

CASE STUDY: HOME SUITES (HSE)

Back to the case study of Home Suites (HSE) from the end of Chapter 5. As part of the credit application, the deal team from Drou Bank Corporation (“DBC” or “Drou Bank”) needs to run an analysis based on the structure and terms of the deal, as well as test debt repayment capacity from base case and stress case. These parts are normally conducted by the more experienced senior analyst or associate of the deal team.

CREDIT APPLICATION—TRANSACTION

Transaction

Transaction Background

SuperInv Group and AllStar Group (the “Sponsors”) agreed to buy hotel operator Home Suites for \$7.6 billion. The Sponsors’ cash offer of \$22.50 per share represents a premium of 20% to HSE’s share closing price on April 2. The total consideration will be funded by a split of 70% of equity injection from the Sponsors and 30% of debt financing with Bank A as the agent bank. The transaction is scheduled to close in November 2021.

Drou Bank was invited by PE firm AllStar to participate in the transaction as a Join Lead Arranger (“JLA”) with \$475 million commitments to bank debt (\$100 million revolver, \$175 million Term Loan A, \$200 million Term Loan B). In addition, Drou Bank will also commit \$198.75 million to the bridge loan facility, which will be taken down by subordinated corporate bonds upon closing of the LBO transaction.

FIGURE 6.1 PRO FORMA SOURCES AND USES (\$ 000'S)

| Sources | Funded | % of Total Cap | FY2020 EBITDAx | FY2019 EBITDAx | Uses | Stock Price (\$) | Shares Outstanding | Amount |
|------------------------|------------------|----------------|----------------|----------------|-----------------------------|------------------|--------------------|------------------|
| Revolver (\$400,000) | | 0.0% | | | Cash | | | — |
| Term Loan A | 700,000 | 9.2% | 1.8x | 1.2x | Purchase Price | \$22.50 | 184,662 | 4,154,904 |
| Term Loan B | 800,000 | 10.5% | 2.1x | 1.4x | Refinance Debt | | | 3,220,346 |
| Total Bank Debt | 1,500,000 | 19.7% | 3.9x | 2.6x | Transaction Fees & Expenses | 3.00% | | 221,258 |
| Subordinated Bonds | 795,000 | 10.5% | 2.1x | 1.4x | | | | |
| Total Debt | 2,295,000 | 30.2% | 6.0x | 4.0x | | | | |
| Cash Equity | 5,301,508 | 69.8% | 13.9x | 9.2x | | | | |
| Total Sources | 7,596,508 | 100.0% | 19.9x | 13.2x | Total Uses | | | 7,596,508 |

Acquisition Target 2,020 (COVID) EBITDA = 382,369

Acquisition Target 2,019 (normal) EBITDA = 576,528

LIBOR Rate/Floor= 1.00%

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FIGURE 6.2 PRO FORMA CAPITALIZATION TABLE

| (\$ 000's) | As of FYE 2020 | FY2020 EBITDAx | LBO Adj. | PF Closing (11/2021) | FY2020 EBITDAx | FY2019 EBITDAx |
|----------------------------------------------------|------------------|-------------------|--------------------|-------------------------|-------------------|-------------------|
| Cash | 564,995 | | | | | |
| Existing Debt | 3,220,346 | | (3,220,346) | — | | |
| Funded RC | — | | — | — | | |
| Term Loan A | — | | 700,000 | 700,000 | | |
| Term Loan B | — | | 800,000 | 800,000 | | |
| Total Bank Debt | 3,220,346 | 8.4x | (1,720,346) | 1,500,000 | 3.9x | 2.6x |
| Corporate Bonds | — | | 795,000 | 795,000 | 2.1x | 1.4x |
| Total Debt | 3,220,346 | 8.4x | (925,346) | 2,295,000 | 6.0x | 4.0x |
| Equity (Book Value) | 1,061,094 | 2.8x | 4,240,414 | 5,301,508 | 13.9x | 9.2x |
| Total Capitalization | 4,281,440 | 11.2x | 3,315,068 | 7,596,508 | 19.9x | 13.2x |
| | | | | | | |
| Acquisition Target 2,020 (COVID) EBITDA = 382,369 | | | | | | |
| Acquisition Target 2,019 (normal) EBITDA = 576,528 | | | | | | |

- The proposed transaction is a de-leveraging event to the Company, as the pro forma capital structure will reduce the total leverage from 8.4x as of the fiscal year 2020 to 6.0x.
- Based on the fiscal year 2020 EBITDA, the purchase multiple of 19.9x and total leverage of 6.0x are considered aggressive for deals of this type. However, the fiscal year 2020 EBITDA was negatively impacted by the COVID-19 pandemic and thus is not the normal EBTIDA of the business. Based on the fiscal year 2019 EBITDA, which is a reference of the borrower's normal EBITDA level, purchase multiple and total leverage would be 13.2x and 4.0x, respectively.

