BEHIND THE NUMBERS
EARNINGS QUALITY & DIVIDEND SUSTAINABILITY RESEARCH

BTN Research

Jeff Middleswart
jmiddleswart@btnresearch.com

Bill Whiteside, CFA
bwhiteside@btnresearch.com

April 3, 2020 | www.btnresearch.com

Contents

Macquarie Infrastructure Corp (MIC) Initiate at BUY

We initiate coverage of MIC with a BUY recommendation as we continue looking for more potential bargains from the sell-off wreckage. This is an infrastructure company that normally has very stable to growing cash flows, but it will be impacted by coronavirus in two of the three units. MIC has also been looking to unlock shareholder value by selling the entire company as a whole or in pieces. We believe the two units hurt by coronavirus will recover and trade on the normalized results. We believe the sum of the parts could be $43-$49 per share vs. the current price that is bouncing around the high teens to $22.

At the same time, MIC has suspended its $1 quarterly dividend that it already paid in 1Q20. There is plenty of liquidity here. MIC reported that it has $1.2 billion in cash on hand last week after drawing down $874 million on two credit lines. That is two years of EBITDA in cash. It is now going to repay the $275 million drawn down by Atlantic Aviation. So cash on hand should fall to $925 million.

There are two issues looking at the dividend in the short-term. First, the company is in the middle of its heaviest year of planned growth capital spending. It was already planning to boost its net leverage by spending cash on hand to offset the impact of that growth investment. Second, the company wants to keep leverage under 4.5x

EBITDA. The operating units were forecast to grow EBITDA and 1Q was shaping up well to offset net leverage rising via lower cash levels. Now, as 2Q and 3Q are impacted by the economy being turned off – not only is net debt increasing, EBITDA will be falling and driving up the ratio much faster. Retaining cash from the dividend offsets that problem.

We believe MIC will restore a smaller dividend later this year. We also believe that because the company values itself by frequently pointing out the cash on hand as a reduction in net debt or current enterprise value – keeping the cash on the balance sheet or paying it as a dividend is nearly a wash in the short term and investors would recover that cash if parts or all of the company is sold as the sales proceeds would have less debt to repay before making the rest available to shareholders. After this year, growth capital spending should be considerably lower in 2021 allowing the company to retire any debt incurred at its aviation unit and EBITDA should recover. The worst of this should be 2Q and it is likely to offer the lowest visibility right now, which is why MIC deferred the dividend completely and does not seem an unreasonable outcome for this quarter.

- MIC's cash flow is entirely driven by its operating subsidiaries. The parent company has minimal debt service and primarily pays its management fee (which has been reduced and is normally received in stock) and its dividend.

- Coronavirus has led the company to suspend the dividend as it is having an outsized impact on MIC's aviation unit and Hawaii segment. However, all three segments produce large amounts of free cash flow in normal times with some growth.

- The largest catalyst here is the potential sale of the company which is actively being pursued. Management has several incentives to complete a sale including a bonus for completing a deal by the end of 2021 and the fact that it owns 15% of the stock. We believe shareholders could see a price in the $40s using conservative multiples.

- Atlantic Aviation is the hardest hit of the subs at this point. It operates support services such as fueling, catering, cleaning, and storage hangers at 70 airports. The virus has hurt flight volumes and reduced the need for nearly all parts of Atlantic's business except hangers.

- We expect an awful 2Q for Atlantic and that will make it unable to send cash upstream to MIC during the rest of 2020. There is ample liquidity there, but it was likely to run into a covenant issue after 3Q when debt to EBITDA may rise above the 5.5x limit.

- MIC is now going to repay the $275 million drawn on Atlantic's revolver to eliminate that 5.5x EBITDA test. It should also mean that MIC may need to provide some cash to Atlantic during 2Q -but much less cash than would have been needed to keep Atlantic in compliance.

- We believe recovery will be visible later this year. Ultimately, we think this unit would have the most appeal in an asset sale and would likely generate the bulk of the sales proceeds in our opinion.

- MIC's storage tank business is in the middle of a heavy growth investment phase in 2020. That was already going to make cash flow from IMTT difficult to send up to MIC this year before coronavirus. The investment spending cannot be deferred as IMTT has commitments to have the new projects open to contracted customers.

- Ironically, the storage business is getting a boost from rising oil and other chemical supplies during the crisis as forward prices are higher than current figures and is encouraging more storage. The unit itself likely bottomed out on EBITDA performance in 2019 as IMTT has been repurposing assets. New contracted EBITDA from 19-year contracts is starting to come online, utilization is rising above forecasts too. The new contracts and high barriers to entry should also make this a valuable asset in the sale of the company.

- MIC also owns a gas utility company that focuses on refining synthetic natural gas and renewable sources of gas in Hawaii as well as distribution. This steady performer is getting hurt by tourism falling in Hawaii with coronavirus. The largest users of gas are hotel laundry, commercial kitchens, and heating water. We expect this business will recover too – but should have a lower cash flow figure in 2020.

- MIC has liquidity and throughout the company, there is $924 billion in cash on hand after drawing down two revolvers and repaying Atlantic's. It was already planning to draw down cash on hand this year to support the dividend due to IMTT's heavy capital spending. MIC itself has minimal cash needs other than its dividend, which is why a dividend may be reinstated in the fall if Atlantic Aviation starts to rebound.

- MIC is governed more by its desire to keep net debt to total EBITDA below 4.5x. With EBITDA falling at two units in 2Q, that 4.5 figure may not be possible in 2020. We do not believe it wants to boost net debt to pay the dividend – only to support its subs if necessary. We believe the ratio will top 5x this year and could quickly decline as EBITDA recovers.

The Basic Structure of MIC

MIC is a holding company that owns three subsidiaries that all operate with long-term contracts, high barriers to entry, and steady growth rates:

- IMTT – operates storage and handling tanks for refined petroleum products, specialty chemicals, renewable fuels, and vegetable oils – primarily in the lower Mississippi River area and New York Harbor. Demand normally grows about 1%-3% per year depending on the product.

- Atlantic Aviation – operates as a support business at 70 airports to sell fuel, provide catering, cleaning, de-icing, as well as hanger storage and parking for commercial, government, and private airplanes. The airport provides the concession to Atlantic Aviation under long-term contracts. Miles flown is a key indicator of base growth which is often 2%.

