What happens next?
Inferences from analyst earnings forecasts and share prices

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Agenda

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- ❑ Introduction
- ❑ Method
  - Timeline
  - Measurement – share price return and earnings yield
  - Data
- ❑ Results
  - Baseline expectations
  - Always online retail
  - Disaggregated workforce
  - Health: Prosperity for life sciences and health insurers
  - Experience: Back in business
- ❑ Conclusion

Introduction

- ❑ COVID-19 impact on health, employment and small business unambiguously negative
- ❑ Share market at an all-time high. Why? Industry composition
- ❑ COVID-19 is a catalyst for long-lived change in selected industries
- ❑ Inferences based upon changes in earnings expectations and share prices from pre-pandemic to current state of play
  - Retail: Always online retail
  - Workplace: Disaggregated workforce
  - Health: Life sciences and health insurers prosper
  - Experience companies (travel, entertainment) back to business

Timeline

Event	Date	S&P 1500	Change
WHO report	December 31, 2019	741	
S&P 1500 falls below base	February 24, 2020	738	-0%
S&P 1500 trough	March 23, 2020	506	-31%
Start current state of play	September 2, 2020	810	+9%
Pre-Pfizer vaccine	November 6, 2020	796	+7%
Pfizer vaccine	November 9, 2020	807	+9%
End current state of play	November 25, 2020	828	+12%

Data

- 555 securities from S&P 1500 index
- Individual analyst EPS forecast released by the same analyst in 4 periods from pre-pandemic to current state of play
- GICS industries with adjustments used to split into 61 industries
- Earnings yield = FY2022 EPS/Pre-pandemic share price
- Median EY fell from 6.9% to 6.2% over 11 months.
- Top quartile of stocks had upward EPS revisions
- 50% of stocks had share price movements of -25% to +22%

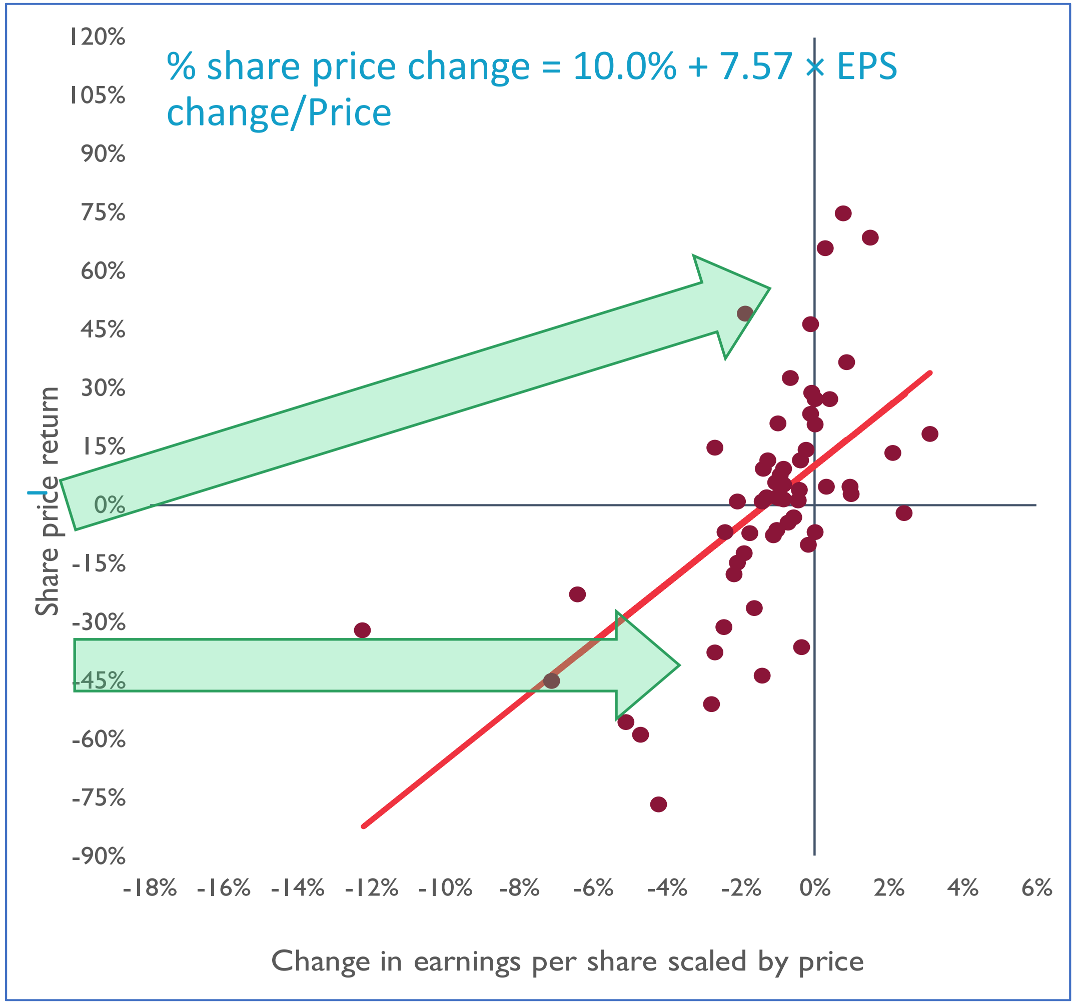
Item	EY0	EY1	EY2	EY3	Chg EY0-3	Return
Average	7.6	6.5	5.8	6.3	-1.3	1.5
25^{th} percentile	4.8	4.4	3.8	3.9	-2.2	-24.8
Median	6.9	6.3	5.9	6.2	-0.6	-0.3
75^{th} percentile	9.6	8.8	8.2	8.6	0.2	21.8

