Confluence Analytics

Carbon Efficiency & ESG Charts:

REITs/Communications Infrastructure Spotlight
(US Large Cap)

December 2021

Disclaimer

The enclosed information and any supplemental information provided in the Data Room as defined herein ("Package") is being made available on a confidential basis by Confluence Capital Analytics Inc. (the "Company") to a limited number of parties who may be interested in or have expressed an interest in submitting proposals to invest. The sole purpose of this Package is to assist the recipient in deciding whether to proceed with further analysis of this opportunity. A data room (the "Data Room") is available to interested parties and contains additional information about the Company, including financial information, background information on certain of the Company's principals, and information regarding intellectual property, affiliated party transactions and other matters. This Package does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product. All information herein is for informational purposes only and should not be deemed recommendation to purchase any security or investment product. The information contained in this Package, including, but not limited to, pro forma and estimated financial information, is based on certain assumptions and the Company's analysis of information available at the time the Package was prepared. The information herein has been provided by the Company. While the information contained in the Package is believed to be accurate and reliable, none of the Company, their respective members, owners, partners, principals, managers, employees, agents or representatives makes any warranty or representation, whether express or implied regarding the accuracy, or completeness of any information contained in this Package. Certain information contained herein is based on data provided by third-party sources and, although believed to be reliable, has not been independently verified and its accuracy or completeness cannot be guaranteed and should not be relied upon as such. The financial information contained herein has not been audited and is not necessarily indicative of future results. Prospective investors or purchasers should conduct and rely on their own inquiries, investigation and analysis of the business, data and property described herein and should contact their own tax, legal, investment and accounting advisors before engaging in any transaction. This Package is as of the date indicated and is subject to revision at any time without notice. The Company undertakes no obligation to provide the recipient with access to any additional information. The Package is provided on the basis that it is kept CONFIDENTIAL and its circulation and use are restricted. Neither this package nor any part hereof may be copied, duplicated or redistributed, or used for any purpose other than evaluation of the Company by the person to whom this Package has been delivered.

Forward-Looking Statements and Projections: This Package contains certain forward-looking statements, that discuss the intentions, expectations or predictions of the Company. We use words such as "anticipates", "estimates", "expects", "forecasts", "intends", "objective", "plan", "seek" and words of similar import to identify forward-looking statements. The Company cautions that these statements involve risks, uncertainties and contingencies. Important factors that could cause actual results to differ materially from those in the forward-looking statement include the granting or timing of regulatory approval, risks related to China and global economy and socio-political changes. The Company does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. This Package, the Data Room and supplemental information requested by the interested party contain certain financial and operational projections for the Company. Projections are based on a number of estimates and assumptions about circumstances and events that have not taken place and are subject to uncertainties inherent in making projections. Moreover, these projections have not been prepared in accordance with published guidelines of any regulatory body of any jurisdiction.

