

April 16, 2020

Dear Colleagues,

We hope that you and your families are healthy and offer our sincerest wishes to those who have experienced the Covid virus a speedy recovery.

We also express our gratefulness to those of you who are delivering essential services. We are reminded daily of the importance of retail workers at grocery stores, pharmacies, gas stations, food delivery and other delivery workers. The heroic medical staff maintaining the continuity of health services within our community are invaluable. Every era our society defines new heroes based on the troubles of our times. These will be from the armed forces, firefighters and paramedic staff, health care professionals and people who deliver essential services. One virtue remains constant among - a sense of duty beyond the call, self-sacrifice for a collective purpose.

Many have responded to this call through contributions large and small, from material financial donations to our medical services to the delivery of goods and checking up on elderly neighbours. Canada has truly come together to prevent a medical catastrophe. We will do the same as we leave this difficult time to resume the normal functioning of our businesses and economy.

As the breadth and duration of this pandemic on our economy becomes clearer, KalNes Capital in its own small way seeks to offer our assistance to our community in a way we know how, managing through our turbulent times. Collectively, we have experience in numerous difficult financial environments. From the '87 Crash, to the LTCM/Asia crises; and the dotcom bust to the '08 Financial Crises, as well as numerous firm specific idiosyncratic turnarounds, we have over 6 decades experience weathering storms.

Warren Buffet said, "Only when the tide goes out do you discover who's been swimming naked". In this chaotic environment we would add that the converse is also true. Those who demonstrate Leadership will excel and propel their organizations forward and truly differentiate themselves from their competitors. To that end we offer our brief, simple to articulate, but hard to execute, prescriptions for weathering these storms. Many of you will know these truths. While focusing on generating shareholder value we take the stake owner perspective of the firm at heart. A firm's leaders are responsible for the survival and resilience of a firm to the benefit of not only shareholders but an entire set of stakeholders who have complex sets of needs.

KalNes Prescriptions- First Steps

1. **Make certain the foundations surrounding your organization are in place - focus on your family's health and safety.** This will ensure that you can continue to lead through this challenging time as they are the pillar of emotional support you will need.
2. **Make certain your team's foundations are solid - focus on their needs -** Are they safe and healthy? Are their families cared (same as for as your own)? Look for new strong partners, including others of different experiences and backgrounds, who will bring their own perspectives to the challenges ahead.

3. **Have a plan - Immediately develop a new plan** that takes into account the current environment and assume you must deal with this for an extended period. A new strategic plan which recognizes the reality of the current situation and the likelihood of a recession needs to be developed and communicated within 30 days.
4. **Communicate Often** - Meet virtually or by telephone with all of your stakeholders. This plan will be critical for generating the buy-in of employees, customers, suppliers, bankers and shareholders and other stakeholders. It should include developing strategies to maintain close contact with core clients and preserving cash inflows.
5. **Preserve Cash, pay down or renegotiate any debts and ensure liquidity.** Ensure your firm has enough cash to weather an extended storm. Time is your friend and time is your enemy. Ensure relationships with bankers and shareholders and Key suppliers (including potential future employees) are positive and align them with your plan.
6. **Make the hard decisions on expenses – remove those that are not 100 % aligned with your goals.** Your goal is survival. For equity financed firms with burn rates, the discretionary fixed cash outflows are the obligations that need to be eliminated first (rents for growing capacity, discretionary growth plans, special projects etc.) . These need to be reduced and the expiry time extended. Plan for challenges to be longer rather than shorter. While it is a virtue of human nature to be optimistic this is the time to critically question why you feel that way. Another way to address the allocation of resources ask yourself which error would cost you more, being too cautious in expecting a return to “normalcy”, or not planning for challenging times to go on longer?

As a multi-Family Office, we primarily invest our capital on a proprietary basis for the long-term. We also act as members of Corporate Boards, Advisory Boards and Advisors to individual clients for Strategy. We do this to remain current with operating environments and help grow these companies. This help has never been more important than in this challenging environment. Many organizations will have unique challenges tied to the particular circumstances of their operating economics. If you or one of your friends has a particular set of challenges that they feel could benefit from our experiences, advice or network, feel free to get in touch. We would like to help.

We wish your health and warm regards.

KalNes Capital Partners