STERN IAG

Board of Advisors Meeting

Oct 28th, 2020

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Letter from Portfolio Managers

Dear Board of Advisors,

The 2020-21 semester has gotten off to a great start, and we have been building off our early momentum and continuing refining our processes. As always, we can't thank you enough for the continued supervision and support, and we look forward to continuing working together to make IAG as beneficial as possible to our members and the Stern community.

Reflecting on the IAG processes, one of the main challenges is to balance hold horizon, number of positions, and number of new positions added every semester. Going forward, we propose formalizing our criteria for core and opportunistic holdings as below, in an effort to extend our hold horizon on core holdings while allowing sufficient space for new positions each semester for our members to practice skills.

	Core	**Opp.**
Investment Criteria	High-quality business with lasting moats and strong earnings power	Attractive short / medium-term risk-reward opportunity with clear selling criteria and holding covenants
Pricing Discount	Flexibility on trading discount	Substantial discount to perceived probability-weighted intrinsic value
Due Diligence	Heavy focus on business quality and defensibility	Focused on selected aspects and overall business quality
Hold Horizon	At least 2 years	0-2 years
Desired % of Portfolio	~50-70%	~30-50%
New Proposals Per Semester	2-3 proposals	3-4 proposals
Selling Criteria	Material change in business condition / opportunistic sell in limited cases	Thesis realization / change in business condition

The IAG fund has achieved a 10.6% return on an LTM basis, trailing the S&P 500 benchmark return of 13.5% by 2.9%. Removing the "big 5 tech" from the index, IAG outperforms the benchmark portfolio by more than 6% on the LTM basis. Over a 6.5-year horizon, IAG has generated 6.7% annualized return vs. S&P's 9.5% and S&P MidCap's 5.8%.

On an organizational note, our recruiting process is well underway. Our members have conducted 47 coffee chats with interested Stern students over the past few weeks and received 172 applications for the portfolio team. We have conducted our first-round interviews over the weekend, and we look forward to welcoming our new members next week.

Today, we are pleased to share the following proposals that exemplify our investment philosophy:

1. Enterprise Products Partners (NYSE: EPD) — a best-in-class midstream oil and gas operator
2. Points International (NASDAQ: PCOM) — a small-cap asset-light bet on air travel recovery with an attractive risk-reward profile
3. Office Properties Income Trust (NYSE: OPI) — an attractively valued office REIT

We look forward to the remainder of the semester. We are happy to continue being a source of information to the Board and encourage you all to reach out with feedback or clarifications.

Best,

Chen Zhou & Jaro van Diepen

Portfolio Managers

II. Performance Analysis

Holdings Summary *(as of Oct 26th, 2020)*

Holding Summary

Company Name	Ticker	Coverage	Date of Purchase	% of Portfolio	Share Count	Price At Purchase	Share Price	Current Return	Morningstar Industry	Holding Type
Allison Transmissions	ALSN	Cody Fang	12/3/19	**4.0%**	50	$47.42	$37.72	**(20.5%)**	Industrials	**Core**
APi Group	APG	Srikar Alluri	9/24/20	**5.0%**	160	$14.23	$14.86	**4.4%**	Industrials	**Core**
BorgWarner	BWA	Larry Wang	3/14/19	**4.4%**	55	$38.34	$38.35	**0.0%**	Industrials	**Core**
CVS Health Corp	CVS	Michael Giese	12/6/16	**2.5%**	20	$77.28	$59.07	**(23.6%)**	Healthcare	**Core**
Dell Technologies	DELL	Caleb Nuttle	4/9/20	**6.5%**	48	$41.75	$64.33	**54.1%**	TMT	**Core**
First Energy	FE	Liam Coohill	10/29/19	**3.5%**	50	$47.30	$33.23	**(29.7%)**	Utilities	**Core**
Grocery Outlet	GO	Larry Wang	5/14/20	**4.5%**	50	$36.45	$42.49	**16.6%**	Consumer Staples	**Core**
HCA	HCA	Srikar Alluri	9/26/19	**5.4%**	19	$119.20	$135.01	**13.3%**	Healthcare	**Core**
Identiv	INVE	Tony Wang	9/24/20	**5.3%**	400	$6.26	$6.35	**1.4%**	TMT	**Oppt.**
Palo Alto Networks	PANW	David Zhou	9/24/20	**4.8%**	10	$244.75	$229.20	**(6.4%)**	TMT	**Core**
Recro Pharma	REPH	Srikar Alluri	10/29/19	**0.63%**	160	$13.20	$1.88	**(67.6%)**	Healthcare	**Oppt.**
TransDigm Group	TDG	Tony Wang	4/9/20	**6.1%**	6	$360.46	$482.74	**33.9%**	Industrials	**Core**
United Rentals	URI	Caleb Nuttle	3/14/19	**10.2%**	27	$118.07	$180.32	**52.7%**	Industrials	**Core**
XPO Logistics	XPO	Chen Zhou	10/20/19	**8.8%**	45	$74.41	$92.83	**24.8%**	Industrials	**Core**
ZTO Express	ZTO	David Zhou	3/14/19	**6.3%**	100	$19.28	$30.07	**56.0%**	Industrials	**Core**
SPDR S&P 500 ETF Trust	SPY			**5.7%**	8		$337.01			**Core**
Total Equity Holdings				**83.7%**			**$39,771.59**			
Cash				**16.3%**			**$7,755.89**			
Total Portfolio Holdings				**100.0%**			**$47,527.48**			

IAG vs. S&P 500 LTM Return

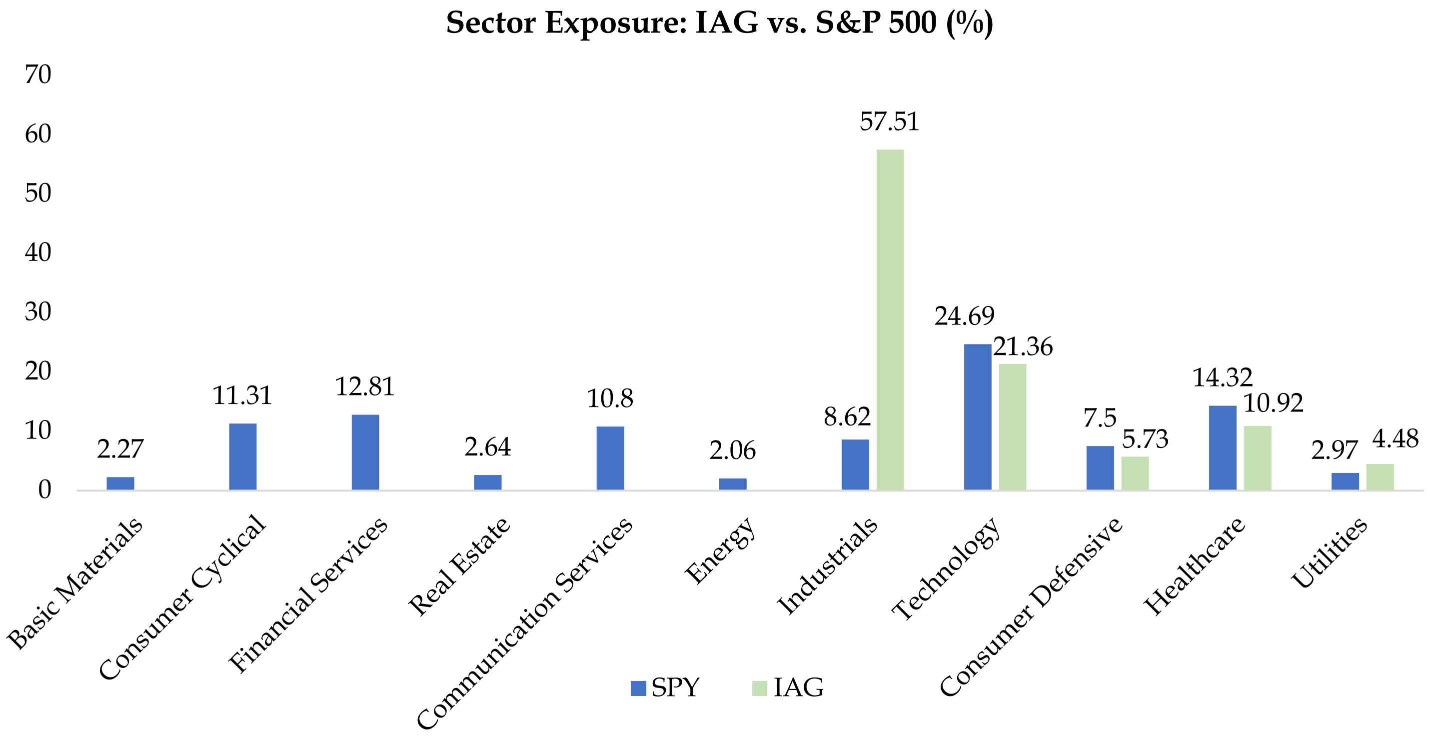
Portfolio KPIs

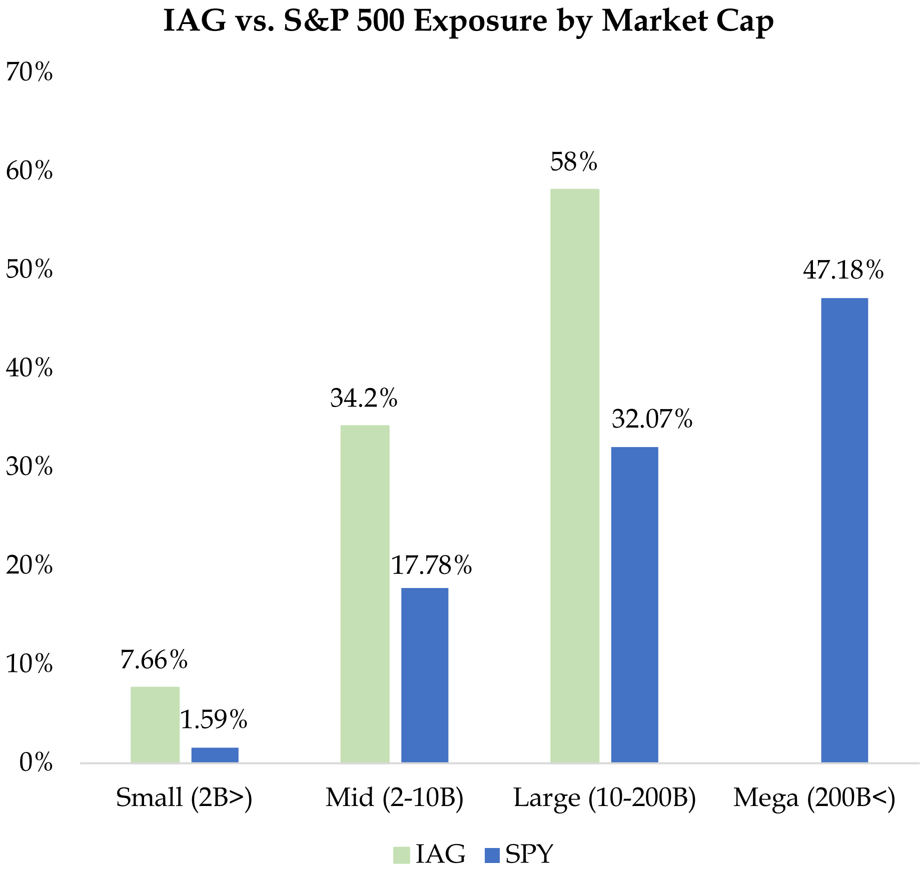
Indicator	Number
Daily Sharpe Ratio	0.03
Annualized Sharpe Ratio	0.4
Portfolio Beta	0.94
Daily Volatility	1.44%

On a last twelve-month basis, IAG's portfolio has returned 10.6% while the **S&P 500 returned 13.5%.** Our positions are long term focused and therefore were less impacted by the downturn but are also slower to recover. Since the last oversight meeting, **the spread between IAG's portfolio and the S&P 500 contracted from -7.0% (9/21/2020) to –2.9% (10/26/20).**

We would further like to note that while our opportunistic exposure has decreased due to a combination of selling off positions and a decrease in value in current holdings, we will work towards improving the composition.

Portfolio Exposure vs. Benchmark





IAG continues to use the S&P 500 as the core benchmark as specified in the fund mandate. While our industrial exposure is still substantially overweight, the three proposed positions today will help improve the composition.

IAG continues to be underexposed to mega-cap positions, yet drastically overexposed to small-cap companies. We will continue to look at the mega cap space for potential opportunities but do not think that the underexposure poses a major issue.

Pitch Log Since Sep 2020 Meeting

Internal Pitches Since Sep 2020 Meeting

	Company	Stage	Date	Analysts
1	**World Acceptance Group**	Quick Screen	9/22/20	Vinny Ye
2	**Allstate**	Quick Screen	9/29/20	Ian Chen
3	**Enterprise Products Partners**	Quick Screen	9/29/20	Larry Wang
4	**Intercontinental Exchange**	Quick Screen	9/29/20	Tony Wang
5	**Monro**	Quick Screen	9/29/20	Cody Fang, Vinny Ye
6	**Boyd Group Services**	Quick Screen	9/29/20	Cody Fang, Vinny Ye
7	**Rent-A-Center**	Quick Screen	9/29/20	Achyut Seth
8	**Enterprise Products Partners**	First Update	10/6/20	Larry Wang, Achyut Seth
9	**NIO**	Quick Screen	10/6/20	Catie Wang
10	**Boyd Group**	First Update	10/6/20	Cody Fang, Vinny Ye
11	**SciPlay**	Quick Screen	10/6/20	Caleb Nuttle, Jonathan Liu
12	**Points International**	Quick Screen	10/6/20	Tony Wang
13	**Collector Universe**	Quick Screen	10/6/20	Cody Fang, Tony Wang
14	**Berry Global Group**	Quick Screen	10/13/20	Sophie Pan
15	**Enterprise Products Partners**	Second Update	10/13/20	Larry Wang, Achyut Seth
16	**Scholastic**	Quick Look	10/13/20	Aashka Sanghvi
17	**Points International**	First Update	10/13/20	Tony Wang

Additions to Bench

	Company	Stage	Date	Analysts
1	**Intercontinental Exchange**	Quick Screen	9/29/20	Tony Wang
2	**Boyd Group Services**	Quick Screen	9/29/20	Cody Fang, Vinny Ye
3	**Anthem**	First Update	9/8/20	Sophie Pan

Oversight Meeting

	Company	Stage	Date	Analysts
1	**Enterprise Products Partners**	Second Update	10/13/20	Larry Wang, Achyut Seth
2	**Points International**	First Update	10/13/20	Tony Wang
3	**Office Properties Income Trust**	From Last Oversight	9/8/20	Cody Fang

Active Pipeline

	Company	Stage	Date	Analysts
1	**Berry Global Group**	Quick Screen	10/13/20	Sophie Pan

III. Key Holdings Update

Portfolio Updates Since Sep 2020 Meeting

Company	Ticker	Update
Allison Transmissions	**ALSN**	We would like to hold our stake in Allison Transmissions. The company has had no significant updates since the last oversight meeting, and we are awaiting Q3 earnings next week. Additionally, the company released its E-axle offering in early October and continues to gain share in the Class 4-5 market and more importantly, the class 8 metro as previously vertically integrated OEMs are looking to outsource. COVID impact on municipal spending is still relatively uncertain however management reiterated that 25% of school buses in the United States are over 15 years old.
APi Group	**APG**	Since opening our position in early October, not much has materially changed with the company. They have announced 300mm in acquisitions since the start of October using cash on the balance sheet. The acquisitions are in line with our thesis as they are mostly fire safety, and they are expanding into Europe with the acquisition of the SK Fire Safety group from Apax Partners for 150mm. We will be watching closely as the company reports earnings in the middle of November.
BorgWarner	**BWA**	We would like to propose a hold on BorgWarner at $39.75 per share, up 3.7% since inception. Since the prior update, BorgWarner had completed their acquisition of Delphi Technologies on October 2, 2020.. The completion of their acquisition allows for greater growth as Electrified Propulsion Systems gain momentum as well as enhance their current combustion technologies. The cost synergy target was raised by management from $50m to $175m and longer-term revenue synergy potential from $200/100m in 2025E to 2027E to >$900m/$1.4bn because they identified 17 pursuit opportunities for electrified powertrains compared to 15 before. Simultaneously, it lowered expected 2021/2022 EPS accretion because of the lower outlook for industry volumes. Despite low industry volume expectations, BWA is well positioned well ahead of its peers for the current combustion market and emergence of EV.
CVS Health Corp	**CVS**	There have been no material changes since the last oversight meeting. We are continuing to monitor the HealthHub rollout and Aetna integration. We think vaccine distribution will help better define the HealthHub concept to consumers and be a major tailwind. Internally, we are continuing to discuss this position and the shift to DTC pharmaceutical competitors and telehealth with its impact to the long-term value of this company.

Portfolio Updates Since Sep 2020 Meeting

Company	Ticker	Update
Dell Technologies	**Dell**	We would like to propose holding our stake in Dell Technologies (DELL) at $41.75, up 55% since inception in April 2020. The position has certainly performed exceptionally well in recent months, with the market realizing much of the steep discount that was historically placed on "core" Dell. This correction primarily came after Michael Dell's public proposal on July 21st to spin-off the company's stake in VMWare in 2021. This development was accounted for in our initial analysis on the company back in April, with us viewing such an event as a catalyst to correct this undervaluation. While our initial thesis and catalyst has largely played out on the position, we still believe the company is worth holding in the short term. Dell has performed exceptionally well over the summer, with consumer revenues up 18% and VMWare's revenues up 10% YoY, coming well above market expectations. At this moment we intend to exit the position at some point before the end of 2020, as we have some doubts surrounding how likely or soon such a VMWare spinoff may be. However, we believe Dell as a position has further room to appreciate in the coming months as US business reopen and economic activity recovers.
First Energy	**FE**	We propose holding our stake in FirstEnergy. Our position is down 29.9% since our purchase at $47.50 per share. While COVID related market conditions impacted First Energy, we have not seen a return to pre-COVID highs. However, since our last oversight meeting shares have traded up on strong EPS last week, despite a miss on revenue, implying margin expansion. This earnings release has improved our confidence in the company's transition towards a lower risk business model, supporting the thesis we based our Fall 2019 share purchase on. Despite the thesis remaining intact, the outstanding litigation risk surrounding the business that was addressed at the last oversight meeting has not been mitigated. As a refresher, this July the Speaker of the Ohio House was indicted by a grand jury for racketeering charges involving the passage of a $1.3 billion bailout bill for two nuclear power plants. It was revealed that First Energy allegedly contributed $60 million to a nonprofit run by the Speaker to "facilitate the bailout bill's passage", according to the SEC. The company is currently under investigation by the SEC and shares were depressed 34.3% on solely that news. Considering the uncertain path of investigation, it does not seem prudent to make changes to this position until more visibility is available, especially while the fundamentals of the business continue to improve.
Grocery Outlet	**GO**	We would like to propose a hold on our position in Grocery Outlet (GO) at $42.32 per share, up 16.1% since inception in May 2020. Over the past months from holding we have seen positive development in the company and there is further upside due to COVID recovery and their East Coast expansion set to resume in 2021. Throughout this time, Grocery Outlet has maintained their relationships with large brands and continued to partner with smaller local brands. They are possibly introducing private labels to occupy about 10% of their product mix. The original thesis focuses mainly on the growth of GO's core markets which have performed well and been reflected in recent prices.