- Hawaii Gas is a regulated utility to distribute natural gas via pipeline – often as synthetic natural gas, LNG, biogas, or propane to customers in Hawaii. MIC's operations also refine synthetic natural gas. Non-regulated aspects of the business distribute propane via trucks in cylinders. Growth is tied to rate increases and tourism levels.

Each subsidiary has its own employees and its own financing. Much of the growth capital spending in 2020 will occur at IMTT. The IMTT cash flow can fund that, but it would leave little left for MIC at the corporate level. That is why MIC is planning to reduce cash on hand by about $250 million in 2020 to effectively boost net debt and offset the loss of IMTT's free cash flow to growth investing.

The corporate parent has no employees – it has a management contract with Macquarie Infrastructure USA. It pays a monthly management fee based on MIC's market capitalization + corporate debt - cash on the balance sheet. At levels under $1.5 billion, the rate is 1.25%-1.5% and for amounts over $1.5 billion it is a 1% fee. **Since November 2018, the manager has waived some of these fees to make the fee payable only on MIC's market capitalization less cash and the full fee 1% on that full total instead of 1.5% on the first $500 million and 1.25% on the next $1 billion.** With 88.6 million shares at $25, less $325 million in cash – the market cap is only $1.9 billion, and the management fee is about $19 million.

There is also a 20% performance fee bonus if the performance of MIC's stock exceeds the performance of the MSCI Utilities Indices in the US and Europe. In recent years there have not been performance fees paid. **Also, the manager has opted to take its fees in the form of MIC stock instead of cash for several years as well.** Thus, it has not consumed much cash of late either.

The parent company has $403 million in convertible bonds at 2% and a $600 million revolver at L+2%. It drew $599 million on the revolver last week. It is holding the higher cash balance, so the net debt is essentially unchanged. The parent's cash flow to pay the dividend and management fee comes from the three subsidiaries.

Potential Sale of the Company or Entire Divisions

In October, MIC announced it was looking for ways to unlock more value for shareholders. That led to announcing it would consider selling the entire company or entire divisions. Financial advisors have been hired to move forward with a sales process. Few details have emerged other than comments like this on February 25, 2020 from the CEO:

> *"As we advised the market in October, **we are actively pursuing strategic alternatives** for MIC, including the sale of the company or sales of one or more of our well-operating businesses. We also said that **we reduced the time through to early 2020 to refine our analysis of the value maximizing options***

> ***available to us. We have done this and with the assistance of our financial advisors are actively moving a sales process forward.***
>
> *As we also noted in October**, until such time as we have an agreement on a sale or sales or have otherwise terminated our assets, we won't be speculating on any particular outcome or make any additional comments other than to say we remain confident in our ability to unlock additional value.** While we actively pursue strategic alternatives, we continue to execute initiatives in support of MIC's three strategic priorities. These priorities are; one, investing in infrastructure of our businesses. Two, prudently managing our available capital and resources. And three, strengthening our balance sheet."*

On April 2 – MIC repeated its intent:

> *"MIC continues to believe that this course of action will ultimately maximize value for shareholders and **it intends to move forward with these alternatives**, although recent volatility in the capital markets and the limitations of travel bans and other restrictions on interactions imposed by COVID-19 are expected to slow the process."*

While it seems unlikely a sale would be announced during the current economic chaos – this does represent a potential catalyst for the stock. The company filed a Disposition Agreement on October 30, 2019 that would terminate the management agreement in the event of a full company sale or reduce it in the event a subsidiary is sold. It also outlined payments to the management team and stockholders under certain levels of proceeds being achieved.

As a quick summary, management would receive:

- $8.5 million of base management fees it waived as described above where the base used to calculate the fees excluded corporate debt and reduced the full fee to 1%.
- $25 million if a deal is reached by January 1, 2022.
- 2.91% of the net proceeds of a deal up to $3.4 billion in proceeds.

- The percentage share paid to management rises from 2.91% of the net proceeds as the level of net proceeds grows. At $4.6 billion, the percentage becomes 6.1%.

- Management also owns 15.3% of the common shares and would also receive the pro-rata share of proceeds paid to all common shares.

Shareholders would receive the remaining value divided by 88.6 million shares. Currently, the company is trading for $2.2 billion with a net $2.3 billion in debt – or about 7.5x normalized EBITDA. By comparison, IMTT has customers contracting for new storage investments at 9x EBITDA. Valuing the whole company at 9x would be a stock price of $33.60 after paying the manager fees. The stock is bouncing around $22-$25 now. Here is a rough valuation of a deal at various EBITDA multiples:

- 9.0x EBITDA is $33.60 per share
- 10.0x EBITDA is $40-$41 per share
- 10.5x EBITDA is about $44 per share
- 11.0x EBITDA is about $47 per share

We will talk about each division below and its prospects and current issues. We will also talk about the dividend going forward as that could provide a solid cash return while waiting for the company to be sold.

Atlantic Aviation – Likely the Hardest Hit Unit Now

This unit holds the key in our view for both the sale of the company and the dividend in the near term. It has contracts with 70 airports to provide services to commercial, private, and military aircraft. This segment grows three ways: acquiring contracts to serve additional airports, having traffic increase at existing airports, increasing hanger storage at airports.

Over the years, it has steadily bought more locations and added a new one in Connecticut in 2020. The growth rate of traffic has been running just under 1% and the company has sought to build new hangers where demand justifies it.

Fuel sales make up 60% of gross profit. Atlantic generally passes through the ups and downs of jet fuel prices and seeks to make a set dollar figure per gallon. Fuel is something planes can avoid at any one airport by buying additional fuel at a previous or future stop, which keeps pricing competitive. The biggest risk to Atlantic Aviation is being seen now – lower traffic levels overall. That not only means lower fuel sales, but ancillary services such as cleaning, catering, de-icing are all ties to the level of traffic as well. Only hanger and storage fees are likely to remain in periods of low traffic. Here is the break-down of revenue. Also, given that the price of fuel skews fuel revenue and COGS – the company treats gross margin for the whole entity as essentially the true revenue figure:

Atlantic Av.	2019	2018	2017
Fuel Rev	$695	$704	$615
Hanger Rev	$95	$88	$78
Other Rev	$182	$170	$154
Gross Profit	**$449**	**$467**	**$436**
EBITDA	**$276**	**$263**	**$247**

This is a 60% margin business net of employee pay, rent to the airport, and cost of supplies. In any given year, particular airports can show improvement or decreases in traffic based on construction, weather, or other anomalies like fires near Santa Monica. Having a large footprint should smooth out some of that. **The growth in hanger revenue and Other shows the addition of new airports and some organic growth.**

The average length of leases for the airports is 19-years and while there are larger airports where Atlantic operates with other competitors – any competitor has to be approved and signed on with the airport. **Thus, there are strong barriers to entry. Also, maintenance capital spending has been running only $8 million per year. We think EBITDA is a reasonable proxy for cash operating income.** Total assets are $2 billion, we know there is $1 billion in debt and we will assume working capital between fuel, receivables, payables, wages payable are about $0.5 billion – giving Atlantic a total capital of $1.5 billion and an ROI of 18%-20% in most years. Using total assets as capital – the ROI would still be about 15%.