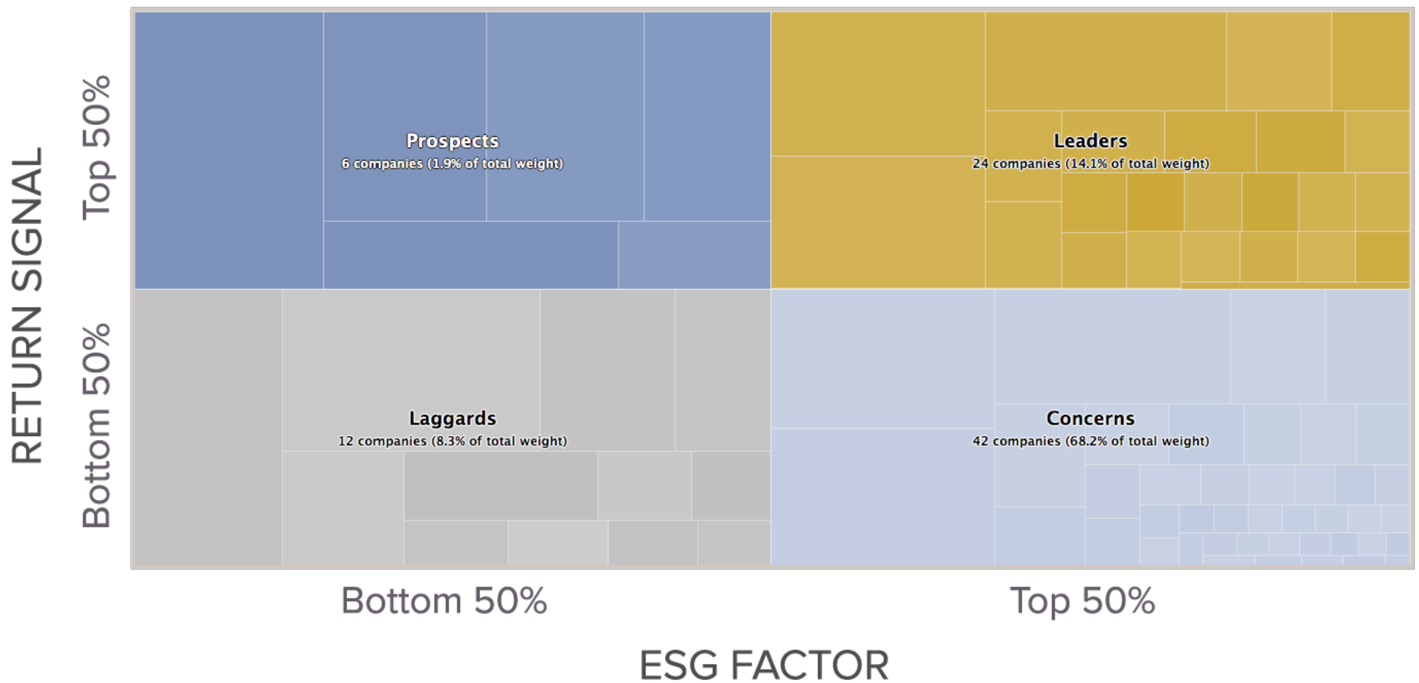
POTENTIAL INVESTORS SHOULD NOT RELY ON THESE FINANCIAL PROJECTIONS AS THEYARE INCLUDED IN THIS PRESENTATION AND/OR THE DATA ROOM FOR THE LIMITED PURPOSE OF ASSISTING PROSPECTIVE INVESTORS IN ANALYZING THE POTENTIAL RISKS AND BENEFITS OF AN INVESTMENT IN THE COMPANY. UNDER NO CIRCUMSTANCES SHOULD SUCH INFORMATION BE CONSTRUED AS A REPRESENTATION OR PREDICTION THAT THE COMPANY WILL ACHIEVE OR IS LIKELY TO ACHIEVE ANY PARTICULAR RESULTS OR THAT INVESTOR WILL RECEIVE OR IS LIKELY TO RECEIVE ANY PARTICULAR BENEFITS. EACH PROSPECTIVE INVESTOR MUST MAKE HIS OR HER OWN EVALUATION OF THE MERITS AND RISKS OF AN INVESTMENT IN THE COMPANY AND, IN CONNECTION WITH SUCH EVALUATION, SHOULD MAKE HIS OR HER OWN JUDGMENT CONCERNING THE VALIDITY OF THE ASSUMTIONS USED IN THE PROJECTIONS AND THE PROSPECTS THAT THE COMPANY CAN ACHIEVE ANY PARTICULAR RESULTS OF OPERATIONS.

Note: Data Source(s) for all charts and data shown in this presentation courtesy of: ISS, FactSet, and Confluence Capital Analytics Inc.