Portfolio Updates Since Sep 2020 Meeting

Company	Ticker	Update
HCA	**HCA**	HCA reported preliminary earnings in early October that were positive as the company had admission numbers and its financial performance beat expectations. The company is preparing for a rough winter and may see some pressure as COVID cases continue to rise particularly in their markets. The hospital has suspended their dividends and buybacks for the time being. We affirm our conviction in this investment and we think the business has prepared much better for a potential second wave.
Identiv	**INVE**	We would like to hold our stake in Identiv. No significant updates have been made since we entered our position mid-September. We will continue to monitor any significant developments around the company; Q3 earnings are scheduled for November 5. We anticipate strong results backed by federal stimulus and previously reported backlog growth. The longer-term thesis on RFID growth should start to materialize heading into end-of-year, so we will reassess the situation post-earnings.
Palo Alto Networks	**PANW**	We would like to hold our stake in Palo Alto Networks. The company now trades at 6.5x sales and 24x FCF, with very little change since we entered the position. PANW remains attractive given the legacy multiples and its prospect of repositioning itself to the new growth areas in the cybersecurity market. We should expect the thesis to start to materialize gradually in the next fiscal year.
Recro Pharma	**REPH**	The pandemic continues to disturb the operations of Recro as the company struggles to win business as a CDMO and its new expansion will take a long time to recover. We are monitoring this position closely and are waiting for earnings to come out. Positive developments may not come until the middle of 2021, but we will remain patient as we also wait for prescription volume to increase.
TransDigm Group	**TDG**	We propose holding our stake in TransDigm. Our position is up 33.9% since our purchase at $360.46 per share. While travel volumes and airplane manufacturing has not meaningfully recovered, we believe that our long-term thesis is still intact. TDG is currently still in a hibernation phase and operating at minimal costs. We have confidence that as travel bounces back, TDG will be able to meaningfully capitalize.

Portfolio Updates Since Sep 2020 Meeting

Company	Ticker	Update
United Rentals	**URI**	We would like to propose holding our stake in United Rentals (URI) at $188.24, up 59.4% since inception in March 2019. While the position has certainly performed well within its industry, we still believe the company trades at an unfair discount to other construction equipment companies, such as CAT. United Rentals currently trades at 9.12x and 12.82x EV/EBITDA and P/E respectively. This is overall at a discount to Caterpillar, which trades at 13.69x and 21.50x EV/EBITDA and P/E respectively. This is despite the fact that the equipment rental business model is more attractive in the US' current construction economic environment, where economic activity has slowed and construction project volume is down, making it harder to justify a purchase of new construction equipment rather than simply rent. Additionally, URI's management has continued their promise to focus on decreasing leverage rather than revert to their historic acquisition heavy strategy. Overall, while the market has certainly realized a portion of its previous discount, we still believe URI is a position worth holding. We believe that it should be considered as one of the portfolio's core holdings, especially within the industrial holdings.
XPO Logistics	**XPO**	We propose holding our stake in XPO logistics at $93 per share, up from 28% from the entry on Oct. 25th, 2019. There have not been material changes in business conditions since the last oversight meeting. We will monitor the upcoming earnings announcement on Nov. 5th, 2020, with a focus on operating ratio recovery driven by industry bounceback and cost-reduction initiatives promised by the management in 2Q20. We expect US trucking volume to recover further through the end of the year as more businesses reopen. We believe that XPO is a fundamentally strong business that will generate above-market return over the longer term and that despite the recent gain, it is still valued at a substantial discount to core comps on a SOTP basis.
ZTO Express	**ZTO**	We would like to hold our position in ZTO Express. The company now trades at 20.8x NTM EBITDA, a slight premium to peers. This is justified with its superior franchise business model, as well as its competitive status as the lowest-cost leader with a market share approaching 25%. The delivery industry in China is still in its consolidation process, and ZTO is best positioned in our view to become the future monopoly through leveraging scale economies and operating efficiency. We believe this is a good fundamental business to hold in the long term.

IV. New Position Proposal

Enterprise Products Partners (NYSE: EPD)

An excellent midstream business with significant upside potential

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Analyst
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Sector: Energy & Infrastructure **October 25th, 2020**

Business Description:

Enterprise Product Partners is the largest master limited partnership that provides gathering, processing, and fractionation, and transportation services for upstream customers across all hydrocarbon products, including natural gas, natural gas liquids, crude oil, refined products and petrochemicals. EPD is geographically diverse but has a larger footprint along the Gulf Coast.

Investment Thesis:

1. Best-in-Class Midstream Franchise Positioned for Long-term Growth

EPD is one of the best midstream operators in the industry that benefits from operating efficiency stemming from its vertical integration and diversified portfolio of high-quality assets. By being able to aggregate supply of every type of hydrocarbon from major producing basins and deliver to multiple end markets (refiners, petrochemicals, exports), EPD is able to be more resilient of cyclical headwinds by marketing and leveraging longer-term contracts to the best customers in the space. Diversification has further reduced the partnership's exposure to the volatility of commodity prices and oftentimes improve its margin and cash distribution during cyclical trends, exemplifying the strength of a competent management that focuses on cost-discipline, free cash flow generation, and balance sheet strength. EPD is able to maintain its economic moat in the fast-growing NGLs area of the midstream sector through its vast NGL system, connection with nearly every ethylene cracker on the Gulf Coast, and modernized isobutylene unit.

2. The Market Has Unfairly Punished EPD in the Wake of Oil Crash

EPD's share price has been crushed by the sharp decline in oil price driven by COVID and Russia–Saudi Arabia price war. Its strong correlation to commodity prices over the past shows that the market is misinterpreting EPD's business model – believing that the company is more exposed commodity risks than it actually is. In reality, 88% of EPD's gross operating margin is fee-based. Like a toll road, EPD's fee-based model works by charging a fixed fee for each unit of commodity that flows through its pipeline; its main source of risk is volume, which exhibits far less volatility than oil prices. In addition, 47% of the EPD's midstream serve revenue are supported by "Minimum Volume Commitment", which obligates producers to make-up any volume shortfalls over an agreed-upon period. EPD's natural gas and NGL segment, primarily driven by residential demand, also provides significant cushion to drop in oil volume. As of Q2 2020, NGL gross margin was essentially unimpacted, while natural gas processing has returned to 88% of March level. Overall, the strength of EPD's diverse operations across basins, hydrocarbons, and midstream value chain has enabled the partnership to continue to perform well despite a rather hostile energy environment, making us confident of a great long-term play once the industry recovers.

3. Overly Bearish Sentiments Toward Permian Basin

In response to historical pipeline constraints, midstream companies have ramped up pipeline construction in recent years, at a rate faster than production growth. This ultimately led to a near-term oversupply issue, which was further exacerbated by coronavirus-driven price decline that halted drilling activities. Industry projections point to the prospect of production volume only reaching half of total pipeline capacity by 2021. As a result, the market is currently giving a notable discount to MLPs with large exposure to Permian – including EPD – believing that excess capacity could lead to low pipeline utilization rates and intensified competition in the region. However, we believe this selloff was more than what is justified, as pipeline oversupply remains a temporary issue that can be addressed by an oil recovery beyond 2021. Management had already anticipated the lower utilization rates and evaluated its projects at a very conservative level, assuming zero terminal values and no contract renewals, yet still achieved project returns above 15% IRR. Meanwhile, EPD is expected to take advantage of Permian's strong unit economics and high level of dilled wells that will provide a plenty of supply cushion in today's low pricing environment.

Key Ratios and Statistics:

Price Target	$23.06
Upside	30.8%
Share Price (10/23/20)	$17.63
Market Cap	$38.5B
52-Week Low	$10.27
52-Week High	$29.22
Cash	$1.3B
Total Debt	$30.2B
Dividend Yield	10.1%
P/E	8.9x
EV/NTM EBITDA	8.7x

FY ($mm)	2020E	2021E	2022E	2023E
GOM	$7,758	$7,657	$8,161	$8,458
EBITDA	$7612	$7,544	$8,040	$8,360
DCF/Unit	$2.76	$2.64	$2.91	$3.11

Figure 1 – 5-Year EV/Forward EBITDA

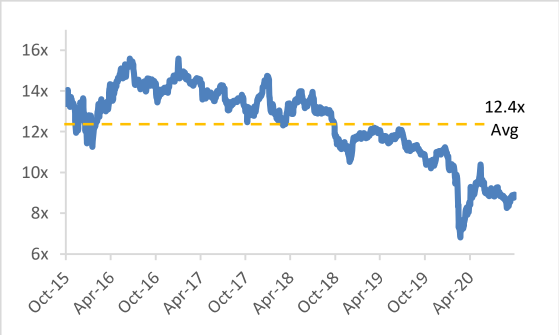
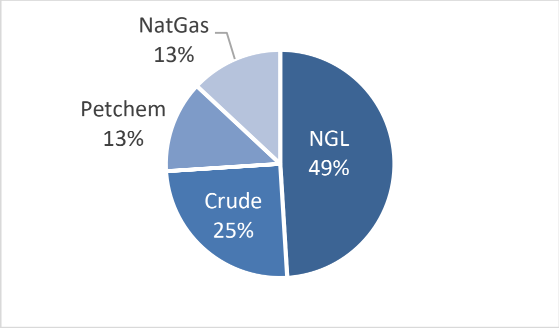


Figure 2 – Gross Operating Margin, by Segment



Company Overview

A fully-integrated midstream value chain, earning fees at every link

Enterprise Products

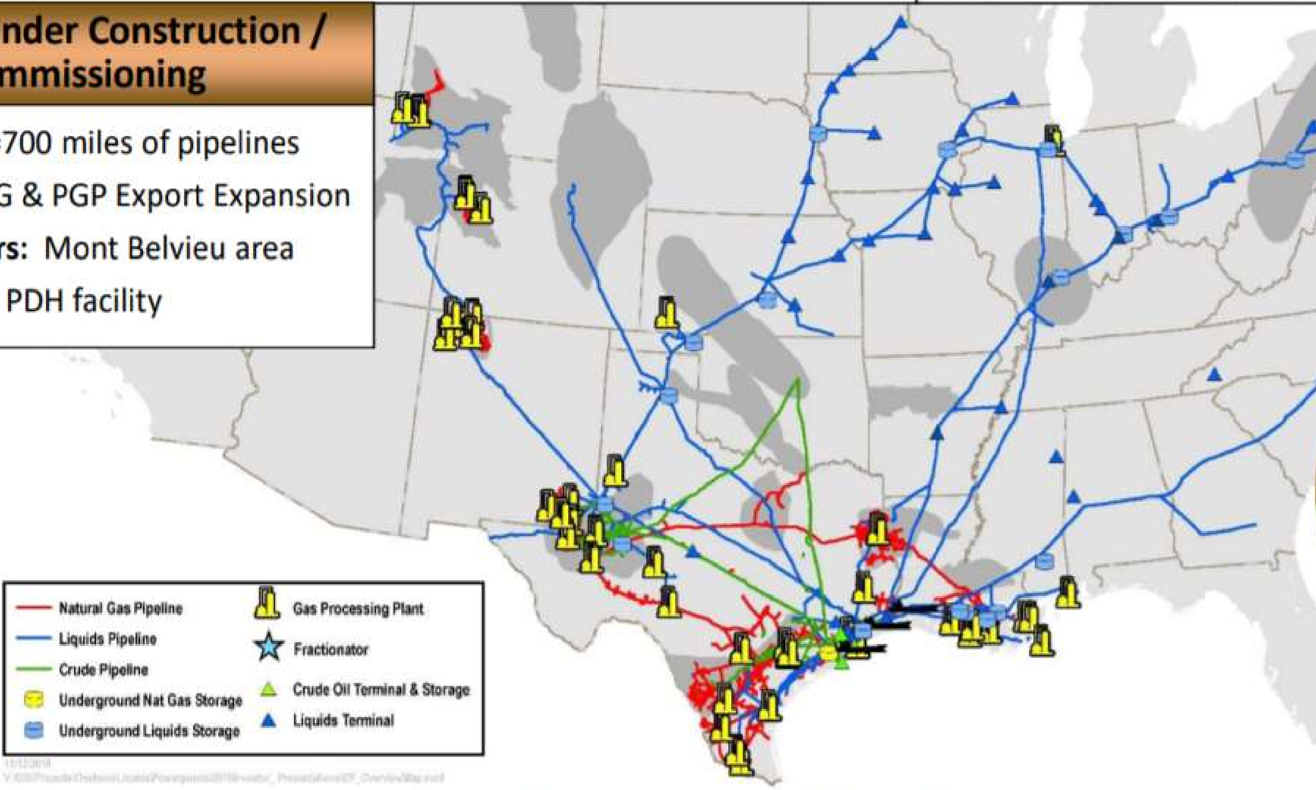
Asset Overview → Connectivity

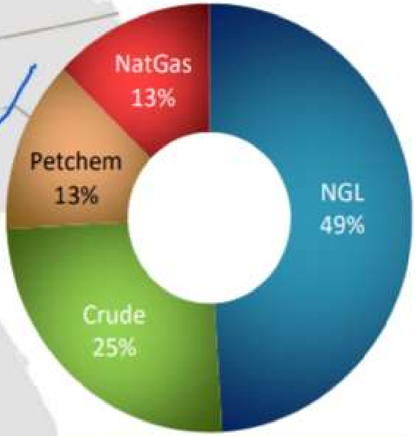
- **Pipelines:** ≈50,000 miles of natural gas, NGL, crude oil, petrochemicals and refined products pipelines
- **Storage:** ≈260 MMBbls of NGL, petrochemical, refined products, and crude oil, and 14 Bcf of natural gas storage capacity
- 29 natural gas processing plants; 23 fractionators; 11 condensate distillation facilities; PDH facility; iBDH facility
- **Export Facilities:** 18 docks handling NGLs, PGP, crude oil & refined products

- Fully integrated midstream energy company aggregating domestic supply directly connected to domestic and international demand
- Connected to U.S. major shale basins
- Connected to every U.S. ethylene cracker
- Connected to ≈90% of refineries East of Rockies
- 26 Gulf Coast PGP connections

Assets Under Construction / Commissioning

- **Pipelines:** ≈700 miles of pipelines
- **Marine:** LPG & PGP Export Expansion
- **Fractionators:** Mont Belvieu area
- **Petchem:** 1 PDH facility





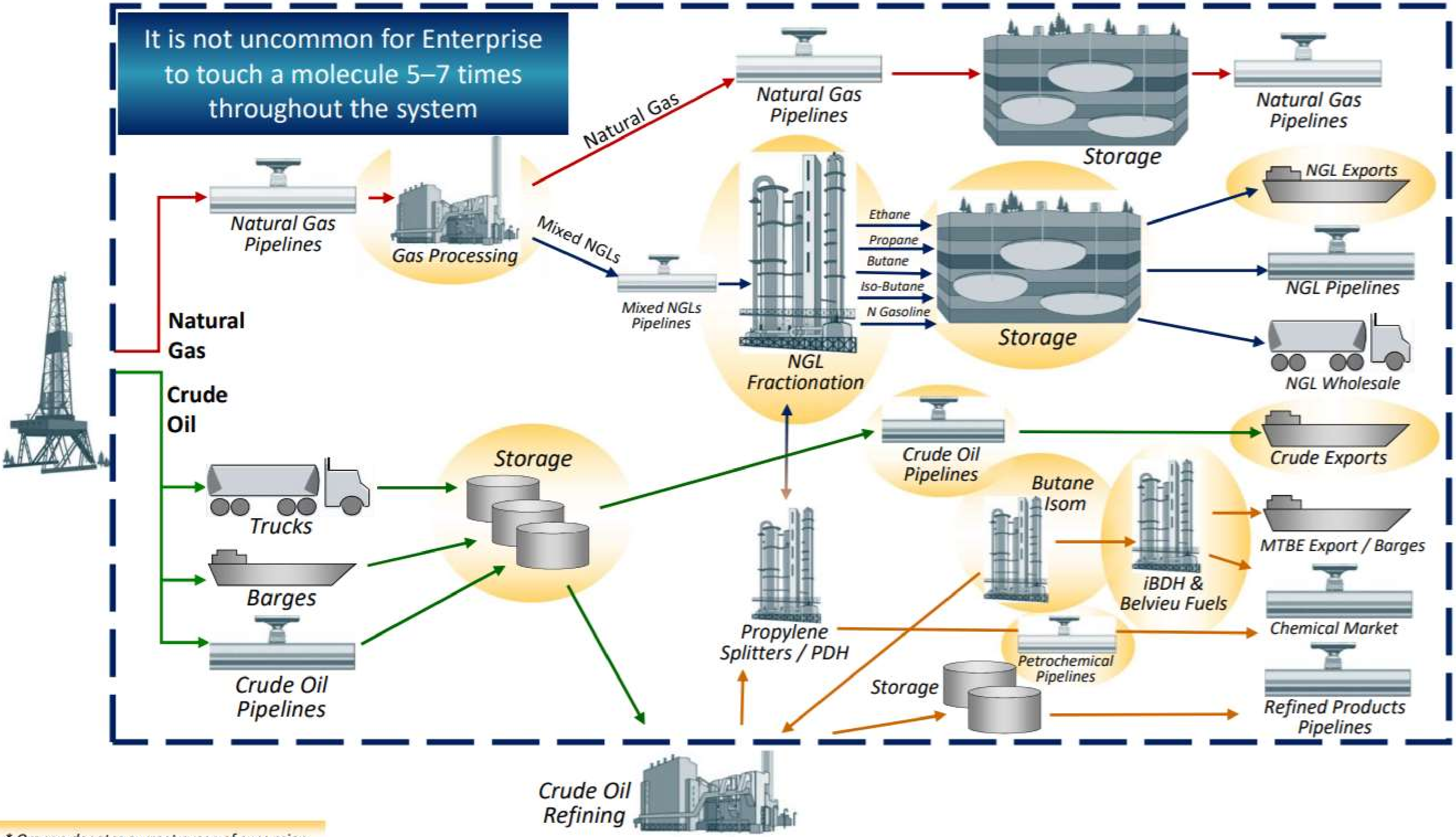
2019: $8.29B Gross Operating Margin

Gross operating margin ("GOM") is how we measure the performance of our business segments. See reconciliations for closest GAAP comparison.