The proposed capital structure provides sufficient cushion to the bank debt with equity injection representing approximately 70% of the total capital structure and corporate bonds representing around 10% of the total capital structure. In addition, the bank debt will be fully secured by hotel properties owned by the borrower.

CREDIT APPLICATION—TERMS AND CONDITIONS

Another important component of the credit application is the summary of the proposed terms and conditions. The Sponsors will provide a term sheet with the key transaction terms, which are subject to negotiation throughout the process. While the law firm representing the lenders and the legal department of each bank will review the terms from

a legal standpoint, the deal team still must receive approval from the credit committee from a credit standpoint.

Terms and Conditions (Senior Secured Facilities)

*Terms are subject to changes upon transaction closing.

| | |
|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Borrower(s) | Home Suites Inc (the "Borrower") |
| Guarantor(s) | Home Suites Holdings LLC ("Holdings") and each material wholly owned domestic restricted subsidiary subject to customary exceptions |
| Expected Closing Date | 11/2021 |
| Sponsor(s) | "SuperInv," "AllStar" (60%/40% ownership split) |
| Agent (s) | Admin Agent Bank (Lead); Topbank Bank NA Join Lead Arrangers ("JLA's"): Drou Bank Corporation and TBD |
| Facilities | RC: \$400,000,000 TLA: \$700,000,000 TL B: \$800,000,000 |
| Purpose of Loans | RC: general corporate and working capital. TL A and TL B: to fund the LBO transaction |
| Base Rate(s) | LIBOR (1% Floor) Upon discontinuation of LIBOR , the Admin Agent Bank and the Borrower can choose a new rate that considers the then prevailing market convention, subject to negative consent of the majority lenders |
| Underwriting Fees | RC: 2.25% TLA: 2.25% TL B: 2.25% |
| Original Issue Discount ("OID") | RC: 97.75 TLA: 97.75 TL B: 99.75 |
| Pricing Spread(s) | RC: L + 350 – 400 (50bps commitment) TLA: L + 350 – 400 TL B: L + 400 – 550 |
| Maturities | RC and TLA: 11/2026 TL B: 11/2028 |
| Call Protections | TL B: 101 soft calls 6 months post-closing |
| Amortization Schedule | TL A: annual amortization schedule of 5%, 10%, 10%, 15%, 15% with quarterly payment (first payment in March 2022), remaining at maturity TL B: 1% per annum with quarterly payment (first payment in March 2022), remaining at maturity |

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| | |
|------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Incremental Facilities | \$350,000,000 free-and-clear, plus amount subject to negative covenants |
| Financial Covenant(s) | Net senior secured leverage ratio at 4.25x with two step-downs to 3.25x Net total leverage at 6.00x with two step-downs to 4.00x |
| Equity Cure(s) | Cap: two cures per four fiscal quarter period, five cures for life |
| Affirmative Covenants | Financial Statements Certificates; Other Information Payment of Obligations Taxes Maintenance of Existence; Compliance Maintenance of Property; Insurance Inspection of Property; Books and Records; Discussions Notices Environmental Laws Additional Collateral, etc. Use of Proceeds Know Your Customer Further Assurances Leases Post-Closing Requirements |
| Negative Covenants | Financial Condition Covenants Indebtedness Liens Fundamental Changes Restricted Payments Transactions With Affiliates Certain Amendments Amendments to Other Loan Documents Regarding Debt Incurrence |
| Events of Default | Missed Interest or Principal Payment Material Inaccurate in Representations and Warranties Breach of Covenants ERISA Event Cross-Default Insolvency Change of Control Material Adverse change |
| Mandatory Prepayments | Subject to reinvestments or prepayment of loans: 100% proceeds from selling assets subject 100% proceeds from equity investment |
| Excess Cash Sweep | Starts at 50% with two step-downs: • Step-down to 25% at 2.50x net first lien leverage ratio • Step-down to 0% at 1.50x net first lien leverage ratio |
| Others | MHN: 50bps (no sunset) |

CREDIT APPLICATION—PROJECTIONS (BASE CASE)

In an LBO transaction, the Sponsor usually provides an equity case that emphasizes the growth of the target company from the equity investor's perspective. Debt investors such as the banks care more about the borrower's debt repayment capacity and would run their own base case with more conservative assumptions. In the Home Suites LBO transaction, after receiving the equity case from the Sponsor, the deal team completes its own base case that focuses on the debt repayment capacity and covenant compliance over the life of the bank debt facilities.

