Imagine 2025:

Looking to the future - a global perspective

EQUITY RESEARCH | JUNE 11, 2020

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Disseminated: Jun 11, 2020 00:15ET; Produced: Jun 10, 2020 23:51ET

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June 11, 2020

Imagine 2025: Looking forward from here - a global perspective

In the midst of a global recession investors have rightly focused on the depth, duration and consequences of the coronavirus led crisis, as we begin to emerge from isolation and quarantine. This has been central to our cross-asset research for the past few months, and will continue to be for many more months ahead. However, it is also important to think about the longer-term implications. Within our Imagine 2025 framework, we have asked our analysts to address the evolving and lasting changes that they expect to observe in their sectors on this extended timeline. In the interest of brevity, but also to their frustration, we have constrained them to one-page templates, which we believe provides a useful compendium across some 40 sectors and delivers a thematic piece to trigger longer-term ideas and debate.

We highlight below four key themes emerging:

1. **Accelerated Digital Transformation –** We believe that the increased need for digital experiences (forced by the global pandemic) across both the consumer and commercial landscape has accelerated the shift from physical to digital assets. We see increased opportunities around multiple sectors currently in the throes of digital transformation and a growing awareness and spending on software enabling these changes.
2. **Social behavior –** While humans are naturally social, we think certain long-term changes are likely. Some, or many, will be hypersensitive around cleanliness and large gatherings (impacting bar and restaurant traffic, sporting events). For others, we see less travel and tourism – again a world less global, with implications ranging from the airlines to luxury goods as well as of course leisure.
3. **Capital allocation –** Given the painful impact of a global pandemic, we do not believe governments or corporates will ignore the prescient warnings given historically. We see obvious implications across the healthcare sectors, but also the need for corporates to invest in their existing infrastructure, supply chains and logistics to cope better in future. We see a world with less globalization, and rather greater local sourcing. We envisage balance sheets being strengthened with implications for shareholder returns.
4. **Shareholder demands –** We think investors will inevitably change their long-term views and equity risk premiums attached to sectors. Government engagement, emergency actions will always be on the horizon, whilst prior defensive sectors have proved less defensive against pandemics than recessions – likely to see higher CoE and lower multiples attached.

As evident by our work, the ripple effect from these themes will be long-lasting and felt across sectors. On the following pages we highlight key long-term implications at a sector level with short summaries on the companies most positively and negatively impacted (on a relative and long-term basis).

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High Level Global Sector Specific Comments

Communication Services: Greater bandwidth usage over the last mile and middle mile, accelerating already existing trends; more distributed content; more robust IT architectures, requiring in many cases greater datacenter utilization; increased utility of broadband services; increased demand for residential landlines; accelerated adoption of online solutions in physical transaction verticals (car retailing, real estate, restaurants, etc.); and heavier reliance on food/grocery deliveries.

Consumer Staples & Discretionary: More vigilance around cleanliness/health & wellness (washing hands, disinfecting surfaces, vitamin intake etc.); more meals prepared at home/increased staples usage as a result of habit from shelter-in-place restrictions + more lenient telecommuting policies; accelerated shift to e-commerce/meal delivery + reduced brick and mortar traffic (retail consolidation); heightened emphasis on digital/DTC; increased retailer inventory requirements; increased/improved safety protocols at restaurants (both in food preparation and restaurant capacity).

Energy: Lower gasoline demand given work-from-home trends (daily commute accounts for ~28% of US gasoline demand) and increased hesitancy around air travel; industry consolidation as a result of lower oil prices; accelerated shift to e-commerce could lead to increased diesel demand; and shift in demand for heat/electricity – potentially higher demand in homes offset by lower demand in offices/commercial.

Financials: Accelerates the secular shift for consumer banking away from community banking and drive more small bank consolidation; raises importance of comprehensive digital banking solutions and payments infrastructure; accelerated e-commerce shift drives card focus on partnering with digital companies vs. brick and mortar retailers; more upfront disclosures on whether pandemics and related illnesses are included or excluded from insurance coverage; a concerted push by regulators to find a solution to provide at least some insurance coverage from future pandemics (i.e. it could be a government backstop like TRIA or the NFIP); if more employees work remotely, in the long-run it could reduce insured property space and might accelerate movement of operations to lower-cost markets; management teams to reassess their liquidity and leverage levels under new pandemic scenarios; and increased market support from the Federal Reserve.

Healthcare: Increased shift to telemedicine (we estimate telehealth could serve as a suitable alternative for as much as one third of doctor visits over the long-run); increased use of in-home apps/devices to monitor endpoints whenever possible for clinical trials; increased demand for preventive medicines such as vaccines; more R&D investments to develop novel treatments and rapid diagnostics for viral infections; supply chain improvements; increased operating expenses and occupancy challenges for skilled nursing facilities; acceleration of M&A opportunities in hospital sector if COVID-19 is protracted; decrease in foreign dependency on medicines, leading to a shift in manufacturing back to the US, which could increase costs; and decreased political pressure on drug pricing.

Industrials: Greater investment in home improvement or new homes; de-urbanization; need for better smart home connectivity and energy efficiency; higher investments in warehouse/factory automation; lower demand for retail fueling investments, aerospace aftermarket, congestion tolling projects, VAC utilization, etc.; scenario of reduced oil demand could have negative implications for some heavy construction equipment categories as well as some engines involved in well servicing; more work-from-home could boost need for local distribution and delivery, benefitting certain truck and component makers; less traffic on toll roads and/or airports; airlines selling more packaged products (i.e. travel insurance, rental cars, hotel rooms, etc.); and fewer discount airfare options if smaller budget airlines go bust.

Specifically as it relates to autos, COVID-19 could shake up the trajectory of the four main secular themes influencing the industry (C.A.S.E.): connected could be accelerated with new potential use cases, though human-machine interfaces may need to evolve; autonomous will likely take a step back given funding could get tougher (and initial use case was thought to have been robo-taxis given utilization helped the economics, but that model may now have other concerns); shared is likely to take the biggest hit as a generation may be scarred and always worry about the ‘unknown’ previous user (perhaps an opportunity for cleaning robots or material sciences (will de-urbanization lead to increased personal vehicle ownership?); and electric will likely face some near-term headwinds, but mid-to-long term impact is limited.

Information Technology: Accelerating timeline of digital transformation toward cloud, hybrid and multi-cloud networks … ‘Faster to the Future’; proliferation of endpoints; increased personal device use; further dissolution of the traditional network perimeter; increased need for robust communication/collaboration tools; enterprises move more workloads to public cloud providers; broad embracing of digital transformation; increase in home office equipment purchases; commercial PC replacement cycles could lengthen as usage is spread across multiple devices; additional investments by service providers to satisfy demand for additional bandwidth; acceleration to a cashless society; mobile/digital banking ramps; bank branch closures; shift to B2B payments and A/R and A/P automation; frictionless commerce in the physical store will drive demand for Amazon Go (big box / grocery will become stores inside of stores to make RFID work in large footprints) and self-checkout; contactless payment will accelerate; acceleration of Data Center reliance; and increased data usage and consumption of cloud/SaaS products.

Materials: Higher levels of pantry stocking, with higher minimum levels of essential products; lower driving miles and automotive demand, resulting in lower painting activity in automotive both on OEM and refinish; higher food and beverage packaging driven by in-home consumption and delivery services; potential pause in ESG tailwinds and higher consumption of plastic use, driven by the need for hand sanitizers, wipes and other cleaning products, typically packaged in plastic; office employees would use far less paper products, given the cost and time needed to maintain supplies and function; lower long-term real interest rates; and increased investment demand for precious metals.

Real Estate: Wider acceptance of work-from-home models could reshape office and residential landscape and drive increased migration to warmer and more affordable cities; and families may be unwilling to move elderly parents into senior housing communities.

Utilities: Shifts more usage to residential from commercial; slight shift in peak load distribution; potential redesigning of tariffs to fixed charges versus volumetric charge to minimize impact of sudden drop-off of demand; and enhanced network investment to improve residential reliability.

Commodity Strategy: US gasoline demand to decline given work-from-home policies; while commercial demand may look most at risk, it’s an open question whether the efficiency of co-locating and running shared office equipment, as well as sophisticated energy management in an office are offset by shifting to home; and weekday power consumption curves during working hours could look more like that seen on the weekend.

Communication Services

Communications Infrastructure

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Companies Under Coverage:

Atkin: AMT, CCI, CONE, COR, DLR, EQIX, GDS, MP1.AU, NXT.AU, QTS, SBAC

Lee: CCOI, LMRK, UNIT

Potential Long-Term Implications

- Greater bandwidth usage over the last mile and middle mile, accelerating already existing trends
- More distributed content
- More robust IT architectures, requiring in many cases greater datacenter utilization

Summary of Impact to Coverage:

Over the long-term, **datacenter operators** and **connectivity providers** are poised to benefit from increased usage trends. Greater bandwidth demand and the need for resilient connectivity should provide benefits to IP/bandwidth, fiber, and network-as-a-service companies such as Cogent, Uniti, and Megaport, respectively. Greater usage of online tools for work and entertainment should increase the demand for data storage, resilient IT architectures, and interconnection, providing a benefit to both wholesale and retail segments of the datacenter sector. We note that Microsoft, a major cloud provider, has indicated significantly greater usage of its platform during the current pandemic, and group conferencing provider Zoom (as well as others) has reported significant increases in usage – it employs a combination of Equinix for its base load requirements and Amazon Web Services for flex capacity. **Towers**, which benefit from wireless operator capex and the deployment of new spectrum band and technology protocols, should see an acceleration in leasing volumes irrespective of the pandemic, in our view.

Names That Will Be Most POSITIVELY Impacted:

1) **GDS Holdings (GDS - Outperform):** GDS posts the highest growth rate and has the lowest growth-adjusted EBITDA multiple in the sector. It benefits from stronger demand, and less competitive supply, compared to datacenter peers. It has a healthy pipeline from existing large Internet customers in China and strong prospects for gaining share amongst emerging Internet companies in the country.
2) **Megaport (MP1 – Outperform, Speculative Risk):** Megaport benefits real-time from increased connectivity by virtue of its network-as-a-service offer, which allows customers to increase their bandwidth and network reach, as well as to access all major cloud providers and many enterprise software platforms through APIs, without having to separately procure network capacity or incur capex. The company's global network reach, software APIs to major IaaS and SaaS platforms, and product focus act as a competitive advantage vs. telcos or datacenter peers.
3) **SBA Communications Corporation (SBAC – Outperform):** As the mobile infrastructure operator most leveraged to U.S. macro towers, we view SBA Communications as benefiting -- along with its peers American Tower and Crown Castle, only moreso -- from the deployment of mobile 5G infrastructure by the three existing national players AT&T, T-Mobile, and Verizon, along with the mandated fourth competitor, DISH Network. SBAC's US tower mix compares favorably, in our view, to the more volatile emerging markets exposure of American Tower and the less proven return characteristics of Crown Castle's fiber solutions business.

Names That Will Be Most NEGATIVELY Impacted:

We do not see negative longer-term implications for Communications Infrastructure

RETURN TO TOC

Cable, Satellite & Telecom Services

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Companies Under Coverage:

Maral: ATUS, CHTR, CMCSA, DISH, SIRI, WOW

Atkin: CTL, T, TMUS, VZ

Potential Long-Term Implications

- Increased utility of broadband services
- Potential acceleration of video cord cutting due to consumer discretionary spend pressure; partial offset from greater demand for linear Pay TV programming from increased time in the home
- Potential decline in demand for higher mobile data speeds or expensive handsets
- Increased mobile handsets provided through employers
- Increased demand for residential landlines

Summary of Impact to Coverage:

We believe pure-play cable operators are particularly well-positioned during the current COVID-19 pandemic, the ensuing period of macro sensitivity, and over the longer-term given a presumed structural increase in consumer time spent in the home. **Broadband.** We believe the ongoing COVID-19 pandemic will increase the amount of time consumers spend in their homes, whether it is due to greater unemployment in the near-term or longer-term structural shifts in the portion of the workforce working from home even after COVID-19. This environment most distinctly benefits cable/fiber internet providers given increased demand for and consumption of high-speed internet with potential growth across pricing (ARPU lift from up-tiering customers to higher speeds) and subscribers (likely accelerating share gains against legacy/advanced DSL). **Video.** We expect pressure in consumer discretionary spend will likely result in an acceleration in video cord cutting and the migration to direct-to-consumer streaming alternatives. One offset could be the benefits from increased utility of bundled Pay TV offerings (e.g., from people spending more time in the home; needing/wanting to “stay connected” or “tuned in” with the world so having local/national/business news on in the background). **Wireless.** If consumers are spending more time in the home, less time at work/commuting, and can use in-home Wi-Fi, then the demand for higher mobile speeds or +$1,000 handsets might abate. On the other hand, there could be more work phones provided by employers. **Wireline voice.** Residential landlines could see a modest resurgence as the growing work-from-home cohort look to sign up. **Impacts to our coverage from macro pressures include:** (1) a slowdown in wireline customer growth from a deceleration in occupied household formation; (2) relatively muted pricing power; (3) SMB/Enterprise revenue downside; and (4) advertising revenue downside.

Names That Will Be Most <u>POSITIVELY</u> Impacted:

1) **Altice USA (ATUS - Outperform):** Altice primarily benefits from the increasing utility of broadband, which provides scope for pricing power and subscriber growth. While net leverage is elevated at ~5x (in line with management’s target of 4.5-5x), we believe there is ample liquidity and strong FCF growth, with no significant debt due until 2025. While not immune to a macro slowdown, we highlight that its customer growth has historically come from ARPU as opposed to subscriber increases, potentially suggesting less exposure to a slowdown in household formation compared to peers.
2) **Charter Communications (CHTR - Sector Perform):** Charter primarily benefits from the increasing utility of broadband, which provides scope for pricing power and subscriber growth. While net leverage is elevated at ~4.5x (in line with management’s target of 4.0-4.5x), we believe there is ample liquidity and strong FCF growth. During the current period of social distancing, Charter could continue to post outsized share gains in broadband given its ability to offer self-installations.

Names That Will Be Most <u>NEGATIVELY</u> Impacted:

1) **CenturyLink (CTL - Sector Perform):** CenturyLink continues to face challenges in its consumer segment (~25% of total revenues) and is seeing additional pressure from COVID-19 in its SMB and Wholesale segments (~31% of revenues). Additionally, continued uncertainties around the pandemic may lead to delays in customer purchasing decisions or accelerated churn, and it is difficult to predict when buying patterns will return. Although CenturyLink is reducing capex in more challenged areas, it continues to invest in long life assets such as fiber where they see predictable future returns.

Media

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Companies Under Coverage:
AMCX, DISCA, FOXA, LGF.B, DIS, VIAC

Potential Long-Term Implications

- Acceleration of cord cutting and consumer adoption of DTC services
- Prolonged softness in ad spend from certain verticals
- Share shift of ad budgets away from linear TV toward digital
- Narrowing of the traditional theatrical window and a shift toward PVOD
- Decreased emphasis on the upfront ad sales process even beyond this year
- Decreased demand for theme park attendance

Summary of Impact to Coverage:

We believe traditional media companies could see sustained fundamental pressures from the pandemic given structural shifts across key revenue streams. **Pay TV subscribers and the shift to DTC.** Increased time spent in the home drives up the utility of a Pay TV subscription and subscriber trends (particularly at virtual MVPDs) could improve as sports programming returns on air. However, pressure in consumer discretionary spend and the launches of scaled streaming platforms (e.g., Peacock, HBO Max) will likely result in an acceleration in video cord cutting and the migration to direct-to-consumer streaming alternatives. **Advertising.** We expect ad trends to remain challenged given the pandemic from trimmed marketer budgets and disruption to TV programming (sports, production halts delaying scripted content). Longer-term, we worry that secular and cyclical pressures across linear advertising coupled with a macro shock could become the catalyst that drives an acceleration in share shift of ad budgets away from TV toward digital. **Studio production and output.** Lockdowns during the pandemic have resulted in production halts for film and TV programming as well as theater closures. These delays not only shift the near-term monetization of the content but also disrupt the follow-on windows as well (e.g., home entertainment, Pay 1, streaming, etc.). **Theme parks.** After being shuttered for months, theme parks are slowly starting to reopen with strict capacity limits and safety requirements. A return to normal capacity levels is uncertain and will most likely depend on the timing of a vaccine.

Names That Will Be Most POSITIVELY Impacted:

We do not see positive longer-term implications for our Media coverage. While owned-and-operating DTC platforms should benefit, we expect sentiment to remain challenged given legacy revenue pressures.

Names That Will Be Most NEGATIVELY Impacted:

1) **ViacomCBS (VIAC – Sector Perform):** ViacomCBS has impressive scale in the traditional media ecosystem following the recombination of Viacom and CBS, though it remains exposed to the aforementioned secular and cyclical issues heightened by the pandemic. We also view management's strategy and execution as heavily discounted show-me stories, and believe proof-points of a turnaround will be difficult to achieve given the structural shifts and headwinds from the pandemic. While we are bullish on the broader growth trajectory of the streaming market, we are concerned that VIAC's DTC products need to offset a much larger base of linear revenue declines than peers, and this level of scale remains difficult to achieve under the current shape of its streaming offerings.
2) **The Walt Disney Company (DIS – Sector Perform):** We remain bullish on Disney's strategic vision, quality of assets, and track record in execution. However, the pandemic has resulted in significant operating and financial disruption to Disney's theme parks and resorts (high fixed-cost profile against a bleak attendance/occupancy/revenue outlook), studio entertainment (theater closures, slate shifts), media networks (Pay TV sub declines, advertising), and consumer products (product launch cycle). While we are encouraged by the expected opening of certain theme parks, the capacity limitations, travel restrictions, and consumer appetite for mass social gatherings (even after a vaccine) limit earnings visibility. Positive offsets can include sustained momentum across Disney's DTC platforms (primarily Disney+).

Canadian Telecommunications and Media

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Companies Under Coverage:

AIM, BCE, CCA, CGX, CJR.B, PCOM, QBR.B, RAY.A, RCI.B, SJR.B, T, TCL.A, TRI, TRL, TS.B, WILD, Y

Potential Long-Term Implications

- Greater efforts by governments to fully eliminate the digital divide in Canada
- Acceleration in the digitization of major societal verticals, such as education, healthcare, government and leisure, and across all demographics including older demographics
- Acceleration in the shift towards decentralized and more flexible work solutions increasing demand for broadband networks (FTTH, DOCSIS) and Internet and wireless connectivity in both urban and rural footprints, and for B2B and B2C cybersecurity
- A re-allocation of consumer discretionary spend from out-of-home physical leisure and entertainment options (travel, restaurants, sporting events, theatre, health clubs, etc.) to in-home digital leisure and entertainment options (social media, television, gaming, VR, etc.)
- Acceleration of investments in virtual reality and augmented reality (and the infrastructure therein) across the B2B and B2C gamut of potential applications (consistent with our **June 20, 2018 RBC Telecom Scenario Report: Intelligent Reality and the Inflection Period for Content**)
- Acceleration in cord-cutting/cord-shaving (wireline telephony and television) on greater adoption of over-the-top SVOD/AVOD streaming
- Accelerated adoption of online/digital self-serve and self-install marginalizing physical retail points of presence and lowering volume of truck rolls
- Acceleration in the emergence of a regulated information layer in the digital value chain driven by a shift in the public policy balance between protecting privacy and enhancing security

Summary of Impact to Coverage:

During the current period of social distancing, consumers suddenly on a massive scale are contained to the home and in need of work-from-home communications solutions as well as a greater variety of entertainment options. This period is driving demand for B2C and B2B Internet and wireless connectivity and cybersecurity, and television/over-the-top content. More importantly, we believe social distancing has forced most companies, governments and consumers to adopt new digital behaviors thereby accelerating the adoption rates across a wide variety of technologies. Within the Canadian media sector, we believe this acceleration is likely to only intensify two decades of ongoing disruption across traditional media, notwithstanding the near-term increase in demand for television during social distancing and what could be some pent-up demand for out-of-home physical leisure and entertainment options as social distancing restrictions are lifted.

Names That Will Be Most POSITIVELY Impacted:

1) **Canadian Telecom (BCE** and **CCA – Sector Perform; RCI.B, T, SJR.B,** and **QBR.B – Outperform):** While the asset mix of each Canadian telecom operator has puts and takes with respect to the relative resilience to direct (social distancing) and indirect (recessionary) COVID-19 impacts, we believe all Canadian telecom operators are well positioned to benefit from increased demand for B2C and B2B Internet and wireless connectivity. For TELUS specifically, we believe 100%-owned TELUS Health is well positioned to benefit from a potential inflection point in the digitization of healthcare in Canada.

Names That Will Be Most NEGATIVELY Impacted:

1) **Corus Entertainment (CJR.B – Sector Perform):** While we believe the content and ad tech playbook being deployed by management will prove to be a winning strategy, any acceleration in TV cord-cutting/shaving would be a meaningful headwind.
2) **Cineplex (CGX – Sector Perform):** We see a number of challenges ahead for the theatrical exhibition industry including an uncertain production schedule and release slate, permanent changes in consumer behavior, incremental costs incurred to implement the required social distancing measures and to lure consumers back into the theatre, compression in the theatrical release window and/or accelerated adoption rates of competing in-home digital leisure and entertainment options.

Consumer Staples & Discretionary

European General Retail

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Companies Under Coverage:

ABF, BME, DC/, DNLM, FRAS, HMB, ITX, JD/, KGF, MKS, NXT, SMWH

Potential Long-Term Implications

- Accelerated shift to online shopping
- Increased levels of work from home
- More focus on healthy cooking and eating
- A shift of sourcing away from China
- Accelerated casualisation of society
- Larger chains gaining share from weaker specialist and independents
- Young fashion under pressure due to the ethics of fast fashion being under question

Summary of Impact to Coverage:

We believe that the extended lockdown and subsequent social distancing will accelerate the shift towards e-commerce, as consumers become used to ordering online and, even longer term, may be more cautious going to stores. This, combined with the increased importance on health and self-care, will also likely result in an increased focus on healthy eating and home-cooked meals, benefitting retailers with exposure to the grocery space. Increased working from home and the ongoing casualisation of society should benefit the homewares and athleisure sectors respectively, although we are wary of potential pressure on youth employment. Given the recent disruption in China, we see a potential increase in proximity sourcing to increase flexibility. Finally, we expect a continued focus on ESG themes, with investors calling into question the ethics of fast fashion and looking for companies that are taking a lead in sustainability.

Names That Will Be Most POSITIVELY Impacted:

1) **Inditex (ITX – Outperform):** Like other retailers, Inditex has been negatively impacted by store closures, but longer term remains well-managed with a very strong balance sheet. Given its flexible, responsive and integrated business model and strong inventory control, we think it should be able to weather the downturn and emerge relatively better placed, benefitting from the shift to online. With c.60% of supply from local sources, it has been relatively less impacted and should benefit from its ability to offer newness, leading to higher share gains from independents and department stores.
2) **B&M European Value Retail S.A. (BME - Outperform):** B&M has been able to trade its full offer during the lockdown and benefit from its c.25% seasonal exposure, eg to home and garden ranges. In a recession, as a discounter, B&M should benefit from trading down by consumers. We think that the COVID-19 outbreak is likely to have attracted new customers seeking an alternative to mainstream supermarkets and we also see potential for capacity withdrawal from other players (eg Poundstretcher and other discounters).

Names That Will Be Most NEGATIVELY Impacted:

1) **Associated British Foods plc (ABF – Underperform):** With its Primark stores closed, ABF's lack of a transactional online offer comes into focus, with higher priced chains likely to clear inventory at Primark price points later this year. Equally, even as social distancing is relaxed, it seems unlikely their historic advantage of crowded stores driving high sales densities will return, particularly in urban, tourist locations. Primark also has material exposure to the tough young fashion segment, as well as the ethical pressures on fast fashion. ABF's historically volatile Sugar business also provides a source of earnings uncertainty.
2) **Dixons Carphone plc (DC/ - Underperform):** Although DC online has benefitted somewhat from the working from home trend, we think that this is likely partly demand brought forward from later this year, and see a likely hangover to come. DC is one of the more operationally and financially leveraged retailers under coverage, with a low single-digit operating margin and a lease-adjusted net debt/EBITDAR ratio of c.5x. It is also more vulnerable to pressures on employment and discretionary spending, as well as reduced consumer confidence, and from margin dilution from a shift to online sales. Finally we expect further structural pressure on the Mobile segment, due to pressures on customer affordability and less roaming.

European Luxury Goods & Premium Brands

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Companies Under Coverage:

ADS GR, BRBY LN, CFR VX, BOSS DE, EL FP, KER FP, MC FP, MONC IM, PNDORA DC, PUM DE, SDRY LN, TED LN, UHR SW

Potential Long-Term Implications

- Changing personal travel habits
- Tourist reliant destinations do not recover (e.g. Hong Kong, Macau)
- Shift away from experience based spending
- Accelerated shift to e-commerce
- Increased health & wellness focus
- More lenient "work from home" policies
- Accelerated community cohesion
- The acceleration of luxury's evolution in the 2020s

Summary of Impact to Coverage:

In sporting goods, we anticipate consumers will increase their focus on personal health and wellness (both physical and mental), which we believe will intensify already evident structural support drivers for the sector. In luxury goods, tourists account for c.30% of total sector, so if declining tourism and travel becomes more structural then headwinds grow. Equally, the commercial viability of certain tourist reliant regions (e.g. Hong Kong, Macau and Europe) could be called into question. If consumers become increasingly sensitive to public area hygiene (e.g. restaurants, bars, shops, public transport, public places) then this could lead to structural reduction in experience based spending, which in theory could increase disposable income for other spend categories including personal luxury goods. However, economic conditions are not likely to be as supportive for luxury consumption as we have seen for the past decade and we envisage +7% mid-term organic revenue growth.

Names That Will Be Most POSITIVELY Impacted:

1) **ADIDAS (ADS – Outperform)**: ADS is a market leader in the sporting goods industry, which itself benefits from concentrated market share structure and high barriers to entry, particularly in footwear. We view accelerating health and wellness trends as likely to benefit ADS given its size and distribution advantages, as well as its balanced Performance vs Lifestyle product mix. ADS also benefits from North America market share opportunity and operating margin opportunity as the business model evolves towards higher DTC mix. In our view, ADS has industry leading ESG credentials in its approach to product sourcing and manufacturing which position it strongly in the long term.
2) **LVMH (MC – Outperform)**: LVMH is likely to remain a high quality compounder with balanced risk/reward exposure to luxury and premium staples in our view. LVMH benefits from scale advantages, a strong digital platform; it owns brands and operates in categories which demonstrate strong distribution control (and therefore makes them relatively 'un - Amazonable') and generates consistent and meaningful free cashflow, supporting its acquisition strategy (which has a demonstrated a strong track record). We anticipate strong underlying brand momentum at core LV and Dior brands within Fashion & Leather, with margin levers to protect profitability in the near-term.

Names That Will Be Most NEGATIVELY Impacted:

1) **PANDORA (PNDORA – Underperform):** We view mass market product categories and price points as more susceptible to less favorable economic conditions (i.e. costume jewellery which is PANDORA's core product category). We also view turnaround business plans as potentially more challenging to execute and in the face of a mass-market consumer spend that is likely to have lower discretionary allocation.
2) **BURBERRY (BRBY – Underperform):** Burberry is around halfway through its transformation plan with early wins including revised brand positioning, rebalanced product and merchandising offer and cost savings largely achieved. The second half of this transformation plan calls for acceleration in underlying revenue growth and operating leverage derived margin expansion, partly driven by improving leather goods performance. In the context of a more challenging macro environment it may be more difficult for Burberry to achieve these objectives in our view, as luxury consumers gravitate towards category leaders in leather goods for example.

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European Household & Personal Care, Beverages, Packaged Food, and Tobacco

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Companies Under Coverage:

Edwardes Jones: ABI, BEI, BATS, CARLB, BN, CPR, DGE, HEIA, HEN3, IMB, OR, NESN, RI, RB, UNA

Letheren: BVIC, FEVR

Potential Long-Term Implications

- Greater attention to operational resilience and agility
- More conservative balance sheet/debt structures
- Accelerated shift to digital marketing that can be individually targeted at consumers at home
- More inventory, both in the supply chain and 'pantry stocks'
- Emphasis on e-commerce and attempts to build relationships directly with consumers, thereby disintermediating retailers
- More accommodating approach to 'working from home'
- Local sourcing
- Increased automation, reduction in workforce

Summary of Impact to Coverage:

We don't know what the long term implications of this crisis will be for patterns of demand for different categories; for example will the pick-up in demand for canned and frozen goods be anything more than a flash in the pan (…sorry). Similarly we don't know if consumers will be more inclined to eat/drink/socialise at home rather than going out or wash their hands and surfaces more frequently in the long term? But we do feel this crisis is going to change the way that companies operate in anticipation of future shocks. There has been a move towards decentralisation in recent years as companies adapt to 'consumer nationalism' and have pulled back the 'one size fits all' approach that has enabled relentless focus on efficiency for several decades. We expect this process to continue, as companies look to shore up local resilience and actively seek a degree of redundancy in their supply chains. This is likely to involve lower planned capacity utilisation for production sites, higher stock levels (of both raw materials and finished goods) and duplicated distribution options in our opinion. We also expect companies to operate with more conservative balance sheet/debt structures.

Names That Will Be Most POSITIVELY Impacted:

1) **Henkel (HEN3 – Outperform).** Henkel has made few steps to improve its efficiency in recent years. A decision to actively design in an element of redundancy to its operations, rather than merely be inefficient, would be less costly than for many others in our view. Similarly its balance sheet is conservative. We expect the cyclicality of the adhesives business to be partially offset by demand for laundry and household products in the short/medium term.
2) **Nestlé (NESN – Underperform).** Although we think that Nestlé's valuation is excessive, we appreciate its attractions: a diversified and generally defensive portfolio, conservative balance sheet structure and historic resistance to cutting costs too aggressively.

Names That Will Be Most NEGATIVELY Impacted:

1) **Reckitt Benckiser (RB – Underperform).** Although Reckitt is benefitting from a very coronavirus-friendly portfolio, we expect that once this dies down the problem of an under-invested infrastructure will come to the fore once again. We think it has cut costs too far and that the need to design in more redundancy/duplication to its operations could prove costly.
2) **AB InBev (ABI – Outperform).** We regard AB InBev as having some of the opposite characteristics to Nestlé, specifically lots of debt, and a very centralised and tightly controlled cost base which we expect to have to ease somewhat. Against that, we believe that its portfolio is defensive and valuation too low assuming the company takes some steps to reduce leverage.

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US Household & Personal Care, Beverages, Packaged Food, and Tobacco

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Companies Under Coverage:

BF.B, CAG, CHD, CL, CLX, COTY, CPB, EL, ENR, GIS, HSY, K, KDP, KMB, KO, MDLZ, MNST, MO, NWL, PEP, PG, PRMW, REYN, SAM, SPB, STZ

Potential Long-Term Implications

- More vigilance around cleanliness (washing hands, disinfecting surfaces, etc.)
- More meals prepared at home
- Increased consumption of comfort foods and/or vices to cope with heightened stress levels
- Increased vitamin consumption
- Increased preparedness (more full pantries, more frequently)
- More lenient "work from home" policies
- Accelerated shift to e-commerce

Summary of Impact to Coverage:

From a personal care perspective, we believe consumers will on average step up cleanliness levels and perhaps increase consumption of vitamins (in an effort to prevent illness). From a packaged food perspective, we believe consumers may increase their overall consumption of at-home foods (perhaps 1-2 more occasions, as they are not used to cooking at home as frequently). This will help overall consumption of aluminum foil, trash bags, and center of store foods such as soup and salad dressings. More leniency around telecommuting will mostly benefit the space as more time spent in-home often results in increased usage (whether it be toilet paper, beverages, or food). Reduced commuting expenses (gas, train/bus fare, etc.) should also provide a moderate benefit to consumption (likely cheaper impulse purchases like cigarettes, beverages, snacks) or spur trade-up across CPG. Some categories, however, will be negatively impacted (primarily appearance based categories like wet shave, beauty, cosmetics, etc.).

