

WESTPEAK RESEARCH ASSOCIATION

Cascades Inc. (TSX: CAS)

Consumer Goods - Paper Products

Upgrade with Cascades

February 25, 2021

Cascades Inc. ("CAS") is a paper and packaging manufacturing company with multinational operations in Canada, the United States, and Europe. The Company operates in four primary segments: Containerboard, Boxboard Europe, Specialty Products, and Tissue Paper. Headquartered in Quebec, Canada, the company consists of 90 operating facilities with over 12,300 employees.

Thesis

We believe that Cascades Inc. will continue to grow through sustained competitive advantage within the paper and packaging industry effectively differentiating their brand as the environmentally conscious manufacturer. Further, the Company continues to acquire smaller entities such as Reno de Medici (RDM), in line with management's aim to continue expansion into the United States as well as the European Boxboard market.

Drivers

The increasing growth of e-commerce as a result of Covid-19 provides Cascades with an opportunity to expand packaging product offerings. Following the pandemic, economic activity within businesses, workplaces, and the hospitality industry will increase the need for Away from Home (AfH) products, driving demand for products within the Tissue Papers segment.

Valuation

We initiate a BUY rating on Cascades Inc. Our target share price is \$20.00 based on our EV/EBITDA Exit Multiple and the Perpetuity Growth Multiple from our Discounted Cash Flow Analysis as well as the PE/EBITDA and the EV/EBITDA Multiple from our Company Comparables Analysis, all weighted at 25%.

Analyst: Gurnoor Kaur Minhas, BCom. '23
contact@westpeakresearch.com

Equity Research Canada

Price Target	CAD\$ 20.00
Rating	Buy
Share Price (Feb. 24 Close)	CAD\$ 16.25
Total Return	23.1%

Key Statistics

52 Week H/L	\$17.62/\$9.94
Market Capitalization	\$1.45B
Average Daily Trading Volume	\$290,000
Net Debt	\$2,209M
Enterprise Value	\$3,671M
Net Debt/EBITDA	5.0x
Diluted Shares Outstanding	102.4M
Free Float	82%
Dividend Yield	0.00%

WestPeak's Forecast

	<u>2020E</u>	<u>2021E</u>	<u>2022E</u>
Revenue	\$5.13B	\$5.46B	\$5.68B
EBITDA	\$626M	\$590M	\$585M
Net Income	\$153M	\$129M	\$126M
EPS	\$1.59	\$1.35	\$1.31
P/E	9.3x	12.5x	12.8x
EV/EBITDA	5.5x	6.0x	5.9x

1-Year Price Performance



Business Overview & Fundamentals

Company Overview

Cascades Inc. is a paper and packaging company that produces, converts, and sells packaging and tissue products composed primarily of recycled fibers. With 77% of the manufacturing waste reused in production during 2019, Cascades' main point of difference is their commitment to the environment. Based in Quebec, Canada, Cascades has grown to become a multinational producer, operating across North America and Europe. The Company currently has 91 facilities with 12,300 employees in 6 countries (Canada, the United States, Spain, Italy, France, and Germany).

Exhibit 1: Cascades North American Facilities (Source: Company Investor Kit)



Other than sales directly to consumers, the Corporation is also involved in various agreements with joint-venture partners. Many of these partners are affiliated with the supply of raw material including recycled paper, virgin pulp, and energy. The Corporation currently operates four business segments: Containerboard, Boxboard Europe, Specialty Products, and Tissue Paper, as seen in Exhibit 2. In 2019, sales increased by \$347M, or 7%, to \$4,996 million, compared to \$4,649M in 2018. This reflects business acquisitions and higher selling prices mostly in the Tissue Papers segment. Of the four revenue segments, Containerboard currently represents the fastest-growing line, with an average year-over-year increase of 10.42% in sales, seen between 2016 and 2019, likely in part due to increasing global demand for Containerboard packaging.

Exhibit 2: FY 2018 & FY 2019 Revenue Segmentation

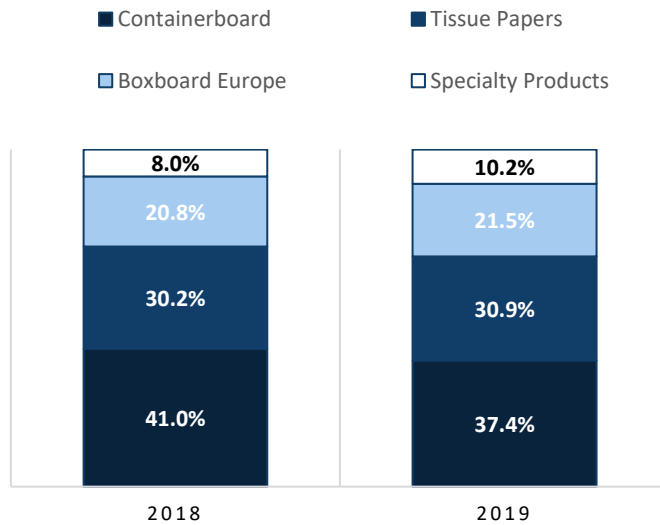
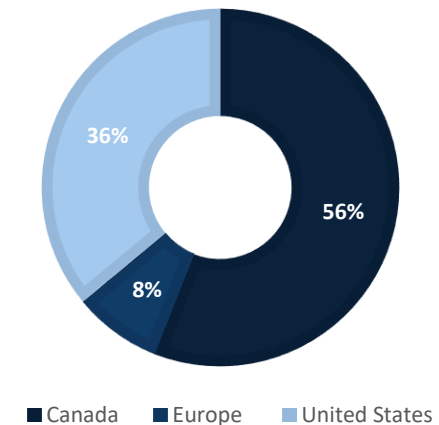


Exhibit 3: Cascades Plant Segmentation

PRODUCTION UNITS & SORTING FACILITIES (IN %)



Although Cascades operates within four key segments, Containerboard, Boxboard Europe, Specialty Products, and Tissue Paper, the Corporation further divides its diverse product offerings in three ways. The first being Packaging, a product line that highlights finding packaging designs that reduce negative environmental impacts. The second product line, Hygiene & Tissue Solutions, focuses on residential, commercial, and industrial sales of products such as toilet paper and paper towels. The third and final product line is the Fibre-Based Solutions group, aimed at finding innovative design features for packaging, sold in business-to-business transactions as well as to end consumers.

Product Line: Packaging

Cascades' packaging products are comprised of four commercial sectors: Industrial Packaging, Consumer Products Packaging, Specialty Papers, and Recovery/Recycling. The company's main point of difference is their prioritization of production utilizing recycled materials as well as designs involving limited packaging in order to reduce waste. Examples of Specialty Product lines include Cascades Fresh (egg packaging solutions, insulated containers, food-grade film, etc.), Cascades Protect (shipping trays and protective materials), Cascades Ecommerce (custom mailer boxes and shipping tests), and Cascades Imgn Retail Solutions (custom consumer product packaging).

