TOF: Covid-19 Corporate Impact Assessment Tool

Ratings Template

Letters	Short Term Forecast (6-12 months)	% Revenues (compared to 2019)		Numbers	Longer Term Forecast (18-36 months)	% Revenues (compared to 2019)
A	Increase Sales	>100%		1	Increasing Sales Growth	>100%
B	Maintain or Slight Increase in Sales	75-100%		2	Back to Pre-COVID	90-100%
C	Lowered Revenues	50-70%		3	Mild Drop	75-90%
D	Significant Revenue Drop	10-50%		4	Moderate Drop	50-75%
E	Limited to No Sales	<10%		5	Disruption in Business	<50%

Step 1

Scenarios	Subtype	Description	Time	Projected Economic Impacts: Market Impact	Bankruptcies	GDP effect	Assigned Probability
Scenario I		Back to Precovid	3-8 months	V-Shape	minimal	drop a few percentage	
Scenario II A	Good Dancer	Waiting for an Effective Therapeutic Option	8 to 24 months	U Shape	moderate	drop 5-10%	
Scenario II B	Bad Dancer			W Shape	Mod-High		
Scenario III		Waiting for Heard Immunity	>24 months	U or W Shape	High	drop >10%	
Scenario IV		Endemic	>36 months	L- Shape	Very High	>15%	
							Total (100%)

Step 2

Company Name

Probability						Input from Step 1
Company and Units	**Financial Input**		**Scenario I**	**Scenario II A/B**	**Scenario III/IV**	**Comments**
	% Revenue	% Operating Income	*Ratings*			
Unit 1						
Unit 2						
Unit 3						
Unit 4						
Unit 5						
Total	100%	100%				

Step 3

Contemplate how the ratings and your assigned scenario probabilities impact your financial model.

Purpose

Our TOF Covid-19 Corporate Assessment Tool is to be used as a qualitative screen of our financial assumptions in investment decisions during the COVID-19 crisis.

Description of Scenarios

Scenario 1, the most optimistic outcome, signifies that we would be back to 'normal' before the end of the year. What would be required is an effective therapeutic option that can be used by doctors around the world to bring the severity of COVID-19 disease from 10% severe to less than 1%. Government leaders would be touting that with the new therapy, COVID-19 is no more lethal than the existing yearly influenza. Economies would then open up quickly. The equity markets would have a V-shape recovery. We arbitrarily used the end of 2020 as the differentiating between a V-shaped vs. a U-shaped recovery.

Scenario 2's major assumption is that the therapy is not found until 8 to 24 months. This longer timeline before normalcy may result in a larger number of companies going into bankruptcies. Going back to Operation Hammer and Dance maneuver discussed in Part 1, we divided Scenario II into the Good Dancers and the Bad Dancers subsets. In both subsets, the economies of the world will attempt to restart global trading. For the Good Dancers, the countries will operate without the need to go back to widespread lockdowns (Hammer). In the Bad Dancers, countries that mitigate poorly will be hit with second and third waves of infection resulting in more widespread lockdowns (and the Hammer may be used more than once).

The specific countries that are judged to be Good or Bad Dancers are also important. It's vital that the US and Chinese governments become Good dancers. The US is the largest global financial economy by GDP and China is the largest global manufacturing economy. The Dancer analogy is judged on a sliding scale. We believe that the market returns will be directly correlated to the ability of the world's largest economies to shimmy and waltz through flashpoints from the COVID-19 crisis. We project that Scenario IIA would have a U-shape recovery, while IIB would have a W-shape recovery pattern. The W-shape is the result of one or more repeated Hammer lockdowns by the world’s major economic players.

Arbitrarily, we used two years as the defining feature between Scenario II and III. By this date, the countries that are Bad Dancer should have had a large portion of their population infected. We also believe a therapy, if available, will have been developed at this point, and/or herd immunity becomes a protective force reducing disease burden. In Scenario III, we predict a higher unemployment and bankruptcy rates compared to Scenario II.

In both Scenarios II and III, once resolution of COVID-19 is completed, the world economies may experience a significant rebound, as pent up demand for things like travel, movies and luxury services reappear. In both cases, the resolution of COVID-19 would result in the right arm of either a U or W-shaped recovery.

In Scenario IV, we come to a realization that effective therapies for COVID-19 may take much longer than 3-4 years to be developed or a therapy is not found. Some immunity to the virus may happen but people may also become reinfected. This scenario is what we find with the yearly influenza. The global economies and unemployment rate is highest in this scenario and the long-term disruption in the world economies results in a L-shaped recovery. (Note: There is hope that mutations in COVID-19 may decrease the potency of the virus over time and the death rate from those infected will drop due to the combination of those most susceptible have already died and those that become reinfected were able to fight off the infection the first time.)

Putting it Together: Disney Example

The Osler Funds owns shares in Disney. We initiated a position last year before the launch of Disney Plus. We believe Disney is a historically important company that has created best-in-breed businesses in their Theme Parks, Studios and Media businesses. With Disney+, Disney has entered into the Direct-to-Consumer media content space. We choose Disney to use as an example due to COVID-19's significant impact on most of Disney's businesses. Here is our current TOF COVID-19 Corporate Assessment of Disney.