We Generate Actionable ESG Data

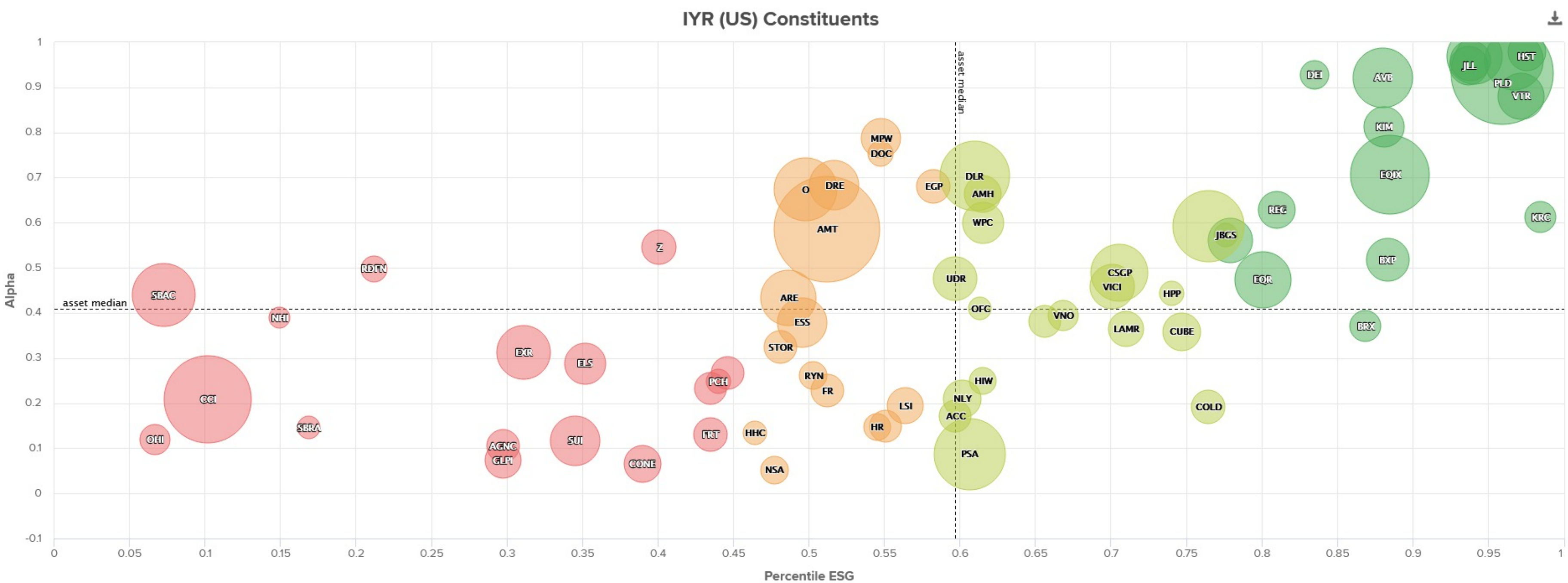
Confluence makes ESG data more effective and actionable. Our proprietary ESG Signal Matrix provides clear insights to help investors manage risk and boost returns, since the signals serve as building blocks to drive performance-focused ESG solutions.