Names That Will Be Most POSITIVELY Impacted:

1) **Campbell Soup (CPB - Outperform):** CPB posted April quarter organic sales up 17%. We point out that over the past year, CPB has been investing behind its ingredient/quality levels, which even prior to COVID-19 had benefitted HH penetration (even among millennials). We think increased soup sales as a result of pantry-loading will help reframe soup as a convenient meal solution, which will in-turn drive increased HH penetration and velocities over the long-term.
2) **Clorox Company (CLX - Sector Perform):** The near-term benefits of pantry-loading are obvious, but we feel CLX is well-positioned for the long-term changes that may unfold as a result of COVID-19. For starters, we expect more vigilance around cleanliness and vitality will become the new normal (vitamins, bleach, water filtration, and household cleaners stand to benefit from this dynamic). We also see more lenient work from home policies contributing to more usage across laundry detergent, food/trash bags, foils/wraps, and charcoal.

Names That Will Be Most NEGATIVELY Impacted:

1) **Estee Lauder (EL - Sector Perform):** We'll start off by saying we believe that EL is one of the best managed names across our coverage so we expect the company will adapt to the rapidly changing environment. If working from home becomes more widely acceptable by large corporations, we'd inevitably see a decline across most cosmetic categories (as consumers are unlikely to do their makeup if they're not going into the office). This will add pressure to the already troubled North America business. One potential offset is consumers may leverage time in-home (and not seeing co-workers) for skin care routines.
2) **Coty, Inc. (COTY - Outperform):** Also be impacted from reduced make-up/cosmetic usage if telecommuting becomes more widely acceptable. Of note, they do not have meaningful exposure to skin care as a potential offset and may be impacted by trade-up if consumers justify purchasing more premium products with the fact that they now buy them less frequently.
3) **Edgewell Personal Care Co. (EPC - Outperform):** In FY'19 wet shave accounted for ~58% of EPC sales and nearly 80% of profits. Looking out longer-term, we fear increased leniency around telecommuting will reduce the number of weekly shave incidences.

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European Leisure

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Companies Under Coverage:

Easthope: ACCP, CINE, DOM, FLTR, GVC, IHG, JDW, KIPO, MARS, MAB, RTN, TSG.O, VAO, WMH, WTB

Zhou: BFIT, GYM

Potential Long-Term Implications

- Business travel trends affected by increased use of technology based meetings
- Concerns about social gatherings
- Cinema releases and uses
- More use of home fitness technology affecting gym usage
- Increased use of takeaways and delivery
- Appreciation of freedom and the mental benefit of social behaviour

Summary of Impact to Coverage:

Time is a good healer – and we believe that once the crisis is over that the very basic human desire to socialise will revert to the norm. The majority of our leisure coverage requires an element of social gatherings and is a key part of the sector growth. However, should a new virus arise, we suspect the population will be more cautious earlier. The one area we have most long-term concern about is business travel trends. A mix of increasing reliance and practice of using video conferencing, improving technology, the immediate cost focus post the outbreak and a pressure on corporates to cut carbon emissions could well start a trend to more virtual meetings. HTC experimented with VR meetings recently that could enhance the product materially too. Overall, this is a risk for our business orientated hotels groups. We expect our Gym coverage to remain in growth – especially following what is basically a health crisis. While home fitness apps could benefit and deter gym usage, the high death rate for overweight people could be an incentive to membership growth. Cinemas may see some behavior changes from the studios to be more streaming focused, although the majority of films have been delayed rather than released to streaming so far. Replacing the $42bn of box office revenues with increased streaming revenues would be quite a challenge in our view. The streaming argument will take some time to play out in our view with current demand clearly high. Pubs and restaurants in the UK are such an important part of national life, we believe that this will recover once the economy recovers with no long term impact except from those companies needing to repair the balance sheet.

Names That Will Be Most POSTIVELY Impacted:

1) **Domino's Pizza Group (DOM - Outperform):** Domino's is a pure delivery and takeout brand with a very good market share in the UK pizza market. We would expect the long term trends to take home to remain firmly in tact following this outbreak. Domino's strong position in a key food choice puts it in a strong position to take advantage of these trends.
2) **Basic-Fit (BFIT - Outperform):** Basic-Fit has a very strong position in the low cost Gym sector across Benelux and France. It has technology that allows for an efficient roll out into other territories. We expect the focus on health to remain high following this outbreak and Basic-Fit is well placed to take advantage of this.

Names That Will Be Most NEGATIVELY Impacted:

1) **Accor (ACCP - Outperform):** While we believe that Accor has a strong long term opportunity, our main long term concern surrounds the recovery and growth of business travel. Accor has a high exposure to business demand among its many brands that could result in slower growth
2) **InterContinental Hotels (IHG - Outperform):** In a similar way to Accor – IHG also has a high exposure to business travel. And could lead to more muted growth
3) **Whitbread (WTB - Underperform):** Whitbread has around 50% of guest nights from business and would also be affected

Internet

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Companies Under Coverage:

Mahaney: AKAM, AMZN, BABA, BKNG, CARG, EB, EBAY, EXPE, FB, GDDY, GOOGL, LYFT, NFLX, PINS, RDFN, ROKU, SFIX, SHOP, SNAP, SPOT, SQ, TREE, TTD, TWTR, UBER, UPWK, WIX, YEXT, ZG.

Khajuria: CHWY, ETSY, JCOM, JMIA, QUOT, SCPL, TRIP, TRUE, TRUP, VVNT, YELP

Potential Long-Term Implications

- Accelerated adoption of online solutions in physical transaction verticals (car retailing, real estate, restaurants, etc.)
- Heavier reliance on food/grocery deliveries
- Increased presence of E-commerce offerings, especially within SMBs, likely leading to an increase in both domain registrations and demand for website creation tools.
- A greater need for cloud solutions
- Streaming likely to see tailwinds from increased viewership, leading to lower churn and possibly higher monetization

Summary of Impact to Coverage:

On a high-level, we see the potential for broader, long-lasting changes in consumer behavior as a result of the COVID-19 Crisis – specifically, a sustained step-up in Online purchases of Staples and Groceries and Meals; an accelerated adoption of in-home streaming entertainment; and a widespread recognition of the critical importance of having an Online/Digital presence. From a top down perspective, we think companies, especially SMBs, will be more reliant on the Internet to advertise, transact, and attract consumers. The immediate need for marketplaces and an Internet presence has never been so acute, forcing many businesses to adopt processes that were previously unknown pre-COVID-19 (restaurants adopting third-party delivery platforms at 10x the normal rate in some cases). From a bottom up perspective, we could see increased streaming/viewership having a positive impact, although for the advertising names, advertising spend would have to keep pace with viewership to be a beneficiary and could reward streamers through reduced churn rates. As for ridesharing, we think results would be mixed; if more people were to WFH, commute related trips (~10-25%) could be impacted, but we could see a net benefit through increasing discretionary trips (restaurants, bars, social events, etc.), grocery/food delivery, and a shift in focus from price to safety (transition away from public transportation).

Names That Will Be Most POSITIVELY Impacted:

1) **Amazon (AMZN - Outperform):** We believe Amazon could emerge as the single biggest beneficiary within our coverage universe, post COVID-19, given its brand strength, distribution-to-home logistics network that it has developed over the last 2-3 decades, and emerging benefits from secular shift to Online—specifically, post this crisis. AMZN could very likely benefit from a sustained shift of shopping from Offline to Online sources (including Groceries).
2) **GoDaddy (GDDY - Outperform), Wix (WIX - Outperform) and Shopify (SHOP - Outperform):** The need for businesses to have an online presence is accentuated by stay at home and social distancing measures, providing a heavier reliance on **GDDY**'s Domains & Hosting services. Further, GDDY also has material exposure to the SMB market, which is likely to experience a more acute transition to online than larger enterprises. Akin to the aforementioned tailwinds GDDY may experience, we see a similar transition within traditional brick and mortar retailers moving online and see it likely for WIX to benefit from more companies wanting their own online destination site. With **WIX** covering a vast array of verticals, the company should see conversion from its free offering and overall volume improve. As Physical Retail stores shut their doors to comply with shelter in place restrictions, many merchants without an Online presence scramble to find a solution that **Shopify** is ready to provide. The acceleration in eCommerce has been broad-based and Shopify is fully participating. The company is even seeing brand new verticals like Food & Beverage join its platform in efforts to build their first D2C channels.

Names That Will Be Most NEGATIVELY Impacted:

Companies that would be negatively impacted over the long-term should current trends persist include **EventBrite (EB – Sector Perform)** given limits on social gatherings as well as online travel agencies, **Booking (BKNG – Outperform)**, **Expedia (EXPE – Outperform)** and Trip Advisor **(TRIP – Sector Perform)**, as travel demand may abate over the long-term.

European Internet

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Companies Under Coverage:

ASC.LN, BOO.LN, ZAL.DE, OCDO.LN, JET.LN, DHER.DE, AUTO.LN, G24.DE, RMV.LN, GOCO.LN, MONY.LN, TMV.DE

Potential Long-Term Implications

- Accelerated consumer shift to e-commerce and online solutions.
- An accelerated effort by grocery retailers and restaurants to develop online capabilities.
- Greater investment in online propositions, a short-term margin hit for higher long-term growth.
- Accelerated usage of remote working and connectivity solutions, as corporates recognize productivity benefits and digitalization efforts step up.
- Sector consolidation could accelerate in a prolonged economic downturn.

Summary of Impact to Coverage:

We believe that consumer behavior will shift to online solutions, which is positive for our coverage. For the **internet retailers**, we expect a benefit from higher demand as consumers become accustomed to shopping online. This is particularly true for the grocery industry, which has a low online penetration and where many are trying online shopping for the first time. For the **internet food delivery companies**, we expect to see an acceleration in trends as a greater number of restaurants sign up to the aggregator platforms because of social isolation. Meanwhile, JET and DHER are accelerating their own-delivery and multi-vertical propositions in order to capture this greater demand, which may dilute profitability nearer term, but generate higher revenues longer term. For the **internet classifieds**, we expect a limited impact given the already mature level of online penetration in the industry. Although, an economic downturn may accelerate consolidation in the industry, which may have negative implications for the pricing power of AUTO, RMV and G24. For **price comparison websites**, consumers' higher risk-aversion could mean greater sales of insurance products, such as life and travel, in the future. Within **software**, TeamViewer is likely to benefit from an accelerated trend of working from home, which has proven to be sufficient for many industries through the lockdown period. We expect corporates to step up their digitalization efforts as they recognize the productivity benefits from connectivity solutions.

Names That Will Be Most POSTIVELY Impacted:

1) **TeamViewer (TMV – Outperform):** TeamViewer, with its good interoperability, ease of use and affordability, has proven to be a beneficiary of higher demand for remote access and home working solutions. We expect corporates to step up their digitalization efforts as they recognize the productivity benefits from connectivity solutions during this lockdown period.
2) **Zalando (ZAL – Outperform)**: As the leading online apparel destination in Europe, Zalando is well positioned to benefit from greater consumer demand online and as brands seek to enhance their online propositions. We expect brands to increasingly participate in Zalando's Partner Program and take up its value-added services, including Zalando Fulfilment Solutions and Media Solutions, which we expect to deliver higher profitability for the Group in the future.
3) **Ocado (OCDO – Sector Perform)**: As the only global provider of an end-to-end online grocery solution, we believe Ocado is best positioned to benefit from an accelerated shift online in the grocery industry, as retailers around the world seek to enhance their online services. However, the growth potential will be constrained by the growth in capacity.
4) **Delivery Hero (DHER – Outperform)**: Delivery Hero is investing significantly in order to accelerate its market share and reinforce its dominant positioning. Therefore, we believe it is best placed to leverage an accelerating trend in food delivery. Delivery Hero is also investing in its multi-vertical proposition, thereby capturing the higher demand for online groceries.

Names That Will Be Most NEGATIVELY Impacted:

We do not see any particularly negative impacts from these trends on our coverage universe.

Canadian Merchandising & Consumer Products

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Companies Under Coverage (TSX):

DII.B CN, GC CN, GIL, HLF CN, JWEL CN, MAV CN, MTY CN, NWC CN, PBH CN, RECP CN, ROOT CN, TOY CN, ZZZ CN

Potential Long-Term Implications

- Increased e-commerce penetration across all product categories, particularly categories that were traditionally shopped for primarily in the brick-and-mortar channel
- More meals prepared at home resulting in greater demand for groceries and essential merchandise
- Increased demand for vitamin and health supplement products
- Reduced traffic at food-court/mall-based dining outlets as people increasingly work from home and do not need to visit restaurants (as frequently) for breakfast/lunch
- Increased purchases of games/puzzles/toys to use in and around the house as family spend more time together, particularly those with younger children

Summary of Impact to Coverage:

Across our coverage, the ongoing COVID-19 situation has created a number of near-term catalysts and risks (noted above), which we believe may have longer-term implications on purchasing patterns. From a broader sector perspective, we believe that temporary brick-and-mortar store closures, work from home policies, and government calls for social distancing are driving an increase in e-commerce penetration rates, particularly for categories that were traditionally considered somewhat resistant to e-commerce (e.g. groceries, large appliances and furniture, etc.). Specifically, the COVID-19 situation is creating a new reason for those reluctant to purchase certain categories online to trial the e-commerce offering. While we expect that penetration rates across these categories will normalize following the COVID-19 situation, we believe that this increased trial is a positive for companies with meaningful e-commerce exposure. Conversely, the shift towards working from home as well as government mandated closures has created a near-term negative impact on the restaurant sector, which we expect could linger if consumer-dining preferences shift toward more at-home meals.

Names That Will Be Most POSITIVELY Impacted:

1) **Jamieson Wellness Inc. (TSX: JWEL – Outperform)**: We believe that JWEL is one of the most defensively positioned names in our coverage universe amidst the ongoing COVID-19 situation, and may also benefit from longer-term carry over impacts on consumer purchasing patterns. One catalyst in light of the COVID-19 related concerns is the potential for increased demand for vitamin and health supplement products as consumers are likely to increase their focus on keeping healthy and taking steps to avoid catching the cold/flu. Management noted during investor meetings in late-February that the outbreak was leading to increased sales of products that boost the immune system (e.g. Vitamin C, Cold Fighter, etc.).
2) **Spin Master Corp. (TSX: TOY – Sector Perform):** Following the temporary closure of schools in response to the COVID-19 situation and with adults spending more time at home, toy companies are likely experiencing an increase in sales of products that facilitate family time (i.e. activities/puzzles/games/toys for the backyard/etc.). We believe this trend could provide an offset in the near-term amidst broader retail closures, but that these categories have the potential to benefit from the broader trend of "work from home". We believe that the additional free time as a family will create an increased focus on "traditional play patterns" as parents seek to minimize "screen-time". Product categories that are most likely to benefit include puzzles and games, and educational/interactive learning products.

Names That Will Be Most NEGATIVELY Impacted:

1) **MTY Food Group Inc. (TSX: MTY – Sector Perform) and Recipe Unlimited Corp. (TSX: RECP – Sector Perform):** Not surprisingly, global restaurant traffic has decreased materially over the last few weeks as consumers shift towards more at home meal occasions in response to the ongoing COVID-19 situation. Over the longer-term, we believe that office and retail based dining outlets (aka food courts) could be impacted if more individuals work from home and eat more breakfast/lunch meals at home.

Restaurants

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Companies Under Coverage:
CMG, DNKN, DPZ, DRI, EAT, MCD, QSR, SBUX, TXRH, WEN, YUM

Potential Long-Term Implications

- Increased/improved safety protocols
- The acceleration of longer-term trends such as delivery and online/digital ordering
- A reassessment of appropriate levels of financial leverage for operators, and more specifically for franchisees
- Potential for widespread closures could lead to shifts in long-term competitive dynamics
- Brands or concepts that skew more toward older demographics may be impacted more longer-term
- Increased scrutiny of capital allocation strategy or priorities

Summary of Impact to Coverage:

The current challenges related to COVID-19 will have a significant impact on the restaurant industry long-term, including our coverage universe. Brands and operators with scale should be in a favorable position in a post-COVID-19 world, as we expect small chains and independent operators to face relatively greater challenges in operating through the current environment, and thus potentially higher levels of closures. Furthermore, in the near-term, restrictions placed on restaurant operations favor those businesses with strong off-premise businesses (i.e. carryout, drive-thru, delivery) and we see potential for current dynamics to drive an acceleration in off-premise demand over the long-term. An incremental shift to off-premise will benefit brands with structural advantages (e.g. drive-thru) and/or logistics capabilities (e.g. owned delivery network or capabilities).

Names That Will Be Most POSITIVELY Impacted:

1) **Domino's Pizza (DPZ - Outperform):** In our view, Domino's is the best positioned name in our coverage, not only in the near-term given above-mentioned shifts favoring off-premise—Domino's business is 100% delivery + carryout—but also long-term, as over 50% of quick service pizza category market share belongs to regional chains and independents, which could see greater pressure near-term. We continue to view Domino's as one of the most compelling long-term stories in our coverage, with the brand driving best-in-class unit growth (reaccelerating to +6-7% globally in 2021E) behind strong unit economics.
2) **McDonald's (MCD - Outperform):** McDonald's scale is and will remain a key asset for the brand, particularly in a post-COVID-19 world, in our view. The brand was on solid footing prior to the impact of COVID-19—with near-6% global comps and record franchisee cash flow in 2019—which should support it during these challenging times. A significant off-premise business historically (~70% of US sales sourced at drive-thru, plus growing delivery mix) positions the company well for incremental off-premise demand long-term. Furthermore, billions of dollars invested by McDonald's and its franchisees in remodels provide the brand with a best-in-class asset base that should help to drive share gains in a more normalized environment, as should recent investments in technology.

Names That Will Be Most NEGATIVELY Impacted:

1) **Casual Dining (Outperform-rated Darden Restaurants, Sector Perform-rated Brinker International and Texas Roadhouse):** The casual dining segment of the industry has faced traffic pressure for years heading into the current environment, which potentially places the group in a relatively less favorable position long-term. While the strongest brands should continue to gain share, at the margin, we see potential for incremental pressure on overall casual dining trends given potential shifts in consumption behavior around full service/dine-in restaurants, and the commensurate impact on margins, which have been under pressure in recent years given rising labor, rent and other expenses against weakened top-line. One offset may be an acceleration in casual dining unit rationalization, which should ultimately benefit brands/restaurants that remain operational.

Hardline/Broadline Retail

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Companies Under Coverage:
AAP, AZO, BBY, COST, DG, DKS, DLTR, FIVE, GPC, HD, KMX, LOW, OLLI, ORLY, TSCO, WMT, WSM

Potential Long-Term Implications

- More home centric focus (more time spent in homes = more home-related spending to maximize the experience)
- Material acceleration in Retail Consolidation
- Increased telecommuting will require new equipment, home office set-ups, etc.
- Accelerate shift to e-commerce; jump-start the adoption curve on food-at-home delivery
- More pantry loading/more food and "essentials" storage
- More telecommuting would adversely impact driving habits/miles driven activity, partially offset by driving rather than flying decisions
- Economic damage will create material levels of excess inventory/inventory liquidations
- De-leveraged balance sheets/more conservative capital structures
- Higher unemployment levels from recent historical lows

Summary of Impact to Coverage:

We believe the COVID-19 pandemic will have multiple, lasting effects on the Retail industry. In the short-to-medium term, we would expect there to be substantial amounts of inventory that will need to be cleared/liquidated, providing a loaded merchandise acquisition environment for close-out retailers. In our view, there will be a more permanent shift towards telecommuting and work-from-home arrangements, which will likely require consumers to invest in equipment upgrades and home-office accommodations. In addition, as more people spend substantial amounts of time in and around their homes, we would expect a resulting acceleration in home-related investments as people spend to maximize their experience (i.e., more staycations rather than vacations). Further, we would expect a step-function increase in e-commerce activity as people continue to practice social distancing and avoid larger public venues, including stores when there are product acquisition alternatives, for a period of time. We suspect this change is particularly true for food delivery as the current crisis pushes more customers to try food delivery than ever before and, if they had a good experience, we think this change would become a more permanent activity. More telecommuting would reduce driving activity/miles driven, but this factor may be partially offset by more people choosing to drive rather than fly, when possible. Finally, given the swiftness and magnitude of business disruption that has/is occurring, we think companies will likely run more conservative capital structures than they historically have.

Names That Will Be Most <u>POSITIVELY</u> Impacted:

1) **Ollie's Bargain Outlet (OLLI - O) -** While the current lack of human traffic (shelter in place rules) is a negative, we would anticipate that vendors and retailers will need to liquidate a material amount of inventory, which should create a significant buying opportunity for OLLI.
2) **Costco (COST – O)/Dollar General (DG – O)/Dollar Tree (DLTR – O)/Walmart (WMT- SP) –** We believe the tight employment cycle has been broken, which will likely cause more consumers to seek increased value for their available spend.
3) **Home Depot (HD – O)/Lowe's (LOW – O) –** Given new social distancing practices and work-from-home mandates, we would expect home-related investments to increase markedly over the next several years, as consumers seek to maximize their home experiences.
4) **Best Buy (BBY – SP) –** More telecommuting will likely create incremental demand for PCs/laptops and networking equipment, while more home-centric activity will probably create additional demand for home entertainment products (TVs, sound systems, game systems, etc.)

Names That Will Be Most <u>NEGATIVELY</u> Impacted:

1) **Five Below - (FIVE – O)** – While we remain bullish on Five Below's long-term store expansion potential and still believe it has the best unit economics we have ever seen in retail, a more permanent shift in the e-commerce growth curve would be a negative at the margin for a store-centric retailer that is heavily dependent on walk-by traffic, like Five Below.

Global Apparel and Specialty Softlines

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Companies Under Coverage:

AEO, ANF, BURL, GOOS-TSE, GPS, LB, LULU, PVH, RL, ROST, TJX, URBN, VFC

Potential Long-Term Implications

- Landscape likely to see significant consolidation (dept. stores, levered brands), with overstored footprints likely to see rightsizing
- Shift away from work-attire and more towards athleisure/casual/comfort
- Companies leverage new digital & social channels to connect with shoppers in innovative ways
- Digital/DTC & related omnichannel infrastructure becomes more important than ever

Summary of Impact to Coverage:

Over the longer term, we see several themes that will likely prove structural coming out of COVID-19. Given the cash/traffic crunch on our retailers, we look for consolidation to follow shortly as levered companies with large footprints are likely to feel the brunt of near-term closures. We'd also expect companies will become more creative in the ways they leverage digital to drive sales – not just through ecommerce, but also through alternative media footprints and business models such as rental/subscription. To capitalize on conversion, maintaining and growing a robust omnichannel will be more important than ever, as the shift away from brick & mortar is unlikely to flip back. On a category basis, we see relative outperformance from activewear/comfort focused given the shift to health & wellness in the age of WFH. As more people implement WFH, this could further favor home-related concepts as customers look to improve their home environment. All told, we believe agility is key in moments of crisis, and brands with minimal leverage and strong cashflows + balance sheets will benefit over the long term.

Names That Will Be Most POSITIVELY Impacted:

1) **Ross Stores, Burlington Stores, The TJX Companies (ROST – Outperform, BURL – Outperform, TJX – Outperform):** We view off-price as a whole as primed to take market share once demand normalizes and industry consolidation/closures accelerate, on top of ample product availability. We view ROST as well positioned to leverage on low fixed costs vs. variable, which lends to agility under pressure. ROST also has the strongest balance sheet of the off-pricers, which should allow for accelerating earnings growth against 2020's difficulties on top of fundamental market share opportunities. We see Burlington as primed to benefit from value conscious consumers coming back to stores, especially as off-price assortments improve due to heightened clearance elsewhere. We see Homegoods as an added benefit for TJX as spend at home is likely to uptick as more people WFH.
2) **lululemon Athletica (LULU – Outperform):** LULU is poised to gain from the structural shift to healthy and active lifestyles as consumers will likely be even more attentive to wellness and health on the heels of COVID-19. The brand is healthy, and LULU has the agility to prioritize growth investments while peers are focused elsewhere, which should leverage going forward.

Names That Will Be Most NEGATIVELY Impacted:

1) **PVH Corp (PVH – Sector Perform):** With significant North American wholesale exposure (largest customer Macy's, and with the top five customers representing est. 19% of sales), structural issues impairing the health of the NA wholesale channel are likely to keep pressure on PVH. Further, with its North American retail exposure largely outlets, leverage to tourists is likely to be an issue as long as concerns on travel linger in the consumer psyche.
2) **Ralph Lauren Corp (RL – Sector Perform):** Similar to PVH, Ralph Lauren also carries significant NA wholesale exposure; specifically to dept stores (with the 3 NA wholesale customers also at an est. 19% of sales), and faces the same structural challenges.

RETURN TO TOC

Energy

Global Integrated Energy

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Companies Under Coverage:

ARAMCO, BP, CVX, ENI, EQNR, GALP, NESTE *, RDS, REP, TOT, XOM

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Potential Long-Term Implications

- Majors see recent downturn as a signal to diversify business models more aggressively
- Increased renewables investments and move away from exploration
- Changing consumer behavior can materially impact global oil demand, both positively (more car journeys instead of commuting) and negatively (more resistance to air travel, more working from home)
- Increased government protectionism puts security of supply at front of mind
- Lower capital to shale oil production growth puts the Middle East back in the driver's seat for the commodity
- More vigilance around cleanliness drives Chemicals product demand growth

Summary of Impact to Coverage:

Whilst near term focus is on liquidity, access to capital, and for the integrateds – the ability to pay healthy dividends, we believe there will be longer term changes to behaviors, across both consumers and governments, which may influence corporate behavior over the long term. From a consumer perspective, the global "work from home" experiment could lead to less commuting and more remote working, while greater resistance to air travel may all impact global oil demand. At the same time, a greater focus on cleanliness and a focus on food supply chains may spur on chemicals demand growth, which has been a key focus for some majors in recent years. At the same time, the severe shock to oil prices may trigger some of the global integrateds to diversify capital allocation more aggressively – we expect some to transition more aggressively into renewables investments. While this remains a competitive space, governments across the world are tackling extremely challenging propositions (some dealing with poverty and energy security issues) and we think the majors are well placed to help through the transition, having been present in many countries for multiple decades. Finally, we think early indications from various government officials suggest energy security may creep back up the agenda.

Names That Will Be Most POSITIVELY Impacted:

Aside from the obvious risk to dividends in the coming years if oil prices remain depressed:

1) **Royal Dutch Shell (RDSB – Outperform):** Shell is #1 in LNG trading globally, and we expect the shift in capital allocation away from oil to benefit gas going forward. At the same time, it has the largest marketing division, spanning multiple geographies and 45,000 service stations which leaves it best placed to manage changing consumer behaviors.
2) **Total (TOT – Outperform):** We think TOT may benefit more due to the location of its asset. It has higher exposure to Africa where we think there will be a greater focus on security of supply, rather than energy transition aims such as those in developed countries.
3) **Chevron (CVX – Underperform):** We believe CVX's balance sheet puts it in a position of relative strength, affording strategic flexibility, dividend security, as it manages through the current downturn. Our recommendation is based primarily on relative valuation versus peers.

Names That Will Be Most NEGATIVELY Impacted:

1) **ExxonMobil (XOM – Underperform):** ExxonMobil remains firm on its investment case, which centers on its core oil and gas business, and we see a risk that the market may continue to de-rate this proposition over time. We expect capital allocation to shift away from oil and a higher cost of equity placed on those remaining oil focused.

Oilfield Services

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Companies Under Coverage:
HTG.L, WG.L, PFC.L, SUBC.OL, SHLF.OL

Potential Long-Term Implications

- Difficulties defending premium pricing for superior products (e.g. Hunting's H2 gun); further price cutting required.
- Leaner organisations; some OFS firms have not yet fully recovered from the 2016 downturn; a recession will require more than price-cutting for surviving companies.
- In-sector M&A targeting tier-2 players with weak capital structure, high leverage; Debt to equity swaps a preferred option for debtholders.
- A push for diversification (Renewables, Advisory, Other), to win more contracts and screen (more) positively from an ESG perspective.
- More ESG disclosure (e.g. Sustainability Reports), which is still at its infancy in the space.

Summary of Impact to Coverage:

The shy oil price reaction following the historic OPEC deal is a useful reminder that demand destruction is the greatest concern for the industry now, in our view. As demand gradually picks up after the end of lockdown periods, we expect drilling products and services contract work to be earned by the firms with the strongest balance sheets, able to withstand further price cuts. As a result, we anticipate firms to engage in massive cost-cutting on non-essential capital expenditure programmes. We also expect potential M&A to occur due to depressed valuation. We believe M&A will most likely materialize through in-sector moves, tier-1 players with stronger balance sheets acquiring struggling OFS players with weak balance sheets. Note, however, that historically OFS players have tended to pursue acquisitions at the peak of the cycle, despite less attractive valuations. We also anticipate the diversified names with growing presence outside pure oilfield services to benefit vs others and see three diversification paths playing out: 1) Renewables (e.g. EPCI for offshore wind), 2) Advisory (e.g. engineering studies focused on carbon capture and emissions reduction) and 3) Non-oil and gas (e.g. automation, robotics and advanced manufacturing applications for other sectors), through which firms will be able to generate more orders, and screen positively from an ESG standpoint.

Names That Will Be Most POSITIVELY Impacted:

1) **Wood Group (WG, Outperform)** – The company's efforts to reduce debt have left it with $1.4bn of headroom against debt facilities, and an ND/EBITDA reduced to 1.5x at end March 2020 (vs 2.0x end December 2019). Management's efforts to streamline the business in 2019 – with the formation of its Technical Consulting Solutions – coupled with further mandates in the renewables space should position the firm well after the downturn.
2) **Hunting (HTG, Outperform)** – As of end March 2020 Hunting remained the least indebted in its peer group ($22m net cash as of end March 2020, vs Oil States and Core Labs with respectively ~$214m and ~$294m of net debt at end 2019). This along with ambitions to grow its Advanced Manufacturing / Electronics outside of oil and gas (e.g. medical, aerospace sub-segments) give both headroom during the downturn and growth potential after relative to peers.

Names That Will Be Most NEGATIVELY Impacted:

1) **Petrofac (PFC, Sector Perform):** Petrofac is facing challenges to bidding on projects following an investigation launched by the Serious Fraud Office in 2015; until a resolution takes places, we see the firm in an unfavourable position to win work after the downturn.
2) **Shelf Drilling (SHLF, Sector Perform, Spec. Risk):** In the short-term the firm benefits from strong operational credentials underpinned by a very strong backlog. In the longer-term however, Shelf may be impacted by its superior debt profile (leverage covenant at 5x EBITDA leaving limited headroom) and its lack of diversification (Shelf provides offshore contract drilling services to the int'l oil and gas industry. It focuses on jack-up rigs, which are used for exploratory and development drilling operations).