Atlantic has just over $1 billion in debt from a term loan – at Libor + 3.75%. Interest there is about $50 million and principal payments are 1% per year or about $10 million. Taxes have been about $25 million and maintenance is $8 million. **So free**

cash flow at Atlantic should be running about $180-$200 million per year as well. Debt to EBITDA is about 3.7x.

The company was having a strong start to 2020 with guidance for EBITDA at $290-$300 million. Then the virus hits:

- We would believe that the company picked up most of 1Q results as planned. Planes have continued to fly even if passenger levels dropped in late March.
- 1Q would be about $75 million in EBITDA and free cash flow of about $58 million.
- 2Q assume worst case, Atlantic loses all revenue from flight operations (fuel, catering, cleaning, etc.) and only has hanger rent - $25 million for revenue.
- 2Q assume all rent paid, all employees retained costing $63 million for a negative EBITDA of -$38 million. Plus, it still has debt service and maintenance of $17 million for negative free cash flow of -$55 million.
- 3Q assumes business returns and builds during the quarter and becomes half of normal EBITDA or $37.5 million. That would leave free cash flow of $20.5 million.
- 4Q assume 80% of normal for EBITDA or $62.5 million for the quarter and free cash flow is $45.5 million.
- 2020 forecast for EBITDA comes in at $137 million and free cash flow at $69 million.

The give and take here:

- It is unlikely fuel sales and cleaning ever go to zero for an entire quarter. There are still cargo shipments including Fed-Ex and UPS that will be flying and private planes.
- At the same time, how fast does it return? We have an 80% 4Q. That could prove to be too slow or too fast.
- The debt covenant for Atlantic's revolver requires it to keep leverage below 5.5x EBITDA. On current debt levels that requires EBITDA to exceed about $185 million.
- They should be fine on the covenant after 1Q results and after 2Q results. An impaired 3Q would likely push EBITDA below $185 million for trailing twelve months.

- Management already suspended its dividend decision based on results it is seeing here.
- MIC is opting to repay the $275 million on the revolver and eliminate the 5.5x maximum net debt to EBITDA test at Atlantic. It may still need to transfer some cash down to Atlantic, but it will likely be far lower than what we were forecasting. If Atlantic had to pass that test with only $150 million in EBITDA – it may have needed $200 million of cash.

The MIC dividend was likely helped by 1Q cash flow from Atlantic already. It seems unlikely it will make any contribution to MIC in 2Q. Retaining cash at Atlantic and the rapidly declining EBITDA there appears to be the reason for MIC to omitted the 2Q dividend. We think MIC may need to be ready to transfer $50 million to Atlantic during the quarter. However, we also think Atlantic's recovery would be the key to bringing the dividend back once the situation stabilizes.

Despite the current issues, we think this remains a highly desirable acquisition target and see the business recovering. We saw a study by PWC that showed airports around the world were trading for 16-20x EBITDA from 2008-18. *Infrastructure Investor* noted last summer that trades were happening at 22-24x EBITDA. Atlantic Aviation is not the airport. It is a long-term concession to operate at airports, that would be difficult to recreate, and should benefit from the same underlying growth in flying. Even it is trading at a discount to airports themselves at 11-14x – this segment should be worth $3-$4 billion and it only has $1 billion in debt. With management's hypotheticals of net sale proceeds for MIC starting at $3.4 billion - $2-$3 billion of that may be Atlantic and thus it is likely the key to an eventual sale.

IMTT – The Recovery Trends Are In Place

This is the company's bulk liquid storage and logistics operation which is the industry MIC is most closely associated with. The company has had take-or-pay contracts for about 75%-80% of its business meaning clients reserve the storage capacity for years at a time and it is dedicated to their needs. Half the revenue comes from 10-clients and 8 are investment grade credits. There are two risks for IMTT – the utilization rate of the facilities (the higher the better) and the prices at which contracts roll over.

For much of the past 10-years, the utilization rate was 92%-95%. In late 2017, IMTT had contracts that started to roll-over at lower rates or not be renewed at all. The utilization fell below 85% in 2018 and was 84% in 2019. The reasons for this included:

- Too much capacity in heavy and residual oil products
- IMTT did not have enough capacity devoted to more renewables and chemicals with faster demand growth
- IMTT made the decision to take 3 million barrels of its 45 million barrels of capacity offline, clean it, and repurpose it for faster growth areas which took utilization rates down further

Starting in 2018, IMTT started to repurpose 3 million barrels and boost connectivity of its infrastructure with better pipeline, truck, rail, and marine transport. Some of what IMTT does is aggregate various intermediate products that are blended or refined further by customers. The move away from raw commodity storage required more rapid transportation. In 2018 the first part of this project was expected to cost about $30 million. But, along with new contracts to build more transportation and more committed barrels on longer contracts – that grew to $225 million over several years. By the end of 2019, the total growth spending is now estimated at $350 million for IMTT.

Some of those projects are turning on now for customers and several others will be complete in 2Q20 and thereafter. The projects will add $39 million in EBITDA in total when complete by 2021 and come with average contracts of 19-years.

The $39 million in EBITDA is expected to come in with $6 million in 2020, $19 million in 2021, and the full $39 million by 2022. This will be the year of the heaviest capital spending at IMTT:

IMTT	2020e	2019	2018	2017
EBITDA	$245-$255	$249*	$286	$326
Cash Interest	$30	$39	$46	$41
Maintenance CapX	$30	$46	$33	$20
Growth CapX	$170-$180	$132	$33	n/a

- 2019 EBITDA was $288, but $39 came from a one-time contract termination fee

Here's the basic issue with IMTT – the EBITDA likely bottomed out in 2019 and is rising going forward to at least $290 million. Based on the interest expense and the maintenance capital spending, this business also throws off considerable free cash flow in most years.

