

Analyst Team

Ovais Habib | Analyst

Scotia Capital Inc. - Canada | 416-863-7141

Eric Winmill, MFin, CFA | Associate Analyst

Scotia Capital Inc. - Canada | 416-862-3738

Charles Ehidihamen, CFA, MBA, ACA | Associate

Scotia Capital Inc. - Canada | 437-980-8418

Francesco Costanzo | Associate

Scotia Capital Inc. - Canada | 647-539-8279

Pertinent Data

Rating	Sector Perform
1-Yr. Target	US\$16.00
MAG-A	US\$10.85
MAG-T	C\$14.33
1-Yr. Return	47.5%
Div. (NTM)	\$0.00
Div. (Curr.)	\$0.00
Yield (Curr.)	0.0%
NAVPS	\$12.65
P/NAV	0.86x
Quant Ranking	13
Valuation: 1.30x P/NAV_{5%}	

Pertinent Revisions

	New	Old
Rating	SP	CS
Adj EPS_{25E}	\$0.85	\$0.82
New Valuation: 1.30x P/NAV_{5%}		
Old Valuation: n.a.		

Capitalization

Market Cap. (M)	\$1,116
Net Debt + Pref. (M)	-\$54
Enterprise Value (M)	\$1,062
Shares O/S (M)	103
Float O/S (M)	103

Volume and Closing Price for MAG-A



Source: FactSet.

MAG-A: US\$10.85

Target: US\$16.00

Rating: Sector Perform

MAG-T: C\$14.33

Old: Coverage Suspended

Resuming Coverage: A High-Grade, High-Margin Silver Producer; Upside Potential Through Exploration

OUR TAKE: Neutral. We have resumed coverage of MAG Silver Corp. (MAG Silver) with a Sector Perform rating and \$16.00 price target. MAG Silver is a Canadian mining company co-developing the high-grade silver-gold-lead-zinc Juanicipio project located in the prolific Fresnillo silver district, Zacatecas, Mexico. MAG Silver owns a 44% interest in Juanicipio through a joint venture called Minera Juanicipio with Fresnillo plc, which holds a 56% interest and is the operator. MAG Silver also owns and is exploring the past-producing Deer Trail project in southern Utah and the Larder gold project in the Abitibi greenstone belt of Ontario.

The Juanicipio mine and processing plant were completed by the end of 2021, but delays in connecting to the national electric grid (completed in Dec 2022) caused setbacks to the project's mill commissioning schedule, with the project achieving commercial production in June 2023. With the move to production, MAG has been included in the NYSE Arca Gold Miners Index (GDX). **The next major milestones we see are the ramp-up of Juanicipio throughput to nameplate of 4,000 tpd in Q3/23 and potential cash distributions from the Juanicipio JV to MAG** as the mine starts generating excess cash flow. Pending full-scale ramp-up, excess mineralized material from Juanicipio is being processed through the nearby Saucito and Fresnillo beneficiation plants (100% owned by Fresnillo) on an available-capacity basis.

Qtly Adj EPS (FD)	Q1	Q2	Q3	Q4	Year	Price/Adj. EPS
2023E	\$0.04A	\$0.15	\$0.18	\$0.21	\$0.58	18.8x
2024E	\$0.31	\$0.32	\$0.32	\$0.32	\$1.27	8.5x
2025E	\$0.17	\$0.21	\$0.23	\$0.23	\$0.85	12.8x
2026E	\$0.53	\$0.53	\$0.53	\$0.53	\$2.12	5.1x

(FY-Dec.)	2022A	2023E	2024E	2025E	2026E
CFPS	\$-0.09	\$-0.14	\$-0.21	\$-0.17	\$-0.22
Price/Cash Flow	n.m.	n.m.	n.m.	n.m.	n.m.
Silver Production (oz) (000)	4,070	6,542	9,786	6,524	10,085
AISC Silver	\$8.82	\$12.22	\$8.75	\$11.66	\$4.47
EBITDA (M)	\$-9.2	\$-16	\$-22	\$-17	\$-23
Capex (M)	\$21	\$38	\$15	\$0	\$0
FCF (M)	\$-30	\$-52	\$-37	\$-17	\$-23
FCF Yield	(1.9)%	(4.6)%	(3.3)%	(1.5)%	(2.0)%

Historical price multiple calculations use FYE prices. All values in US\$ unless otherwise indicated.