Product Line: Hygiene & Tissue Solutions

The hygiene and tissue line offers products for residential, commercial, and professional needs. Residential products include the Cascades Fluff-and-Tuff line, offering both toilet paper and paper towels to consumers. Commercially, Cascades includes an option for businesses to buy wholesale quantities without company branding, creating room for unique business-to-business partnerships. In the Canadian Tissue Paper market, Cascades' primary competitor is Kruger Products, controlling roughly 37% of Canadian tissue manufacturing capacity.

Product Line: Fibre-Based Solutions

Cascades' fibre-based solutions include a variety of Specialty products and technologies, being sold to end consumers as well as in business-to-business transactions. Products such as Tissue Paper jumbo rolls are sold by the ton to other businesses, to be converted and used in various products. Cascades product offerings also include unique structural components such as honeycomb cells and laminated panels, aimed at lowering manufacturing costs for furniture producers. The Company excels in innovation, producing Sonoco's proprietary water-based coatings that are sustainable alternatives to regular wax and poly-based barrier solutions, a unique offering differentiating the company from other paper and pulp manufacturers. Fibre-based solutions allow Cascades to operate in various industries ranging from consumer products such as furniture to the sale of raw materials in business-to-business transactions, effectively establishing diverse revenue streams with the Specialty products and Containerboard segments.

Company Strategy

Operational Strategy: Acquisitions & Closures

Containerboard Packaging Segment:

- On August 28, 2018, the Corporation announced plans to close two corrugated sheet plants located in Barrie and Peterborough, Ontario, Canada, as part of its ongoing efforts to reorganize and optimize its corrugated packaging platform in Ontario. The two plants were closed on November 30, 2018.
- As an extension of this plan, Cascades has announced the closure of their Etobicoke Containerboard Packaging operations by August of 2021. Leading up to this closure, production will be deployed to other plants throughout Ontario. According to Charles Malo, President and Chief Operating Officer of Cascades Containerboard Packaging, this decision to consolidate plants will reinforce operational positioning for long-term success through better aligning production capacities, improving productivity, and reducing fixed costs.
- In May 2018, the Corporation started operating its new Containerboard converting plant in Piscataway, NJ, USA.
- During FY 2019, Cascades made investments in equipment at plants in St. Mary's, Ontario, Canada, and Piscataway, NJ, USA, to improve productivity and quality of Containerboard production.

As illustrated by the segmented acquisition, disposal, investment, and closure description, during FY 2018 and 2019, Cascades prioritized consolidating operations, mainly within the Containerboard segment throughout Ontario. This allowed the company to increase productivity while reducing fixed costs incurred through the operation of individual plants. Despite efforts to differentiate in other segments such as specialty products, the homogenous nature of Containerboard products results in consumers being highly price sensitive. Due to this, it is important to operate in a cost-effective manner, by cutting fixed costs of several plants in one geographical area such as Ontario. The simultaneous opening of new plants, such as the Containerboard converting plant located in Piscataway, NJ, USA will allow for consolidation efforts of smaller plants in the US to continue, in line with the current Canadian strategy.

Boxboard Europe Segment:

- On October 31, 2018, the Corporation's subsidiary, Reno de Medici (RDM), announced the acquisition of Barcelona Cartonboard S.A.U., a Spanish company ranked seventh in Europe for coated Cartonboard production.

Of the Corporation's four subsidiaries, Reno de Medici is the only entity based in Europe. The acquisition of RDM positions Cascades to successfully expand into Europe, a growing market that saw a 17% increase in Boxboard exports from Europe to North America between 2011 and 2017 (UN Comtrade). Furthermore, as of FY 2019, Cascades had 57.95% ownership of RDM and the Corporation's focus on subsidiaries in other segments is due to the relatively low shipments in their Boxboard segment, representing only 21.5% of total sales in FY 2019.

Specialty Products Segment:

- On September 30, 2019, the Corporation sold two facilities in France that converted cardboard into packaging.
- On December 6, 2018, Cascades acquired the Urban Forest Products and Clarion Packaging plants, located in Brook, Indiana, and Clarion, Iowa, two of the top three egg-producing states in the US. As a result of these acquisitions, the Corporation's production capacity of ecological packaging manufactured in moulded pulp was doubled. The Corporation also acquired a majority interest in Falcon Packaging, a leader in the distribution of egg packaging.



Source: Company Website

The global food packaging market size is expected to reach USD 456.6 billion by 2027, expanding at a CAGR of 5.2% over the forecast period, according to a new report by Grand View Research, Inc. The acquisition of smaller entities such as Urban Forest Products and Clarion Packaging will allow Cascades to quickly increase capacity to meet growing consumer demand for specialized products such as egg packaging. Currently, specialty products represent just 10% of their sales but the Corporation will likely shift focus to this rapidly growing segment as demand for eco-friendly consumer packaging increases in light of recent concerns surrounding contamination and food safety during the Covid-19 pandemic.

Tissue Papers Segment:

- On September 13, 2019, Cascades acquired the Orchids Paper Products Company.

At the time of acquisition, Orchids Paper's integrated plants were recorded to have an estimated parent roll (raw material) capacity of 114,000 tons and 114,500 tons of converting capacity (ability to turn raw materials into products). In addition to an increase in production capacity, this acquisition included the rights to agreements previously held by Orchids. One such agreement with Fabrica, a high-quality tissue paper producer based in Mexico, provides access to up to 20,000 tons of converted products such as tissues for the U.S. market, increasing Cascades' global reach within the Tissue Papers segment. Furthermore, the acquired plants are equipped with 100-inch paper machines that are better suited to produce the products outlined within Cascades' long-term model, improving overall efficiency and productivity.



Source: Company Website

Corporate Management Strategy

As part of Cascades' business transformation strategy, the Corporation outlined people, process, and technology as three key pillars. In order to become more customer-centric and optimize the supply chain, Cascades implemented a new Enterprise Resource Planning system (ERP) which was rolled out across North American operations in 2019. Through the implementation of advanced technological systems such as ERP, the Corporation effectively addressed challenges with people and processes in various operational segments.

Focus on Sustainability & Environment

Each year, Cascades uses more than 3.1 million short tonnes of recycled fibre in its products, recycling old material in-house through their Cascades Recovery+ program. Recovery+ offers customizable material recovery options such as commercial and municipal recycling programs at over 20 facilities across North America. The Corporation has consistently positioned itself as a leader in eco-friendly operations in the paper and pulp industry, prioritizing sustainability throughout the supply chain, operations and products, as seen in Exhibit 4. In 2016, Cascades partnered with the David Suzuki Foundation, a non-profit environmental organization, to host sustainability awareness activities and campaigns, further strengthening the firm's image as a leader in environmentally friendly operations.