ESG Signal Matrix



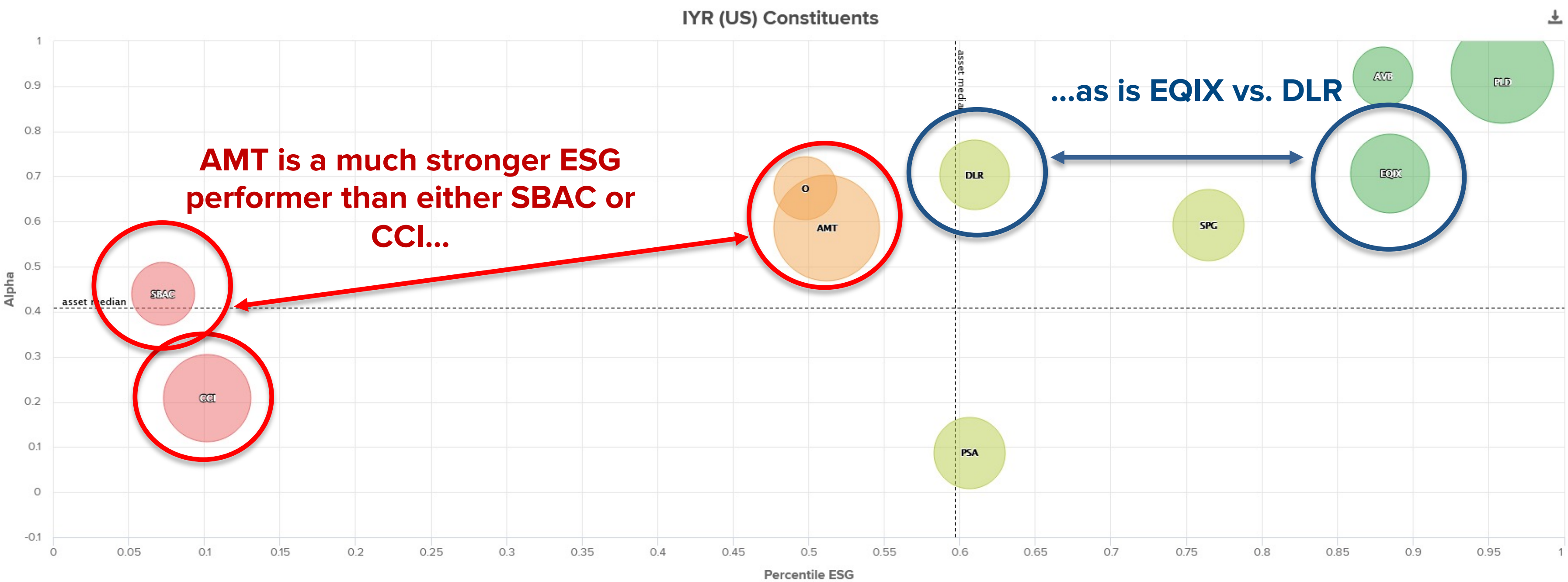
ESG RANK vs Alpha ESG

Below is a graphic display of the iShares US Real Estate ETF (IYR) plotting each company's ESG percentile Rank versus its Alpha ESG percentile rank. Within IYR there are numerous sub-categories of REITs, 12 in all, using the GICS sub-industry breakdowns (Diversified, Health Care, Hotel & Resorts, Industrial, Mortgage, Office, RE Development, RE Services, Residential, Retail, Diversified, and Specialized). The result is very wide swath of ESG performance amongst the 70+ constituents.