Source: FactSet; company reports; Scotiabank GBM estimates.

Production: June 28, 2023, 21:12 ET. Dissemination: June 29, 2023, 06:15 ET.

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Valuation – We use a DCF_{5%} analysis in valuing Juanicipio and apply MAG's 44% attributable interest in arriving at our price target of \$16.00. We also include an in-situ value for the Deer Trail and Larder Lake exploration projects, as we see potential for significant exploration upside from these multi-phase exploration programs, although they are in early stages. Our \$16.00 price target is calculated using a 1.30x P/NAV multiple. The company generated - \$34 million in Q1, and we expect a FCF inflection point in Q2 as the company becomes FCF positive at ~\$8 million. **At spot prices, we forecast 2023E free cash flow of ~\$12M (FCF yield of ~1%) growing to ~\$133M (FCF yield of ~12%) in 2024E once Juanicipio is operating at full capacity.** Our FCF estimate is calculated using MAG's 44% share of the FCF available at the Juanicipio JV level, adjusted for the cash flow from operations and capex spend at the corporate level. **While we like the high-grade nature of the Juanicipio orebody and its low operating cost structure despite inflationary pressures, we rate MAG Silver a Sector Perform in view of (1) our opinion that exploration success at Deer Trail and Larder is instrumental for the stock to re-rate higher and trade at a premium valuation, and (2) our opinion that there are few near-term catalysts at Juanicipio, in terms of optimization projects or technical studies, that would add incremental value to the asset. In our view, MAG Silver stands to benefit from its low-cost silver production with a forecast AISC well below the producer peer group we cover.** At spot prices, MAG shares are trading at a P/NAV_{5%} of 0.88x vs. its silver producing peers trading at 1.11x.

Juanicipio – The Juanicipio high-grade underground silver-gold-lead-zinc mine is located in central Zacatecas State, Mexico, ~14 km from the Fresnillo mine. The Juanicipio deposit consists of two main vein systems; the Valdecañas vein system and the Juanicipio vein, which are significant silver-gold epithermal structures. The last PEA from 2017 contains indicated silver resources of 176 Moz (12.83 Mt at 427 g/t) and inferred silver resources of 91 Moz (12.13 Mt at 232 g/t). Following connection to the national power grid in December 2022 and energizing of the beneficiation plant, concentrate production commenced with the first commercial lead and zinc concentrates shipped in late March 2023; Juanicipio later achieved commercial production in June 2023. In Q1/23, 222kt of mineralized stope material and low-grade commissioning stockpiles grading 363 g/t were processed through the Juanicipio, Fresnillo and Saucito plants, with 2.0 Moz payable silver, 5.29 koz payable gold, 1.28kt payable lead and 1.66kt payable zinc produced and sold. Total underground development to date is ~63km (39 miles), including 3.45 km (2.1 miles) completed in Q1/23. The mine uses a combination of cut and fill for the upper Valdecañas Vein and longhole stoping for the main central section and eastern side of Valdecañas Vein, and ultimately the western side once ground conditions improve at depth. The mine is expected to ramp-up to nameplate capacity of 4,000 tpd over the remainder of 2023, which we factor into our model. **In 2023, we model production (on 100% basis) of 14.9 Moz Ag, 41 koz Au, 19.1 Mlbs Pb and 27.7 Mlbs Zn with cash costs and AISC (net of by-product credits) of \$4.93/oz and \$6.92/oz, respectively.**

Modeling assumptions – While we await guidance and an updated technical study, we use Fresnillo's neighbouring Saucito mine as a reference point in forecasting operating costs. We recognize that Saucito is an older and deeper mine, so we expect Juanicipio's costs may be lower. Accordingly, we assume a mining cost of \$90/tonne for Saucito less 5% for our MAG Silver model. The net result is **~52% higher operating costs of \$89.20/tonne versus the last feasibility study at \$58.67/tonne**, thus incorporating industry-wide inflationary pressures. We also **incorporate ~30% higher sustaining capex in our estimates**. Despite adding this extra conservatism, we continue to expect robust free cash flows owing to the high-grade nature of the orebody and low operating cost structure with significant gold, lead and zinc byproducts. A comparison of our estimates vs. the prior 2017 feasibility report is shown in Exhibit 1 below.