Exhibit 4: Cascades North American Facilities (Source: Company Investor Kit)



Industry Analysis

Cascades Inc. operates within the pulp and paper manufacturing space, with four primary subsegments, Containerboard, Boxboard, Specialty Products, and Tissue Papers, all focused on utilizing recycled pulps in production processes. In 2019, the global pulp and paper market was valued at USD 348.83B and is expected to reach USD 368.10B by 2027, exhibiting a CAGR of 0.8% during the forecast period, 2020-2027 (Fortune Business Insights). This stagnation can be explained by the declining demand in the graphic-paper market, comprised of newsprint, printing, and writing papers as a result of increasing digitization of communications. However, within each of the four segments, differing trends and projections are seen, given the distinct nature of the product offerings, target customer segments, and innovation potential.

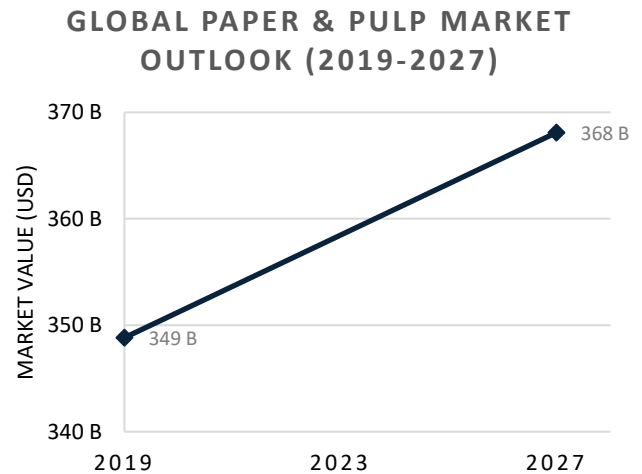


Exhibit 5: Projected Growth in Paper & Pulp Market

Changing Market Segments

The global graphic paper consumption is expected to reach 104 million tons by 2023, with a negative CAGR of 2.48% seen between 2019-2023 ([Koncept Analytics](#)). Despite the decline in the graphic-paper market, other segments such as industrial and consumer packaging as well as Tissue Papers have continued to grow. Given the homogenous nature of outputs such as Containerboard and Boxboard within the paper and pulp industry, firms must prioritize innovation in order to successfully outperform competitors. Through innovation, firms can effectively establish a strong point of difference such as cost optimization or unique packaging offerings. The increasing demand for environmentally friendly products is causing an increase in the demand for innovative packaging of both consumer and industrial goods. In turn, more businesses and consumers are opting for packaging made from paper rather than traditional materials such as plastic. Metrics such as sustainability and convenience are becoming more important to consumers and firms will likely increase partnerships with consumer packaged good (CPG) brands looking for innovative product packaging solutions.

Impact of E-Commerce on Demand for Packaging

The global e-commerce market size was valued at USD 9.09 trillion in 2019 and is expected to grow at a CAGR of 14.7% from 2020 to 2027. As e-commerce grows, the demand for Containerboard and corrugate has increased as well. The term “corrugated” refers to a material made up of three different Containerboard sheets, two of which act as flat outer liners and one in the middle with a rippled shape for added support. This corrugated material is used to ensure that items are delivered in the desired condition without damage. According to Derek Mahlborg, Fastmarkets RISI Senior Economist, e-commerce and mail order retail uses about 7 times more corrugated per dollar of sales than traditional retail logistics. This rapid growth in e-commerce and demand for shipping materials has created a new opportunity for paper and pulp manufacturers looking to diversify product offerings and provide effective transportation solutions.

Overall Impact on Cascades

At a first glance, the stagnant CAGR of 0.8% between 2020 and 2027 for the global Paper and Pulp market may indicate a concerning outlook for Cascades but we believe that growth within the Containerboard, Boxboard, and Specialty Products segments will offset the lower projected industry growth rate. In both 2018 and 2019, Containerboard and Boxboard collectively represented over 50% of total revenues for Cascades at 61.8% and 58.9% respectively. The Company is well-positioned to capitalize on the growing trend of e-commerce, seeing an increase in demand for corrugated cardboard packaging further propelling growth in Containerboard and Boxboard. Furthermore, Cascades' is an industry leader within the Specialty Products segment in terms of eco-friendly food, protective, e-commerce, and retail packaging. The Company is currently North America's largest producer of commonly used plastic-free packaging such as egg trays and honeycomb cartons. In an effort to strengthen operations for these products specifically, on December 6, 2018, Cascades acquired the Urban Forest Products and Clarion Packaging plants, located in Brook, Indiana, and Clarion, Iowa, two of the top three egg-producing states in the US. Through the Company's intentional positioning as a leader in environmentally-conscious paper manufacturing, Cascades has effectively built out their brand identity to act as an economic moat for the protection of both market share and profitability.

Management Team

Alain Lemaire - Executive Chairman of the Board of Directors

Alain Lemaire served as the Executive Vice-President of Cascades Inc. from 1992 to 2004. In 2004, he took on the role of President and Chief Executive Officer. In 2013, he took on his current role, as Executive Chairman of the Board of Directors. Prior to joining the Cascades team, he served as the President and Chief Executive Officer of Norampac Inc., from 1998 to 2004. Cascades was first started by brothers, Bernard and Laurent Lemaire, with Alain joining the business in 1967. Alain brought a unique understanding of production processes to the team and has been an active member of the company since, in various capacities. In 2019, he earned \$1,243,446, with a base salary of \$546,538, \$546,000 in restricted stock awards, and \$150,908 in all other compensation. Lemaire's compensation did not include a bonus in FY 2019 or 2018.



Mario Plourde - President and Chief Executive Officer

Mario Plourde was born in 1961, in Danville, Québec, just a few kilometres from Kingsey Falls, the headquarters of Cascades Inc. In 1985, Plourde graduated from the Université du Québec à Montréal with a Bachelors degree in Business Administration and began working as a controller at Cascades. In 2011, senior management recognized Plourde's dedication to the company, leading to him being named the Chief Operating Officer of Cascades Inc., succeeding Alain Lemaire as head of the Company. In 2019, he earned \$4,520,594, with a base salary of \$958,779, a bonus of \$1,237,621, \$1,883,180 in restricted stock awards, and \$405,014 in all other compensation.



Allan Hogg - Chief Financial Officer and Vice President

In his current capacity, Allan Hogg serves as a Chief Financial Officer and Vice President of Cascades Inc. Hogg has been an active member of the Cascades team for over 20 years, previously serving as Corporate Controller, Director of Finance, and Treasurer before being named Vice-President and Chief Financial Officer in 2010. In addition to his involvement with Cascades, Mr. Hogg was also a director of Boralex Inc., a renewable energy company. Allan Hogg holds a Bachelor of Business Administration in Accounting and is a member of the Ordre des comptables professionnels agréés of Québec. In 2019, he earned \$1,383,002, with a base salary of \$455,953, a bonus of \$390,434, \$429,711 in restricted stock awards, and \$106,904 in all other compensation.



