

CASE STUDY: HOME SUITES (HSE)

Disclaimer: The leveraged buyout (LBO) case background and related corporate, industry, and transaction details are artificially created to provide a demonstration of the credit analysis process of a typical public-to-private LBO transaction. The corresponding credit analysis is provided as a sample for educational and training purposes only and should not be referred to or quoted as investment opinions or analysis.

SYNOPSIS

Client Inquiry. Michelle is a vice president on Drou Bank Corporation's ("DBC" or "Drou Bank") Leveraged Finance team. One day, Michelle receives a phone call from SperInv, a long-term PE sponsor client of the bank. SperInv explains that, along with another PE firm ("AllStar"), they are planning to buy a currently publicly traded company (the "Target"). Because DBC has been supportive of their past transactions, SperInv considers DBC a core relationship bank. SperInv would like to invite DBC to be part of the financing for the LBO of the Target. The bank commitment deadline is in a week and a half, which means Michelle must receive internal approvals (credit, legal, compliance) and sign the corresponding engagement letter and fee letter before that.

Nondisclosure Agreement/Access to Information. Given the confidential nature of the deal, the client sent Michelle a nondisclosure agreement ("NDA") for DBC to sign before further details would be disclosed. The NDA is a legal document that restricts the disclosure of related information to unauthorized third parties.

After DBC signed the NDA, SperInv sent Michelle the deal materials which include the historical financial statements, sources and uses of the LBO, term sheet, financial projection and their assumptions, investor presentation containing details of the transaction, the target company, and the industry.

Form Deal Team. Michelle quickly forms a deal team of three and starts the internal process. Michelle is the deal team leader who oversees monitoring the process and communicating with the external and internal parties involved in the transaction. John, an associate on the team, will assist Michelle in internal processes and work with Mia, an analyst on the team, to complete the internal credit application and gather documents for internal legal, KYC, and compliance purposes.

Each "deal team" is structured to suit the needs of the transaction and the proclivities of the institution, and the staffing supports the requisite roles demanded by the circumstances. A deal team is typically composed of the following:

Leader—responsible for prosecuting the deal from start to finish, with the team reporting to the leader. The leader will generally be the internal and external point person, being responsible for interfacing with the various other bank constituents (credit, industry experts, product group, syndications, and operations for funding the loan). The leader will

be responsible for dealing with the client and all deal negotiations, including loan documentation and pricing, as well as establishing collaboration with credit and syndications the “hold” strategy (determining the ideal retention amount, which the institution will retain after selling participations of their underwritten commitment to other banks) and any syndication's strategy.

Associate—a deal team may also have an associate representing a mid-level credit analyst who is responsible for ensuring the detailed work product, and analysis is comprehensively documented in accordance with the institutional demands. The associate will be responsible for completing the internal documentation, will likely participate in the loan document negotiation, and will be responsible for directing and executing the financial analysis and due diligence execution and documentation thereof. The associate will generally have some credit analyst experience and will be bringing their experience and acumen to the transaction in developing the sensitivity analysis required to underwrite the loan application.

Analyst—when the institution is large enough and the transaction warrants it, the deal team will be complemented by a supporting staff person, the analyst, who is generally a less experienced credit analyst, learning the intricacies of credit and underwriting and credit risk management. The analyst will likely be responsible for duties required for day-to-day credit risk management, including monitoring and reporting on the regular activities of the borrower in compliance of with the loan documents.

TRANSACTION BACKGROUND

The Target Company—Home Suites (“HSE”)

Home Suites Inc. (the “Company” or “HSE”) together with its subsidiaries, owns, operates, and franchises hotels in the United States. As of December 31, 2020, the Company's hotel network consisted of 775 hotels operated under the brand name “Home Suites,” of which the Company owns 676 and franchises 99. HSE competes against other similar hotel brands in the midpriced, extended-stay segment of the lodging industry. It serves customers who require a week or longer stay. Founded in 1991, the Company is headquartered in New York City, New York.

Transaction Announcement by PE Firms

SuperInv and AllStar announce that the two PE firms have formed a consortium to buy Home Suites Inc. for \$7.6 billion. As bookings plunged across the U.S. hotel industry in 2020 due to the COVID-19 pandemic, Home Suites, which specializes in economy temporary housing for health-care professionals, proved to be stronger than its peers. The PE firms' offer of \$22.50 per share represents a premium of 20% of HSE's share closing price on April 2. Shares of HSE rose more than 22% before the opening bell.

CREDIT APPLICATION—BUSINESS PROFILE

Mia, the analyst of the deal team, completes the following business profile as part of the credit application. The business profile contains specific information about the company that the credit committee needs to know about the potential borrower of the bank to make a credit decision.