EY0: the pre-pandemic period.
EY1: December 31, 2019 to March 23, 2020 (the bottom of the market).
EY2: March 24, 2020 to September 1, 2020 (just before the start of current state of play).
EY3: September 2, 2020 to November 2020 (the current state of play).
Chg EY0-3: change in earnings yield from the pre-pandemic period to the current state of play.
Return: % change in share price from the pre-pandemic period to the current state of play.

Baseline expectations

- Each data point represents an industry average change in FY2022 EPS/Pre-pandemic price versus % change in share price
- Line of best fit = normal return associated with earnings revision

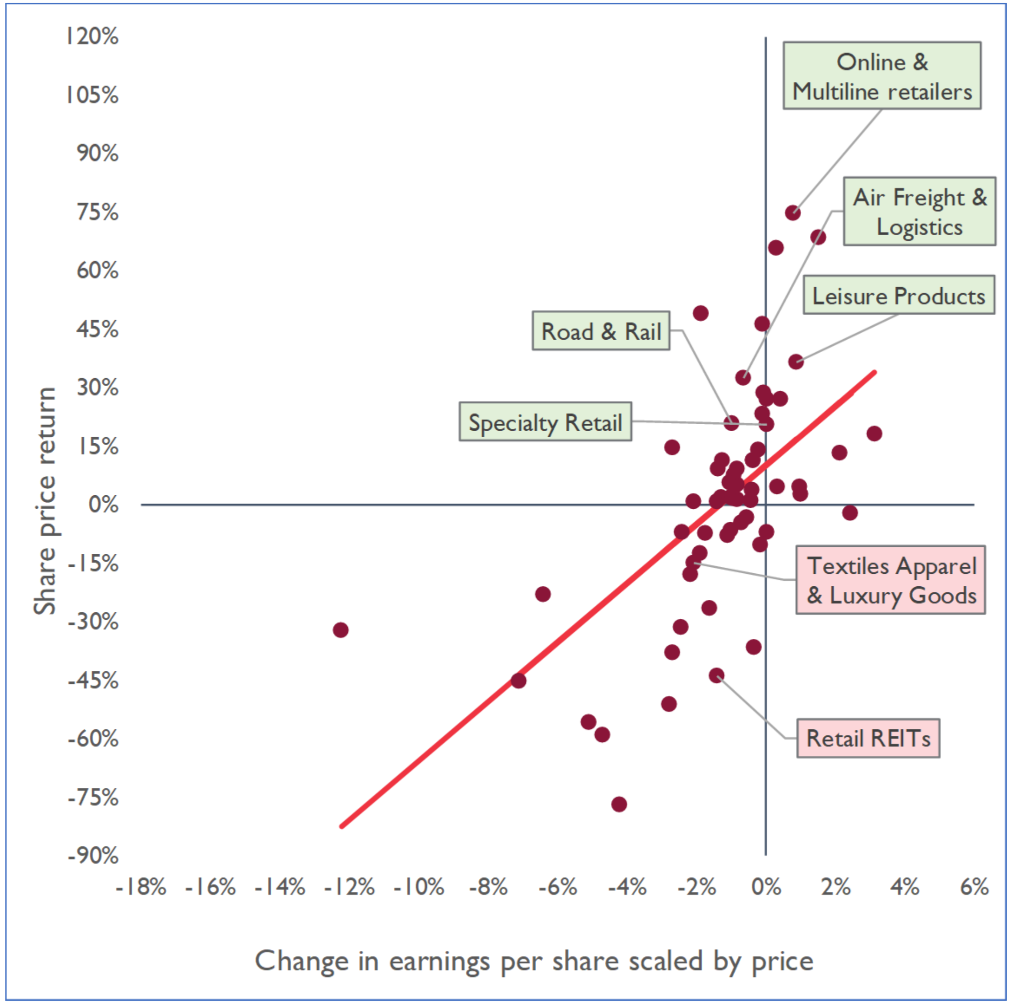
EPS change	Abnormal return	Inference
+ or low −	+	Catalyst for long-term positive earnings boost
− or low +	−	Catalyst for long-term negative earnings impact
+	−	Business as usual post-pandemic
−	+	