Source: EPD Investor Presentation

Company Overview

A fully-integrated midstream value chain, earning fees at every link



It is not uncommon for Enterprise to touch a molecule 5–7 times throughout the system

* Orange denotes current areas of expansion

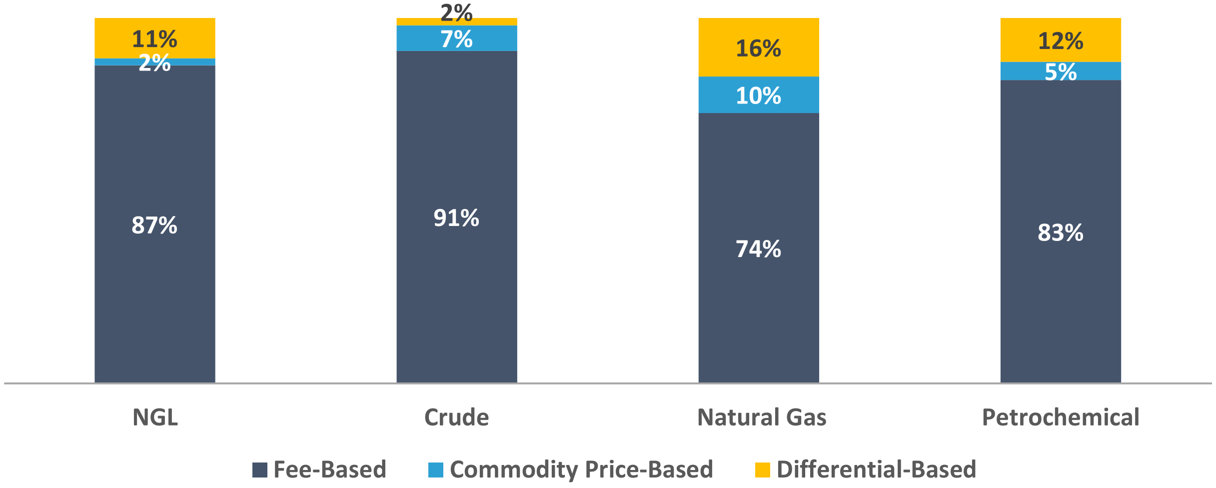
Source: EPD Investor Presentation

Thesis #1: Best-in-Class Midstream Franchise

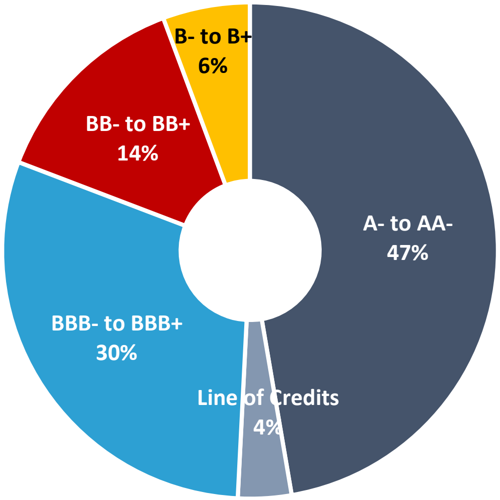
A fee-based model backed by robust customer profile and MVC

Indicative Attribution of 2019 Gross Operating Margin

Diversified Hydrocarbon Mix: By being able to aggregate supply of every type of hydrocarbon from major producing basins, such as Permian and Eagle Ford, and deliver to multiple end markets (refiners, petrochemicals, exports), EPD is able to be more resilient of cyclical headwinds and leverage longer-term contracts to the best customers in the space

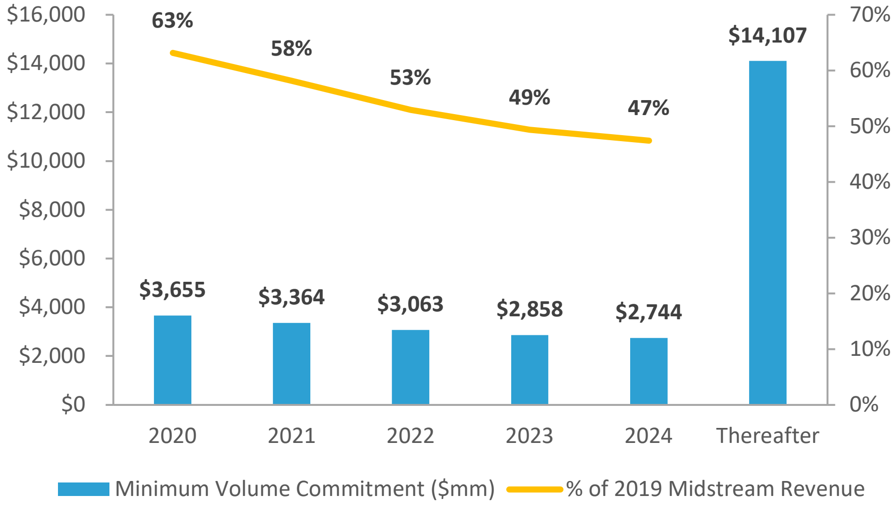


Customer Credit Ratings by Volume



- **~77%** of contracted volumes are from investment grade customers
- **~70%** of volume weighted contract lengths are over 10 years

Minimum Volume Commitment[1]



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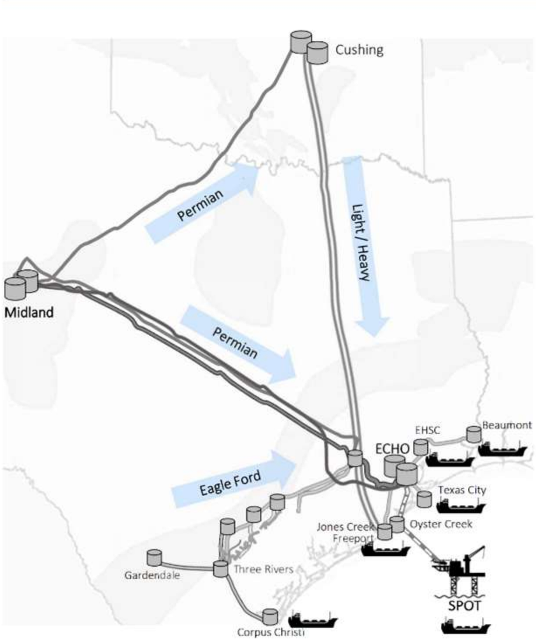
(1) Contractual revenue obligations; does not assume future contract renewals

Source: EPD Company Filings

Thesis #1: Best-in-Class Midstream Franchise

Integrated Asset Network: Large supply aggregator and access to domestic and international markets provides optionality to producers and consumers

Midland-to-ECHO System [1,2]



- Unparalleled pipeline network that supports Permian Basin crude oil production, crude quality segregation, and access to Gulf Coast and international markets
- Supported by 45 MMBbls of aggregate integrated storage in Midland, Sealy and Houston
- Recently amended transportation contracts to be more cost-efficient: estimated $800 MM in capex savings
- System is supported by a 20+% unlevered lifetime IRR (assuming 0x TV and no contract extensions)
- **Midland-to-Echo 1 pipeline:** gives shippers access to every refinery in Houston, Texas City, Beaumont and Port Arthur, Texas, as well as crude oil export terminal facilities
- **Midland-to-Echo 2 pipeline:** 225 MBPD of incremental crude oil transportation capacity; flexibility to convert pipeline back to NGL service if future market conditions support the need for additional NGL transportation capacity out of the Permian Basin

Mont Belvieu NGL Fractionation Complex[2]

- Provides connectivity to network of NGL supply and distribution pipelines, ~130 MMBbls of underground salt dome storage capacity, and access to international markets through marine terminals
- Demand for NGL fractionation capacity continues to expand as producers in domestic shale plays such as the Permian Basin, Eagle Ford Shale and DJ Basin seek market access and end users require supply assurance
- *"If supply starts going down, you look at what we have built in Mont Belvieu and the pricing points that we have, I fundamentally believe that the downstream assets that we have at those pricing points benefit"* [3] – Brent B. Secrest (Executive VP & Chief Commercial Officer)

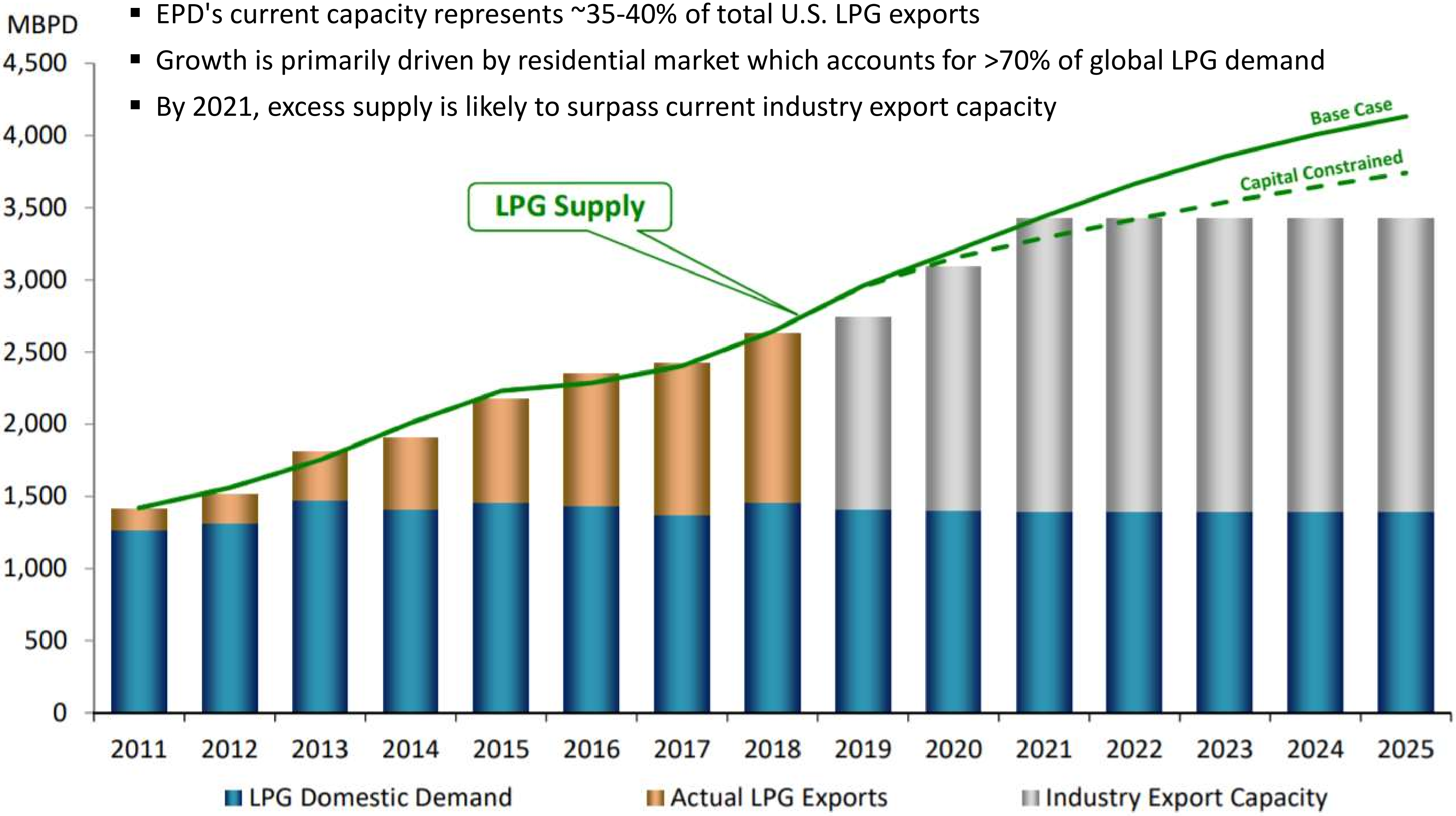
Source: 09/2020 Investor Deck Presentation (1), 2019 10-K (2), Barclays July 2020 Conference (3)

Thesis #1: Best-in-Class Midstream Franchise

First mover in LPG exports, positioned for more future growth

Industry Commentary:

- The U.S. is currently the world's largest exporter of liquid petroleum gas (propane and butane), responsible for virtually global LPG growth
- EPD's current capacity represents ~35-40% of total U.S. LPG exports
- Growth is primarily driven by residential market which accounts for >70% of global LPG demand
- By 2021, excess supply is likely to surpass current industry export capacity

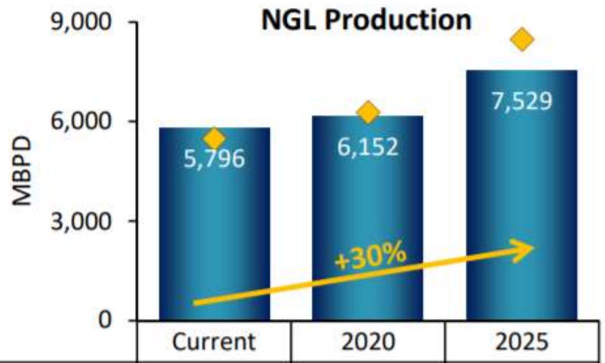


Source: EPD Investor Presentation, Deutsche Bank

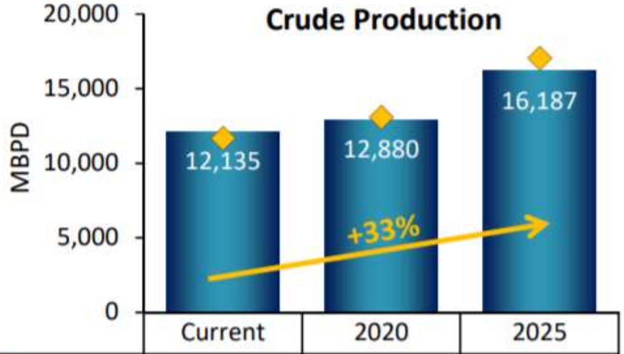
Thesis #1: Best-in-Class Midstream Franchise

EPD’s NGL segment is well-positioned for future demand growth

U.S. Production



	Current	2020	2025
■ Capital Constrained	5,796	6,152	7,529
◆ Base	5,489	6,284	8,481



	Current	2020	2025
■ Capital Constrained	12,135	12,880	16,187
◆ Base	11,680	13,088	17,035

Source: EPD Fundamentals, August 2019 forecast

Demand for U.S. Production – 2025

PRODUCT	DOMESTIC MARKET	INTERNATIONAL MARKET
Ethane _(≈50% of NGL barrel*)_ _*Assumes full recovery; ethane not consumed by petchems or exported is left or reinjected back into the natural gas stream._	**Demand: <u>>65%</u>** ○ New crackers could consume ≈1 MMBPD of ethane ○ U.S. crackers to remain feedstock advantaged • Growing exports of ethylene and polyethylene	**Exports: <u><35%</u>** ○ Current capacity is full and exports steady ○ New capacity is needed • New investment needed • Complex infrastructure • Needs competitive pricing
LPG (Propane & Butane) _(35-40% of NGL barrel)_	**Demand: <u><40%</u>** ○ Demand will stay ≈1.4 MMBPD ○ Propane for residential ○ LPG for plastics and specialty chemicals	**Exports: <u>>60%</u>** ○ Primarily to Asia ○ Residential: ≈60% of global demand growth (less price sensitive) ○ Petchem: ≈40% of global growth (more price sensitive)
Oil & Condensate	**Demand: <u><50%</u>** ○ U.S. refiners are blending light crude as much as possible ○ Minimal new refining capacity • Mostly debottlenecking and retooling where possible	**Exports: <u>>50%</u>** ○ 8 MMBPD expected to be exported ○ Light, low sulfur crude: • Can be used in Refining + Petchem complexes • Is an excellent fit post-IMO 2020

Source: EPD Investor Presentation

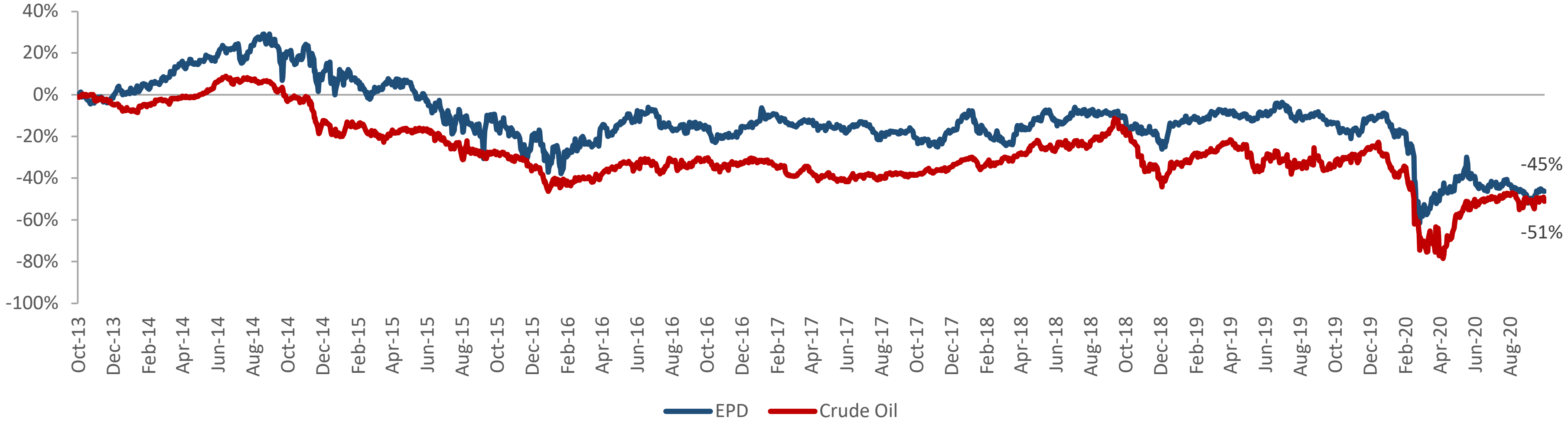
Thesis #2: Industry Downturn Creates A Mispricing Opportunity

The market has unfairly punished EPD in the wake of oil crash

Enterprise Products

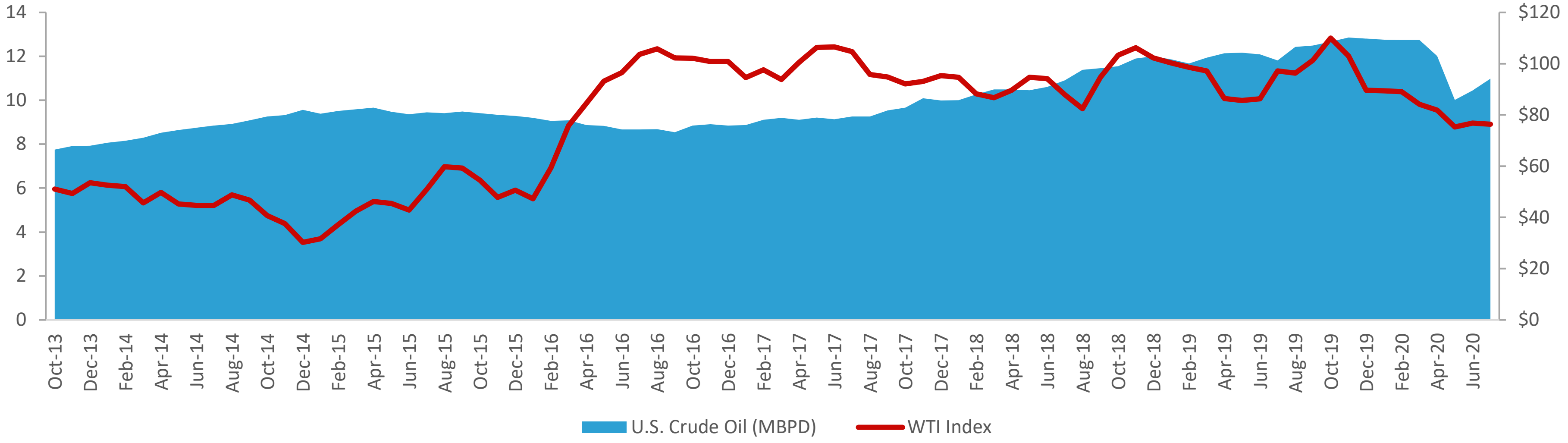
Price Performance: EPD vs. Oil Price

EPD's share price is strongly correlated to oil price….