FIGURE 5.1 SAMPLE SUMMARY CREDIT APPLICATION

Borrower Summary			
Borrower Name	Home Suites Inc (NYSE: HSE)	Borrower Type	New Borrower
Borrower KYC No.	KYC in process	Industry	Extended Stay Hotel
Sponsor(s)	SuperInv, AllStar	Headquarter	New York, USA
External Rating	Current: BB- (S&P)/Ba2 (Moody's) Expected: B (S&P)/B2 (Moody's)	Founded	1991
Internal Rating	DIR 15	Expected Title	Join Lead Arrange ("JLA")
Total Commitment	\$673.75MM	Expected Fees	\$2MM
Admin Bank	Topbank Bank NA	Expected Closing	11/2021

Business and History: Home Suites Inc ("Home Suites," the "Company," NYSE: HSE)

Founded in 1991, Home Suites is a hotel chain headquartered in New York, United States. It owns, operates, and manages a hotel network of around 780 hotels in the United States. As of December 31, 2020, the Company owned and operated 676 hotels with 74,400 rooms with 8,900 employees. It serves customers in the midpriced extended-stay segment of the hotel and lodging industry. The Company also licenses its "Home Suites" brand to third-party franchisees. As of December 31, 2020, the company franchised 99 hotel properties, approximately 10,500 rooms.

The Company's extended-stay hotels offer customers an alternative option to traditional rental apartments and hotels. The average length of stay is approximately a month with the flexibility of shorter or longer terms upon clients' requests. By contrast, the typical length of stay is over 6 months for traditional rental apartments and 3–5 days for traditional hotels. The rooms are fully furnished with in-room kitchens and other complimentary amenities that are normally available in a hotel: breakfast, free Wi-Fi, TVs, and housekeeping service, which is typically provided weekly.

History

1991: The company was founded in New York as a family-owned vacation hotel "Suites."

1996: The family-owned hotel was acquired by a hotel developing firm, HDeveloper, and started to operate under the brand name "Home Suites."

1997–2001: The company started to expand through selective acquisitions of extended-stay hotels nationwide.

2003: Home Suites Inc was formally incorporated as a result of a spin-off from HDeveloper and started to operate as a stand-alone hotel chain company.

2006: The franchise business model was launched to let third parties join the hotel chain via franchise agreements. The company further expanded its footprint in the United States.

2009: Following the financial crisis, the company brought in a new management team. The new management team started the reevaluation process of the company's business model and strategies.

2010: As a result of the new management's reevaluation process, the company focused its operations mainly on the midpriced extended-stay segment of the hotel and lodging industry.

2011: The company launched IPO and started to be publicly traded in the New York Stock Exchange under the ticker "HSE."

2015: Chris Smith joined the firm as CEO as the previous CEO announced his retirement. Chris later hired Daniel Brandel as CFO of the company.

2020: As the COVID-19 pandemic negatively impacted the global economy, as well as the lodging industry, the company incorporated new business strategies to provide temporary stay for health-care providers and offered quarantine services for travelers. The company also won contracts from the local government as a provider of shelters to homeless people to prevent the spread of the virus.

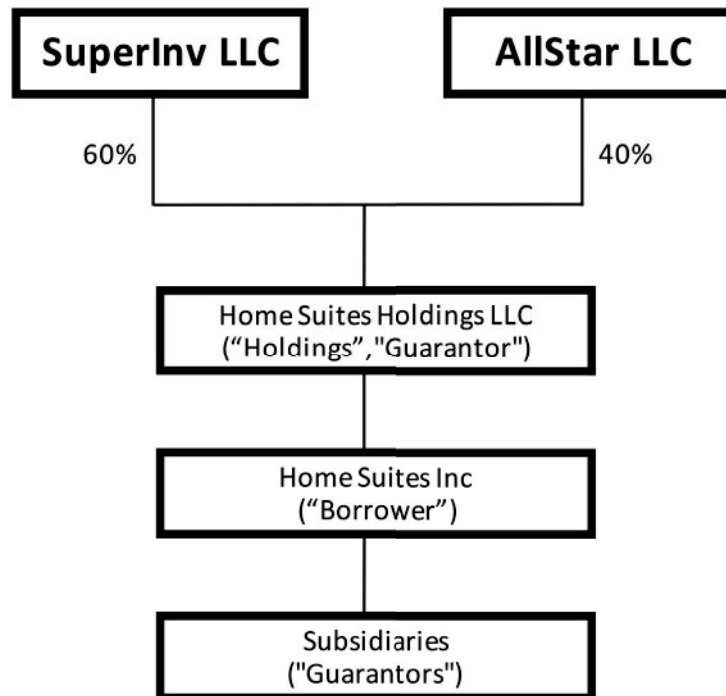
2021: A consortium formed by private equity firms, SuperInv and AllStar, announced the acquisition of Home Suites.