Oil & Gas: International Exploration & Production

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Companies Under Coverage:

AOI.ST, AKERBP.OL, CNE.L, DNO.OL, ENOG.L, ENQ.L, GENL.L, GTE.TO, HUR.L, KOS.N, LUNE.ST, PXT.L, PMO.L, TLW.L, VLE.L

Potential Long-Term Implications

- The current crisis has derailed companies' efforts to deleverage; more extreme initiatives – debt for equity swaps - may now be required.
- Energy Transition is a 'haymaker' that is still to land.
- Market fragmentation – oil and gas is a steady source of tax revenue in Norway, but a sunset industry in the UK where we envisage a 'managed withdrawal of capital'.
- Emerging oil provinces may push ahead with oil and gas developments, but in mature basins we expect exploration to be discouraged and tax breaks abolished.
- More dependent upon debt and needing to deploy capital we envisage a greater focus on stability and steady dividends.

Summary of Impact to Coverage:

2019's surge in ESG-themed investing sapped energy from the sector, whilst the oil price crash and Covid-19 'one-two' has floored a number of companies, and yet the anticipated Energy Transition 'haymaker' is still to connect; those companies that survive the current turmoil need to bounce back with stronger balance sheets plus lower costs and emissions. At the same time, the Industry needs to demonstrate its continued importance to governments - as an employer and/or a source of tax revenues, consumers and investors. Sector wide, we expect investor interest to decline in response to shrinking market capitalizations; however, debt for equity swaps and M&A may help recapitalize businesses underpinned by reserves, production and cash flow. We anticipate limited near-term M&A, as most Boards address their own issues and avoid taking on more 'trouble'.

We anticipate regional variations, where governments look to stimulate their economies and maximize the potential of their indigenous resources; however, in OECD countries we expect 'green stimulus packages' and more generally governments may favour 'bigger better companies'. We expect stakeholders' focus on free cash flow to intensify, and that could result in a reduction in spending on higher risk activities (specifically exploration), perhaps increased commodity price hedging and more predictable shareholder returns, in the form of dividends.

Names That Will Be Most POSITIVELY Impacted:

1) **Parex Resources (PXT Outperform)**: Parex is a low cost onshore oil producer, focused on Colombia, which started 2020 with cash of ~$390m and no debt. Management has been quick to respond reducing capex, overheads and operating costs. We believe that Parex can survive 2020's downturn and reset for a lower for longer oil price environment by subsequently capturing inflation.
2) **Aker BP (AKERBP Outperform):** Aker BP expanded its debt capacity by issuing $1.5bn of bonds in early 2020; as a result, the business has the capacity to adapt to the oil price collapse. We no longer forecast cash taxes, and Aker BP should receive a tax rebate on its 2020 exploration spending in Q4/21. They have a broad and varied portfolio in which we see low cost, low emission, growth opportunities.
3) **Lundin Energy (LUNE Sector Perform):** Given its 20% stake in Johan Sverdrup and 65% interest in Edvard Greig, Lundin has low, sector-leading, operating costs and CO2 emissions, and combined with significant reserves this has created a business that can withstand low oil prices.

Names That Will Be Most NEGATIVELY Impacted:

1) **EnQuest (ENQ.L Underperform)** and **Tullow Oil (TLW.L Underperform):** The companies' efforts to reduce debt have been derailed by the oil price collapse, and despite operating cash generative assets in the UK and Ghana, respectively, there is little or no equity value in a lower-for-longer oil price scenario. Debtholders might determine the companies' futures.

Oil & Gas: US Exploration & Production

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Companies Under Coverage

APA, CDEV, CLR, COP, CPE, CXO, DNR, DVN, EOG, EQT, ESTE, FANG, MR, MRO, MTDR, NBL, OAS, PE, PXD, RRC, SM, SWN, WPX, XOG

Impact to Sector

- **Modest Long-term Oil Demand Risk.** Lower prices for oil is a concern because it is a driver for revenues. We expect a significant fall off in demand for gasoline, diesel, jet fuel, and products that could weigh on oil prices into the next year. We expect some modest shifts in trends to work from home that could reduce gasoline consumption but there are other areas to compensate. Lower oil & natural gas prices could increase demand for premium products such as chemicals, building products, plastics, etc. but that pick-up would be significantly challenged to offset the impact from lower gasoline and jet fuel usage. For oil, these premium products represent 10-15% of U.S. demand and 20-25% for natural gas. We do not believe there is a significant exposure advantage between various U.S. oil & basins or operators because the commodities produced are somewhat homogenous to the refiners. The lower input costs for the premium products could position the U.S. more competitively from a manufacturing sector standpoint.
- **Natural Gas Could See a Benefit.** Natural gas prices could see a small renaissance with lower oil production resulting in reduced associated natural gas (from oil wells). The competition between associated natural gas and direct gas wells has been fierce over the past few years pressuring natural gas prices. In the short-term, we do see reduced demand for natural gas as well but the long-term benefit of lower associated natural gas could put a higher floor on the commodity.
- **Stabilizing Financial Outlook.** There will likely be a more heightened effort for companies to reduce cyclicality and commodity price volatility by increasing commodity hedges for oil & gas over a longer period. Companies with strong near-term hedge books and better balance sheets were more resilient to recent oil price drops.
- **Consolidation or Eradication.** The U.S. oil & gas business is highly fragmented due to low barriers to entry and ample access to capital. Similar to 2016, low oil prices could make companies stronger by reducing cost structures and compelling decisions that are more profitable. We expect financial stress to reduce the number of "surviving" companies given our view of an extended trough in oil prices. This could also dive some consolidators to build core portfolios for the strong. We think bid-ask spreads to wide right now but that likely changes in an extended downturn. Lower quality assets or companies with highly levered balance sheets are not likely targets.

Companies Best Positioned

1) **Concho Resources (CXO - Outperform).** The company has a strong hedge book and balance sheet but well economics dictate drilling decisions. CXO has hedged 73%/27% of our modeled 2020/2021 forecast oil production using swaps at $57/$52 per bbl (WTI). CXO's Break-Even Point (BEP) including dividend coverage in 2020 is below $20/bbl (WTI) when accounting for the hedge book.
2) **ConocoPhillips (COP - Outperform).** COP provides more resiliency to sustained weaker oil price and better positioned than E&P peers in the current oil price environment due to a strong balance sheet, diversified operations, and low base production decline rate. COP's Break-Even Point (BEP) including dividend coverage is among the lowest given the low base decline and asset quality. COP does not hedge its production, thus its low BEP point occurs purely from operations.

Companies with Less Favorable Positioning

- Most companies within the U.S. E&P Sector produce a fairly homogenous quality of oil & natural gas. We think the key differentiator between companies are balance sheet liquidity & leverage profiles, FCF generation, acreage positioning, and marketing agreements. Companies with higher balance sheet leverage profiles and/or FCF deficits include CDEV, DNR, OAS, and XOG.

RETURN TO TOC

Oil & Gas: US Independent Refiners

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Companies Under Coverage
DK, HFC, MPC, PARR, PBF, PSX, VLO

Potential Long-Term Implications

- Lower gasoline demand given work from home trends
- Lower jet fuel demand with less commercial air travel activity and/or financial distress among airlines
- Closure of higher cost global refineries, mainly in Europe and Asia
- Lower long-term inland crude spreads related to likely declines in US/Canadian crude production
- Wider coastal medium/heavy crude spreads given global crude oversupply

Summary of Impact to Coverage:

Petroleum demand weakness continues to reverberate through system, although above trough levels, causing a significant decline of refinery runs. We expect this demand weakness will cause negative financial performance for as long as demand is significantly curtailed. Refiners are also deferring turnarounds and likely some maintenance activity, which could lead to operational challenges in the medium-term. However, when demand comes back, we expect refiner profitability to rebound quite quickly, and no long-term impairment to the stronger players in our coverage universe. We expect the US refining sector as a whole is likely to emerge stronger, as we expect some weaker global players could rationalize capacity. Inland refiners may lose some of their feedstock advantage over time, given US E&P production curtailments and eventual declines. This contrasts with the oversupply in the waterborne crude market, which is to the benefit of coastal refiners.

Companies Best Positioned

1) **Valero Energy Corporation (VLO - Outperform).** We like Valero Energy for its position at the bottom of the global refining cost curve and its significant leverage to the US Gulf Coast refining market. Valero also has great optionality in its refinery portfolio given its high complexity. This allows VLO to easily pick and choose the crudes that it runs and to arbitrage the global crude market. VLO is able to export significant products into the global marketplace, which provides a buffer against weak US demand.
2) **Phillips 66 (PSX - Outperform).** We like Phillips 66 for its diversified earnings potential across the refining, chemicals, and midstream sectors. Combined with PSX's peer-leading financial strength, we expect PSX to navigate the current challenging environment well. We see PSX as the refiner that has historically taken the most advantage of market dislocations, which should serve it well in the current market. We think PSX's yield is very attractive, and think the dividend is likely safe. While PSX has historically screened expensive on valuation, reduced earnings power for peers with more refining leverage has PSX looking like one of the cheapest names in the group.

Companies Most Challenged

1) **PBF Energy (PBF - Sector Perform).** We see PBF’s refining assets at the high end of the US cost curve. As a result, we expect PBF could see both significantly negative EPS and FCF as long as demand destruction continues. This is likely to put additional pressure on the balance sheet at a time when leverage is already high post the Martinez acquisition.
2) **Par Pacific (PARR – Sector Perform).** PARR has the most exposure in the group to jet fuel through its ownership of the Hawaii refinery, and we expect the Hawaii market to be challenged given the reliance on tourism. PARR also has a heavy turnaround schedule over the next few quarters, which was already likely to put pressure on financial performance, and this is likely to increase with lower cracks. Finally, PARR’s leverage profile is elevated.

Midstream Energy

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Companies Under Coverage:

Scotto: CAPL, CEQP, CQP, DCP, ET, EVA, GPP, KMI, LNG, MMP, OKE, PAA, PSXP, SMLP, SUN, WES

Schultz: AROC, BSM, ENBL, ENLC, EPD, EQM, ETRN, FLMN, GEL, KRP, MIC, MMLP, MNRL, MPLX, NGL, OMP, RTLR, SHLX, TCP, TRGP, USAC, VNOM, WMB

Potential Long-Term Implications

- More lenient "work from home" (WFH) policies that could lead to lower or more volatile gasoline and crude oil demand.
- Accelerated shift to e-commerce – people may be less inclined to enter crowded grocery and other stores, could lead to increased diesel demand.
- Potential for increase in food delivery (a) to avoid crowded restaurants and (b) WFH – less likely to order pickup on the way home from work.
- Lower gasoline prices puts more dollars in consumers' pockets, could drive increased demand for vacation travel (potential increase in jet fuel demand).
- More volatile gasoline demand would drive increased need for crude oil and refined products storage.
- Shift in demand for electricity and heat – potentially higher demand in homes offset by potentially lower demand in offices.

Summary of Impact to Coverage:

We believe the COVID 19 pandemic can have a number of longer-term implications for Midstream Energy. The most significant and apparent change in our view that would affect Midstream Energy is the potential for an increase in Work From Home (WFH). Our commodity strategist notes that the daily commute to and from work accounts for ~28% of US gasoline demand (2.5MMBpd). An increase in WFH would lead to lower gasoline demand and crude oil demand and lower gasoline and crude oil prices. On the flipside, as consumers shift more to e-commerce to potentially avoid crowded stores, diesel demand could increase. Lower gasoline prices put more money in consumers' pockets and consumers could plan to vacation more, which could drive an increase in jet fuel demand. WFH could also affect demand for electricity and heat (higher use at home offset by lower use in offices).

Names That Will Be Most POSITIVELY Impacted:

1) **Enterprise Product Partners (EPD – Outperform), Macquarie Infrastructure Corp (MIC – Sector Perform), Magellan Midstream Partners (MMP – Outperform), Energy Transfer (ET – Outperform):** In an environment where gasoline demand becomes more volatile as driving habits change, we believe crude oil and refined products storage will become more valuable. On this front, we highlight Enterprise Product Partners, Macquarie Infrastructure Corp, Magellan Midstream Partners and Energy Transfer. For Magellan, while gasoline demand may decline, MMP can offset will a slight increase in tariff to maintain essentially flat revenues. In addition, MMP would benefit from potentially higher diesel and jet fuel demand.

Names That Will Be Most NEGATIVELY Impacted:

1) **Sunoco (SUN – Outperform), CrossAmerica Partners (CAPL – Sector Perform), Plains All American (PAA – Sector Perform):** As more people WFH, gasoline demand would decline and would drive lower volumes through the wholesale gasoline distributors such as SUN and CAPL. Increased diesel demand from potentially accelerated e-commerce activity could potentially offset some of the gasoline demand destruction. We believe that WFH will result in fewer trips to the gas station, which will also lower earnings from retail operations. While PAA could benefit from increased storage demand, we believe lower gasoline demand will drive lower crude oil demand, which in turn will pressure volumes across PAA's crude oil gathering systems and long-haul pipelines.

RETURN TO TOC

Canadian Integrated, Senior & Intermediate E&P

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Companies Under Coverage:

SU, CVE, HSE, IMO, CNQ, OVV, MEG, VET, BTE, ERF

Potential Long-Term Implications

Isolating the impact of the COVID-19 pandemic on the global oil market is complicated by the severe but short-lived Saudi-Russia market share war that erupted in March and found settlement in April. The lethal concoction of rising OPEC+ production into collapsing demand created a perfect storm for oil markets. Producers responded to these conditions by cutting capital investment, shutting-in/curtailing production, seeking to fortify liquidity where possible, and adjusting their dividend policies.

COVID-19 will undoubtedly have longer-term implications for the trajectory of various refined product streams and therefore oil prices. Shifting consumer behaviour towards purchasing goods online, avoiding mass transit once back-to-work becomes more the norm, and adding flexibility to working from home more frequently are just a few of the trends that may develop over time. Each of these will have implications for motor gasoline and diesel demand. The potential for lessened business travel in lieu of video conferencing, not to mention more inconvenient restrictions when navigating airports and sitting inflight, may also weigh on jet demand. As a point of reference, jet fuel accounted for about 9% of the refined product supply of Imperial Oil (YTD Q3 2019), with motor gasoline at 52% and diesel at 26%. Although we can envision global oil demand resetting lower than it did before, so too will supply given the circa 30% reduction in capital spending programs thus far in 2020.

Summary of Impact to Coverage:

Given the severe retreat in oil prices—and a futures curve that is not particularly optimistic, oil producers are once again weather-proofing themselves to drive down WTI break-evens (cash flow = capital spending + dividends) into the US$40s and US$30s per barrel. This is not the first time they have done so in recent memory. Following the oil price collapse in late 2014, oil producers undertook steps to drive down their cost structures by recalibrating their supply chains, oilfield services, overhead cost structures, and capital spending. The difference this time round is that oil producers are already lean and do not have the wide margins they enjoyed back in 2014. Accordingly, some of the margin improvement via reduced operating and capital costs this year may be somewhat oil price dependent in nature.

The period of intensified oil price volatility that we are moving through will cause oil producers to think differently about the future once the turmoil has passed. Irrespective of where WTI and Brent prices establish a new equilibrium, most oil companies will run lower downside oil price scenarios with longer durations. Balance sheets will remain the cornerstone of managing oil price swings, although targeted leverage ratios (net debt-to-cash flow) are likely to be reset lower than in the past. In the absence of much improved oil prices and capital markets access, companies will most likely limit investment (and growth) in lieu of greater chunks of free cash flow being allocated towards balance sheets. Shareholder distributions in the form of common share buybacks, when conditions warrant, may be preferable to dividend growth given the flexibility they offer. Oil hedging may also be employed more broadly to dampen such volatility.

Advantaged vs. Disadvantaged Companies

A host of factors will serve to distinguish advantaged versus disadvantaged oil producers in the years to come. These include low balance sheet leverage, low sustaining capital and natural decline rates, and high margin upstream/downstream assets. Collectively, these attributes should result in free cash flow resiliency that is reflected in low break-even WTI or Brent prices to cover sustaining capital programs and dividends. In the new energy world we are moving into, we still envision integrated oil companies as broadly advantaged vis-à-vis exploration & production companies given their diversified revenue streams.

Within our coverage group, Suncor Energy and Canadian Natural Resources are advantaged energy companies. Suncor's physical integration affords revenue diversification and enables the company to place its upstream production within its downstream refineries (capacity of 462,000 bbl/d) and retail network. CNQ's uniqueness reflects its upgraded oil sands footprint at Horizon/AOSP, low natural decline rate of about 10%, and sustaining capital of approximately $3.0 billion. Moreover, CNQ's ability to pivot quickly to shifting market conditions, equity aligned management & directors (who own about 2.5% of the company), and Management Committee structure are also advantageous in our opinion.

Canadian Infrastructure

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Companies Under Coverage:

Kwan: ALA-CA; BIP; EMA-CA; ENB-CA; FTS-CA; GEI-CA; H-CA; IPL-CA; KEY-CA; PPL-CA; TRP-CA; TWM-CA

Choy: ACO.x-CA; CPX-CA; CU-CA; TA-CA

Potential Long-Term Implications

- Cost-of-service rate pressures stemming from any losses in demand, shifting of rate burden further to residential, or higher financing costs being flowed through
- Reduced oil demand if there is permanent damage to economic activity, reduced leisure and/or business travel, or lower commuting for work (i.e., work-from-home)
- Reduced demand for electricity if commercial and industrial demand is slow to recover, or is permanently lost, which could negatively impact integrated utilities and merchant power producers
- Cancellation or indefinite deferral of major projects to conserve capital or due to reduced customer demand

Summary of Impact to Coverage:

Generally, we expect infrastructure businesses to suffer a minimal medium- to long-term impact as most infrastructure assets are not permanently exposed to levels of economic activity (or there are regulatory and/or contractual mechanisms to protect against lower usage). If anything, we believe that investor sentiment towards valuations may be the greatest permanent risk to certain infrastructure stocks related to concerns about slower long-term growth (i.e., moderation of premium multiples for historically stronger growth stocks). Sub-segments that could be at most risk if there are permanent and material losses in demand are likely to be oil infrastructure and merchant power. For oil infrastructure, we see the risk as primarily being focused on the potential for lower valuation multiples as most oil infrastructure is covered under long-term contracts or regulatory frameworks. For merchant power, the risk is due mostly to lower cash flow if reduced demand leads to lower power prices.

Names That Will Be Most POSITIVELY Impacted:

Unlike other sectors, we do not expect companies in our coverage to materially benefit from trends arising from the COVID-19 outbreak and instead, our commentary is focused on stocks that have underperformed the peer group that we believe will strongly rebound over the longer term.

1) **Brookfield Infrastructure (BIP/BIPC – Outperform):** While we understand the stock coming under pressure due to its relatively larger cash flow exposure to changes in GDP as well as emerging markets, we have seen this movie play out many times before. Historically, volatile and uncertain markets have created significant, and numerous, opportunities for BIP to acquire assets at highly attractive values from sellers in need of capital (e.g., BBI/Prime Infrastructure, Inexus, NTS, etc.). We expect BIP's cash flow to rebound as the economy and emerging markets recover, and we would not be surprised if BIP is able to execute on attractive investments (although physical due diligence is difficult, BIP may be laying the groundwork via acquisitions of public secu rities).
2) **Enbridge (ENB – Outperform):** In our view, Enbridge's "utility-like" story remains intact with a solid underlying business and excellent financial liquidity. Nevertheless, low oil prices have led to concerns about Western Canada Sedimentary Basin oil production curtailments. However, we view any reduction in volumes as temporary and not being overly material. Over the long term, we expect volumes to recover with the company also having the ability to reset its contractual/regulatory framework for its largest pipeline system in mid-2021 to protect against any "new realities" in the oil market should they unfold.

Names That Will Be Most NEGATIVELY Impacted:

Similar to our commentary for names that could be positively impacted, we do not expect companies in our coverage to suffer a long-term material negative impact. As such, we would be aware of the various exposures that could lead to share price underperformance including oil infrastructure that could face valuation compression if there is permanent demand destruction (e.g., **ENB** and **GEI**, and to a lesser extent, **IPL**, and **KEY, PPL** and **TRP**), and exposure to merchant power prices (**CPX** and **TA**).

Financials

European Banks

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Companies Under Coverage:

Reingen: ABN, BNP, CBK, ACA, CSGN, DBK, INGA, BAER, GLE, UBSG

Toms: BBVA, SAN, BARC, CBG, HSBA, LLOY, MTRO, OSB, PAG, RBS, VMUK

Potential Long-Term Implications

- Highlights need for digital banking and payment infrastructure, with accelerated investments to deliver
- Challenges local branch network with associated savings
- Disintermediation with direct government financing
- Headwinds to financing of certain sectors (leisure/retail) and steering of financing under the aspect of ESG criteria
- Change in the way of interactions between client and employee in the sales/advice process and between employees (eg WFH) provides cost savings potential but also comes with a security risk
- Differing national social and regulatory reaction challenge regional / global model.

Summary of Impact to Coverage:

Social distancing and move to working from home is likely to accelerate the structural move from traditional branch based banking towards more integrated digital banking platforms especially in the traditional retail banking network but also in WM and corporate banking. While near-term economic impacts are likely, those banks which have already invested heavily in their digital offering, should be better placed. We compared the mobile banking offerings of our banks under coverage in our recent note (see **here**). More processes are likely to be digitalized especially in wholesale and capital markets businesses. Smaller players and/or banks with low profitability may need to consolidate to grow scale and leverage their customer base. The regulatory environment might be adjusted to become more flexible given current headwinds. Banks might rethink their global footprint and strengthen/divest/move their businesses.

Names That Will Be Most POSITIVELY Impacted:

1) **ING (INGA - Outperform):** We consider ING as an early adaptor of digital banking and as having made wide-ranging investments (regions, products) and gathered experience. Costs, such as KYC, have been a headwind, but should abate going forward. ING has shifted towards ESG-compliant financing but in the near term we see top line and impairment risk from its energy exposure which is relatively large in a sector comparison.
2) **BBVA (BBVA – Outperform):** Despite emerging market exposure, BBVA has delivered resilient earnings. Cost control has been best in class, and their digital offering (ranked 1st in Mexico, 2nd in Spain / Turkey) leaves them well placed as we see structural shifts accelerate. The bank also rates highly on ESG.

Names That Will Be Most NEGATIVELY Impacted:

1) **HSBC (HSBA – Underperform):** While traditionally a 'relative' beneficiary given Asian exposure, we see the structural move to digital banking and growing opportunity for new licensees as a risk. At the same time, they fall under the UK regulator forcing their hand on capital return policy. In the near term, their significant restructuring effort within Capital Markets, is likely to be limited with employees working from home and the bank unable to lay off in this social led crises.
2) **Deutsche Bank (DBK – Underperform, Spec Risk):** Pressure on profitability leaves less room to invest to adjust the business model and the lack of capital generation provides less flexibility. With a higher weighting to investment bank, we see longer-term earnings as more volatile.

US Banks and Consumer Finance

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Companies Under Coverage:

Cassidy: BAC, BK, BPOP, C, CFG, FITB, GS, JPM, KEY, MTB, MS, NTRS, PNC, RF, STT, TFC, USB, WFC **Arfstrom:** ASB, AXP, BOKF, BXS, CADE, CFR, CMA, COF, COLB, DFS, FFBC, FHN, FRC, GWB, HBAN, HOMB, ONB, PACW, PB, SIVB, SYF, TCBI, TCF, WAL, WTFC, ZION **Duong:** BKU, FCF, ISBC, NYCB, PFS, SNV, STL, VLY

Potential Long-Term Implications

- Raises importance of comprehensive digital banking solutions and payments infrastructure
- Accelerates the secular shift for consumer banking away from community banking and drive more small bank consolidation
- Federal Reserve and U.S. Government actions distort long-term risk reward balance in the capital markets
- Headwinds on certain loan categories / industries will cause longer lasting changes to loan pricing and risk appetite
- Accelerated e-comm shift drives card focus on partnering with digital companies vs. brick and mortar retailers
- Increased price competition for retail deposits as delivery channel shift towards online accelerates
- Increase need for internal investment in technology and associated security to empower employees to work remotely.
- Creation of SPVs (Special Purpose Vehicles) for the Federal Reserve funded by U.S Treasury to purchase a wide assortment of assets beyond its original mandate opens a Pandora's box
- Commercial real estate likely negatively impacted with less retail and office demand

Summary of Impact to Coverage:

Assuming a more permanent shift in the mix of remote workers, integrated digital banking and payments solutions will become more important than ever. This trend favors the larger banks that have already been investing heavily to improve digital delivery of their products for years. The need to keep pace with this spending will be more challenging for community players. We see accelerated consolidation among smaller banks to achieve technology scale. Furthermore, as real estate needs evolve, we could see more moderate demand for office space, which will be a likely negative on CRE-heavy lenders. Lastly, our expectation is that the interest rate environment will likely remain depressed for the near-to-medium-term or longer which will have a negative impact on bank net interest margins and profitability, and thereby further driving industry consolidation. For consumer finance, we expect limited impact to existing business models, but there could be an acceleration in strategic online/digital partnerships vs. traditional brick & mortar retailers.

Names That Will Be Most POSITIVELY Impacted:

1) **JP Morgan Chase & Company (JPM-Outperform):** JPM has a diversified revenue mix led by its profitable Consumer & Community Banking business. It is a leader in offering its products through the digital channel. As more of the banking business is transacted digitally, JPM (along with BAC) will be one of the primary beneficiaries of this trend.
2) **Bank of America Corporation: (BAC-Outperform):** BAC has a diversified revenue mix led by its Consumer Banking business. It is a leader (along with JPM) in offering its products through the digital channel and should benefit from increasing digital transactions.

Names That Will Be Most NEGATIVELY Impacted:

1) **Wells Fargo & Co. (WFC – Underperform):** We anticipate WFC's allowance for loan losses (ALL) could be too low in view of the company lowering the ALL in January when the banks had to "true-up" their reserves for CECL (Current Expected Credit Losses.) WFC was the only large bank to lower reserves under the CECL true-up due to the shorter duration of its loan portfolio.
2) **Synovus Financial Corp. (SNV – Sector Perform):** SNV has $5.3 billion of CRE loans in office buildings, shopping centers, and hotels, representing 14.3% of the total loan portfolio. We believe these loans are the highest risk loans that may face persistent pressure subsequent to the COVID-19 pandemic.

Non-life insurance, Life Insurance, Insurance Brokers, Mortgage Insurance

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Companies Under Coverage:

AIG, ACGL, AEL, AFL, AJG, AON, ATH, BRO, CB, BHF, CINF, EQH, ESNT, FFH-U, FFXDF, GSHD, HIG, KNSL, LNC, MET, MKL, MMC, MTG, NMIH, PFG, PRU, RDN, RGA, RLI, SIGI, TRV, UNM, VOYA, WRB

Potential Long-Term Implications

- More upfront disclosures on whether pandemics and related illnesses are included or excluded from insurance coverage
- A concerted push by regulators to find a solution to provide at least some insurance coverage from future pandemics (i.e. it could be a government backstop like TRIA or the NFIP)
- Global risk pools backed by capital market issued bonds to fund societal costs related to pandemic or other low frequency high severity disruptions
- To the extent work from home is more prevalent, fewer miles driven and the potential for lower auto premiums
- If more employees work remotely, in the long-run it could reduce insured property space and might accelerate movement of operations to lower-cost markets
- Homeowners' insurance premiums could rise to embrace added costs/exposure associated with work-from-home solutions (health, safety, liability risks)
- Changed coverage for employment practices liability to embrace mass health exposures and distributed workforces
- Increased need for advice and guidance from insurance brokers to help individuals and businesses manage risk
- Greater cyber insurance or intellectual property insurance risk with more employees working outside of the office
- A possible change in risk assessment and pricing for life insurers when it comes to insuring pandemic risks
- Different employee benefits emerge in response to distributed workforces

Summary of Impact to Coverage:

Within insurance the consequences of COVID-19 have both coverage and behavioral implications. Within coverage we see expansion of business interruption to embrace non-physical damage losses, albeit at increased premiums. This would become an elected endorsement like cyber and other 'non-silent' coverage. Alternative risk sharing structures such as pooled coverage, cat bonds or other capital market solutions will share these risks given their inherent low frequency high severity nature. Increased 'work from home' is one of many behavioral consequences with implications for workers comp, property, EPLI, general liability and cyber among other coverages. Personal auto, homeowners and personal umbrella would also be impacted. We think insurance brokers would have a key role to play in navigating these changes and advising companies and individuals about what coverages they have and which should be obtained. Employee benefits could evolve as workers value different lifestyle associated coverages and have an increased appreciation for the importance of Financial Wellness in addition to health wellness.

Names That Will Be Most POSITIVELY Impacted:

1) **Insurance brokers (AON – Sector Perform, Arthur J. Gallagher – Outperform, Brown & Brown – Sector Perform, Marsh & McLennan – Outperform):** We see insurance brokers as winners because they will be on the frontlines helping businesses and individuals find the right coverages and help with the assessment and management of risk. Brokers are uniquely situated in providing advice to both employers on commercial insurance and individuals via benefit plans to help bridge coverage gaps.
2) **Small business oriented specialty insurers (Markel – Outperform, W.R. Berkley – Outperform, RLI Corp. – Sector Perform, Kinsale – Outperform):** Companies that can quickly adapt policy forms and respond to an evolving landscape are potential winners as new coverage and exclusions are developed to respond to both COVID driven exposures and social change. We see specialty insurers as better positioned for this especially as most are small/mid-sized business focused where changes may be most pronounced.

Names That Will Be Most NEGATIVELY Impacted:

1) **Companies that choose not to write expanded BI or distributed employee coverages:** Insurers will need to decide which markets they wish to participate in and whether these altered coverages are sufficiently profitable for the added risks entailed. We expect some larger diversified insurers may see some negative premium repercussions and choose to let non-standard markets provide these coverages. While some premium classes would be negatively impacted by 'work from home,' claims would also be lower. Carriers would manage change over time through product adaptations at largely the same overall profitability. Actual disruption is unlikely.

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European Insurance

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Companies Under Coverage:

Aitken: AGN, AGS, AV/, JUST, LGEN, MNG, NN, PHNX, PRU, STJ, SLA, XPS

Hossain: ALV, BEZ, CS, DLG, HNR1, HSX, LRE, MUV2,SCR, SREN, ZURN

Pearse: ADM, HSTG, RSA

Potential Long-Term Implications

- Large mortality reserve releases if deaths are significant.
- Increased demand for life and health covers.
- Government might scrap pension tax relief to raise money.
- Less wealth to be managed by wealth/asset managers.
- Potential public-private partnerships established by governments as a financial backstop.
- More innovative products such as parametric covers linked to pandemics could be more popular.
- More digitalised distribution channels.

Summary of Impact to Coverage:

The current COVID-19 pandemic is likely to have significant implications for the insurance sector.

On the life side: COVID-19 deaths have been heavily weighted towards males (56%) and older lives (89% relate to ages 65 or older) which makes deaths highly relevant for annuity reserves which are also weighted towards older male lives. COVID-19 is currently expected to lead to 64,000 excess deaths in the UK and we forecast this will push deaths in 2020 above average, which will lead to significant mortality releases which are equivalent to an 8 month reduction in life expectancy.