U.S Oil Production Volume vs. Oil Price

…. while oil production volume – EPD's source of income – remains resilient

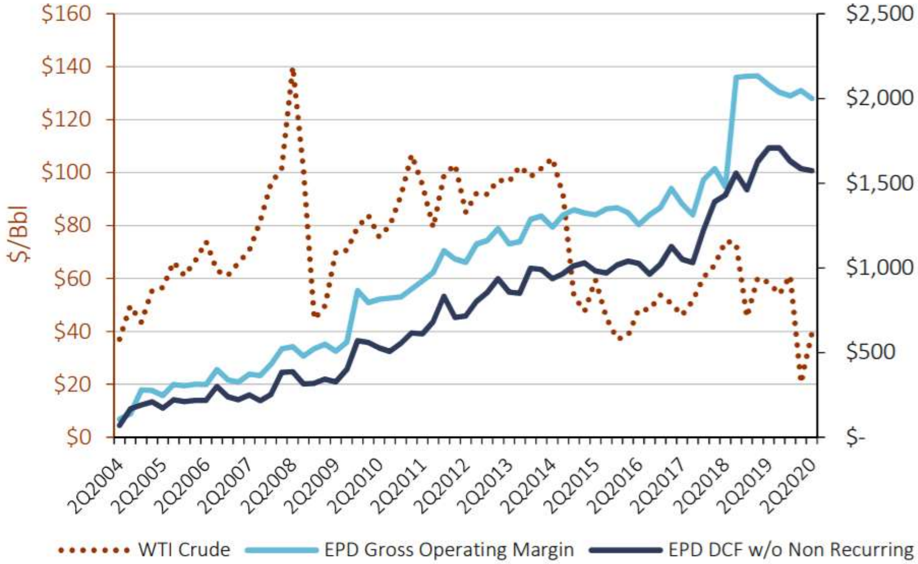


Source: EIA, Cap IQ, Federal Reserve Bank of St. Louis

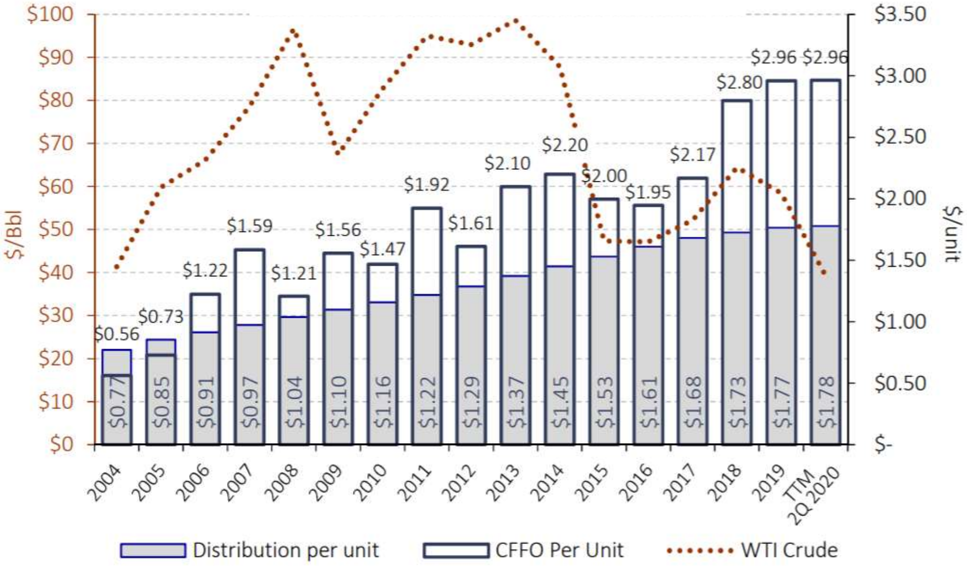
Thesis #2: Industry Downturn Creates A Mispricing Opportunity

EPD has delivered consistent results throughout cycles

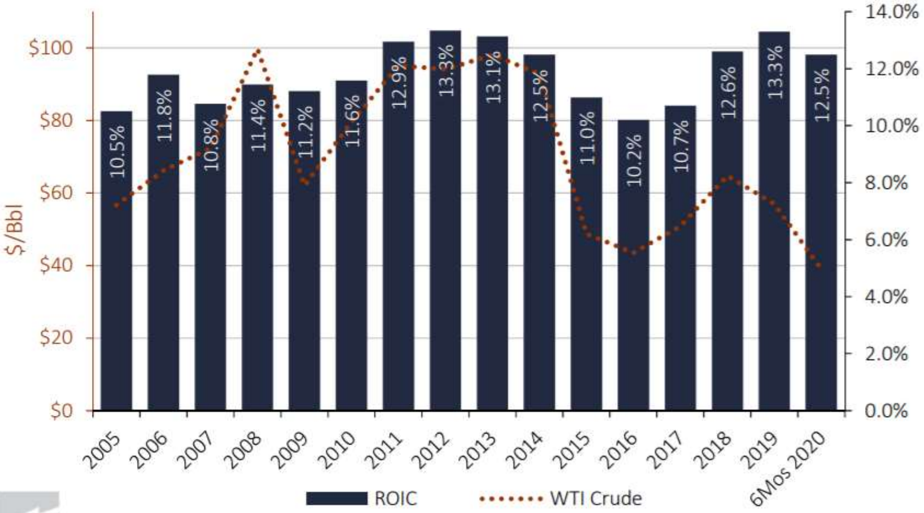
Operating Margin & Distributable Cash Flow



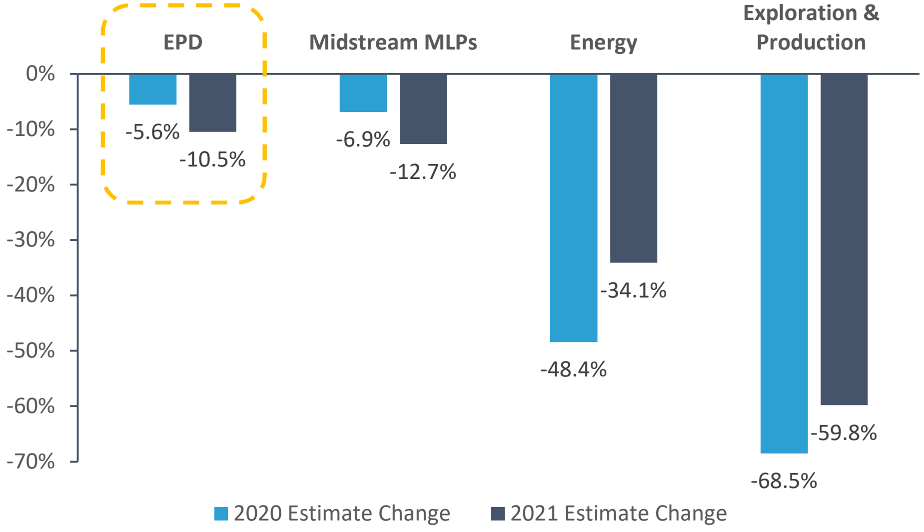
CFFO/Unit & Distribution/Unit



Return on Invested Capital



Annual EBITDA Expectations(1)



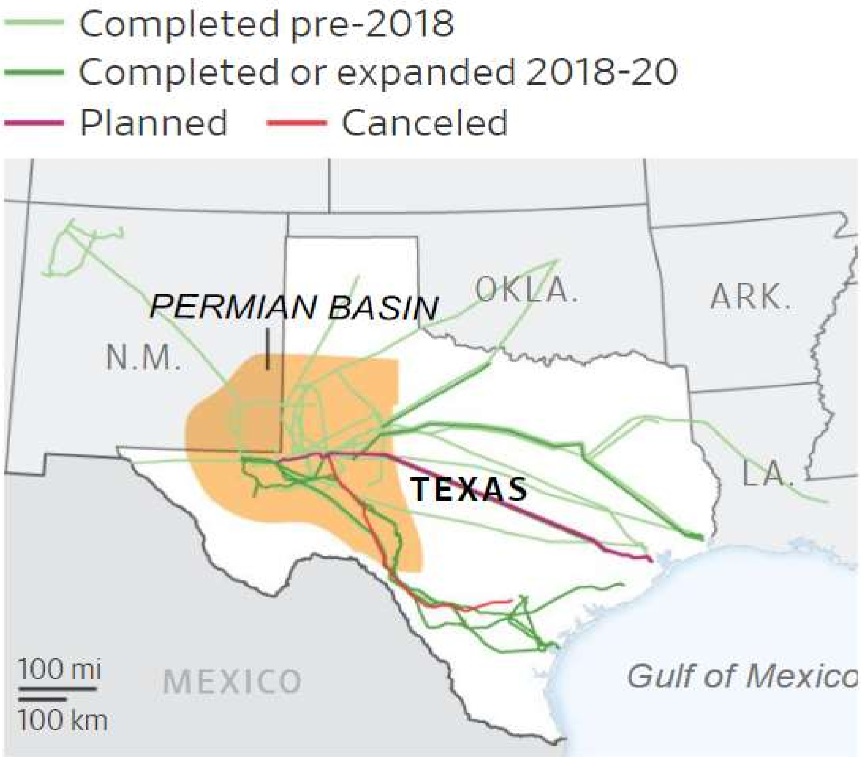
(1) Reflects % change in 2020 and 2021 EBITDA estimates from 1/31/2020 to 9/18/2020

Source: EPD Company Filings, Cap IQ, Alerian

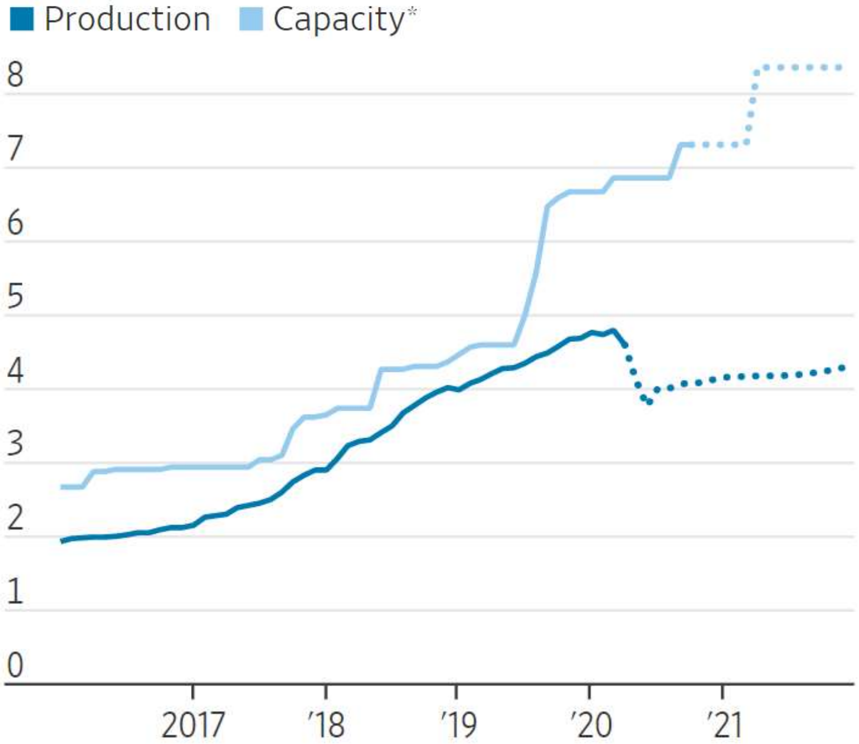
Thesis #3: Overly Bearish Sentiments Toward Permian Basin

Permian crude pipeline overbuild is only temporary

Permian Pipeline Development



Permian Production & Capacity (MBPD)



Current Market Sentiments:

- "Permian oil infrastructure is already overbuilt… We will have 2 million B/D of unutilized outbound capacity." – Rystad Energy
- "The fate of midstream pipeline companies in this environment is closely tied to that of producers." – Morningstar
- "Expanding a gap between production and takeaway capacity that's already spurring midstream rate cuts and could mean cutthroat competition ahead" – Bloomberg

IAG Perspective:

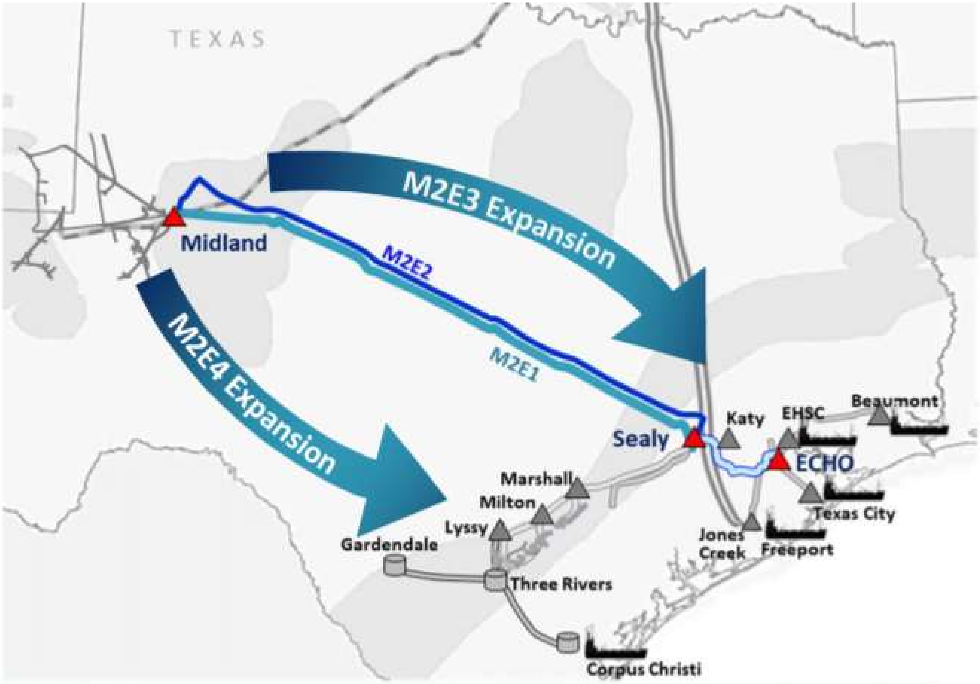
- Despite short-term overbuild, long term outlook (beyond 2022) indicates that current pipeline capacity is just enough
- By the mid 2030s, Permian-to-Gulf Coast pipeline utilization will surpass 90%, requiring additional pipeline expansions
- EPD's pipelines are backed by long-term contracts with pre-determined rates and minimum volume commitments
- Permian basin remains attractive due to low wellhead breakeven cost and resilient growth prospects

Source: WSJ, Wood Mackenzie, S&P Global, JPT

Thesis #3: Overly Bearish Sentiments Toward Permian Basin

Underappreciated Permian Basin assets with attractive IRRs

Midland-to-ECHO (M2E) Pipeline System



M2E In-Service:

- M2E1 and M2E2 pipelines from Midland to Sealy with >800 MBPD of capacity
- M2E2 could be converted back to NGL service
- Integrated with existing 1.3 MMBPD Rancho II pipeline from Sealy to Houston

M2E Under Construction:

- M2E3 expected to add 450 MBPD capacity (scheduled for 3Q 2020)
- Recently announced the cancellation of M2E4 expansion(1)

- **Market Access:** Provides customers with access to largest markets on Texas Gulf Coast and international markets
- **Storage Integration:** Supported by 45 MMBbls of aggregate integrated storage in Midland, Sealy and Houston
- **Flexibility:** Crude system can be converted back to NGL services in an environment like today
- **Contract:** 1.3 MMBPD capacity is ~95% contracted with A-rated customers
  - System could flex between 1.3 and 1.8 MMBPD depending on market demand
- **Return:** 15%+ unlevered IRR
  - Assumed 0 terminal value at initial contract
  - Excludes revenues from associated storage and marine terminal services
  - Expected payout in 2024
- **Additional Value Chain Benefits:**
  - Customers representing ~90% of contracted volumes also have associated storage contracts
  - Customers representing >90% of contracted also have contracted for ship-or-pay marine terminal services

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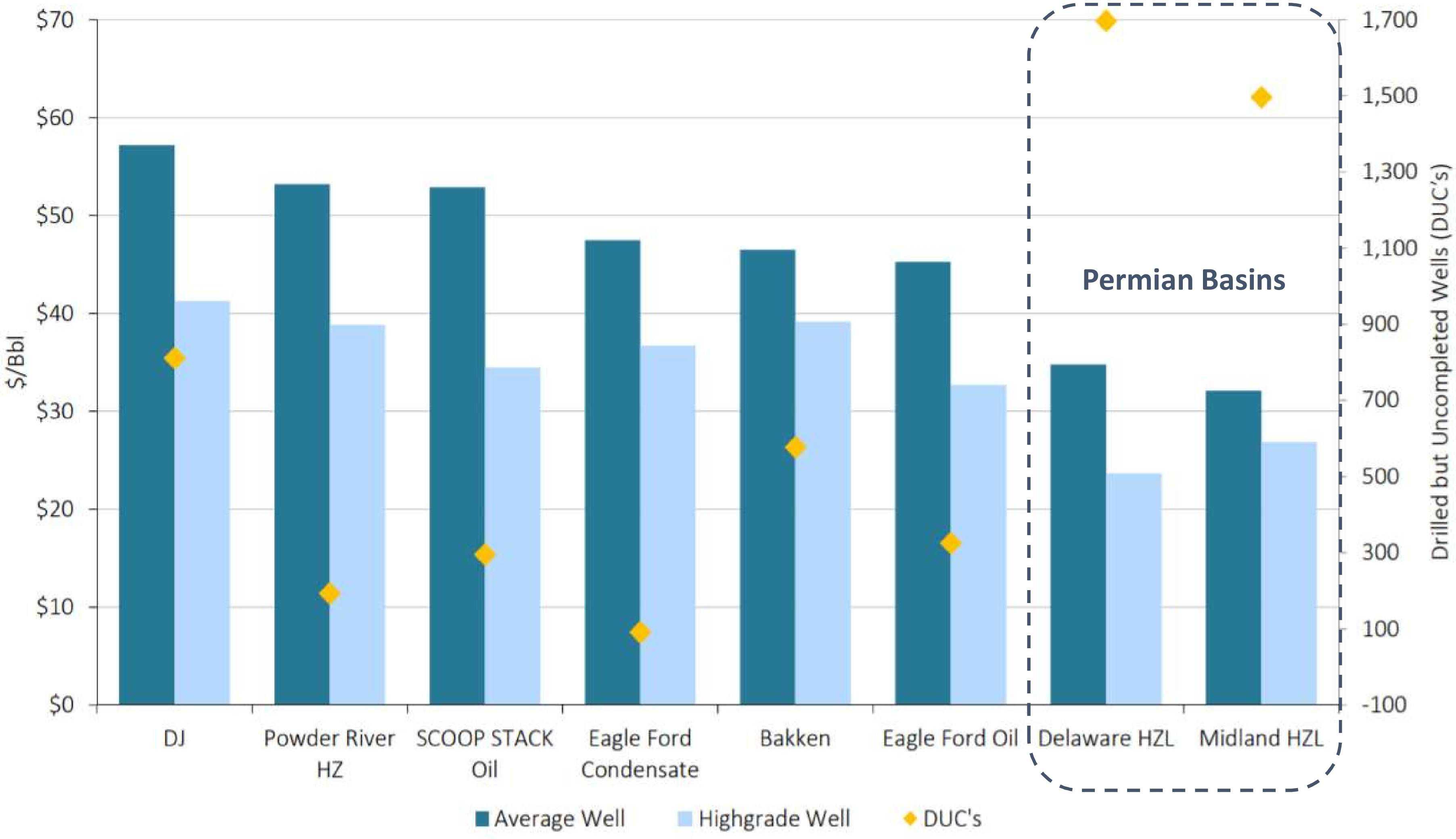
(1) Cancellation of M2E4 provides $800mm capital savings that will be allocated to debt paydown and share buyback

Source: EPD Company Filings

Thesis #3: Overly Bearish Sentiments Toward Permian Basin

Low production cost and high inventory support Permian fracking deep into 2021

Oil Breakeven Prices at 20% IRR

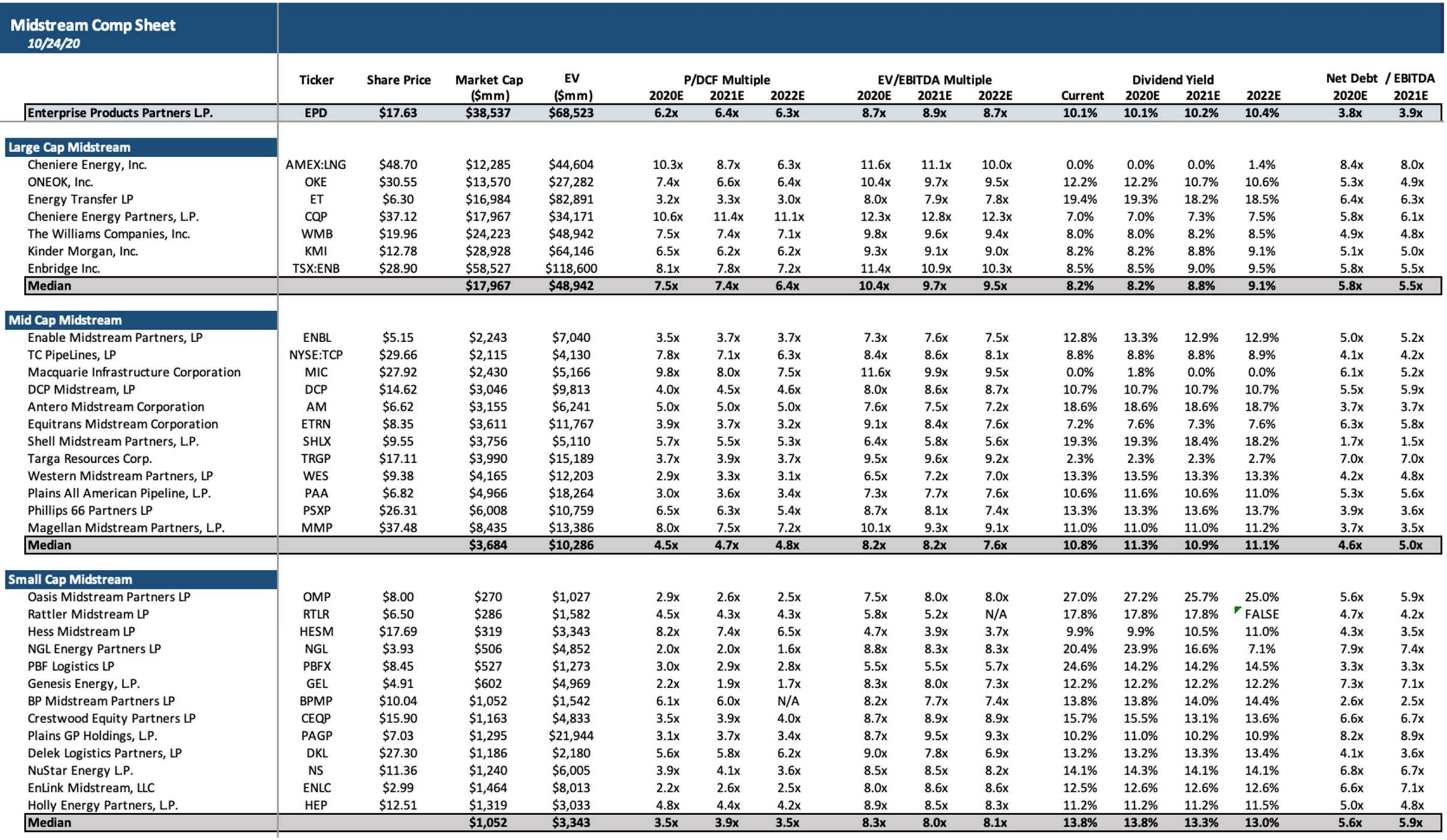


- Permian's high inventory of DUCs can support 13 months of supply without adding more rigs to expand drilling
- Lowest breakeven costs indicate that Permian is the highest ROIC basin continued to be favored long-term

