

BCP Research: Aphria (APHACN)/ Tilray (TLRY): Thoughts on Merger- Maintain APHACN 24s 'Swap Positive', Upgrade TLRY 23s to 'Outright Positive'

Published: January 11, 2021

Summary: Canada-based cannabis companies, Aphria (APHA) and Tilray (TLRY) have announced plans to merge under the Tilray name (New Tilray). The deal is expected to close 2Q21 and will establish New Tilray as the largest cannabis company in the world. Pending regulatory and shareholder approval, Aphria shareholders would own 62% of New Tilray (fully-diluted). We assume APHACN 24s are restruck at US\$7.86 (TLRY) to reflect exchange into TLRY shares at the close of the transaction. TLRY 23s have no anti-dilution protection and as such are likely to remain well out of the money, given strike of US\$167.41 v. current stock price of US\$12.47.

Overall, we welcome signs of industry consolidation. We highlight management's plans to integrate production, with the transition to in-house supply of TLRY products from existing APHA facilities. Aside from production efficiencies, the company expects to realize annual pre-tax synergies of ~US\$78 mm (CAD 100 mm) over 24 months post-transaction. Management has reiterated its expectation of reaching adj. EBITDA positive in the near-term, and anticipates this, alongside easing of capex, should support achievement of near FCF breakeven by 3Q21.

While breakeven adj. EBITDA seems attainable, medium term consensus (2023 adj EBITDA estimate of US\$319 mm, 17% margin), against the backdrop of a substantially oversupplied market, appears daunting. Given current cash burn, New Tilray's balance sheet is not yet tenable. However, healthy pro-forma liquidity (75% LTM revenue) and market cap, nearly 14x net debt levels, are broadly supportive for the credit profile. Achieving consensus, US\$401 mm pro-forma net debt (excl. conversion) implies manageable pro-forma net leverage below 2x, assuming modest interim cash burn. Positive sentiment drivers are the expected opening of EU markets over the coming year and the US Blue Wave, enhancing prospects for broader legalization. Against this, we point out existing broad availability in large US population centers, alongside the fact that cannabis grows like a weed, and there appears to be relatively low barriers to entry.

We estimate 800 bps credit spread for both APHACN 24s and TLRY 23s. We maintain our 'Swap-Positive' rating on APHACN 5.25% 24s, which have rallied to 125c (+52%) since our initial upgrade at 82.5c on 10/21/20. Bonds are trading slightly cheap FV (126c), but continue to offer attractive opportunity for investors looking monetize the volatility differential at 50% IVOL on the convert v. 74% (100D) and 108% (IVOL) for the listed calls on the common. TLRY 23s (86c) have recently rallied from distressed levels (~40c). The bonds trade 5% cheap to FV (91c) with no option, and APHA equity (US\$12.26) trades well below the strike price (US\$167.41). We hope to see more evidence of stabilizing fundamentals from the combined operations. In the interim, we upgrade TLRY 5% 23s to "Outright – Positive", recognizing TLRY 23s remain substantially cheap relative to their counterpart (APHACN 24s), and New Tilray's pro-forma structure and market cap of US\$5.5 bn.

	Amt Out (US\$ MM)	Mid Price	Mid YTW	Implied Vol	Cheapness (par)	Delta (par)	Conv. Price	APHA US Price
APHACN 5.25% 06/01/2024	259	125.3	(1.93%)	50.48%	(0.17%)	68.06%	\$9.38	\$8.97
TLRY 5% 10/1/2023	278	86.3	10.98%	n/a	5.23%	0.75%	\$167.41	\$12.26

Source: Equity information sourced from Bloomberg. Convertible pricing as of January 11, 2020

Overview of the Merger:

- Aphria (APHACN) and Tilray (TLRY) have entered into a definitive agreement to merge via a reverse acquisition by Aphria, maintaining the Tilray name (New Tilray)
- Pro-forma Equity Value: US\$5.5 bn on a fully diluted basis, as detailed in the table below
- Exchange ratio:

- Aphria shareholders to receive 0.8381 shares of Tilray (TLRY US) for each common share, reflecting 23% premium to market close Dec. 15, 2020, or ~62% ownership (fully-diluted) as of market close December 15, 2020
- Tilray stockholders maintain shares, reflecting ~38% pro-forma ownership (fully-diluted) as of market close December 15, 2020
- Expected Close: 2Q21, pending regulatory and shareholder approval
- Shareholder Approval: 2/3 approval from Aphria Shareholders, and majority approval from Tilray Stockholders

Pro-Forma New Tilray Capital Structure	US\$MM
Aphria Inc (APHA)	
Current TEV	2,779
(-) Minority Interest	32
(-) Net Debt	71
Current Market Cap	2,677
Current Price (USD) (1)	\$8.97
Shares Out (mm) (1)	299
(+) SweetWater Acquisition (2)	11
Pro-Forma Shares Out (mm)	310
Pro-Forma Price (fully-diluted) (USD)	\$8.97
Pro-Forma Market Cap	2,777
Pro-Forma Net Debt (2)	191
Pro-Forma Minority Interest	32
Pro-Forma TEV	2,999
Tilray (TLRY)	
Current TEV	2,036
(-) Minority Interest	-
(-) Net Debt	399
Current Market Cap	1,637
Current Price (USD) (1)	\$12.26
Shares Out (mm) (1)	134
(+) Tilray Convert Repurchase (3)	17
(+) Drawdown of addtl. ATM Program (2)	4
Pro-Forma Shares Out (mm)	155
Pro-Forma Price (fully-diluted) (USD)	\$12.26
Pro-Forma Market Cap	1,900
Pro-Forma Net Debt (3)	210
Pro-Forma Minority Interest	-
Pro-Forma TEV	2,110
New Tilray (Pro-Forma)	
Tilray Pro-Forma Shares Out (mm)	155
(+) Conversion of APHA into TLRY Shares (mm) (4)	260
Pro-Forma Shares Out (mm)	415
Pro-Forma Price (fully-diluted) (USD) (5)	\$12.26
Pro-Forma Market Cap	5,083
Pro-Forma Net Debt	401
Pro-Forma Minority Interest	-
New Tilray Pro-Forma TEV	5,484

(1) As reported on BBG 1/11/2021

(2) Reflects US\$300 mm transaction (expected close end-FY20 calendar year). Disclosed sources to fund the acquisition included US\$100 mm committed term loan, US\$50 mm SweetWater stake converted to APHA stock, US\$100 mm drawdown ATM program and US\$50 mm cash on hand. Based on merger disclosures and discussions with management, we anticipate US\$50 mm in US\$50 mm cash on hand was replaced with expansion of the committed term loan to US\$120 mm, and additional drawdown of US\$35 mm (CAD 45 mm) of TLRY's ATM program, with net cash available for use towards operations.

(3) Reflects US\$197 mm exchange on TLRY 23 converts into TLRY US stock at rate of 10.9 mm shares at US\$7.36/share and 6.4 mm shares at US\$6.68/share (Expected close November 24-25, 2020)

(4) Shares converted at a rate of 0.8381 TLRY shares for each APHA share at US\$9.68, or a 23% premium to APHA share price of US\$7.87 at close on Dec. 15, 2020

(5) Pro-Forma price (fully diluted), reflects combination of 151 mm in TLRY pro-forma fully diluted shares, post convert repurchase, and 260 mm in APHA shares, accounting for 0.8381 conversion rate at 30% premium to Dec. 15, 2020 close

New Tilray Operational Overview and Guidance:

- **Consolidated:**
 - Expanded coverage to all product offerings (economy, value, core, premium and premium plus), across all cannabis categories (flower, pre-roll, oils, capsules, vapes, edibles and beverages)
 - *Production:* Guided 250,000 kg / annum production (+32% v. last LTM reported), reflecting replacement of asset-light Tilray's need for third-party wholesale purchasing
 - *Revenue:* Pro-forma consolidated LTM revenue generation (Sept. '20) of US\$685 mm (CAD 874 mm), establishing New Tilray as the largest cannabis company in the world
 - *Pre-Tax Synergies:* Est. US\$78 mm (CAD 100 mm) in annual pre-tax cost synergies over 24 months post-transaction relating to overhead costs, sales/distribution (10-15%), and cultivation/production (30%)
 - We note the est. US\$30 mm per annum in cultivation/production cost synergies is related primarily to capacity utilization, and excludes cost reductions attributable to reductions in third-party purchasing
 - *Cash:* US\$454 mm
 - *Debt (excl. lease liabilities):* US\$816 mm, comprised of US\$279 mm in secured debt and US\$537 mm in convertible notes
- **Canada:**
 - *Revenue:* Pro-forma LTM (Sept. '20) consolidated gross revenue of US\$232 mm (CAD 296 mm) in the Canadian adult-use segment
 - *Market Share:* Pro-forma consolidated retail market share of 17.3% (Aug. – Oct. '20), 700 bps higher than next closest competitor, with market leadership in Ontario and Alberta (Aphria) and Quebec (Tilray)
 - *Production costs:* Estimated cultivation costs below 80 USD cents / gram (1 CAD dollar / gram) at Aphria facilities
 - ~35,000 kg / year of cannabis grown in Aphria's existing Leamington (Ontario) facility, replacing asset-light Tilray's present need for third-party wholesale purchasing
- **Europe:**
 - Elimination of import/export tariffs and streamlining of EU-based cultivation, production and distribution in European markets via:
 - Tilray EU-GMP certified Portuguese production facility (2.7 mm sq. ft.), expansion completed FY20
 - Aphria EU-GMP pending German production facility (est. 125,000 sq. ft)
 - CC Pharma: Aphria's wholly-owned subsidiary, with established distribution chain to 13,000+ pharmacies in Germany and Europe
- **United States:**
 - US Consumer Packaged Goods (CPG) Platform: aligns with managements strategy to gain in-roads into the US market, in anticipation of future FDA CBD regulatory clearance, and legalization of cannabis at the federal level (MORE Act)

- Manitoba Harvest (Tilray): Hemp producer, partnered with 16,000+ major retailers in the US at time of acquisition (Feb. '19), including:
 - Walmart, Whole Foods (Amazon), Kroger, CVS, Albertsons (Safeway), Publix, H.E. Butt Grocery Co., ShopRite, HyVee, Wegmans, Fresh Thyme, Mother's, Natural Grocers, New Seasons Market, PCC Community Markets, Sprouts, The Fresh Market, The Giant Company, The Vitamin Shoppe
- SweetWater (Aphria): Cannabis craft brewing subsidiary, with pre-established distribution channels to ~29,000 retail locations and 10,000+ restaurants/bars in 27+ states (incl. Washington D.C.), partnership with Delta (serving flights to 50+ countries, 6 continents), and JV with Anheuser-Busch InBev (ABI), Fluent Beverage Company
 - Management noted discussions with ABI are ongoing relating to the JV post-merger

Pro-Forma New Tilray:

We take an overall favorable view of the merger, which reflects the beginnings of necessary market consolidation. We continue to focus on inventory days, which we expect to remain elevated near-term, given 250,000 kg production guidance (+32% v. LTM last reported) and no stated plans to charge inventory. However, this will be balanced by consolidation of some production, as supply of TLRY products are moved fully in house and handled by existing APHA facilities. Aside from production efficiencies, the company anticipated ~US\$78 mm (CAD 100 mm) in annual pre-tax cost synergies realized over 24 months post-transaction. The inclusion of SweetWater operations should provide additional support to margins, and we expect to see New Tilray reach adj. EBITDA breakeven by the end of FY20. We anticipate cash burn will continue in the near to medium term (FY20 pro-forma est. -US\$280 mm), while management has signaled near FCF+ by 3Q21, following cost reductions and the completion of capex and WK-intensive expansion projects.

Consensus estimates for 2023 (adj. EBITDA of US\$322 mm - 19% margin) appear optimistic in the face of chronic oversupply. Yet, if achieved, they imply manageable LTM net leverage of 1.3x v. US\$401 mm in pro-forma net debt, which includes existing APHACN 24s (US\$259 mm), TLRY 23s (US\$278 mm), combined lease liabilities (US\$39 mm), and pro-forma secured debt + other (US\$297 mm). In addition to US\$454 mm pro-forma cash (61% cash to consol. PF LTM revenue), we estimate New Tilray will have ~US\$175 mm in residual amounts from its ATM equity program. New Tilray's pro-forma liquidity runway of ~24 months appears sufficient to address near term cash burn, though we anticipate additional capital will be required to fund potential capex and WK for global expansion, particularly towards establishing production facilities in the US if/when regulatory approval materializes. Given the pro forma market cap (US\$5.5 bn), for the time being, we see ample access to capital relative to expected cash burn.