On the non-life side, following widespread exclusions relating to business interruption coverage, we anticipate that governments will ultimately seek to build public-private partnerships such as those seen in the UK and the US with Pool Re, Flood Re and the NFIP amongst other examples. Parametric covers to aid with pandemics are also likely to become more popular, in our view, as there is limited scope for exclusions. In addition, given the slowdown in claims in some segments as a result of the lockdown, we would expect that insurance on demand could become more popular, giving policy holders the opportunity to turn their insurance off and on as they require. With increased levels of working from home following the lockdown, we would expect some policy wordings to tighten up given widespread home working is not considered in traditional Employers' Liability cover.

Names That Will Be Most POSITIVELY Impacted:

1) In the life space we highlight those with large annuity back book - **LGEN, AV/, MNG, PHNX** and **JUST** – all **Outperform.**
2) In the non-life space we highlight those with strong governmental and supra-national relationships; have an increasing focus on new means and methods of insurance distribution and are focused on creating innovative product suites. **Outperforms** we highlight are **MUV2, CS, BEZ and SREN.**

Names That Will Be Most NEGATIVELY Impacted:

1) On the life side we see greatest downside as those focused on pensions and wealth management businesses. We would highlight **St. James's Place (STJ – Sector Perform)** and **Standard Life Aberdeen (SLA – Underperform)**.
2) On the non-life side we see greatest risk in the personal lines focused insurers. With the potential for negative headline risk, and few mechanisms to benefit from additional risk pools, along with only limited product innovation, we would highlight **Hastings (HSTG – Underperform)** as being more at risk.

Canadian Diversified Financials

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Companies Under Coverage:

AGF.b, BBU (US), CIX, ECN, EFN, EQB, FN, FSZ, HCG, IFC, IGM, MIC, ONEX, POW, SII, X

Potential Long-Term Implications

- Increased online ordering, potentially increasing demand for outsourced delivery vehicle fleet solutions. Furthermore, growth in government deficits/debt and potentially greater focus by corporates to reduce expenses to improve earnings and leverage could see greater demand for outsourced fleet management.
- Increased migration to on-line/direct-to-consumer solutions (e.g., deposits, loans, investment products).
- Increasing adoption of work-from-home could lead to greater technology/security/cybersecurity investments and potentially negative impacts for commercial/retail real estate (and associated mortgage financing).
- Multiple potential implications for P&C insurance (Personal auto pricing models (e.g., increased demand for mileage-based insurance) and accident frequency; Personal/Commercial property coverages/pricing from increased work-from-home; Commercial (e.g., pandemic coverage, Cyber, intellectual property, etc.)).
- With 2 severe market downturns in just over the past decade, asset managers will need to increase exposure to lower/non-correlated investment solutions and also be prepared for increased fee pressure given lackluster investor returns and low interest rates, which is likely to result in further focus on optimizing operating expenses.

Summary of Impact to Coverage:

In our view, COVID-19 impacts (e.g., work from home, social distancing, capital markets impacts) are unlikely to have a major impact on our Canadian Diversified Financials coverage universe, with the impacts being different in type and magnitude depending on the sub-sector/company. As consumers (young and old) become more comfortable transacting online, this is likely to see increased growth of direct-to-consumer solutions (e.g., mortgages, deposits) but also could see increased demand for outsourced delivery vehicle fleet solutions. For P&C insurance, we think there are likely to be several impacts plus and minus. In Personal Auto, increased work from home could see lower premiums and perhaps increased demand for mileage-based pricing; this could be offset by reduced accident frequency. In Commercial, there are likely to be several impacts (e.g., increased Cyber demand due to increased online activity and work-from-home). For Asset Managers, we think another major market downturn puts further importance on diversifying the product line-up to include more alternative products/solutions that are ideally low/uncorrelated with the broader market.

Names That Will Be Most POSITIVELY Impacted:

1) **Element Fleet (EFN – Outperform).** As North America's largest vehicle fleet management company, we think EFN can benefit by using its scale to attract new customers by providing significant cost savings (vs. managing their own fleet or building one from scratch), given both the current economic downturn but also over the long-term in terms of minimizing operating expenses. EFN is increasingly targeting governments, which given increasing deficits/debts, they may be receptive to outsourcing their fleets given it could free up precious financial capital and reduce operating expenses. Furthermore, even before COVID-19, we think EFN was targeting "mega-fleet" entities, which include companies (e.g., consumer-facing) that could benefit from having their own fleet given current and potentially sustained future online delivery demand. Success winning any of these customers could be significant as they are not included in EFN's long-term revenue growth guidance.

Names That Will Be Most NEGATIVELY Impacted:

1) **Asset managers that do not successfully diversify their business mix, product mix, offer competitive fees and optimize their expense base.** With investors experiencing 2 severe market downturns in just over a decade, we think this could bring fees back into focus and the justification of said fees, particularly if actively managed funds struggle to outperform passive indices and if alternative strategies fail to perform as they were expected to.

US Asset Managers, Business Development Companies (BDCs), Mortgage REITs

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Companies Under Coverage:

AMP, APAM, ARES, BSIG, FHI, IVZ, LM, RMR, VCTR, WDR, OMF, AGNC, NLY, CIM, MFA, TWO, AINV, ARCC, MAIN, ORCC, TSLX

Potential Long-Term Implications

- Management teams to re-assess their liquidity and leverage levels under new pandemic scenarios
- Increased market support from the Federal Reserve
- Credit risk premiums likely to incorporate higher than previous probabilities of future pandemics occurring, along with higher potential correlations of defaults/delinquencies between different pools of risk during a pandemic scenario

Summary of Impact to Coverage:

We believe the current COVID-19 pandemic could have some longer-term implications for companies within our coverage. For the mortgage REITs, we think the significant volatility seen recently around asset prices and short-term financing availability could spur management teams to re-assess their ongoing liquidity positions and leverage levels, and increased market support from the Federal Reserve could alter which assets would have the most attractive returns in the future. For the BDCs, the credit underwriting process and risk management could incorporate elevated risks related to future pandemics. For the asset managers, companies could be motivated to further diversify their asset mix in order to partly insulate revenue and earnings impact from sharp declines in the equity markets.

Names That Will Be Most POSITIVELY Impacted:

1) **Annaly Capital Management (NLY - Outperform):** Increased support from the Federal Reserve within the agency MBS market, coupled with low short-term cost of funding, could be a significant positive tailwind for some time for agency-skewed mortgage REITs, including Annaly Capital.
2) **Ares Management Corp (ARES - Outperform):** Market dislocation and asset mispricing could yield potentially attractive investment opportunities across the company's private credit, private equity, and real estate businesses, similar to what happened during the financial crisis.

Names That Will Be Most NEGATIVELY Impacted:

1) **Waddell & Reed (WDR - Underperform):** While management has been focused on turning around the ship and many restructuring initiatives are largely completed, the company's asset mix remains significantly skewed towards equity products. We do note that longer term, management intends to potentially broaden the product offerings.

Wealth Managers, Asset Managers, OTC Leveraged Trading, Market Infrastructure and Non-Standard Lenders

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Companies Under Coverage:

Wealth Managers: BRK, BRW, QLT, RAT

Asset Managers: TKO

OTC Leveraged Trading: CMCX, IGG

Exchanges/Other: DB1, PFG, TCAP

Potential Long-Term Implications:

- Dislocation of asset / company valuations provides opportunities for private capital deployment (debt and equity) which could lead to higher returns.
- A pronounced and continued market decline could impact retail investor attitudes to investment e.g. preference for Advised vs DIY/Robo, Active vs passive, and could shape government policy with respect to retirement savings/income.
- Lower for longer interest rate scenarios likely to benefit demand for WMs and financial advisers.
- Disruption to underwriting models could lead to tightening in lending criteria restricting receivables book growth.
- For businesses facing retail customers, an increase in the provision of services on-line (e.g client meeting for WMs, and acceleration of online lending and remote collection of loans for Specialty Lenders).
- Pressure on sub-scale business models could mean acceleration of the consolidation theme in AM and WM.

Summary of Impact to Coverage:

We see potential revisions in social norms to impact, for example, the way typically face-to-face services are delivered (client meeting for WMs, home collections for specialty lenders). We also see that an increased prevalence in remote working may present opportunities for cost savings, though this may also lead to an increase in operational risk (particularly where operations involve financial markets).

Whilst OTC leveraged providers are experiencing higher trading volumes amid the current market conditions, we expect this to be a transitory effect. Similarly, the higher volumes seen at exchanges suggest that while they are relative winners in the short term, we foresee no material fundamental shift in the demand for services offered over the long term. In contrast, we highlight the specialty lending sector as likely to be challenged by higher impairments as a result of the anticipated economic slowdown.

Names That Will Be Most POSITIVELY Impacted:

1) **Rathbone Brothers (RAT, Outperform).** As smaller peers struggle to contain costs under the current lower AUM environment, the attractiveness of consolidation increases. Rathbones remains the WM with the strongest track-record of delivering successful acquisitions.
2) **Tikehau Capital (TKO, Outperform).** We see the alternatives as a clear beneficiary if the structural trend of diversifying portfolios continues. In addition, market dislocation and asset mispricing could allow for the deployment of the considerable ‘dry powder’ that Tikehau holds within its funds, and on its balance sheet, into private markets.
3) **CMC Markets (CMCX, Outperform, Speculative Risk).** and **IG Group (IGG, Outperform, Speculative Risk).** Above and beyond ST trading, current conditions have led to account reactivations and new customers – which present future revenue opportunity if retained.

Names That Will Be Most NEGATIVELY Impacted:

1) **Provident Financial Group (PFG, Sector Perform).** It is likely PFG will suffer higher impairments due to the damage to the economy. Lower loan risk appetite may reduce loan book growth and future profits, despite PFG being a market leader in the non-standard sector and relatively well placed against smaller peers.

Healthcare

Biotechnology

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Companies Under Coverage:

AMGN, REGN, ALXN, BMRN, EXEL, SGEN, GMAB, AGIO, ARNA, ANAB, XLRN, AIMT, CLVS, PBYI, ATNX, IMGN, AKBA, OBSV, PRQR, PRTA, ABEO

Potential Long-Term Implications

- Increased demand for preventive medicines such as vaccines
- Increasing use of telemedicine for diagnosis and prescription by both patients and healthcare providers
- Greater awareness around health related topics
- Extensive data gathering around infectious diseases in the community by health authorities and companies
- More R&D investments to develop novel treatments and rapid diagnostics for viral infections
- Investment in more scalable and flexible manufacturing facilities
- Improvements in supply chains for biopharma industry

Summary of Impact to Coverage:

We see near-term impact to our coverage from the COVID-19 pandemic with more pronounced impact on new drug launches, medicines for non-life threatening conditions, and patient recruitment/visits for clinical trials. We note relative inelasticity of requirements for medicines and anticipate demand for medicines produced by our biotech coverage may rebound faster than other sectors in the broader economy. We anticipate only a slight decrease in demand for biopharma drugs due to declines in physician/patient visits given heightened risk of clinical visits during the COVID-19 pandemic. However, we note increased clinical trial data and execution risk to some of our smaller-cap pre-commercial companies where the investment thesis is more dependent on clinical execution vs commercial execution. Longer term, we expect companies will increase preparedness for supply chain disruptions and potentially relocate manufacturing facilities. We could see renewed interest in the infectious disease as a focus area for several large cap companies (AMGN/REGN) as they can leverage their existing technology platforms to rapidly move agents into clinical trials.

Names That Will Be Most POSITIVELY Impacted:

1) **Regeneron (REGN – Sector Perform):** REGN is developing 2 putative treatments for COVID-19: Kevzara for the treatment of COVID induced inflammation in critically ill patients, and a pre-clinical antibody cocktail aimed at the virus itself. However we anticipate sales of REGN's blockbuster Eylea could be heavily impacted near term given risk-reward of clinical visits during the COVID pandemic.
2) **Amgen (AMGN – Sector Perform):** As the largest biotech company, AMGN is arguably well positioned to leverage its infrastructure to continue providing educational/commercial support to healthcare providers. Additionally, it could extract the efficiencies generated in sales force moving to more digital models of communication.
3) **BioMarin (BMRN – Outperform):** We see BMRN's rare-disease franchise as well insulated from COVID-19 impact and while we anticipate there could be potential delay to the FDA approval/launch of BMRN's ValRox gene therapy for the treatment of hemophilia A, we continue to see potential for a very strong launch vs expectations.

Names That Will Be Most NEGATIVELY Impacted:

1) **Aimmune Therapeutics (AIMT – Outperform, Speculative Risk):** AIMT recently launched its lead drug Palforzia for peanut allergy treatment in children aged 4-17 years of age in the US. We expect headwinds to the US launch given the parents might be hesitant to bring children to clinics due to increased perceived risk of viral infection in a healthcare setting.

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Biotechnology

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Companies Under Coverage:

BCRX, BIIB, CNST, CRBP, ENTA ETNB, GLPG, GILD, HOOK, INCY, ICPT, ITCI, KPTI, MRUS, NBIX, OVID, PTI, PTCT, SAGE, SRPT, THTX, VRTX

Potential Long-Term Implications

- Increased shift to telemedicine
- Move towards virtual marketing of pharmaceuticals
- Use of in-home apps/devices to monitor endpoints whenever possible for clinical trials
- Potential reduction in per-patient revenue if unemployment trends lead to a sustained shift to public insurance and resurgence of drug pricing concerns
- Major revolution in biotech not currently anticipated for several reasons: 1) Care of patients with rare and severe diseases requires extensive diagnostic procedures not possible via telemedicine; 2) Face-to-face detailing will likely remain the most effective means of promoting many drugs; 3) Many jobs in biotech cannot be done remotely (e.g., lab work for R&D, pharmaceutical manufacturing)

Summary of Impact to Coverage:

In biotech, we could see an increased shift to telemedicine, both for doctor visits and for marketing medicines. Improvements in efficiency and throughput of patient visits and drug delivery might help uptake of many medicines over the long term, but many rare and severe diseases require extensive diagnostics not possible via telemedicine. We expect most/all of our companies to begin or increase their usage of virtual marketing, though we believe face-to-face detailing will remain the most effective means of promoting many drugs. Most manufacturing and R&D jobs cannot be done remotely, and although some clinical trial work can be done virtually, much of it still requires close interaction with both patients and doctors. Finally, an increased unemployment rate and potential shift to more lives covered with public payer insurance, coupled with budgetary constraints emerging from the coronavirus stimulus, could have an overall effect of reducing per-patient revenue through greater discounting and re-emergence of drug pricing policy initiatives.

Names That Will Be Most POSITIVELY Impacted:

1) **Gilead Sciences (GILD – Outperform):** The foundation of GILD's business is an industry-leading HIV franchise that we expect to generate yearly $13-17B+ sales through 2029. Mgmt has recently confirmed that HIV prescribing can be done with telemedicine and telehealth, reaffirming our view that HIV sales are likely to be relatively insulated from the effects of the COVID-19 pandemic. In addition, as a leader in antiviral therapeutics, GILD has recently demonstrated the potential of remdesivir to treat COVID-19, and though we do not anticipate it to be a game-changer, the heightened awareness of their overall platform, fundamentals and optionality in remdesivir is likely to continue to drive value.
2) **Vertex Pharmaceuticals (VRTX – Sector Perform):** We believe their key cystic fibrosis franchise will be well insulated from any meaningful negative impact from COVID-19, and the pandemic may even prompt more patients to seek therapy given the heightened sensitivity of those with respiratory complications to coronavirus infections. As with most biotechs, we expect there to be some negative NT impact to pipeline timelines for VRTX.

Names That Will Be Most NEGATIVELY Impacted:

1) **Intercept Pharmaceuticals (ICPT – Outperform):** We see the potential for a more prolonged impact on regulatory interactions given recent Adcomm delays and FDA guidance, as well as the launch of new drugs into spaces that require more detailing, and which depend on ongoing clinical trials to establish LT patient outcomes, such as ICPT's OCA potentially launching in NASH in 2H20. With that being said, we believe these potential difficulties are more than baked in at current valuation, and still see an attractive entry point for OCA's longer-term NASH opportunity.
2) **Galapagos NV (GLPG – Sector Perform):** Although we believe GILD-partnered filgotinib has blockbuster potential, with the most promising opportunity being in IBD, we see potential for regulatory delays and launch headwinds due to virtual detailing. Additionally, some of the earlier-stage pipeline programs may be delayed or sidetracked temporarily due to COVID-19 developments.

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Biotechnology

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Companies Under Coverage:

ACAD, APRE, APTO, GMDA, INO, ITRM, PRVB, PTLA, XNCR

Potential Long-Term Implications

- Potentially decrease in sales due to high unemployment rate during the recovery phase
- High utility rate of telemedicine for diagnosis, follow-up, and prescription for patients not required on-site testing
- Higher prevalence of virtual promotion and awareness of commercial products
- Increased investor and development interests in the infectious diseases space
- Strengthening of supply chain capacity of global manufacturers
- Higher degree of collaborative efforts within industry, as well as with academic institutions

Summary of Impact to Coverage:

We believe the current COVID-19 pandemic could have several short-term and long-lasting implications for our coverage. We believe clinical execution could be impacted due to the pandemic, which will potentially delay trial readout, though we believe companies in the oncology space could be somewhat insulated from the impact due to the high medical need. We also believe regulatory interactions and potential approvals could be pushed out due to FDA's prioritization on COVID-19-related requests, though we see catalysts in a longer runway being less impacted. We see a higher utility rate of telemedicine among healthcare providers for patients not required on-site visits, though we note telemedicine would not replace on-site testing or in-person diagnosis for indications that require extensive treatment or follow-up. We believe biotech companies have started to strengthen their virtual marketing awareness opportunities and capabilities, which could lead to greater scope and reach in the long term. We also see COVID-19 cast long-term impact on the sector, such as stronger interests in the infectious disease space, which could lead to increased investment and development efforts. The increased capabilities of supply chain manufacturers to adapt to the demand for vaccine manufacturing could also strengthen the capacity to transition as manufacturers for drugs with similar manufacturing processes. We also see more collaborative efforts for drug development among the private and public companies in the industry, as well as between the industry and academia.

Names That Will Be Most POSITIVELY Impacted:

1) **ACADIA Pharmaceuticals (ACAD – Outperform):** The decline in enrollment rate of pimavanserin as adjunctive therapy in MDD due to the pandemic resulted in a clever development move to combine pivotal trials and pull forward a key value-determining catalyst sooner than initially laid out. We believe the upcoming readout of the MDD pivotal, though adding some new incremental risk as a single trial in the neuropsych space, provides another near-term shot on goal, showcasing key commercial product, Nuplazid (pimavanserin), as a platform molecule across a diverse set of indications longer-term – and potentially building on the current success in PDP and the upcoming launch in the new DRP market.
2) **Inovio Pharmaceuticals (INO – Sector Perform, Speculative Risk):** INO's COVID-19 vaccine development efforts have attracted high levels of investor interest, though current enthusiasm and progress have kept risk/reward balanced ahead of key emerging data. While the clinical development of the lead asset, VGX-3100, currently in pivotal stages, could face additional headwinds due to pandemic-related slowdown in trial enrollment, INO's early lead in coronavirus vaccine development could position the diverse pipeline to yield a sooner-than-expected approval, potentially provide ongoing validation of the DNA-based immunotherapy platform, and set-up the portfolio for the longer term.

Names That Will Be Most NEGATIVELY Impacted:

1) **Iterum Therapeutics (ITRM – Sector Perform, Speculative Risk):** The COVID-19 impact has delayed the topline readout of the sulopenem pivotal trials in complicated and uncomplicated UTIs, which has exaggerated the cash overhang on the company with an already stringent timeline. With the recent announcement of the topline miss in cUTI, which, in our view, is a major blow to the sulopenem pivotal program ahead of their important uUTI trial readout, now casting uncertainty on both the asset and company, exemplifying resource and capital needs exacerbated by COVID-19 headwinds.

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Biotechnology

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Companies Under Coverage:

ADVM, ALNY, ARWR, BLUE, DRNA, FIXX, IONS, RGNX

Potential Long-Term Implications

- Preference for treatments that offer a one-time functional cure or less frequent dosing
- Increased demand for convenience (fixed vs weight-based dosing, oral/subQ vs IV, at-home vs in-office)
- Increased use of telemedicine for disease monitoring, prescription changes, and patient visits
- Preference for affordable, patient-friendly diagnostic devices for at-home disease monitoring
- Pay-for-performance pricing, where costs are amortized over-time based on continued efficacy
- Increased in-house manufacturing for gene-therapies vs current outsourcing model

Summary of Impact to Coverage:

The near-term impact of the COVID-19 pandemic on some names in our coverage universe includes commercial delays (BLUE's Zynteglo launch pushed back in EU), clinical delays (DRNA enrollment for PH, ARWR enrollment for A1AT) and regulatory delays (BLUE B-thal filing). Looking towards the next decade, we think there will be a shift away from traditional, once-daily small molecules and greater adoption of RNAi, gene-therapies and cell therapies as they can offer less frequent dosing and/or even functional cures. RNAi has a long duration of effect and can offer monthly, quarterly or even bi-annual dosing, which offers freedom from frequent prescription refills. One-time gene therapies have the potential to offer a functional cure and patients may have follow-up consults primarily via at-home diagnostic and/or telemedicine. Lastly, we anticipate greater demand for pay-for-performance pricing where costs are amortized over-time and incurred only if the drug delivers the anticipated long-term efficacy.

Names That Will Be Most POSITIVELY Impacted:

1) **Adverum Biotechnologies (ADVM – Outperform, Speculative Risk):** ADVM is developing an anti-VEGF gene-therapy for wet AMD and diabetic macular edema (DME), two ocular diseases treated by frequent intravitreal anti-VEGF injections. Wet AMD affects elderly individuals and DME a younger population but we think both highly motivated to adopt a one-time treatment and avoid regular visits. Patient follow-up will still be required and we think that adoption of at-home OCT devices to monitor disease progression will actually synergize with gene therapy and make the transition to gene therapy even faster.
2) **Homology Medicines (FIXX – Outperform, Speculative Risk):** FIXX is developing a one-time gene therapy for rare-disease PKU and has an in-house manufacturing platform with a commercial-ready drug product. PKU is managed by a strict diet, enzyme-replacement therapy Palzyniq (subQ, QD) or enzyme-cofactor substitute Kuvan (oral, QD). Monitoring of blood Phe levels is required with current treatments, adding to the burden of disease management. We think HMI-102 could offer patients a long-term solution, with less reliance on the healthcare system for disease monitoring over time when at-home Phe blood-testing devices (e.g. Aptatek Biosciences Phe blood-testing device) gain approval.

Name That Will Be Most NEGATIVELY Impacted:

1) **IONIS Pharmaceuticals (IONS – Outperform):** While IONS has pioneered the field by translating their antisense oligonucleotide (ASO) technology into 3 approved drugs (Spinraza, Tegsedi, Waylivra), we think ASOs may lose traction over time to RNAi, gene therapy and gene editing. ASOs require more frequent dosing vs RNAi (e.g. Tegsedi is Q1W vs Onpattro is Q3W) and do not offer a functional cure like gene therapy (e.g. Spinraza vs Zolgensma). In a post-COVID19 world where patients are less inclined to physically visit their healthcare providers we think ASO may lose momentum over time in favor of RNAi and gene therapy. However, we also note that ASO will continue to have relevance for certain indications where genetic manipulation other than insertion, deletion or knockdown is required (i.e. exon skipping, allele specific knockdown etc.)

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Healthcare Information Technology (HCIT) & Healthcare Services

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Companies Under Coverage:

CATS, CERN, CHNG, CTLT, HCAT, HCSG, HMSY, LVGO, MDRX, NXGN, PHR, RCM, SRCL, TDOC, TRHC, VCRA

Potential Long-Term Implications

- Growing awareness/adoption of telehealth
- Fewer in-person physician office/urgent care visits, potentially catalyzing additional consolidation of those providers
- Need for more sophisticated communication systems to help hospitals/health systems respond more effectively/efficiently to future outbreaks
- Increased need for HCIT systems to help with disease surveillance
- Increased operating expenses and occupancy challenges for skilled nursing facilities
- More lenient "work from home" policies, meaning less secure information (i.e. paper waste) being generated in offices

Summary of Impact to Coverage:

We believe the current COVID-19 pandemic could have several long-lasting implications for the healthcare IT and healthcare services spaces. From a virtual health perspective, the outbreak is helping push telehealth even more quickly to its tipping point. Demand for these services has spiked quickly, resulting in many vendors struggling with capacity constraints. The need for growth/infrastructure capital (not to mention TDOC's current valuation) could push some of those that have been contemplating a going-public transaction finally across the finish line. In the hospital communications space, the pandemic is surfacing the inefficiencies that still exist within those facilities, likely accelerating demand for more sophisticated systems as hospitals look for better platforms to manage through future outbreaks. On the flipside, this is making an already difficult environment more challenging for skilled nursing operators, who will now likely face even higher operating costs in addition to future occupancy challenges stemming from the very high incidence rates prevalent in some of these facilities.

Names That Will Be Most POSITIVELY Impacted:

1) **Teladoc (TDOC - Outperform):** The coronavirus has caused telehealth to move more quickly to its tipping point. Awareness and concerns around quality have historically been the biggest barriers to adoption — an increasing push by payers to help reduce stress on health system capacity coupled with patient fears of risking exposure by showing up to an ER/urgent care/doc office in person is accelerating people over the "first-timer" hump. Said differently, TDOC was spending most of its money on educating members/driving awareness—that problem is shrinking very quickly now. There will be longevity to all of this utilization too—data from the various vendors show once individuals use the service a first time, they are likely to become repeat users. TDOC likens this to a flywheel and has said the average member used its services 1.5x last year. It has also said, as of April 14, it is now routinely providing 20,000+ visits/day. For context, in 1Q19, TDOC averaged 8,600-8,700 U.S. visits/day, so volumes now vs. last year have nearly doubled.
2) **Vocera (VCRA - Sector Perform):** VCRA's solutions help hospitals address a whole host of issues, one of the primary being to help improve staff (doctors and nurses) responsiveness/efficiency and ability to connect remotely. Near-term the pandemic will likely delay purchasing decisions and implementations as focus shifts to managing the large influx of COVID-19 patients. Over the longer-term though, we believe more sophisticated hospital communications systems serve as a relatively low-cost way to enable healthcare providers to more quickly and efficiently respond to future outbreaks.

Names That Will Be Most NEGATIVELY Impacted:

1) **Healthcare Services Group (HCSG - Sector Perform):** The skilled nursing space was already challenging with most operators wrestling with declining occupancy trends, adverse shifts in payer mix and razor-thin margins. These were rippling through to HCSG too, which has seen the majority of its top-10 clients re-organize (either formally in courts, or informally out of court) over the past several years. The Coronavirus pandemic makes the situation even more difficult as operators now face even higher operating costs (more money being spent on sanitization), not to mention the negative headlines as some of these facilities are experiencing very high incidence rates. Neither of these will likely be temporary either — the risks being surfaced by the current outbreak from having so many frail and elderly in one place could catalyze some LT industry changes: (1) it could drive increased monitoring and/or standards when it comes to things like sanitization — so increased operating costs; and (2) it could also drag on occupancy by encouraging more inpatients to bypass SNFs altogether and transition directly to the relative safety of their home.

Healthcare Services and Managed Care

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Companies Under Coverage:

Morgan: AMED, BKD, CHE, CI, DVA, EHTH, ENSG, FMS, GEN, HUM, LHCG, SGRY, UHS, UNH
Hie: ACHC, ADUS, ANTM, CYH, EHC, HCA, PNTG, SEM, THC

Potential Long-Term Implications

- Potential acceleration of move to episodic payment models benefitting low cost home healthcare providers
- Acceleration of M&A opportunities in the hospital sector if COVID-19 crisis is protracted
- Post-acute capabilities expanded with site neutral reimbursement
- No structural changes in U.S. hospital capacity
- MCOs potentially accelerate growth back into public exchange offerings as unemployed workers seek subsidized coverage on exchanges
- Continued shift of the Medicare-eligible population into MA a positive tailwind for both carriers and brokers

Summary of Impact to Coverage:

If there is one word to describe the impact of COVID-19 on the U.S. healthcare system, it is disruption. Essentially no sub-segment of our universe fully escapes COVID-related demand disruption. Fortunately, this deferral of demand is only temporary and will return once the crisis passes, but a strong balance sheet and liquidity are critical in the meantime. However, with as much as 80% of acute care hospital capacity being NFP, there could be some financial dislocation. The pandemic has raised questions about the adequacy of healthcare capacity in the U.S. We believe the U.S. system does not have a structural "capacity issue", but instead has a "preparedness issue". If there is a silver lining to the crisis, it could be that COVID has forced policymakers, lawmakers, and payors to reassess regulations that have historically impeded the ability to transition patients from the acute hospital setting to post-acute care settings (like LTACs, IRFs, SNFs, and home health). These settings are generally less expensive and better positioned for episodic payments. The recently passed CARES Stimulus Bill temporarily removes these regulatory barriers, but current events may in fact lead to a permanent change. We do not see COVID as a change agent for the WFH movement in healthcare, as in most cases, workers need to be where clinical care is delivered.

From a payor perspective, we see MCOs mirroring some of the policy changes brought about by the CARES stimulus bill. In the very near term, the benefits that MCOs see from the deferral of elective surgeries will more than offset the incremental cost of COVID cases. In the intermediate term, this phenomenon will reverse itself out. In the long term, we have concerns over the impact of higher unemployment on membership in the employer-sponsored commercial market. Finally, regardless of COVID, we expect the movement of the Medicare-eligible population into Medicare Advantage over traditional FFS Medicare will continue given the demographic tailwinds and the relatively low penetration rate.

Names That Will Be Most POSITIVELY Impacted:

1) **UnitedHealth Group (UNH–O):** An "index stock" on many of the themes we see unfolding in healthcare including demographics, growth in the MA population, and integrated care capabilities to bend the healthcare cost curve.
2) **HCA Healthcare (HCA–O):** Solid franchise assets in the most attractive growth markets in the US; potential beneficiary of M&A opportunities that could emerge from COVID-19 disruption.
3) **eHealth (EHTH–O):** Essentially no headwinds from the COVID crisis while benefitting from macro demographic factors, as well as low penetration in MA.
4) **Encompass Health (EHC–O):** Two most attractive subsectors of post-acute care. IRFs could benefit from a move to site neutral payments, while home health should benefit from M&A opportunities arising from PDGM.

Names That Will Be Most NEGATIVELY Impacted:

1) In general, the names mostly negatively impacted in the NT are our more leveraged names, which are focused currently on enhancing liquidity and reducing capital deployment. Leveraged names include **ACHC**, **SGRY**, **BKD**, and **CYH**.

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Large Cap Pharma, Specialty & Generic Pharmaceuticals

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Companies Under Coverage:

ABBV, AGRX, AMRX, AQST, EGRX, ENDP, EVFM, FLXN, JAZZ, MRK, MYL, OPTN, OSMT, PCRX, PRGO, PFE, TEVA, XERS

Potential Long-Term Implications

- Increased utilization of telemedicine may provide more access for patients
- Decreased foreign dependency on medicines, leading to a shift in manufacturing back to the US, which could increase costs
- Decreased political pressure on drug pricing if a COVID-19 solution is developed
- Consumer behavior may continue to shift spending more towards e-commerce for over-the-counter (OTC) medicines rather than purchasing at large retailers
- Work from home or virtual working arrangements may be applicable for Sales or Marketing, but less applicable for manufacturing and new drug development (R&D and clinical work)

Summary of Impact to Coverage:

There are several potential long-term impacts from COVID-19 on our sector. For instance, we believe as work-from-home arrangements continue, there will not only be sustained increased utilization of telemedicine but also sales and marketing efforts that become virtual. This could lead to more efficient allocation of spend, particularly for smaller Specialty companies, which could maximize the reach of its sales force while limiting expenses. We also believe the recent pandemic has the White House re-thinking the US's foreign dependency on medicines. According to the FDA, the US outsources 72% of its API. Thus, we believe the sector may shift a portion of manufacturing back into the US, which would bring more jobs in the US market but at higher costs compared to OUS. Separately, we believe political pressure on drug pricing may subside if a COVID-19 solution is developed. Finally, we believe self-care will increase and patients may shift to e-commerce platforms to purchase their over the counter (OTC) medicines.