Source: EPD Investor Presentation, Rystad Energy

Relative Valuation

Although EPD's structure as an MLP entitles it to a slight discount, EPD's stable business model, greater gas exposure, and mega market cap justify a premium



Midstream Comp Sheet
10/24/20

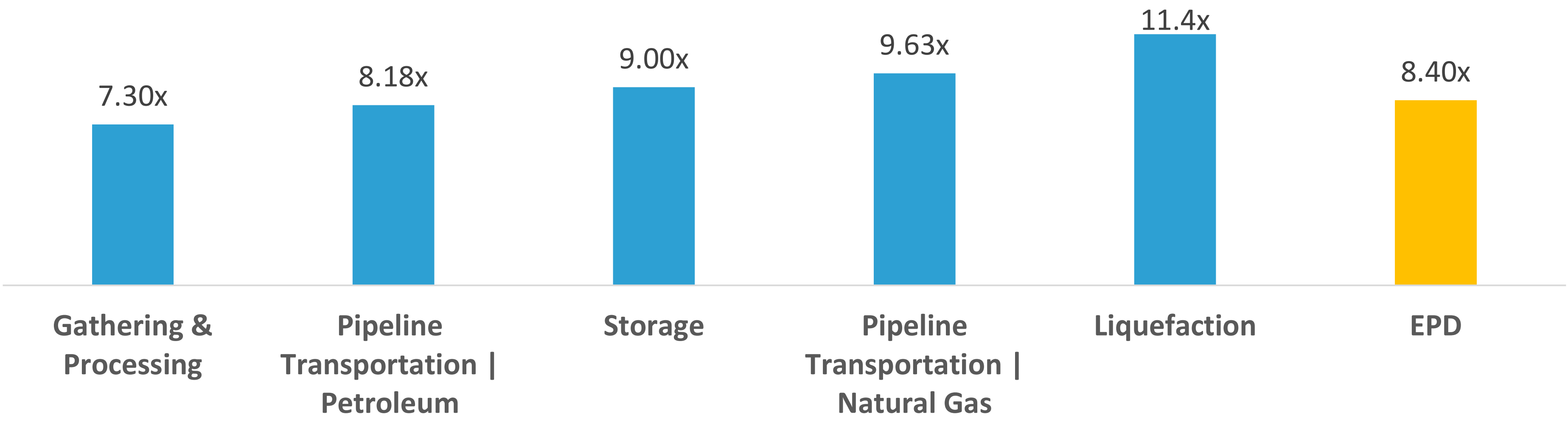
	Ticker	Share Price	Market Cap ($mm)	EV ($mm)	P/DCF Multiple			EV/EBITDA Multiple				Dividend Yield			Net Debt / EBITDA	
					2020E	2021E	2022E	2020E	2021E	2022E	Current	2020E	2021E	2022E	2020E	2021E
Enterprise Products Partners L.P.	**EPD**	**$17.63**	**$38,537**	**$68,523**	**6.2x**	**6.4x**	**6.3x**	**8.7x**	**8.9x**	**8.7x**	**10.1%**	**10.1%**	**10.2%**	**10.4%**	**3.8x**	**3.9x**
Large Cap Midstream																
Cheniere Energy, Inc.	AMEX:LNG	$48.70	$12,285	$44,604	10.3x	8.7x	6.3x	11.6x	11.1x	10.0x	0.0%	0.0%	0.0%	1.4%	8.4x	8.0x
ONEOK, Inc.	OKE	$30.55	$13,570	$27,282	7.4x	6.6x	6.4x	10.4x	9.7x	9.5x	12.2%	12.2%	10.7%	10.6%	5.3x	4.9x
Energy Transfer LP	ET	$6.30	$16,984	$82,891	3.2x	3.3x	3.0x	8.0x	7.9x	7.8x	19.4%	19.3%	18.2%	18.5%	6.4x	6.3x
Cheniere Energy Partners, L.P.	CQP	$37.12	$17,967	$34,171	10.6x	11.4x	11.1x	12.3x	12.8x	12.3x	7.0%	7.0%	7.3%	7.5%	5.8x	6.1x
The Williams Companies, Inc.	WMB	$19.96	$24,223	$48,942	7.5x	7.4x	7.1x	9.8x	9.6x	9.4x	8.0%	8.0%	8.2%	8.5%	4.9x	4.8x
Kinder Morgan, Inc.	KMI	$12.78	$28,928	$64,146	6.5x	6.2x	6.2x	9.3x	9.1x	9.0x	8.2%	8.2%	8.8%	9.1%	5.1x	5.0x
Enbridge Inc.	TSX:ENB	$28.90	$58,527	$118,600	8.1x	7.8x	7.2x	11.4x	10.9x	10.3x	8.5%	8.5%	9.0%	9.5%	5.8x	5.5x
Median			**$17,967**	**$48,942**	**7.5x**	**7.4x**	**6.4x**	**10.4x**	**9.7x**	**9.5x**	**8.2%**	**8.2%**	**8.8%**	**9.1%**	**5.8x**	**5.5x**
Mid Cap Midstream																
Enable Midstream Partners, LP	ENBL	$5.15	$2,243	$7,040	3.5x	3.7x	3.7x	7.3x	7.6x	7.5x	12.8%	13.3%	12.9%	12.9%	5.0x	5.2x
TC PipeLines, LP	NYSE:TCP	$29.66	$2,115	$4,130	7.8x	7.1x	6.3x	8.4x	8.6x	8.1x	8.8%	8.8%	8.8%	8.9%	4.1x	4.2x
Macquarie Infrastructure Corporation	MIC	$27.92	$2,430	$5,166	9.8x	8.0x	7.5x	11.6x	9.9x	9.5x	0.0%	1.8%	0.0%	0.0%	6.1x	5.2x
DCP Midstream, LP	DCP	$14.62	$3,046	$9,813	4.0x	4.5x	4.6x	8.0x	8.6x	8.7x	10.7%	10.7%	10.7%	10.7%	5.5x	5.9x
Antero Midstream Corporation	AM	$6.62	$3,155	$6,241	5.0x	5.0x	5.0x	7.6x	7.5x	7.2x	18.6%	18.6%	18.6%	18.7%	3.7x	3.7x
Equitrans Midstream Corporation	ETRN	$8.35	$3,611	$11,767	3.9x	3.7x	3.2x	9.1x	8.4x	7.6x	7.2%	7.6%	7.3%	7.6%	6.3x	5.8x
Shell Midstream Partners, L.P.	SHLX	$9.55	$3,756	$5,110	5.7x	5.5x	5.3x	6.4x	5.8x	5.6x	19.3%	19.3%	18.4%	18.2%	1.7x	1.5x
Targa Resources Corp.	TRGP	$17.11	$3,990	$15,189	3.7x	3.9x	3.7x	9.5x	9.6x	9.2x	2.3%	2.3%	2.3%	2.7%	7.0x	7.0x
Western Midstream Partners, LP	WES	$9.38	$4,165	$12,203	2.9x	3.3x	3.1x	6.5x	7.2x	7.0x	13.3%	13.5%	13.3%	13.3%	4.2x	4.8x
Plains All American Pipeline, L.P.	PAA	$6.82	$4,966	$18,264	3.0x	3.6x	3.4x	7.3x	7.7x	7.6x	10.6%	11.6%	10.6%	11.0%	5.3x	5.6x
Phillips 66 Partners LP	PSXP	$26.31	$6,008	$10,759	6.5x	6.3x	5.4x	8.7x	8.1x	7.4x	13.3%	13.3%	13.6%	13.7%	3.9x	3.6x
Magellan Midstream Partners, L.P.	MMP	$37.48	$8,435	$13,386	8.0x	7.5x	7.2x	10.1x	9.3x	9.1x	11.0%	11.0%	11.0%	11.2%	3.7x	3.5x
Median			**$3,684**	**$10,286**	**4.5x**	**4.7x**	**4.8x**	**8.2x**	**8.2x**	**7.6x**	**10.8%**	**11.3%**	**10.9%**	**11.1%**	**4.6x**	**5.0x**
Small Cap Midstream																
Oasis Midstream Partners LP	OMP	$8.00	$270	$1,027	2.9x	2.6x	2.5x	7.5x	8.0x	8.0x	27.0%	27.2%	25.7%	25.0%	5.6x	5.9x
Rattler Midstream LP	RTLR	$6.50	$286	$1,582	4.5x	4.3x	4.3x	5.8x	5.2x	N/A	17.8%	17.8%	17.8%	FALSE	4.7x	4.2x
Hess Midstream LP	HESM	$17.69	$319	$3,343	8.2x	7.4x	6.5x	4.7x	3.9x	3.7x	9.9%	9.9%	10.5%	11.0%	4.3x	3.5x
NGL Energy Partners LP	NGL	$3.93	$506	$4,852	2.0x	2.0x	1.6x	8.8x	8.3x	8.3x	20.4%	23.9%	16.6%	7.1%	7.9x	7.4x
PBF Logistics LP	PBFX	$8.45	$527	$1,273	3.0x	2.9x	2.8x	5.5x	5.5x	5.7x	24.6%	14.2%	14.2%	14.5%	3.3x	3.3x
Genesis Energy, L.P.	GEL	$4.91	$602	$4,969	2.2x	1.9x	1.7x	8.3x	8.0x	7.3x	12.2%	12.2%	12.2%	12.2%	7.3x	7.1x
BP Midstream Partners LP	BPMP	$10.04	$1,052	$1,542	6.1x	6.0x	N/A	8.2x	7.7x	7.4x	13.8%	13.8%	14.0%	14.4%	2.6x	2.5x
Crestwood Equity Partners LP	CEQP	$15.90	$1,163	$4,833	3.5x	3.9x	4.0x	8.7x	8.9x	8.9x	15.7%	15.5%	13.1%	13.6%	6.6x	6.7x
Plains GP Holdings, L.P.	PAGP	$7.03	$1,295	$21,944	3.1x	3.7x	3.4x	8.7x	9.5x	9.3x	10.2%	11.0%	10.2%	10.9%	8.2x	8.9x
Delek Logistics Partners, LP	DKL	$27.30	$1,186	$2,180	5.6x	5.8x	6.2x	9.0x	7.8x	6.9x	13.2%	13.2%	13.3%	13.4%	4.1x	3.6x
NuStar Energy L.P.	NS	$11.36	$1,240	$6,005	3.9x	4.1x	3.6x	8.5x	8.5x	8.2x	14.1%	14.3%	14.1%	14.1%	6.8x	6.7x
EnLink Midstream, LLC	ENLC	$2.99	$1,464	$8,013	2.2x	2.6x	2.5x	8.0x	8.6x	8.6x	12.5%	12.6%	12.6%	12.6%	6.6x	7.1x
Holly Energy Partners, L.P.	HEP	$12.51	$1,319	$3,033	4.8x	4.4x	4.2x	8.9x	8.5x	8.3x	11.2%	11.2%	11.2%	11.5%	5.0x	4.8x
Median			**$1,052**	**$3,343**	**3.5x**	**3.9x**	**3.5x**	**8.3x**	**8.0x**	**8.1x**	**13.8%**	**13.8%**	**13.3%**	**13.0%**	**5.6x**	**5.9x**

Source: EPD Investor Presentation, Rystad Energy

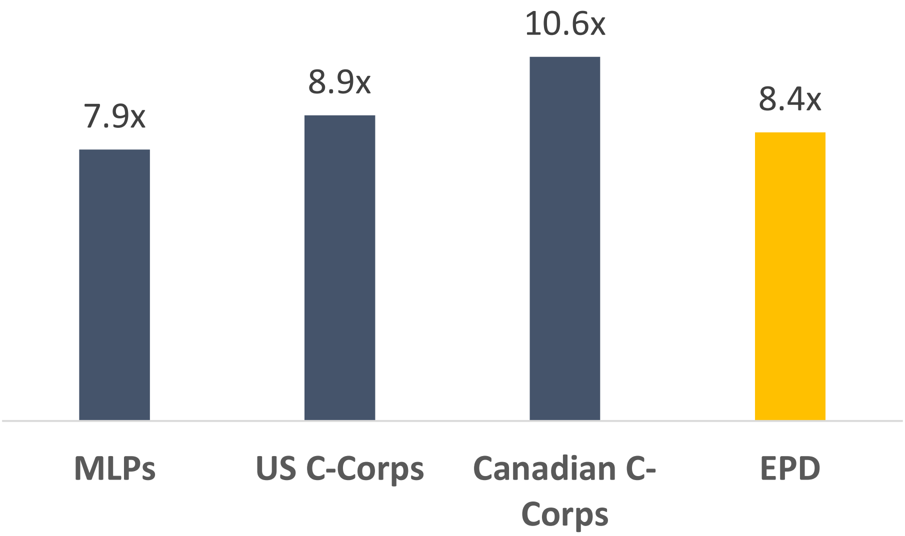
Relative Valuation

Although EPD's structure as an MLP entitles it to a slight discount, EPD's stable business model, greater gas exposure, and mega market cap justify a premium

Average EV/EBITDA of Segments vs EPD



C-Corps Trade at Premium to MLPs



- Corporations trade at a higher premium to MLPs because limited partners (unitholders) in MLPs don't have any voting rights
- However, MLPs benefit from a significant tax advantage, as taxes are passed down to the unitholders who pay taxes on the earnings distributed to them
- In the latest earnings, management has stated it plans to maintain its MLP structure. It's also important to note that since 2010 (when EPD merged with its general partner), the partnership has stopped paying out IDRs, which allows the EPD to enhance cash accretion from growth (lowering cost of capital and simplifying corporate structure)

Source: From CapIQ, Alerian Insights

Valuation

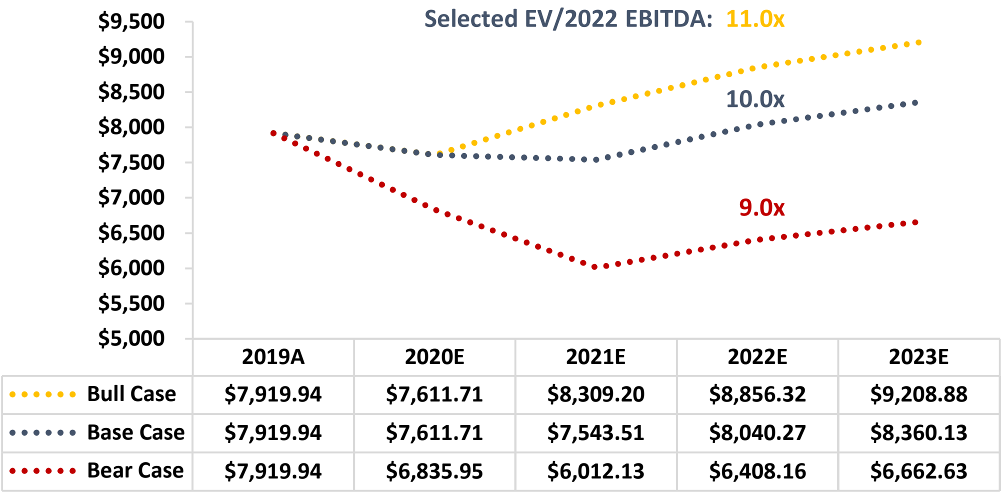
EV/EBITDA Multiple

EV/EBITDA Multiple – Base Case

EV / EBITDA	2018A	2019A	2020E	2021E	2022E	2023E
EBITDA Adjustments:						
Net Income	$4,126.4	$4,616.0	$4,240.6	$4,012.3	$4,557.4	$4,900.5
(+) DD&A	1,687.0	1,848.3	1,973.4	2,022.8	2,038.6	2,057.0
(+) Distributions in excess of equity income	49.4	68.3	121.5	120.0	120.0	120.0
(+) Interest expense	1,096.7	1,243.0	1,273.0	1,242.5	1,172.7	1,127.7
(+) Income taxes	60.3	45.6	(100.0)	41.6	47.1	50.6
(+) Noncontrolling interest	21.4	95.8	103.2	104.4	104.4	104.4
(+) Other	16.1	2.9	0.0	0.0	0.0	0.0
Adjusted EBITDA	**$7,057.3**	**$7,919.9**	**$7,611.7**	**$7,543.5**	**$8,040.3**	**$8,360.1**
y/y change %		*12.2%*	*-3.9%*	*-0.9%*	*6.6%*	*4.0%*

Selected EV/EBITDA Multiple	10.0x	
Implied Share Price	**$23.06**	
Upside / (Downside) %	*30.8%*	

Adjusted EBITDA ($mm)



	2019A	2020E	2021E	2022E	2023E
Bull Case	$7,919.94	$7,611.71	$8,309.20	$8,856.32	$9,208.88
Base Case	$7,919.94	$7,611.71	$7,543.51	$8,040.27	$8,360.13
Bear Case	$7,919.94	$6,835.95	$6,012.13	$6,408.16	$6,662.63

Share Price Upside / Downside

Current Price: $17.63

Base Case: $23.06
Upside: 30.8%

Bull Case: $30.85
Upside: 75.0%

Bear Case: $12.67
Downside: -28.2%

Valuation

DCF & DDM – Base Case

Price / Distributable Cash Flow	2018A	2019A	2020E	2021E	2022E	2023E
DCF Adjustments:						
Net Income	$4,126.4	$4,616.0	$4,240.6	$4,012.3	$4,557.4	$4,900.5
(+) DD&A	1,687.0	1,848.3	1,973.4	2,022.8	2,038.6	2,057.0
(+) Distributions in excess of equity income	49.4	68.3	121.5	120.0	120.0	120.0
(-) Other	16.1	2.9	0.0	0.0	0.0	0.0
(-) Maintenance capex	(320.9)	(325.2)	(299.9)	(400.0)	(425.0)	(450.0)
Distributable Cash Flow	**$5,558.0**	**$6,210.3**	**$6,035.6**	**$5,755.1**	**$6,291.1**	**$6,627.5**
Units Outstanding	2,185	2,189	2,186	2,177	2,162	2,133
DCF / Unit	**$2.54**	**$2.84**	**$2.76**	**$2.64**	**$2.91**	**$3.11**

Selected P/DCF Multiple	**8.0x**	
Implied Share Price	**$23.28**	
Upside / (Downside) %	*32.0%*	

Distribution Discount Model	2018A	2019A	2020E	2021E	2022E	2023E
Distribution Per Unit	$1.73	$1.77	$1.78	$1.81	$1.83	$1.86
y/y change %	*2.5%*	*2.3%*	*0.8%*	*1.5%*	*1.5%*	*1.5%*
Coverage Ratio	*1.47x*	*1.61x*	*1.55x*	*1.46x*	*1.59x*	*1.67x*
Present Value of Distributions			$0.44	$1.73	$1.62	$1.52
Terminal Value						$21.72
Sum of PV of DPS	$5.31					
PV of Terminal Value	$17.68					
Implied Share Price	**$22.99**					
Upside / (Downside) %	*30.4%*					

DDM Assumptions	
Beta	1.25
30yr Risk Free Rate	1.6%
Market Risk Premium	5.6%
Cost of Equity	8.6%
Perpetuity Growth Rate	1.5%