Comp Table (US\$MM)	Aphria (1,2)	Tilray (3)	New Tilray (4)	New Tilray (4)	Trulieve	Aurora (1,2,3)
	Aug '20 LTM 1Q21	Sept '20 LTM 3Q20	Sept '20 PF LTM 3Q20	Dec. '20 PF FY20E	Sept '20 LTM 3Q20	Sept '20 LTM 1Q21
Cannabis Production (kg)	149,437	39,994	189,431	250,000	n/a	155,710
Cannabis Sales (kg)	54,525	37,370	91,895	121,278	" "	55,117
% of production	36%	93%	49%	49%	" "	35%
Cash Costs (USD / gram)	0.71	3.42	n/a	n/a	" "	2.97
Cannabis Inventory (5)	110	90	248	266	35	91
Cannabis COGS (5)	77	145	162	170	121	123
Cannabis Inventory (5)	517	224	550	565	104	266
Hemp Production	n/a	n/a	n/a	n/a	n/a	n/a
Hemp Sales	" "	10,223	10,223	10,472	" "	" "
Cash Costs (USD / unit)	" "	8.52	8.52	8.45	" "	" "
Net Revenue	418	201	685	745	430	202
Gross Profit (before FV adj.)	111	56	n/a	n/a	312	(8)
Gross profit margin (%)	27%	28%	-	-	73%	(4%)
Adj. EBITDA	19	(61)	(18)	2	222	(164)
Adj. EBITDA margin (%)	5%	(30%)	(3%)	0%	52%	(81%)
Working Capital	(118)	(76)	(194)	(170)	(34)	(69)
Capex	(82)	(63)	(145)	(107)	(81)	(196)
Lease Liability Payments	(1)	(5)	(6)	(6)	(5)	(5)
Free Cash Flow	(181)	(205)	(362)	(280)	103	(434)
Cash	307	155	462	454	193	113
% revenue	73%	77%	67%	61%	45%	56%
Liquidity	370	180	550	556	193	169
% revenue	88%	90%	80%	75%	45%	84%
Undrawn - Secured Credit Facilities	3	10	13	13	-	9
Undrawn - Committed ATM Equity Program	-	209	209	174	-	127
Total Available Liquidity	373	399	772	744	193	305
% revenue	89%	199%	113%	100%	45%	151%
Cash Burn / Month	(15)	(17)	(30)	(23)	9	(36)
Months Liquidity Runway	24	11	18	24	NM	5
Net Debt (6)	71	399	470	401	60	371
Net Leverage	3.6x	NM	NM	NM	0.3x	NM
Total Enterprise Value (EV)	2,779	2,036	4,815	5,484	5,217	1,853
EV / Sales	6.6x	10.1x	7.0x	7.4x	12.1x	9.2x
EV / Gross Profit	25.0x	36.3x	NM	NM	16.7x	NM
EV / EBITDA	NM	NM	NM	NM	23.4x	NM
BBG Consensus Est. '23						
Sales/Revenue	1,010	817	1,893	1,893	1,249	463
Gross Profit	390	212	n/a	n/a	906	254
Gross margin	38.6%	26.0%	" "	" "	72.5%	54.9%
EBITDA	212	83	319	319	667	94
EBITDA margin	21.0%	10.1%	16.8%	16.8%	53.4%	20.3%
Gross Leverage	1.8x	6.7x	2.9x	2.7x	0.4x	5.1x
Net Leverage	0.3x	4.8x	1.5x	1.3x	0.1x	3.9x
EV / Sales	2.8x	2.5x	2.5x	2.9x	4.2x	4.0x
EV / Gross Profit	7.1x	9.6x	n/a	n/a	5.8x	7.3x
EV / EBITDA	13.1x	24.6x	15.1x	17.2x	7.8x	19.7x

