materially impacted with the social distancing practices for even businesses not greatly affected. Only 60-80% will productivity. Won't be a bull market like before COVID."

"Surprised at how quickly the market bounced back, but then again fiscal and monetary policy response was crazy quick and big. Unemployment will sustain for longer than 2020 due to human cautiousness."

"Likely early expenditure of pent up demand, followed by inevitable affects of structurally higher unemployment."

"We think companies are going to take 3-5 years to get back to late 2019 levels."

"Not a recession caused by normal excesses but an external event. Typically recessions have a more organic cause – markets overheated and we need to clear some "dead wood" so there's a forest fire. Certainly, this has been more serious than I ever expected."

"The stock market was overvalued going into COVID-19, ultimately driven by low interest rates. The damage to the economy will be more severe and will take longer to undo than the market is discounting."

"The amount of stimulus the government has thrown? I did not fully appreciate the level of support that would have on the market despite COVID related news. It appears a lot of the (selloff) move in March was liquidity driven as much as fundamental. If the Fed has been able to backstop all the negativity in March then probably the lows have been reached. Future downdrafts could be COVID related, if there is a re-spike of infections (data will lag). From a virus standpoint next 3-4 weeks [in May] probably in benign period of news flow but the risk is they open up too quick or economy does not respond to reopening the way the market hopes."

"We'll try to reopen, case counts then spike, people will be apprehensive and this will still hurt economy. Structural disruption, bankrupt businesses, hard to imagine V shaped recovery given the structural change in the economy."

Section 2 - Verbatim Responses - Why did you order the capital allocation priorities in that particular manner?

"Debt repayment has become much higher on this list post COVID. It will be interesting to see how receptive investors will be to share buybacks after COVID."

"Usually I want to know that you are going to be bigger and better and have an opportunity to grow. The other things don't matter (as much). That said, the answer in the middle of a pandemic will be different – in this environment, cash is king. But I still want to know about growth."

"Very focused on existing business, less worried about too much debt leverage. Buybacks would have been higher in the ranking pre-COVID."

"Want best companies to use debt to invest opportunistically, but overall companies should deleverage as they will all have more debt coming out of this event."

"Not against buybacks, but they must be supported (no better ROI opportunities)."

"Debt repayment is now more important to de-risk the balance sheet. Risk moves like M&A will get more scrutiny from investors."

"Certain industries will trade below replacement value so deploying capital into deleveraging (if required) and purchasing other struggling competitors likely yields higher ROI than investing in legacy business."

"Depends on company, dividends have been used too much as a cost of capital crutch, especially with cyclical businesses (i.e., they should not pay them). [Unnamed] is an example, they should use the buyback rather than dividend because it's a much better ROI for the investor."

"I think debt repayment and management of cashflow will be the primary concerns given the uncertainly about growth prospects. For companies that have adequate liquidity I think M&A will be fertile, as there will be many struggling companies."

"I rank organic growth as the most important because you want to see who can grow in the current economic backdrop as those companies should hold or expand their multiples if there is growth scarcity."

"I think dividends will become more important as the search for yield has been exasperated by COVID-19. I expect more muted buyback activity and as a result the focus will shift to dividends. Companies that can sustain a dividend should get a higher valuation versus peers."

"Share buy backs looked at negatively by the media and highlighted the risk of debt. Balance sheet strength will be important. Valuation shift occurred to favour buy vs. build."

"These are all very company specific depending on their stage. It is difficult to prioritize when you need to know the company. I like dividends but I don't want you to go offside just to maintain the current levels. A cut maybe required."

"Usually I want to know that you are going to be bigger and better and have an opportunity to grow. The other things don't matter (as much). That said, the answer in the middle of a pandemic will be different – in this environment, cash is king. But I still want to know about growth."

"Balance sheet strength is the key to all other uses of cash."

"Good allocators can find good stuff to buy cheap."

"For companies that have the ability to, acquisitions, organic growth, then capex. We tend to own companies that don't own a ton of leverage. Combination of share buy backs or dividends, we are agnostic to one or the other. We want to own essential business that can reinvest in themselves even in a slower economy. Companies that own hard assets (infrastructure, real estate, gold) will do well in hyperinflation scenario."

"Don't like leverage in general, companies should manage balance sheet properly. Over levered companies have no flexibility and can't grow. Prefer organic growth to acquisition. Not interested in dividends, invest in growth."

"Balance sheet health is the highest priority (not stretched). A company should be running their business and execute their strategy - run business responsibly. If that is accomplished dividends and buybacks are a result."

"Organic growth will be tougher because of the economy so acquisitions could play a role in growth."

Section 4 - Verbatim Responses - What's the most important thing companies can focus on, from a communication perspective, in this environment?

"Want a well-founded narrative on survival and escape strategies."

"Varies by company, but I would suggest companies try to highlight big conclusions they are able to draw. Any big uses of cash or capital. How they are attempting to strengthen their position coming out of this. How they address near term stress and opportunities coming out of this."

"Honesty, we'd rather hear uncertainty rather than providing an outlook that will be missed."

"Be as transparent as possible with the strategy going forward. Don't try to hide problems. Be proactive and candid."

"Acknowledgment of the changes that are expected to occur in the business. Companies should be able to provide a lens into where the management team believes the business will be impacted and describe other areas where they are collecting data that will provide more information on secondary areas they are monitoring and could be impacted."

"Companies that have the ability to do conference calls or sending out to talk about how businesses is navigating through the period. Some companies have not discussed what they are seeing in the current environment. Address the situation head on. Be more transparent about how they are operating, what it's like on the front lines."

LODEROCK ADVISORS INC.

You went public for a reason.

You want to maximize the value of your listing by achieving a fair and full valuation and ready to access to capital. Our programs support these objectives. We help companies go to market with a clear and differentiated message, find the right audience for their story, and implement a high-quality ongoing communication plan.

With more than 200 years of collective experience in capital markets—in investor relations, equity research and investment management—our team has informed answers based on deep, real-world experience.

Our programs help our clients: raise their profiles in the investment community; set and manage expectations effectively; and build credibility with the Street.

LodeRock Advisors Inc.

Craig Armitage
E: craig.armitage@loderockadvisors.com
T: +1.416.347.8954

David Feick
E: david.feick@loderockadvisors.com
T: +1.403.831.7557

LODEROCK RESEARCH INC.

Technology and regulatory trends are having a negative impact on the ability for small- and mid-cap issuers to attract analyst coverage. LodeRock Research is focused on filling this void.

Credible, independent investment research plays a vital role in the capital markets ecosystem by supporting the investor due diligence process. This is becoming more important as institutional investors also come under fee compression. Quality investment research can improve liquidity and lower volatility for a stock, and in many cases lower cost of capital for a company.

LodeRock Research offers a premium product differentiated by the experience of its key Principal, Greg MacDonald. With 25 plus years as an award-winning equity analyst and eight years as a domestic Head of Research for a global investment dealer, the product is underpinned by his credibility and strong relationships with global institutional investors.

Much like credit rating agencies, LodeRock's fee-based research is governed by policies designed to assure quality, integrity and objectivity in the analytical process.

The company uses a proprietary screening method to identify issuers with the fundamentals to attract institutional interest.

LodeRock Research Inc.

Greg MacDonald
E: greg.macdonald@loderockresearch.com
T: +1.416.728.2556

LODEROCK