

## Element Update.txt

Event: Conference call should ease concerns around Joint Venture with distressed Celadon

- This morning EFN management hosted a conference call to discuss the recent share price decline and subsequent halting of the stock. In recent days there was concern that EFN was a target of a prominent US short seller. This was not the case.
- Despite a lengthy discussion on the Q1/17 earnings conference call regarding EFN's JV (19 th Capital) with Celadon, management took the opportunity to address any remaining concerns regarding the possible impact to EFN in a worst case scenario.
- Celadon has been working through a restructuring but 19 th Capital is a separate entity. Celadon has no access to the assets within 19 th Capital in the event that Celadon does declare bankruptcy. EFN has no credit exposure to Celadon and the JV has only leased 5% of its portfolio to Celadon.
- EFN contributed \$963.4 million of assets and equity of \$134.3 million to the JV. The equity that EFN contributed is being slowly written down as 19 th Capital is reporting losses in the start-up phase. Management expects the JV to turn profitable in 2018. Currently the cash flow from the leases in the JV is meeting the debt obligation but not totally offsetting the depreciation expense of the portfolio. Management was very clear they do not anticipate any write-downs beyond the expected operating losses until profitability is achieved in 2018.
- Management was very clear that even if there was a total write off of the JV equity, it would not impact EFN's core operations. EFN's bank covenants would still be on side and additional equity would not be required to be issued. Speculation around this scenario may have been one of the main reasons the stock has been under pressure.
- If the market was concerned with EFN beyond the JV impact, we would highlight the recent securitization of US\$1.2 billion rated term notes through Chesapeake Funding II. Transactions like these give us additional comfort the portfolio and overall health of the business is strong.

Impact: Noise should dissipate

Element Update.txt

· In our view, the recent market over reaction was less focused on EFN but more of a sign of confidence issues in the Canadian market with regards to U.S. short sellers. As a reminder only 10% of EFN's business is in Canada. Although the JV has started poorly, we believe the impact to EFN shareholders is minimal.

Recommendation: Maintain BUY rating and \$18.00 target

Stephen Boland  
(416) 941-0897  
sبولاند@gmpsecurities.com