Ownership and Management

Upon the closing of the proposed LBO transaction, the Company will be privately owned by private equity firms SuperInv (60%) and AllStar (40%).

Sponsors

SuperInv. SuperInv, formed in 1990, is a global private equity firm with a focus on real estate and a total of approximately 600 employees managing \$137.2 billion of total assets under management ("AUM") as of December 31, 2020. The firm pursues companies in both established and growth-oriented stages. Through its 30 years of investment in real estate, it has acquired several hotel businesses and successfully grown the business with

FIGURE 5.2 SAMPLE PRO FORMA STRUCTURE (POST-11/2021 TRANSACTION CLOSING)

an average internal rate of return ("IRR") of 32% of its hotel portfolio. SuperInv has a dedicated team consisting of hotel industry experts with an average of over 20 years of experience. Those professionals have proven success in achieving SuperInv's hotel portfolio companies' growth and operational improvements.

AllStar. AllStar, incorporated in 1986, is one of the world's biggest private equity firms with over 750 employees globally and \$201.2 billion of total AUM as of December 31, 2020. It has a diversified portfolio, spanning industries, geographies, and strategies. The firm has delivered strong investment results across economic cycles and business stages. It recently closed the fundraising of FUND IV with a total committed capital of \$60 billion. The fund will be designated to investment in categories of real estate on a global basis. Since its inception, AllStar has successfully executed its investment strategies.

Key Executives

Home Suites is led by a management team with extensive industry experience in hospitality, consumer retail, and service businesses. Each key executive has over 15 years of experience and a proven track record of successfully implementing business strategies that bring both growth and improvement to the business.

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Chris Smith, CEO of HSE, joined in 2015. Chris Smith has served as Chief Executive Officer of HSE and has been a member of the board since 2015. Mr. Smith earned a master's degree in hotel management from a top business school and has over 20 years of experience in the lodging industry. Prior to joining HSE, Mr. Smith held various executive roles in other hotel chain brands and successfully grew the businesses during his period of service.

Daniel Brandel, CFO of HSE, joined in 2015. Daniel Brandel has served as Chief Financial Officer of HSE since 2015. Mr. Brandel is responsible for developing the Company's financial strategy, business performance metrics, and corporate financial reporting. Prior to joining HSE, Mr. Brandel served as CFO of a Global Fortune 500 retail company from 2010. Mr. Brandel started his career in corporate finance in the late 1990s and served in several publicly traded and private equity-backed organizations. Mr. Brandel earned his bachelor's degree and his MBA from top universities. He also obtained a certificate in management accounting.

Charlotte Jones, COO of HSE, joined in 2012. Charlotte Jones has served as Chief Operating Officer since 2018. Ms. Jones has been with HSE since 2012. Ms. Jones is responsible for managing the hotel's operating. She oversees various corporate functions, including sales, human resources, product and design, rooms, food and beverage, and engineering. Prior to assuming her current position, Ms. Jones served in several senior positions at HSE, including Executive Vice President of Operations and Senior Vice President of Sales. Prior to joining HSE, Ms. Jones served as a top executive in other hotel chain businesses.

Segments and Geographic Footprint

Segments

The Company operates in two segments:

Owned Hotels (82.1.5% of total revenue). The Owned Hotels segment is the Company's primary segment and accounted for 82.1% of total revenue for the fiscal year ended December 31, 2020. Revenues are generated from the operation of 676 Company-owned hotel properties.

Franchised Hotels (17.9% of total revenue). Revenues of the 99 Franchised Hotels segment are from fees under various franchise and management agreements and accounted for 17.9% of total revenues for the fiscal year ended December 31, 2020. The franchise contracts provide third parties access to HSE's system-wide platforms and/or management services, as well as the right to use the brand name "Home Suites."

Geographic Footprint

As of December 31, 2020, HSE operated in 38 states in the United States with a concentration of popular business and vacation designation states. Out of the total 84,900 system-wide rooms, 14.8% were in New York, 11.3% were in California, 9.2% were in Florida, 5.9% in Texas, 5.4% in Arizona, and 5.2% in New Jersey.

FIGURE 5.3 SAMPLE REVENUE BREAKDOWN

State	# of Owned Hotels	# of Franchised Hotels	Total # of Hotels	# of Rooms	% of Total Rooms
New York	99	15	114	12,605	15.2%
California	70	17	87	9,592	11.5%
Florida	58	10	68	7,822	9.4%
Texas	37	8	45	4,996	6.0%
Arizona	37	6	43	4,601	5.5%

Customers

Home Suites' typical customers are

- business travelers on business trips, assignments, or training programs;
- relocated corporate employees during their search for new houses and apartments to settle;
- leisure travelers looking for a longer stay in a home-style apartment with key amenities, such as a kitchen, while still having access to managed housekeeping services; and
- home buyers or anyone in need of a temporary home.