Also, the oil markets are in contango at the moment – where future prices of oil and related commodities are higher than current prices which gives market players an incentive to forward sell it and store it until that time. That puts upward demand on storage utilization and on fees. IMTT was already forecasting utilization rising in 2020 from the 84% to the high-80s. The contango should only help that and IMTT has now boosted utilization forecasts to above 90%.

Debt to EBITDA at IMTT is 3.9x on 2019's figures (probably closer to 4.3x for 2020 without the $39 million contract termination fee). There is a $600 million revolver that is undrawn at this time. **The problem is not liquidity for IMTT – the question is how much cash would it be able to send to MIC? Free cash flow should be about $200 million in 2020 but $170-$180 million of that will spent on growth investments.** It cannot defer this spending because it has committed to making the facilities available to contracted customers by specific dates. MIC already anticipated drawing down about $250 million from the cash balance during 2020 to allow IMTT's free cash flow to be allocated to the growth spending.

As far as selling MIC and valuing the IMTT unit – there is a path to $290 million in EBITDA and all this growth spending is happening at multiple of 9. That would make the unit worth $2.6 billion and there is $1.1 billion in debt. So, IMTT may be worth $1.5 billion in a sale.

The last point to make on IMTT is the auditors are questioning the value of the goodwill that stands at $1.4 billion of its $4.2 billion in total assets. The auditors are noting that only a 25bp change in the discount rate would change the value of IMTT by $70 million. We agree with KPMG that is a thin line. We think IMTT could point to increasing cash flows at this point to help mitigate that risk. A write-down may have been more likely to occur in 2019.

MIC Hawaii – Travel Restrictions Are Hurting This Stable Business

This unit refines synthetic natural gas in Hawaii and also delivers propane and LNG. This unit has been incredibly stable the last several years and investments in additional renewable energy have added to the value as the state of Hawaii has passed laws favoring renewable sources of power. Much of this entity is a regulated utility and rates are set by the Public Utility Commission. There was a rate increase in 2018. The rest involving distributing propane tanks by trucks is not regulated.

MIC Hawaii	2020e	2019	2018	2017
EBITDA	$60-$65	$60	61*	$61
Cash Interest	$7	$8	$8	$7
Maintenance CapX	$7	$7	$8	$7

- In 2018, actual EBITDA was $38 million which came from a $17.1 million impairment of a small division that was since disposed of and $5.5 million in operating losses from that unit.

The current problem is Hawaii's economy is dependent on tourism and the largest consumers of Hawaiian gas are for cleaning hotel linens, heating water, and commercial kitchens. There isn't much gas heating in homes or commercial property. **Much like Atlantic Aviation, 2Q20 could see a drop-off in gas demand that will impact MIC Hawaii. This cash flow could easily get cut in half.**

We expect this business to recover after 2Q20 as well. In terms of value, Ernst & Young looked at recent transactions of public utilities and saw multiples of 10-12x. Those covering renewable power had multiples as high as 15x. Being conservative – this unit is likely worth about $600 million and has $180 million in debt for a net $420 million to MIC shareholders.

Parent Company Structure and Decisions

MIC through its holding company MIC Ohana owns the equity in the three operating companies and relies on those companies to distribute cash flow up to the parent level. As shown above, those subs normally have fairly stable cash flow except at this moment in time with two being hit by the economy being shut down and IMTT engaged in heavy growth capital spending. Plus, the subs have their own credit terms to meet that may restrict how easily cash can move to the parent company. This risk is cited in the 10-K:

> *"The performances of our businesses or our holding company structure may limit our ability to make regular dividends in the future to our stockholders because* ***<u>we are reliant upon the cash flows and distributions from our businesses. Our Company is a holding company with no operations. We are dependent upon the ability of our businesses to make distributions to our Company to enable it to meet its expenses, and to pay, maintain or grow dividends to stockholders in the future.</u>*** *The ability of our operating subsidiaries and the businesses we own to make distributions to our Company is subject to their operating performance, the terms of their debt agreements and the applicable laws of their respective jurisdictions. In addition, the ability of each business to reduce its outstanding debt will be similarly limited by its operating performance."*

What does MIC have for annual cash costs? Interest expense is only $8 million at this level for the 2% convertible bonds. It was forecasting $20 million in taxes; it may be likely that figure comes in much lower at this point. There are no maturities of debt and capital spending is not an issue. The management fee is likely about $20 million at 1% of the market cap – but that has been getting paid in stock, which seems a fair bet to continue. That left the dividend at $355 million as the major cash outflow from the parent company.

Original Guidance for 2020 assumed that MIC would spend $250 million of the $357 million in cash on hand to cover IMTT's heavy growth capital spending. Atlantic Aviation was probably expected to send $180-$200 million to MIC and MIC Hawaii perhaps $40-$50 million more. That would have been $470-$500 million - more than enough cash availability to cover MIC's projected outflows.

The current plan would be that IMTT cannot defer the growth capital spending. Atlantic may not be in a position to send much cash as it needed to focus on its own maximum debt covenant of 5.5x EBITDA and its EBITDA is falling. If the company will now repay and cancel the revolver to avoid that covenant – Atlantic may need cash from MIC. MIC Hawaii may be only sending about $20 million now. We are going to conclude for now that MIC will look at this situation as it has about $250-$275 million to pay its own interest cost of $8 million and the dividend in 2020 and it has already paid about $89 million on the dividend this year. That is too tight to keep the current dividend level in our view and is why 2Q's dividend was suspended.

What if MIC Increases Its Own Borrowing?

As noted at the start of this report, MIC drew down $599 million on its credit line and that cash is sitting on the balance sheet as part of the $925 million in cash throughout the company. So, liquidity is not an issue at the moment for MIC in our view and it can support Atlantic if necessary as well.

If MIC uses some of the cash from the revolver then that becomes net borrowing and it has its own debt covenants and guidelines to watch. Its revolver allows for a maximum 2:1 ratio for net senior debt at MIC to cash and cash flow available from subs. (There are some other adjustments to the cash flow for expenses.) The 4:1 interest coverage is unlikely an issue given the low interest rates on the MIC's debt.

Even with the cash flow falling from $600 million to $400-$500 million – MIC could certainly handle using $100-$150 from its revolver. The 2:1 ratio on secured leverage does not appear to be a problem. However, two questions would again be asked by management– "should we take on debt to pay the current dividend or only to support a subsidiary?" and "what if Atlantic's recovery is slow and we have limited access to that cash for a longer period?" The answer about borrowing to pay the dividend has been answered as "NO."

