

WESTPEAK RESEARCH ASSOCIATION

Molson Coors Beverage Co. (NYSE:TAP)

Consumer Staples – Food, Beverage & Tobacco

Will you TAP into this HOPportunity?

March 19, 2021

Molson Coors Beverage Company, Molson Coors, or the Company, is one of the world's largest beer makers and has delivered beer to customers worldwide for over two centuries. The Company has a portfolio of over 69 brands which are led by Molson Canadian, Miller Lite, and Coors Light. Molson Coors brews, markets and distributes beer and similar beverages in all areas of the world with the commitment of leaving a positive imprint on their employees, consumers, communities, and the environment.

Thesis

Molson Coors Beverage Company (MCC) is one of the largest brewers in the world and carries a diverse set of beer brands. Although the Company's current brands have been struggling during the pandemic, Molson's expansion into growing markets paired with strategic partnerships in new markets and the return of on-premise sales of staple brands in 2021 will all contribute to years of growth for Molson. As the recovery from the pandemic continues and three key catalysts are realized, the value from acquisitions and ventures into emerging markets will materialize, which poses a great investment opportunity at the current price.

Drivers

The distribution of COVID-19 vaccines earlier than predicted along with the rapid expansion of offerings that Molson Coors plans to pursue present a great opportunity for the Company within the brewing industry. The re-opening of on-premise establishments along with the increased consumer spending, disposable income and increased consumption of alcohol will drive revenue for Molson.

Valuation

Our price target of \$65.00 is based on our EV/EBITDA exit multiple and perpetuity growth rate from our DCF as well as the P/E and the EV/EBITDA multiple from our comparable company analysis. The DCF and comparable analysis are weighted 50/50. We initiate a **BUY** rating on Molson Coors Beverage Company.

Analyst: Adam Parolin, BCom. '23
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Equity Research US

Price Target	CAD\$ 65.00
Rating	Buy
Share Price (Mar. 19 Close)	CAD\$ 49.20
Total Return	32.11%

Key Statistics

52 Week H/L	\$56.10/\$32.11
Market Capitalization	\$10.7B
Average Daily Trading Volume	\$2.5M
Net Debt	\$8.6B
Enterprise Value	\$18.74B
Net Debt/EBITDA	3.96x
Diluted Shares Outstanding	\$200.3
Free Float	88.10%
Dividend Yield	0.0%

WestPeak's Forecast

	2021E	2022E	2023E
Revenue	\$10.0B	\$10.4B	\$10.8B
EBITDA	\$1.77B	\$1.87B	\$2.05B
Net Income	\$609M	\$679M	\$787M
EPS	\$2.81	\$3.13	\$3.63
P/E	19.0x	17.1x	14.7x
EV/EBITDA	11.0x	10.4x	10.7x

1-Year Price Performance



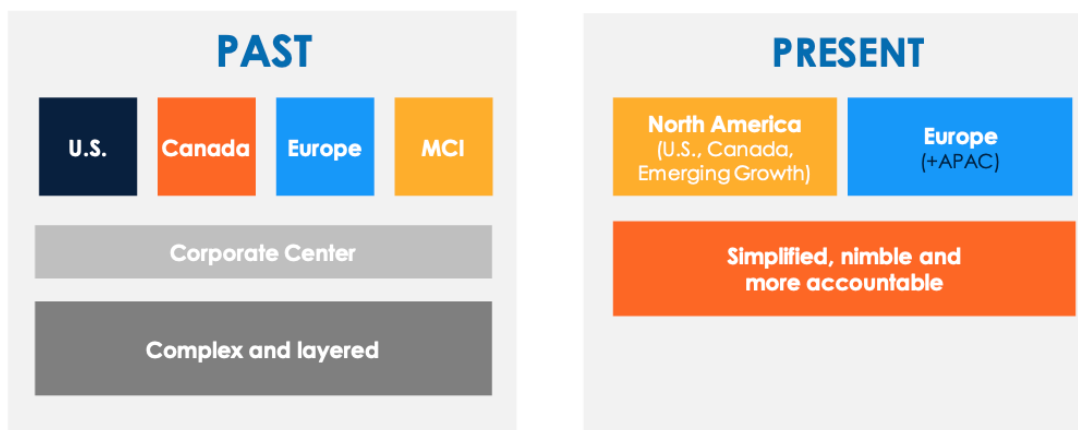
Business Overview/Fundamentals

Company Overview

Molson Coors is the fifth largest beer brewer in the world. The company was founded in 1786 on the banks of the St. Lawrence River in Montreal, Canada and later became Molson Coors Beverage Company after a merger that closed in 2016. The primary function of Molson Coors is to brew, market, and distribute beer to both on-premise and off-premise consumers. They operate a portfolio of over 69 brands with the most popular being Molson Canadian, Miller Lite, Coors Lite, and Carling. The company also has part ownership of beer distributors and retailers in the Canadian market.

Segments

Molson Coors Beverage Company operates primarily in the brewing, marketing, and distribution of beer. Molson's reportable segments are as follows (*please note as of Q1 2020 Molson Coors has changed its reporting segments*):



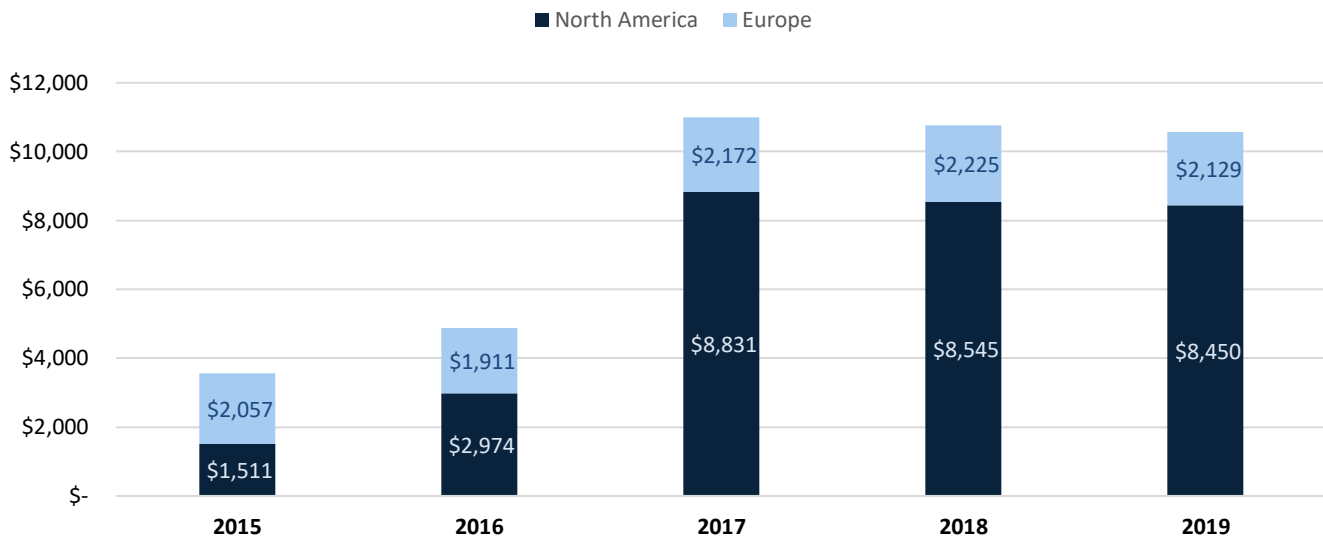
North American Segment (Formerly Canada, United States and South America)

The North American segment of Molson Coors consists of the former Canadian and United States operation as well as the corporate centre. South American and Pacific operations also report into this segment. Within the segment, Molson is the 2nd larger brewer by volume representing 23% of brewing industry shipments in the US and 31% in Canada. Within the US, Molson primarily acts as a brewer and marketer of beer and relies on 3rd party distribution and retail. In Canada, the company operates differently in each province as alcohol is regulated based on specific provincial regulations. Specifically, in Ontario, Molson Coors distributes and retails beer through their part ownership in Brewers Retail Inc (BRI). In the western provinces, Molson Coors distributes and retails beer through their part ownership in Brewers Distributor Ltd (BDL). BRI is owned partly by each of MCC, Labatt Breweries of Canada (a subsidiary of ABInBev) and Sleiman Breweries Inc. BDL is owned by both MCC and ABI. In both North American markets, Molson Coors beverages are sold to both on-premise and off-premise retailers. Distribution is either handled by third-party distributors or by Molson Coors itself, but this varies based on geographic location.