Cash distributions from JV – The Juanicipio mine is already generating cash and once in commercial production, we understand a more definitive return of capital schedule could be established. We note that the current agreement caters to annual distributions to the partners. Management noted that its interests are aligned with Fresnillo in terms of maintaining adequate working capital in Mexico and distributing any excess cash flow to

the partners. Hence, there is a possibility the partners may settle for a quarterly cadence of distributions, if feasible.

With regard to plumbing, it is a simple structure with one intermediary subsidiary and back to back loans, so any loan repayments will flow through the corporate structure to MAG. Additionally, any return of capital will flow through the subsidiary in Mexico and up to MAG (with loan repayments expected to occur first and then dividends/capital reductions). Fresnillo/MAG has successfully tested the plumbing process as MAG Silver received interest payments of \$3.6 million (net of tax) in Q4/22, further strengthening the company's understanding of the nuances of Mexican tax authorities and repatriating cash back to Canada.

Exploration – As the mine reaches steady state production, we expect MAG Silver to continue to dedicate additional resources to exploration across its large, under-explored Juanicipio concession (95% of property unexplored). We see additional upside through resource conversion as the company notes that drilling in recent years has focused on both converting the Inferred Mineral Resources included in the Deep Zone into Indicated Mineral Resources and further tracing mineralization to depth. Current drilling is focused on infilling the Valdecañas Vein System including Anticipada, Pre-Anticipada, and the Venadas structures with complete assay results expected later in 2023. At this time, we have only ascribed a \$50 million exploration upside in our valuation, and strongly view exploration as a potential longer term positive catalyst for MAG shares.

Deer Trail – MAG entered into an option agreement with a private group, wherein the Company has the right to earn 100% ownership interest in the Deer Trail project in Utah. To earn 100% interest in the property, the Company needs to pay \$1.35 million cash over the next 6 years and fund \$30 million of cumulative eligible exploration expenditures by 2028 (as of March 31, 2023, MAG had ~\$9 million outstanding to be spent on the property). We note however that the balance of cash payments and exploration commitments are optional at the Company's discretion and as such, we assign a \$20 million notional value to this asset.

The Deer Trail Project is a silver-rich carbonate replacement deposit ("CRD"). MAG's exploration focus on the project is to seek the source of the historically mined high-grade silver-lead-zinc-copper-gold Deer Trail manto within a thick section of high-potential limestone host. Regional mapping indicates the limestone host lies just below the interlayered sedimentary and limestone sequence, containing Deer Trail's mineralization. The 2021 **Phase I drill program confirmed the presence of a thick section of more favorable carbonate host rocks below the Deer Trail mine**, among other things. One of the holes in the follow-up program completed in Q1/23 intercepted 273.8 meters of mineralization **averaging 12 g/t Ag, 0.2% Cu, 0.1% Pb and 0.2% Zn, with individual sulphide bands grading 59-266 g/t Ag, 0.2-5.5% Cu, 0.1-1.5% Pb, 0.1-5.2% Zn and up to 1.5 g/t Au**. As next steps, MAG plans to drill up to three porphyry targets, offset Carissa and test other high-priority targets. The inferred porphyries are thought to be the source of the extensive alteration and manto, skarn, and epithermal mineralization known throughout the Deer Trail Project area.

Larder Project – MAG Silver acquired a 100% interest in the Larder project located in the prolific Abitibi greenstone belt in Northern Ontario through its acquisition of Gatling Exploration Inc. for a total consideration of \$14 million in 2022. The company initiated a comprehensive data review and initial drilling campaign in 2H/22 focused below and lateral to previously identified mineralization. The drilling campaign proved the geological units exist at depth and has allowed for the acquisition of structural data at depths with the assay results extending the Bear East mineralization down to a depth of 600 meters from surface. Together with concurrent groundwork, MAG also expects to advance other high priority targets on the property. Following a bought deal flow-through financing of \$17 million in Q1/23 for the Larder Project, MAG is planning to develop a long-term systematic exploration program to cover the entire property. Plans are expected to be finalized for a drilling program in 2H/23 and 2024.