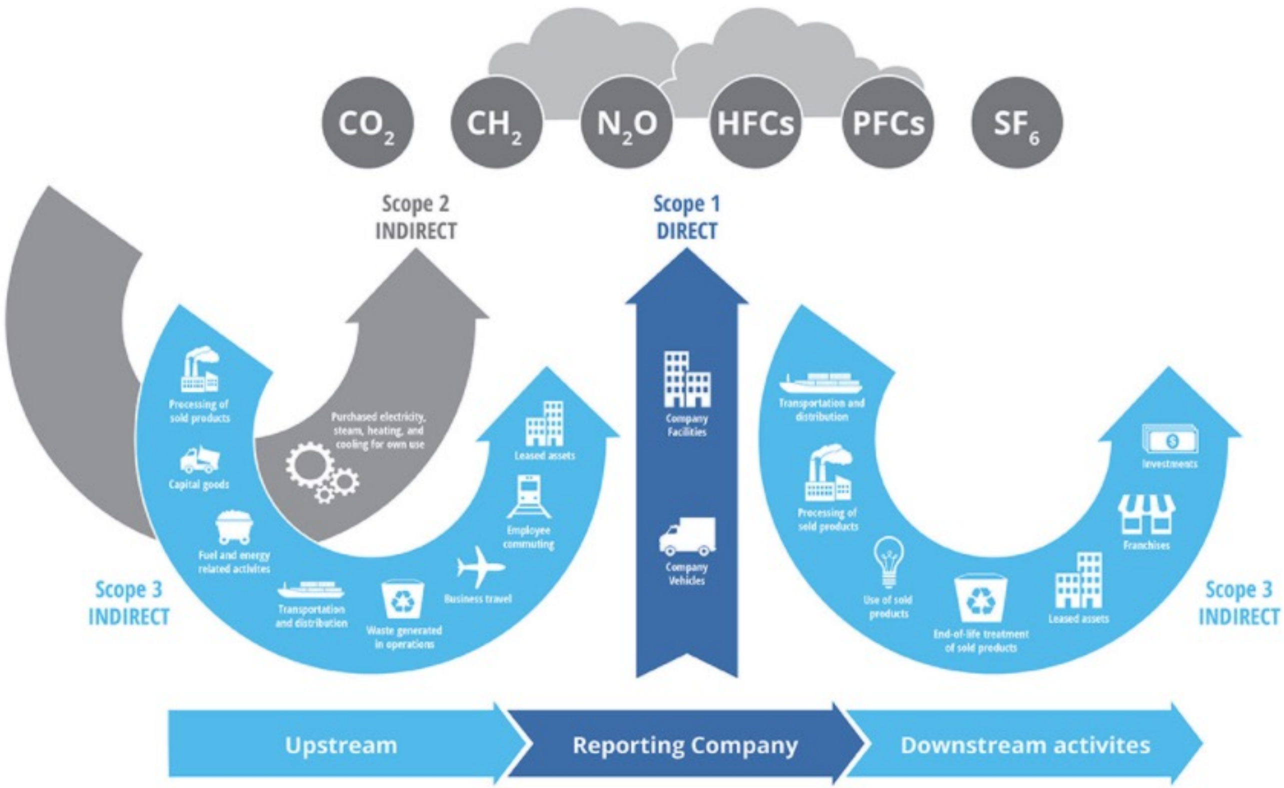
ESG RANK vs Alpha ESG

Here, we focus on IYR's top 10 constituents (ESG percentile Rank vs it's Alpha ESG percentile rank). For comparison purposes, we target the five stocks from the Communications Infrastructure field (AMT, CCI, and SBAC compete directly with one another in the Towers space, while DLR and EQIX likewise do in Data Centers). These stocks have an average 5-yr total return far in excess of IYR's average company (175% vs. 93%). Yet, a clear in divergence in ESG performance is evident between AMT and SBAC/CCI, as well as between EQIX and DLR.



Carbon Data Breaks Down to 3 Categories

Scope 1 – Direct Emissions
Scope 2 – Energy Indirect Emissions (purchased electricity, steam, heating, cooling, etc.)
Scope 3 – Other Indirect Emissions (all other emissions in a company's supply/value chain)



Two Methodologies to Implement Low Carbon Strategies

There are two main approaches to measure carbon efficiency and implement strategies – each with three variations. We have currently implemented three into our processes, with three pending.

Method 1 – The Revenue Model, where:

a) Carbon Efficiency = Total Carbon Output (Scope 1 + 2) / Revenue

Method 2 – The Market Cap Model, where:

a) Carbon Efficiency = Total Carbon Output (Scope 1 + 2) / Market Cap
b) Supply Chain Efficiency = Other Indirect Emissions (Scope 3) / Market Cap

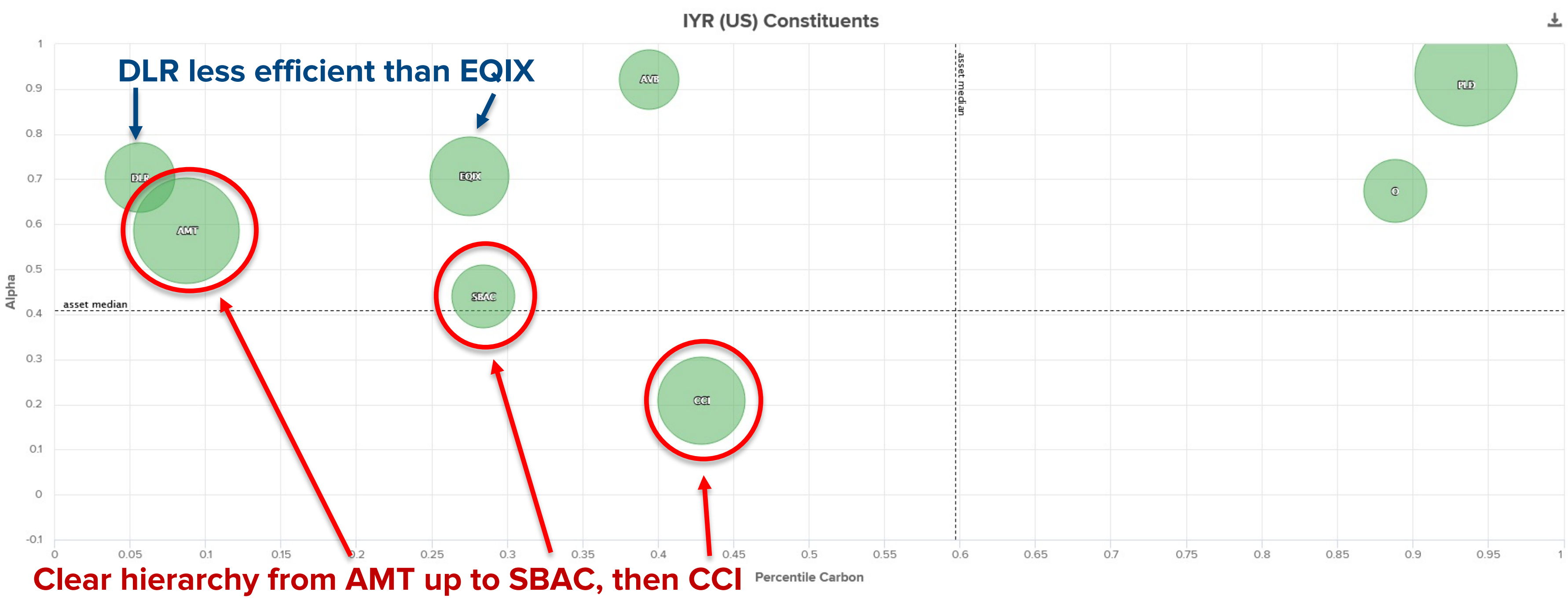
We should also note that:

- Our data shows that using the Revenue Model tends to result in rankings favoring companies that have: lower multiples of earnings, cash flow, and book value; higher dividend yields; lower EBITDA and net income margins; lower returns on assets, equity, and investment; and lower levels of 1-year, 3-year and 5-year total shareholder returns – in other words, slower growing, lower multiple firms.

- Conversely, using the Market Cap Models tends to result in rankings favoring faster growing, higher multiple firms, that have delivered higher returns to shareholders over the intermediate/longer-term.

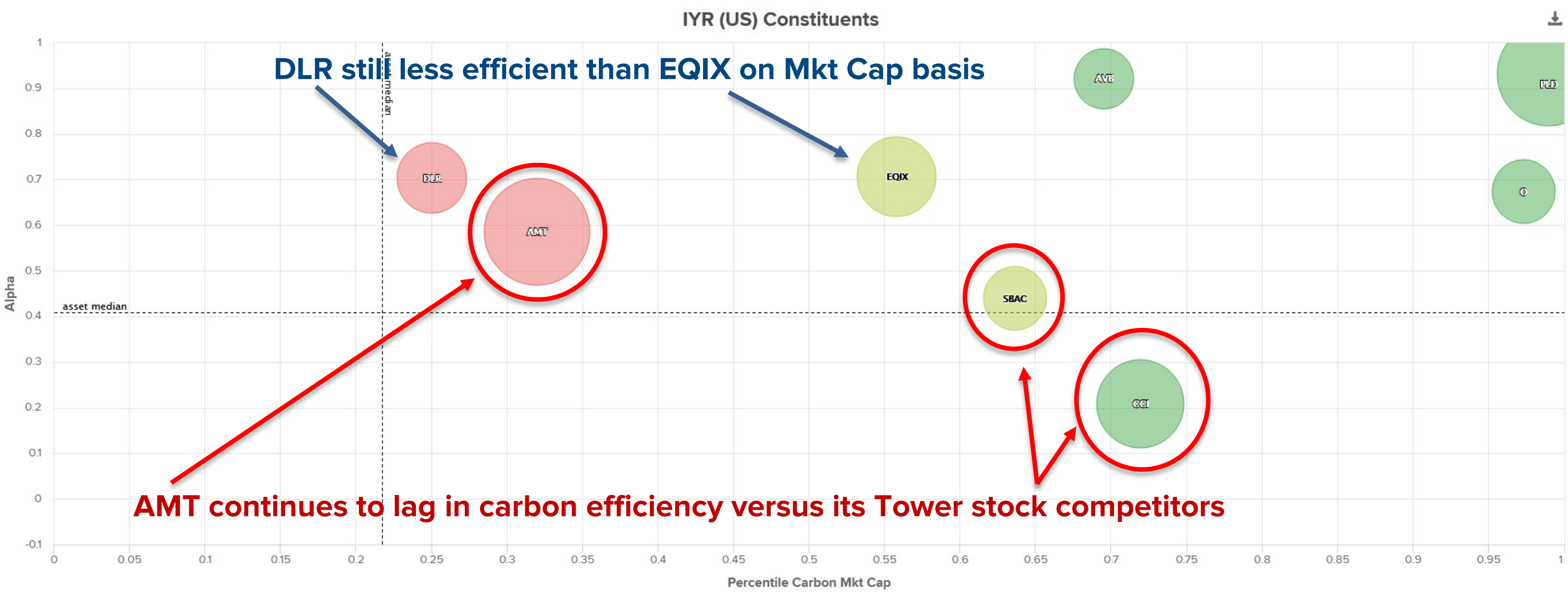
Emissions Snapshot – Carbon Intensity By Revenue