Investment Thesis

Market View

The market views Cascades as a leading Canadian paper and pulp manufacturer with a strong reputation but limited growth potential given the stagnant nature of the greater paper industry. There is consensus, however, that Cascades will continue to improve its competitive position in the Tissue Papers segment specifically, through acquisitions and organic investments. We believe that the market has underestimated the unique value proposition of Cascades, an environmentally conscious player steadily expanding operations globally to offer innovative cross-industry paper and packaging solutions in their operating segments.

Investment Thesis 1: Acquisitions Propelling Growth in Three Primary Segments

Cascades has demonstrated the ability to find valuable organic growth opportunities as well as a strong understanding of how to best make strategic acquisitions globally, bolstering revenue growth and increasing market share in the long-term. These strategies have strengthened prospects within three of the company's four current segments, Boxboard, Tissue Papers, and Specialty Products. Although a majority of Cascades' operations currently occur in North America, the Company began their European expansion into Boxboard, acquiring Reno de Medici (RDM), the second-largest European producer of coated recycled Cartonboard. This acquisition positions Cascades to successfully expand into Europe's growing Boxboard market by leveraging RDM's local expertise. Within the Tissue Papers segment, Cascades implemented a similar strategy, acquiring Orchids Paper Products, successfully increasing production capacity, and providing Cascades' with rights and agreements required to expand operations into the North American market. Finally, within the Specialty Products segment, Cascades has acquired smaller entities within egg packaging such as Urban Forest Products and Clarion Packaging, increasing capacity to meet growing consumer demand. Through strategic acquisitions, Cascades' has best positioned their Boxboard, Tissue Papers, and Specialty Product segments to capitalize on growth opportunities in new markets globally.

Investment Thesis 2: Unique Brand Identity as an Environmentally Conscious Player in Paper

Cascades has proven a longstanding dedication to prioritizing environmentally conscious initiatives, utilizing recycled pulps in manufacturing, and innovating new packaging products that effectively reduce the need for traditional plastic packaging. Globally, the e-commerce market was valued at USD 9.09 trillion in 2019 and is expected to grow at a CAGR of 14.7% from 2020 to 2027. The intersection between the growth in e-commerce and the rising prioritization of environmentally conscious consumers represents a key opportunity for Cascades. As the number of packages mailed out continues to increase, more vendors will demand plastic-free packaging solutions such as those created by Cascades, propelling growth. In terms of corporate social responsibility initiatives, the Company has partnered with the David Suzuki Foundation, a non-profit environmental organization, further strengthening Cascades' position as a leader in environmentally friendly operations.

Catalysts

Unexpected Increase in Accessibility & Distribution of Covid-19 Vaccines

The impacts of Covid-19 in North America make it increasingly difficult to anticipate trends in shipment quantities demanded across all four segments. Within the Tissue Paper Segment specifically, shipments decreased 14% in the third quarter of FY 2019 as a result of Covid-19 demand related impact on Away from Home (AfH) products. Most of the away-from-home tissue products such as industrial-sized packages are bought by building owners, institutions, and janitorial services directly from distributors such as Cascades.

As a result, we believe that if Canada and the United States experience an unexpected increase in access to Covid-19 vaccines, the AfH market will see a sharp increase in shipments. Increased demand for AfH products within businesses, workplaces, and schools as the economy begins to reopen will drive sales within the Tissue Papers segment, an area of Cascades' business operations that was drastically impacted during the pandemic.

Ban on Single-Use Plastic Products in the United States

In October of 2020, the Canadian government announced a ban on several different single-use plastic products by 2021. These products include checkout bags, straws, stir sticks, six-pack rings, cutlery, and food containers made from hard-to-recycle plastics. If the United States government were to impose similar guidelines on a municipal, state, or federal level, Cascades' market for environmentally conscious packaging solutions would increase greatly, driving growth within their Specialty Products segment. Within this segment, Cascades currently produces a variety of products including pizza boxes, coffee cup carriers, trays, as well as customized meal containers made up of 100% recycled Polyethylene terephthalate (PET). The current product offerings within Cascades' Specialty Products group, illustrate a key opportunity for the Company to partner with fast-food chains across North America as their provider of food and drink packaging. The demand for environmentally conscious products provides a unique opportunity for Cascades to increase brand partnerships with national companies in order to increase production levels of their innovative single-use packaging solutions.

Shareholder Base, Liquidity, Market Depth

Shareholder Base

Cascades Inc. currently has 102,466,430 shares outstanding and a free float of 84,343,338, representing an 82% free float. Collectively, the Lemaire brothers own 17.30% of the total shares, a notable percentage of ownership indicating that the founding family is dedicated to the company's long-term success.

Exhibit 6: Top 10 Largest Shareholders (Source: Thomson Reuters)

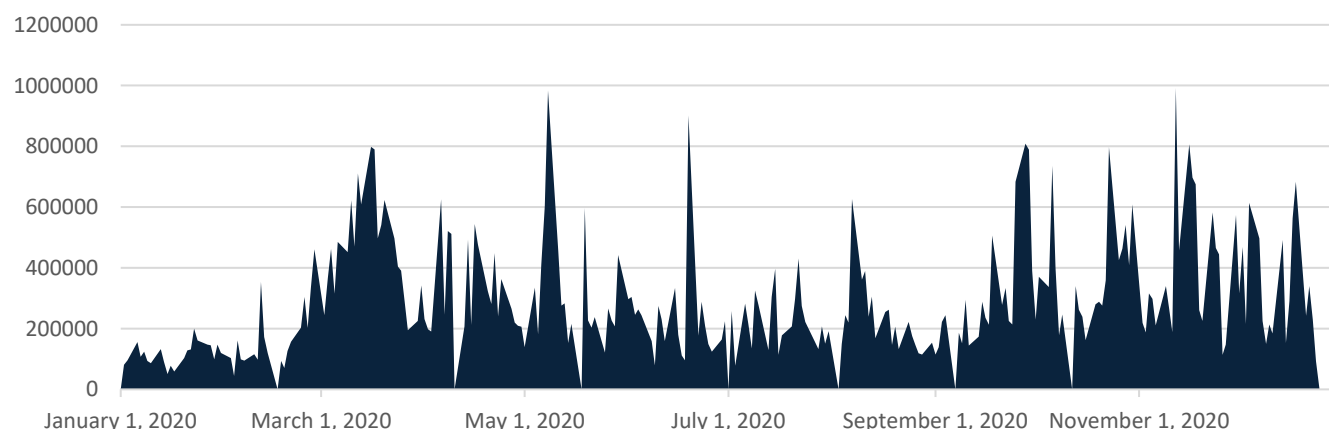
Shareholder	Position	% of Outstanding	Insider (Y/N)	Country
Lemaire (Laurent)	12,474,881	12.17	Y	Canada
Lekto, Brosseau & Associates Inc.	10,066,937	9.82	N	Canada
Lemaire (Alain)	5,256,548	5.13	Y	Canada
Caisse de Depot et Placement du Québec	5,148,868	5.02	N	Canada
Dimesional Fund Advisors, L.P.	3,747,274	3.66	N	United States
The Vangaurd Group, Inc.	2,044,628	2.00	N	United States
Norges Bank Investment Management	1,663,888	1.62	N	Norway
LSV Asset Management	691,549	0.67	N	United States
RBC Global Asset Management Inc.	691,154	0.67	N	Canada
1832 Asset Management L.P.	507,100	0.49	N	Canada
Top 10 Shareholders	42,292,827	41.25		

Liquidity

Cascades Inc.'s daily average trading volume for the last twelve months (LTM) over January 1st, 2020 to 2021 is 0.29M shares per day. The LTM daily trading volume, as well as the shares outstanding of 102.5M, suggests relatively healthy liquidity.