Customers During COVID-19 Pandemic

As management adopted temporary business strategies during the COVID-19 pandemic in response to declined business from traditional customers, Home Suites serviced

- health-care providers who traveled to support regions that reached the maximum capacity of local hospital systems;
- people without housing who were sponsored by local governments; and
- interstate travelers looking for quarantine places.

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Business Strategies

The management team of Home Suites has been focusing on increasing brand awareness, building a long-term relationship with institutional clients, and improve service quality to stand out among investors:

- **Increase Brand Awareness.** Home Suites has been investing in marketing campaigns for its brand name to be associated as the go-to extended-stay choice with affordable prices and high standard quality of services.
- **Build Long-Term Corporate Relationships.** Home Suites has a sales team focused on building partnerships with companies in the finance, consulting, technologies, and construction industries. Home Suites has been a housing provider for those companies' out-of-town assignments and training programs. The corporate partnership has brought Home Suites stable revenue over the years.
- **Continues Focus on Quality.** Since the current COO, Charlotte Jones, joined the firm as the senior executive overseeing the hotel's operations, Home Suites has implemented long-term and system-wide hotel room renovation and infrastructure upgrades to maintain its industry-leading quality of services.

Temporary Strategies During the COVID-19 Pandemic

In 2020, the COVID-19 pandemic caused both international and national travel restrictions and shelter-in-place orders from local governments for an extended period. As travelers canceled their plans, Home Suites experienced significant disruption in business in the first quarter of 2020. The management quickly adjusted to the situations and implemented a temporary strategy to mitigate the impacts on its business:

- Formed strategic partnership with health-care systems as a designated housing provider for traveling health-care providers
- Participated in the local government's shelter program for people without a home
- Switched to a contactless service mode that met the requirements for quarantine

Strategies Post-COVID-19 Pandemic

In addition to its traditional strategies, the management team has been working with the sponsors for a new strategic plan for business recovery and growth post-pandemic:

- **Digital Platforms Penetration.** To reach potential customers and adjust to consumers' growing preference of searching for travel online, Home Suites will keep

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upgrading its online booking platform and mobile app, as well as continue its online penetration through social media and search engines.

- **Differential Pricing and Service Offering.** Home Suites will expand its service offering to both the luxury segment and the economy segment to offer more options to customers. The Company will launch new brand names for different segments.
- **Growth Through Franchising.** Home Suites will focus on growing through hotel franchising and attracting new franchisees, which will bring the Company economies of scale and speed up expansion to other states in which Home Suites currently has a low market share.

Competition and Market Share

Competition

Home Suites competes in the highly competitive extended-stay segment of the Hotels and Lodging industry. Competition comes from other extended-stay hotel brands, traditional hotels looking to expand into the extended-stay segment, as well as alternative lodging businesses, such as serviced apartments and private homeowners renting through various digital platforms (websites, marketplace on social media, mobile apps, etc.).

The Company also sees competition in attracting potential franchisees, as it's the main source of growing the scale of business. Players in the hotel and lodging industry have been aggressively expanding market shares through franchising.

Market Share

Home Suites' business is focused on the midpriced extended-stay segment of the industry, which accounted for approximately one third of the extended-stay rooms in 2020, per ABC research's *Industry Report on Extended-Stay Segment of Lodging Industry* published in February 2021. The Company has approximately 19% market share based on revenue.

Key Competitors

- **XX Hotel.** Direct competitor with approximately 25% market share of the mid-price extended-stay segment
- **YY Hotel.** A key player in the hotel and lodging industry but currently mainly in the luxury segment, looking to expand into the mid-price segment
- **ZZ Hotel.** A key player in the economy (low-priced) extended-stay segment

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Environmental, Health, and Safety Matters

Both the Company's owned and franchised hotel properties are subject to various regulations that make the hotels responsible for cleaning up hazardous contaminations from the property and natural resource damage arising from those contaminations. The consequences of breaking those laws would be several, resulting in penalties and huge costs of remediation, as well as damages to the Company's reputation.

Both the private equity sponsors and Home Suites' management team realize the importance of being in compliance with corresponding environmental, health, and safety regulations and laws. The Company has been and will continue to focus on actively monitoring the emission of hazardous contaminations at or from hotel properties, investing in sustainable and environmentally friendly technologies, and making timely and transparent disclosure of its efforts and results on corresponding matters.