European Operations (Formerly Europe, Asia, and Africa)

The European segment of Molson Coors is run by a separate management team and consists of the former Europe segment, Asia segment, Africa segment, and other smaller international segments. Molson Coors is the second-largest brewer by volume in Europe with approximately a 19% market share. They currently operate 12 primary breweries and numerous other craft breweries. MCC distributes and retails beer using a two or three-tier system. In the UK, the beer produced by MCC is sold directly to retailers and is distributed using third-party logistics services such as DHL. In the rest of Europe, MCC uses both direct selling to retailers as well as selling to distributors depending on the geographic area. In Europe, roughly 60% of sales are to on-premise retailers and 40% are to off-premise retailers. In the rest of the European segment (Asia, Africa), beer is imported by MCC then sold through independent third-party retailers. The only exception is in India where MCC has three breweries that distribute beer directly.

Revenue by Segment (\$M) FY15 – FY19



Product Offerings

Global Priority Brands

The global priority brands produced by Molson Coors are brands that are positioned to meet a wide range of consumers and a variety of markets. They are brands that Molson will continue to focus on and invest in growing globally. The global priority brands are *Blue Moon*, *Coors Banquet*, *Coors Light*, *Miller Genuine Draft*, *Miller Lite*, and *Staroprmn*.



Regional Brands

Regional brands encompass the majority of brands Molson Coors offers and includes premium, above premium, and economy brands. In the US some of the more popular regional brands include Miller High life and Keystone. In Canada, the largest regional brand is Molson Canadian, a Canadian favourite. Within Europe, there are numerous regional offerings with the most popular being Carling, especially in the United Kingdom.



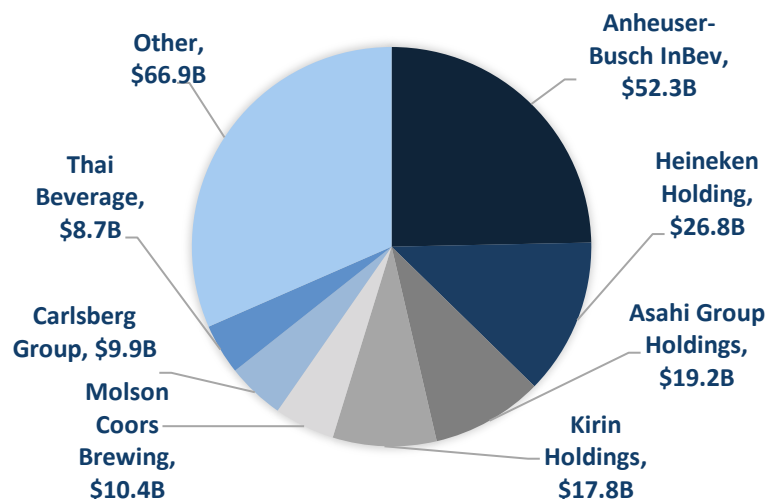
Craft Beer and Imports

The focus of Molson Coors over the next years will be expanding its craft offerings. Craft beer is characterized by a hoppy taste that is becoming a growing consumer preference. Within this segment, there are also international import brands that are licensed from other brewers. Some of Molson Coors's largest craft and import offerings are Peroni and Granville Island Brewing.

Industry Analysis

Molson Coors operates within the beer manufacturing industry. The global beverage market has three categories of products: (1) Brewing Products, (2) Distillery Products, and (3) Soft Drink Products. Molson Coors focuses on the brewing products within the industry and within the category, MCC is the 5th largest beer producer in the world. The brewing products industry accounted annually for \$212B of sales in 2019 and produced 189.5B litres in 2019. Revenues for the industry globally are expected to grow at a CAGR of 4.3% through 2025. Two primary geographic industries are North America Beverages and Europe Beverages.

Revenue from Largest Brewers (\$B) FY2019: 145.1B\$



North America: Breweries

The North American brewing industry is known for its heavy competition between top brands. In recent years, the industry has begun to include hard seltzers within its reporting as more companies begin producing the drink. The industry is mostly made up of Molson Coors and ABInBev which control over 55% of the market with the rest being distributed among other multi-national companies like Heineken, Carlsberg, Pabst, Boston Beer Company, and a few others. Although the companies compete through the quality of their beverages, the easily substitutable products are distinguished through heavy advertising campaigns put on by the major players within the market. The industry is fairly mature and has very high levels

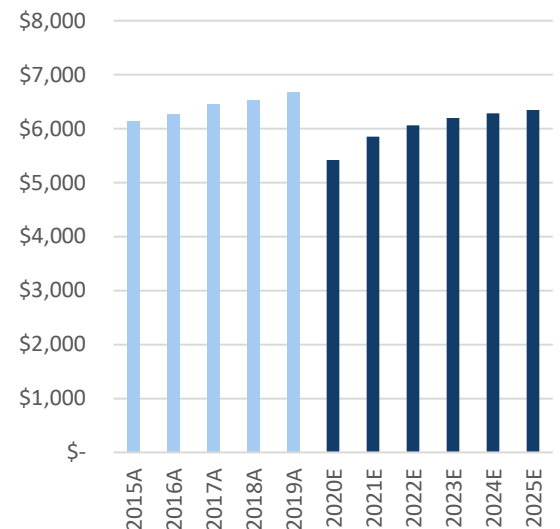
of concentration, competition, and government regulation resulting in a very hard environment for new players to enter the market.

Canada

The Canadian side of the industry produced \$5.4B of revenue in 2020. Although the industry size has been growing, the 18% drop in industry revenue attributable to the COVID-19 pandemic has severely burdened companies that operate within it. The primary drivers for profit in the industry are: (1) per capita consumption, (2) per capita disposable income and (3) the world price of wheat. The two formers are expecting slow growth over the next 5 years with the latter expecting consistent prices through 2025. 90% of brewers in Canada are small operations with less than 15 000 Hectolitres of production per year. The craft beer industry in Canada is not as developed as the United States but more and more microbrewers have been appearing over the last 5 years. This poses a threat to larger companies if consumer preferences continue shifting toward lower quantities of beer with higher quality. The industry is expected to grow over the next 5 years at a CAGR of 3%.

Canada Beer Industry Revenue (\$M)

FY15 – FY25 CAGR: 3.0%

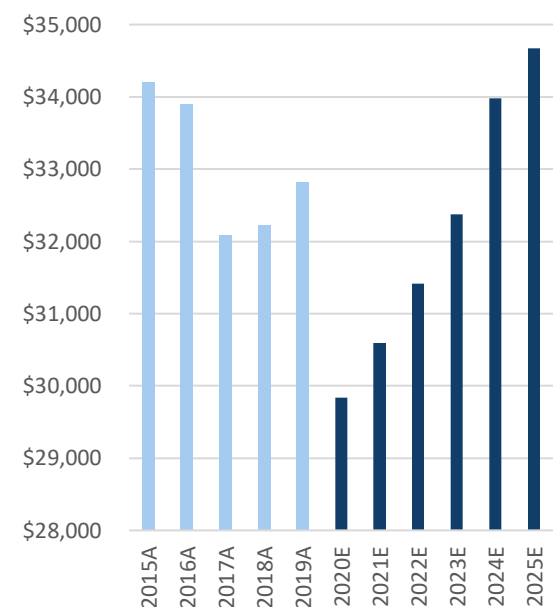


United States

The American side of the industry produced \$29.8B of revenue in 2020. Like the Canadian industry, the industry has been growing but COVID brought a 9.1% decline in revenue in 2020. The primary drivers of the industry are: (1) per capita expenditure on alcohol, (2) excise tax on beer, and (3) overall consumer spending. All three drivers are expected to remain consistent over the next 5 years leading to slow growth much like the Canadian industry. This means that value generation will likely occur due to inorganic growth or product innovation performed by companies. The industry outlook is great for large brewers like Molson Coors and ABInBev due to high barriers of entry and potential cost savings with bulk ordering. The ability large brewers possess to shift offerings with consumer preferences is a substantial competitive advantage within the industry as consumer tastes have been changing more rapidly in recent years and there are largely untapped markets for these brewers to capitalize on. Overall, the industry is expected to grow at a CAGR of 2.6% through 2025.