Exhibit 7: Cascades Inc. LTM Daily Trading Volume (Source: Thomson Reuters)

1 Year Trading Volume (TSX: CAS)



Valuation

Discounted Cash Flow (DCF) Assumptions

Revenue Forecast

Similar to their competitors, Cascades Inc. experienced lower sales volumes during FY 2020 as a result of decreasing demand in categories such as AfH products during the Covid-19 pandemic. We expect revenues to significantly increase in the following years as stimulus plans are implemented throughout North America and businesses, schools, and workplaces begin to reopen, increasing the need for many of these products. Our forecast is based on potential for organic growth, as well as inorganic growth through acquisitions, allowing the company to increase market share in various geographic locations across North America and Europe.

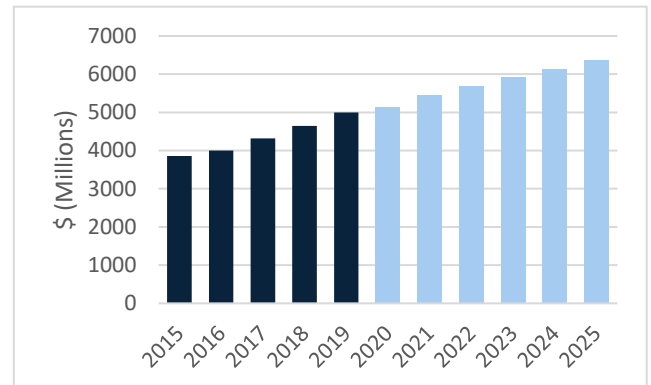


Exhibit 8: Revenue Forecast

Cascades Inc. did not provide shipment metrics for their fourth segment, Specialty Products, because of a discrepancy in production and distribution and for this reason, Specialty Products along with Intersegment Sales & Corporate Activities was forecasted using historical growth rates. Specialty Products saw an impressive YoY increase of 37% between 2018 and 2019, with both Q1 and Q2 of 2019 seeing quarterly growth of over 50%. During 2020, revenues declined for the first time since 2018 but began to stabilize again by Q3 as a result of more demand within the AfH sector. As the impacts of Covid-19 diminish, we expect to see this segment stabilize to a conservative growth rate of 8% until FY 2023. We estimate that Intersegment Sales & Corporate Activities remain constant at the historical average of \$27M per year throughout the entirety of the forecast period. In previous quarters, this figure has fluctuated, even reporting negative values in certain quarters, making it difficult to forecast a reasonable growth or decline for future years.

Forecasting Growth Using Shipment Metrics

Within the Containerboard, Boxboard, and Tissue Paper segments, we have driven growth based on forecasts for the changes in the number of shipments, using an average revenue per shipment metric to ultimately derive total revenue figures. We believe that the number of shipments within Cascades' Containerboard segment will continue to increase at the historical average rate of 3.5% as a result of strong demand and strategic acquisitions. Despite erratic market conditions during Covid-19, pricing and demand for Old Corrugated Containers (OCC) generally improved in 2020, as compared to 2019 ([Recycling Today](#)). Furthermore, the launch of the Bear Island project in mid-October was a strategic investment for Cascades' Containerboard business, allowing the company to penetrate new markets. According to CEO, Mario Plourde, this launch will benefit operational performance, enhance their product offering in lightweight recycled containerboard, and best position the Cascades' Containerboard platform for long-term profitable growth. Within Boxboard, the strategic acquisition of Papelera del Principado S.A. ("Paprinsa"), and three smaller adjoining companies, will strengthen the competitive positioning of Cascades in Spain and its surrounding markets, driving an increase in shipment numbers starting in 2021. Within the Tissue Papers segment, there was a drastic increase in the number of shipments, of 23.97% during Q1

of 2020, as a result of panic buying of tissue paper products during Covid-19 lockdowns in North America. Shipment numbers declined in Q2 and Q3 of 2020 and we project that they will continue to experience declining growth until 2021, at which point shipment numbers will return to the historical average growth rate of 2.7%.

Cost of Goods Sold (COGS)

Historically, Cascades' COGS have remained stable between 77.0% and 81.1% as a percentage of total revenue. These costs include the cost such as raw materials and energy costs during production. We have projected a gradually increasing COGS, starting at 79% in Q4 of 2020 and ultimately increasing to 81% by 2022. This increase was projected as a result of the threat of increasing prices of inputs such as materials and energy due to inflation identified by Cascades Inc.

Selling, General, & Administrative (SG&A) Expense & Operating Expenses (OPEX)

Historically, SG&A has remained stable, fluctuating between 8.2% and 10.8% as a percentage of total revenue. We believe that SG&A will continue to remain stable at 8.8% in the short-term, given the consistency within historical SG&A values. However, by 2024, we estimate a decrease to 8.0%, as a result of effective consolidation of manufacturing plants as part of Cascades' cost-cutting strategy. R&D has remained stable and is projected to continue to remain at 0.7% of revenue throughout the forecast period.

Capital Expenditures (CAPEX)

We believe that Cascades will continue to acquire businesses specializing in various aspects of their business, in order to increase market share and production capacity. Further, we believe that Cascades will continue to increase internal production capacity as a result of increasing demand in the Containerboard segment. For this reason, we have forecasted CAPEX to increase steadily from 10.5% of plant, property, and equipment in 2021 to 13% in 2024 and 2025. This is slightly higher than the historical average of 10.1%, to represent an increasing investment into productive capacity.

Weighted Average Cost of Capital (WACC)

Cascades' weighted average cost of capital of 3.9% was determined using a cost of equity of 8.4% and cost of debt of 0.5%. Using data provided by Bloomberg, the calculations for debt used a risk-free rate of 0.7%, an expected market return of 10.3%, and a Beta of 0.80. The cost of debt was calculated based on the pre-tax cost of debt of 0.7%, found on Bloomberg, and an effective tax rate of 30%.