Key Advantages

The Company has the following key competitive advances:

- **Seasoned Private Equity Sponsors and Management Team.** Both the private equity sponsors, SuperInv and AllStar, have decades of experience in running hotel businesses from various stages and a track record of achieving growth and high returns under the sponsors' ownership. The current management team has been successfully running Home Suites for years. During the COVID-19 pandemic, the management team adapted to the new challenges, came up with new strategies quickly, and delivered a relatively stronger performance in 2020 compared to other hotel businesses. This demonstrates the management's ability and business acumen, even through challenging times.
- **Well-Known Brand Name.** Due to the Company's years of effort in building its brand awareness and through its geographic expansion, as well as continuous focus on quality, it ranked as the #2 brand in XYZ Research's market survey (published in August 2020) on the midpriced extended-stay segment. The Company holds a 19% market share and currently operates a hotel network in 38 states, making it one of the top players in the segment.
- **Proven Resilient Business Model.** The Company has benefited from its long-term partnerships with institutional clients as a housing provider for off-sight assignments and training programs. Corporate travel needs are recurring in nature and thus provide Home Suites with more stable and foreseeable revenue. The Company is also committed to continue expanding its footprint and differentiate service offerings to attract more customers.

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Key Risks

RISKS	MITIGANTS
<i>Cyclical and Seasonality</i>	
As the general hotel and lodging industry is cyclical and seasonal in nature, the Company's business is tied to the economic cycle and subject to seasonal fluctuations. Revenue is generally lower during the first and fourth quarters of each calendar year.	<p>Home Suites has a proven resilient business model that focuses on building long-term partnerships with institutional clients, which brings more reliable revenue streams.</p> <p>The Management team demonstrated strong business acumen during the COVID-19 pandemic by deploying new strategies adapted to the challenges when the global economy was heavily disrupted.</p> <p>Compared to traditional hotels, hotels in the extended-stay segment offer home-style rooms with kitchenettes and have been popular among travelers looking for vacation stays during holiday seasons (first and fourth quarters).</p>
<i>Increased Competition</i>	
The extended-stay segment has been highly competitive and gained increasing attention from traditional hotels, as well as private homeowners.	<p>Home Suites is currently the industry-leading player with #2 brand awareness, which makes it the preferred hotel for travelers.</p> <p>The Company's new business strategies will focus on digital platforms penetration and differentiated pricing and service offerings, which will compete against industry newcomers.</p> <p>Compared to private homeowners, well-known hotel chains are a more reliable and safer source of housing with professional high standard quality of service.</p>
<i>Higher Labor and Operating Expenses From Accelerated Inflation</i>	
As U.S. inflation is expected to rise over the medium term, corporations are facing rising operating costs, which will put pressure on margins.	<p>When Home Suites experienced high inflation environments in the past, the Company managed to mitigate the impact by passing through the cost to customers and improving operating efficiencies.</p> <p>Home Suites' focus on growth through hotel franchising, which has higher margins than owned hotels, will improve the over margins of the Company.</p>
<i>Tightening Regulations on Environmental, Health, and Safety Matters</i>	
Both the Company's owned and franchised hotel properties are subject to various regulations on environmental, health, and safety matters. Home Suites are facing tightening rules and rising standards of disclosure.	<p>The Company has been investing in sustainable and environmentally friendly technologies that minimize the impact of hotel operation on the environment.</p> <p>Both the sponsors and management are committed to developing enhanced procedures and mandatory training for employees to comply with the regulations.</p> <p>The Company has also been hiring industry experts and expanding its Environmental, Social, and Governance ("ESG") team to ensure compliance with federal, state, and local laws.</p>

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CREDIT APPLICATION—INDUSTRY ANALYSIS

After completing the business profile, the deal team completed a comprehensive industry analysis, with the primary original work product being completed by Mia and reviewed for completeness, thoroughness, and accuracy by the associate and finally by Michelle as the team leader. The industry analysis part of the credit application focuses on the key characters of the industry in which the borrower competes, the current development and outlook, and any industry-specific factors that could impact the borrower's business.

Summary: The Extended-Stay Segment of the Hotel and Lodging Industry in the United States

Extended-stay hotels offer apartment-like rooms with kitchenettes with a homely and comfortable feeling. Guests have the flexibility to check out or extend the stay whenever they wish without being bound to a contract or a fixed-term lease.

Extended-stay hotels represent a growing segment within the U.S. lodging industry. Based on type, the market is divided into luxury, middle (midpriced), and economy type extended-stay hotels.

Key Characters

Cyclical and Seasonality

The overall hotel and lodging industry performance is generally tied to both macro and microeconomic cycles and is seasonal in nature, with revenues generally lower during the first and fourth quarters of each calendar year. The extended-stay segment, though, is relatively less cyclical and seasonal. Its flexible terms of stay and apartment-like styles have gained popularity with people looking for temporary homes when settling down in new cities and towns. The extended-stay hotels have also become the preferred choice during holiday and skiing seasons.

Higher Barriers to Entry

The lodging industry requires heavy capital investments for the hotel buildings and rooms, corresponding amenities, IT infrastructure, personnel recruiting, and training. Reputations are also key to success in the industry, as travelers tend to choose well-known hotel chains for a guaranteed quality of service.