US Beer Industry Revenue (\$M)

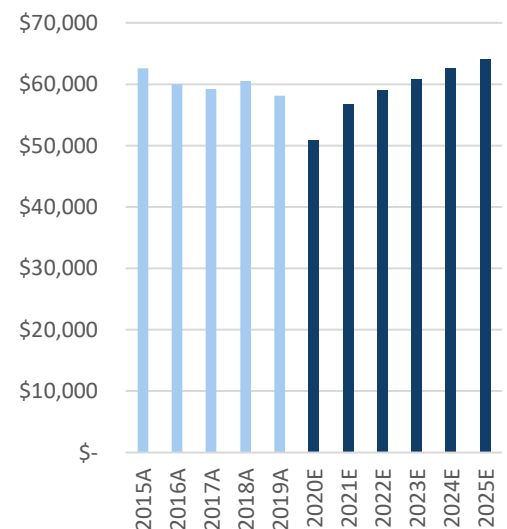
FY15 – FY25 CAGR: 2.6%



Europe: Breweries

The European beer market accounted for \$50.9B of global beer revenue in 2020 and has been growing at a CAGR of 2% since 2015. The industry is expected to grow in the next 5 years due to: (1) the expected 2.5% annual growth in consumer spending in Europe through 2025, (2) the increasing demand for craft beer, and (3) the re-opening of on-premise establishments after the pandemic. In addition to more consumer spending in the next 5 years, Europe expects to follow suit with the Canadian and US markets with increase spending on craft beer options. The craft market is expected to grow at a CAGR of 11% (\$.3B) through 2024. Due to the pandemic, beer consumption in Europe has been severely impacted as 60% of alcohol consumption is through on-premise channels. As more establishments reopen and COVID-19 regulations are relaxed alcohol beverages will recover lost revenue from these establishments, the industry is expected to grow at a CAGR of 4.8% through 2025.

Global Breweries Industry Revenue (\$M)
FY15 – FY25 CAGR: 4.8%



Company Strategy

Recent industry trends and the entrance of new players and consumer tastes within the beer market have required a major shift in strategy for Molson Coors. To help keep the Company remain as strong as it has been in the past, a revitalization plan to help push the company's brands to the top of the market has been put in place. To stay competitive within the industry the Company has determined three areas of focus for long-term sustainable growth: (1) strengthening staple brands, (2) aggressively growing premium offerings, (3) and expanding into other types of beverages.

Build Strength for Staple Brands

Molson Coors is known primarily for the Coors Light and Miller Lite brands. Through 2020, the goal of strengthening brand share of the two staple brands was successful and they both grew for the six & 24th consecutive quarters, respectively. Both brands saw increases in volumes (6.1% and 8.6% respectively) in 2020. The tough staple brand market caused by the COVID-19 pandemic is being felt by all competitors within the beer industry, but Molson Coors has still been able to grow market share and should continue to do so in the future.

Grow Above Premium Offerings

The expansion of premium offerings has two primary focuses: (1) growing craft beer offerings and (2) growing seltzer and alternative alcohol offerings. With consumer taste shifting to craft and microbrewers, a major focus of the revitalization plan is to aggressively grow the craft offerings of Molson Coors. Blue Moon LightSky has become the top-selling new beer in 2020 and it represents most Molson Coors craft offerings. Molson Coors grew their production capacity of Blue Moon and hard seltzer by 400% in Q4 2020 and are planning to keep increasing production to push these brands to consumers. Molson Coors has doubled their seltzer market share in 2020 and has set the goal of double-digit seltzer market share by

2021. The company is also in the works of creating a joint venture with Yuengling, America's oldest brewing company, to bring the iconic beer to 25 additional states.

Expanding Beyond Beer

Since the revitalization plan has been put in action, management has had a strong focus on two areas of non-alcoholic drinks: (1) Cannabis-infused drinks and (2) non-alcoholic beverages. Within the cannabis market, Molson launched a joint venture through Truss, a cannabis-infused drink maker. The cannabis market in Canada is expected to grow from \$242M as of 2018 to \$580M in 2025. As more people start to try cannabis (71% of Canadians cite smoking as their primary turn off from cannabis) and as more states and countries legalize it, Molson Coors will be able to capitalize on key partnerships with companies like Truss to lead the charge into alternative cannabis markets. The US has stricter laws when it comes to cannabis but the recent expansion of Molson's cannabis-infused products in Colorado through HEXO in December of 2020 has been a huge success. HEXO (which MCC owns 57.5% of) experienced QoQ revenue growth 114% in Q1 2021. Thus, as more states legalize cannabis, there will be an opportunity for Molson to expand market share because of their already well-established product lines.

M is also expanding its reach into non-alcoholic beverages. Within recent years, Molson Coors has launched a new line of non-alcoholic products from drink innovator LA Libations LLC. They also hold a minority stake in Zen Beverages LLC and its primary brand ZenWTR. With more acquisitions on the horizon, Molson will continue to look for ways to expand outside of the beer industry and increase cash flows.

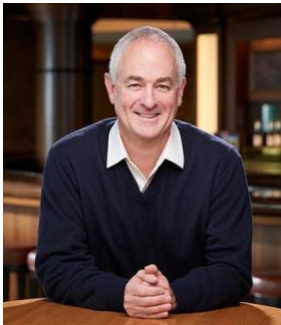


Management Team

Molson Coors prides itself on being at heart, a family-run beer business. The entire management team has an extensive history of working in the beer industry and most of the management team has been in executive roles for some of the largest brewers in the world.

Mr. Gavin Hattersley – President and Chief Executive Officer Molson Coors

Mr. Hattersley has been serving as the Chief Executive Officer of Molson Coors since 2016 when Molson Canada merged with MillerCoors. Prior to becoming the CEO of Molson Coors, Gavin was the CEO of MillerCoors, the US division of Molson



Coors, from September 2015 to early 2016. From June 2012 to September 2015, he served as the Chief Financial Officer of Molson Coors. Before this, Mr. Hattersley has held positions as Executive Vice President and Senior Vice President of Miller Brewing Company since 2002. Prior to coming to the United States, Gavin Hattersley served in financial management positions for SAB Limited of Johannesburg South Africa.

Mr. Hattersley brings to the management team an extensive history in both management as well as brewing beer. He has been involved in the beer industry since starting at SAB Limited in 1998. His passion to brew top-quality beer has helped make Molson Coors a top contender in the beer

industry. Mr. Hattersley currently sits on the board of Molson Coors.

His total compensation for FY19 was \$5.23 million. This breaks down into a \$995 000 base salary, \$2.2M of stock awards, \$703 000 in option-based awards, \$1M of non-equity incentive plan compensation, along with a \$69 000 change in pension value and non-qualified deferred compensation earnings as well as \$188 000 of other compensation. The non-equity compensation was based on an equal weighting of key performance indicators: pre-tax income, sales divided by volume, financial volume, and underlying FCF.

Ms. Tracy Joubert – Chief Financial Officer



Tracey Joubert is currently serving as the Chief Financial Officer of Molson Coors and is one of two women on the management team of MCC. Prior to her current role, Tracey served as the Chief Financial Officer and Executive Vice President of MillerCoors from 2013 to 2016. Before entering her role in 2021, she served as the Vice President of Finance, Planning & Analysis since the formation of MillerCoors in 2008. She has also held roles at Miller Brewing Company and SAB Limited before her employment at MillerCoors. Before entering the beer business, Tracey was a Financial Manager at Barloworld, Ltd and articulated at KPMG in South Africa.