Names That Will Be Most POSITIVELY Impacted:

1) **Perrigo (PRGO – Outperform):** We see resiliency in PRGO's private label OTC drug/self- care business both from demand during the current COVID-19 health pandemic and share gains from its lower priced store brand offering should we see a resulting economic downturn. Perrigo owns ~70% of the OTC market. Further, PRGO could benefit from sustained step up in e-commerce - its latest quarterly results showed ~5% of its CSCA sales and ~7% of CSCI sales in 1Q2020 or ~$65M were from e-commerce. Structural growth in e-commerce OTC drug sales should continue with "learned" experiences during COVID-19 amidst bricks and mortar visit hurdles.
2) **Pfizer (PFE – Outperform):** Out of our large pharma coverage (PFE, ABBV, and MRK), we believe PFE has the most visible growth through 2025 and see no material COVID-19 risk. Moreover, we believe political headlines surrounding drug pricing remain but are temporarily subsided due to two reasons. First, the focus has seemingly shifted to how biopharma can help via vaccine/treatment. Second, as former Vice President Biden is the presumptive Democrat nominee, concerns over a more aggressive agenda push for pricing reform should subdue, as the former Vice President is not necessarily viewed as more of a risk than current President Trump. Separately, PFE has three manufacturing plants in China, which are dedicated to supplying the Chinese market only, thus we do not see a risk from a change in foreign dependence for medicines.
3) **AbbVie (ABBV – Outperform):** The company's manufacturing operations are located mostly in the US and EUR, with limited manufacturing exposure in India or China. Thus, we believe ABBV is well position to forgo any major supply chain alternations if the White House were to implement an executive order to reduce foreign dependency on US medicines. However, like most Pharma companies, ABBV (including recently acquired Allergan) is dependent on foreign suppliers for API. Finally, we believe ABBV's Medical Aesthetics business will not be negatively impacted from WFH as patients' social lives will continue regardless.

Names That Will Be Most NEGATIVELY Impacted:

Greater government pressure to decrease reliance on foreign drug manufacturing and API sources could negatively impact manufacturing costs as companies begin to bring more supply chain back to the US.

European Midcap Healthcare

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Companies Under Coverage:

Weston: ABC.L, CLIN.L, CTEC.L, SPI.L, UDG.L, UPR.L,

Karamanoli: DPH.L, HNSA.ST, MOLN.SW, MOR.DE

Potential Long-Term Implications

- Greater investment in biomedical research.
- Shift to more virtual interaction with patients, clinical trials and sales and marketing.
- Greater appreciation of diagnostic technologies
- More conservative approach to balance sheet utilization, potentially lowering ROE
- Pent-up demand for elective procedures that could take several years to unwind.
- Increased focused on wellness. Empowerment of patients to self-administer.
- Incentivisation of local manufacturing / stockpiling.
- Renewed appreciation for defensiveness of pharmaceutical supply chain.
- Potential for greater outsourcing by products developers.
- Greater emphasis on technologies that enable rapid product development.

Summary of Impact to Coverage:

The pace of change within healthcare tends to be slow, and treatment for many health issues are not optional and can only be deferred temporarily. We do not therefore see rapid disruptions to our coverage, with demand likely to bounce back to prior levels in the mid-term and business models evolving, rather than dislocating. In general, pharma supply chain outsourcers should be positively impacted as flexible and supply chains become more highly valued, with greater levels of redundancy built in. Biotechs should be largely unaffected, although pricing pressures may become incrementally greater in the US in particular should unemployment rates not fall significantly again. Healthcare infrastructure may become perceived as more valuable due to their defensive nature and as they are evidently a key part of national healthcare delivery infrastructure.

Names That Will Be Most POSITIVELY Impacted:

1) **Uniphar (UPR - Outperform):** The company has seen near-term benefits offset by deferrals of elective procedures. However, we believe that increased focus on flexibility of financial commitments to supply chains should benefit the company, and in particular its multi-channel pharmaceutical sales approach is likely to prove attractive long term
2) **Clinigen (CLIN - Outperform):** We see near-term disruption around services into the clinical trials, but 50% of gross profits are generated from pharma services, with outsourcing likely to increase over time. Clinigen's supply chain can be used to deliver clinical trial drugs directly too. Long-term, the use of Proleukin in new indications is not likely to be impacted.

Names That Will Be Most NEGATIVELY Impacted:

1) **Abcam (ABC - Outperform):** Abcam has significant near-term exposure, with as many universities (c.70% of sales) closed, and the company has relatively high semi-fixed costs. However, in the longer-term, we see demand recovering, and public support for life science research funding likely to support good market growth in the medium term.
2) **Spire Healthcare (SPI – Sector Perform, Speculative Risk):** The cancellation of elective procedures impacts, but deals with the NHS have protected the P&L and cash from material losses. Once the deal expires, there may be some reticence by patients to go to hospitals, but long term needs remain and demand pent-up. Equally, the support of the private sector may have helped reduce political barriers to the use of Spire facilities by NHS patients.

Industrials

Aerospace and Defense

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Companies Under Coverage:

AJRD, BA, CUB, DCO, GD, HII, LHX, LMT, MRCY, NOC, RTX

Potential Long-Term Implications

- Accelerated replacement of older, larger, and less fuel efficient planes for newer, efficient models– Only accelerated due to COVID-19
- Increased investment on cabin comfort and cleanliness
- Accelerated investment in next-generation technologies such as electro-hybrid and advanced materials
- Quickly evolving business travel dynamics
- Force modernization to drive investment in high end technologies to defend against modern militaries
- Space as the next battlefield
- Government agencies to catch up with modern tech (cloud computing, system integration & consolidation)
- Cyber defenses take increased priority

Summary of Impact to Coverage:

Prior to the current COVID-19 shock to the global airline industry, we would have written about a gradual replacement cycle of the aging active fleet of less efficient, typically larger, aircraft with new modern narrow body offerings such as Boeings 737-MAX and Airbus A320 family. This will likely accelerate in the current environment as airlines permanently retire their least efficient planes to offset the stark oversupply of available seats. As we look out over the next 5-10 years, we expect to see secular demand growth and a sharp increase in new direct flight options come to market. These new aircraft platforms make the economics more compelling for airliners. We believe that these dynamics coupled with the fierce competition between Boeing and Airbus to drive increased focus on next-generation green technologies such as electro-hybrid capabilities. We also believe that attention to cleanliness and comfort within aircraft cabins will likely be under extreme scrutiny by the flying public, providing opportunities for further innovation in these areas. The greatest consequence of the current environment comes at the expense of aftermarket demand. The combination of lower aircraft usage in the near-term coupled with the permanent retirement of the oldest flying aircrafts removes demand from the highest margin segment of the industry.

With regard to business travel, we think that this segment of the market will see lasting structural changes. We expect business travel to ultimately rebound but think this takes much longer, if ever returning to prior peak levels, due to the forced success of “WFH” technologies. For high priority travel needs, we see a bull case for adoption of BizJet and private “ride sharing” use.

On the Defense side, modernization efforts and investment in next-generation technologies will drive defense priorities into the future. As the U.S. military continues to shift focus from counterinsurgency operations towards defending against highly sophisticated advocacies, we expect to see a proliferation of SciFi like systems such as hypersonic missiles, space based weapons platforms, and directed energy offensives. Cyber security, secure networked connectivity, and government IT services will also take higher levels of importance.

Names That Will Be Most POSITIVELY Impacted:

1) **Northrop Grumman (NOC – Sector Perform):** NOC has the highest concentration of classified R&D activity (~30% of sales) with leadership positions in launch, space, cyber security, and government IT.
2) **Boeing (BA – Outperform):** Higher volume production of narrow body platforms provides a powerful mix shift tailwind for FCF generation. Despite fierce competition and near-term challenges long-term secular growth of air traffic benefits BA.
3) **L3Harris Technologies (LHX – Outperform):** L3Harris’ dominant position in tactical comms and networked communications satellite technologies position LHX to generate some of the highest levels of growth from these secular changes.

Names That Will Be Most NEGATIVELY Impacted:

1) **Raytheon Technologies (RTX – Outperform):** Raytheon’s Collins Aerospace and Pratt & Whitney segments will be hit on the top and bottom line by the lower levels of aftermarket activity.

Autos & Auto Parts

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Companies Under Coverage:

ADNT, ALV, APH, APTV, AXL, BC, BWA, DAN, DLPH, F, GM, GTX, HOG, LEA, MTOR, PII, ST, TEL, TEN, TSLA, VC, VNE

Potential Long-Term Implications

- More connectivity in vehicles
- A rethink of vehicle human machine interface
- A step-back for shared autonomous development
- Potential pivot of autonomous to delivery
- Less shared rides; more personal vehicle ownership?
- Impact to vehicle miles traveled if there is more work from home (WFH), de-urbanization
- A temporary set-back for electric vehicles given they are Robo-taxi models need to evolve
- "Green" incentives tied to stimulus could help electric adoption

Summary of Impact to Coverage:

We evaluate the impact to 4 key secular themes: Connected, Autonomous, Shared, Electric (C.A.S.E.). **Connected**: This theme could be accelerated with new potential use cases, though human-machine interfaces may need to evolve. For instance, potentially more voice, less screens (or self-cleaning screens needed). **Autonomous**: Likely to take a step back given funding could get tougher. Further, the initial use case was thought to have been robo-taxis given utilization helped the economics, but that model may now have other concerns. AV development could be pushed out amid tougher funding and cost controls. Consolidation is likely to accelerate and we could also see some companies try to pivot to autonomous delivery or potentially long-haul. **Shared**: Shared (including public transportation) is likely to take the biggest hit as a generation may be scarred and always worry about the "unknown" previous asset user. This could perhaps be an opportunity for innovation in cleaning (robots?) or material sciences. De-urbanization may occur. Will a more permanent shift to WFH occur? Will the above behavioral changes lead to an increase in personal vehicle ownership? **Electric**: As electric vehicles (EVs) are generally more expensive, there could be some near-term headwinds given consumer health. But mid-to-long term see little change to potentially accelerated. Regulation doesn't abate and potentially "green" targeted stimulus could help. The convergence of all these above trends led to the promise of shared autonomous mobility-as-a-service offerings (robo-taxis colloquially). However, these robo-taxi business models may need to evolve. We believe COVID-19 is likely to impede on the timelines, growth trajectories, and valuations for such initiatives. Please see our full report on the subject **here**.

Names That Will Be Most POSITIVELY Impacted:

1) **APTV:** Even in a scenario where global light vehicle production could be down -16% y/y in 2020, we believe APTV will still be able to generate cash. This crisis should again show that well capitalized and well run suppliers are better business models than automakers (even if stress at APTV's customers does cause some near-term issues). We view APTV as a best-in-class supplier whose share price should recover as the second derivative of vehicle demand/production improves. Longer-term, APTV should continue to benefit from the mega-trends of safe, green, and connected.
2) Names to benefit from increase connectivity include: **APTV, F, GM, LEA, TSLA, VC.**
3) If personal vehicle ownership increases: All auto names could benefit from the higher volume.
4) Names that could benefit from accelerated EV adoption include: **TSLA, GM, F, APTV, BWA, TEL, APH, ST.**

Names That Will Be Most NEGATIVELY Impacted:

1) Names that could be negatively impacted from a pushout of autonomous include: **APTV, F, GM, TSLA.**
2) Names that could be negatively impacted from a push-out of robo-taxis: **GM, TSLA, F.**

European Autos

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Companies Under Coverage:

VOW3, DAI, BMW, UG, RNO, CON, FR, EO, VOLVB

Potential Long-Term Implications

- Car ownership could take share from ride-sharing and public transportation
- Step-back for shared autonomous development
- Pivot of autonomous to delivery
- Vehicle miles driven could decrease given increased work from home
- De-urbanization theme could be good for Electrification (leads to charging at the home).

Summary of Impact to Coverage:

In the very near-term as production is shut down across most of NA and Europe, we believe the focus is completely on balance sheet and liquidity. As production is allowed to come back on line, demand will be of greater focus. While the entire sector will be negatively impacted by the COVID-19 crisis, we believe premium will outperform mass-market during the recovery process. Over 50% of European demand, for example, is fleet (company car), and for premium players (Daimler/BMW), over 60% of pass-cars are on lease plans. Moreover, the majority of premium customers are white-collar and have been less negatively impacted by job loss from the crisis (vs self-employed, part-time, blue-collar, etc). Company car packages are largely corporate (as opposed to more COVID-19 impacted small businesses) and part of regular compensation. Longer term, we could see car-ownership benefiting from a potential aversion to shared transport. This could dissipate over time however, as COVID-19 becomes more of a memory than a permanent stain on the psyche of commuters. Moreover, increased utilization of working from home could decrease miles driven and potentially impact the need for second cars. Likewise, we could see shared autonomous need to pivot to delivery and funding for longer term autonomous strategy be delayed due to cash drain from the crisis. Finally, on electrification, auto stimulus is being tied to electrification. Moreover, de-urbanization could be a powerful positive theme for electrification as the key near term roadblock concerns charging infrastructure. Increasing charging at the home would be a key catalyst to mainstream EV adoption, in our view.

Names That Will Be Most POSITIVELY Impacted:

1) We believe the entire Autos sector would benefit from increased car ownership.
2) Increased electrification would most benefit **Volkswagen (O)**, but all the automakers are aggressively pushing for EV adoption.

Names That Will Be Most NEGATIVELY Impacted:

1) We believe pushout of autonomous investments would be most negative for **Continental (SP).**
2) Decreased miles driven and less need for second cars would be negative for the entire auto group. Lower miles driven would be negative for tires.

European Business Services

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Companies Under Coverage:

Brooke: ADEN, AGK, AFM, AHT, BAB, BNZL, BVI, CPI, CPG, DCC, DPLM, ECM, EXPN, FERG, GFS, HAS, HSV, ITRK, IWG, JSG, PAGE, RAND, RPS, RTO, SNN, SECUB, SGSN, SRP, SW, TPK

Potential Long-Term Implications

- Increased hygiene standards and greater testing (incl food)
- Greater scope for working from home
- Greater focus on fixed / variable cost bases.
- Weakened balance sheets may increase the ownership to rental trend in equipment rental
- Weakened competition
- Different capital allocation policies
- Accelerated shift to ecommerce

Summary of Impact to Coverage:

Increased working from home could weigh against operators that provide food/catering and other facility services to business customers. We think it is likely that demand for hygiene services increases over time, whether this is through washroom standards, air quality and more generally an appreciation of better hygiene standards or PPE to protect employees. Demand for food / hygiene testing and audits will likely increase. Corporates may focus on their variable vs fixed cost base, which should structurally help staffing temp agencies over time and may see a reduction in fixed office costs with more flexibility built into their needs. We believe an accelerated shift to ecommerce will be beneficial to those companies that have the best on-line offering, especially in the distribution sector.

Given likely cash flow and balance sheet issues, we expect larger companies with strong market positions to emerge in even stronger positions, especially where scale, customer density, the ability to invest in capex and digital capability matters. With new "worst case scenarios" we think there will be a change in the gearing levels that management (and investors) are comfortable with. We have often argued 1.0-1.5x ND/EBITDA is more appropriate in a people-based sector, dependant on cyclicality and extent of asset backing. This could impact companies' ability to fund capex and dividends. We also believe some of the 'perceived' defensive growth names that have proved not to be, may struggle to regain historical multiples.

Names That Will Be Most POSITIVELY Impacted:

1) **Rentokil (RTO, OP)** - Should benefit from increased demand for hygiene services, increased environmental standards and disinfection services. Also a beneficiary of a lower oil price and weakened smaller competition in a fragmented market
2) **Temp staffers (RAND, OP / ADEN , OP)** - we believe over time corporates will look to increase the level of flexible labour to reduce fixed costs which should be beneficial for the large temp agencies
3) **IWG (IWG, SP) –** As the world's biggest flexible workspace provider, we think IWG benefits as companies look to reduce fixed office costs or have a large capitalized lease liability on the balance sheet

Names That Will Be Most NEGATIVELY Impacted:

1) **Catering companies (SW, UP / CPG, SP):** An increased work from home scenario would likely reduce traffic in the Business and Industry (c.50% revenues). Fewer bodies in the workplace, which could reduce demand for other facility services(e.g., janitorial supplies)

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US Business Services

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Companies Under Coverage:

ADT, ARMK, ASGN, BV, CCC, CTAS, EEX, INFO, MAN, RHI, ROL, SERV, TRU, VRSK

Potential Long-Term Implications

- Increased work from home could result in reduced demand for certain workplace services, such as dining/catering
- A scenario of reduced oil/gas demand could have negative implications for some info services companies that provide data/analytics to energy markets; similar for auto exposure
- Structurally lower gas prices would help route-based service operator profits
- More work from home could boost interest in home automation/security upgrades
- Structurally higher demand for hygiene, sanitation, and disinfection products and services

Summary of Impact to Coverage:

We believe the current COVID-19 pandemic could have moderate long-term implications for certain Business Service categories. Plus side, we would expect structurally higher demand for hygiene/sanitation services, and lower gas prices would help route-based operator profits; meanwhile, more time spent at home could boost interest in home automation and security. Flipside, increased working from home could weigh against operators that provide food/catering to business customers; if oil prices are structurally lower, energy companies could temper spend on databases and other analytics while more work from home could reduce demand for new/used cars and weigh on transportation-related information services. We do not see an increased work from home scenario as having a large impact on our staffing coverage or unrelated information service categories.

Names That Will Be Most POSITIVELY Impacted:

1) **Heightened focus on a sanitary, safe and healthy workplace:** We would expect structurally higher demand for hygiene/sanitation services to benefit operators like Cintas **(CTAS – Outperform)** and Aramark **(ARMK - Outperform)** given established offerings and ability to leverage significant customer touch-points; ServiceMaster **(SERV - Outperform)** and Rollins **(ROL - Sector Perform)** also stand to benefit from their evolving commercial sanitation solutions.
2) **ADT (ADT – Outperform):** More work from home/people spending more time in their home could boost interest in home automation/security upgrades. The percentage of ADT customers using an interactive system has risen to 47% as ADT has grown its portfolio of smart home and safety devices, including home automation, security and monitoring services.

Names That Will Be Most NEGATIVELY Impacted:

1) **Aramark (ARMK - Outperform):** An increased work from home scenario would likely reduce traffic in ARMK's corporate catering/dining business (B&I is 19% of revenue). A portion of **BrightView's (BV – Outperform)** landscape Development business (25% of company total) is from commercial office space, where new projects could moderate in a more robust WFH scenario.
2) **IHS Markit (INFO - Outperform), Verisk (VRSK – Sector Perform):** A scenario of reduced oil/gas demand could have negative implications for some info services companies that provide data/analytics to energy markets; notably, overall energy (includes renewables, etc.) represented roughly low-20% of revenue for both INFO and Verisk last year. Likewise, a scenario of WFH-related tempering of new/used car demand could be a negative for INFO, with transportation representing 27% of its revenue.

European Industrials

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Companies Under Coverage:

Fielding: BOY, COA, IMI, MRO, MGAM, RHIM, ROR, SMIN, SPX, TTG, VSVS, WEIR

Kuenne: ALFA, ATCOA, BUCN, G1A, OERL, RAA, SAND, SKFB, VACN, , WRT1V

Rizvi: ABBN, HEXAB, KNEBV, LR, SCHP, SU, SIE, SHL

Potential Long-Term Implications

- Increased localisation of manufacturing footprints
- Higher investments in warehouse/factory automation
- Higher demand for healthcare equipment, datacenters
- Higher last mile delivery investments – warehousing, logistics, small trucks
- Increased residential investment as people focus on space and infrastructure for home offices
- Lower global trade due to localization
- Stronger domestic supply chains; higher buffer, inventories, with higher working capital requirements
- Lower growth in demand for aerospace OE and aftermarket and lower demand for oil & gas investments due to reduced transport consumption
- Lower construction activity for commercial offices (and as such lower commercial electrical and HVAC infrastructure)

Summary of Impact to Coverage:

We expect a tilt (rather than transformation) back towards more localized manufacturing to protect the manufacturing and supply chains from future shocks of a similar nature. This will also require some increase in working capital in businesses. This is both a cost, for companies that have to do it, and a benefit, as this investment in other companies and industries will require capital equipment. The shift to more localization and remote working will benefit residential infrastructure providers, but often the same people are supplying the commercial market where there may be reduced demand – datacenters should be a beneficiary in a WFH trend. Specific negatively impacted industries will include aerospace, both in terms of new planes and lower aftermarket as global growth rates in air travel will likely slow both due to consumer uncertainty and more virtual meetings in the business sector. It may also accelerate pressures in the oil & gas sector as lower travel rates impact on the demand for oil and as such sector investments. Where our companies are exposed to the Medical sector there should be increased investments in most areas of healthcare infrastructure.

Names That Will Be Most POSITIVELY Impacted:

1) **Siemens Healthineers (SHL – Sector Perform):** Healthineers is one of the leading providers of diagnostic imaging and laboratory diagnostics. With a high level of recurring revenues, it should benefit from increased healthcare investment.
2) **Siemens (SIE – Outperform):** Siemens will see the positives of its stake in Healthineers, and also from increased localized manufacturing investments and IoT to lower service technician visits.
3) **GEA (G1A – Sector Perform):** With c15% of sales to pharma and c75% to the food & beverage sector, GEA should benefit from any uplift in home cooking that comes with WFH (esp on processed food from a food safety perspective).

Names That Will Be Most NEGATIVELY Impacted:

1) **Rational (RAA – Underperform):** As the global leader in combi ovens and cooking centers for professional kitchens a shift to work from home would impact the demand from commercial kitchens, canteens, restaurants near offices.
2) **Melrose (MRO – Outperform):** With Aerospace at c.40% of EBITA, lower LT growth rates would impact growth and potential disposal values. Its other main market is Auto where the impacts are more varied. Self-help and valuation offset this and underpin our OP recommendation.

Homebuilding and Building Products

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Companies Under Coverage:

BECN, BLDR, BMCH, DHI, DOOR, FBHS, FBM, FRTA, GMS, IBP, JELD, KBH, LEN, MAS, MHK, OC, PHM, SITE, SKY, SUM, TMHC, TOL, TPH, VMC, WHR

Potential Long-Term Implications

- Greater investment in home improvement
- Greater demand for new homes
- In-home office spaces to accommodate greater work from home
- De-urbanization
- Need for better smart home connectivity and energy efficiency
- More virtual home tours
- Digital real estate closings
- More efficient building permit process

Summary of Impact to Coverage:

We believe the current COVID-19 pandemic could have several long-lasting implications for the homebuilding and building product sectors. "Home as a sanctuary" and work from home are two primary themes that could place a greater premium on one's house. Without saying that work from home will become the new norm, the current disruptions have at least shown many that working from home is possible. As people spend more time in their houses, a need/desire for more space and higher quality products are likely to follow. This would cause an increase in home improvement spending, while also potentially causing buyers to look more at new construction that already comes with these conveniences. Another consequence is that it could lead to a de-urbanization trend in which more people migrate from expensive urban centers to more affordable areas like the Sun Belt or Midwest. Finally, the broader housing space is one that has largely underinvested, technology-wise, for decades and has been in-need of greater digitization throughout the industry. The current shutdowns will likely force the industry to accelerate digitization. Some potential applications are virtual home tours, digital real estate closings and/or digital permitting. All of these trends would help the housing industry from an efficiency standpoint in both the construction and home buying processes. Greater virtual home tours would also be particularly advantageous to new homes as builders can quickly scale virtual model tours across their footprint. Overall the "home as a sanctuary" and work from home themes are a broad tailwind across our space given a likely increased need for enough space, safe space, and efficient space (livability and energy-wise), while the behavioral learning from forced shutdowns could also spur necessary technological investment.

Names That Will Be Most POSITIVELY Impacted:

1) **Masco Corporation (MAS – Outperform):** Masco's portfolio of paint and plumbing are smaller ticket item improvements that homeowners are most likely to undergo as the cheapest and easiest forms of home improvement.
2) **Fortune Brands (FBHS - Outperform):** Portfolio of plumbing, cabinets, and doors and decks is also well positioned from a home improvement standpoint.
3) **Homebuilders:** Broadly speaking, most public builders have geographic concentration in the Sun Belt states that could see accelerated in-migration given more affordable housing and desirable climates. New homes also offer built-in conveniences such as smart-home, energy efficiency, and modern floor plans, which likely have increased desirability.

Names That Will Be Most NEGATIVELY Impacted:

1) **GMS (GMS – Sector Perform) and Foundation Building Materials (FBM – Sector Perform):** If working from home does become a longer-term trend, the commercial construction market could be a longer-term loser, with less construction and remodeling needed. About ~55% of GMS's current sales and ~65% of FBM's come from both new non-residential construction and non-residential R&R.
2) **Toll Brothers (TOL – Outperform):** First, we think these trends are generally a positive for the entire homebuilding industry and that most builders, including TOL, would be well positioned to capitalize. That said, TOL has the highest concentration of high-end urban/coastal construction and could be impacted by buyers looking for homes in more affordable locations.

Machinery

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Companies Under Coverage:
AGCO, ALSN, CAT, CMI, DE, HEES, HRI, MTW, NAV, OSK, PCAR, TEX, URI

Potential Long-Term Implications

- An increased work from home scenario could spur residential/related infrastructure projects, and demand for local distribution and delivery of goods, benefitting certain construction equipment/rentals and truck and component makers, respectively.
- Structurally lower gas prices should help trucker profits, which could lead to more spending on new equipment.
- More work from home could reduce need for new commercial office space, which could impact demand for construction equipment and certain mined materials.
- A scenario of reduced oil demand could have negative implications for some equipment and engines used in energy site development and service. Lower gas consumption also has implications for ethanol demand.

Summary of Impact to Coverage:

We believe the current COVID-19 pandemic could have moderate long-term implications for certain Machinery categories. More time spent at home could support population dispersion, creating need for residential construction and related infrastructure (roads, sewer systems, schools, grocery stores, etc.). Likewise, increased work from home could boost need for local delivery, benefitting certain truck OEMs and components (e.g., fully automatic transmissions), with truckers also potentially benefitting from lower fuel cost. Flipside, increased working from home could result in fewer new office towers constructed (roughly 10% of U.S. non-residential construction spend), potentially shaving demand for some construction equipment and perhaps certain mined commodities used in the building process. In addition, less commuter driving (28% of domestic gasoline consumption) would shave oil & gas demand and could affect machinery used in the development and service of the energy patch; lower fuel consumption also would mean less corn for ethanol blending (near-40% of US crop).

Names That Will Be Most <u>POSITIVELY</u> Impacted:

1) **Truck OEMs and suppliers:** Low gas prices could boost truck profits (fuel typically 5-10% COGS) and spur truckers to purchase more new equipment, boosting business for OEMs like Navistar **(NAV – Sector Perform)** and PACCAR **(PCAR – Sector Perform)** as well as suppliers like Allison Transmission **(ALSN – Sector Perform)** and Cummins **(CMI – Sector Perform)**. Likewise, increased work from home could create greater need for more local delivery services, boosting demand for medium-duty and distribution-type trucks and components, such as fully automatic transmissions.

Names That Will Be Most <u>NEGATIVELY</u> Impacted:

1) **Manitowoc (MTW – Sector Perform)** has historically generated a good portion of new crane sales from energy/oil & gas/utility markets, where spending/new project activity could languish in a depressed oil price environment. **Caterpillar's (CAT – Sector Perform)** overall construction could be mixed, with potential increase in residential/infrastructure tempered by lower office/related construction; also, a significant work-from-home shift could weigh on its oil & gas (10% of revenue) end market.

Multi-Industry & Electrical Equipment

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Companies Under Coverage:

AME, AQUA, ATKR, CARR, DHR, DOV, EMR, EPAC, ETN, FLOW, FLS, FTV, GE, GGG, GTES, GWW, HDS, HON, IEX, JCI, MMM, MWA, NVT, PNR, ROP, TT, WCC, XYL

Potential Long-Term Implications

- Higher investments in warehouse/factory automation
- Higher demand for diagnostics/testing and remote health monitoring/telemedicine
- Higher investments in pool automation and home water quality testing
- Higher demand for disinfection/cleaning supplies for industrial distributors
- Lower demand for retail fueling investments
- Lower demand for aerospace aftermarket
- Lower demand for congestion tolling projects
- Lower demand for HVAC products due to less utilization of commercial office buildings
- Stronger domestic supply chains; higher buffer inventories, with higher working capital requirements

Summary of Impact to Coverage:

The bottom line is that the impact to the Multi-Industry sector will be multifaceted and dependent on each company's specific business lines/end markets. The biggest winners of the trend towards "remote work" will be companies that supply automation capabilities that remove the need for physical human interaction. However, there may be negative ripple effects across companies that are levered to commercial office buildings, such as HVAC and elevator equipment providers, due to lower office utilization. A reduction in work commutes and travel would also have negative implications for companies levered to retail fueling, congestion tolling, and aerospace MRO. Separately, US manufacturers may look to beef up their domestic manufacturing capabilities and supply chains in an effort to reduce dependencies on vulnerable far-flung suppliers. Companies will likely carry higher buffer stock inventories, leading to higher working capital needs. For our coverage in medical/life sciences, look for more investments in diagnostics and telemedicine. Finally, consumers are also likely to spend on home amenities like pools, pool automation, and home water quality systems.

Names That Will Be Most POSITIVELY Impacted:

1) **Honeywell (HON – Outperform), Emerson Electric (EMR – Sector Perform):** We would expect a boost in demand for warehouse/factory automation capabilities, as having more robotics/automated processes means less personnel in the manufacturing plants and supply chain. The gold standard of "lights out" manufacturing would mean minimal human interaction and exposure to future pandemic risks.
2) **Danaher (DHR – Outperform), General Electric (GE – Outperform):** Higher demand for diagnostics/medical testing will play well to Danaher's strengths. The US government, such as through the Centers for Disease Control, may have a bigger presence in diagnostics and monitoring, which would be positive for Danaher's businesses such as Cepheid, IDT, and Beckman. GE's investments in remote health monitoring and telemedicine should also see an uptick in demand.

Names That Will Be Most NEGATIVELY Impacted:

1) **Johnson Controls (JCI – Sector Perform); Emerson (EMR – Sector Perform), Trane Technologies (TT – Sector Perform); Carrier Global Corp. (CARR – Sector Perform):** HVAC players would be negatively impacted by a rise in remote work, since there would be less demand for heating/cooling of commercial office buildings if they are being staffed at lower levels.
2) **Dover (DOV – Sector Perform), Fortive (FTV – Sector Perform):** Retail fueling (dispensers at gas stations) would likely see demand decline as miles driven deteriorates due to a reduction in workforce commutes into the office.
3) **Gates (GTES – Sector Perform), 3M (MMM – Sector Perform):** Due to a reduction in work commutes, auto aftermarket suppliers would see negative pressure on demand for their components, such as Gates' auto belts and hoses and 3M's automotive aftermarket.
4) **General Electric (GE – Outperform), Honeywell (HON – Outperform):** A trend towards remote work would mean less business travelers, which comprise a high percentage of total passenger air mile travelers. This would eventually trickle down to lower demand for aerospace aftermarket, which would negatively impact the aero businesses of GE and Honeywell.