Highly Competitive With New Thread From Private Homeowners

The extended-stay segment is highly competitive. Through years of integration efforts via acquisition and franchising, top plays accounted for more than 50% share of the market. The remaining markets are highly fragmented with many local hotel operators. Traditional hotel brands have also shown interest in the extended-stay segment, which

further increases the completions. Furthermore, technology renovations have granted private homeowners access to the market and travelers via online platforms, mobile apps, and social media marketing.

Growth Drivers

A key indicator of the industry is revenue per available room (“RevPar”), which is calculated by average daily rate (“ADR,” price charged per room) times occupancy rate. RevPar is impacted by the following factors:

- **Economic Growth.** As the economy grows, so does consumer and business spending, which will result in increased business and leisure travel, thus increasing demand for hotels.
- **Growth in International and Domestic Tourist Industry.** Demand from tourists has always been a key driver of the industry and the main source of revenue generation.
- **U.S. Housing Market.** Extended-stay hotels offer home buyers temporary housing that doesn’t require signing a fixed-term lease. As the housing market grows, so does the demand for extended-stay hotels while home buyers settle transactions.

Current Trend

The COVID-19 pandemic has caused governments across the globe to implement unprecedented lockdowns and shelter-in-place orders, which adversely disrupted the global economy. The overall hotel and lodging industry is highly tied to the economic cycle, thus it also experienced a significant decline in 2020 with RevPar dropped by 41.7% year over year for 2020.

The extended-stay segment is relatively more resilient than traditional hotels. Within the extended-stay segment, the midpriced segment saw the least decline in 2020 with a decline in RevPar below 30% driven by both reduced ADR and occupancy rate. ADR for the midpriced extended-stay hotels dropped by approximately 15% in 2020. The total supply of rooms in 2020 remained stable, as many acquisitions were put on pause because of the pandemic.

Industry Outlook

Post-pandemic, the extended-stay hotel market is expected to see a recovery back to the pre-pandemic level in 2022. Both ADR and occupancy rate are expected to see a gradual recovery in late 2021 and the first half of 2022. ADR is expected to further grow as hotels will pass through increased costs resulting from a rising inflation environment.

CREDIT APPLICATION—HISTORICAL FINANCIAL PERFORMANCES

After receiving historical financials from the sponsor, Mia spreads the provided financial statements of HSE into DBC's internal financial summary template and conducts the analysis of historical financial performance with a focus on the most recent fiscal year.

HISTORICAL FINANCIAL PERFORMANCE—OPERATING ASSUMPTIONS**FIGURE 5.4** SAMPLE INCOME STATEMENT

	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31
(\$000's)	2020	2019	2018	2017	2016
Owned Hotels	1,027,040	1,414,251	1,376,211	1,339,915	1,233,730
Franchised Hotels	223,739	47,612	153,859	199,355	290,981
Total Revenue	1,250,779	1,461,863	1,530,071	1,539,270	1,524,712
Cost of Revenue	712,512	721,429	715,495	702,654	696,926
Gross Profit	538,267	740,434	814,576	836,616	827,785
Total Operating Expenses	357,814	351,028	359,705	385,091	383,195
EBIT (Operating Income or Loss)	180,454	389,406	454,871	451,525	444,590
Interest Expense	146,755	140,480	139,618	142,212	153,160
EBT & other Income/Expenses	33,698	248,926	315,253	309,313	291,431
Other (Income)/Expenses Net	(52,409)	15,582	10,655	31,271	54,187
EBT	86,107	233,344	304,598	278,042	237,244
Income Tax Expense	58,187	149,742	169,162	183,426	153,325
Net Income	27,920	83,602	135,437	94,616	83,918
EBIT	180,454	389,406	454,871	451,525	444,590
Depreciation and Amortization	201,916	187,122	94,884	208,662	230,196
EBITDA	382,369	576,528	549,755	660,187	674,786

Revenues from owned hotels segment were stable before 2020, driven by the steady growth of RevPar and the number of rooms. In 2020, the global economy was significantly disrupted by the COVID-19 pandemic. To combat the spread of the virus, global governments have implemented travel restrictions and shelter-in-place orders, which resulted in cancellations of travelers' hotel bookings and revenue decline in the hotel and lodging industry. To mitigate the impact, the management quickly adjusted to the situation and implanted a temporary strategy to offer temporary housing solutions for traveling health-care providers, people without a home sponsored by local governments, and essential travelers subject to mandatory quarantine requirements.