Terminal EV/EBITDA Multiple

We used a 2020E EV/EBITDA exit multiple of 6.2x which was found to be the industry average.

Perpetuity Growth Rate

We assumed a perpetuity growth of 1%, based on the stagnant growth outlook for the paper and pulp industry as a whole.

Comparable Company Analysis Set

Four paper and pulp manufacturing companies, based in both Canada and the United States, were chosen for our Comparable Companies Analysis Set, returning an EV/EBITDA implied price of \$8.50 and P/E implied price of \$16.56.

Canfor Pulp Products Inc. (TSX: CFP): Canfor Corporation operations in the lumber and pulp and paper segments. The company's products are used residentially, commercially, and industrially.

Domtar Corporation (NYSE: UFS): Domtar operated primarily in the paper and pulp segment as well as personal care and hygiene. The company designs, manufactures, markets, and distributes packaging paper and hygiene products.

West Fraser Timber (TSX: WFT): West Fraser Timber is a wood products company that sells lumber, pulps, and papers across Western Canada and the United States.

Resolute Forest Products (NYSE: RFP): Resolute operates in five key segments: market pulps, tissue, wood products, newsprint, and specialty papers.

Recommendation

Buy

Based on the analysis conducted, we believe that Cascades Inc. is undervalued by the market. Despite operating in a stagnant industry, management has effectively positioned Cascades as the environmentally-conscious player, while strategically expanding operations throughout North America and into the European market.

Our implied share price weighting is as follows:

- A 25% weighting on the Perpetuity Growth DCF method, which projects a \$33.83 share price
- A 25% weighting on the Exit Multiple Implied Price DCF method, which projects a \$20.90 share price
- A 25% weighting on the P/E Implied Price method, which projects a \$16.56 share price
- A 25% weighting on the EV/EBITDA Implied Price Method, which projects an \$8.50 share price

The above weighting results in a target share price of \$20.00 representing an 18.5% return.

Risks

Cyclical Market for Inputs & Input Prices

The markets for Cascades' Containerboard and Boxboard products are cyclical, meaning that the prices for products within these segments often fluctuate significantly. Changes in demand are often dependent on the strength of the economies in which the Corporation operates, which currently are Canada and the United States. During periods of economic weakness, there is reduced spending by consumers and businesses alike, reducing demand and causing downward price pressure. Cyclical fluctuations in the prices of Cascades' primary inputs, recycled fiber, and energy inputs, also pose risks to the Corporation's long-term success. The primary energy sources used by the Corporation during the production and operation process include natural gas and oil. If the prices of raw materials and/or energy sources increase in the future, the Corporation would be adversely affected.

Ability to Compete Through Establishing Competitive Advantage

The markets for Cascades' products are highly competitive with different challenges in each of their four primary segments. Within the Tissue Papers segment, the Corporation competes with a small number of other producers, making it difficult to capture market share in geographical areas where other firms may have a historical stronghold. Within Containerboard, competition is more global, but the Corporation still faces similar challenges of capturing market share and establishing a strong competitive advantage. According to management, the Corporation's ability to compete successfully depends on a variety of factors, including:

- Ability to maintain high plant efficiency, operating rates, and lower manufacturing costs
- Availability, quality, and cost of raw material, particularly recycled and virgin fiber, as well as labour
- Cost of energy

Some of the Corporation's competitors may operate in geographical areas with less strict environmental regulations or cheaper costs of inputs, making it easier to produce at a lower cost point than Cascades. To combat the risk of competitors operating at lower price points, management may attempt to create value in other aspects of product offerings such as customer service and experience.

Exchange Rate Risks

Cascades' business operations are directly affected by changes in exchange rates of currencies, given the global presence of the company. In some cases, the currency of sales is not consistent with the currency in which costs are incurred. These fluctuations in exchange rates are extremely hard to predict and may negatively impact profitability. In severe cases, exchange rate fluctuations could lead to Cascades shutting down facilities, either temporarily or permanently, negatively impacting the business in the long term.