Tracy Joubert's total compensation for FY19 was \$2.73M. This breaks down into a \$729 000 base salary, \$1.1M of stock awards, \$302 000 in option-based awards, \$421 000 of non-equity incentive plan compensation, along with a \$51 000 change in pension value and non-qualified deferred compensation earnings as well as \$126 thousand of other compensation. The non-equity compensation was based on an equal weighting of key performance indicators: pre-tax income, sales divided by volume, financial volume, and underlying FCF.

Mr. Simon Cox – President & Chief Executive Officer Molson Coors Europe



Simon Cox is the serving President and Chief Executive Officer of Molson Coors Europe. Prior to his current role, he served as managing director for Molson Coors UK from September 2012 to December 2014. He joined Molson Coors in 2005 as director of supply chain strategy and developed increasing responsibility through his position as strategy director. Before joining Molson Coors, Simon held several senior leadership positions within the global brewer Carlsberg.

Simon Cox had total compensation for FY19 of \$2.02M. This breaks down into a \$493 000 base salary, \$883 000 of stock awards, \$241 000 in option-based awards, \$111 000 of non-equity incentive plan compensation, along with a \$139 000 change in pension value and non-qualified deferred compensation earnings as well as \$151 000 of other compensation. The non-equity compensation was based on an equal weighting of key performance indicators: pre-tax income, sales divided by volume, financial volume, and underlying FCF.

Mr. Rahul Goyal – Chief Strategy Officer



Rahul Goyal is the Chief Strategy Officer for Molson Coors. Prior to his current role, Rahul was the Vice President of Corporate Strategy and M&A for Molson Coors. He has served Molson Coors since 2001 in mostly strategic roles including Chief Information Officer for the UK segment, Chief Financial Officer for India operations, and various other M&A roles.

As Rahul Goyal is not a NEO for the company, we do not have information on his salary, however, it is important to realize his importance to management as he is the major decision-maker behind strategically choosing company acquisitions which will be a major driver of Molson Coors revenue in years to come as they expand into alternative beverages. He is also a force behind the company's revitalization plan that has helped the company grow.

Investment Thesis

Market View

The market views Molson as a conventional North American brewer that has consistently missed earnings expectations before the pandemic and has very little growth potential. Changing consumer tastes, decreased demand for beer, and the COVID-19 pandemic all continue to shine a negative light on the Company. After variably beating and missing earnings the last 5 years, Molson beat all expectations in Q1, Q2 and Q3 of 2020 which gave a glimmer of hope to investors. This was immediately turned around as Q4 2020 results missed estimates by 50%. Despite unexpected growth during 2020, the market has focused on the negative Q4 and investors are skeptical of how much growth Molson Coors can achieve within one of the most competitive industries in the world.

Thesis 1: Increased Share of Growing Markets

Molson Coors has the unique advantage of being in an agile position to develop and grow new brands. The tried and true processes developed from two decades of business have allowed for quick product development, meaning Molson can expand into growing markets. Molson's current brewing equipment can produce a variety of beverages allows Molson to quickly introduce new beverages to market and the Company has cut the normal 18-month development time to 4 months. Pair the agility of Molson's manufacturing processes with the new brands that satisfy changing consumer preferences, and it is a Company that has much more growth potential than investors see from the surface. Overall, investors have severely underestimated the seltzer expansion and they also underestimate the ability of Molson Coors to launch other brands into growing markets.

Thesis 2: Growth in Staple Brands Revenue

Although Molson Coors has expanded into alternative beverages, a large proportion of their revenue continues to come from staple brands sold through on-premise channels (9% of sales in North America and 55% in Europe). Investors have underestimated European channels of on-premise consumption which was a prime contributor to revenue loss in Q4 2020. As more and more individuals get a COVID-19 vaccine and on-premise establishments open in Europe, sales from the staple brands of Molson Coors will generate an unexpected amount of on-premise revenue and beat estimates. Overall, we believe that MCC's revenue-generating capability from on-premise channels has been severely underestimated by investors and this leaves a lot of growth potential in the value of the company.

Thesis 3: Partnerships in New and Hot Markets

In order to continue growing the Company beyond just alcoholic markets, Molson Coors has placed a large emphasis on new markets as well as existing hot markets. Molson has formed key partnerships with both companies and individuals. Growth potential from the joint cannabis venture Truss and Dwayne "the Rock" Johnson energy drink both have unrealized value that a lot of investors have overlooked. Once these drinks enter their respective markets, Molson will have a diversified, growth-focused portfolio that will provide value to shareholders far into the future. In relation to partnerships, we believe that investors are not as optimistic as they should be about the size of the emerging cannabis market as well as the growing energy drink market and, in turn, have undervalued Molson Coors's recent partnerships as well as their potential for future partnerships.

Catalysts

Catalyst 1: Alcoholic Beverage Brand Expansion

Molson Coors has been expanding outside of beer for the last 5 years. Recently they announced a 400% increase in Molson's hard seltzer production. The seltzer has not been around long, but seltzers have been one of the fastest-growing beer alternatives in the United States and the recent expansion allows Molson to capitalize on the growing market. The seltzer market was worth 4.51B in 2020, and has a lot of room for growth, with most estimates predicting a 16% CAGR through 2027. Molson Coors will drive their expansion into the seltzer market through the gradual introduction of Coors Seltzer and Vizzy into new markets. The drinks have already launched in the US with large success and we expect that their entrance into Canadian and European markets will be met with similar results. Given current market trends, there is a high likelihood that MCC's seltzers will be successful within their respective markets

Catalyst 2: Larger than Expected Post-Pandemic Consumption

Historically Molson Coors' economy beer lines have been a key staple in the North American party scene and at European on-premise establishments. With four COVID-19 vaccines being approved in Canada, Europe and the United States, there is the expectation that by 2022, the majority of both countries' populations will have received a vaccine and will be able to return to pre-pandemic consumption levels. Although the initial recovery may be priced into the stock, we believe that there will be a larger than expected return to standard Molson Coors offerings than the market currently perceives.

Specifically, Q2 and Q3 which correspond to summer months bring increased consumption for brands like Molson Canadian, Coors Lights, and Miller Lite during normal years. We believe investors have overlooked the impacts of a COVID-19 vaccine on the consumption of these brands. An average NFL game brings in \$500K in alcohol sales with a large amount of the beverages being staple brands. With a vaccine on the horizon, the return of in-person sports will drive sales up for the struggling product portfolio of Molson Coors staple brands. Additionally, recent revenue losses can be attributed greatly towards decreased consumption through on-premise channels within Europe and as soon as individuals can return to these establishments there will be a large increase in sales. The return of in-person events along with general “party culture” will compound into a much larger than expected sales growth in key staple brands volume.