(*) Based on Calendar Year (end December 31st). Reflects BBG consensus as of 1/11/2021

(1) APHACN reflects 1Q21 (end Aug '20) reporting period, ACBCN reflects 1Q21 (end Sept '20)

(2) LTM Production for Aphria and Aurora run-rate based on prior quarter reported results

(3) Cash costs at Tilray reflect average 9M20, Aurora reflects last reported 9M plus run-rate based on prior quarter reported results

(4) Pro-Forma revenue and adj. EBITDA include SweetWater (US\$66 mm revenue, US\$24 mm adj. EBITDA). Net WK and Free Cash Flow elements reflect only APHA and TLRY operations (excl. SweetWater, not disclosed). Pro-Forma cash, liquidity, net debt and BBG consensus account for TLRY US\$197 mm convertible bond exchange, est. SweetWater acquisition costs, and est. addtl. debt financing.

(5) Excl. FV adjustments (Trulieve and Green Thumb incl. FV, based on limited disclosure). Tilray and Tilray Pro-Forma (LTM 3Q20, FY20) reflect total inventory, COGS and inventory days based on historical change q/q.

(6) Includes lease liabilities. Convertible bonds valued at par

Convert Valuation:

We estimate a 800 bps credit spread and 50% vol for both APHACN 24s and TLRY 23s, which reflects anticipated revenue and adj. EBITDA improvements, balanced by est. near-term fundamental weakness, and is in line with US-based peer, Trulieve, who generates approx. half the revenue of New Tilray (pro-forma), but is supported by substantially stronger adj. EBITDA margins (~50%) at 0.3x net leverage and a current market cap of US\$5.5 bn.

APHACN 5.25% 24s: We maintain our 'Swap-Positive' rating on APHACN 5.25% 24s, which have rallied to 125c (+52%) since our initial upgrade at 82.5c on 10/21/20. Bonds are trading only slightly cheap to FV (126c), but continue to offer attractive opportunity for investors looking monetize the volatility differential at 50% IVOL on the convert v. 74% (100D) and 108% (IVOL) for the listed calls on the common.

TLRY 5% 23s: TLRY 23s (86c) have recently rallied from distressed levels (~40c). The bonds trade 5% cheap to FV (91c) with no option, and APHA equity (US\$12.26) trades well below their strike price (US\$167.41). We hope to see more evidence of stabilizing fundamentals from the combined operations. In the interim, we upgrade TLRY 5% 23s to "Outright – Positive", recognizing TLRY 23s remain substantially cheap relative to their counterpart (APHACN 24s) and New Tilray's pro-forma structure and market cap of US\$5.5 bn.

US\$MM	Aphria	Tilray	Trulieve	Aurora
Region	Canada/ Int'l	Canada/ Int'l	US	Canada/ Int'l
Bond Ticker	APHACN	TLRY	TRULCN	ACBCN
Coupon	5.25%	5.00%	9.75%	5.50%
Maturity	6/1/2024	10/1/2023	6/18/2024	2/28/2024
Currency	USD	USD	USD	USD
Amt Out (US\$MM)	259	278	130	345
Maturity Type	Convertible	Convertible	Fixed	Convertible
Rank	Sr Unsecured	Sr Unsecured	Secured	Sr Unsecured
Mid Px	125.3	86.3	107.6	82.3
Mid YTW	(1.93%)	10.98%	7.19%	12.61%
FV	125.5	91.1	" "	82.1
Cheapness	(0.17%)	5.23%	" "	(1.68%)
BF	90.6	39.3	" "	43.1
Upside	0.23%	5.60%	" "	(0.16%)
Downside	(27.68%)	(54.49%)	" "	(47.57%)
IVOL (%)	50.48%	n/a	" "	n/a
Delta (%)	68.06%	0.75%	" "	5.65%
Parity	95.5	7.3	" "	12.1
Premium (pts)	30.3	79.7	" "	71.4
Conversion Price (USD)	\$9.38	\$167.41	" "	\$86.72
Conversion Ratio	106.6	6.0	" "	11.5
Equity Ticker	APHA US	TLRY US	TCNNF US	ACB CN
Share Price (USD)	\$8.97	\$12.26	\$40.03	\$10.46
Shares Out (mm)	299	134	58	142
100D (%)	74.15%	120.33%	49.30%	164.33%
IVOL (%)	108.17%	126.55%	n/a	122.23%
Market Cap	2,677	1,637	5,157	1,483
Net Debt	71	399	60	371
Minority Interest	32	-	-	-
TEV	2,779	2,036	5,217	1,853