Balance Sheet – MAG Silver ended Q1/23 with \$55 million of cash. The company signed a binding commitment letter for a fully underwritten \$40 million revolving credit facility in Q4/21 and continues to work on customary conditions required to put the facility into place. Until the facility closes, there is no funding available to MAG under the terms of the commitment letter. At the JV level, Juanicipio had working capital of \$48 million including cash of \$8.5 million (MAG's attributable share is 44%).

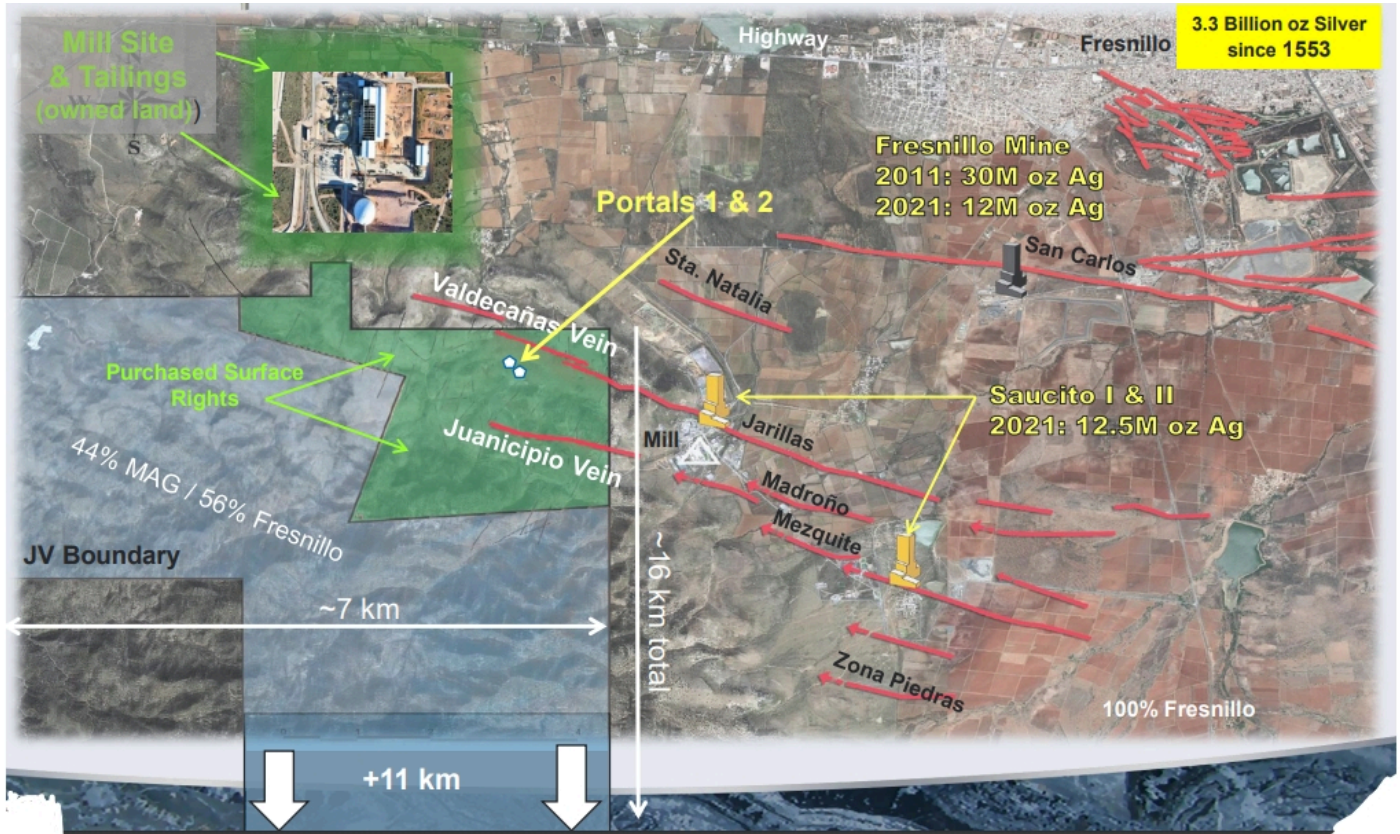
Location of Juanicipio is shown in Exhibit 2. Summary operating and financial parameters are shown in Exhibit 3.