FIGURE 5.5 SAMPLE OPERATING ASSUMPTIONS

	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31
	2020	2019	2018	2017	2016
Average Daily Rate (ADR)	\$ 62.0	\$ 71.5	\$ 67.2	\$ 66.8	\$ 62.4
ADR Price Increase %	(13.23%)	6.30%	0.70%	6.98%	
Occupancy Rate	61.0%	73.0%	76.0%	75.0%	74.0%
RevPar	\$ 37.82	\$ 52.16	\$ 51.09	\$ 50.07	\$ 46.18
RevPar Increase %	(27.50%)	2.10%	2.04%	8.43%	
Number of Rooms	74,400	74,280	73,800	73,320	73,200
Number of Rooms Increase %	0.16%	0.65%	0.65%	0.16%	
Owned Hotels Revenue Growth	-27.4%	2.8%	2.7%	8.6%	
Franchised Hotels Revenue Growth	369.9%	-69.1%	-22.8%	-31.5%	
Revenue Growth	-14.4%	-4.5%	-0.6%	1.0%	
PROFITABILITY RATIO					
Gross Margin	43.0%	50.7%	53.2%	54.4%	54.3%
EBITDA Margin	30.6%	39.4%	35.9%	42.9%	44.3%
EBIT Margin	14.4%	26.6%	29.7%	29.3%	29.2%

Revenues from franchised hotels segment are mainly royalty fees from franchisees. Revenues declined by double digits from 2016 to 2019 mainly because of the termination of franchise agreements. The majority was due to management's quality control efforts since the new CEO and CFO joined the firm in 2015. To maintain the high standard of services associated with the brand name, franchised hotels that didn't meet the quality standard were terminated. In 2020, revenues increased in the franchised hotels segment because of new franchise agreements as a result of management's focus on growth through the franchising business.

Gross margin decline before 2020 was due to the decrease in franchise revenue, which is a higher margin component of the total revenue. Margin decline was also a result of industry-wide wage increase, especially the hourly wage of temporary workers hired during peak seasons. The gross margin decline in 2020 was driven by reduced RevPar as a combination of reduced ADR and occupation rate during the COVID-19 pandemic.

EBITDA/EBITDA margin has improved since 2017 due to management's continued effort on operational efficiencies. In 2020, the deterioration was due to reduced gross profit and increased operating expense during the COVID-19 pandemic driven by disinfecting products, personal protective equipment for employers, and other associated expenses.

HISTORICAL FINANCIAL PERFORMANCE—CASH FLOWS

FIGURE 5.6 SAMPLE SUMMARY CASH FLOW STATEMENT

	Dec 31	Dec 31	Dec 31	Dec 31
(\$000's)	2020	2019	2018	2017
Net Income	27,920	83,602	135,437	94,616
Depreciation	201,643	187,014	90,367	202,956
Amortization of Intangibles	272	108	4,517	5,706
Deferred Taxes	55,673	4,351	27,209	(26,881)
Deferred Revenue (Current and Non-Current)	—	—	—	—
Cash Income	285,509	275,075	257,530	276,397
Working Capital Activity				
Net Receivables	373	6,899	2,171	(889)
Inventory	—	—	—	—
Accounts Payable	50,420	296	27,212	(6,055)
Accrued liabilities	—	—	—	—
Total Working Capital	50,794	7,195	29,383	(6,944)
Other Current Assets/Liabilities	—	—	—	—
Operating Cash Flow (OCF)	336,302	282,270	286,913	269,453
Investment Activities				
Capital Expenditure	(144,530)	(302,606)	(247,871)	(180,095)
Long-Term Investment	(638)	520	32	(26,705)
Other Long-Term Assets	—	—	—	—
Total Investment Activities	(145,169)	(302,086)	(247,839)	(206,799)
Cash Flow Before Financing Activity	191,134	(19,816)	39,074	62,653
Financing Activities				
ST Debt	—	—	—	—
LT Debt	61,183	164,555	(47,113)	(300,607)
Other Long-Term Liabilities	—	—	—	—
Other Financing Activities	—	—	—	—
Total Financing Activities	61,183	164,555	(47,113)	(300,607)
Net Change in Cash	252,317	144,739	(8,039)	(237,954)

Operating activities have generated positive cash flows to the firm. Working capital has been a source of cash flow to the firm mainly because of accounts payable, as the firm managed to negotiate favorable terms on payments and accrued expenses, especially during the COVID-19 pandemic. Deferred taxes are also a source of cash to the firm.

Investment activities mainly consisted of capital expenditure for hotel expansion, renovation, and maintenance. In 2020, capital expenditure decreased, as many scheduled maintenance and expansion projects were paused because of the COVID-19 pandemic.

Financing activities' fluctuation was driven by payments and borrowings of long-term debts.

The Company has been accumulating cash in the past 2 years. In 2020, despite the negative impact of the global health crisis on topline growth, Home Suites generated \$252 million cash.