Source: Equity information sourced from Bloomberg. Convertible pricing as of January 11, 2020

Megan E. McDonald
Investment Research Analyst
BCP Securities, LLC

289 Greenwich Avenue, Ste 4
Greenwich, CT 06830
+1-203-629-2185 ext. 312
mmcdonald@bcpsecurities.com
www.bcpsecurities.com

Matias Castagnino, CFA
BCP Securities, LLC

Paseo de la Castellana, 91
28064 Madrid, Spain
+34 91 310 6980
mcastagnino@bcpsecurities.com
www.bcpsecurities.com

[Want to read more of BCP Securities' Convertible Research? Click Here](#)

DISCLOSURE APPENDIX

REGULATION AC - ANALYST CERTIFICATION

We, Megan McDonald and Matias Castagnino, CFA, certify that all of the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by us in this report.

COMPANY SPECIFIC DISCLOSURES

This report may not be independent of BCP's propriety interests. BCP does business, and seeks to do business, with companies covered in BCP research. As a result, investors should be aware that BCP may have a conflict of interest that could affect the objectivity of this report. Further, BCP may trade the securities (or related derivatives) that are the subject of this research report for its own account and for certain customers, and may from time to time maintain long or short positions in the securities (or in related derivatives) of the companies mentioned in this report. Such financial and trading interests may be contrary to any recommendation in the report.

BCP's salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research.

MEANINGS OF RATINGS

Top Picks Universe

"Market Outperform" – The bond's total return is expected to exceed the total return of the J.P. Morgan Corporate Emerging Markets Bond Index series ("CEMBI") Broad Diversified High-Yield Index over the next 3 – 6 months.

"Market Perform" – The bond's total return is expected to be in line with the total return of the CEMBI Broad Diversified High-Yield Index over the next 3 – 6 months.

"Market Underperform" – The bond's total return is expected to be below the total return of the CEMBI Broad Diversified High-Yield Index over the next 3 – 6 months.

"Not Rated" or no comment – Currently, the analyst does not have adequate conviction about the bond's total return relative to the CEMBI Broad Diversified High-Yield Index over the next 3 – 6 months.

Quasi Sovereign Universe

“Market Overweight” – The spread of the bond to its similarly duration sovereign controller bond is expected to decrease over the next 3 – 6 months.

“Market Weight” – The spread of the bond to its similarly duration sovereign controller bond is expected to remain unchanged over the next 3 – 6 months.

“Market Underweight” – The spread of the bond to its similarly duration sovereign controller bond is expected to increase over the next 3 – 6 months.

“Not Rated” or no comment – Currently, the analyst does not have adequate conviction about the bond’s spread to its similarly duration sovereign controller bond over the next 3 – 6 months.

High Octane Universe

“Speculative Buy” – Bonds that in our view have an equity investment risk profile and we think risk/return is significantly skewed to the upside

“Positive” – Bonds that in our view have an equity investment risk profile and we think risk/return is skewed to the upside

“Neutral” – Bonds that in our view have an equity investment risk profile and we think risk/return is balanced

“Negative” – Bonds that in our view have an equity investment risk profile and we think risk/return is skewed to the downside

“Speculative Sell” – Bonds that in our view have an equity investment risk profile and we think risk/return is significantly skewed to the downside

Convertible Universe

“Outright” – Convertible bonds that, in our view, present risk/return significantly skewed to the upside (3x upside v. 1x downside)

“Swap” – Convertible bonds that, in our view, offer attractive volatility differential between implied volatility of the convertible bond option call v. the 100D realized volatility and listed calls in the option market for the corresponding equity

“Busted” – Convertible bonds trading with out-of-the-money option calls that, in our view, offer an attractive yield to maturity, relative to risk/return

GENERAL RESEARCH DISCLOSURES AND DISCLAIMERS

This report is intended only for institutional investors, and should not be redistributed to retail investors. BCP research is not a solicitation or offer to buy or sell any security or financial instrument or to participate in any trading strategy. The products mentioned in this report may not be eligible for sale in some states or countries.