The bigger issue on debt is MIC's own guidance of not carrying more than 4.5x total debt at all subs and the parent to total EBITDA. Based on Original Guidance – the company expected to be at 4.3x already:

	Now	Orig Guide	2019
Total Debt	$2,695	$2,695	$2,707
Cash	$325	$100	$357
Net Debt	$2,370	$2,595	$2,350
EBITDA	$450	$600	$604
Net Debt/EBITDA	5.3	4.3	3.9

It almost seems a given that impaired EBITDA at Atlantic in 2020 will push this ratio above 5x even without MIC borrowing more money. If simply retains the $325 million in cash on the books through the year – the ratio would still be 5.3x. Keeping the cash and having EBITDA only decline to $500 million – the ratio would still be 4.7x.

MIC would be asking the same question as above too – "what if we start 2021 with impaired EBITDA and need to repay debt at Atlantic?" We think management would definitely break its comfort position further by borrowing to support Atlantic, but that may not be necessary if it diverts the dividend there to allow Atlantic to cancel its revolver.

Our conclusion is that MIC still appears to have $225 million in available cash on the balance sheet it committed to spend in 2020 ($925 million cash balance - $599 million on MIC's revolver and they wanted to keep about $100 million available). After deferring the 2Q dividend completely and if the situation becomes clearer, we would expect MIC to resume a smaller dividend perhaps in 4Q. At $0.50 per share, that would be only $44 million per quarter.

Also, this company's design is set up to pay large dividends from investments in companies that throw off large cash flow. Management has taken all is pay in stock for years as well indicating that they like the large dividends and believe the stock is undervalued in the market. There is enough liquidity here and none of the assets have been destroyed. As normal business resumes in a few weeks, the results should begin to recover in our view.

McDonald's (MCD) EQ Review

Current EQ Rating*	Previous EQ Rating
4-	na

6- "Exceptionally Strong"
5- "Strong"
4- "Acceptable"
3- "Minor Concern"
2- "Weak"
1- "Strong Concerns"

Note that a "+" sign indicates the earnings quality improved in the most recent quarter while a "–" sign indicates deterioration

*For an explanation of the EQ Review Rating scale, please refer to the end of this report

We initiate earnings quality coverage of MCD at 4- (Acceptable).

We do not see significant problems with MCD's accounting. However, we do have some concerns that the growth track the company was on before COVID may not be sustainable once conditions return to normal. We view the refranchising initiative as positive- Ray Kroc himself was credited with saying MCD was a real estate business, not a restaurant business. Also, the Experience of the Future (EOTF) program which has led to the remodeling and technology upgrade of 70% of the US store base through 2019 has likewise helped drive growth. However, this impact will be winding down over the next year and the company has still not been able to drive positive comp guest count growth in the US in either of the last two years. While digital marketing initiatives and a push to delivery have helped drive up the size of the average check, it is clear that US fast food has become a game of picking up pennies in front of a steamroller.

On the numbers front, we note:

- Same-store sales growth has been impressive on the surface at 4.5%-5.9% growth over the last three years. However, MCD's same-store sales base includes all stores that have been in operation for at least 13 months including stores that have been closed for remodeling. We are concerned that both the impact of upgrading stores and the impact of refranchising may be artificially boosting the same-store growth rate which may fade when these trends subside.

- Reported Operating Income is calculated after the “Other Operating (Income)/Expense line which includes non-operational items such as impairments, gains from the sale of restaurants from refranchising, equity income in unconsolidated affiliates and asset dispositions. While non-GAAP EPS typically adjusts out impairments, we suggest taking the whole line out when analyzing operating income. As an example, in the 12/19 quarter, the operating margin improvement falls to 60 bps from the reported 400+ improvement. Likewise, the non-impairment portion has ranged from 5 cps to 16 cps over the last eight quarters. Investors should be considering this when evaluating the quality of any earnings beat.

- The company adopted ASC 842 for accounting for leases at the beginning of 2019. This did not have a material impact on the income statement or retained earnings but moving forward, it will change the classification of some new ground leases to capital leases from operating leases. The impact is not expected to be material in any one year. Also, ASC 842 required the company to report lease income and expense from franchisee leases on a gross basis. While it did not impact absolute franchise margin dollars, it did have the impact of lowering franchise margins by 130 bps in 2019 and overall margins by 70 bps. This is not a material item and it will disappear from comparisons moving forward.

- MCD is a dividend aristocrat and highly prioritizes its dividend in its capital allocation strategy. The dividend is well covered and consumes 70% of free cash flow. Operating cash flow received an unusual boost from lower cash taxes and a decline in receivables but still posted positive growth in 2019 without those items. Capex has been elevated as the company is upgrading the store base and investing in new technology. This is now coming down and should help with the dividend cover. However, the company has taken on debt to aggressively buy back shares. With debt/EBITDA at over 3x based on 2019 numbers, the buyback was likely to be scaled back even before the advent of COVID. Lower share count was adding 2-3% to EPS growth in recent quarters.

Key Trends: Refranchising and International Growth

Three major trends have impacted reported results for the last few years which we discuss below:

Refranchising

Around 2016, MCD began to sell its company-owned restaurants back to franchisees. This has led to a reduction in the number of company-owned locations, as seen in the following table:

	2019	2018	2017	2016	2015
Company-Operated Restaurants	2,636	2,770	3,133	5,669	6,444
Franchised Restaurants	36,059	35,085	34,108	31,230	30,081
Total	38,695	37,855	37,241	36,899	36,525

Franchised restaurants have risen from 82% of the total store count to over 95% in that time frame. This has had a negative impact on revenue as rather than booking the retail sales number, it books the franchise fee/rental payment which is smaller but has a much higher margin.

Overall, we are positive on the refranchising trend as it allows the company to remain more insulated from fluctuations on the restaurant market, focus on branding and securing attractive locations, and leave the management of restaurants to highly-motivated local franchisees who know the local markets.

Focus on Expansion in Foreign Markets

The US fast food market is saturated and highly competitive. MCD has focused on international markets with its expansion plans. The following table shows segemtn sales for the last three years.