Always online retail

- Q3 Cal 2020 e-commerce sales = $210 b (14% of $1.47 billion total retail) up from $160 billion in Q1 Cal 2020 (12% of $1.36 billion total retail
- Online & Multiline retailers abnormal returns = 75% (Etsy 166%, Target 102%, GrubHub 103%)
- Air Freight & Logistics abnormal returns = 27% (FedEx 48%, UPS 24%, Hub Group 34%)
- Retail REITs abnormal returns = -43%

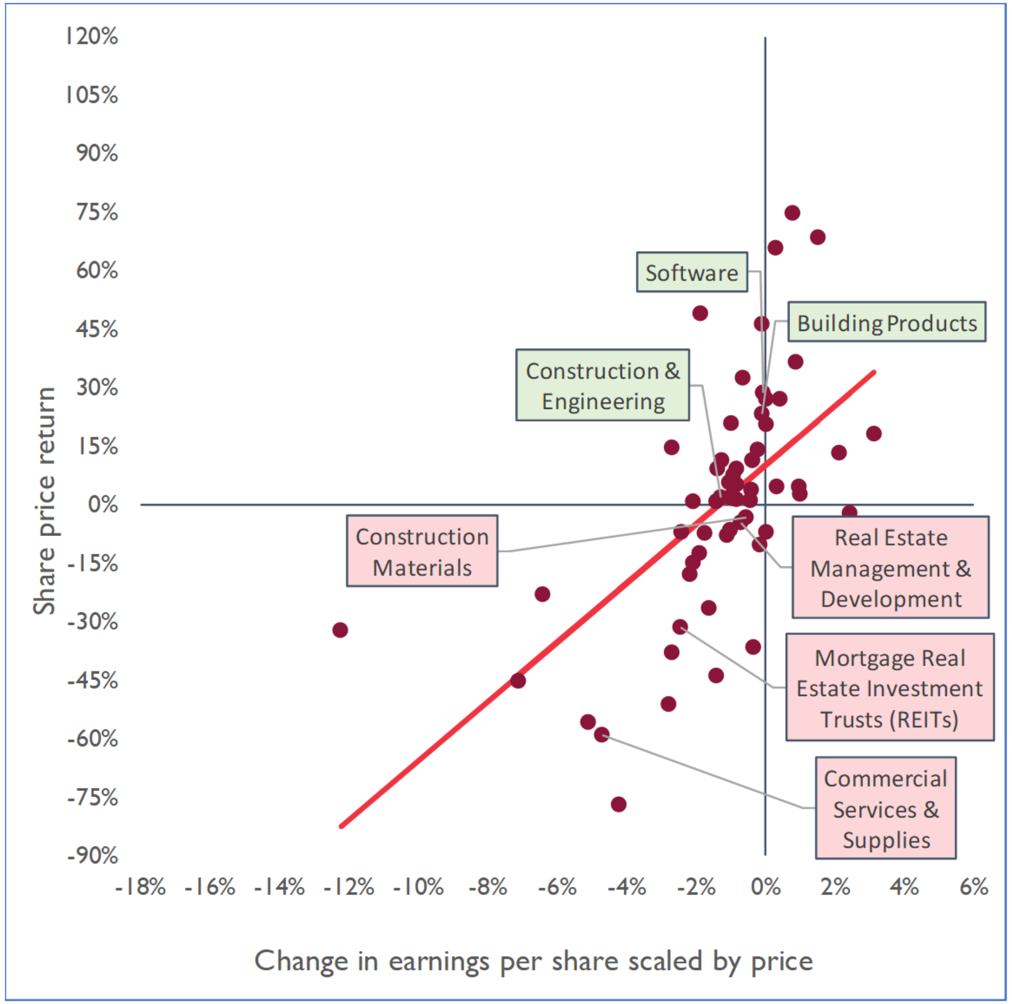
Industry	N	EY0	EY3	Chg EY 0-3	Return	Norm return	Abnormal ret
Online & Multiline retailers	8	6.6	7.5	0.8	74.6	16.2	58.4
Air Freight & Logistics	6	8.4	7.8	-0.6	32.5	5.3	27.2
Leisure Products	3	9.0	9.9	0.9	36.4	16.7	19.6
Road & Rail	5	7.5	6.5	-1.0	20.8	2.6	18.2
Specialty Retail	20	10.7	10.7	0.0	20.6	10.2	10.4
Textiles Apparel & Luxury	10	7.8	5.7	-2.1	-14.9	-5.6	-9.3
Retail REITs	9	2.9	1.5	-1.4	-43.9	-0.5	-43.4