The analysts principally responsible for the preparation of BCP research receive compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (including overall investment banking revenues), client feedback and competitive factors. The compensation of BCP analysts is not linked to specific investment banking or capital markets transactions by BCP. Analysts employed by non-U.S. affiliates may not be registered with FINRA, may not be associated persons of BCP, and may not be subject to FINRA regulations regarding research related activities.

BCP research is based on public information. BCP makes every effort to use reliable, comprehensive information, but makes no representation that the information is accurate or complete. Facts and views presented in BCP research have not been reviewed by, and may not reflect information known to, professionals in other BCP business areas, including investment banking personnel. BCP analysts may interact with sales and trading desk personnel in connection with their research, including to ascertain pricing and liquidity in the fixed income markets.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. BCP has no authority to make any representation or warranty on behalf of the issuers. BCP policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

BCP may update its research reports and ratings as it deems appropriate, but has no obligation to do so. BCP has no obligation to inform clients of any changes in facts, assumptions, opinions, estimates, or ratings. Certain outstanding reports may contain discussions and/or investment options relating to securities, financial instruments and/or issuers that are no longer current. Neither BCP nor any officer or employee of BCP accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.

BCP research and ratings should not be used or relied upon as investment advice. BCP research does not provide individually tailored investment advice. BCP research has been prepared without regard to the circumstances and objectives of those who receive it. BCP recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Investors should consider this report as only a single factor in making their investment decisions. The appropriateness of an investment or strategy will depend on an investor’s circumstances and objectives. The securities, instruments, or strategies discussed in BCP research may

not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Securities discussed in this report may be rated below investment grade and should therefore only be considered for inclusion in accounts qualified for speculative investment.

The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, prices, market indexes, operational or financial conditions of companies or other factors. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. Investors may experience a loss of their original capital investment in such securities.

International investing entails greater risk, as well as greater potential rewards compared to U.S. investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economies.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate. Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market.

INTERNATIONAL DISCLOSURES

Singapore: This report is distributed in Singapore by BCP Securities Asia Pte Ltd to accredited investors, expert investors or institutional investors only (as defined in the applicable Singapore laws and regulations and is not intended to be distributed directly or indirectly to any other class of person). Recipients of this report in Singapore are to contact BCP Securities Asia Pte Ltd in respect of any matters arising from, or in connection with, this report. BCP Securities Asia Pte Ltd is registered with the Accounting and Corporate Regulatory Authority.

Spain: The report is distributed in Spain by BCP European Agencia de Valores, S.A., supervised by the Spanish Securities Markets Commission (CNMV), and is written and distributed in accordance with rules of conduct for financial research under Spanish regulations. This report is only intended for persons who are Eligible Counterparties or Professional Clients within the meaning of Article 78bis and Article 78ter of the Spanish Securities Market Act. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. There is no obligation to register or file any report and any supplemental documentation or information with the CNMV. Neither verification nor authorization or compliance revision by the CNMV regarding this document and related documentation or information needs to be fulfilled in accordance with the Spanish Securities Market Act.

Brazil: This report is distributed in Brazil by BCP Securities Brazil (RJ) in accordance with applicable regulations. No approval is required for publication or distribution of this report in Brazil. The views expressed above accurately reflect personal views of the authors about the subject companies and their securities. The compensation of the equity research analyst(s) is indirectly affected by revenues deriving from the business and financial transactions of BCP. Where a Brazil based analyst has taken part in the preparation of this research report, the Brazil based analyst whose name appears first assumes primary responsibility for its content from a Brazilian regulatory perspective and for its compliance with CVM Instruction 483.

COPYRIGHT AND USER AGREEMENT

Copyright 2020 BCP Securities, LLC. All rights reserved. This research report is prepared for the use of BCP clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of BCP. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusions, or information contained in this report (including any investment recommendations, estimates or price targets) without first obtaining expressed permission from an authorized officer of BCP.