Catalyst 3: Strategic Partnerships

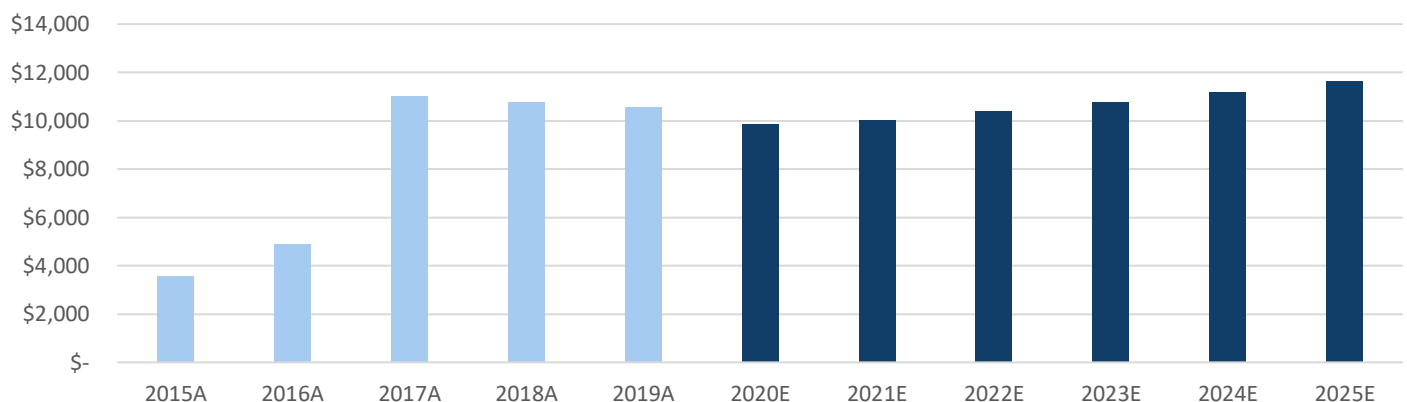
Beyond just beer and seltzers, Molson Coors Beverage Company has entered multiple key partnerships that will help to drive growth in alternative markets. Molson has a majority stake in HEXO, an alternative cannabis producer. HEXO has had major success in the Canadian market with the company’s revenue almost doubling from 2019 to 2020. The introduction of the cannabis-infused drink into the US will provide Molson with another revenue stream in an alternative market that has a lot of growth potential. With the cannabis industry poised to grow at a 19% CAGR through 2025, Molson will gain a large market share in the industry as they are one of the first entrants and this will lead to increased revenue. Molson also has a lot of growth potential with a recent partnership to make energy drinks with Dwyane the “Rock” Johnson. The energy drink market is growing and is estimated to be worth 19B by 2024. This deal has gone very under the radar and more deals like the Dwyane Johnson deal will result in great success for Molson’s expansion into alternative markets. The recent success of partnerships with cannabis drinks like HEXO leads us to believe there is significant potential for Molson Coors to succeed in the energy drink market. The agility Molson possesses to increase their offerings beyond just beer is often overlooked and something that we believe will provide shareholders with more value in the future.

Valuation

DCF Analysis Assumptions

Total Revenue (\$M)

FY15 – FY25



Molson Coors Revenue

We have projected Molson Coors revenues separately for both the North American and European segments. Both segments' revenues are expected to consistently increase over the next 5 years, as they take advantage of increasing consumer spending and trends within the beer industry. The acquisition of numerous alternative alcoholic beverage brands will also drive steady increases in the North American segment. Both segments are driven using a weighted average price per million hectolitres based on the last 5 years of sales which is used to determine revenue for the next 5 years based on the projected growth in volume produced by the industry. For North America, we used an average price of \$120 per million hectolitres and in the European segment, \$95.20 per million hectolitres.

Costs

Molson Coors COGS has been consistent over the past 5 years between, 56% and 62%. We have decided to conservatively maintain COGS at 61% due to the concerns over variability in costs of raw materials that are based on the commodity markets. The recent changes to the management structure of MCC is expected to significantly reduce SG&A expenses since there was a major consolidation of costs into one department from four separate segments. This has already been partially realized as of the 2020 annual report. We predict that SG&A will decrease to 15% by 2022 and remain constant for the foreseeable future. Operating expenses have been highly variable over the last 5 years especially given recent acquisitions. To remain conservative, we have decided to use a constant operating expense of 5% of revenue through 2025

Capital Expenditure

We believe that Molson Coors will continue to acquire alternative drink brands in the future to grow its market share in other industry segments. With this in mind, we have decided to increase CAPEX beyond historical averages of 15% to 20% of beginning PP&E to account for the realistic possibility of major acquisitions in the future. 22% of PP&E is also the capital expenditure in years where previous acquisitions were made.

Weighted Average Cost of Capital

The weighted average cost of capital (WACC) was calculated to be 5.1%. This was calculated using a risk-free rate of 1.14% based on the 10-year United States Treasury Bill return. The expected market return was based on Bloomberg data and was determined to be 8.97%. A beta also drawn from Bloomberg was 1.01 and this determined that the cost of equity was 9.05%. A pre-tax cost of debt of 0.99% was used as per the interest rate the firm currently has on its long-term debt. An effective tax rate of 23% was used representing a conservative estimate for 2021 onwards. This led to a cost of debt of 0.5% and a WACC of 5.3%.

Dividend Policy

Molson Coors cut its dividend for 2020 as a cash-saving measure during the pandemic. However, once the economy recovers from the pandemic and there is less uncertainty in the beer market, there is no evidence to suggest that management will not re-instate the dividend. Our model reflects a consistent \$0.57/quarter dividend starting from Q4 2021.

Tax Rate

We have assumed a slightly conservative tax rate of 33%. This is in large part due to Molson Coors having large differences in year to year tax rates. Since 2015, the tax rate has varied between 16% to 45%. Our 33% estimate is meant to be an average that will counteract any volatility in their tax rate year-to-year.

Comparable Company Analysis Set

The companies listed below have a comparable business model to Molson Coors. They share very similar operating activities including the brewing, marketing, and distribution of beer products. They are all global brands that have representation in the beer market all over the world.

Constellation Brands International

Constellation Brands International (CBI) is a US-based company that operates three main product lines: Beer, Wine, and Spirits. They offer mostly premium beers and a diverse portfolio of wine and spirits. The company operates its brands internationally and has a goal of constant innovation in beverages much like Molson Coors.

The Boston Beer Company

The Boston Beer Company is a US-based company that operates a select portfolio of three product lines. It operates through brewing, marketing, and distributing its products. The first and largest is their Samuel Adams beer portfolio which brews over 60 different styles of beer. They also have expanded into the alternative alcoholic beverage industry through their acquisition of Twisted Tea and Angry Orchard hard cider in 2001 and 2015 respectively.

Heineken N.V

Heineken N.V is a Dutch-based beer company that brews over 300 different brands of beer. They are pioneers in the industry and the largest brewer in Europe and 2nd largest in the world. Recently, Heineken N.V has been pushing expansion into the craft beer industry in Europe. The Company brews primarily beer and ciders.

Sapporo Holdings Limited

Sapporo Holdings Limited is a Japanese company that operates in three segments. Alcoholic Beverages, Food & Soft Drink, and Real Estate. Their primary business the alcoholic beverages division Sapporo Breweries Limited focuses on the North American and Asian Markets and owns a portfolio of alcoholic beverage brands.

Carlsberg A/S

Carlsberg Group is a Denmark-based beer company that has its primary market in the eastern area of Europe. They operate a portfolio of many beer brands and are attempting to expand into the craft and alcohol-free beer industries.

Asahi Group Holdings

Asahi Group Holdings operates like Sapporo Holdings Limited and is a Japanese company focused on Alcoholic Beverages, Soft Drinks, and Food. Their alcoholic beverages company operates a select portfolio of beers and spirits like Asahi draft, Grolsch, and many more.

Anheuser Busch InBev

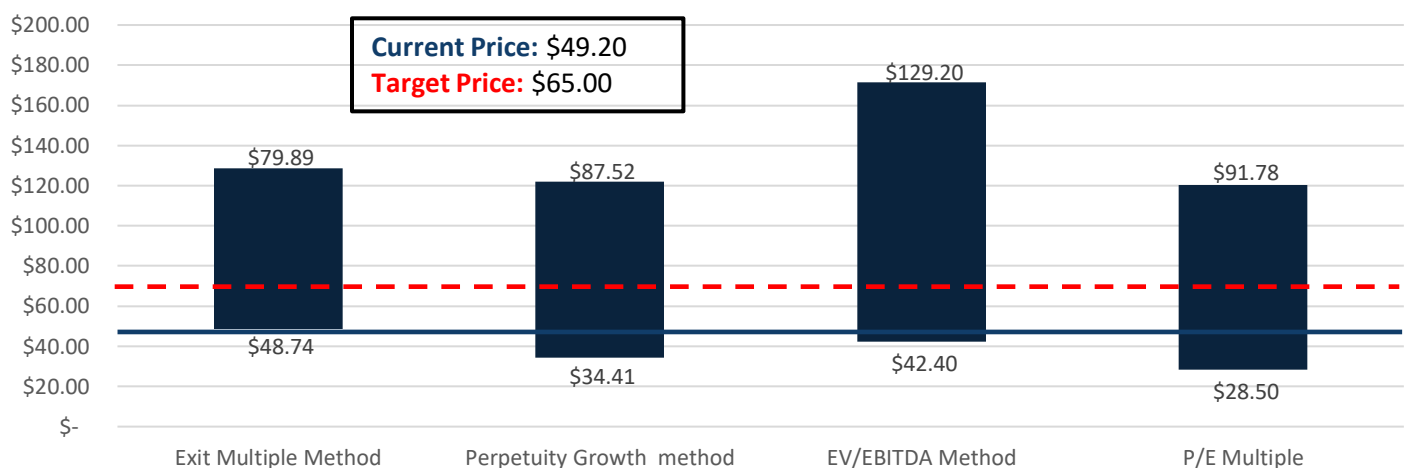
Anheuser Busch InBev (ABInBev) is a Belgium-based company that manages a multinational portfolio of many different beers and drinks. Much like Molson Coors, ABInBev is attempting to break into the alternative beverage market as well as the craft beer market. Some common brands from the company are Castle, Budweiser, Bud Light, Stella Artois and many more.