Disaggregated workforce

- What helps? Frequent communication, direct & indirect, spontaneous
- But do we need the office so much? We are learning to communicate with other tools.
- Half of white-collar workers will work from home 2 days per week and desk space will decline to 35% of lettable space (down from 55%) – QIC
- Mortgage REITs abnormal returns = -33%

Industry	N	EY0	EY3	Chg EY 0-3	Return	Norm return	Abnormal ret
Software	11	4.1	4.0	-0.1	28.6	9.5	19.1
Building Products	7	6.8	6.7	-0.1	23.1	9.3	13.8
Construction & Engineering	3	8.7	7.5	-1.3	1.8	0.4	1.4
Construction Materials	3	6.3	5.8	-0.5	-3.2	6.0	-9.2
Real Estate Mgmt & Dev	2	8.1	7.4	-0.7	-4.6	8.4	-9.3
Mortgage REITs	3	9.4	7.0	-2.4	-31.4	-8.5	-22.9
Commercial Services & Supplies	1	11.9	7.2	-4.7	-59.1	-25.4	-33.7

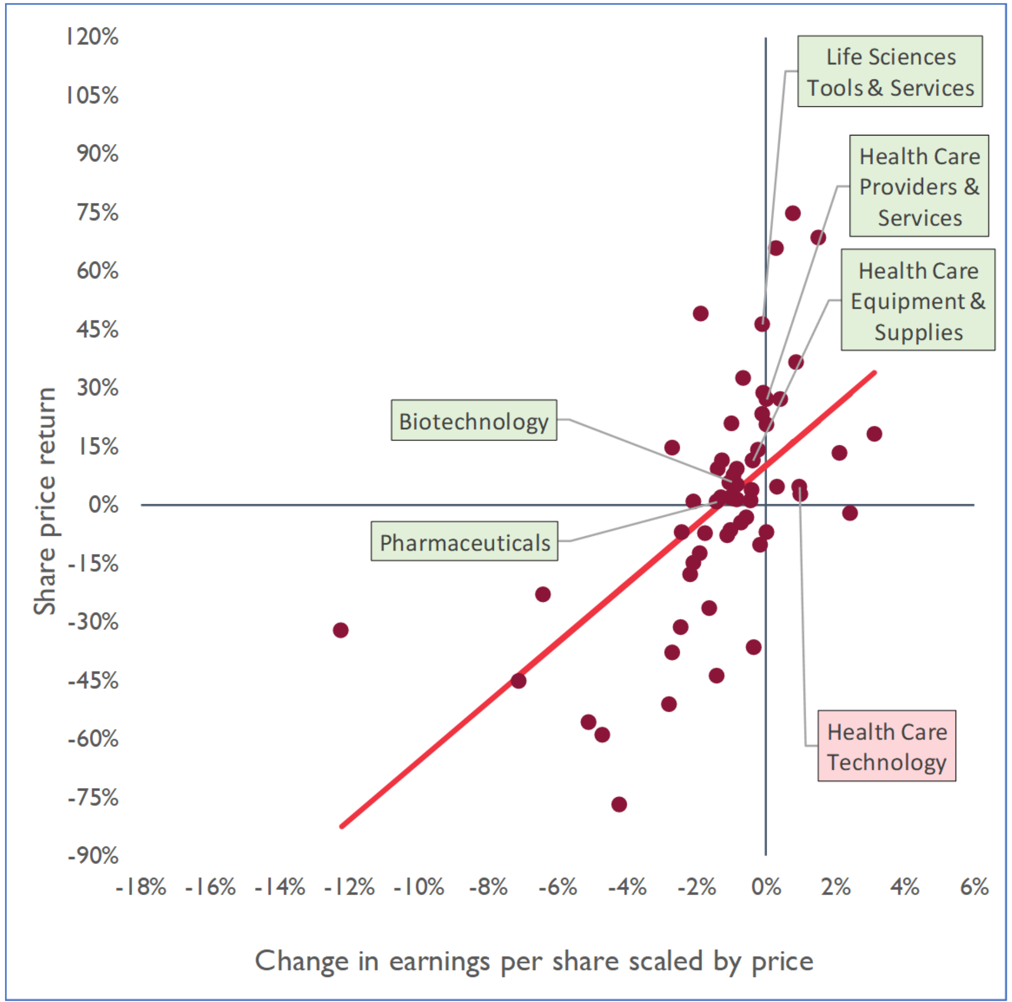


Results: Disaggregated workforce

Health: Life sciences & health insurers prosper

- Life sciences: biologic development pipeline, gene and cell therapy and COVID-19 vaccines & therapeutics
- Health insurers: Telehealth, driven by push from physicians
- Healthcare is expensive and inefficient
  - U.S. health spend = 17.0% of GDP and $11,000 per person (highest in the OECD) vs $5,000 in Canada, $5,000 in the U.K. and $6,000 in Australia
  - Yet avoidable mortality is 262 per 100,000 people vs 176 in Canada, 189 in the U.K. and 208 in Australia – OECD

Industry	N	EY0	EY3	Chg EY 0-3	Return	Norm return	Abnormal ret
Life Sciences Tools & Services	8	5.2	5.1	-0.1	46.2	9.4	36.8
Health Care Providers & Svcs	16	10.1	10.2	0.0	26.9	10.4	16.5
Health Care Equip & Supplies	30	4.5	4.1	-0.4	11.3	7.2	4.1
Biotechnology	20	4.3	3.4	-1.0	5.9	2.7	3.2
Pharmaceuticals	17	12.1	10.7	-1.4	0.8	-0.5	1.3
Health Care Technology	2	7.8	8.7	1.0	4.7	17.4	-12.8