Appendix

Income Statement – Base Case

Fiscal Year Ending: 12/31, $USD millions	Full Year 2016	Full Year 2017	Full Year 2018	Full Year 2019	Full Year 2020E	Full Year 2021E	Full Year 2022E	Full Year 2023E
Income Statement								
NGL Pipelines & Services	$2,989.1	$3,252.5	$3,827.6	$4,069.8	$4,021.5	$4,025.8	$4,146.5	$4,207.5
y/y change %		*8.8%*	*17.7%*	*6.3%*	*-1.2%*	*0.1%*	*3.0%*	*1.5%*
Crude Oil Pipelines & Services	854.6	987.2	1,511.3	2,087.8	1,817.1	1,694.8	1,882.0	1,919.6
y/y change %		*15.5%*	*53.1%*	*38.1%*	*-13.0%*	*-6.7%*	*11.0%*	*2.0%*
Natural Gas Pipeline & Services	734.9	714.5	891.2	1,062.6	885.6	832.6	918.7	1,010.6
y/y change %		*-2.8%*	*24.7%*	*19.2%*	*-16.7%*	*-6.0%*	*10.4%*	*10.0%*
Petrochemical and Refined Product Services	650.5	714.1	1,057.8	1,069.6	1,033.7	1,103.9	1,213.1	1,349.6
y/y change %		*9.8%*	*48.1%*	*1.1%*	*-3.4%*	*6.8%*	*9.9%*	*11.3%*
Total EPD Operating Margin	**$5,229.1**	**$5,668.5**	**$7,288.9**	**$8,290.4**	**$7,757.6**	**$7,656.9**	**$8,160.5**	**$8,487.5**
y/y change %		*8.4%*	*28.6%*	*13.7%*	*-6.4%*	*-1.3%*	*6.6%*	*4.0%*
DD&A expense	(1,456.7)	(1,531.3)	(1,687.0)	(1,848.3)	(1,973.4)	(2,022.8)	(2,038.6)	(2,057.0)
y/y change %		*5.1%*	*10.2%*	*9.6%*	*6.8%*	*2.5%*	*0.8%*	*0.9%*
SG&A expenses	(160.1)	(181.1)	(208.3)	(211.7)	(218.1)	(229.4)	(236.3)	(243.4)
y/y change %		*13.1%*	*15.0%*	*1.6%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*
Total Operating Income	**$3,612.3**	**$3,956.1**	**$5,393.6**	**$6,230.4**	**$5,566.1**	**$5,404.7**	**$5,885.6**	**$6,187.2**
y/y change %		*9.5%*	*36.3%*	*15.5%*	*-10.7%*	*-2.9%*	*8.9%*	*5.1%*
Interest Expense	(982.6)	(984.6)	(1,096.7)	(1,243.0)	(1,273.0)	(1,242.5)	(1,172.7)	(1,127.7)
Other Expenses	(16.9)	(63.0)	(50.1)	(103.0)	7.6	(4.0)	(4.0)	(4.0)
Total Income Before Taxes	**$2,612.8**	**$2,908.5**	**$4,246.8**	**$4,884.4**	**$4,300.7**	**$4,158.3**	**$4,708.9**	**$5,055.5**
y/y change %		*11.3%*	*46.0%*	*15.0%*	*-12.0%*	*-3.3%*	*13.2%*	*7.4%*
Extraordinary items	(44.5)	(39.1)	6.0	(127.0)	(56.9)	0.0	0.0	0.0
Income taxes	(23.4)	(25.7)	(60.3)	(45.6)	100.0	(41.6)	(47.1)	(50.6)
Noncontrolling interest	(39.9)	(56.3)	(66.1)	(95.8)	(103.2)	(104.4)	(104.4)	(104.4)
Net Income	**$2,505.0**	**$2,787.4**	**$4,126.4**	**$4,616.0**	**$4,240.6**	**$4,012.3**	**$4,557.4**	**$4,900.5**
y/y change %		*11.3%*	*48.0%*	*11.9%*	*-8.1%*	*-5.4%*	*13.6%*	*7.5%*
Earnings Per Share	**$1.20**	**$1.30**	**$1.91**	**$2.09**	**$1.92**	**$1.84**	**$2.11**	**$2.30**
y/y change %		*8.0%*	*46.7%*	*9.4%*	*-7.8%*	*-4.1%*	*14.4%*	*9.0%*

Source: EPD Company Filings, Goldman Sachs Investment Research

Appendix

Sources & Uses – Base Case

Fiscal Year Ending: 12/31, $USD millions	**Full Year 2016**	**Full Year 2017**	**Full Year 2018**	**Full Year 2019**	**Full Year 2020E**	**Full Year 2021E**	**Full Year 2022E**	**Full Year 2023E**
Sources of Capital								
Operating Activities:								
Net Income	$2,505.0	$2,787.4	$4,126.4	$4,616.0	$4,240.6	$4,012.3	$4,557.4	$4,900.5
Depreciation and amortization	1,552.0	1,644.0	1,842.1	2,082.1	1,973.4	2,022.8	2,038.6	2,057.0
Deferred Taxes	6.6	6.1	21.4	20.0	(130.7)	0.0	0.0	0.0
Distributions from unconsolidated affiliates	18.5	7.7	(0.6)	5.0	317.6	120.0	120.0	120.0
Minority interest	39.9	56.3	66.1	95.8	103.2	104.4	104.4	104.4
(Gain) Loss on sale of assets	(2.5)	(10.7)	(28.7)	(5.7)	(1.5)	0.0	0.0	0.0
Other	80.2	75.1	37.4	189.4	(310.1)	0.0	0.0	0.0
Net change in working capital	(180.9)	32.2	16.2	(457.4)	(89.0)	0.0	0.0	0.0
Operating Cash Flows	**$4,018.8**	**$4,598.1**	**$6,080.3**	**$6,545.2**	**$6,103.5**	**$6,259.5**	**$6,820.5**	**$7,181.9**
Financing Activities:								
Net proceeds from sale of common units	$2,542.8	$1,073.4	$507.6	$1.1	($140.1)	($250.0)	($250.0)	($500.0)
Debt borrowings, net	1,141.3	855.7	1,631.6	1,456.1	255.2	(400.0)	(1,400.0)	(1,000.0)
Debt issuance costs	(10.6)	(24.1)	(49.1)	(27.6)	(32.2)	0.0	0.0	0.0
Other	47.7	58.0	(6.9)	(39.4)	(48.0)	0.0	0.0	0.0
Net increase (decrease) in restricted cash	(354.5)	289.3	238.1	632.8	0.0	0.0	0.0	0.0
Financing Cash Flows	3,366.7	2,252.3	2,321.3	2,023.0	34.9	(650.0)	(1,650.0)	(1,500.0)
Total Sources of Capital	**$7,385.5**	**$6,850.4**	**$8,401.6**	**$8,568.2**	**$6,138.4**	**$5,609.5**	**$5,170.5**	**$5,681.9**
Uses of Capital								
Investing Activities:								
Maintenance capex	(252.0)	(243.9)	(320.9)	(325.2)	(299.9)	(400.0)	(425.0)	(450.0)
Growth capex	(3,025.1)	(3,101.8)	(4,223.2)	(4,531.7)	(2,750.9)	(1,600.0)	(900.0)	(1,000.0)
Proceeds from sale of assets	46.5	40.1	161.2	20.6	537.1	0.0	0.0	0.0
Business acquisitions, net of cash acquired	(1,000.0)	(198.7)	(150.6)	0.0	0.0	0.0	0.0	0.0
Other	111.6	24.8	44.6	47.2	(9.4)	0.0	0.0	0.0
Investments to unconsolidated affiliates	(138.8)	(50.5)	(113.6)	(111.6)	50.7	0.0	0.0	0.0
Investing Cash Flows	**($4,257.8)**	**($3,530.0)**	**($4,602.5)**	**($4,900.7)**	**($2,472.4)**	**($2,000.0)**	**($1,325.0)**	**($1,450.0)**
Cash distributions paid to partners	(3,300.5)	(3,569.9)	(3,726.9)	(3,839.8)	(3,890.9)	(3,932.6)	(3,964.6)	(3,969.4)
Cash distributions paid to minority interest, net	(59.1)	(64.3)	(99.3)	(128.3)	(114.7)	(80.0)	(80.0)	(80.0)
Total Cash Investments & Distributions	**($7,617.4)**	**($7,164.2)**	**($8,428.7)**	**($8,868.8)**	**($6,478.0)**	**($6,012.6)**	**($5,369.6)**	**($5,499.4)**
Changes in cash balance	($231.9)	($313.8)	($27.1)	($300.6)	($339.6)	($403.1)	($199.2)	$182.5
Total Uses of Capital	**$7,385.5**	**$6,850.4**	**$8,401.6**	**$8,568.2**	**$6,138.4**	**$5,609.5**	**$5,170.5**	**$5,681.9**

Source: EPD Company Filings, Goldman Sachs Investment Research

Points International (NASDAQ: PCOM)

Loyalty Service Provider Well Positioned for Industry Recovery

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Price Target: $13.55 (34% upside)

October 28th, 2020

Business Description:

Points International provides ancillary services to existing loyalty programs across several verticals. Segments include Loyalty Currency Retailing (LCR, 86% GP), Platform Partners (11% GP), and Points Travel (3% GP). Through each segment, Points looks to maximize customer loyalty program value by improving member engagement, sales volumes, and cost management. The entire portfolio of services is driven by Loyalty Commerce Platform (LCP), the underlying API. The business has integrated LCP with over 60 clients.

Investment Thesis:

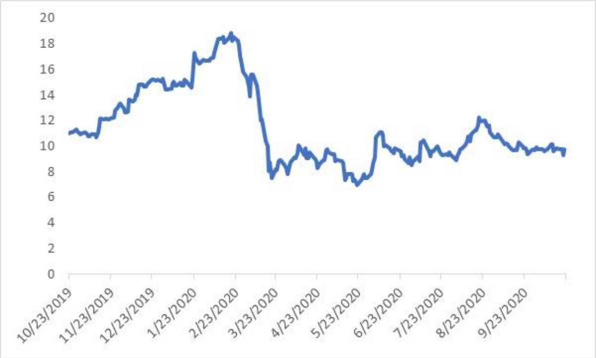
- **Value Proposition Misunderstood:** Down almost 50% from its YTD high, PCOM has been conflated with airlines and other hospitality businesses despite its mission-critical services. Loyalty services bring high volumes of revenues at ~50% margin, retaining the stickiest customers and giving immediate liquidity. Given Points' established track record and decades-long client relationships, the company is unlikely to lose business from the disposal of loyalty assets. In fact, clients are doubling down on their promotional initiatives, as they did amidst past crises (9/11, '08-'09). With numerous clients securitizing their loyalty businesses and reducing their internal workforce (Points' main competitors), the company's value add and strategic position are more resilient than what the market believes.
- **Asset-Light Bet on Industry Recovery:** Points' current monthly adjusted opex is $2.9mm, with actual cash burn significantly lower, thanks to wage subsidies. Revenue guarantees flex with volume and can be renegotiated between periods. Points has drawn $40mm from its revolver and currently has $35mm outstanding (implying cash coverage of ~2.8x). The share buyback program was reinstated in Q2, indicating management confidence in the capital structure. The clean balance sheet and flexible cost structure make PCOM an ideal instrument to bet on travel recovery. Loyalty transaction volumes, the primary driver of Points' revenue, also act as barometers on industry health, looking 6-18 months forward, thus pulling forward the time horizon for recovery to pre-COVID levels. At previous levels, Points consistently generated 10% organic growth, 20% EBITDA margin, and 19% ROCE.
- **Several Growth Levers Confer Additional Upside:** Loyalty currency is a wide-open market opportunity. Points is still underpenetrated (25%) in the 20tn point global loyalty industry. Memberships are growing at 15% CAGR, driving $50bn perceived value of North American loyalty points. Points has historically averaged 5 new partners and 12 cross-sells a year. Near-term growth levers include deepening existing relationships, cross-selling new functionality, and acquiring new clients. Points is pulling these levers successfully despite the rough macroeconomic environment, having recently signed contracts with Qatar Airways, Virgin Australia, and several platform partners. Management has proven quite competent in establishing Points' track record and winning new business. These new transactions act as short-term buffers against lower transaction volumes but also out-of-the-money call options upon eventual recovery to pre-COVID levels.

Key Ratios and Statistics:

Price Target	$13.55
Upside	34%
Share Price (10/23/19)	$10.25
Market Cap	$136mm
52-Week Low	6.89$
52-Week High	19.06$
Cash	98.6$M
Debt	94.6$M
Avg. Daily Volume (90 day)	37,855

USD: MM	2018A	2019A	2020E	2021E
Revenue	376.25	401.18	254.83	254.83
GP	53.90	65.46	41.62	42.08
EBIT	10.19	16.75	(0.10)	2.76
EBITDA	13.30	19.93	1.44	6.13
NI	7.82	11.84	(2.09)	1.68

Figure 1 – LTM Share Price



Company Overview

Points International provides ancillary services to existing loyalty programs across several verticals.

Business Segments

Loyalty Commerce Platform (LCP), Points' white-label API backbone, drives all three business segments.

LCP is the product of 20 years of back-end investment and operates over 33 languages and 50+ currencies.

Loyalty Currency Retailing (LCR)	**Platform Partners**	**Points Travel**
86% of Gross Profit	*11% of Gross Profit*	*3% of Gross Profit*
Full control over loyalty platform	Connect loyalty systems to other verticals	White-label OTA for loyalty programs
Debit/credit of currency from accounts	e.g. Emirates integrating with Citibank	Hotel/air booking using other currencies
Minimum revenue guarantee payable	Legal and contractual management	Wholesale inventory management
$GP = Volume * (Retail - Wholesale)$	$GP = Volume * Commission + Host\ Fee$	$GP = Volume * Commission$

Partner Breakdown

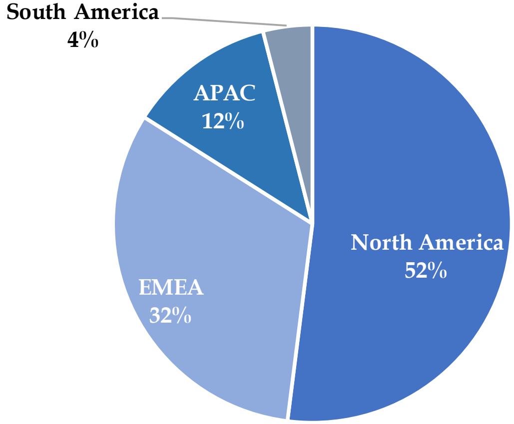
Points has amassed **over 60 partners** that it serves in various capacities.

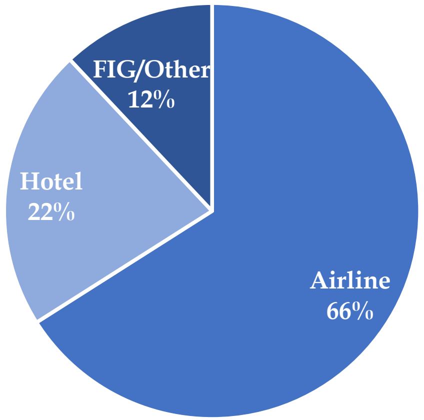
Partners can be divided into **principal** vs. **agency**, with principal partners outsourcing greater responsibilities to Points.

The business has maintained an impressive **95% retention rate** for its products.

Top 10 partners make up **70% of gross profit**.

Around 5 new partners and 12 cross-sells are achieved every year.





Sources: MD&A, Investor Presentation

Thesis 1: Value Proposition Misunderstood

Loyalty programs are mission critical to Points' clients, indicating an overzealous sell-off.

Why Loyalty Programs?

Source of Immediate Liquidity

High Margin Revenues (50+%)

Ability to Retain Stickiest Customers

Market Appetite for Loyalty Programs

USD bn	Market Cap	Net Debt	EV	Loyalty Appraisal	% EV
American	6	30	36	**24**	67%
Delta	18	17	35	**26**	74%
United	9	18	27	**22**	81%

Securitization/appraisal of loyalty programs

UAL loyalty revenues down 2% vs. total down 20% in 2008

Loyalty assets most critical amidst downturns

Why Points?

Buy vs. Build

Outsourcing to Points at no cost to client

Only concede spread on retail and wholesale price

Spread easily overtaken by sheer volume

Outstanding Track Record

Usually 1.5-2.0x the revenue prior to integration (solely off of revenue guarantees), occasionally 4x projection

Algorithm-determined hurdle rates have over 97% success rate (only came short 3 out of 100+ times)

1 of these misses was in a shorter time period (9 months vs 12 months), other 2 caught up by the next year

Management's Take on PCOM's 50% Decline

> *"When I think about how the market is viewing us currently… we've been lumped into the travel space exclusively when, in reality, we're fairly separated from immediate travel."*
>
> - Christopher Barnard, President & Director

Sources: Gateway IR Conference, Bloomberg, Financial Times, MD&A

Thesis 2: Asset-Light Play on Eventual Travel Recovery

The business model provides asymmetric risk-reward scenarios, even in an extended downturn.

Cost Structure and Cash Burn

Monthly adjusted opex of $2.9mm

Cash burn considerably lower thanks to federal subsidies

79% of opex comes from wage expense

Canadian Emergency Wage Subsidy in effect through EOY

Flexibility to cut costs through furloughs and layoffs

All discretionary spending ceased

Cut R&D, used to be $10mm annually

Capital Structure Breakdown

Total liquidity of $107mm

Drew $40mm from revolver, paid down $5mm

Revenue guarantees renegotiated, flex with volume

Management reinstated share buybacks in August

Indicates confidence in current capital structure

Otherwise clean balance sheet

1-2 days receivable outstanding (essentially cash)

Targeting Pre-COVID Levels

Promotional activity mitigates near-term risks

High customer retention should not be disrupted

Loyalty volumes are a barometer (6-18 months)

Eventually reaching 2019 levels would confer upside

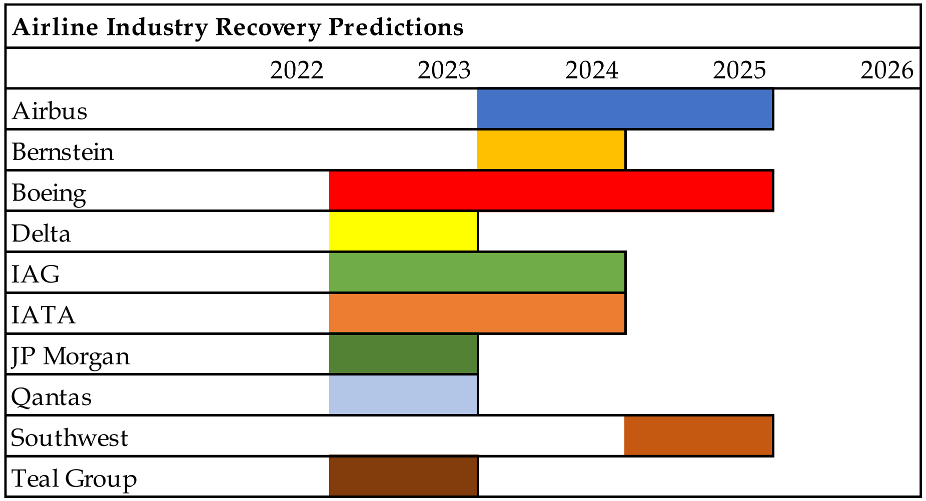
Operations historically debt-free and FCF generative

10% organic growth (“same-customer-sales”)

2014-2019 CAGR/Average

Revenue	Gross Profit	EBITDA	Net Income	ROCE
10%	9%	15%	21%	19%

Eventual Recovery



Sources: Q2 Earnings Call, Investor Presentation, Leeman News

Thesis 3: Numerous High-Impact Growth Levers

Points has deep cross-selling and customer acquisition opportunities in a high-growth market.

Wide-Open, Fast-Growing Market

The global loyalty industry is growing memberships at 15% CAGR.

There are 20tn points outstanding globally, of which Points currently has share of 25%.

Emphasize Existing Transactions

- Nearest time focus should be on doubling down on existing, established relationships and services
- Points has reached various levels of penetration of services among existing clients depending on time
- Unlocking value from existing customers on loyalty platforms through aggressive marketing
- Renegotiating revenue guarantees based on macroeconomic environment to ensure spread on points sold

Cross-Sell Existing Partners

- 40% of LCR clients currently only leverage one of the segment's 5 available service functionalities
- Only Southwest Airlines leverages all 5 services after being a client for ~20 years, meaning long runway
- Given scale of existing relationships and low incremental spend, cross-selling may prove most profitable
- Amadeus IT partnership opens up 150 new airlines to the product and provides cross-selling leverage

Acquire Net New Partners

- Significant under-penetration outside of North America, management targeting APAC loyalty markets
- Points has historically generated 5 net new partners annually, which should stabilize post-COVID
- Strong historic track record and healthy pipeline going into COVID crisis with minimal disruption
- Ultimately contributes to the business' network effect, as more partners means a broader currency utility

Sources: Q2 Earnings Call, Investor Presentation

Valuation – Operating Build Summary (Base Case)

At a high level, we assume little to no revenue growth until eventual recovery, where transaction volumes rise rapidly.