HISTORICAL FINANCIAL PERFORMANCE—LIQUIDITY AND RATIOS

Liquidity for the Company has been improving over the years, even during the COVID-19 pandemic, as evidenced by increasing current and quick ratios, higher accounts receivable turnover and shorter accounts receivable days, lower accounts payable turnover and longer accounts payable days, and increasing cash balance.

Total leverage was over 8 times during 2020 as EBITDA decreased during the pandemic. Total debt increased as the Company refinanced existing debt in late 2020 to take a lower interest rate, resulting from the government's stimulative monetary policy to stimulate the economy.

EBITDA/interest deteriorated in 2020 but remained above 2.5x.

FIGURE 5.7 SAMPLE BALANCE SHEET STATEMENT

(S000's)	Dec 31 2020	Dec 31 2019	Dec 31 2018	Dec 31 2017	Dec 31 2016
Assets					
Current Assets					
Cash And Cash Equivalents	564,995	312,678	167,939	175,979	413,932
Other Short-Term Investments	—	—	—	—	—
Total Cash and Cash Equivalent	564,995	312,678	167,939	175,979	413,932
Account Receivables	16,451	16,824	23,723	25,894	25,004
Inventory	—	—	—	—	—
Other Current Assets	—	—	—	—	—
Total Current Assets	581,446	329,502	191,662	201,872	438,937
Non-current assets					
Gross Property, Plant and Equipment	5,985,529	5,840,999	5,538,393	5,290,522	5,110,427
Accumulated Depreciation	(1,850,383)	(1,648,740)	(1,461,726)	(1,371,359)	(1,168,403)
Net Property, Plant and Equipment	4,135,146	4,192,259	4,076,667	3,919,163	3,942,024
Long-Term Investments	79,628	78,990	79,510	79,542	52,837
Goodwill	54,066	54,230	54,230	58,639	64,237
Intangible Assets	40,912	41,020	41,128	41,236	41,344
Other long-term assets	15,781	15,781	15,781	15,781	15,781
Total non-current assets	4,325,533	4,382,280	4,267,316	4,114,361	4,116,224
Total Assets	4,906,979	4,711,782	4,458,978	4,316,233	4,555,160
Liabilities					
Current Liabilities					
Accounts Payable	303,838	253,417	253,121	225,908	231,964
Accrued liabilities	—	—	—	—	—
Other Current Liabilities	—	—	—	—	—
Current Deferred Revenue	—	—	—	—	—
Current Portion of Long-Term Debt	—	—	—	—	—
Total Current Liabilities	303,838	253,417	253,121	225,908	231,964
Non-Current Liabilities					
Long-Term Debt	3,220,346	3,159,163	2,994,608	3,041,722	3,342,329
Deferred taxes liabilities	321,701	266,028	261,677	234,468	261,349
Non-Current Deferred revenues	—	—	—	—	—
Non-Current Deferred revenues	—	—	—	—	—
Total Non-Current liabilities	3,542,047	3,425,191	3,256,285	3,276,190	3,603,678
Total Liabilities	3,845,885	3,678,608	3,509,406	3,502,098	3,835,642
Stockholders' Equity					
Common Stock	2,131	2,131	2,131	2,131	2,131
Additional Paid In Capital	1,112,560	1,112,560	1,112,560	1,112,560	1,112,560
Accumulated Deficit	(53,597)	(81,517)	(165,119)	(300,556)	(395,172)
Total stockholders' equity	1,061,094	1,033,174	949,572	814,135	719,519
Liabilities & Stockholders Equity	4,906,979	4,711,782	4,458,978	4,316,233	4,555,160

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FIGURE 5.8 SAMPLE FINANCIAL RATIO ANALYSIS

	Dec 31	Dec 31	Dec 31	Dec 31	Dec 31
	2020	2019	2018	2017	2016
<u>LIQUIDITY RATIOS</u>					
Current Ratio	1.9x	1.3x	0.8x	0.9x	1.9x
Quick Ratio	1.9x	1.3x	0.8x	0.9x	1.9x
Accounts Receivable Turnover	75.2x	72.1x	61.7x	60.5x	
Accounts Receivable Days	4.87	5.06	5.92	6.03	
Accounts Payable Turnover	2.6x	2.8x	3.0x	3.1x	
Accounts Payable Days	143.12	128.14	122.19	118.92	
<u>SOLVENCY RATIOS</u>					
Total Debt/Total Capitalization (Cap Ratio)	75.2%	75.4%	75.9%	78.9%	82.3%
EBITDA/Interest (Coverage Ratio)	2.6x	4.1x	3.9x	4.6x	4.4x
Total Debt/EBITDA (Leverage Ratio)	8.4x	5.5x	5.4x	4.6x	5.0x
Net Total Debt/EBITDA (Leverage Ratio)	6.9x	4.9x	5.1x	4.3x	4.3x