Recommendation

We believe that the Molson Coors Beverage Company is undervalued by the market. Although Molson's share price was recently impacted by severely underperforming market expectations, we believe that the market has not fully realized the potential of the revitalization plan and the success of recent acquisitions and ventures as there is still negative sentiment present from the pandemic. With a vaccine and immunity on the very close horizon, we expect Molson Coors to increase sales based on larger than expected revenue due to the compound effect of numerous factors such as the end of the pandemic, summer sales increases as well as Molson Coors's potential in large untapped emerging markets.

Weighted Price Target

We have decided to drive our price target based on both a perpetuity growth method as well as an EV/EBITDA exit multiple method from our DCF as well as the P/E and EV/EBITDA multiple from our comps all weighted at 25%. This has led us to an implied share price of \$65.00.



Based on our Discounted Cash Flow model and our Comparable Companies Analysis, we determined a fair share price of \$65.00. We initiate a **BUY** rating on Molson Coors Beverage Company.

Shareholder Base, Liquidity, Market Depth

Ownership Breakdown

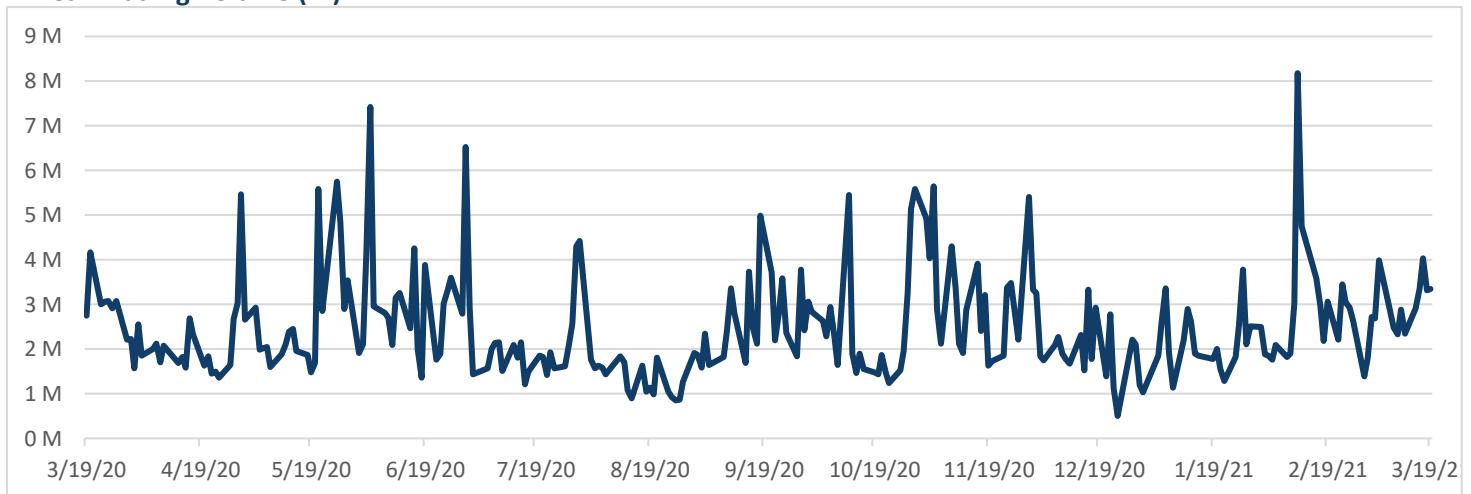
Molson Coors Beverage Company has 200.3M shares outstanding, with a free float currently at 184.3M shares, translating to a 92.5% float and roughly 5% short. The 6 largest shareholders listed below make up 45.7% of share ownership and insiders hold 11.45% of shares outstanding.

Shareholder	Shares Owned	% of Shares Outs.	Country	Insider (Y/N)
Dodge & Cox Inc	29,806,693	14.88	United States of America	N
Vanguard Group, Inc.	19,187,855	9.58	United States of America	N
Blackrock Inc.	14,079,890	7.03	United States of America	N
Adolph Coors Company LLC	13,536,806	6.76	United States of America	N
State Street Corporation	9,018,221	4.50	United States of America	N
Clarkson Capital Partners LLC	5,887,564	2.94	United States of America	N
LSV Asset Management	5,822,167	2.91	United States of America	N

Share Liquidity

The table below shows the daily trading volume of Molson Coors over the past year.

1 Year Trading Volume (M)



Risks

Fluctuation in World Commodity Prices

The large volume of raw materials that Molson Coors uses in the brewing of beer makes the Company heavily subjected to fluctuation in commodity price changes. The primary commodity risk lies with barley, hops, corn, water, and aluminum for cans. Any major price change can increase costs and have an immediate effect on profits for the Company. Although there

are mitigants in place to hedge, they may not be sufficient to decrease the adverse effect on profitability. For this reason, a large risk to Molson Coors is the variability in the cost of goods sold that could adversely affect profits.

Small Breweries Increasing Market Share

The global beer industry and broader alcohol industry are constantly evolving, and this poses a major risk to Molson Coors if they cannot continuously innovate. MCC's position as the 5th larger beer brewer is at risk if they do not change their products with the industry. Smaller local brewers within certain geographies are seeing accelerated growth as consumers increasingly place value on locally produced products. The vast expansion in the Canadian and European craft beer markets along with the growth of seltzers poses a risk to Molson Coors's market share.

Reliance on Specific Products

Molson Coors' revenue relies a lot on relatively few products in several mature markets specific to the beer industry. If consumer preferences shift away from Molson Coors' products, consumption will decrease, and revenues will be greatly affected. This risk is being mitigated through the plan for Molson Coors to innovate in other markets and increase market share as time goes on.

Failure to Maintain Brand Reputation

The beer industry is heavily saturated with many substitutes. Any event that degrades the reputation of Molson Coors will adversely affect demand for the product and reduce cash flow. Molson Coors is heavily reliant on the success of their image and brand. Concerns about product quality, even if false, can be very harmful to their image and reputation. There are many quality control methods in place to mitigate this risk within Molson Coors breweries. The brand is also a family name and any negative media attention to any member who bears a brand's name can cause decreased demand for the product and negatively affect cash flows.