BASE CASE ASSUMPTIONS—INCOME STATEMENT

- The base case assumes an organic growth of 3% of average daily rate ("ADR," price charged per room) and revenue from franchised hotels, in line with expected GDP growth. The number of rooms is projected to grow at an annual rate of 2% as the Company gradually expands its hotel rooms. The occupancy rate is assumed to be back to the prior COVID-19 level in 2022 and stabilize at 80%.
- The base case also reduces COGS and operating expense as a percent of revenue as ADR is projected to increase and the Company will realize economies of scale and improve operating efficiencies over time.
- Depreciation and amortization as a percent of revenue are assumed to be at the same level as 2020 over the projection period.
- The tax rate is 34% per opinions from the management and accounting advisers.

BASE CASE ASSUMPTIONS—CASH FLOW STATEMENT AND BALANCE SHEET STATEMENT

- Capex and deferred taxes as a percent of revenue are projected at the historical average rate of 2016–2020.
- Cash related to working capital is calculated as changes reflected on the balance sheet as calculated by days of working capital items.
- AR days are assumed to be 5 days in 2021 and 6 days over the remaining years of the base case period, a slight increase from 4.87 days in 2020. The base case assumes the Company will loosen its collecting policy to stimulate sales.
- AP days are projected to reduce from 143.12 days in 2020 to 128.14, which is the prior COVID-19 level. The Company negotiated more favorable terms during the pandemic, but as business goes back to normal, the AP days will also fall back to the normal level.

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FIGURE 6.3 SAMPLE INPUT ASSUMPTIONS FOR BASE CASE

| | PROJECTED | | | | | |
|-----------------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Dec-21 | Dec-22 | Dec-23 | Dec-24 | Dec-25 | Dec-26 |
| INCOME STATEMENT ASSUMPTIONS | | | | | | |
| Revenue Worksheet Assumptions | | | | | | |
| Average Daily Rate (ADR) | 63.86 | 65.78 | 67.75 | 69.78 | 71.87 | 74.03 |
| ADR Price Increase % | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| Occupancy Rate | 61.0% | 75.0% | 80.0% | 80.0% | 80.0% | 80.0% |
| RevPar | \$ 38.95 | \$ 49.33 | \$ 54.20 | \$ 55.83 | \$ 57.50 | \$ 59.22 |
| Number of Rooms | 75,888 | 77,406 | 78,954 | 80,533 | 82,144 | 83,786 |
| Increase % | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Revenue from Owned Hotels | 1,079,008 | 1,393,778 | 1,561,923 | 1,645,452 | 1,723,989 | 1,811,223 |
| Revenue from Franchised Hotels | 230,451 | 237,365 | 244,486 | 251,821 | 259,375 | 267,156 |
| Growth | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Total Revenue | 1,309,460 | 1,631,143 | 1,806,409 | 1,897,273 | 1,983,364 | 2,078,379 |
| Cost of Revenue as % of Revenue | 57.0% | 55.0% | 53.0% | 51.0% | 49.0% | 47.0% |
| Operating Expenses (excludind D&A) as % of Revenue | 12.5% | 11.7% | 11.0% | 10.2% | 10.2% | 10.2% |
| Depreciation and Amortization (D&A) as % of Revenue | 16.1% | 16.1% | 16.1% | 16.1% | 16.1% | 16.1% |
| Tax Rate | 34.0% | 34.0% | 34.0% | 34.0% | 34.0% | 34.0% |
| CASH FLOW STATEMENT ASSUMPTIONS | | | | | | |
| Capital Expenditures as % of Revenue | 15.6% | 15.6% | 15.6% | 15.6% | 15.6% | 15.6% |
| Deferred Taxes as % of Taxes | 0.01% | 0.01% | 0.01% | 0.01% | 0.01% | 0.01% |
| BALANCE SHEET ASSUMPTIONS | | | | | | |
| Accounts Receivable Days | 5.00 | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 |
| Inventory Days | — | — | — | — | — | — |
| Other Current Assets % of Revenues | — | — | — | — | — | — |
| Accounts Payable Days | 143.12 | 128.14 | 128.14 | 128.14 | 128.14 | 128.14 |
| Other Current Liabilities as % of Revenues | — | — | — | — | — | — |