Store Count	2019	2018	2017
US	13,846	13,914	14,036
International Operated Markets	10,465	10,263	10,098
International Developmental Licensed Markets & Corporate	14,384	13,678	13,107
	38,695	37,855	37,241

The International Operated segment consists of more developed markets in which the company operates and franchises restaurants such as Australia, Canada, France, Germany, Italy, the Netherlands, Russia, Spain and the UK. The International Developmental Licensed segment includes stores which are operated under a development and affiliate license. This arrangement is used in less developed markets and is similar to a franchise arrangement except the company generally does not contribute any capital in the deal.

MCD opened 1,231 locations in 2019 and closed 391. The company's pre-COVID expansion plans called for spending adding approximately 1,400 restaurants globally in 2020 with the company spending $800 million to open 400 restaurants while developmental licensees and affiliates were expected to provide capital for the remaining 1,000.

The following table shows the impact on segment sales growth from the trends discussed above:

Company-Operated Sales	2019	2018	2017
US	$2,490	$2,665	$3,260
International Operated Markets	$6,334	$6,668	$6,845
International Developmental Licensed Markets & Corporate	$597	$680	$2,614
	$9,421	$10,013	$12,719
Franchised Revenue			
US	$5,353	$5,001	$4,746
International Operated Markets	$5,064	$4,839	$4,271
International Developmental Licensed Markets & Corporate	$1,239	$1,172	$1,084
	$11,656	$11,012	$10,101
Total Revenues			
US	$7,843	$7,666	$8,006
International Operated Markets	$11,398	$11,507	$11,116
International Developmental Licensed Markets & Corporate	$1,836	$1,852	$3,698
	$21,077	$21,025	$22,820

Despite the decline in the number of locations in the US, we see an increase in US franchise revenue being driven by refranchising. We can also see that the growth in franchised locations is more than offsetting the decline in company-operated sites from the refranchising push.

Experience of the Future (EOTF)

In 2018, MCD announced an aggressive modernization program is called Experience fo the Future (EOTF). This involved upgrading the technology at its restaurants to include self-ordering kiosks with touchscreen technology, adding curbside pickup and improving the drive-through operations. As of the end of 2019, EOTF had been rolled out at half of its global locations and 70% penetration in the US with most major markets complete. The company converted 2,000 US locations in 2019 and before COVID, plans called for the conversion of another 1,800 in 2020 at a cost of $1.3 billion.

In addition, the company acquired Dynamic Yield and Apprente in early 2019 which gives its access to new technologies such as quickly incorporated suggested product offerings on its menus to drive higher sales.

US Market Facing Significant Pressure

The US fast food market is mature and highly competitive. MCD has invested heavily in refurbishing and modernizing its stores, incorporating digital initiatives in marketing and product profiling, and partnering with delivery services such as DoorDash to drive sales growth in the US. However, the following table, which shows comparable store sales and guest count growth for each segment for the last three years, illustrates just how difficult it has become to produce meaningful growth in the US. The company defines comparable sales as follows:

> ***"Comparable sales represent sales at all restaurants, whether operated by the Company or by franchisees, in operation at least thirteen months including those temporarily closed. Some of the reasons restaurants may be temporarily closed include reimaging or remodeling, rebuilding, road construction and natural disasters.*** *Comparable sales exclude the impact of currency translation, and, since 2017, also exclude sales from Venezuela due to its hyperinflation. Management generally identifies hyper-inflationary markets*

> *as those markets whose cumulative inflation rate over a three-year period exceeds 100%.* ***Comparable sales are driven by changes in guest counts and average check, which is affected by changes in pricing and product mix. The goal is to achieve a relatively balanced contribution from both guest counts and average check."***

	2019	2018	2017
US			
Comp Sales Growth	5.0%	2.5%	3.6%
Comp Guest Count	-1.9%	-2.2%	1.0%
International Operated Markets			
Comp Sales Growth	6.1%	6.1%	5.6%
Comp Guest Count	3.5%	2.8%	2.7%
International Developmental Licensed markets & Corporate			
Comp Sales Growth	7.2%	5.6%	8.0%
Comp Guest Count	2.2%	1.0%	2.5%
Total			
Comp Sales Growth	5.9%	4.5%	5.3%
Comp Guest Count	1.0%	0.2%	1.9%

The US has produced relatively impressive comparable store sales growth for the last three years when viewed at the surface level. However, in both of the last two years, comparable-store guest count has declined by roughly 2%. In the fourth quarter conference call, management attributed this to 60% mix and 40% higher pricing. However, this is also being impacted by the move to delivery which sees multiple customers ordering on the same ticket. Delivery has gone from $1 billion in revenue to $3 billion in just the last three years. CEO Chris Kempczinki explained in the fourth quarter conference call:

> *"One of the things that I do feel good about with the U.S. is when you look at the check growth that we've gotten, it's really come through a number of different things. There has not been sort of a one-trick pony on that. We're seeing the majority of that growth is coming through mix as opposed to just kind of straight menu price. But then as you decompose mix, you've got a number of factors that are worked there.* ***You've got delivery, which is delivering 2x the average check of a regular order. You have Dynamic Yield,***

> ***which is typically leading to add-ons to an order. You have our self-order kiosk, where we know that people tend to have larger orders when they do self-order kiosk. You've seen some of our promotional items like donut sticks, D $1 $2 $3 as a value, which are really driving add-on activity.*** *So I think, for me, I do feel better about how we went after check growth in 2019 because it was heavily mix-driven from that.* ***But there is a pricing element to this. The inflation that we're seeing out there, particularly on the labor side that does get priced through and so I think as we head into 2020, the conversation we've been having with franchisees, which gets back to the opening question, is we've just got to make sure that we have balance. We need to have a balance between check growth and we need to get to transaction growth, and that's what everybody in the U.S. is working toward right now."***

While the company has been able to drive positive comp sales growth in the US, the persistence of negative comp guest growth is concerning as it illustrates the degree to which the US fast food market has become a zero-sum game for participants.

We also want to revisit the company's definition of comparable sales. A store is included in the base after only 13 months of operation and includes stores that have been closed. Remember that the company has been rapidly refranchising and remodeling stores for the last three years. We would expect a refranchised store to see an uptick in activity when a motivated new manager takes the helm. Also, since the company includes stores that have been closed for remodeling in the base, this would appear to significantly boost same-store sales growth the year the store is reopened as the previous period would have reduced sales from the temporary closure and the current period would benefit from higher sales from a remodeled store. To the extent current same-store sales trends have benefitted from these trends, it could be giving investors a false impression of what core growth will be when the refranchising and EOTF programs wind down in future quarters.