RETURN TO TOC

European & Australian Transport Infrastructure

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Companies Under Coverage:

D'Ath: ATL, GET, DG, FER, FGR, FHZN, FLU, FRA, AENA, ADP

Nevin: ALX, SYD, TCL

Potential Long-Term Implications

Toll Roads	Airports
• Increased flexibility around work locations and increased working from home • Less travel to office reduces demand for toll roads • More indebted governments may rely on more private funding for transport infrastructure	• Increase in video or conference calls instead of face to face meeting may mean less business related air travel • A reduction in globalization and move to domestic manufacturing may reduce demand for international air travel, but could be offset partly by domestic air travel

Summary of Impact to Coverage:

We think that the impact of COVID-19 could hasten a structural shift in working environments and lead to higher rates of traditional office based workers moving to work from home for a part of the working week. We think a period of working from home will break down some of the stigma that can still be associated with these arrangements. The enforced nature of working from home for those that can is forcing employers and employees to invest in properly fitting out homes for working from home which we think then lowers the path of resistance for continuing these arrangements in future. For toll roads we think this could lead to a decrease in demand from fewer people commuting to the office. This could also reduce the growth rate for toll roads as more workers shift to working from home over time.

This period is also forcing companies and businesses to do more meetings via telephone or video calls. We think it is likely to increase the acceptance for doing a video call instead of face-to-face meeting and adoption may reduce air travel demand and reduce travel costs. There is also a risk that this period encourages countries and companies to reduce reliance on global supply chains and manufacture more goods domestically, which could reduce the demand for international air travel.

Names That Will Be Most POSITIVELY Impacted:

1) **Eiffage (FGR - Outperform) & Atlas Arteria (ALX – Outperform):** FGR and ALX own 52% and 31%, respectively, of the French toll road network APRR with a remaining concession life of 16-17yrs. We think the most recent events could mean there is less capacity from the French government to fund roads, increasing the opportunity for private road owners like APRR to fund new infrastructure in exchange for concession life extension. The APRR network serves a mix of commuters, heavy vehicles and holidaymakers, a more diversified revenue base than some toll roads, so less impacted by changes to work practices.
2) **Atlantia (ATL- Outperform)**: Italy will, in our view, come out of COVID-19 with a weaker balance sheet (debt to GDP was the second highest in Europe after Greece as of Dec '19) relying more on private funding to improve the underinvested infrastructure network. This can be an opportunity for ATL to improve their relationship with the Italian government which deteriorated due to the Genoa-bridge collapse.

Names That Will Be Most NEGATIVELY Impacted:

1) **Fraport (FRA - Underperform):** Fraport is among the European listed airports the most exposed in our view to business travel (less leisure exposure than peers). Could suffer in the near term from companies cutting down on travel expenses to preserve liquidity and in the mid-term more virtual meetings taking share and reduced long-haul travel given environmental concerns.
2) **Transurban (TCL – Sector Perform):** Even before the impact of COVID-19 Transurban was starting to see a slowdown in traffic growth rates in some of its more mature markets of Sydney and Melbourne. A potential structural shift to more employees working from remote locations could reduce the traditional link between employment growth and traffic growth and impact Transurban's earnings growth.

Transportation and Diversified Industrials

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Companies Under Coverage:

AC-TSE, AND-TSE, BBD.B-TSE, CCL.B-TSE, CHR-TSE, CJT-TSE, CNI, CP, CSX, GFL, IPLP-TSE, ITP-TSE, MTL-TSE, NSC, RSG, SJ-TSE, TFII, UNP, WCN-TSE, WM, WPK-TSE, WTE-TSE

Potential Long-Term Implications

- Supply chain management expected to be much more of a focus for retailers that are moving to the online model
- Changes in propensity of people to travel for both work and pleasure
- Accelerated shift to e-commerce
- Increased demand for last mile and expedited transport
- Increased demand for health care logistics

Summary of Impact to Coverage:

Road / Rail: Supply chain management is going to be of much more focus for retailers that are moving to the online model. They have to balance cost and speed, and have the ability to provide either on a real time basis. Rail is the low cost provider and we expect it will be maximized for predictable high demand items (i.e. grocery goods). Conversely, specialty consumer good items that are not necessarily inventoried or are new to the market; here we expect shippers to need access to air cargo. In the middle are the truckers. While we expect the nimble last mile operators to do well resulting from increased importance on same day deliveries, our view is that long-haul TL will be left without a competitive advantage as rail is less expensive and as air cargo is faster. We are very positive on rails and air cargo in this new world and less so on trucking.

Airlines: This industry has been at the tip of the spear and will be the hardest hit, certainly in the near term for obvious reasons. The medium-term impact will depend on how onerous the impact is (the depth and length, as well as how effective potential support measures are). In the long term, the key question is to what extent this has irreparably affected propensity to travel.

Names That Will Be Most POSITIVELY Impacted:

1) **Cargojet (CJT-TSE – Outperform):** CJT is seeing a direct and significant boost in revenues associated with COVID-19 reflecting increased eCommerce shipments; and looking longer term, we believe this pandemic has precipitated a significant and permanent acceleration in eCommerce demand. Additionally, with the grounding of passenger fleets worldwide, an additional growth opportunity has emerged for Cargojet in the form of international airfreight.
2) **Andlauer Healthcare Group (AND-TSE – Outperform):** We view the healthcare transportation and logistics sector as insulated from the effect of COVID-19 reflecting inelastic end user demand. Additionally, we believe that long-term demographic trends are intact and that the pandemic may have actually opened up new opportunities for AND.
3) **Canadian Pacific (CP – Outperform):** We believe COVID-19 is likely to temporarily affect volumes at CP; however, we view it as having sufficient liquidity and a nimble operating structure. In the long-term, we expect shippers to focus more on their supply chains as companies move to the online model. We expect shippers to increasingly look to rail as they balance cost as well as speed and note that rail is the low cost provider. Our view is that CP will benefit most from these trends due to its industry leading service (see our shipper survey **here**) and operations focused management team.

Names That Will Be Most NEGATIVELY Impacted:

1) **Air Canada (AC – Outperform):** The airline industry is expected to be hardest hit, reflecting travel restrictions on both business and leisure passengers. Following unprecedented capacity reductions, we expect AC will suffer significant near term revenue declines with the eventual recovery gradual in nature and a return to 2019 levels not expected at least until 2023. However, long term there is significant uncertainty surrounding the future of air travel and the ability of airlines to respond to changes in demand.
2) **Mullen Group (MTL-TSE – Sector Perform):** We expect COVID-19 to affect MTL's trucking and oil & gas segments. Our view is that trucking will be affected by long-term changes in supply chain strategy that we expect will leave truckers without a competitive niche, as highlighted above. We also view its exposure to oil & gas as a negative, as we believe the sector is in secular decline reflecting long-term shifts towards renewable energy.

Travel & Tourism

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Companies Under Coverage:

CTD, FLT, HLO, SLK, WEB

Potential Long-Term Implications

- Accelerated shift to online travel booking
- Consolidation among retail agents driving greater OTA/direct supplier market share
- Airlines reduce dependence on intermediaries, go direct to consumer; higher digital presence; sell packaged products direct (insurance, rental cars, hotel rooms, etc)
- Increase in video conferencing and other technologies
- Fewer discount fares if smaller budget airlines go bust
- More flexible fares; greater insurance cancellation cover
- Move towards millennial-driven eco travel & sustainable tourism given focus on climate change
- Marketing efforts to be highly personalized and relevant
- Robotic tech, AI take higher importance in booking sites, service agents, hotels, replicating human interactions

Summary of Impact to Coverage:

We believe the current COVID-19 pandemic could have several long-lasting implications for Travel & Tourism. Uncertainty in the recovery period remains with the key catalyst being the rate of decline in infections and relaxation of border/travel restrictions. Near term, we expect consumers to make longer-dated forward bookings with higher flexibility. Longer term, we see structural change across leisure and corporate travel. In leisure the key implications are likely accelerated shift to online with retail consolidation, greater market and bargaining power for large suppliers (leading airlines), accelerating direct to consumer distribution from suppliers (airlines, hotels) and potentially less consumer choice. In corporate travel, the key outcomes are likely to be greater video/virtual conferencing and work from home, and less travel demand. Corporates saving significantly on travel expenses may be hesitant to return to previous spend levels especially if balance sheets are stretched.

Among our coverage, Flight Centre Travel Group (FLT-AU) and Helloworld Travel (HLO-AU) both generate the bulk of profits from retail leisure travel and corporate travel (domestic & international). Corporate Travel Mgmt. (CTD-AU) is leveraged to corporate travel, Webjet (WEB-AU) operates an Australian OTA and global hotel wholesale business, while SeaLink's (SLK-AU) travel revenues are now skewed towards commuter/transportation with tourism revenue primarily domestic.

Names That Will Be Most POSITIVELY Impacted:

1) **SeaLink Travel Group (SLK – Outperform):** In our view SLK is least impacted by the above identified long-term implications. We expect demand for domestic travel to rise over the medium term relative to outbound leisure travel (border restrictions, constrained consumer spending, government/industry initiatives to boost demand), while the group is underpinned by long-term contracted revenue from the Transit Systems business.
2) **Webjet Ltd (WEB – Outperform):** We think WEB could benefit from an accelerated shift to online travel bookings, a decline in OTA competition, and revenue skew to domestic bookings within its B2C segment, in which we believe WEB's competitive position could improve post COVID-19. Risks include a subdued return to leisure travel, client and supplier bankruptcy.

Names That Will Be Most NEGATIVELY Impacted:

1) **Flight Centre (FLT – Sector Perform):** We believe FLT will be impacted by the changing environment due to its large bricks-mortar network (albeit 50% smaller), and a continued switch to online bookings may see further revenue margin pressure (OTA currently ~5% of group TTV). FLT is a top 5 global TMC with the majority of group profits generated from corporate.
2) **Helloworld Travel (HLO – Sector Perform):** Similar to FLT. Key difference is HLO's retail business is a franchise network. With SMEs likely to come under pressure in the near-term, the viability of some stores may come under pressure.
3) **Corporate Travel Management (CTD – Sector Perform):** CTD likely to be impacted from reduced corporate travel if video conferencing and work from home becomes more popular. Furthermore, corporates are currently saving material OPEX with travel restrictions etc. in place and may hesitate to return to previous spend levels, especially if balance sheets are stretched coming out of this crisis.

Canadian Diversified Industrials

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Companies Under Coverage:

CAE

Click **here** for a link to complete analyst coverage.

Potential Long-Term Implications

- Key drivers of CAE's Civil business include airline passenger traffic, aircraft deliveries, and pilot shortages – CAE's growth likely to be tied to the recovery of its airline customers, amplified by new ways of working with the airlines to bolster revenue and value-added services.
- Potential increase in airline interest in outsourcing its training operation, converting large capital costs to a variable operating expense.
- Increased emphasis on effectiveness/efficiency of training, including CAE's efforts at data capture and analysis of simulator-based training sessions to rate and guide pilot performance.
- Increased focus on the Healthcare business – Currently a small segment (~5% of revenue), CAE is offering new products and services related to COVID-19 (including ventilators) which should increase the market opportunity and market awareness of CAE's simulation-based medical training offerings.
- Increased focus on the Defence business – a resilient, backlog-driven business

Summary of Impact to Coverage:

COVID-19 has led to a rapid and near-total shutdown of global airlines – the key customers for CAE's Civil business segment (~60% of revenue). Key drivers of CAE's Civil business include airline passenger traffic, aircraft deliveries, and pilot shortages – all in tandem with the financial performance of CAE's airline customers. The slope and pattern of airline industry recovery in coming years will guide the drivers above of CAE's Civil business.

In addition to riding an end-market recovery, we expect CAE's training business to continue to evolve in ways that should allow it to outgrow the airline end-markets:

- **Further outsourcing.** CAE has demonstrated its ability to fully outsource high quality training for regional, discount and 'Tier 1' global carriers. Japan Airlines (JAL) is a prime example. We expect that more airlines will consider this path, converting high capital costs to variable operating expenses for ongoing pilot training.
- **More 'wet' training, a boost to revenue and margins.** Wet training involves the whole training package – curriculum, instructors, classroom, simulators, etc. (vs. Dry training which is essentially simulator time). This higher-value service carries with it higher revenue per pilot and margin opportunity.
- **Leverage data analytics to advance pilot training, boost efficiency.** Through its training network (the world's largest), CAE has captured over 1MM hours of pilot training data. This can be analyzed to measure the progress and performance of a pilot, and to guide future training sessions. Further, this can be aggregated and evaluated for an airline, regulator, etc.

CAE Healthcare takes a higher profile: CAE's healthcare business offers a range of simulator-based training tools and programs. It is a small part of CAE (~5% of revenue), and growth has been somewhat underwhelming in recent years. Prior to the pandemic, CAE was taking clear actions to boost this growth rate (changes in management, product and approach to market), but recent COVID-19 related announcements should boost the revenue opportunity and market awareness of this business. In particular, CAE engineers developed a prototype ventilator in 11 days, and the company has announced plans to manufacture ~10,000 units.

Information Technology

Enterprise Hardware

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Companies Under Coverage:

AAPL, ANET, CSCO, DELL, FLEX, HPE, JBL, JNPR, NATI, SONO

Potential Long-Term Implications

- Greater utilization of work-from-home solutions (WFH).
- Home office equipment purchases likely to increase (PCs, monitors, docking stations, printers) as workers establish WFH set-ups that mimic their office set-ups.
- Additional investments by service providers to satisfy demand for additional bandwidth as more homes place greater demands on network connectivity.
- Additional functions move to cloud/hybrid cloud due to off-premise workers, increasing demand for hybrid cloud capabilities/flexibility.
- Less strain on campus networks from fewer on premise workers could slow purchasing and replacement cycles.
- Additional time spent at home may drive new consumer electronics purchases as the benefits become more noticeable (easier to justify an upgrade of subpar computers, smartphones, or home theater equipment).
- Commercial PC replacement cycles could lengthen as usage is spread across multiple devices, although this should be more-than-offset by maintaining additional workstation set-ups.
- Increased usage of online tools for work and entertainment could drive demand for data storage, compute, and networking infrastructure in data centers/clouds.

Summary of Impact to Coverage:

We believe the response to the COVID-19 pandemic will lead to greater acceptance and utilization of working remotely. There are various ways that work arrangements could be established (more full-time WFH or hybrid approaches, for example) but overall we suspect white-collar workers will maintain multiple work stations. In particular, we expect workers will establish at-home set-ups that mimic office arrangements with multiple monitors, docking stations, printers, etc, in order to maximize productivity. We expect service providers will need to invest in broadband networking to satisfy additional home internet usage with needed investments at both the core and edge levels. In addition, with more time spent at home, we believe consumers may look to upgrade their personal technology, such as newer smartphones, PCs, tablets, home audio equipment, and wireless routers. Reduced work-related expenses, such as commuting costs and wardrobe purchases, could also free-up additional discretionary money for personal electronics purchases.

Names That Will Be Most POSITIVELY Impacted:

1) **Cisco Systems, Inc (CSCO – Outperform):** (1) With more households connected throughout the day, bandwidth needs will likely increase and could drive a rebound in Service Provider spending in order to improve edge routing capabilities. (2) CSCO's Webex platform stands to benefit from growing telecommuting arrangements. (3) More functions could move off-premise to hybrid or private clouds, and CSCO's 100G and soon-to-be 400G switching products should benefit from additional data center capacity. (4) Security becomes a greater concern as more connections present new potential weak spots, which could drive additional Security segment revenue. (5) One potentially significant offset, however, could be lengthened campus network replacement cycles as fewer workers on site may put less strain on local networks.
2) **Dell Technologies Inc (DELL – Sector Perform):** Dell sells commercial and consumer PCs, and we expect the number of PCs utilized by the average worker will increase as people establish home offices, which could also include monitor and docking station sales. Dell also has data center exposure through its servers and storage businesses, which stand to benefit from more workloads shifting off premise.

Names That Will Be Most NEGATIVELY Impacted:

1) **National Instruments Corp (NATI - Sector Perform):** NATI's Semiconductor business should do well as 5G becomes an increasingly important means of connecting to networks. That said, NATI's Transportation segment (~15% of revenue) could be negatively affected should WFH arrangements lead to reduced commuting and, in turn, lower automobile usage.

Application Software

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Companies Under Coverage:

ADBE, CDAY, COUP, CRM, CSOD, DBX, DOCU, HUBS, INTU, LOGM, MSFT, NOW, ORCL, PAYC, PCTY, PLAN, PRO, SAP, SMAR, TWLO, WDAY, WORK, ZEN, ZM

Potential Long-Term Implications

- Remote work likely accelerates, increasing the need for robust communication/collaboration tools
- Disaster recovery/business continuity becomes a board level topic
- Companies move to embrace digital transformation initiatives
- Enterprises move more workloads to public cloud providers

Summary of Impact to Coverage:

We view the pandemic as being transformational for the enterprise software category. Vendors directly exposed could command increased strategic relevance in the eyes of executives, becoming as critical to the way companies operate as CRM or ERP systems before. In terms of very near-term impacts, we think that the topic of Business Continuity/Disaster Recovery has evolved into a board-level discussion and impacts not just how companies respond to Covid, but also the next major event. Beyond Work From Home (WFH), we believe this crisis has compressed timelines for digital transformation and created a greater sense of urgency among companies to move from non-digital processes, to software-enabled processes – whether that is in communication (Zoom, Slack, Microsoft Teams), contracts (DocuSign), collaboration (Dropbox, Smartsheet), back-office management (Coupa, Workday), or creating customized and automated customer experiences (Salesforce, ServiceNow, Zendesk, Adobe). On the other hand, we expect sales cycles, particularly for larger enterprise deals that do not fall into the aforementioned categories, to be delayed. We expect net new customer deals will be hard to come by, with most sales organizations likely focusing on ensuring customer renewals remain in place without making significant price concessions.

Names That Will Be Most POSITIVELY Impacted:

1) **Zoom Video Communications (ZM – Outperform):** Downloads of Zoom have grown by multiples, with China +888%. While the company is offering more functionality/looser limitations to its free users to help deal with the current situation, limiting near-term upside, this should help it gain market and mind share, cement its leading position and ultimately enable it to monetize much of the increased usage. Zoom appears poised to move from being an enterprise software company to also being a consumer software company, a rarity.
2) **DocuSign (DOCU – Outperform):** Bottom line, billings don't lie, and DOCU posted +59% Y/Y billings growth in F1Q21, the first quarter impacted by COVID. Calculated billings in the quarter outperformed the company's prior guidance by 20% (the largest beat on record) and accelerated from +40% Y/Y in the prior quarter. Once a customer starts DocuSigning, they don't go back to paper, and become increasingly likely to adopt additional platform functionality like CLM. Furthermore, with an increasingly large percentage of DocuSign usage coming from APIs, it appears that the company's product is being embedded in core business workflows and tied to other applications. We believe that DOCU is a winner/beneficiary of the Remote Work trend and as a result we see a large, multi-year investment opportunity.

Names That Will Be Most NEGATIVELY Impacted:

1) **Oracle (ORCL – Sector Perform):** Positively, Oracle has transitioned much of its applications business to the Cloud, has outsized exposure to resilient government spend, and has worked to simplify/shorten its business cycle. However, it remains big deal dependent, particularly in its license business. Also supply chain disruptions are impacting its hardware business. US$ strength is also a headwind with half of sales international.
2) **SAP (SAP – Sector Perform):** SAP serves some of the largest and most complex enterprises globally and has many growth drivers. However, the company has already cancelled or postponed some key customer events, its traditional license business remains face to face selling dependent, and its customer base skews towards cyclicality (manufacturing, oil & gas, CPG). We expect minor current year cloud revenue headwinds, but long delays could hurt 2021, and key for the on-prem business will be if deals from the seasonally slow Q1 are delayed, or are lost.

Payments, Processing, and IT Services

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Companies Under Coverage:

ACN, ADS, CTSH, DXC, ENV, EPAY, FIS, FISV, FLT, FOCS, GPN, JKHY, MA, NCR, PYPL, QTWO, SQ, SSNC, V, WU

Potential Long-Term Implications

- Acceleration to a cashless society
- Mobile/digital banking ramps
- Bank branches accelerate the decline
- Positive mix shift to more e-commerce
- Digital disbursement of payments increase
- Global distributed workforces increase
- Shift to B2B payments and A/R and A/P automation
- Frictionless commerce in the physical store will drive demand for Amazon Go (big box / grocery will become stores inside of stores to make RFID work in large footprints) and self-checkout
- Contactless payment will accelerate as consumers take control
- Move toward mobile order ahead

Summary of Impact to Coverage:

We believe the current COVID-19 pandemic could have several long-lasting implications for the Payment, Processing, & IT Services sector. As we look through the payments lens, we believe the shift to a near-cashless society could ultimately come to fruition, as consumers become increasingly uncomfortable handling physical currency. The knock-on effects associated with such a move could be far reaching and would drive incremental demand for mobile/digital payments, increase contactless card usage, and the need for enhanced security. As mobile/digital payments become more prolific, banks would further need to adjust to consumer demands, which would drive a technology upgrade cycle for modernized, cloud-based, core processing, which should enable financial institutions to drive better consumer experiences. In addition, we believe frictionless commerce will become more commonplace, with the expansion of Amazon Go like stores taking hold in bigger store footprints via a "store within a store" format. Additionally, the gap between IT services companies that can help global organization transition to a new digital world vs. those which lack the technology will likely increasingly expand.

Names That Will Be Most POSITIVELY Impacted:

1) **Visa (V - Outperform)/Mastercard (MA – Outperform):** We believe V/MA are the best positioned to capitalize on new opportunities created in a post COVID-19 world including 1) accelerated shift to cashless (~$18T global "jump ball" in cash and checks), 2) new payment flows open up over $185T in payment volume, 10x the opportunity to shift from cash, and 3) new vertical markets and constituents such as B2B, insurance, payroll, and remittance.
2) **PayPal (PYPL - Outperform):** Several trends aid PYPL's future growth including the 1) shift to ecommerce, 2) move to a cashless society, which opens up new underbanked consumers, 3) increased focus by physical-world retailers to pivot to mobile order ahead, and 4) opportunity to expand its distribution asset through new emerging marketplaces.
3) **Fidelity Information (FIS – Outperform):** FIS is uniquely positioned to capitalize on many of these emerging trends, as it is the leading provider of large-scale cloud-based core processing, offers technology for banks to improve the consumer experience, and has 25% of its merchant solutions business that is directly tied to ecommerce growth.

Names That Will Be Most NEGATIVELY Impacted:

1) **Alliance Data Systems (ADS - Outperform):** Although the move toward more electronic based transactions should broadly be beneficial to ADS, they remain heavily weighted to mall-based retailers, which will likely prove negative long-term. **NCR (NCR - Outperform):** Despite NCR's focus on transitioning from its legacy ATM business, we believe as branch closures accelerate, there could be a long-term secular decline in ATM usage, which could be offset by its digital banking business.
2) **DXC (DXC – Outperform):** Unlike Accenture and Cognizant, DXC is moving to revamp its legacy ITO business practice vs. expanding into digital opportunities more quickly. As a result, we could see an efficiency gap accelerate between those IT services companies that are well established in delivering digital content vs. those who cannot.

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Security, Infrastructure and DevOps Software

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Companies Under Coverage:

Hedberg: ADSK, ALTR, ANSS, CHKP, CRWD, CTXS, DDOG, DT, ESTC, FFIV, MIME, NET, NLOK, NTCT, NTNX, PANW, PD, PFPT, PING, PTC, QLYS, RP, RPD, SAIL, SCWX, SPLK, SWI, TDC, VMW, VRNS

Potential Long-Term Implications

- Accelerating timeline of digital transformation toward cloud, hybrid and multi-cloud networks…"Faster to the Future"
- Proliferation of endpoints; increased personal device use
- Further dissolution of the traditional network perimeter
- Additional focus on identity, the new perimeter
- Bad actors don't slow when the economy does
- A shift from business continuity procedures to structural WFM adjustments
- Focus on automation to support expanded and more complex network environments
- New regulatory and compliance challenges from remote workers
- Additional focus on observability and monitoring

Summary of Impact to Coverage:

We believe the COVID-19 pandemic could have several long-lasting implications on our software universe, creating some new and previously unexpected trends as well as accelerating some trends that were already taking place; i.e. "Faster to the Future". In the near-term, we believe CIOs will be making decisions on tightening and reallocating budgets to determine how to implement WFH contingency plans. This likely has a primary benefit to solutions such as additional VPN/firewall capacity, VDI deployments, cloud-based endpoint security, aspects of identity including SSO/MFA/Governance and additional tools for monitoring applications and workloads (i.e. observability). While we are at elevated levels of WFH today, we think once the virus subsides, we will return to a WFH level higher than pre-virus. This likely has longer-term implications for our universe. We believe this could push organizations faster to the future in terms of cloud and SaaS adoption as well as their own digital transformation. As a result, we think security looks fundamentally different in a world with less defined perimeters, which likely drives greater demand for cloud-based solutions that protect devices/endpoints, people, applications and traffic. We think monitoring solutions will also be used to a greater extent to ensure applications are running as expected regardless of where the app is running or where the user is physically located. We also think additional layers of automation will be used as organizations increasingly leverage machines for additional processing capacity.

Names That Will Be Most POSITIVELY Impacted:

1) **CrowdStrike (CRWD - Outperform):** We believe CrowdStrike is well positioned to benefit from elevated WFH trends as CIOs need to get a better understanding of how to monitor/protect devices/workload outside the corporate network. We believe their cloud-based architecture could allow CRWD to consolidate security spend faster than previously expected.
2) **SailPoint (SAIL - Outperform):** We view Identity in general as a logical winner if workforces become more distributed. SailPoint being the leader in Identity Governance, could see a LT tailwind providing on application access. This could help CIOs monitor unsanctioned app use, which is likely seeing increased trends in a WFH setting.
3) **Cloudflare (NET – Outperform):** We think Cloudflare is well positioned in the current environment given their cloud-based platform that benefits from greater use of the Internet/remote workers. We believe solutions like Cloudflare Access, Magic Transit, Teams and Workers could see an incremental benefit.
4) **Splunk (SPLK – Outperform) and Datadog (DDOG – Sector Perform):** Overall we are optimistic monitoring spend could accelerate in an increasingly cloud-native world; a trend that can benefit both SPLK and DDOG.

Names That Will Be Most NEGATIVELY Impacted:

1) **Teradata (TDC – Sector Perform):** While shifting towards subscription revenue, Teradata still has hardware exposure, which could see additional challenges. Historically, poor macros can freeze capacity expansions.

Semiconductors and Semi-Cap Equipment

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Companies Under Coverage:

ADI AMAT AMD ASML-AMS AMAT AVGO CDNS DLG-ETR ICHR INTC LRCX MU MXIM NVDA QCOM SMTC SNPS STX TXN WDC XPER

Potential Long-Term Implications

- Acceleration of Data Center reliance, an increase in individuals working from home likely causes additional strain on the Data Center benefitting High Performance Computing (HPC)
- Additional time spent at home likely leads to an increase in the number of gamers and overall growth of PC gaming
- Could lead to shorter PC cycles as individuals utilize computers vs. handsets, a significant change from the past decade. Notebooks over Desktops is likely
- Given the current US/China trade tensions, we think the outbreak will only accelerate "made in the US" initiative
- If the above is correct, this could lead to more regulations related to high-end products being shipped to China (note US is already imposing restrictions on Huawei)
- More M&A in the future, if interest rates remain at zero, we think semiconductor M&A transactions could reaccelerate

Summary of Impact to Coverage:

While there are many moving parts we think the following impacts are possible in order of likelihood. 1) high-end manufacturing moves to the USA for security purposes, with mission critical products scrutinized particularly if they are created in China, 2) we anticipate a "left shift in technology" as companies look for new tools and high-end tech solutions to make up for lost earnings during the shut down, 3) more people working from home likely helps laptops and gaming chips in particular as home entertainment and high quality PCs become more valuable – this could see an increase in commercial PCs being issued, 4) an increase in M&A activity post crisis as a 0-1% cost of debt would be a low hurdle to jump over if a mid-cap semiconductor company is generating double digit operating margins and 5) potential faster PC refresh cycle with notebooks being preferred to desktops in our view (commercial PCs likely laptops vs. desktops for example).

Names That Will Be Most POSITIVELY Impacted:

1) **Nvidia (Outperform) and AMD (Outperform):** These two companies focus on high-end computational workloads in the data center. They also offer products that directly address the gaming market (with their gaming GPUs). Both companies are run by respected CEOs and have a product portfolio that is tailored to the high-end. Even if spending slows down (in aggregate), the highest performing products typically grow the fastest within the market. If overall spending is down near-term, the high-end likely suffers the least.
2) **CDNS (Outperform) and SNPS (Outperform):** With ASPs tied to chip complexity and as companies look for ways to improve their performance and reduce costs, this likely pushes design activity to the edge. Companies will likely compete heavily (on the R&D side) to come up with the highest performing and most cost effective products. From a numbers perspective, we find there is a material correlation between semiconductor R&D spending and revenue results. Tracking quarterly R&D since 2008 yields a correlation coefficient of 0.98 to CDNS + SNPS' combined revenue
3) **General Multiple Expansion:** Looking out more than 12-months, post COVID, we think the higher beta names will likely command higher multiples. Simplistically, with bond yields coming down below 1% in many cases, this creates a theoretically un-investable asset class (particularly if yields in some regions are negative). In a <1% interest rate environment, we would not be surprised to see bonds sell off to purchase equities if yields no longer show returns above 1%.

Names That Will Be Most NEGATIVELY Impacted:

1) **Consumer Handsets (Semtech Consumer (Outperform), Maxim Integrated Consumer (Sector Perform)):** Assuming a demand driven handset market downturn, SMTC and MXIM would be negatively impacted. In the past decade, growth stabilized at low single digits driven by mobile computing and handset sales. With the sudden increase in unemployment and move to "remote work", we think semiconductor companies that are reliant on *low to mid-range smartphones* could see increased pressure (high-end protected by wealthier individuals).
2) **Levered Companies (Western Digital (WDC - Outperform), Broadcom (AVGO Outperform) for now…):** If demand continues to erode, we think highly levered companies such as WDC and AVGO could see significant near-term multiple compression. On the other hand, companies that survive will likely have cheaper debt and be able to see a significant re-rating when demand returns.
3) **Buybacks (Intel (INTC – Underperform) and Texas Instruments (TXN – Sector Perform):** Many of our companies, ie TXN and INTC, have had significant buyback programs which helped drive the stocks. Given the current political environment (scrutiny related to these activities), we wouldn't be surprised to see a cancellation of many programs and potentially a long-term reduction in the amount used for share repurchase activity.