Below is a graphic display of carbon efficiency (Revenue model) on a company-by-company basis. Within the Data Centers space, Equinix (EQIX) is considerably more efficient than competitor Digital Realty Trust (DLR). In fact, for every $1MM in revenue generated EQIX emits roughly 63 tons of CO2e, while DLR emits over 510 tons! A similar stratification is evident between the Towers stocks with Crown Castle (CCI) 2x as efficient as SBA Communications (SBAC) – 30 tons of CO2e emitted per $1MM in revenue generated vs. 60 tons, while SBAC is over 5x as efficient as American Tower (AMT).



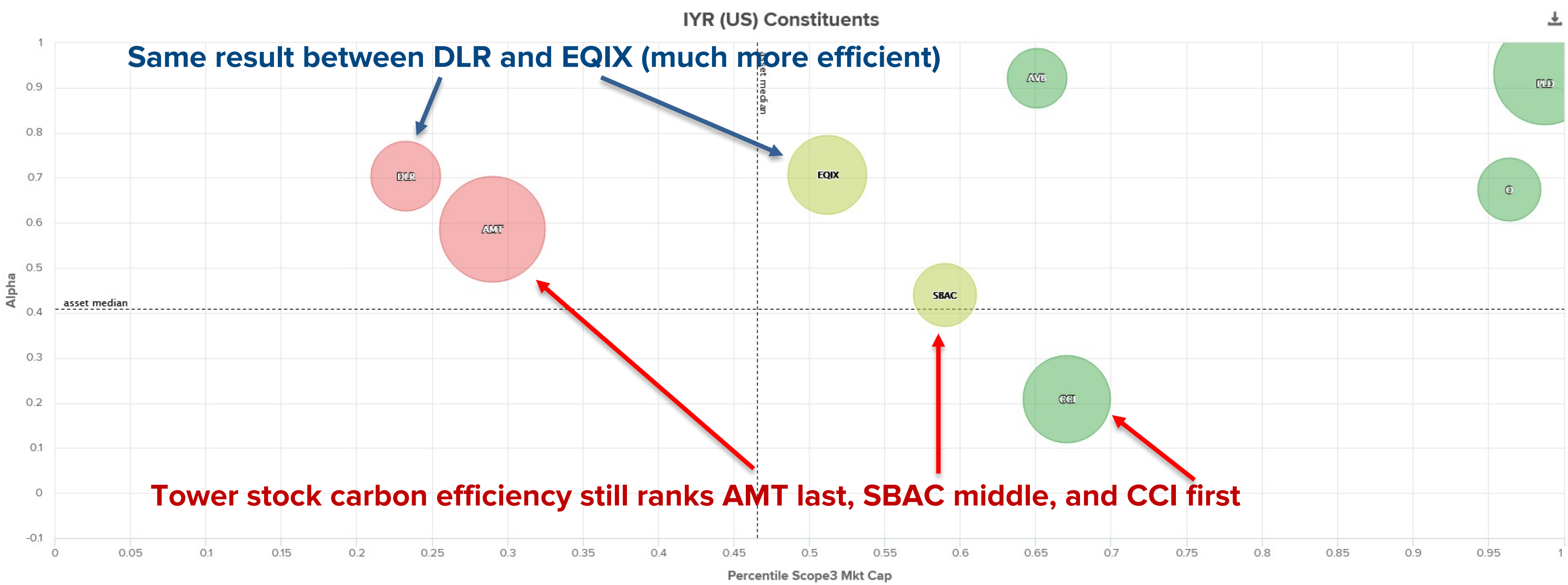
Emissions Snapshot – Carbon Intensity by Market Cap