Other Income/Expense Distorts Results

MCD's "Other Operating (Income)/Expense" line on its income statement is reported above operating income and it can have a very material impact on results. The components of the line item are shown below:

	12/31/2019	9/30/2019	6/30/2019	3/31/2019
Impairment and Other (Income) Expense	-$5.9	$1.6	$78.3	$0.3
(Gains) on Sales of Restaurant Businesses	-$37.1	-$17.4	-$43.9	-$29.1
Equity in (Earnings) of Unconsolidated Affiliates	-$41.8	-$42.8	-$34.1	-$35.1
Asset Dispositions and Other (Income) Expenses	-$15.3	$9.1	$22.2	$7.1
	-$100.1	-$49.5	$22.5	-$56.8

	12/31/2018	9/30/2018	6/30/2018	3/31/2018
Impairment and Other (Income) Expense	$137.9	$0.5	$91.7	$1.6
(Gains) on Sales of Restaurant Businesses	-$47.4	-$68.0	-$92.2	-$96.5
Equity in (Earnings) of Unconsolidated Affiliates	-$35.3	-$38.6	-$35.0	-$42.6
Asset Dispositions and Other (Income) Expenses	$32.2	-$4.7	-$29.4	-$11.0
	$87.4	-$110.8	-$64.9	-$148.5

- The Impairment and Other (Income)/Expense line includes mainly writedowns from past investments. This is clearly not an operational item and the company typically adjusts it out of non-GAAP results.

- Gains on Sales of Restaurant Businesses relates to the sale of restaurants, mostly from refranchising activity in the US. While we would consider these operational gains which benefit shareholders, they can be volatile and they are on the wane as refranchising activity slows down. Thus, we would argue they should be excluded from results when analyzing operating income margins and operational EPS.

- Equity in Earnings of Unconsolidated Affiliates relates to activity in affiliates and partnerships in businesses in which the company participates but does not control. We would agree that this line item could be viewed as operational in nature. However, since 2016, it has exhibited some volatility in particular quarters that were material enough to distort reported EPS.

- Asset Dispositions is volatile and we view this as a clear non-operational item that should be excluded when analyzing operating margins and EPS.

The below table shows operating margin and EPS with and without the above items:

	12/31/2019	9/30/2019	6/30/2019	3/31/2019
Sales	$5,349.0	$5,430.6	$5,341.3	$4,955.6
Operating Income	$2,292.6	$2,409.3	$2,273.9	$2,094.0
Operating Margin	42.9%	44.4%	42.6%	42.3%
Adjusted Operating Income*	$2,192.5	$2,359.8	$2,296.4	$2,037.2
Adjusted Operating Margin	41.0%	43.5%	43.0%	41.1%
Reported Non-GAAP EPS	$1.97	$2.11	$2.05	$1.78
EPS Impact of Unadjusted Items*8	$0.10	$0.05	$0.06	$0.06

	12/31/2018	9/30/2018	6/30/2018	3/31/2018
Sales	$5,163.0	$5,369.4	$5,353.9	$5,138.9
Operating Income	$1,999.5	$2,417.7	$2,262.3	$2,143.1
Operating Margin	38.7%	45.0%	42.3%	41.7%
Adjusted Operating Income*	$2,086.9	$2,306.9	$2,197.4	$1,994.6
Adjusted Operating Margin	40.4%	43.0%	41.0%	38.8%
Reported Non-GAAP EPS	$1.97	$2.16	$1.99	$1.79
EPS Impact of Unadjusted Items**	$0.05	$0.11	$0.16	$0.15

**Adjusted Operating Income is operating income before the "Other Operating (Income)/Expense line.*

*** The EPS Impact of Unadjusted items is the benefit from Gains on Sales of Restaurant Businesses, Equity in Earnings of Unconsolidated Affiliates, and Asset Dispositions. Non-GAAP EPS typically adjusts out Impairment and Other (Income) Expenses.*

We see that these other items have a material impact on the movement in reported operating income margin every quarter. In the case of the 12/19 period, reported operating income improved by 420 bps. This falls to 60 bps when removing the impact of the Other Operating (Income)/Expense line. While Non-GAAP EPS does typically adjust out the Impairment component from Other Operating (Income)/Expense, the remaining items have a volatile and material impact on non-GAAP EPS and should be taken into consideration every quartet to determine the quality of any earnings beat.

ASC 842 Impact

Beginning in 2019, MCD adopted ASC Topic 842 in accounting for leases. The company is heavily involved in both leasing locations to franchisees as well as leasing both land and buildings for future locations. MCD elected to retain the classification of existing leases and as a result, the adoption had little immediate impact on the income statement and did not require a significant adjustment to retained earnings. However, as it enters into future ground leases, many that would have been classified as operating leases in the past are expected to now be classified as finance leases which will change the timing and classification of lease expense between operating income and lease expense. The impact is not expected to be material in any one year.

One change related to leases that was noticeable in results was the new requirement to present the straight-line impact of fixed rent escalations on a gross basis in the presentation of sub-lease income and lease expense related to franchisees. This had the impact of increasing franchise revenue and franchise expense by like amounts. While this has no impact on absolute franchise margin dollars, it does pressure the margin percentage. The following table shows the calculation of franchise margin for the last three years:

	2019	2018	2017
Franchised Revenue			
US	$5,353	$5,001	$4,746
International Operated Markets	$5,064	$4,839	$4,271
International Developmental Licensed Markets & Corporate	$1,239	$1,172	$1,084
	$11,656	$11,012	$10,101
Franchised Margin			
US	$4,227	$4,070	$3,913
International Operated Markets	$4,018	$3,829	$3,365
International Developmental Licensed Markets & Corporate	$1,210	$1,140	$1,034
	$9,455	$9,039	$8,312
Franchised Margin %			
US	79.0%	81.4%	82.4%
International Operated Markets	79.3%	79.1%	78.8%
International Developmental Licensed Markets & Corporate	97.7%	97.3%	95.4%
	81.1%	82.1%	82.3%

Franchise margin dollars showed a steady increase in 2019 while margins fell by 100 bps. Management estimated that the adoption of ASC 842 reduced franchise margins by 130 bp and total company margins by 70 bps. This is not a material concern and it will disappear in margin comparisons going forward.