Exhibit 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 USD)	FY2015	FY2016	FY2017	FY2018	FY2019	Q1-2020	Q2-2020	Q3-2020	Q4-2020	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Income Statement															
Revenue	3,567.5	4,885.0	11,002.8	10,769.6	10,579.4	2,102.8	2,503.4	2,753.5	2,294.3	9,654.0	9,893.8	10,269.2	10,659.1	11,064.2	11,485.0
EBITDA	881.6	3,711.0	2,490.5	2,489.5	1,623.4	164.0	695.7	729.0	(1,075.6)	513.1	1,741.3	1,848.4	2,025.2	2,102.2	2,182.2
Net Income	398.5	1,599.8	1,587.8	1,134.6	246.2	(115.4)	197.2	346.4	(1,373.9)	(945.7)	406.6	478.1	585.0	624.7	666.2
Earnings Per Share	\$ 2.14	\$ 7.50	\$ 7.33	\$ 5.24	\$ 1.14	\$ (0.53)	\$ 0.91	\$ 1.60	\$ (6.33)	\$ (4.36)	\$ 1.87	\$ 2.20	\$ 2.70	\$ 2.88	\$ 3.07
Cash Flow Statement															
Capital Expenditures	(275.0)	(341.8)	(599.6)	(651.7)	(593.8)	(225.1)	(120.0)	(111.3)	(118.4)	(574.8)	(938.2)	(951.3)	(970.3)	(989.7)	(1,009.5)
Acquisitions	(91.2)	(11,961.0)	-	-	-	-	-	-	-	-	-	-	-	-	-
Divestitures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Payment	(303.4)	(352.9)	(353.4)	(354.2)	(424.4)	(123.4)	(1.9)	-	-	(125.3)	(123.5)	(494.1)	(494.1)	(494.1)	(494.1)
Dividend Per Share	\$ 1.64	\$ 1.64	\$ 1.64	\$ 1.64	\$ 1.96	\$ 0.57	\$ -	\$ -	\$ -	\$ 0.57	\$ 0.57	\$ 2.28	\$ 2.28	\$ 2.28	\$ 2.28
Dividend Payout to Earnings	76.1%	22.1%	22.3%	31.2%	172.4%	-106.9%	1.0%	-	-	-13.2%	30.4%	103.3%	84.5%	79.1%	74.2%
Dividend Payout to Core FCF	31.4%	27.5%	14.4%	11.5%	17.0%	30.7%	0.3%	-	-	5.7%	5.6%	21.5%	20.3%	19.7%	19.1%
Dividend Yield	2.1%	1.7%	1.8%	2.3%	3.3%	1.2%	-	-	-	1.3%	1.2%	4.9%	4.9%	4.9%	4.9%
Balance Sheet															
Current Assets	1,258.8	2,169.6	2,189.7	2,766.3	2,184.4	2,372.5	2,542.7	2,640.5	2,418.8	2,418.8	2,279.6	2,455.0	2,564.8	2,716.6	2,912.6
Non-Current Assets	11,017.5	27,171.9	28,057.2	27,343.5	26,675.4	26,088.6	26,096.1	26,034.8	24,912.3	24,912.3	24,986.1	25,072.6	25,160.8	25,250.8	25,342.6
Assets	12,276.3	29,341.5	30,246.9	30,109.8	28,859.8	28,461.1	28,638.8	28,675.3	27,331.1	27,331.1	27,265.7	27,527.6	27,725.6	27,967.4	28,255.1
Current Liabilities	1,217.2	3,157.5	3,399.3	4,300.9	3,695.5	4,003.4	3,805.7	4,310.5	3,909.6	3,909.6	3,561.1	3,839.0	3,946.0	4,057.2	4,172.7
Non-Current Liabilities	3,996.0	14,562.3	13,660.3	12,073.1	11,491.2	11,511.7	11,565.1	10,589.2	10,800.2	10,800.2	10,800.2	10,800.2	10,800.2	10,800.2	10,800.2
Liabilities	5,213.2	17,719.8	17,059.6	16,374.0	15,186.7	15,515.1	15,370.8	14,899.7	14,709.8	14,709.8	14,361.3	14,639.2	14,746.2	14,857.4	14,972.9
Shareholders' Equity	7,043.0	11,418.7	12,978.4	13,507.4	13,419.4	12,686.6	13,002.9	13,512.7	12,365.0	12,365.0	12,648.1	12,632.2	12,723.1	12,853.7	13,025.9
Cash	430.9	560.9	418.6	1,057.9	523.4	666.1	780.8	731.3	770.1	770.1	224.9	223.1	264.6	345.6	467.9
Debt	(430.9)	(560.9)	(418.6)	(1,057.9)	(523.4)	(666.1)	(780.8)	(731.3)	(770.1)	(770.1)	(224.9)	(223.1)	(264.6)	(345.6)	(467.9)
Net Debt															
Minority Interests	20.1	203.0	208.9	228.4	253.7	259.4	265.1	262.9	256.3	256.3	256.3	256.3	256.3	256.3	256.3
Debt/EBITDA	n/a	n/a	n/a	n/a	n/a					n/a	n/a	n/a	n/a	n/a	n/a
Operating Metrics															
Return on Equity (ROE)	5.7%	14.0%	12.2%	8.4%	1.8%	-0.9%	1.5%	2.6%	-11.1%	-7.6%	3.2%	3.8%	4.6%	4.9%	5.1%
Return on Assets (ROA)	3.2%	5.5%	5.2%	3.8%	0.9%	-0.4%	0.7%	1.2%	-5.0%	-3.5%	1.5%	1.7%	2.1%	2.2%	2.4%
Return on Invested Capital (ROIC)	4.0%	1.2%	6.5%	4.8%	0.1%	-0.5%	-0.1%	1.5%	-6.9%	-4.3%	1.5%	1.8%	2.1%	2.3%	2.4%
Valuation Metrics															
Stock Price (High)	\$ 95.74	\$ 111.02	\$ 102.14	\$ 85.86	\$ 67.24	\$ 58.02	\$ 47.40	\$ 38.43	\$ 48.21	\$ 58.02	\$ 46.63	\$ 46.63	\$ 46.63	\$ 46.63	\$ 46.63
Stock Price (Low)	\$ 63.91	\$ 80.78	\$ 76.25	\$ 54.17	\$ 49.82	\$ 34.56	\$ 34.36	\$ 32.65	\$ 32.78	\$ 32.65	\$ 46.63	\$ 46.63	\$ 46.63	\$ 46.63	\$ 46.63
Stock Price (Average)	\$ 79.83	\$ 95.90	\$ 89.20	\$ 70.02	\$ 58.53	\$ 46.29	\$ 40.88	\$ 35.54	\$ 40.50	\$ 45.34	\$ 46.63	\$ 46.63	\$ 46.63	\$ 46.63	\$ 46.63
Diluted Shares Outstanding (Average)	186.4	213.4	216.5	216.6	216.9	216.7	217.0	217.0	216.9	216.8	216.9	216.9	216.9	216.9	216.9
Market Capitalization (Average)	14,879.4	20,465.1	19,310.7	15,165.2	12,695.2	10,031.0	8,871.0	7,712.2	8,783.4	9,828.6	10,114.0	10,114.0	10,114.0	10,114.0	10,114.0
Enterprise Value (Average)	14,468.6	20,107.2	19,101.0	14,335.7	12,425.5	9,624.3	8,355.3	7,243.8	8,269.6	9,314.8	10,145.5	10,147.2	10,105.7	10,024.7	9,902.5
P/E	37.3 x	12.8 x	12.2 x	13.4 x	51.6 x					n/a	24.9 x	21.2 x	17.3 x	16.2 x	15.2 x
EV/EBITDA	16.4 x	5.4 x	7.7 x	5.8 x	7.7 x					18.2 x	5.8 x	5.5 x	5.0 x	4.8 x	4.5 x
FCF Yield to Market Capitalization	3.8%	10.3%	10.9%	10.1%	6.2%					1.5%	-2.4%	6.7%	7.1%	7.5%	7.9%
FCF Yield to Enterprise Value	3.9%	10.4%	11.1%	10.6%	6.3%					1.6%	-2.4%	6.6%	7.1%	7.5%	8.1%
Free Cash Flow															
EBIT	567.2	3,322.6	1,677.7	1,631.8	764.4	(92.5)	458.0	508.3	(1,282.7)	(408.9)	876.9	983.6	1,143.1	1,202.4	1,264.4
Tax Expense	(61.5)	(1,454.3)	204.6	(225.2)	(233.7)	43.3	(204.5)	(104.0)	423.3	134.9	(289.4)	(324.6)	(377.2)	(396.8)	(417.3)
D&A	314.4	388.4	812.8	857.5	859.0	256.5	237.7	220.7	207.1	922.0	864.4	864.8	882.1	899.8	917.8
Capital Expenditures	(275.0)	(341.8)	(599.6)	(651.7)	(593.8)	(225.1)	(120.0)	(111.3)	(118.4)	(574.8)	(938.2)	(951.3)	(970.3)	(989.7)	(1,009.5)
Changes in NWC	23.7	184.6	16.8	(88.0)	(12.5)	(195.1)	463.9	(112.8)	(79.9)	76.1	(754.5)	100.7	38.8	40.3	41.9
Unlevered Free Cash Flow	568.8	2,099.5	2,112.3	1,524.4	783.4	(212.9)	835.1	400.9	(850.6)	149.3	(240.8)	673.3	716.5	756.0	797.2
Valuation Summary															
Current Price	\$ 46.63														
Target Price	\$ 64.49														
Total Return	38.3%														
Recommendation	BUY														
DCF Valuation															
Perpetuity Growth Implied Price	\$ 46.90														
Exit Multiple Implied Price	\$ 66.15														
Comps Valuation															
Comps - EV/EBITDA Implied Price	\$ 81.40														
Comps - P/E Implied Price	\$ 63.50														