Appendix 1: Model Summary

	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
(Figures in mm CAD)	FY2015	FY2016	FY2017	FY2018	FY2019	Q1-2020	Q2-2020	Q3-2020	Q4-2020	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Income Statement															
Revenue	3,861.0	4,001.0	4,321.0	4,649.0	4,996.0	1,313.0	1,285.0	1,275.0	1,252.8	5,125.8	5,463.9	5,683.5	5,913.3	6,134.7	6,367.3
EBITDA	343.0	413.0	390.0	472.0	547.0	161.0	169.0	154.0	141.6	625.6	600.6	596.8	620.9	662.5	655.8
Net Income	(66.0)	135.0	507.0	57.0	69.0	22.0	54.0	49.0	28.1	153.1	137.0	134.0	148.9	176.1	167.3
Earnings Per Share	\$ (0.69)	\$ 1.39	\$ 5.19	\$ 0.59	\$ 0.72	\$ 0.23	\$ 0.56	\$ 0.51	\$ 0.29	\$ 1.59	\$ 1.43	\$ 1.39	\$ 1.55	\$ 1.83	\$ 1.74
Cash Flow Statement															
Capital Expenditures	(163.0)	(182.0)	(193.0)	(338.0)	(258.0)	(74.0)	(39.0)	(52.0)	(73.1)	(238.1)	(312.8)	(334.2)	(337.1)	(368.5)	(375.4)
Acquisitions	(2.0)	(6.0)	(17.0)	(2.0)	1.0	-	(1.0)	4.0	-	3.0	-	-	-	-	-
Divestitures	4.0	5.0	15.0	85.0	27.0	1.0	1.0	7.0	-	9.0	-	-	-	-	-
Dividend Payment	(15.0)	(15.0)	(15.0)	(15.0)	(23.0)	(7.0)	(8.0)	(7.0)	-	(22.0)	-	-	-	-	-
Dividend Per Share	\$ -	\$ -	\$ -	\$ (0.08)	\$ (0.07)	\$ (0.16)	\$ (0.24)	\$ (0.24)	\$ (0.10)	\$ (0.74)	\$ -	\$ -	\$ -	\$ -	\$ -
Dividend Payout to Earnings	-22.7%	11.1%	3.0%	26.3%	33.3%	31.8%	14.8%	14.3%	-	14.4%	-	-	-	-	-
Dividend Payout to Core FCF	3.1%	3.0%	3.3%	2.1%	3.5%	3.1%	4.0%	4.4%	-	2.9%	-	-	-	-	-
Dividend Yield	-	-	-	-0.8%	-0.6%	-1.2%	-1.6%	-1.5%	-0.6%	-5.0%	-	-	-	-	-
Balance Sheet															
Current Assets	1,125.0	1,061.0	1,260.0	1,403.0	1,400.0	1,525.0	1,525.0	1,526.0	1,560.7	1,560.7	1,856.2	1,961.3	2,123.0	2,288.0	2,445.5
Non-Current Assets	2,723.0	2,752.0	3,167.0	3,545.0	3,780.0	3,952.0	3,842.0	3,817.0	3,812.7	3,812.7	3,816.6	3,841.4	3,866.3	3,919.9	3,974.4
Assets	3,848.0	3,813.0	4,427.0	4,948.0	5,180.0	5,477.0	5,367.0	5,343.0	5,373.5	5,373.5	5,672.8	5,802.7	5,989.3	6,207.9	6,419.9
Current Liabilities	727.0	762.0	891.0	982.0	1,043.0	1,004.0	1,151.0	1,118.0	1,110.8	1,110.8	1,235.2	1,231.1	1,268.8	1,311.2	1,356.0
Non-Current Liabilities	2,158.0	1,977.0	1,935.0	2,280.0	2,471.0	2,734.0	2,458.0	2,428.0	2,428.0	2,428.0	2,428.0	2,428.0	2,428.0	2,428.0	2,428.0
Liabilities	2,885.0	2,739.0	2,826.0	3,262.0	3,514.0	3,738.0	3,609.0	3,546.0	3,538.8	3,538.8	3,663.2	3,659.1	3,696.8	3,739.2	3,784.0
Shareholders' Equity	867.0	984.0	1,455.0	1,506.0	1,489.0	1,542.0	1,559.0	1,590.0	1,627.6	1,627.6	1,802.6	1,936.6	2,085.5	2,261.7	2,428.9
Cash	60.0	62.0	89.0	123.0	155.0	153.0	162.0	227.0	282.7	282.7	390.9	504.2	607.3	711.1	804.2
Debt	1,744.0	1,566.0	1,576.0	1,876.0	2,107.0	2,356.0	2,140.0	2,109.0	2,109.0	2,109.0	2,109.0	2,109.0	2,109.0	2,109.0	2,109.0
Net Debt	1,684.0	1,504.0	1,487.0	1,753.0	1,952.0	2,203.0	1,978.0	1,882.0	1,826.3	1,826.3	1,718.1	1,604.8	1,501.7	1,397.9	1,304.8
Minority Interests	96.0	90.0	146.0	180.0	177.0	197.0	199.0	207.0	207.0	207.0	207.0	207.0	207.0	207.0	207.0
Debt/EBITDA	4.9 x	3.6 x	3.8 x	3.7 x	3.6 x					2.9 x	2.9 x	2.7 x	2.4 x	2.1 x	2.0 x
Operating Metrics															
Return on Equity (ROE)	-7.6%	13.7%	34.8%	3.8%	4.6%					9.4%	7.6%	6.9%	7.1%	7.8%	6.9%
Return on Assets (ROA)	-1.7%	3.5%	11.5%	1.2%	1.3%					2.9%	2.4%	2.3%	2.5%	2.8%	2.6%
Return on Invested Capital (ROIC)	-6.9%	12.6%	32.2%	2.1%	3.8%					8.8%	8.7%	6.2%	6.5%	7.1%	6.3%
Valuation Metrics															
Stock Price (High)	\$ 11.47	\$ 8.99	\$ 15.80	\$ 12.69	\$ 12.38	\$ 15.06	\$ 16.18	\$ 17.62	\$ 16.84	\$ 17.62	\$ 16.84	\$ 16.84	\$ 16.84	\$ 16.84	\$ 16.84
Stock Price (Low)	\$ 9.68	\$ 7.75	\$ 13.36	\$ 9.54	\$ 11.21	\$ 12.04	\$ 14.31	\$ 14.06	\$ 16.84	\$ 12.04	\$ 16.84	\$ 16.84	\$ 16.84	\$ 16.84	\$ 16.84
Stock Price (Average)	\$ 10.58	\$ 8.37	\$ 14.58	\$ 11.12	\$ 11.80	\$ 13.55	\$ 15.25	\$ 15.84	\$ 16.84	\$ 14.83	\$ 16.84	\$ 16.84	\$ 16.84	\$ 16.84	\$ 16.84
Diluted Shares Outstanding (Average)	96.3	96.9	97.6	96.9	95.5	95.5	95.6	96.1	96.1	96.1	96.1	96.1	96.1	96.1	96.1
Market Capitalization (Average)	1,018.0	811.3	1,423.0	1,077.4	1,126.6	1,294.4	1,457.4	1,521.9	1,617.9	1,425.2	1,618.3	1,618.3	1,618.3	1,618.3	1,618.3
Enterprise Value (Average)	2,798.0	2,405.3	3,056.0	3,010.4	3,255.6	3,694.4	3,634.4	3,610.9	3,651.3	3,458.5	3,543.4	3,430.1	3,327.1	3,223.2	3,130.2
P/E	n/a	6.0 x	2.8 x	18.9 x	16.3 x					9.3 x	11.8 x	12.1 x	10.9 x	9.2 x	9.7 x
EV/EBITDA	8.2 x	5.8 x	7.8 x	6.4 x	6.0 x					5.5 x	5.9 x	5.7 x	5.4 x	4.9 x	4.8 x
FCF Yield to Market Capitalization	9.1%	29.6%	12.4%	5.8%	26.7%					18.7%	8.5%	11.1%	10.5%	10.6%	9.9%
FCF Yield to Enterprise Value	3.3%	10.0%	5.8%	2.1%	9.2%					7.7%	3.9%	5.3%	5.1%	5.3%	5.1%
Free Cash Flow															
EBIT	153.0	221.0	175.0	228.0	258.0	90.0	94.0	73.0	64.2	321.2	291.7	287.4	308.7	347.6	335.0
Tax Expense	(49.0)	(47.0)	66.0	(84.0)	(47.0)	(26.0)	(24.0)	(6.0)	(19.3)	(96.4)	(87.5)	(86.2)	(92.6)	(104.3)	(100.5)
D&A	190.0	192.0	215.0	244.0	289.0	71.0	75.0	81.0	77.4	304.4	308.9	309.4	312.2	314.9	320.9
Capital Expenditures	(163.0)	(182.0)	(193.0)	(338.0)	(258.0)	(74.0)	(39.0)	(52.0)	(73.1)	(238.1)	(312.8)	(334.2)	(337.1)	(368.5)	(375.4)
Changes in NWC	(38.0)	56.0	(87.0)	12.0	59.0	(34.0)	(34.0)	30.0	13.8	(24.2)	(62.9)	4.0	(20.9)	(18.8)	(19.7)
Unlevered Free Cash Flow	93.0	240.0	176.0	62.0	301.0	27.0	72.0	126.0	63.0	266.9	137.5	180.4	170.3	171.0	160.3
Valuation Summary															
Current Price	\$ 16.84														
Target Price	\$ 19.95														
Total Return	18.5%														
Recommendation	BUY														
DCF Valuation															
Perpetuity Growth Implied Price	\$ 33.83														
Exit Multiple Implied Price	\$ 20.90														
Comps Valuation															
Comps - EV/EBITDA Implied Price	\$ 8.50														
Comps - P/E Implied Price	\$ 16.56														