Below is a second graphic display of carbon efficiency, this time on a Market Cap basis (Scope 1&2). Within the Data Centers space, EQIX continues to deliver much more efficiency than DLR, this time over 6x, emitting roughly 5 tons of CO2e per $1MM in market cap versus 34 tons for DLR. Among the Towers, AMT is clearly the least efficient, generating roughly 20 tons of CO2e per $1MM in market cap, in contrast to SBAC at just over 3 tons and CCI at just over 2 tons.



Emissions Snapshot – Carbon Intensity Market Cap (Scope 3)

Here we have our third iteration of carbon efficiency (Market Cap, Scope 3). Scope 3 analysis centers on supply chains, but the results in terms of emissions efficiency generally remain the same amongst the Data Center and Tower stocks, with EQIX again vastly more efficient than DLR, while among the Tower stocks CCI once again leads the pack, followed by SBAC, and then a distant AMT.



Emissions, Returns, & Valuation

When we look at some of the raw data for the Communications Infrastructure stocks, some interesting facts emerge:

- Market cap doesn't dictate absolute level of GHG emissions or efficiency. While the largest company by market cap (AMT) does emit the most GHG (Total Emissions and Scope 3 Emissions columns) and is the least efficient (Carbon Efficiency columns, where lower is better), the second largest company (CCI) is the most efficient and emits the second lowest aggregate GHG (only slightly trailing SBAC).
- Shareholder returns have tended to correspond to carbon efficiency. SBAC has delivered the strongest 5-yr total return (257%), and ranks second in terms the carbon efficiency, while DLR has delivered the lowest total return (119%) and is by far the least carbon efficient.
- Valuation appears to modestly correspond to carbon efficiency. The cheapest stock (DLR with an EV/EBITDA of 20x) is the least carbon efficient, yet the most carbon efficient stock (CCI) falls in the middle of the group from a valuation perspective (EV/EBITDA of 30x).

					Carbon Efficiency			
Company	Ticker	MarketCap	Total Emissions	Scope3 Emissions	Carbon	Scope3_Mkt_Cap	5-yr Total Ret.	EV/EBITDA
American Tower Corporation	AMT	125,699,900,000	2,336,902	9,314,694	308.249	77.923	1.82	27.89
Crown Castle International Corp.	CCI	82,788,500,000	169,668	676,281	29.773	8.614	1.59	29.88
Equinix, Inc.	EQIX	73,334,800,000	346,492	1,381,088	62.746	18.885	1.59	39.18
Digital Realty Trust, Inc.	DLR	47,707,400,000	1,629,140	6,493,614	511.442	136.413	1.19	19.73
SBA Communications Corp.	SBAC	39,051,300,000	121,577	484,595	60.339	12.957	2.57	28.12
Average		**73,716,380,000**	**920,756**	**3,670,054**	**194.510**	**50.959**	**1.752**	**28.96**
Median		**73,334,800,000**	**346,492**	**1,381,088**	**62.746**	**18.885**	**1.59**	**28.12**

Conclusions

- Even with a relatively small subset of a sector, such as Communications Infrastructure (within REITs) where returns have generally been far in excess of the overall sector (recall, avg. 5-yr total return of 175% vs. 93%), ESG performance among those stocks can differ dramatically.

- Similarly, Carbon efficiency (emissions output per dollar of revenue generated or market cap) can vary greatly amongst a small subset of similar stocks competing in the same sub-industry.

- Market cap doesn't dictate the level of absolute carbon emissions, nor the level of carbon efficiency.

- Shareholder returns, for the most part, appear to reflect carbon efficiency within Communications Infrastructure, as the least efficient company from a carbon perspective also delivered the lowest 5-yr total return, while the highest return was generated by second most efficient company.

- Valuation appears to modestly reflect levels of carbon efficiency within Communications Infrastructure as the least efficient stock is the also the least expensive.

Confluence Analytics

Thank You

www.ConfluenceAnalytics.com