Operating Build Summary

USD mm	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Revenue	**376.25**	**401.18**	**254.83**	**254.83**	**242.86**	**267.14**	**398.24**	**418.50**	**439.42**
Growth		*6.63%*	*(36.48%)*	*0.00%*	*(4.70%)*	*10.00%*	*49.08%*	*5.09%*	*5.00%*
Gross Profit	53.90	65.46	41.62	42.08	40.67	44.74	64.87	68.42	71.84
Margin	*14.33%*	*16.32%*	*16.33%*	*16.51%*	*16.75%*	*16.75%*	*16.29%*	*16.35%*	*16.35%*
EBIT	10.19	16.75	(0.10)	2.76	1.38	4.21	18.20	20.62	21.65
Margin	*2.71%*	*4.17%*	*(0.04%)*	*1.08%*	*0.57%*	*1.58%*	*4.57%*	*4.93%*	*4.93%*
EBITDA	0.00	19.93	1.44	6.13	4.63	7.79	23.39	26.09	27.40
Margin	*0.00%*	*4.97%*	*0.56%*	*2.41%*	*1.91%*	*2.92%*	*5.87%*	*6.24%*	*6.24%*
NI	7.82	11.84	(2.09)	1.68	0.65	2.97	13.32	15.26	16.02
Margin	*2.08%*	*2.95%*	*(0.82%)*	*0.66%*	*0.27%*	*1.11%*	*3.35%*	*3.65%*	*3.65%*

Bear Case
1% Upside
Recovery by 2025

Base Case
32% Upside
Recovery by 2024

Bull Case
54% Upside
Recovery by 2023

Revenues held flat at 2020 levels until respective recovery reached.

Due to fixed cost structure, SG&A held relatively constant through each case.

Sources: Capital IQ, IAG Analysis and Forecast

Valuation – Base Case

The base case assumes volume recovery by 2024, falling within industry consensus.

Discounted Cash Flow Output

	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E
EBIT	13.19	23.05	5.10	2.76	1.38	4.21	18.20	20.62	21.65
Tax	3.10	5.16	(0.09)	0.59	0.23	1.04	4.68	5.36	5.63
NOPAT	10.09	17.89	5.19	2.17	1.15	3.17	13.52	15.26	16.02
D&A	3.36	4.67	4.17	3.37	3.25	3.58	5.19	5.47	5.75
Delta NWC	(3.93)	(1.73)	3.17	0.01	(0.37)	0.78	4.14	0.65	1.50
Capex	0.77	0.70	0.60	0.42	0.41	0.45	0.65	0.68	0.72
Unlevered FCF	**16.62**	**23.59**	**5.59**	**5.11**	**4.37**	**5.52**	**13.92**	**19.40**	**19.55**
Discount Factor			*0.95*	*0.87*	*0.79*	*0.72*	*0.65*	*0.59*	*0.54*
PV of FCF			**5.33**	**4.43**	**3.44**	**3.96**	**9.06**	**11.48**	**10.52**

WACC	
ERP	5.10%
RFR	0.10%
Beta	2.00
CoE	10.30%
Weight	59%
CoD	2%
Weight	41%
Tax Rate	26%
WACC	7%
WACC Used	**10%**

Perpetuity Growth	
Growth Rate	1%
Terminal Value	219.40
NPV of TV	118.08
NPV of Stage 1 FCF	48.22
Cash	98.64
Debt	94.64
Equity Value	170.30
DSO	12.57
Target Price	13.55
Current Price	10.25
ROI	**32%**

Exit Multiple	
Multiple	6.5x
Terminal Value	223.38
NPV of TV	120.23
NPV of Stage 1 FCF	48.22
Cash	98.64
Debt	94.64
Equity Value	172.44
DSO	12.57
Target Price	13.72
Current Price	10.25
ROI	**34%**

Exit Multiple

WACC	6.10x	6.30x	6.50x	6.70x	6.90x
9.0%	35%	38%	41%	44%	47%
9.5%	32%	34%	37%	40%	43%
10%	28%	31%	34%	37%	40%
10.5%	25%	28%	30%	33%	36%
11.0%	22%	24%	27%	30%	33%

Perpetuity Growth

WACC	0.50%	0.75%	1.00%	1.25%	1.50%
9.0%	45%	48%	51%	55%	59%
9.5%	35%	38%	41%	45%	48%
10%	27%	30%	32%	35%	38%
10.5%	20%	22%	24%	27%	29%
11.0%	13%	15%	17%	19%	21%

Sources: IAG Analysis and Forecast

Valuation – Bear Case

The bear case assumes recovery by 2025, still yielding slight upside.

Discounted Cash Flow Output

	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E
EBIT	13.19	23.05	5.07	2.66	(0.39)	0.57	3.06	16.17	16.98
Tax	3.10	5.16	(0.09)	0.56	0.00	0.10	0.74	4.20	4.41
NOPAT	10.09	17.89	5.16	2.10	(0.39)	0.47	2.32	11.97	12.57
D&A	3.36	4.67	4.04	3.24	2.95	3.08	3.37	4.88	5.13
Delta NWC	(3.93)	(1.73)	2.85	0.01	(0.76)	0.34	0.73	3.94	1.50
Capex	0.77	0.70	0.60	0.40	0.37	0.38	0.42	0.61	0.64
Unlevered FCF	**16.62**	**23.59**	**5.75**	**4.92**	**2.94**	**2.82**	**4.54**	**12.30**	**15.55**
Discount Factor			*0.95*	*0.87*	*0.79*	*0.72*	*0.65*	*0.59*	*0.54*
PV of FCF			**5.48**	**4.26**	**2.32**	**2.02**	**2.96**	**7.28**	**8.37**

WACC	
ERP	5.10%
RFR	0.10%
Beta	2.00
CoE	10.30%
Weight	59%
CoD	2%
Weight	41%
Tax Rate	26%
WACC	7%
WACC Used	**10%**

Perpetuity Growth	
Growth Rate	1%
Terminal Value	174.52
NPV of TV	93.93
NPV of Stage 1 FCF	32.70
Cash	98.64
Debt	94.64
Equity Value	130.62
DSO	12.57
Target Price	10.39
Current Price	10.25
ROI	**1%**

Exit Multiple	
Multiple	6.5x
Terminal Value	188.99
NPV of TV	101.71
NPV of Stage 1 FCF	32.70
Cash	98.64
Debt	94.64
Equity Value	138.41
DSO	12.57
Target Price	11.01
Current Price	10.25
ROI	**7%**

Perpetuity Growth

		0.50%	0.75%	1.00%	1.25%	1.50%
WACC	9.0%	11%	14%	16%	20%	23%
	9.5%	4%	6%	8%	11%	14%
	10%	-3%	-1%	1%	4%	6%
	10.5%	-9%	-7%	-5%	-3%	-1%
	11.0%	-14%	-12%	-11%	-9%	-7%

Exit Multiple

		6.10x	6.30x	6.50x	6.70x	6.90x
WACC	9.0%	8%	11%	13%	16%	18%
	9.5%	5%	8%	10%	13%	15%
	10%	3%	5%	7%	10%	12%
	10.5%	0%	2%	5%	7%	9%
	11.0%	-3%	0%	2%	4%	7%

Sources: IAG Analysis and Forecast

Valuation – Bull Case

The bull case assumes recovery by 2023, aggressive versus consensus but attainable as Points' business is forward-looking.

Discounted Cash Flow Output

	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E
EBIT	13.19	23.05	5.13	2.87	5.92	17.97	20.40	22.98	24.13
Tax	3.10	5.16	(0.08)	0.62	1.41	4.62	5.25	5.97	6.27
NOPAT	10.09	17.89	5.21	2.25	4.51	13.35	15.14	17.00	17.85
D&A	3.36	4.67	4.30	3.50	3.85	5.26	5.55	5.85	6.14
Delta NWC	(3.93)	(1.73)	3.49	0.01	0.85	3.63	0.66	0.70	1.50
Capex	0.77	0.70	0.60	0.44	0.48	0.66	0.69	0.73	0.77
Unlevered FCF	**16.62**	**23.59**	**5.42**	**5.30**	**7.03**	**14.32**	**19.33**	**21.42**	**21.73**
Discount Factor			*0.95*	*0.87*	*0.79*	*0.72*	*0.65*	*0.59*	*0.54*
PV of FCF			**5.17**	**4.59**	**5.54**	**10.26**	**12.59**	**12.68**	**11.69**

WACC	
ERP	5.10%
RFR	0.10%
Beta	2.00
CoE	10.30%
Weight	59%
CoD	2%
Weight	41%
Tax Rate	26%
WACC	7%
WACC Used	**10%**

Perpetuity Growth	
Growth Rate	1%
Terminal Value	243.83
NPV of TV	131.23
NPV of Stage 1 FCF	62.53
Cash	98.64
Debt	94.64
Equity Value	197.75
DSO	12.57
Target Price	15.74
Current Price	10.25
ROI	**54%**

Exit Multiple	
Multiple	6.5x
Terminal Value	242.04
NPV of TV	130.26
NPV of Stage 1 FCF	62.53
Cash	98.64
Debt	94.64
Equity Value	196.79
DSO	12.57
Target Price	15.66
Current Price	10.25
ROI	**53%**

		Perpetuity Growth				
		0.50%	0.75%	1.00%	1.25%	1.50%
WACC	9.0%	67%	71%	75%	79%	84%
	9.5%	57%	60%	64%	67%	71%
	10%	48%	51%	54%	57%	60%
	10.5%	39%	42%	44%	47%	50%
	11.0%	32%	34%	36%	39%	41%

		Exit Multiple				
		6.10x	6.30x	6.50x	6.70x	6.90x
WACC	9.0%	54%	58%	61%	64%	67%
	9.5%	50%	54%	57%	60%	63%
	10%	47%	50%	53%	56%	59%
	10.5%	43%	46%	49%	52%	55%
	11.0%	39%	42%	45%	48%	51%

Sources: IAG Analysis and Forecast

Office Properties Income (OPI)

Solid office portfolio in the midst of a turnaround

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Price Target: $22.21

October 26th, 2020

Business Description:

OPI is an office REIT that owns and leases office properties in the United States, As of June 30, 2020 the company had 184 wholly owned properties totaling 24.9 million sq ft. The company's largest tenant is the US government, representing 25% of annualized rental income. The company was formed through a merger with Select Income REIT, completed on December 31, 2018 in which the company acquired 99 properties with 16.5 million rentable square feet.

Investment Thesis:

- **Solid portfolio of tenants resulting in minimal disruption:** The company derives 63% of all rental income from investment grade tenants with significant exposure to Tier 1 and Tier 2 cities. Throughout the pandemic the company collected 98% of rent in Q2 2020 and granted $2.5 million of rent deferral for Q2 representing 88 bps of contractual cash rent. Additionally, these properties are often "mission – critical" for tenants (corporate headquarters etc) with significant tenant investment / build to suit and net lease terms (for properties acquired in the SIR merger) The nature of the value of these properties to the tenant and some of the sensitive material handled by government tenants also serves to limit exposure to the increasing trend of work – from – home.

- **Compelling capital recycling story to continue post COVID:** After the SIR GOV merger, the main focus for the next 18 months was selling of non-core assets to pay down debt. Going into 2020 the company announced a significant capital recycling program (~$300 million) a year, replacing older, potential high-CapEx assets with newer assets in superior locations and higher cash flows. The acquisition criteria is an average effective age of 10 years or less with lease terms of 7+ years, and a focus on single tenant properties that are either build to suit, corporate headquarters, or properties with significant tenant investment. In Q1 2020, the company disposed of $85 million in properties with an average age of 22 years, a weighted average lease term of 6 years, and a 5 – year average cash contribution yield of 4.0%. Moving forward the company announced an intention to acquire properties at a ~6% cap rate with "meaningful contribution to CAD." The successful execution of the capital recycling plan with current portfolio cash on cash yield and acquisition cap rate could provide an instant $1 to $6 million per year increase in CAD along with a newer property portfolio with limited future capital expenditures.

- **Attractive Entry Point and Dividend Yield:** Currently the stock is trading at an attractive P/FFO with a 11.1% dividend yield. With leverage below targets, ample liquidity ($550 of $750 million unsecured revolver undrawn), and continued strong rent collection from tenants the fundamentals seem to have stayed the same despite limited recovery from mid-late March. The FFO and CAD payout ratios (LTM) are <40% and 56% respectively and the company is in the middle of recycling the portfolio. In 2019 the average non-core asset disposition cap rate was 5.7%, and the most recent CBRE cap rate survey for Class A Suburban Office stands at 7.0%. Currently the implied cap rate is ~11.0%.

- Overall, we view the company in the middle of a portfolio turnaround with an attractive valuation and the opportunity to create meaningful value for shareholders through the dividend.

Key Ratios and Statistics:

Price Target	**$22.21**
Upside	**15.5%**
Share Price (10/26/2020)	$19.23
Market Cap ($mm)	$927
Enterprise Value ($mm)	$3,114
Dividend Yield (LTM)	11.1%
FFO Payout Ratio (LTM)	39.7%
P/FFO (LTM)	4.09x
52-Week Low	$16.50
52-Week High	$35.95

FY ($mm)	**2018A**	**2019A**	**2020E**	**2021E**
Revenues	$427	$678	$604	$621
EBIT	73	127	106	118
FFO	171	287	262	273
CapEx	54	92	76	74

Figure 1 – YTD Historical Price Performance

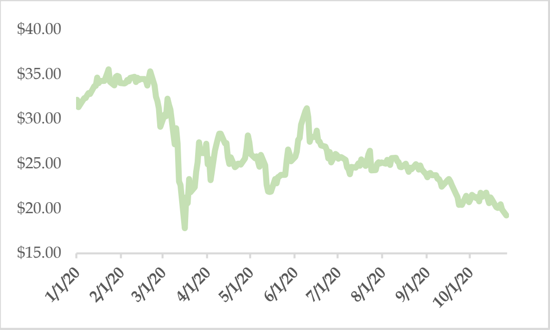
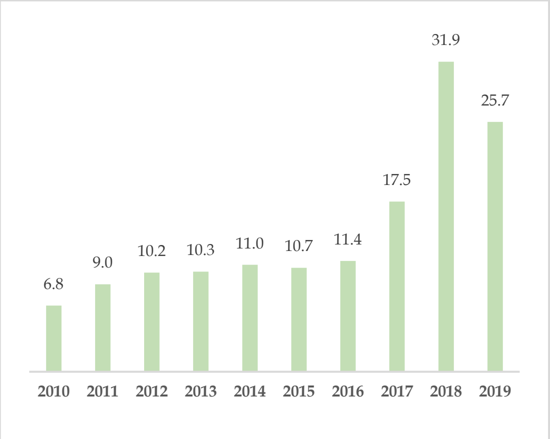


Figure 2 – Rentable Square Feet in Millions



Company Overview

Current Events

- OPI owns, operates, and leases their 184 properties totaling 24.9 million sq ft. primarily to single tenants and those who have high credit characteristics like government entities
- Granted temporary rent assistance to 23 tenants (3.7% of annualized rental income). Despite this, they still collected 98% of contractual rent obligations
- Deferred payments in June will begin to be payable over a 12-month period starting in September

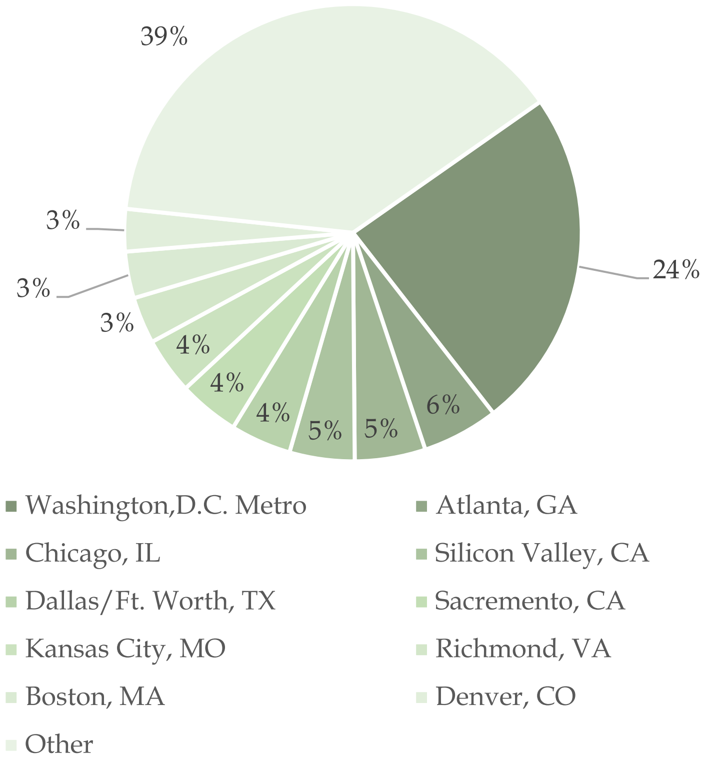
Company History

- On December 31, 2018, the company completed a merger with Select Income REIT and acquired 99 properties with 16.5 million rentable sq. feet.
- In October 2017, OPI acquired First Potomac Realty Trust (FPO) which yielded an acquisition of 72 properties with approximately 6.0 million rentable square feet

FIRST POTOMAC
REALTY TRUST

SIR

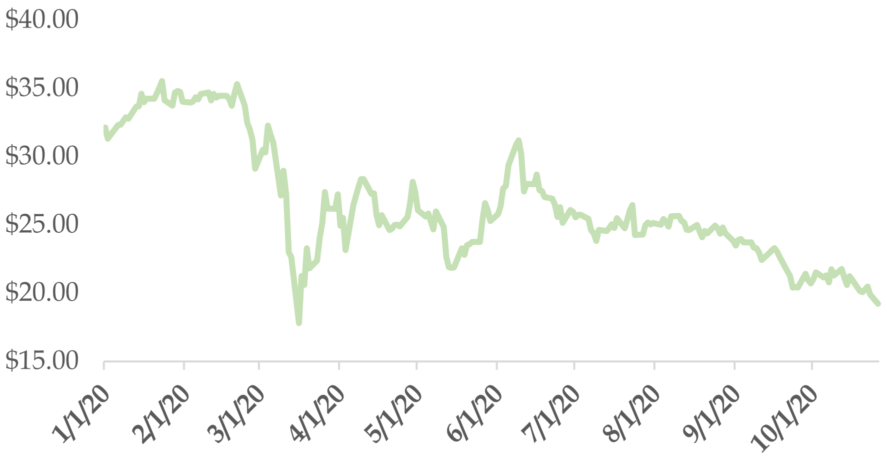
Top Market Areas



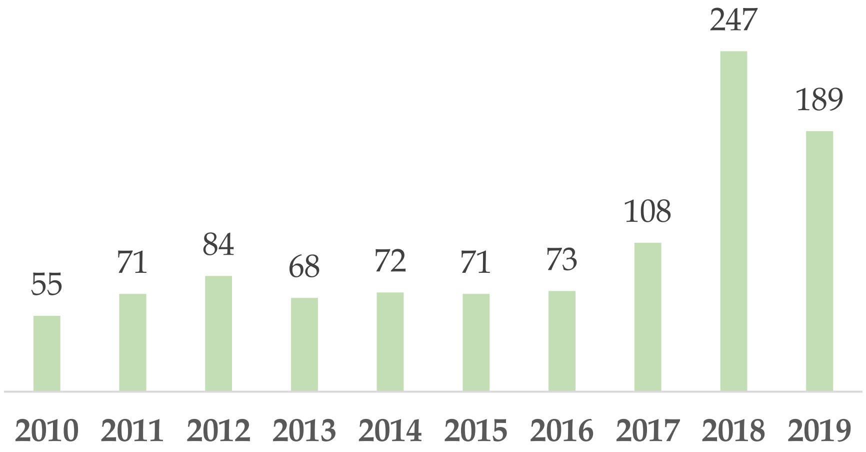
- Their largest tenant is the US Government, which represented **25.2%** of annualized rental income in FY2019.