Exhibit 1 - Summary Life-of-Mine Estimates (Scotiabank GBM vs. Prior Feasibility Study)

	Scotia Estimates	2017 PEA	Change (%)
Processing			
Mine life (years)	17.0	19.0	(11%)
Tonnes mined (Mt)	24.9	23.1	8%
Tonnes milled (Mt)	24.9	23.1	8%
Mill throughput (tpd)	4,009	3,334	20%
Silver grade (g/t)	316	282	12%
Gold grade (g/t)	1.61	1.37	18%
Lead grade (%)	2.26%	1.84%	23%
Zinc grade (%)	4.12%	3.43%	20%
Silver recovery (%)	93.3%	94.8%	(2%)
Gold recovery (%)	81.9%	81.6%	0%
Lead recovery (%)	93.0%	92.8%	0%
Zinc recovery (%)	89.9%	89.8%	0%
Silver (Moz)	207	183	13%
Gold (koz)	1,017	747	36%
Lead (Mlbs)	1,099	812	35%
Zinc (Mlbs)	1,735	1,327	31%
Operating Costs			
Mining costs (US\$/t)	\$54.69	\$34.95	56%
Processing costs (US\$/t)	\$29.93	\$20.37	47%
G&A costs (US\$/t)	\$4.28	\$3.35	28%
Total Operating costs (US\$/t)	\$88.89	\$58.67	52%
Sustaining capex (US\$ mm)	\$625	\$480	30%

Source: Company Reports, Scotiabank GBM Estimates

Exhibit 2 - Minera Juanicipo in the Premier Silver District



Source: Company reports

Exhibit 3 - Financial and Operating Forecasts 2022 - 2026

Ratio Analysis	2022A	2023E	2024E	2025E	2026E
P/E (x)	61.7x	19.1x	8.7x	13.0x	5.2x
P/CF (bf. ch. in WC) (x)	n.m.	n.m.	n.m.	n.m.	n.m.
ROE	4%	12%	20%	12%	23%
ROA	4%	11%	20%	12%	23%
EV/EBITDA (x)	n.m.	n.m.	n.m.	n.m.	n.m.

Covenant Ratio	2022A	2023E	2024E	2025E	2026E
Net Debt/EBITDA	3.2x	2.1x	(0.2x)	(1.3x)	(2.0x)
EBITDA/Interest Expense	n.m.	n.m.	n.m.	n.m.	n.m.

Scotia Commodity Price Forecast

Commodity	2022A	2023E	2024E	2025E	2026E
Gold (US\$/ounce)	\$1,803	\$1,904	\$1,900	\$1,700	\$1,700
Silver (US\$/ounce)	\$21.80	\$23.71	\$23.75	\$23.00	\$23.00
Copper (US/lb)	\$4.00	\$3.99	\$4.00	\$4.50	\$5.00
Lead (US/lb)	\$0.97	\$0.98	\$1.00	\$1.00	\$1.00

Scotia FX Rate Estimates	2022A	2023E	2024E	2025E	2026E
CAD/US	0.77	0.74	0.75	0.76	0.78

Income Statement Items (US\$m)	2022A	2023E	2024E	2025E	2026E
Total Revenue	-	-	-	-	-
Operating Costs	-	-	-	-	-
Exploration	(\$0)	(\$0)	(\$0)	(\$0)	-
Corporate Exp	(\$12)	(\$14)	(\$12)	(\$12)	(\$12)
Gov't Royalty	-	(\$5)	(\$14)	(\$9)	(\$15)
Other	\$3	\$4	\$4	\$4	\$4
EBITDA	(\$9)	(\$16)	(\$22)	(\$17)	(\$23)
Depreciation	(\$0)	(\$0)	(\$0)	(\$0)	\$0
Interest Expense	-	-	-	-	-
Other	\$1	\$1	\$0	(\$0)	(\$0)
EBT	(\$9)	(\$15)	(\$22)	(\$17)	(\$23)
Taxes - recovery (expense)	(\$0)	(\$0)	-	-	-
Net Income (loss)	\$18	\$60	\$132	\$88	\$221
Adjusted EPS (f.d.) (US\$/sh)	\$0.18	\$0.58	\$1.27	\$0.85	\$2.12