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Canadian Technology

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Companies Under Coverage:

AIF.TO, BB, CLS, GIBa.TO, CMG.TO, CSU.TO, ENGH.TO, ET.TO, ISV.TO, KXS.TO, LSPD, OTEX, SHOP, SWIR, DSGX

Potential Long-Term Implications

- Increased number of enterprise endpoint devices
- Higher demand for reliable internet connectivity
- Increased need for cybersecurity solutions
- Less commute-related travel
- Greater usage of audio and video-based communications
- Increased demand for hardware peripherals
- Accelerated shift to e-commerce
- Fewer commercial office spaces

Summary of Impact to Coverage:

In our view, technology companies are likely long-term beneficiaries from expanded WFH adoption following the current COVID-19 pandemic. More specifically, we expect companies providing enterprise software, communication software, cybersecurity solutions, and device management solutions to benefit the most. Additionally, cloud-based solutions may experience greater demand to facilitate a geographically dispersed workforce. To maintain existing levels of productivity and operational security, corporations may provide employees with a suite of endpoint devices (laptops, mobile phones, tablets, docking stations, etc). Being able to secure and manage the array of endpoint devices becomes increasingly important as each device is a point of entry into the enterprise network. At the same time, companies may adopt Bring-Your-Own-Device policies, which could incentivize employees to purchase more hardware peripherals to their liking. With more employees at home, we would also expect e-commerce adoption to increase. Lastly, more individuals working from home would likely lead to fewer commuters and less need for office space.

Names That Will Be Most POSITIVELY Impacted:

1) **Shopify (SHOP - Outperform):** According to the U.S. Census Bureau, e-commerce increased 15% Y/Y in 2019 vs. total retail sales of 3% Y/Y. E-commerce accounts for 11% of total retail sales vs. 10% in 2018. SHOP is one of the leading providers of e-commerce solutions, helping businesses manage online stores. With only 1MM merchants currently using SHOP, we believe the runway ahead is still large relative to the company's addressable market. SHOP's software and services portfolio continues to grow (e.g. SHOP fulfillment network), which would help expand the company's economics (i.e. take rate) over time.
2) **Enghouse Systems (ENGH.TO - Outperform):** With software solutions for contact centers, network infrastructure, and video conferencing, ENGH is well positioned to benefit from expanding WFH policies. Most notably, ENGH is making additional sales investments in its recently-acquired Vidyo business, a video conferencing software provider for enterprises, to capture the increased adoption of video conferencing.
3) **BlackBerry (BB - Sector Perform):** BB offers a unified endpoint security platform, including endpoint management, secured communications, and cybersecurity solutions, for enterprises to manage employees' endpoint devices. While BB faces the potential headwind from reduced global automotive production on its QNX business, WFM adoption may lead to higher demand for BB's unified endpoint management software, along with its Cylance endpoint protection software.

Names That Will Be Most NEGATIVELY Impacted:

1) **Computer Modelling Group (CMG.TO – Sector Perform):** WFH policies would likely lead to a decline in commuting, which would decrease oil & gas demand. As a provider of oil & gas reservoir simulation software, Computer Modelling Group may be impacted by lower oil & gas demand.
2) **Altus Group (AIF.TO - Outperform):** With fewer employees at the office, companies' need for office space may diminish. As a result, Altus' Property Tax and Cost & Advisory business may face slower growth as the addressable market of commercial real estate shrinks. However, current market penetration for Altus' software and services is relatively low, so the opportunity for the company to increase market penetration still remains in the near-term.

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Australian Technology

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Companies Under Coverage:

ALU, APX, CGL, ELO, EML, GEM, HSN, IFM, MP1, NEA, NXT, PME, PPH, SLC, XRO

Potential Long-Term Implications

- Increased adoption of work from home arrangements
- Increased cloud based data storage and system hosting
- Increased usage of cloud and SaaS products
- Increased demand for cybersecurity software
- More videoconferencing, less business travel
- Increased levels of online shopping and e-commerce

Summary of Impact to Coverage:

Profound changes to our technology coverage include increased work from home (WFH) arrangements, accelerated transition to the cloud and adoption of SaaS based products and associated data and cybersecurity services to enable and protect these changes. Increased acceptance and adoption of WFH arrangements by employers is likely for a growing portion of white-collar roles globally. Employers are likely to enhance IT capabilities to assist with this transition with remote access requirements based around data reliability, redundancy and security. This is likely to provide a meaningful tailwind to both physical and virtual data centre services and cybersecurity software players as enablers of likely changed working behaviours. Data, image and language services are likely to also be in high demand to improve internet search algorithms to further drive the demand for delivering individual, tailored online content to consumers at the right time in any location.

Names That Will Be Most POSITIVELY Impacted:

1) **Appen (APX – Outperform):** APX is the global leader in providing raw curated data to the large technology giants to improve their internet search algorithm accuracy and effectiveness. APX's data is the lifeblood for internet search providers in the lucrative internet advertising market – assisting the large technology companies to serve the right data to the right person at the right time. APX also provides language, speech and image recognition services, all of which are essential for connected devices – smart phones, smart cars, smart homes and wearables. APX is in an enviable position to continue to capitalise on these trends as the global market leader in its space.
2) **NEXTDC (NXT - Outperform):** We believe a likely acceleration in the secular shift to greater cloud computing, off site data storage, server hosting, security, resilience and redundancy is a likely outcome of COVID-19. The shift to increased WFH arrangements and the accelerated transition to the cloud, with a corresponding increase in data consumption is a core driver for NXT's services. NXT is a core beneficiary of these tailwinds and is well placed to execute on its data centre expansion strategy in APAC.
3) **Megaport (MP1 – Outperform, Speculative Risk):** MP1 offer customers the ability to access over 300 data centres globally and is a faster and more flexible enabler of cloud access relative to telco competitors. MP1 is well placed to be a global leader in assisting businesses access multiple datacenters globally, all via MP1's proprietary software defined network. MP1 has seen an acceleration in virtual cross connect growth driven by customer demands for remote work arrangements. COVID-19 is likely to accelerate corporates moving data to the cloud to improve business continuity and also facilitate employees to work remotely.
4) **Pushpay (PPH Outperform):** PPH's online donation and engagement platform enables churches to reach congregations anywhere, anytime. PPH's platform enables churches to stream church sermons multiple times per day as opposed to being restricted to specific times. We believe PPH is likely to see accelerated adoption of its platform by churches as a solution to social restrictions. PPH saw increased usage and higher donation volumes during COVID.

Names That Will Be Most NEGATIVELY Impacted:

Our Australian technology universe currently under coverage is broadly less negatively impacted by these potential future changes.

Materials

Chemicals, Coatings and Packaging

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Companies Under Coverage:

ALB, ARD, AXTA, BLL, BERY, CE, CTVA, CCK, DOW, DD, EMN, FMC, EAF, GPK, HUN, LYB, OLN, OI, RPM, PPG SEE, SLGN, CC, SHW, VNTR, WLK

Potential Long-Term Implications

- Higher levels of pantry stocking, with higher minimum levels of essential products
- Lower driving miles and automotive demand, resulting in lower painting activity in automotive both on OEM and refinish
- Higher food and beverage packaging driven by in-home consumption and delivery services
- Potential pause in ESG tailwinds and higher consumption of plastic use, driven by the need for hand sanitizers, wipes and other cleaning products, typically packaged in plastic.
- Electronic materials will likely experience tailwinds given more use of consumer electronics, smart phones, and connectivity solutions.

Summary of Impact to Coverage:

Commodity Chemicals: WFH is probably not as impactful either way as ~60-70% of the businesses are levered to consumer non-durables, which could see increased consumption in the future to offset the large decline in the ~30-40% that is more "industrial" consumption.

Coatings: A shift towards WFH should be a net positive for the coatings industry as individuals and institutions both do more painting and upgrade the workspace. In addition, we typically see a correlation between DIY work and an increase in unemployment. Although, DIY gains would be offset by lower Auto Refinish coatings due to fewer miles driven and potentially less painting of bridges and other infrastructure. Architectural market growth will likely be driven by favorable demographics.

Packaging: Increased at-home consumption is a near-term positive for the packaging industry, as it increases consumption for packaging in all substrates – plastic, paper, metal, and glass. There will likely be a slight offset due to lower on-premise foodservice packaging (drink cups, fast food packaging, etc.), but some of that would also be offset by packaging for foodserve delivery. We see food packaging becoming more important over the next several years in Asia and other developing nations.

Names That Will Be Most POSITIVELY Impacted:

1) **BLL, CCK, ARD, SLGN (Outperform):** We expect near-term upside given the recent stockpiling of essential products by consumers and a shift towards home consumption, which could benefit cans (beverage and food) over other substrates. Over the long-term, we expect consumers to maintain higher levels of essential products, (food, beverage, household products).
2) **RPM International (RPM – Outperform):** We expect to see a higher focus on DIY projects driven by 1) large portion of the workforce working from home during and to a lesser extent after quarantine; 2) Choosing DIY projects versus inviting a contractor into your home; 3) the recent demand shock will likely delay projects as opposed to outright canceling; and 4) given RPM's ~70% maintenance-related sales, we see the business as somewhat recession proof, which should benefit FCF during cyclical downturns.

Names That Will Be Most NEGATIVELY Impacted:

1) **Albemarle Corporation (ALB – Sector Perform):** With less automotive production and miles driven, we expect EV production will be slower than estimated, which would result in lower lithium battery demand. We believe this could result in excess supply conversion capacity and inventories, which lowers global lithium carbonate and hydroxide prices.
2) **Axalta Coatings System (AXTA – Outperform):** Negative impact due to decreased levels of miles driven resulting in weakness in Auto OEM and refinish with the potential for a new normal of less commuting back and forth to work and increased levels of in-home entertainment experiences.

Metals and Mining

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Companies Under Coverage:

Broda: AAL, ANTO, BHP, GLEN, RIO, VALE

Bell: APH, AU, GOLD, BOL, CEY, CAML, EDV, FRES, GFI, HOC, KAZ, POLY, SBSW

Potential Long-Term Implications

- We recently published **Imagine 2025: Pulling up the drawbridge**
- We expect demand destruction to be worse than priced into the commodities, with lower investment levels driving oversupply in metals.
- Dividends are likely to come under substantial pressure. On our downside scenario, we see dividends falling 90-100%.
- Emerging market economies are likely to be more impacted economically which could create a more challenging operating environment in coming years
- Fiscal spending will drive increased metals intensity in Western economic growth going forward
- Monetary debasement and potential for rising long run inflation estimates could see increased interest in real assets.

Summary of Impact to Coverage:

Miners remain highly sensitive to the economic environment, in large part because of the greater exposure to more cyclical global investment rates. Our analysis suggests the demand destruction near term as well as lower global investment levels could leave an overcapacity of metals supply creating a challenging few years for the sector. If global GDP fell -5% in 2020, we see a scenario where copper demand falls -15% and steel -18%, which would trigger inventory growth to unprecedented levels. Thus far, the robust Chinese recovery has reduced some of the inventory risks, but with scrap or demand in the West yet to normalize, we continue to expect growing metal surpluses. Even into a rebound in 2021, we expect profitability will remain constrained, especially as the world likely battles a global output gap and as miners manage lingering impacts from Covid related operational changes. Balance sheets thankfully remain strong and there are growing value opportunities, in our view, on a 2-5 year horizon.

Names That Will Be Most POSITIVELY Impacted:

1) **BHP (BHP - Outperform)** is our favoured defensive and diversified exposure. With $20bn in liquidity, high margin assets, capex flexibility, cashflow breakeven in a down scenario, we believe BHP is best positioned longer term.
2) **Boliden (BOL – Outperform)** The diversification of Boliden between mining and smelting normally adds a defensiveness vs. straight mining peers. We still expect the group to be FCF positive in a downside scenario.
3) **AngloPacific (APF – Outperform)** remains differentiated and relatively attractive due to its royalty business model.

Names That Will Be Most NEGATIVELY Impacted:

1) **Antofagasta (ANTO – Underperform)** faces greater margin compression than peers because of its cost positioning. Further, the company remains exposed to concentration risks as all of its assets are located in Chile.
2) **Rio Tinto** (**RIO – Underperform)** has been the sector's leading performer which is understandable considering its high margin iron ore business and strong balance sheet. However, RIO’s share price implies it is expensive even on long-term iron ore pricing in our view.
3) **Central Asia Metals (CAML – Sector Perform**) could be negatively impacted due to risks of debt repayment if operational shutdowns occur and a temporary halt to the group’s dividend.

North American Precious Metals

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Companies Under Coverage:

Wolfson: AEM, AGI, AUY, BTG, EGO, FNV, GOLD, IAG, KGC, KL, NEM, NGD, RGLD, WPM

Mihaljevic: CDE, DPM, HL, MOZ, OSK, PAAS, PG, PVG, SBB, SIL, SSRM, TXG

Potential Long-Term Implications

- Ongoing accommodative monetary policy
- Greater fiscal spending and budget deficits
- Lower long-term real interest rates
- Increased investment demand for precious metals

Summary of Impact to Coverage:

The impact of COVID-19 has resulted in an unprecedented reintroduction of highly accommodative monetary policy. Global central banks are positioned to extend a supportive policy framework, and recent actions reaffirm questions regarding the ability for central banks to remove accumulated assets once the crisis has subsided. These policies encourage lower long-term real interest rates and support long-term higher gold prices, which have demonstrated an inverse correlation historically.

Gold producers have operating leverage to changes in the gold price. In our view, companies that offer sustainable production or growth have the potential to demonstrate greater economic benefit from this. In aggregate, we would expect the sector to benefit from higher gold prices, although companies which maintain elevated non precious metals exposure or those with lower operating leverage have the potential to benefit less on a relative basis. In particular, the royalty and streaming business model has the potential to accrue reduced benefits from higher gold prices as compared to operators.

Names That Will Be Most POSITIVELY Impacted:

1) **Kirkland Lake Gold (KL - Outperform):** KL maintains a geopolitically secure operating asset base in Canada and Australia with current annual production of >1.5moz. We expect growth and long-duration reserves at the Detour Lake and Macassa mines in Ontario to offset volume declines at the Fosterville mine in Australia. The reallocation of ongoing high FCF into productive exploration, which has demonstrated historical success, has the potential to improve KL's production outlook.
2) **Barrick Gold (GOLD - Outperform):** In March 2020, Barrick introduced inaugural 10-year guidance that outlines stable production of ~5moz annually, absent major capital investment requirements. In our view, this corporate outlook positions the company to generate high ongoing sustainable cash flows. As a diversified operator with a focus upon efficient capital allocation, Barrick is well-positioned to benefit from long-term upside in the gold price.
3) **Newmont (NEM – Sector Perform)**: Following Newmont's acquisition of Goldcorp in 2019, the company has outlined production of 6-7moz over a 5-year outlook, and we forecast it to generate margin improvement from forecast synergies and operating efficiencies. This production base and the company's outlined upside should allow Newmont to fund its larger-scale projects, increasingly return cash flow to shareholders, and benefit from long-term upside in the gold price.

Names That Will Be Most NEGATIVELY Impacted:

1) **Franco Nevada (FNV - Sector Perform):** Franco Nevada is a well-managed royalty and stream operator that maintains a highly diversified operating base. Over time, the company has demonstrated a capacity to adapt to changes in market conditions. However, the company's lower-leverage business model and greater proportion of non-gold and silver revenue exposure (~20% energy, base metals, PGMs, and other metals) reduce its benefit from rising gold prices as compared to operator peers.
2) **Royal Gold (RGLD – Sector Perform):** Royal Gold is an established royalty and stream operator. The company's lower-leverage business model and greater proportion of non-gold and silver revenue exposure (~15% base and other metals) reduce its benefit from rising gold prices as compared to peers. We forecast corporate production for RGLD has the potential to remain stable until ~2025, and thereafter output declines may reduce benefits from future potential improvements in the gold price.

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North American Metals & Mining

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Companies Under Coverage:

CIA.TO, CS.TO, FCX.N, FM.TO, HBM.TO, HCC.N, IVN.TO, LIF.TO, LUN.TO, MDI.TO, NCU.TO, NEXA.N, TECKb.TO, TRQ.N, TV.TO

Potential Long-Term Implications

- Weakened demand for the industrial metals as global growth slows
- More difficulty raising capital to fund new projects & expansions
- Increased focus on reducing operating costs through automated & less labor intensive mining methods
- Increased resource nationalization & levying of taxes/royalties in the face of weakened developing economies
- Consolidation and creation of more large multi asset miners as investors' preference continues to shift to large diversified miners with stronger balance sheets to manage through the cycles

Summary of Impact to Coverage:

We expect weaker demand for industrial metals to drive weaker prices in the near and medium term. In our view the demand destruction felt so far in 2020 has outweighed the impact to supply from mine shutdowns or capacity reductions, which has resulted in a restocking of basic materials that will need to be worked through the supply chain. Weaker commodity markets are likely to impact capital raising and reduce investment in new projects & expansions, in turn helping to balance the market. We could also see an increase in resource nationalization and levying of taxes and royalties in developing countries as governments look to help provide economic relief to its citizens. Under the threat of increased nationalization, miners with lower geographic risk & larger companies with more operating mines provide an even greater advantage and could trade at higher premiums as investor preferences shift. We also expect weaker commodity prices to create opportunities for the better capitalized companies to scoop up assets at a discount, creating fewer large players. On a mine basis one of the major trends we expect to be accelerated by COVID-19 is investment in technology, with a focus on automation. In recent years, we have already seen a shift in focus to reducing operating costs through automation of mining, remote operation of equipment and usage of driverless vehicles. We expect that investment in these technologies will better prepare miners for unforeseen events and help enable continued operations, providing beneficiaries and less successful operators in situations where mass shutdowns occur.

Names That Will Be Most POSITIVELY Impacted:

1) **Teck Resources (TECKb.TO - Outperform):** We expect Teck to benefit from early investment in technology and diversified sources of income from its twelve operations. Teck also operates in mostly developed countries with stable governments that we view as less likely to dissolve mining agreements.
2) **Lundin Mining (LUN.TO – Outperform):** Lundin benefits from its diverse location of operations in stable jurisdictions. The company is in a strong balance sheet position with $116M in net debt and 0.2x net debt to forward EBITDA at spot prices. Lundin also has strong exposure to copper, which we expect to outperform other industrial metals in the medium term.
3) **Freeport McMoRan (FCX.N – Sector Perform):** One of the strongest exposures to copper in our coverage (~76% 2020E revenue) in the form of several long life assets located in favorable jurisdictions. We also expect Freeport to benefit from its investment in innovation and technology.

Names That Will Be Most NEGATIVELY Impacted:

1) **Turquoise Hill Resources (TRQ.N - Sector Perform):** We expect companies with financing needs could find it harder to raise capital and we view there to be heightened risk of resource nationalization or levying of taxes/royalties in Mongolia.
2) **Trevali Mining (TV.TO – Sector Perform, Speculative Risk):** We expect Trevali will require capital in the near term to be able to weather the weaker zinc price environment, which could prove difficult in the current market. Trevali's largest mine, Perkoa (~50% of 2020E zinc production) operates in Burkina Faso, which we view a higher risk jurisdiction.

Trevali Mining Corporation has engaged RBC Capital Markets as its financial advisor to conduct a strategic review process that will explore financing alternatives to enhance shareholder value, as announced on April 30th 2020.

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Paper, Packaging, & Forest Products

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Companies Under Coverage:

US companies: CTT, CLW, UFS, IP, LPX, MERC, OSB, PCH, RYAM, RYN, RFP, WRK, WY

Canadian companies: ADN, CFP, CFX, CWX, CAS, CFF, IFP, KPT, OSB, WFT, WEF

Australian companies: JHX

Potential Long-Term Implications

- **De-urbanization:** If some workers were able to work from home, we expect that some would opt to live further away from the office, resulting in higher rates of single-family housing. Furthermore, we expect that average home sizes would increase due to lower density and more space in the home (i.e. home offices). In addition, we expect that R&R spending would increase if more time is spent at home. Offices tend to use less wood products in construction (more steel and concrete), so net-net this would be positive for wood product demand.
- **Take-out:** We expect that more workers would opt to cook at home rather than eat out. This would be negative for foodservice paperboard, but slightly offset by at-home paperboard packaging such as liquid paperboard.
- **Home delivery:** We expect that there would be a pick-up in home delivery as some errands done during commutes are instead completed online. We expect that this would be a positive for containerboard and kraft paper demand.
- **Shift to high-quality tissue:** We expect that most consumers opt for higher quality tissue at the home. Overall, we expect this would be higher margin for tissue producers.
- **The end of paper:** We expect that office employees would use far less paper products, given the cost and time needed to maintain supplies and function. This would be negative for UFS and likely lead to more pulp supply as PMs are shut down. However, lower recovered paper availability may balance fiber markets over the long term.

Summary of Impact to Coverage:

In our view, any change in consumer habits will be gradual. In the short term, we think that there could be a rise in home delivery of consumer goods and increased consumption of at-home tissue products, which would be positive for containerboard and tissue producers (at-home tissue is more profitable than away-from-home tissue). We also see paper consumption (including uncoated freesheet and newsprint) declining in the near-term, as office workers would be less likely to print at the office and more likely to consume news via smartphone/tablet at home. Longer term, we think that increased prevalence of “working from home” would result in more people moving away from urban cores and into less dense single-family residential neighborhoods. This would be positive for wood product demand and new residential construction.

Names That Will Be Most POSITIVELY Impacted:

1) **Wood products producers:** We expect that lumber, OSB, and siding producers would benefit from a shift to higher rates of single-family housing and larger home sizes. However, we expect that this shift would be gradual.

Names That Will Be Most NEGATIVELY Impacted:

1) **Domtar (UFS, Sector Perform):** We expect that a shift away from office settings would accelerate the decline in paper consumption as more consumers would not opt to stock their own paper supplies, maintain a printer, and minimize waste. Longer term, we expect that this would accelerate Domtar’s transition away from UFS and towards containerboard. Domtar may actually be well positioned given its pulp assets, lower recovered paper availability (in this scenario), and higher containerboard demand. However, we expect that the weakness would weigh on the valuation during the transition.
2) **Resolute Forest Products (RFP, Sector Perform):** We expect that newsprint demand would be negatively impacted by a shift to working from home. Already, some North American newspapers have scaled back operations due to COVID-19. However, weakness in newsprint could at least be offset partially by strength in Specialty Papers due to higher rates of direct mail as advertisers replace the lost opportunity from commute opportunities such as radio and billboards. Resolute’s at-home tissue business could also see an increase in demand along with its wood products business (longer-term).

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Real Estate

European Real Estate

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Companies Under Coverage:

BBOXT.L, BYG.L, BLND.L, DLN.L, DWNI.DE, GPOR.L, HMSO.L, IHR.L, LOIM.PA, LMP.L, LAND.L, SGRO.L, URW.PA, VNA.DE, WHR.L, WKP.L

Potential Long-Term Implications

- Increased use of technology by consumers could increase the need for less physical stores and more distribution warehouses.
- Increased use of technology by employees could increase their demands for flexibility, leading employers to use less floor space.
- A greater potential need for social distancing in future could increase the space required by occupiers across different types of commercial property and/or lead to greater use of automation.
- Some businesses may seek to hold more stock to cope with such macro shocks and/or shorten some geographical supply chains.

Summary of Impact to Coverage:

We see an acceleration of structural shifts affecting real estate that were already underway, particularly those that are technology led. We expect faster increases in on-line sales penetration rates to create a bumpier transition for retail landlords. However, we do not expect the desire to be located in the best locations to diminish, which will continue to lead to a polarisation in rent levels. Similarly, demand for distribution warehouse space is more likely to intensify as on-line penetration increases. The impact on office demand from occupiers is hard to judge at this stage, but employers may offer more flexible working (from home) arrangements in the future, which could result in them requiring less office space. Any need to sustain greater levels of social distancing in the future could lead a variety of landlords to seek additional space and/or a greater degree of automation in their processes. We also see a risk of the strong trends in urbanization in recent years, which has benefitted real estate in the largest cities slowing.

Names That Will Be Most POSITIVELY Impacted:

1) **Tritax (BBOX – Outperform)** should continue to benefit from any increase in demand for warehouse distribution space. We believe it is particularly well placed given that its focus (including its pipeline) is on the largest distribution warehouses which are typically better suited to automation.
2) **Warehouse REIT (WHR – Outperform)** should benefit from any increase in demand for warehouse distribution space, whilst its focus on urban warehouses positions it well for increased demand for space to facilitate last mile delivery.
3) **SEGRO (SGRO – Underperform):** SEGRO should benefit from any increase in warehouse demand. Its exposure to data centres is a further positive to the extent the use of technology increases.

Names That Will Be Most NEGATIVELY Impacted:

1) **Hammerson (HMSO – Sector Perform):** A faster increase in on-line penetration rates increases the challenges faced by retailers, and for the UK landlords in particular
2) **Great Portland Estates (GPOR – Underperform):** While the impact on office occupation is hard to judge, we believe the risks are that employers need less space and/or increasingly seek more flexible lease terms and that positive urbanization trends at least slow. As a London office landlord, it is hard for GPE not to be impacted to some degree initially.
3) **Derwent London (DLN – Underperform):** We believe the same is equally true for Derwent as another high quality London office landlord as it is for GPE.

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US Real Estate Investment Trusts (REITs)

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Companies Under Coverage:

Carroll: AAT, ARE, BXP, CIO, COLD, CTRE, DEA, DHC, DOC, DRE, EGP, EPR, FR, ILPT, KRC, LTC, MNR, MPW, OPI, PEAK, PLD, STAG, VTR, WELL

Golladay: AVB, BRX, CPT, EPRT, EQR, ESS, HLT, HST, INN, INVH, KIM, MAA, MAC, MAR, NNN, O, PEB, REG, RLJ, ROIC, SITC, SPG, SRC, SRG, SUI, UDR

Potential Long-Term Implications

- Accelerated shift to e-commerce
- Need to add redundancies to global supply chains
- Advancement of automated technology
- Renewed focus on bio-technology research
- Broader work from home policies by major corporations
- De-urbanization trend takes hold
- Greater acceptance of virtual meetings

Summary of Impact to Coverage:

Real estate should deliver more stable operating results and better manage short-term economic shifts given it is a support industry. However, meaningful long-term shifts such as a greater e-commerce adoption rate, emerging de-urbanization, and on-going migration trends could change the landscape. These trends will affect each sector and markets differently either positively or negatively, while a few might feel minimal effects. We believe the industrial and life science REITs will benefit from the strongest secular tailwinds and tailwinds will likely further strengthen following the pandemic. Additionally, we expect broader WFH policies will help accelerate migration to better weather, more affordable and less dense markets where people can have a better quality of life. We believe this will increase demand and drive higher property valuations in the major Sunbelt markets specifically in the premier suburban submarkets. The office and hotel REITs could also face a changing dynamic as work from home polices and virtual meetings become more accepting alternatives to working in an office building in big urban centers and traveling city to city for business meetings. We also believe the retail sector will continue to be challenged, as more consumers are able and willing to buy goods online.

Names That Will Be Most POSITIVELY Impacted:

1) **Prologis (PLD – Outperform):** PLD will benefit if the adoption of e-commerce accelerates and if tenants need to add redundancies or hold more inventory to ward off economic shocks, in our view. Retailers and logistic companies have been heavily investing in their respective networks and fighting over limited available space. We believe this backdrop will continue to support above average organic and external growth.
2) **Alexandria Real Estate Equities (ARE – Outperform):** Investors have been concerned over the past few years that the government would eventually be more aggressive passing drug pricing legislation that could hinder new research funding. However, the pandemic has further solidified the need for this industry, and the need for the government and private market to adequately fund these activities.
3) **Camden Properties Trust (CPT – Outperform) and Mid-America Apartment Communities (MAA – Outperform).** The ability to work from home could accelerate migration to the Sunbelt markets as people look for a more affordable lifestyle.

Names That Will Be Most NEGATIVELY Impacted:

1) **Regency Centers (REG – Outperform) and Retail Opportunity Investment Corp (ROIC – Outperform)**: COVID-19 has likely accelerated the adoption of online shopping for groceries. We believe REG and ROIC would be most impacted if on-line grocery shopping became widely accepted with both companies owning primarily grocery-anchored centers in densely populated areas.

Utilities

European Utilities and Renewables

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Companies Under Coverage:

Musk: CNA, DRX, EOAN, NG, ORSTED, RWE, SSE, UN01 **Garcia:** ANA, EDP, EDPR, ELE, ENG, IBE, NTGY, REE, RENE, SLR
Wheeler: GLO, PNN, SVT, UU

Potential Long-Term Implications

- Lower for longer commodity prices if there is permanent demand destruction.
- Possible increased central spending on green initiatives as a way to boost economies post crisis.
- Increased focus on the balance sheet and ensuring appropriate liquidity for those names sensitive to commodity prices.
- PPAs more prevalent in the market as developers seek high cash flow visibility to build generation assets.
- Structural change to the way in which power prices are set in Europe given cannibalisation from renewables and commodity sensitivity.
- Higher cost of capital attributed to commodity exposed companies.

Summary of Impact to Coverage:

In our view, the decline in commodity prices will accelerate the move away from utilities with high commodity exposure, whilst the knock on effect on power prices may lead to a number of structural changes in the market. There may be pressure to reform the way in which the power price is set in Europe, with the traditional merit order not the best method to incentivise further build of merchant renewables given the cannibalization effect. A potential solution would be a more accelerated move towards corporate PPAs and long-term agreements/capacity payments for thermal generators. The effectiveness of the EU carbon market may also come under scrutiny as countries push to be more responsible for their own energy transition.

The integrated business model may come into focus as investors question the merit of being exposed to the full value chain, all of which now has significantly different drivers. On the demand side, as businesses increase the capability to work from home, commercial and industrial demand may reduce. This may add a layer of complexity to the distribution network, alongside the current shift to towards electric vehicles.

Names That Will Be Most POSITIVELY Impacted:

1) **Ørsted (ORSTED – Outperform)** is the market leader in offshore wind and well placed to take advantage of LT trends that we expect to become more pronounced. A move to PPAs will allow Ørsted to gain further visibility over its cash flows and should result in a more stable share price valuation given less sensitivity to power prices post the subsidy period.
2) **National Grid (NG – Outperform):** ~90% of NG's activities are in regulated energy networks in the UK and US. It is well placed to benefit from increased infrastructure spend relating to the energy transition.

Names That Will Be Most NEGATIVELY Impacted:

1) **Uniper (UN01 – Underperform):** Uniper's business model focuses on thermal generation and global commodities, which we see as most exposed longer term.
2) **Naturgy (NTGY – Underperform):** Naturgy's profitability in gas is suffering from short-term demand, but we have long-term concerns due to significant renewable deployment. In electricity and gas supply the company is suffering an accelerated loss of customers.

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US Power and Utilities

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Companies Under Coverage:

AEP, AES, AWK, AY, BKH, CMS, CNP, CPK, CWEN, D, DUK, ED, EIX, ETR, EXC , FE, NEE, NEP, NWN, PCG, PEG, PNM, PNW, PPL, SO, SJW, SR, SRE, TERP, UTL, VST, WTRG, XEL

Potential Long-Term Implications

- Shifts more usage to residential from commercial
- Slight shift in peak load distribution
- Potential redesigning of tariffs to fixed charges versus volumetric charge to minimize impact of sudden drop-off of demand
- Enhanced network investment to improve residential reliability
- Enhanced technology to enable new data-driven technologies
- Potential for surge in the installation of new solar panels
- Potential de-urbanization could shift demand growth back to the suburbs away from the urban areas.