Quantitative Data

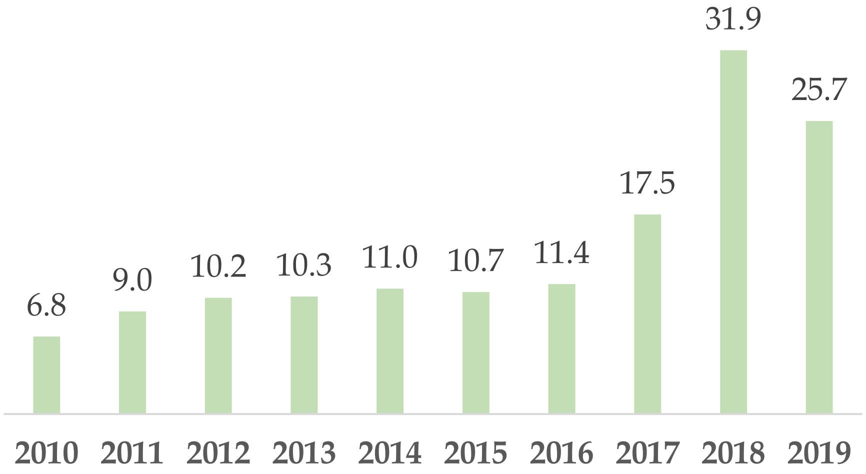
YTD Stock Price



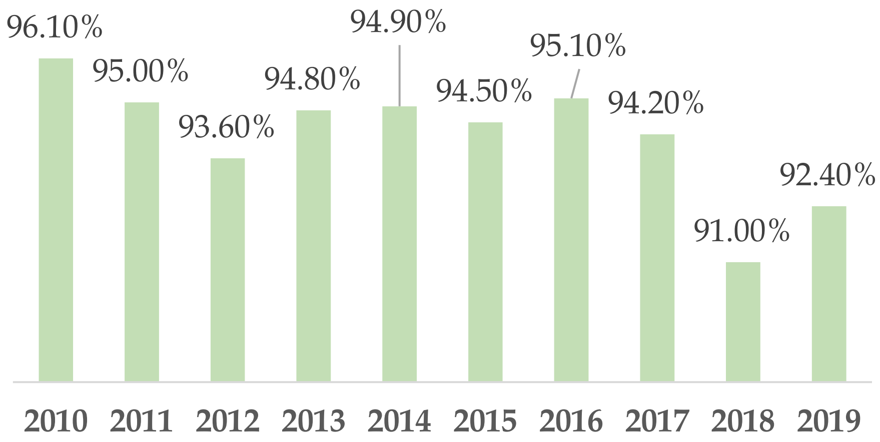
Total Properties



Rentable Square Feet in Millions



Occupancy Rate



Top Markets and Tenants

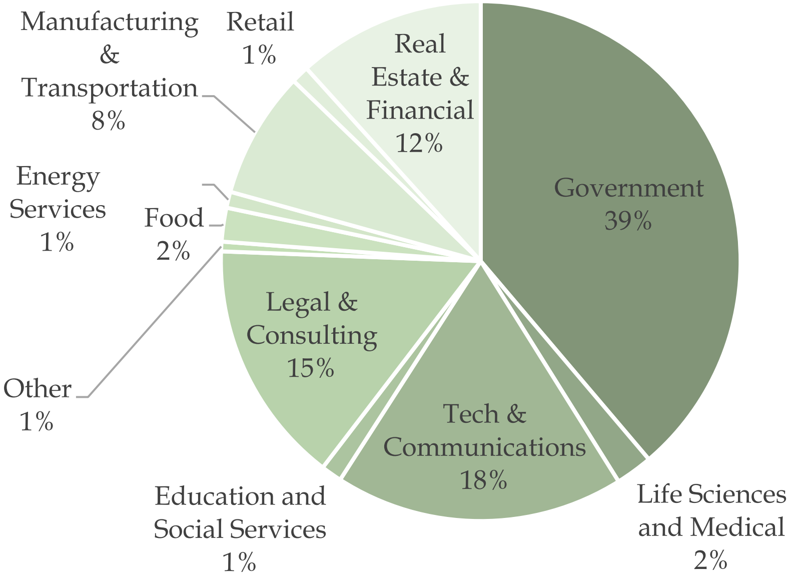
Top 3 Markets

Washington, D.C. Metro
24.2% of total annualized rent income

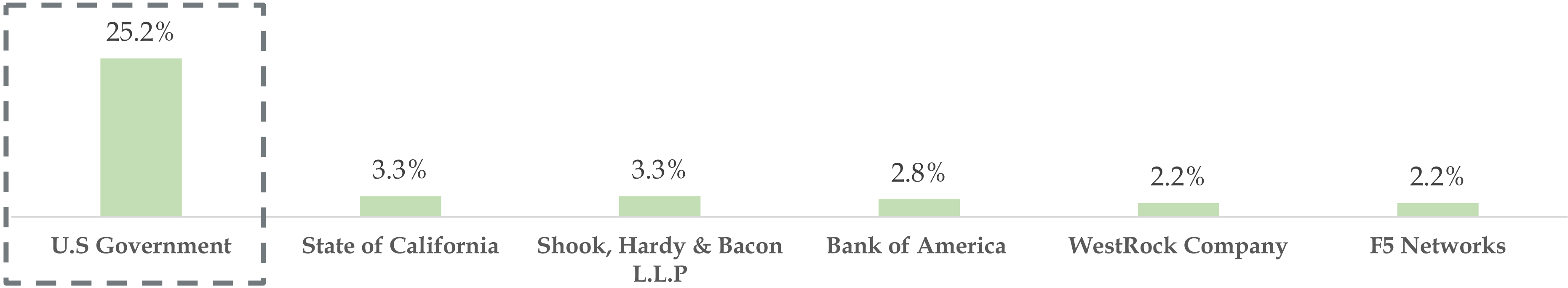
Atlanta, GA
5.4% of total annualized rent income

Chicago, IL
5.0% of total annualized rent income

Tenants by Industry

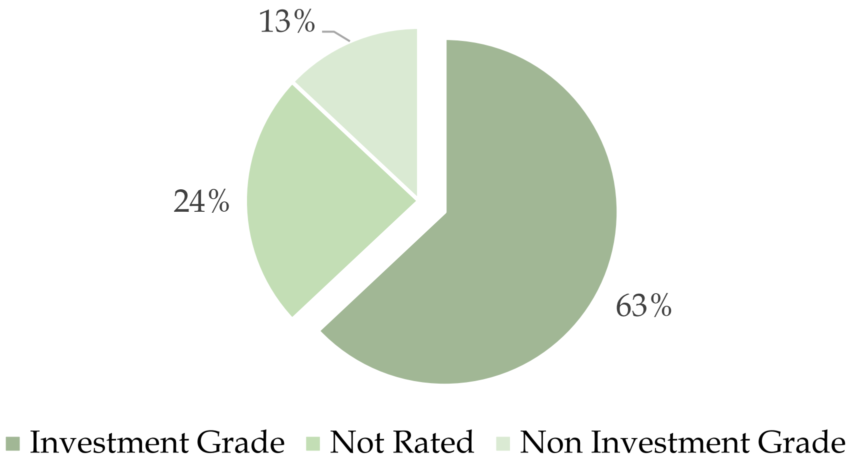


Largest Tenants as % of Total Annualized Rent Income



Strong Tenants in Great Locations

Stable Tenant Profile



Representative Government Tenants

Defense Intelligence Agency
United States of America

Department of Justice

IRS

CDC
Centers for Disease Control and Prevention

GDOT
Georgia Department of Transportation

Build to Suit Corporate Headquarters

2555 Grand Boulevard, Kansas City, MO

Square Feet: 595,607

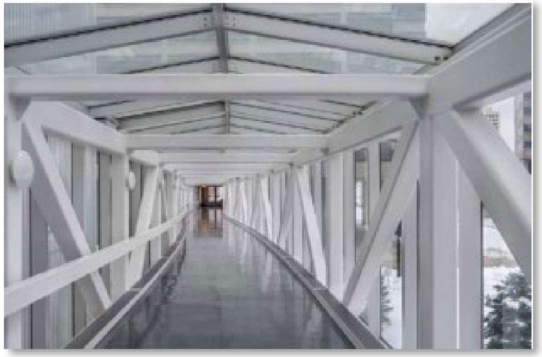
Occupancy: 100% (6/30/2020)

WALT: 13.7 years

Amenities: Connected via skyway to the 85-acre Crown Center mixed-use development offering numerous restaurants, retail stores and a 724-key Westin hotel

Tenant: Shook, Hardy & Bacon

Key Facts: 24 – story Class A constructed in 2003 as a build to suit for Shook, Hardy & Bacon

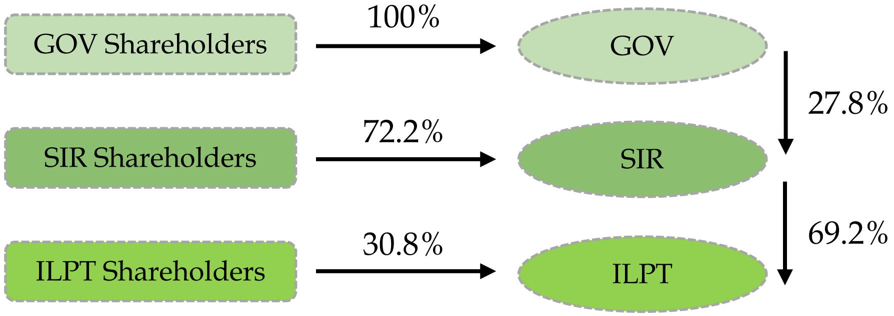


Merger Overview

Structure and Process of the Merger

- Challenged by a high dividend payout ratio and high concentration of near term lease expirations, Government Properties Income Trust (GOV) agreed to merge with Select Income REIT (SIR) at the end of 2018
- Merger was a stock for stock exchange. The share-distribution arrangement eliminated cross ownership, simplifying capital structure amongst three entities
  - GOV sold all of its 24.9 million common shares of SIR, using the net proceeds of ~$435 million to repay outstanding debt
  - Because SIR had controlling interest in another REIT (Industrial Logistics Properties Trust – ILPT), SIR's 45 million shares of ILPT were distributed as special dividends to SIR shareholders
  - SIR shareholders received 1.04 shares of GOV and .502 shares of ILPT for each common share of SIR
- GOV shareholders owned ~52% of OPI, the new entity, and SIR shareholders owned ~42%
- Post-merger, OPI identified $750 million worth of properties to deleverage

Existing Ownership Structure



Scaling the Portfolio (as of June 2018)

	GOV	SIR	OPI
Buildings	114	99	**213**
Occupancy	94%	90%	**92%**
Expiring Leases 2018-2021	46%	10%	**29%**
% of Investment Grade Tenants	75%	56%	**66%**
% of Annualized Rent from Top 10 Tenants	70%	40%	**46%**

Portfolio Recycling to Continue Once Market Conditions Stabilize

18 Months Post Merger

- **$1.16 billion** In non-core asset dispositions
- Leverage reduction to **5.9x Net Debt / EBITDA** (below 6.0 – 6.5x initial target)
- Eliminated **$130 million** in future CapEx over the next 5 years
- **Less than 40%** FFO payout ratio
- **56% Cash Available for Distribution (CAD)** payout ratio (below 75% target)
- **2019 sold off $848.9 million** of properties with an average cap rate of **5.7%** with an average age of **21 years** and an average occupancy of **70%** with a WALT of **4.7 years**

2020 Year to Date

- **Sold off $85 million** of properties with an average cash on cash yield of **4.0%** with an average age of **22 years** and an average occupancy of **94%** with a WALT of **6 years**
- Enhance portfolio metrics and grow CAD through the acquisition of core properties that generate higher cash flow after capital costs than the properties sold
- Entered agreement to acquire a single-tenant office property in Denver, CO for **$38.1 million** with a WALT of **11.5 years** and **100%** occupancy

Non Core Asset Sales + **Leverage Reduction**

$100 - $300 Million Annual Capital Recycling Program

Valuation

Office Properties Income Trust

Dividend Discount Model

FY ended 12/31	2018	2019	2020E	2021E	2022E	2023E	2024E
			Year Ended December 31,				
FFO/Share	$ 5.48	$ 5.85	$ 5.44	$ 5.67	$ 5.66	$ 6.26	$ 6.53
AFFO/Share	$ 3.30	$ 3.95	$ 3.86	$ 4.13	$ 4.14	$ 4.51	$ 4.36
Dividend	$ 5.71	$ 2.20	$ 2.18	$ 2.27	$ 2.27	$ 2.50	$ 2.61
Growth(%)		-61.47%	-1.13%	4.33%	-0.19%	10.54%	4.31%
Payout Ratio (% of FFO)	104.2%	37.6%	*40.0%*	*40.0%*	*40.0%*	***40.0%***	***40.0%***
Time			0.25	1.25	2.25	3.25	4.25
Discount Factor			0.97	0.87	0.78	0.70	0.63
Discounted Dividend			**$2.12**	**$1.98**	**$1.78**	**$1.76**	**$1.65**

Comparable	Levered Beta	Tax Rate	D/E	Unlevered Beta
EastGroup Properties, Inc. (NYSE:EGP)	0.86	0.00%	1.05	0.42
Highwoods Properties, Inc. (NYSE:HIW)	0.98	0.00%	0.96	0.50
Corporate Office Properties Trust (NYSE:OFC)	1.05	0.00%	1.25	0.47
Cousins Properties Incorporated (NYSE:CUZ)	1.03	0.00%	0.44	0.72
Hudson Pacific Properties, Inc. (NYSE:HPP)	0.78	0.00%	0.93	0.41
Kilroy Realty Corporation (NYSE:KRC)	0.70	0.00%	0.71	0.41
Office Properties Income Trust (NasdaqGS: OPI)	**1.12**	**0.00%**	**1.31**	**0.49**

Terminal Value		
CoE		11.4%
Dividend Growth		0.0%
Terminal Dividend		$2.61
TV		$12.93
Sum of Dividends		$9.28
Equity Value	**$**	**22.21**
Implied P/FFO		4.1x
Current Price	**$**	**19.23**
Implied ROI		**15.5%**

Net Asset Value		
2020E Property NOI	$	362.07
Property NOI Margin		**60.0%**
Cap Rate		**9.0%**
Property Value		**4,022.98**
(-) Debt		2,177
(+) Cash		25
Total Equity Value		**1,871**
Diluted Share Count		48.1
Diluted Equity Value/S	**$**	**38.89**
Current Price	**$**	**19.23**
Implied ROI		**102.2%**

CoE (CAPM)	
Rf (5 year T-Bill)	0.3%
Beta	1.12
MRP	5.4%
Cost of Equity	**6.4%**

CoE (Div Cap)	
LTM Dividends	2.20
Stock Price	19.23
Dividend Growth	0.0%
Cost of Equity	**11.4%**

Valuation

Office Properties Income Trust

Income Statement ($ Millions)

For the fiscal period ending	**FY 2018**	**FY 2019**	**FY 2020E**	**FY 2021E**	**FY 2022E**	**FY 2023E**	**FY 2024E**
Rental Revenue Build							
Total GLA	31,900	25,726	24,909	24,659	24,409	24,159	23,909
Net New GLA			-	(250)	(250)	(250)	(250)
Remeasurements			-	-	-	-	-
Occupancy Rate	91.0%	92.4%	*91.0%*	*91.0%*	*91.0%*	*91.0%*	*91.0%*
Leased GLA	**29,029**	**23,771**	**22,667**	**22,440**	**22,212**	**21,985**	**21,757**
GLA Expiring	**1,611**	**3,777**	**2,166**	**1,998**	**1,986**	**2,710**	**3,869**
% of Total	5.1%	14.7%	8.7%	8.1%	8.1%	11.2%	16.2%
Renewal Lease sq ft	**1,015**	**2,795**	**1,083**	**999**	**993**	**1,355**	**1,935**
Percentage of Total Expiring GLA	63.0%	74.0%	*50.0%*	*50.0%*	*50.0%*	*50.0%*	*50.0%*
Old Effective Rent per sq ft	$ 27.58	$ 29.90	$ 24.66	$ 28.73	$ 27.99	$ 27.04	$ 26.12
New Effective Rent per sq ft	$ 27.40	$ 31.30	$ 24.66	$ 28.73	$ 28.55	$ 27.58	$ 26.64
Rent Bump	-0.7%	4.7%	*0.0%*	*0.0%*	*2.0%*	*2.0%*	*2.0%*
New Leases sq ft	**330**	**266**	**217**	**200**	**199**	**271**	**387**
Percentage of Total Expiring GLA	20%	7%	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
Old Effective Rent per sq ft	$ 21.06	$ 30.86	$ 24.66	$ 28.73	$ 27.99	$ 27.04	$ 26.12
New Effective Rent per sq ft	$ 24.21	$ 30.94	$ 24.66	$ 28.73	$ 28.27	$ 27.58	$ 26.90
Rent Bump	15.0%	0.3%	*0.0%*	*0.0%*	*1.0%*	*2.0%*	*3.0%*
Delayed Leases sq ft		**266**	**716**	**866**	**799**	**794**	**1,084**
Delayed New Lease Revenue		8.2	19.1	24.9	22.6	21.9	29.2
Total Renewal and New Lease Revenues	35.8	95.7	32.1	34.5	34.0	44.9	62.0
Old Lease Value	34.9	91.8	32.1	34.4	33.4	44.0	60.6
Roll Up	2.45%	4.30%	0.06%	0.07%	1.90%	2.05%	2.21%
Existing Leased GLA	**27,418**	**19,994**	**20,501**	**20,442**	**20,226**	**19,275**	**17,888**
Rent per sq ft	**15.56**	**33.93**	**26.52**	**26.47**	**26.74**	**27.00**	**27.27**
Rent Bump			*0.0%*	*0.3%*	*0.5%*	*0.8%*	*1.0%*
Total Continuous Revenues			544.7	586.8	586.7	581.5	573.2
Total Rental Revenues			**603.4**	**621.2**	**620.2**	**625.8**	**634.5**

For the fiscal period ending	**FY 2018**	**FY 2019**	**FY 2020E**	**FY 2021E**	**FY 2022E**	**FY 2023E**	**FY 2024E**
Expense Build							
Property Exp.	76.1	108.0	98.1	101.0	100.8	101.7	103.1
% of Revenues	17.8%	15.9%	*16.3%*	*16.3%*	*16.3%*	*16.3%*	*16.3%*
Selling General & Admin Exp.	24.9	32.7	30.2	31.1	31.0	31.3	31.7
% of Revenues	5.8%	4.8%	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Depreciation & Amort.	162.5	289.9	249.1	246.6	244.1	241.6	239.1
Other Operating Exp.	89.6	120.9	120.7	124.3	124.1	125.2	126.9
% of Revenues	21.0%	17.8%	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*

		Dividend Growth				
Cost of Equity		**-2.0%**	**-1.0%**	**0.0%**	**1.0%**	**2.0%**
	9.1%	$22.34	$23.78	$25.53	$27.72	$30.53
	9.3%	$22.11	$23.50	$25.19	$27.28	$29.95
	9.5%	$21.89	$23.23	$24.85	$26.86	$29.40
	9.7%	$21.67	$22.97	$24.53	$26.45	$28.87
	9.9%	$21.46	$22.72	$24.22	$26.07	$28.38
	10.1%	$21.26	$22.47	$23.93	$25.70	$27.91
	10.3%	$21.07	$22.24	$23.64	$25.34	$27.46

		Cap Rate				
NOI Margin		**8.0%**	**8.5%**	**9.0%**	**9.5%**	**10.0%**
	54.0%	$39.93	$34.95	$30.53	$26.56	$23.00
	56.0%	$43.07	$37.91	$33.31	$29.21	$25.51
	58.0%	$46.21	$40.86	$36.10	$31.85	$28.02
	60.0%	$49.34	$43.81	$38.89	$34.49	$30.53
	62.0%	$52.48	$46.76	$41.68	$37.13	$33.03
	64.0%	$55.62	$49.71	$44.47	$39.77	$35.54
	66.0%	$58.75	$52.67	$47.25	$42.41	$38.05