Disney Analyst- DW 5-May-20 Data from Q4 2019

Probability						Input from Step 1
Company and Units	**Financial Input**		**Scenario I**	**Scenario II A/B**	**Scenario III/IV**	**Comments**
From Q1, 2020	***% Revenue***	***% Operating Income***	***Ratings***			
Media Networks	*35.30%*	*44%*	*C3*	*D3*	*C3*	*Disney TV stations ABC, ESPN. Will be able to continue broadcasting. Ad revenues will go down. Sports are significant impacted longer crisis continues*
Parks, Experiences and Products	*35.50%*	*64%*	*C3*	*D3*	*D/E4*	*This unit is leisure. As long as there is mitgation and scare of travel, this unit will have difficulty generating income. Post COVID, this is still a jewel. Arguably best in class theme parks.*
Studio Entertainment	*18.00%*	*26%*	*C2*	*D3*	*D4*	*Movie productions have stopped. In S(I), movie production will resume and theatre goers will enjoy their movies again. in S(2,3,4), production delays will mean less product. Mitigation will mean less theatre ticket sales.*
Direct-to-Consumer & International	*19.10%*	*-19%*	*A1*	*A2/1*	*B3*	*Disney's only business unit that has benefited from COVID. However, as the crisis drags on, this will impact new shows such as Mandalorian Season 2. Subscribers growth may stall if new content is not available. Disney+ is still ramping up global distribution.*
Other (Elimination)	*-7.90%*	*-6%*				*Eliminations- Loss Revenues when Disney units (Media and Studio) sold titles back to their DTC division*
Disney Corp.	*100%*	*100%*	*C2*	*D3*	*D4*	*Disney+ is future driver. Overall, DIS is significantly impacted if crisis is prolonged. The underlying businesses will retain their long term value. DIS shareholders should expect a dividend cut or suspension. Use longer term projections to find appropriate entry point during crisis*

Description of Analysis

Disney Theme Parks is the most significantly impacted business unit during this crisis. Almost all revenue lost at Disney Parks during this crisis is not recoverable (assuming that their Theme Parks historically have been filled to near capacity). For Scenario I, we have a C3 rating. This means that the Theme Parks would reopen as soon as the crisis is over. The C rating signifies lowered revenues of 50%-70% comparison to 2019. We projected the lower revenue is reasonable because it will take time for visitors to rebook holidays. The 3 rating signifies that over the next 1-2 years, the Theme Parks would be at 75-90% of revenues of 2019. In our opinion, it will take time for consumer confidence to re-establish even if Scenario 1 was true and the crisis ended today.

If you look at Disney+, it has had rapid subscription growth by families looking for entertainment while trying to self isolate. In Scenario I and II, (S1) and (SII), we give Disney+ an A1 rating. The A signifies that revenues will increase in the near term due to the crisis. The 1 rating means that the revenue continues to stay strong longer term. However, in S (III and IV), the prolonged crisis will limit the production of new media content. This could result in slower subscription growth and possible subscription contraction as users attrition sets in without new content to keep users satisfied to continue their subscription.

Overall, users of this assessment tool will have to balance the short term impact of COVID-19 (we are hopeful) with the value of the underlying existing businesses. Disney's Theme Park had been a cash cow for the company but has seen a dramatic drop in revenue during this crisis. Nevertheless, the Theme Park business is one-of-a-kind and as longer term investor, we will value it accordingly. Disney Corp. is rated as a C2 for Scenario 1 and a D3 for Scenario II. In Scenario II, Disney will experience a significant drop in revenues short term (with three business units impacted), but will rebound once the crisis is over.

Looking at examples of other industries that we do not own, such as cruise ships and airlines, both have very uncertain futures. These two industries will have limited revenues during the crisis. Liquidity may be an issue. There may be bankruptcies. However, cruise ship and airline companies that survive may emerge as significant winners in a less competitive market place. We would give these two industries an F or E rating, respectively. And, a longer term rating of 4 or 5. In contrast, Amazon is one of the winners during the crisis. Amazon's retail DTC business is constraint on its ability to hire sufficient workers. Amazon Web Services, AWS, may see revenues go higher because of a larger emphasis by businesses to conduct more of its operations using a cloud platform. Cloud computing is ideal for companies that want to promote work at home options. Amazon's Ad business may see a decline in ad growth, but a significant portion of Amazon's Ad is used to sell products on its Retail platform. Compared to Google or Facebook, Amazon Ads revenues should be the most robust. We own Amazon in the Osler Funds. In a Scenario II, we assign Amazon corporately at an A1 rating.

We hope this Assessment Tool is easy to understand and to use for our readers. Please think about how your business or investments are performing using this tool. The Osler Fund COVID-19 Assessment Tool is an add-on feature to our financial investment procedure. Our investment decisions in companies is largely based on a discount to intrinsic value or growth rate of a company at a reasonable price models. This Assessment Tool aids in formulating our valuation assumptions for our models, and is not meant to be used individually as the deciding factor on whether to invest or not.