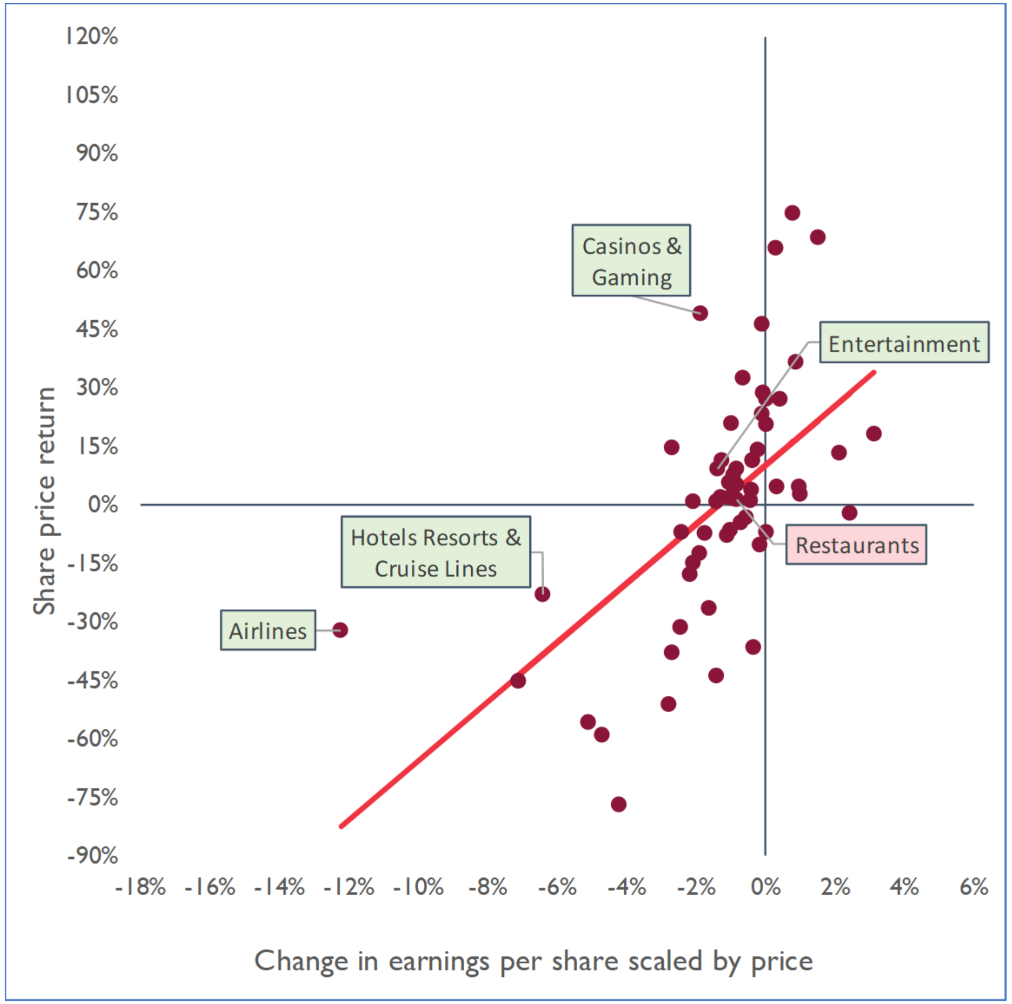


Results: Health – Life sciences and health insurers prosper

Experience: Back in business

- Airlines and Hotels, Resorts & Cruise Lines
  - Massive downward reductions in earnings yields
  - But share prices suggest this is temporary
  - Airlines: Revenue back to 2019 levels by 2023 – Deutsche Bank; Abnormal returns = 50%
  - Abnormal returns = 15%
  - Cruise lines: Back to normal by 2022 – Deutsche Bank
- Casinos & Gaming
  - Sports betting to drive revenue
  - Abnormal returns = 53%

Industry	N	EY0	EY3	Chg EY 0-3	Return	Norm return	Abnormal ret
Casinos & Gaming	3	9.1	7.2	-1.8	48.9	-4.0	52.8
Airlines	8	14.0	1.8	-12.2	-32.2	-82.4	50.2
Hotels, Resorts & Cruise Lines	8	10.9	4.5	-6.4	-23.0	-38.3	15.4
Entertainment	8	5.6	4.2	-1.4	9.1	-0.3	9.4
Restaurants	15	4.8	4.0	-0.8	1.4	3.9	-2.5



Conclusion

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- Always online retail
  - COVID-19 is a catalyst for an even faster transition to online retail.
  - Average abnormal return to 8 Online & Multiline Retailers is 58% vs earnings expectations up just 0.8%.
  - Retail REITs had abnormal returns of -43% in response to a 1.4% fall in earnings expectations.
- Disaggregated workforce
  - Substantial price falls for securities exposed to commercial office space: Commercial Services & Supplies, Mortgage REITs and Real Estate Management & Development.
  - Of the 18 companies classified as Software and Building Products, 15 had positive abnormal returns.
- Health
  - Life sciences companies benefit from recognition that transformative medical breakthroughs can happen fast.
  - Health insurers benefit from efficiencies in delivery of health services. In-person treatment for routine matters is expensive and inefficient.
- Experience
  - In-person entertainment spending is simply on pause.
  - Expect planes, cruise ships and hotels to be at regular occupancy by 2023.
  - Even cruise lines – arguably the single most exposed industry to COVID-19 & bleeding red ink – have only lost around 60% of equity value on earnings reductions which are around 11% of pre-crisis share price.