Adding to Debt to Buy Back Shares

MCD is a dividend aristocrat and is strongly committed to paying and growing its dividend. Cash flow is more than adequate to do this into the foreseeable future. However, the aggressive buyback is more of a question. The following table shows cash flow information for the last four years:

	12/31/2019	12/31/2018	12/31/2017	12/31/2016
T12 Operating Cash Flow	$8,122	$6,967	$5,551	$6,060
T12 Capex	$2,935	$2,843	$1,931	$1,931
T12 Free Cash Flow	$5,188	$4,123	$3,621	$4,129
T12 Dividends	$3,582	$3,256	$3,089	$3,058
Dividend % of Free Cash	69.0%	79.0%	85.3%	74.1%
T12 Net Stock Repurchases	$4,976	$5,208	$4,686	$11,171
Cash Flow after Buyback	-$3,371	-$4,340	-$4,154	-$10,100

Operating cash flow grew by $1.1 billion. This was boosted by an approximate $500 billion beneficial swing in receivables and $145 million in lower cash tax payments. However, capex has also been elevated as the company has invested heavily in its EOTF initiative and opened new locations. Pre-COVID, MCD was forecasting $2.4 billion in capex in 2020 which includes $1.3 billion in the US for 1,800 EOTF projects and the previously mentioned $800 million to open 400 new restaurants globally. This is a material deceleration from the 2019 spending rate. While these plans are certain to be altered significantly, in a normal year going forward it is reasonable to expect the dividend to consume in the mid-70% range of free cash flow.

However, as the table above also shows, the company has more than spent the cash flow after dividend on buying back shares. Over the last three years, cash from the exercise of stock options has ranged from $350 million to $450 million while the company has received $350 million to $975 million from the sale of restaurants. However, this has not been sufficient to cover the difference and are not reliable sources of cash. Net Debt to EBITDA has crept up to 3.1 from 2.7 two years ago. The buyback is listed third in the company's priority for capital allocation and we would expect to see it pared back soon, especially in light of the current conditions. Share count reduction is, unfortunately, a sizeable portion of reported earnings growth as illustrated in the following table:

	12/31/2019	09/30/2019	06/30/2019	03/31/2019
Non-GAAP EPS Growth	0.0%	-2.3%	3.0%	-0.6%
Share Count Growth	-2.7%	-2.0%	-2.3%	-3.4%

Explanation of EQ Rating Scale

6- "Exceptionally Strong"	Indicates uncommonly conservative accounting policies to the point that revenue and earnings are essentially understated relative to the company's peers. Higher possibility of reporting positive earnings surprises
5- "Strong"	Indicates the company has no areas of concern with its reported results and we see very little risk of the company disappointing due to recent results being overstated from aggressive reporting in recent periods.
4- "Acceptable"	Indicates the company may have exhibited a minor "red flag", but the severity of the issue is not yet a concern. Minimal risk of an earnings disappointment resulting from previous earnings or cash flow overstatement
3- "Minor Concern"	Indicates the company has exhibited either a larger number of or more serious warning signs than companies receiving a 4. The likelihood of an immediate earnings or cash flow disappointment is not considered to be high, but the signs mentioned deserve a higher degree of attention in the future.
2- "Weak"	Indicates the company's recently reported results have benefitted materially from aggressive accounting. Follow up work should be performed to determine the nature and extent of the problem. There is a possibility that upcoming results could disappoint as the impact of unsustainable benefits disappears.
1- "Strong Concerns"	Indicates that the company's recent results are significantly overstated and that we view a disappointment in upcoming quarters is highly likely.

In addition to the numerical rating, the EQ Review Rating may also include either a minus or plus sign. A minus sign indicates that our analysis shows the overall earnings quality of the company has worsened since the last review and there is a possibility the numerical rating will fall should the problem continue into the next quarter. Likewise, a positive sign indicates that the overall earnings quality is improving, and the company may see an upgrade in its numerical rating should the trend continue.

Key Points to Understand About the EQ Score

The EQ Review Rating is much more than a blind, quantitative scoring method. While we utilize proprietary adjustments, ratios, and methods developed over decades of earnings quality analysis, the foundation of all of our analysis is reading recent SEC filings, press releases, conference call transcripts and in some cases, conversations with managements.

The EQ Review Rating is not comparable to a traditional buy/sell rating. The Rating is intended to specifically convey the extent to which reported earnings may be over/understated. Fundamental factors such as forecasts for future growth, increasing competition, and valuation are not reflected in the rating. Therefore, a high score does not in itself indicate a company is a buy but rather indicates that recent results are a good indication of the underlying earnings and cash generation capacity of the company. A low score (1-2) will likely result in us performing a more thorough review of fundamental factors to determine if the company warrants a full-blown sell recommendation.

Disclosure

Behind the Numbers, LLC is an independent research firm structured to provide analytical research to the financial community. Behind the Numbers, LLC is not rendering investment advice based on investment portfolios and is not registered as an investment adviser in any jurisdiction. All research is based on fundamental analysis using publicly available information including SEC filed documents, company presentations, annual reports, earnings call transcripts, as well as those of competitors, customers, and suppliers. Other information sources include mass market and industry news resources. These sources are believed to be reliable, but no representation is made that they are accurate or complete, or that errors, if discovered, will be corrected. Behind the Numbers, LLC does not use company sources beyond what they have publicly written or discussed in presentations or media interviews. Behind the Numbers does not use or subscribe to expert networks. All employees are aware of this policy and adhere to it.

The authors of this report have not audited the financial statements of the companies discussed and do not represent that they are serving as independent public accountants with respect to them. They have not audited the statements and therefore do not express an opinion on them. Other CPAs, unaffiliated with Mr. Middleswart, may or may not have audited the financial statements. The authors also have not conducted a thorough "review" of the financial statements as defined by standards established by the AICPA.

This report is not intended, and shall not constitute, and nothing contained herein shall be construed as, an offer to sell or a solicitation of an offer to buy any securities referred to in this report, or a "BUY" or "SELL" recommendation. Rather, this research is intended to identify issues that investors should be aware of for them to assess their own opinion of positive or negative potential.

Behind the Numbers, LLC, its employees, its affiliated entities, and the accounts managed by them may have a position in, and from time-to-time purchase or sell any of the securities mentioned in this report. Initial positions will not be taken by any of the aforementioned parties until after the report is distributed to clients, unless otherwise disclosed. It is possible that a position could be held by Behind the Numbers, LLC, its employees, its affiliated entities, and the accounts managed by them for stocks that are mentioned in an update, or a BTN Thursday Thoughts.