Cash Flow Statement Items (US\$m)	2022A	2023E	2024E	2025E	2026E
Cash Flow from Operating Activities	(\$9)	(\$15)	(\$22)	(\$17)	(\$23)
Net Income	\$18	\$60	\$132	\$88	\$221
DD&A	\$0	\$0	\$0	\$0	-
Deferred Taxes	(\$0)	(\$0)	(\$0)	(\$0)	(\$0)
Other	(\$27)	(\$74)	(\$155)	(\$106)	(\$244)
Operating CF bf. ch. in WC	(\$9)	(\$14)	(\$22)	(\$17)	(\$23)
Change in Working Capital	\$0	(\$1)	-	-	-
Cash Flow from Investing Activities	(\$19)	(\$38)	(\$15)	-	-
CAPEX	(\$24)	(\$38)	(\$15)	-	-
Cash Flow from Financing Activities	\$1	\$56	-	-	-
Net Change in Cash	(\$27)	\$3	(\$37)	(\$17)	(\$23)
CFPS bf. ch. in WC (f.d.) (US\$/sh)	(\$0.09)	(\$0.14)	(\$0.21)	(\$0.17)	(\$0.22)

Balance Sheet Items (US\$m)	2022A	2023E	2024E	2025E	2026E
Cash	\$30	\$32	(\$5)	(\$22)	(\$45)
Current Assets	\$32	\$37	(\$0)	(\$18)	(\$41)
Long-term Assets	\$376	\$491	\$665	\$774	\$1022
Total Assets	\$408	\$528	\$664	\$756	\$981
Short-term Debt	\$0.1	-	-	-	-
Current Liabilities	\$3	\$2	\$2	\$2	\$2
Long-term Debt	\$0	-	-	-	-
Long-term Liabilities	\$3	\$3	\$3	\$3	\$3
Total Liabilities	\$6	\$5	\$5	\$5	\$5
Shareholder's Equity	\$402	\$523	\$659	\$751	\$976
Total Liab. & Shareholder's Equity	\$408	\$528	\$664	\$756	\$981
Working Capital	\$29	\$35	-\$2	-\$20	-\$43
Net Cash	\$30	\$32	-\$5	-\$22	-\$45

Free Cash Flow (US\$ mm) ¹	2022A	2023E	2024E	2025E	2026E
MAG's 44% Share of FCF at JV Level	(\$12)	\$65	\$164	\$94	\$225
Add: CFO less CAPEX at MAG Level	(\$30)	(\$53)	(\$37)	(\$17)	(\$23)
Free Cash Flow to Firm (FCFF)	(\$41)	\$12	\$127	\$77	\$202
Free Cash Flow (US\$/sh)	(\$0.40)	\$0.12	\$1.24	\$0.75	\$1.97
FCF Yield	(4%)	1%	11%	7%	18%
Liquidity (US\$m)	\$70	\$72	\$35	\$18	-\$5

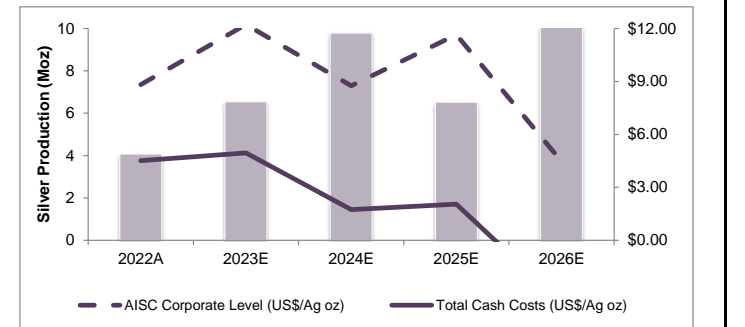
Using Spot Prices (Au Price: \$1,920/oz. & Ag Price: \$22.35/oz)	3%	5%	8%	10%
NAVPS at Spot Prices	\$12.11	\$10.55	\$8.35	\$7.30
P/NAV at Spot Prices	0.90x	1.03x	1.30x	1.49x
Peer Average (P/NAV at Spot)	1.03x	1.11x	1.23x	1.31x