Appendix 2: Discounted Cash Flow Analysis

	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
(Figures in mm CAD)	FY2015	FY2016	FY2017	FY2018	FY2019	Q1-2020	Q2-2020	Q3-2020	Q4-2020	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
WACC Calculations															
Cost of Equity															
Risk-free rate	0.7%														
Expected market return	10.3%														
Market Risk Premium	9.7%														
Beta	0.80														
Cost of Equity	8.4%														
Cost of Debt															
Pre-tax cost of debt	0.7%														
Effective tax rate	30.0%														
Cost of Debt	0.5%														
WACC															
Market value of equity	1,617.9														
Market value of debt	2,109.0														
Total Capitalization	3,726.9														
Cost of equity	8.4%														
Cost of debt	0.5%														
WACC	3.9%														
Free Cash Flow															
EBIT	153.0	221.0	175.0	228.0	258.0	90.0	94.0	73.0	64.2	321.2	291.7	287.4	308.7	347.6	335.0
Less: Tax expense	(49.0)	(47.0)	66.0	(84.0)	(47.0)	(26.0)	(24.0)	(6.0)	(19.3)	(96.4)	(87.5)	(86.2)	(92.6)	(104.3)	(100.5)
Add: Depreciation and amortization	190.0	192.0	215.0	244.0	289.0	71.0	75.0	81.0	77.4	304.4	308.9	309.4	312.2	314.9	320.9
Less: Capital expenditures	(163.0)	(182.0)	(193.0)	(338.0)	(258.0)	(74.0)	(39.0)	(52.0)	(73.1)	(238.1)	(312.8)	(334.2)	(337.1)	(368.5)	(375.4)
Less: Change in net working capital	(38.0)	56.0	(87.0)	12.0	59.0	(34.0)	(34.0)	30.0	13.8	(24.2)	(62.9)	4.0	(20.9)	(18.8)	(19.7)
Unlevered Free Cash Flow	93.0	240.0	176.0	62.0	301.0	27.0	72.0	126.0	63.0	266.9	137.5	180.4	170.3	171.0	160.3
Discount factor						-	-	-	0.25	0.25	1.25	2.25	3.25	4.25	5.25
Present Value of Unlevered Free Cash Flow						-	-	-	62.4	62.4	132.9	165.5	150.3	145.3	131.0
Discounted Cash Flow Valuations															
Perpetuity Growth Method															
Perpetuity Growth Rate	1.0%														
PV sum of unlevered FCF	787.5														
Terminal value	4,552.0														
Enterprise Value	5,339.5														
Add: Cash	227.0														
Less: Debt	2,109.0														
Less: Other EV adjustments	207.0														
Equity Value	3,250.5														
Shares outstanding	96.1														
Implied Share Price	\$ 33.83														
Current Price	\$ 16.84														
Implied Price	\$ 33.83														
Total Return	100.9%														
Exit Multiple Method															
Terminal EV/EBITDA Multiple	6.2 x														
PV sum of unlevered FCF	787.5														
Terminal value	3309.732														
Enterprise Value	4,097.3														
Add: Cash	227.0														
Less: Debt	2,109.0														
Less: Other EV adjustments	207.0														
Equity Value	2,008.3														
Shares outstanding	96.1														
Implied Share Price	\$ 20.90														
Current Price	\$ 16.84														
Implied Price	\$ 20.90														
Total Return	24.1%														
WACC															
		4.91%	4.41%	3.91%	3.41%	2.91%									
Perpetuity Growth Rate	0.00%	\$ 12.66	\$ 16.51	\$ 21.36	\$ 27.62	\$ 36.04									
	0.50%	\$ 15.80	\$ 20.55	\$ 26.68	\$ 34.92	\$ 46.59									
	1.00%	\$ 19.75	\$ 25.76	\$ 33.83	\$ 45.26	\$ 62.67									
	1.50%	\$ 24.86	\$ 32.77	\$ 43.95	\$ 61.00	\$ 90.16									
	2.00%	\$ 31.73	\$ 42.69	\$ 59.38	\$ 87.94	\$ 147.96									
WACC															
		4.91%	4.41%	3.91%	3.41%	2.91%									
Terminal EV/EBITDA Multiple	4.2 x	\$ 8.52	\$ 9.20	\$ 9.90	\$ 10.62	\$ 11.35									
	5.2 x	\$ 13.83	\$ 14.64	\$ 15.48	\$ 16.34	\$ 17.23									
	6.2 x	\$ 19.14	\$ 20.09	\$ 21.06	\$ 22.07	\$ 23.10									
	7.2 x	\$ 24.45	\$ 25.53	\$ 26.64	\$ 27.79	\$ 28.97									
	8.2 x	\$ 29.76	\$ 30.97	\$ 32.23	\$ 33.52	\$ 34.84									

Appendix 3: Comparable Companies Analysis

(Figures in mm CAD)

Company	Ticker	Equity Value	Enterprise Value	EV/EBITDA Multiple			P/E Multiple		
				2019A EV/EBITDA	2020E EV/EBITDA	2021E EV/EBITDA	2019A P/E	2020E P/E	2021E P/E
Canfor Pulp Products Inc.	TSX: CFP	2,877.1	3,487.7	52.4 x	3.8 x	3.9 x	(10.9 x)	6.6 x	8.8 x
Domtar Corporation	NYSE: UFS	2,224.0	3,453.6	5.1 x	6.9 x	5.7 x	23.2 x	26.0 x	15.8 x
West Fraser Timber	TSE: WFT	5,618.3	5,991.3	49.1 x	4.7 x	5.6 x	(17.2 x)	4.0 x	4.9 x
Resolute Forest Products	NYSE: RFP	675.5	1,440.5	5.3 x	4.0 x	3.6 x	(12.6 x)	9.8 x	7.4 x
Cascades Inc.	(TSX: CAS)	1,617.9	3,706.9	5.9 x	6.2 x	6.2 x	10.6 x	11.8 x	12.1 x
Median					4.3 x	4.7 x		8.2 x	8.1 x
Mean					4.8 x	4.7 x		11.6 x	9.2 x
High					6.9 x	5.7 x		26.0 x	15.8 x
Low					3.8 x	3.6 x		4.0 x	4.9 x
				EV/EBITDA Implied Price			P/E Implied Price		
Median				\$	5.27	\$ 7.67	\$	11.73	\$ 11.30
Mean				\$	8.50	\$ 7.36	\$	16.56	\$ 12.86
High				\$	21.31	\$ 13.62	\$	37.06	\$ 22.02
Low				\$	2.14	\$ 0.48	\$	5.71	\$ 6.82

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Gurnoor Kaur Minhas
Analyst

WestPeak Research Association
contact@westpeakresearch.com