Exhibit 2: Discounted Cash Flow

	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Mar-20	Jun-20	Sep-20	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26
(Figures in mm USD)	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	1.1%														
Expected market return	9.0%														
Market Risk Premium	7.83%														
Beta	1.01														
Cost of Equity	9.05%														
Cost of Debt															
Pre-tax cost of debt	0.8%														
Effective tax rate	33.00%														
Cost of Debt	0.5%														
WACC															
Market value of equity	10,114.0														
Market value of debt	8,149.6														
Total Capitalization	18,263.6														
Cost of equity	9.0%														
Cost of debt	0.5%														
WACC	5.2%														
Free Cash Flow															
EBIT	567.2	3,322.6	1,677.7	1,631.8	764.4	(92.5)	458.0	508.3	(1,282.7)	(408.9)	876.9	983.6	1,143.1	1,202.4	1,264.4
Less: Tax expense	(61.5)	(1,454.3)	204.6	(225.2)	(233.7)	43.3	(204.5)	(104.0)	423.3	134.9	(289.4)	(324.6)	(377.2)	(396.8)	(417.3)
Add: Depreciation and amortization	314.4	388.4	812.8	857.5	859.0	256.5	237.7	220.7	207.1	922.0	864.4	864.8	882.1	899.8	917.8
Less: Capital expenditures	(275.0)	(341.8)	(599.6)	(651.7)	(593.8)	(225.1)	(120.0)	(111.3)	(118.4)	(574.8)	(938.2)	(951.3)	(970.3)	(989.7)	(1,009.5)
Less: Change in net working capital	23.7	184.6	16.8	(88.0)	(12.5)	(195.1)	463.9	(112.8)	(79.9)	76.1	(754.5)	100.7	38.8	40.3	41.9
Unlevered Free Cash Flow	568.8	2,099.5	2,112.3	1,524.4	783.4	(212.9)	835.1	400.9	(850.6)	149.3	(240.8)	673.3	716.5	756.0	797.2
Discount factor						-	-	-	0.25	0.25	1.25	2.25	3.25	4.25	5.25
Present Value of Unlevered Free Cash Flow						-	-	-	(839.8)	(839.8)	(242.8)	600.1	606.8	608.3	609.5
Discounted Cash Flow Valuations															
Perpetuity Growth Method															
Perpetuity Growth Rate	1.5%														
PV sum of unlevered FCF	1,342.0														
Terminal value	16,511.3														
Enterprise Value	17,853.3														
Add: Cash	731.3														
Less: Debt	8,149.6														
Less: Other EV adjustments	262.9														
Equity Value	10,172.1														
Shares outstanding	216.9														
Implied Share Price	\$ 46.90														
Current Price	\$ 46.63														
Implied Price	\$ 46.90														
Total Return	0.6%														
Exit Multiple Method															
Terminal EV/EBITDA Multiple	12.4 x														
PV sum of unlevered FCF	1,342.0														
Terminal value	20,687.49														
Enterprise Value	22,029.5														
Add: Cash	731.3														
Less: Debt	8,149.6														
Less: Other EV adjustments	262.9														
Equity Value	14,348.3														
Shares outstanding	216.9														
Implied Share Price	\$ 66.15														
Current Price	\$ 46.63														
Implied Price	\$ 66.15														
Total Return	41.9%														
WACC															
Perpetuity Growth Rate	0.50%	\$ 19.95	\$ 26.45	\$ 34.41	\$ 44.37	\$ 57.18									
	1.00%	\$ 25.16	\$ 32.96	\$ 42.71	\$ 55.25	\$ 72.00									
	1.50%	\$ 31.54	\$ 41.09	\$ 53.38	\$ 69.77	\$ 92.74									
	2.00%	\$ 39.51	\$ 51.55	\$ 67.60	\$ 90.10	\$ 123.85									
	2.50%	\$ 49.76	\$ 65.49	\$ 87.52	\$ 120.58	\$ 175.71									
WACC															
Terminal EV/EBITDA Multiple	10.0 x	\$ 44.58	\$ 46.63	\$ 48.74	\$ 50.92	\$ 53.16									
	11.0 x	\$ 51.99	\$ 54.22	\$ 56.53	\$ 58.90	\$ 61.35									
	12.0 x	\$ 59.39	\$ 61.82	\$ 64.32	\$ 66.89	\$ 69.54									
	13.0 x	\$ 66.80	\$ 69.42	\$ 72.10	\$ 74.87	\$ 77.73									
	14.0 x	\$ 74.21	\$ 77.01	\$ 79.89	\$ 82.86	\$ 85.92									

Exhibit 3: Comparable Company Analysis

(Figures in mm USD)

(Figures in mm USD)				EV/EBITDA Multiple			P/E Multiple		
Company	Ticker	Equity Value	Enterprise Value	2020A EV/EBITDA	2021E EV/EBITDA	2022E EV/EBITDA	2020A P/E	2021E P/E	2022E P/E
Constellation brands Inc	(NYSE:STZ)	44,384.5	55,556.5	18.3 x	17.7 x	17.0 x	(3,836.8 x)	23.7 x	22.2 x
The Boston Beer Company Inc	(NYSE:SAM)	12,105.9	12,022.2	37.4 x	25.1 x	19.3 x	35.8 x	64.5 x	41.6 x
Heineken N.V.	(ENXTAM:HEIA)	60,210.9	80,116.4	16.4 x	13.2 x	12.0 x	39.6 x	24.0 x	20.5 x
Sapporo Holdings Limited	(TSE:2501)	1,457.5	3,703.0	14.2 x	12.1 x	11.1 x	(9.8 x)	69.3 x	37.4 x
Carlsberg A/S	(CPSE:CARL B)	20,569.4	24,394.0	10.7 x	9.9 x	9.1 x	21.8 x	19.2 x	16.8 x
Asahi Group Holdings	(TSE:2502)	20,308.5	37,668.9	14.9 x	11.5 x	10.8 x	22.4 x	14.6 x	12.9 x
Anheuser Busch InBev	(ENXTBR:ABI)	139,659.5	235,492.5	13.9 x	12.4 x	11.7 x	33.7 x	21.9 x	19.4 x
Molson Coors Beverage Co.	(NYSE:TAP)	10,196.5	17,877.7	34.8 x	10.3 x	9.7 x	(10.8 x)	25.1 x	21.3 x
Median					12.4 x	11.7 x		23.7 x	20.5 x
Mean					14.6 x	13.0 x		33.9 x	24.4 x
High					25.1 x	19.3 x		69.3 x	41.6 x
Low					9.9 x	9.1 x		14.6 x	12.9 x
					EV/EBITDA Implied Price		P/E Implied Price		
Median					\$ 64.34	\$ 64.30	\$ 44.36 \$ 45.24		
Mean					\$ 81.40	\$ 75.36	\$ 63.50 \$ 53.79		
High					\$ 165.90	\$ 129.24	\$ 129.91 \$ 91.78		
Low					\$ 43.98	\$ 42.39	\$ 27.32 \$ 28.50		

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