NAV ^{5%} Sensitivity at Spot Silver & Gold Prices		Spot Silver Prices (US\$/oz)					
		\$17.00	\$19.00	\$20.00	\$25.00	\$30.00	
Spot Gold Prices (US\$/oz)	\$1,500	\$9.61	\$10.46	\$10.88	\$13.00	\$15.10	
	\$1,600	\$9.80	\$10.65	\$11.08	\$13.19	\$15.29	
	\$1,700	\$10.00	\$10.84	\$11.27	\$13.38	\$15.48	
	\$1,800	\$10.19	\$11.03	\$11.46	\$13.57	\$15.67	
	\$1,900	\$10.38	\$11.23	\$11.65	\$13.76	\$15.87	
	\$2,000	\$10.57	\$11.42	\$11.84	\$13.95	\$16.06	

¹ FCF is derived based on MAG 44% share of the FCF available at the JV level adjusted for the CFO and CAPEX spent at the MAG level.

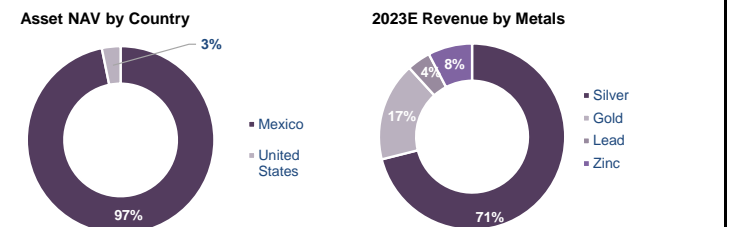
Production and Costs	2022A	2023E	2024E	2025E	2026E
Juanicipio Attributable Silver Production (koz)	4,070	6,542	9,786	6,524	10,085
Total Cash Costs (US\$/oz)	\$4.51	\$4.95	\$1.73	\$2.05	(\$3.53)
All-in Sustaining Costs (US\$/oz)	\$4.78	\$9.42	\$5.97	\$8.64	-\$0.65
Total Attributable Silver Production (koz)	4,070	6,542	9,786	6,524	10,085
Total Cash Costs (US\$/Ag oz)	\$4.51	\$4.95	\$1.73	\$2.05	(\$3.53)
AISC Corporate Level (US\$/Ag oz)	\$8.82	\$12.22	\$8.75	\$11.66	\$4.47

Resources (100% Basis)	2022A	2023E	2024E	2025E	2026E
Silver M&I Resources (mm oz)	144				
Gold M&I Resources (mm oz)	0.7				
Lead M&I Resources (mm lb)	294				
Zinc M&I Resources (mm lb)	555				
Silver Inferred Resources (mm oz)	102				
Silver Total Resources (mm oz)	247				



NAV Breakdown	US\$m	US\$/Sh	%
Mining Assets (US\$m)			
Juanicipio & Deeps (44% Interest)	\$1,200	\$11.67	93%
Deer Trail (Earn-in to 100%)	\$20	\$0.19	1.55%
Larder Lake (100% Interest)	\$20	\$0.19	1.55%
Cinco Project	\$50	\$0.49	4%
Total Assets	\$1,290	\$12.54	100%
Net Cash	\$54	\$0.53	
Working Capital (Net of Cash and Debt)	(\$0)	(\$0.00)	
Cash and WC at Juanicipio JV Level	\$21	\$0.21	
In-the-money Instruments	\$0	\$0.00	
Corporate Adj. for G&A	(\$64)	(\$0.62)	
Net Asset Value	\$1,301	\$12.65	

1.30x NAV
Target Price \$16.00



Source: Scotiabank GBM estimates

Company Description

MAG Silver Corp. (MAG Silver) is a Canadian mining company co-developing the high-grade silver-gold-lead-zinc Juanicipio project in Zacatecas, Mexico. MAG Silver owns a 44% interest in Juanicipio through a joint venture with Fresnillo plc, which holds a 56% interest and is the operator. The project is located in the very prolific Fresnillo silver district. Commercial production was achieved in Q2/23. MAG Silver also owns and is exploring the historic and past producing Deer Trail project in southern Utah and the Larder gold project in the Abitibi greenstone belt.