Summary of Impact to Coverage:

We do not expect a material long-term impact on how power and utility companies operate. Network operators will still recover their investments and a reasonable return on those investments through rates established by regulators. The current mix of power usage is roughly 38% residential, 35% commercial, 25% industrial, and 2% miscellaneous (street lights, etc.). We do not expect industrial load to change much, unless the government adopts a policy of localizing production to de-construct the global supply chain presently in place, in which case industrial load will rise. From our point of view, we believe that the current 25% will remain unchanged. Commercial could see a decline if enough employees worked from home, though we do not expect the numbers to be great. Maybe that leads to 30%-31% commercial share maximum. The residential customer class will likely gain market share lost from commercial, which we believe will be modest. Optimistically, we could see a shift to 42%-43%, up from the 38% cited earlier. Where we expect investors to focus their attention will be on any meaningful geographic shift in the form of de-urbanization. This would lead to a slowdown in electricity and natural gas load growth in urban areas in favor of the suburbs and exurbs. A desire to "enhance" the home could lead to a faster adoption of rooftop solar panel and automated home management hardware and software, which ties in more with Tech or Consumers stocks, less so with Utilities.

Names That Will Be Most POSITIVELY Impacted:

1) **Vistra Energy (VST – Outperform):** If we were to identify any stock that could benefit from a larger work-from-home trend, it would be Vistra Energy. Of the companies that we cover, it has the largest competitive retail business. As the largest player in Texas, VST could seize on the opportunity to deliver more tailored services to residential customers that may require a different bundle of price offerings. Furthermore, it could use its established brand name (TXU Retail in Texas) to enter the rooftop solar market if the opportunity made sense. Higher electricity rates may lead to more favorable economics for rooftop solar panels.
2) **Edison International (EIX – Outperform**): Utilities serving territories with a large white-collar workforce may need to invest in more infrastructure to allow different power usage. This would apply to many of the utilities that we cover. We have selected EIX for two reasons: 1) California has been at the forefront of innovative investments that its tech-savvy customer base can leverage; and 2) if de-urbanization were to occur, with customers moving more to the suburbs, EIX offers the benefits of serving the territories around Los Angeles, but not LA proper.

Names That Will Be Most NEGATIVELY Impacted:

1) **Consolidated Edison (ED – Sector Perform):** We hesitate to label any utility as negatively impacted by a fundamental societal shift of power/gas consumption in the aftermath the COVID-19 pandemic. After all, state commissions design utility rates that allow utilities to recover their investment and cost of capital, even in the face of long-term declining volumes. That being said, New York City could see some exit from white-collar workers. The state does not have a good track record at adjusting to changes in near real time. Such exodus, were it to happen, could offset or even negate the growth that New York City had exhibited in the past couple of decades.

Canadian Contracted IPPs and Chemicals

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Companies Under Coverage:

Canadian Contracted IPPs, Renewables, Energy Retailer: AQN, ATP, BEP, BLX, INE, JE, NPI, PL, RNW, TERP

Canadian Chemicals: CHE.UN, MEOH, SPB

Potential Long-Term Implications

- Social distancing and more people working from home could lead to higher levels of residential energy use (heating and electricity).
- Reduced commercial and industrial electricity demand, which could lead to lower long-term power prices that would negatively impact Canadian IPP's with higher exposure to merchant power prices
- Volatile financial markets could create opportunities for strategic M&A, particularly for companies with a strong balance sheet.
- Less travel and social interactions could extend project development timelines (fewer stakeholder meetings).

Summary of Impact to Coverage:

We expect limited impact to the Canadian Contracted IPPs/Renewable sector due to the contracted nature of the underlying assets and the use of long-term project-level debt (non-recourse, fixed-rate, amortizing over the life of the project). However, we note that Canadian IPPs usually have a small portion of revenue that is exposed to merchant power prices (primarily in the post-contract period). Companies with higher merchant exposure could be impacted negatively by lower long-term power prices. We also believe there could be sector consolidation as companies with strong balance sheets look to capitalize on depressed asset prices.

We expect the longer-term work-from-home and COVID-19 impacts for the Canadian Chemical sector to be more indirectly linked to the changes and pricing dynamics in the oil/gas sector as the companies have exposure to oil refineries, gasoline/biodiesel demand, fracking activity, heating needs, prices of oil-derivatives. Companies with higher exposure to these sectors have the most risk of material losses in demand for their products.

Names That Will Be Most POSITIVELY Impacted:

1) **Superior Plus (SPB – Sector Perform):** More people working-from-home could lead to higher levels of residential energy use (heating and electricity), which would benefit the Energy Distribution business. We estimate that residential propane volumes make up more than half of the company's EBITDA. Superior Plus could also benefit from opportunistic M&A. Potential offsets include relaxed collections and bill deferrals, and lower long-term demand from fracking, negatively impacting the Specialty Chemicals segment.
2) **Brookfield Renewable (BEP – Sector Perform):** With significant liquidity, we believe the company is well positioned to execute on opportunistic investments. Historically, the majority of the company's growth has come from acquisitions, and management continues to see public and private market opportunities (although a number of private transactions coming to market has slowed). In addition, if a trend towards distributed generation (e.g., rooftop solar) gains traction, Brookfield Renewable can leverage their large solar distributed generation portfolio. We note that Brookfield Renewable has some merchant power and foreign currency exposure. However, we believe the company has managed their exposures well.

Names That Will Be Most NEGATIVELY Impacted:

1) **Northland Power (NPI – Sector Perform):** While the vast majority of Northland's revenue streams are contracted under long-term agreements, prolonged periods of low wholesale market prices could negatively impact Northland's revenue at the offshore wind facilities. We also note that Northland has an uncontracted solar facility under construction in Mexico and several early stage offshore wind developments in Asia that could face a longer development process under the current environment.

Commodity Strategy

Global Oil Strategy

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Summary of Impact to Coverage:

The ripple effect of the coronavirus throughout the world has been marked with the greatest degree of oil demand destruction witnessed within our lifetimes. The impact of COVID-19 on the oil market will live on well beyond the passing of the virus. Some of the impact on consumption are transient such as the widespread work from home or shelter in place policies that are augmenting driving patterns. While structural themes remain open ended, the potential for curtailing travel, either from minimizing the commute to work, utilizing technology to supplement the client experience, or even the impact on discretionary ride sharing may have longer-term structural impacts to the oil market.

For starters, 28% of US gasoline demand comes from daily commuting to and from work. This equates to some 2.6 mb/d of domestic gasoline demand. Given that COVID-19 is presenting the nation with the largest work from home experiment in history, to what degree will this shape individual attitudes towards shifting more permanently towards a remote work lifestyle? How much of a hindrance to gasoline is a structural shift towards a greater amount of the population not making a daily commute? There are varying degrees of how bearish working from home is on the oil complex depending on the percentage of individuals looking to structurally do so. For example, a 10% increase to working from home is worth 260 kb/d of gasoline demand permanently being destroyed. The potential for demand lost in such a scenario is material, but not entirely crippling for a total US gasoline market consuming an aggregate 9.3 mb/d.

To be clear, US fuel economy standards are among the world's lowest, stemming from the American love affair with pickup trucks. The Ford F-150 has been the number one selling vehicle in America many years running. And, while policy and regulations play a role in shaping direction and pace of efficiencies, much of the emissions portion rests with oil prices and strength of the US economy given the correlation to consumer spending habits. Under the Obama Administration, the average sales weighted fuel economy of vehicles increased by almost 26% from 2008 through to 2014. The flattening out of fuel economy had less to do with policy and more with collapsing oil prices and a half-decade bull market, sending Americans in droves to buy SUVs and trucks.

Nonetheless, even absent COVID-19, gasoline consumption was already faced with structural headwinds with efficiency gains in the US vehicle fleet. Oil prices are currently trending at multi-decade lows. In a lower for longer environment, it is feasible to see Americans who own internal combustion engine (ICE) vehicles planning to extend the life of the vehicle rather than opting to buy a new car every 11 years as currently is the norm. Consumers may seek to purchase another ICE given cheap pump prices. This of course could re-write how quickly society opts for the electric vehicle model. The auto industry is bound to broad macroeconomic health, and cheap gasoline in a potentially recessionary environment will have consequences for electric vehicle and battery demand in the near term.

In a similar vein to gasoline, we anticipate potential structural changes rippling through the jet fuel portion of the barrel. Business travel currently accounts for 12% of airline passengers. With the growing prominence of working from home and web conferencing amidst the added catalyst of COVID-19, it can be inferred that a varying degree of nonessential business travel could be reduced going forward. The US consumes 1.8 mb/d of jet fuel. Assuming a 1 to 1 relationship between change in passengers and number of flights, assuming a 20% drop in business travel would result in 2.5% fewer flights in the US, which would translate to less than 50 kb/d of jet fuel being curbed.

While many open ended questions remain, the unprecedented pairing of the negative demand shock of COVID-19 as well as the negative supply shock stemming from the Saudi and Russia price war is leading to a monumental degree of barrels piling up in inventory, which will live on long beyond COVID and the price war. A larger degree of inventory barrels available may act to keep a cap on oil prices in a post COVID world. Lower oil prices has a wide ranging implication not just for investment in the oil market, but also the path towards the clean energy sector, technology adaptation, electric vehicle adoption and industrial employment to name a few. COVID aside, the oil industry is facing no shortage of near and medium term headwinds between ESG and climate policy. On the contrary, the current oil price environment is not stimulating global investment in the oil space, meaning that the current downturn could also be planting the seeds for another supply driven bull run in the oil market several years down the road.

For Required Commodity Strategy and MENA Research Disclosures, see page 77.

Natural Gas Demand in the United States

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Commodities Under Coverage:

US Natural Gas, Gold

Potential Long-Term Implications

- Demand and environmental sustainability are a bit of a mixed bag at the outset given the current energy infrastructure and the existing power stack in the United States
- "Work from home" has little direct supply-side implications outside of the potential supply-demand feedback loop
- Industrial demand least directly impacted, but power and residential and commercial demand are likely a different story
- While commercial demand may look most at risk, it's an open question whether the efficiency of co-locating and running shared office equipment, as well as sophisticated energy management in an office are offset by shifting to home
- Weekday power consumption curves during working hours could look more like that seen on the weekend, but it's mixed
- If it's a long-term trend, marginal impacts may be slow moving

Summary of Impact to Coverage:

The primary sources of natural gas demand are for power generation, residential and commercial demand, and industrial demand. Of the three, industrial demand would likely experience the least direct impact from an increasing "work from home" trend as industrial work cannot be done from home. There are however potential direct implications for both power demand for natural gas, and residential and commercial demand, with a number of concurrent and offsetting trends.

If working from home becomes a larger trend, what would it mean for the home and residential energy use? There are two avenues to think about here: power/electricity and residential demand for things like gas-fired heat and home appliances. For both, there are seasonal swings. In fact, summer electricity load is typically the highest and peaks in the afternoon (around 5 or 6pm) as buildings of all stripes utilize air-conditioning (note that 87% of US homes have air conditioning – AC). If people work from home, extended use of AC would increase residential electricity demand, peaks in which are often met with gas fired power. The EIA already projects that delivered energy for AC will increase more than any other use in residential and commercial buildings by 2050. Residential AC energy consumption was already expected to grow 59% between 2019 and 2050 in Btu terms, versus 17% for commercial applications, while floor space for both is projected to grow 33-34% by 2050. Electricity loads tend to be the lowest during the spring and autumn, and during winter months demand is less variable. However, on any given day, mornings and evenings during the week tend to see respective highs. During the summer and winter, energy use rises as users alter their thermostats, use hot water, and use lighting in the morning, and similarly when users get home and once again alter their thermostats and cook meals. What this means for power demand is higher residential demand on weekdays and perhaps a more weekend-shaped demand curve on any given workday. If users stay home during the day, residential demand for natural gas and electricity (gas-fired) would extend in some capacity throughout the day as space heating, air conditioning, office equipment, etc. would all be used.

What would it mean for the commercial energy use? If commercial space were to go vacant, then it clearly would decline and could offset increases in residential usage as much of the lower power demand on weekend comes from commercial usage going offline. Yet if commercial space were repurposed, it would be less so. If "work from home" gains traction, the bigger question for natural gas may be around efficiency. Energy management systems in commercial buildings tend to be far more complex than those used in private homes. For example, temperature during closed hours is often more tightly regulated in a commercial setting than is often the case in one's private home (outside of the growth in smart home thermostats and the like). Additionally, it is an open question of whether the efficiency of running shared office equipment (i.e. printers, etc.) and shared space versus distributed office equipment and appliances at home would outweigh each other. Even if office equipment is more energy intensive than home office equipment, a more robust home office setup and the lack of shared equipment may offset efficiency gains per unit of equipment as employees are no longer co-located.

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Structurally for the power sector, demand for natural gas is more determined by weather, the peak in energy usage on any given day, and month, and the structural shifts in the power stack. Thus the question for natural gas, at least when holding weather and the structural change in the power stack constant, is how the peak in energy usage changes and whether natural gas is the choice to deliver that power demand. That perhaps is outside the scope of a "future of work" analysis, but would be an important and relevant theme for the space.

There are several other wrinkles too. Putting aside global differences in power consumption patterns and fuel sources outside the scope of US gas, there are regional differences within the US around residential energy consumption by fuel type, climate, and general energy intensity that could impact the balance depending on which types of jobs are done outside of an office setting and where. Additionally, there may be an energy equity issue when it comes to working from home. According to the EIA, one in three households face a challenge in meeting energy needs, a problem which could be exasperated if energy costs rise due to working from home, thus there could be additional inequity for those facing energy insecurity if more workers are pushed to work from home, depending on their industry and nature of their work. Overall, the extent to which the nature of work changes matters given the offsetting and concurrent trends for US natural gas.

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Abcam PLC (LSE: ABC LN; GBp1,304.00; Outperform)
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Enghouse Systems Limited (TSX: ENGH CN; C$67.86; Outperform)
Enquest PLC (LSE: ENQ LN; GBp13.96; Underperform; Speculative Risk)
Enterprise Products Partners L.P. (NYSE: EPD US; $19.23; Outperform)
Eventbrite, Inc. (NYSE: EB US; $10.22; Sector Perform)
Expedia Group, Inc. (NASDAQ: EXPE US; $77.73; Outperform)
Extraction Oil & Gas, Inc. (NASDAQ: XOG US; $0.58; Sector Perform)
Exxon Mobil Corporation (NYSE: XOM US; $46.18; Underperform)
Fidelity National Information Services, Inc. (NYSE: FIS US; $134.23; Outperform)
Five Below, Inc. (NASDAQ: FIVE US; $106.40; Outperform)
Flight Centre Travel Group Limited (ASX: FLT AU; AUD14.30; Sector Perform)
Ford Motor Company (NYSE: F US; $6.13; Sector Perform)
Fortive Corporation (NYSE: FTV US; $62.85; Sector Perform)
Fortune Brands Home & Security, Inc. (NYSE: FBHS US; $57.62; Outperform)
Foundation Building Materials, Inc. (NYSE: FBM US; $14.67; Sector Perform)
Franco-Nevada Corporation (NYSE: FNV US; $130.29; Sector Perform)
Fraport AG Frankfurt Airport Services Worldwide (XETRA: FRA GR; €42.28; Underperform)
Freeport-McMoRan Inc. (NYSE: FCX US; $9.91; Sector Perform)
Galapagos NV (NASDAQ: GLPG US; $193.68; Sector Perform)
Gates Industrial Corporation plc (NYSE: GTES US; $10.28; Sector Perform)
GDS Holdings Limited (NASDAQ: GDS US; $63.96; Outperform)
GEA Group Aktiengesellschaft (XETRA: G1A GR; €26.51; Sector Perform)
General Electric Company (NYSE: GE US; $6.95; Outperform)
General Motors Company (NYSE: GM US; $26.50; Outperform)
Gibson Energy Inc. (TSX: GEI CN; C$20.37; Outperform)
Gilead Sciences, Inc. (NASDAQ: GILD US; $72.84; Outperform)
GMS Inc. (NYSE: GMS US; $21.79; Sector Perform)
GoDaddy Inc. (NYSE: GDDY US; $75.27; Outperform)

Great Portland Estates P L C (LSE: GPOR LN; GBp625.00; Underperform)
Hammerson PLC (LSE: HMSO LN; GBp112.00; Sector Perform)
Hastings Group Holdings PLC (LSE: HSTG LN; GBp181.80; Underperform)
HCA Healthcare, Inc. (NYSE: HCA US; $101.11; Outperform)
Healthcare Services Group, Inc. (NASDAQ: HCSG US; $24.18; Sector Perform)
Helloworld Travel Limited (ASX: HLO AU; AUD2.85; Sector Perform)
Henkel AG & Co. KGaA (XETRA: HEN3 GR; €81.92; Outperform)
Homology Medicines Inc (NASDAQ: FIXX US; $14.61; Outperform; Speculative Risk)
Honeywell International Inc. (NYSE: HON US; $143.44; Outperform)
HSBC Holdings plc (LSE: HSBA LN; GBp376.25; Underperform)
Hunting PLC (LSE: HTG LN; GBp199.00; Outperform)
IG Group Holdings PLC (LSE: IGG LN; GBp781.00; Outperform; Speculative Risk)
IHS Markit Ltd. (NYSE: INFO US; $69.26; Outperform)
Inditex (SIBE: ITX SM; €24.79; Outperform)
ING Groep N.V. (NXT AM: INGA NA; €6.28; Outperform)
Inovio Pharmaceuticals, Inc. (NASDAQ: INO US; $12.18; Sector Perform; Speculative Risk)
Intel Corporation (NASDAQ: INTC US; $59.70; Underperform)
Intercept Pharmaceuticals, Inc. (NASDAQ: ICPT US; $73.19; Outperform)
InterContinental Hotels Group PLC (LSE: IHG LN; GBp3,787.00; Outperform)
Inter Pipeline Ltd. (TSX: IPL CN; C$12.04; Sector Perform)
Ionis Pharmaceuticals, Inc. (NASDAQ: IONS US; $56.51; Outperform)
Iterum Therapeutics plc (NASDAQ: ITRM US; $1.45; Sector Perform; Speculative Risk)
IWG PLC (LSE: IWG LN; GBp266.80; Sector Perform)
Jamieson Wellness Inc. (TSX: JWEL CN; C$32.94; Outperform)
Johnson Controls International plc (NYSE: JCI US; $33.62; Sector Perform)
John Wood Group P.L.C. (LSE: WG/ LN; GBp195.50; Outperform)
JPMorgan Chase & Co. (NYSE: JPM US; $97.21; Outperform)
Just Eat Takeaway.com N.V. (LSE: JET LN; GBp7,392.00; Sector Perform)
Just Group PLC (LSE: JUST LN; GBp56.45; Outperform)
Keyera Corp. (TSX: KEY CN; C$20.16; Outperform)
Kinsale Capital Group Inc (NASDAQ: KNSL US; $151.38; Outperform)
Kirkland Lake Gold Ltd. (NYSE: KL US; $37.32; Outperform)
L3Harris Technologies, Inc. (NYSE: LHX US; $196.51; Outperform)
Lear Corporation (NYSE: LEA US; $107.34; Outperform)
Legal & General Group PLC (LSE: LGEN LN; GBp224.00; Outperform)
Lowe's Companies, Inc. (NYSE: LOW US; $123.94; Outperform)
lululemon athletica inc. (NASDAQ: LULU US; $308.12; Outperform)
Lundin Energy AB (STO: LUNE SS; SEK215.40; Sector Perform)
Lundin Mining Corporation (TSX: LUN CN; C$6.50; Outperform)
LVMH Moet Hennessy-Louis Vuitton SE (NXT PA: MC FP; €375.10; Outperform)
M&G PLC (LSE: MNG LN; GBp152.30; Outperform)
Macquarie Infrastructure Corporation (NYSE: MIC US; $29.14; Sector Perform)
Magellan Midstream Partners, L.P. (NYSE: MMP US; $42.62; Outperform)
Markel Corporation (NYSE: MKL US; $929.80; Outperform)
Marsh & McLennan Companies, Inc. (NYSE: MMC US; $104.23; Outperform)
Masco Corporation (NYSE: MAS US; $45.53; Outperform)
Mastercard Incorporated (NYSE: MA US; $291.25; Outperform)
Maxim Integrated Products, Inc. (NASDAQ: MXIM US; $57.06; Sector Perform)
McDonald's Corporation (NYSE: MCD US; $187.51; Outperform)
Megaport Limited (ASX: MP1 AU; AUD14.22; Outperform; Speculative Risk)
Melrose Industries PLC (LSE: MRO LN; GBp111.15; Outperform)
Mid-America Apartment Communities, Inc. (NYSE: MAA US; $115.46; Outperform)
MTY Food Group Inc. (TSX: MTY CN; C$27.49; Sector Perform)

Mullen Group Ltd. (TSX: MTL CN; C$6.20; Sector Perform)
Munich Reinsurance Co. (XETRA: MUV2 GR; €224.20; Outperform)
National Grid PLC (LSE: NG/ LN; GBp905.80; Outperform)
National Instruments Corporation (NASDAQ: NATI US; $38.07; Sector Perform)
Naturgy Energy Group SA (MADRID: NTGY SM; €16.43; Underperform)
Navistar International Corporation (NYSE: NAV US; $26.04; Sector Perform)
NCR Corporation (NYSE: NCR US; $17.73; Outperform)
Nestle S.A. (SWX: NESN SW; CHF103.50; Underperform)
Newmont Corporation (NYSE: NEM US; $56.04; Sector Perform)
NEXTDC Limited (ASX: NXT AU; AUD8.92; Outperform)
Northland Power Inc. (TSX: NPI CN; C$31.39; Sector Perform)
Northrop Grumman Corporation (NYSE: NOC US; $320.99; Sector Perform)
NVIDIA Corporation (NASDAQ: NVDA US; $351.85; Outperform)
Oasis Petroleum Inc. (NYSE: OAS US; $0.98; Sector Perform)
Ocado Group PLC (LSE: OCDO LN; GBp1,960.00; Sector Perform)
Ollie's Bargain Outlet Holdings, Inc. (NASDAQ: OLLI US; $90.74; Outperform)
Oracle Corporation (NYSE: ORCL US; $51.31; Sector Perform)
Orsted A/S (CSE: ORSTED DC; DKK746.00; Outperform)
PACCAR Inc (NASDAQ: PCAR US; $72.58; Sector Perform)
PANDORA (CSE: PNDORA DC; DKK341.00; Underperform)
Parex Resources Inc. (TSX: PXT CN; C$15.57; Outperform)
Par Pacific Holdings, Inc. (NYSE: PARR US; $8.72; Sector Perform)
PayPal Holdings, Inc. (NASDAQ: PYPL US; $153.04; Outperform)
PBF Energy Inc. (NYSE: PBF US; $11.08; Sector Perform)
Pembina Pipeline Corporation (TSX: PPL CN; C$33.07; Outperform)
Perrigo Company Public Limited Company (NYSE: PRGO US; $51.22; Outperform)
Petrofac Limited (LSE: PFC LN; GBp197.00; Sector Perform)
Pfizer Inc. (NYSE: PFE US; $33.30; Outperform)
Phillips 66 (NYSE: PSX US; $75.00; Outperform)
Phoenix Group Holdings (LSE: PHNX LN; GBp641.20; Outperform)
Plains All American Pipeline, L.P. (NYSE: PAA US; $9.74; Sector Perform)
Prologis, Inc. (NYSE: PLD US; $90.91; Outperform)
Provident Financial PLC (LSE: PFG LN; GBp195.20; Sector Perform)
Pushpay Holdings Limited (ASX: PPH AU; AUD6.80; Outperform)
PVH Corp. (NYSE: PVH US; $52.72; Sector Perform)
QTS Realty Trust, Inc. (NYSE: QTS US; $61.54; Outperform)
Quebecor Inc. (TSX: QBR/B CN; C$29.47; Outperform)
Ralph Lauren Corporation (NYSE: RL US; $74.03; Sector Perform)
Randstad N.V. (NXT AM: RAND NA; €38.04; Outperform)
Rathbone Brothers PLC (LSE: RAT LN; GBp1,408.00; Outperform)
RATIONAL AG (XETRA: RAA GY; €492.20; Underperform)
Raytheon Technologies Corporation (NYSE: RTX US; $62.85; Outperform)
Recipe Unlimited Corp (TSX: RECP CN; C$10.25; Sector Perform)
Reckitt Benckiser Group PLC (LSE: RB/ LN; GBp6,940.00; Underperform)
Regency Centers Corporation (NYSE: REG US; $44.72; Outperform)
Regeneron Pharmaceuticals, Inc. (NASDAQ: REGN US; $596.16; Sector Perform)
Rentokil Initial plc (LSE: RTO LN; GBp489.30; Outperform)
Resolute Forest Products Inc. (NYSE: RFP US; $1.92; Sector Perform)
Retail Opportunity Investments Corp. (NASDAQ: ROIC US; $10.50; Outperform)
Rightmove plc (LSE: RMV LN; GBp568.40; Underperform)
Rio Tinto PLC (LSE: RIO LN; GBp4,495.00; Underperform)
RLI Corp. (NYSE: RLI US; $79.41; Sector Perform)
Rogers Communications Inc. (TSX: RCI/B CN; C$58.41; Outperform)

Rollins, Inc. (NYSE: ROL US; $42.03; Sector Perform)
Ross Stores, Inc. (NASDAQ: ROST US; $94.37; Outperform)
Royal Dutch Shell PLC (LSE: RDSB LN; GBp1,279.80; Outperform)
Royal Gold, Inc. (NASDAQ: RGLD US; $122.19; Sector Perform)
RPM International Inc. (NYSE: RPM US; $71.84; Outperform)
SailPoint Technologies Holdings, Inc. (NYSE: SAIL US; $22.24; Outperform)
SAP SE (NYSE: SAP US; $129.50; Sector Perform)
SBA Communications Corporation (NASDAQ: SBAC US; $290.00; Outperform)
Scout24 AG (XETRA: G24 GR; €67.45; Sector Perform)
SeaLink Travel Group Ltd (ASX: SLK AU; AUD4.52; Outperform)
Segro Public Limited Company (LSE: SGRO LN; GBp853.20; Underperform)
Semtech Corporation (NASDAQ: SMTC US; $49.65; Outperform)
Sensata Technologies Holding plc (NYSE: ST US; $36.31; Outperform)
ServiceMaster Global Holdings, Inc. (NYSE: SERV US; $36.00; Outperform)
Shaw Communications Inc. (TSX: SJR/B CN; C$22.61; Outperform)
Shelf Drilling, Ltd. (OSLO: SHLF NO; NOK3.58; Sector Perform; Speculative Risk)
Shopify Inc. (NYSE: SHOP US; $725.12; Outperform)
Siemens AG (XETRA: SIE GR; €97.84; Outperform)
Siemens Healthineers AG (XETRA: SHL GR; €42.30; Sector Perform)
Silgan Holdings Inc. (NASDAQ: SLGN US; $31.49; Outperform)
Sodexo SA (NXT PA: SW FP; €62.20; Underperform)
Spin Master Corp. (TSX: TOY CN; C$20.12; Sector Perform)
Spire Healthcare Group PLC (LSE: SPI LN; GBp90.00; Sector Perform; Speculative Risk)
Splunk Inc. (NASDAQ: SPLK US; $173.74; Outperform)
St. James's Place plc (LSE: STJ LN; GBp914.80; Sector Perform)
Standard Life Aberdeen PLC (LSE: SLA LN; GBp250.20; Underperform)
Suncor Energy Inc. (TSX: SU CN; C$24.22; Outperform)
Sunoco LP (NYSE: SUN US; $24.21; Outperform)
Superior Plus Corp. (TSX: SPB CN; C$10.29; Sector Perform)
Surgery Partners, Inc. (NASDAQ: SGRY US; $11.35; Outperform)
Swiss Re AG (SWX: SREN SW; CHF73.38; Outperform)
Synopsys, Inc. (NASDAQ: SNPS US; $179.52; Outperform)
Synovus Financial Corp. (NYSE: SNV US; $20.46; Sector Perform)
TC Energy Corporation (TSX: TRP CN; C$58.16; Outperform)
TeamViewer AG (XETRA: TMV GR; €42.22; Outperform)
Teck Resources Limited (TSX: TECK/B CN; C$13.56; Outperform)
TE Connectivity Ltd. (NYSE: TEL US; $78.87; Outperform)
Teladoc Health, Inc. (NYSE: TDOC US; $173.73; Outperform)
TELUS Corporation (TSX: T CN; C$23.03; Outperform)
Teradata Corporation (NYSE: TDC US; $21.26; Sector Perform)
Tesla, Inc. (NASDAQ: TSLA US; $972.84; Underperform)
Texas Instruments Incorporated (NASDAQ: TXN US; $124.61; Sector Perform)
Texas Roadhouse, Inc. (NASDAQ: TXRH US; $49.95; Sector Perform)
The Boeing Company (NYSE: BA US; $170.00; Outperform)
The Clorox Company (NYSE: CLX US; $204.93; Sector Perform)
The Estée Lauder Companies Inc. (NYSE: EL US; $189.20; Sector Perform)
The Home Depot, Inc. (NYSE: HD US; $239.47; Outperform)
The Manitowoc Company, Inc. (NYSE: MTW US; $10.66; Sector Perform)
The TJX Companies, Inc. (NYSE: TJX US; $52.66; Outperform)
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Tikehau Capital SCA (NXT PA: TKO FP; €23.80; Outperform)
Toll Brothers, Inc. (NYSE: TOL US; $30.50; Outperform)
Total SA (NXT PA: FP FP; €34.73; Outperform)

Trane Technologies Public Limited Company (NYSE: TT US; $89.77; Sector Perform)
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Tritax Big Box REIT plc (LSE: BBOX LN; GBp134.50; Outperform)
Tullow Oil plc (LSE: TLW LN; GBp31.94; Underperform; Speculative Risk)
Turquoise Hill Resources Ltd. (NYSE: TRQ US; $0.63; Sector Perform)
Uniper SE (XETRA: UN01 GR; €27.22; Underperform)
Uniphar PLC (ISE: UPR ID; €1.79; Outperform)
UnitedHealth Group Inc. (NYSE: UNH US; $283.73; Outperform)
Valero Energy Corporation (NYSE: VLO US; $60.68; Outperform)
Verisk Analytics, Inc. (NASDAQ: VRSK US; $162.69; Sector Perform)
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Visteon Corporation (NASDAQ: VC US; $69.82; Outperform)
Vistra Energy Corp. (NYSE: VST US; $19.75; Outperform)
Vocera Communications, Inc. (NYSE: VCRA US; $19.95; Sector Perform)
Volkswagen AG (XETRA: VOW3 GR; €132.16; Outperform)
W. R. Berkley Corporation (NYSE: WRB US; $56.05; Outperform)
Waddell & Reed Financial, Inc. (NYSE: WDR US; $14.46; Underperform)
Walmart Inc. (NYSE: WMT US; $120.09; Sector Perform)
Warehouse Reit PLC (LSE: WHR LN; GBp110.00; Outperform)
Webjet Limited (ASX: WEB AU; AUD3.95; Outperform)
Wells Fargo & Company (NYSE: WFC US; $26.79; Underperform)
Western Digital Corporation (NASDAQ: WDC US; $42.35; Outperform)
Whitbread PLC (LSE: WTB LN; GBp2,303.00; Underperform)
Wix.com Ltd (NASDAQ: WIX US; $215.91; Outperform)
Zalando SE (XETRA: ZAL GR; €62.58; Outperform)
Zoom Video Communications, Inc. (NASDAQ: ZM US; $222.07; Outperform)

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