Investment Thesis

The Juanicipio JV is expected to be a new large-scale low-cost silver mine. Operated by Fresnillo plc in one of the most prolific districts we believe there is significant exploration upside longer-term.

Key Risks

Multiple contraction, commodity prices, technical and operational risks, and geopolitical risks.

Appendix A: Important Disclosures

Company	Disclosures (see legend below)*
Fresnillo	VS0630
MAG Silver Corp.	G, I, U

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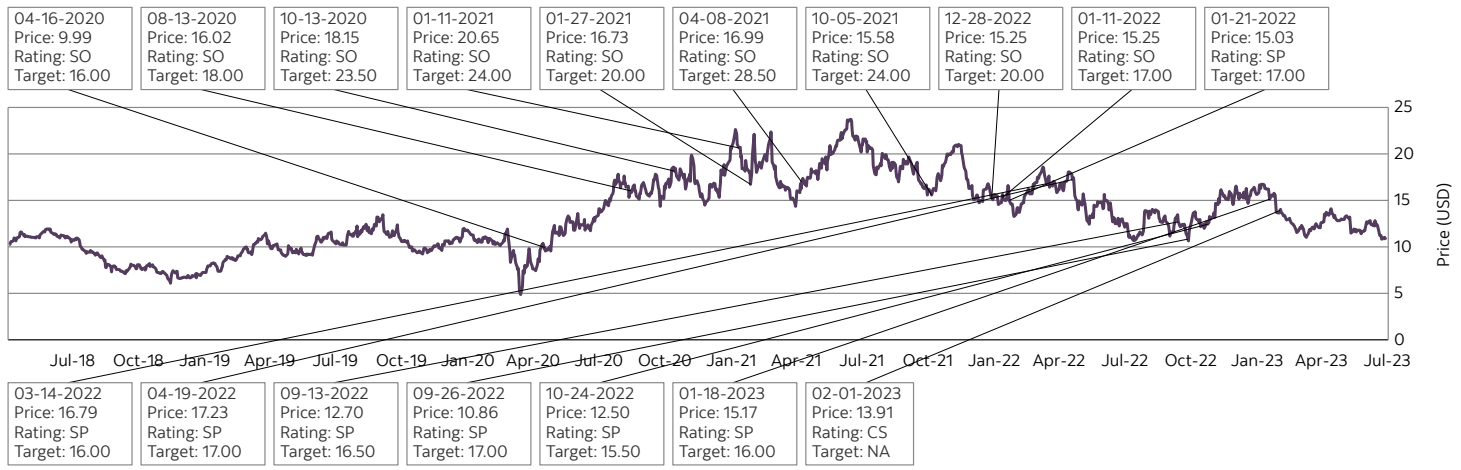
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VS0630	Research Analyst Alfonso Salazar visited mines and processing plants in the Fresnillo mining district (Fresnillo, Saucito, and Juancipio) on September 19 and 20, 2019. The issuer paid for a portion of the travel-related expenses incurred by the Research Analyst to visit the site.

Rating and Price Target History

MAG Silver Corp. (MAG-A) as of June 28, 2023 (in USD)



*Represents the value(s) that changed.

Ratings Legend: FS=Focus Stock; SO=Sector Outperform; SP=Sector Perform; SU=Sector Underperform; T=Tender; UR=Under Review; CS=Coverage Suspended; DC=Discontinued Coverage

Source: Scotiabank GBM estimates; FactSet.

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Ratings Distribution

As of May 31, 2023

Rating	Companies Rated in Each Category		Investment Banking Service Provided in the Last 12 Months	
	Count	Percentage	Count	Percentage
Sector Outperform	273	51%	52	19%
Sector Perform	241	45%	32	13%
Sector Underperform	19	4%	0	0%

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Thursday, June 29, 2023

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