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FIGURE 6.4 SAMPLE DEBT SCHEDULE ASSUMPTIONS

| (\$ 000's) | Historical | PROJECTED | | | | | | | |
|----------------------------------|------------|-----------|----------|----------|-----------|-----------|---------|---------|-----------|
| | | Dec-20 | Dec-21 | Dec-22 | Dec-23 | Dec-24 | Dec-25 | Dec-26 | Dec-27 |
| Interest Rate Assumptions | | | | | | | | | |
| LIBOR Rate | 0.60% | 1.10% | 1.60% | 2.60% | 2.60% | 2.60% | 2.60% | 2.60% | 2.60% |
| LIBOR Increase / Decrease | 0.5% | 0.5% | 1.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Revolver | | | | | | | | | |
| Outstanding (unfunded) | 400,000 | — | — | — | — | — | — | — | — |
| Outstanding (funded) | | — | — | — | — | — | — | — | — |
| Increase / (Decrease) | | | | | | | | | |
| Interest Payment | 167 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Unfunded Fee | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% |
| Spread | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% |
| Interest rate | 5.10% | 5.60% | 6.60% | 6.60% | 6.60% | 6.60% | 6.60% | 6.60% | 6.60% |
| Term Loan A | | | | | | | | | |
| Outstanding | 700,000 | 700,000 | 665,000 | 595,000 | 525,000 | 420,000 | — | — | — |
| Increase / (Decrease) | | — | (35,000) | (70,000) | (105,000) | (420,000) | — | — | — |
| Interest Payment | 2,975 | 39,200 | 43,890 | 39,270 | 34,650 | 25,410 | — | — | — |
| Spread | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% |
| Interest rate | 5.10% | 5.60% | 6.60% | 6.60% | 6.60% | 6.60% | 6.60% | 6.60% | 6.60% |
| % Amort | | 5.00% | 10.00% | 10.00% | 15.00% | 60.00% | | | |
| Term Loan B | | | | | | | | | |
| Outstanding | 800,000 | 800,000 | 792,000 | 784,000 | 776,000 | 768,000 | 760,000 | 752,000 | — |
| Increase / (Decrease) | | — | (8,000) | (8,000) | (8,000) | (8,000) | (8,000) | (8,000) | (752,000) |
| Interest Payment | 4,400 | 56,800 | 64,152 | 63,504 | 62,856 | 62,208 | 61,560 | 55,836 | |
| Spread | 5.50% | 5.50% | 5.50% | 5.50% | 5.50% | 5.50% | 5.50% | 5.50% | 5.50% |
| Interest rate | 6.60% | 7.10% | 8.10% | 8.10% | 8.10% | 8.10% | 8.10% | 8.10% | 8.10% |
| % Amort | | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 94.00% |

(continued)

FIGURE 6.4 SAMPLE DEBT SCHEDULE ASSUMPTIONS (CONTINUED)

| (\$ 000's) | Historical | | | | PROJECTED | | | | |
|--------------------------------------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------|
| | Dec-20 | Dec-21 | Dec-22 | Dec-23 | Dec-24 | Dec-25 | Dec-26 | Dec-27 | Dec-28 |
| New Term Loan B (refinancing) | | | | | | | | | |
| New Term Loan B (refinancing) Outstanding | — | — | — | — | — | — | — | — | — |
| Increase / (Decrease) | — | — | — | — | — | — | — | — | — |
| Interest Payment | — | — | — | — | — | — | — | — | — |
| Spread | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Interest rate | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| % Amort | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Subordinated Bonds | | | | | | | | | |
| Outstanding | 795,000 | 795,000 | 795,000 | 795,000 | 795,000 | 795,000 | 795,000 | 795,000 | 795,000 |
| Increase / (Decrease) | — | — | — | — | — | — | — | — | — |
| Interest Payment | 5,963 | 71,550 | 71,550 | 71,550 | 71,550 | 71,550 | 71,550 | 71,550 | 71,550 |
| Interest rate | 9.00% | 9.00% | 9.00% | 9.00% | 9.00% | 9.00% | 9.00% | 9.00% | 9.00% |
| Total Interest Payment | 13,504 | 169,550 | 181,592 | 176,324 | 171,056 | 161,168 | 135,110 | 129,386 | |
| Total Loan Principal Increase / (Decrease) | — | (43,000) | (78,000) | (78,000) | (113,000) | (428,000) | (8,000) | (752,000) | |
| Total Payment | 13,504 | 126,550 | 103,592 | 98,324 | 58,056 | (266,832) | 127,110 | (622,614) | |
| Total Senior Debt | 1,900,000 | 1,857,000 | 1,779,000 | 1,701,000 | 1,588,000 | 1,160,000 | 1,152,000 | 400,000 | |
| Total Debt Outstanding | 2,695,000 | 2,652,000 | 2,574,000 | 2,496,000 | 2,383,000 | 1,955,000 | 1,947,000 | 1,195,000 | |

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BASE CASE ASSUMPTIONS—DEBT SCHEDULE

Transaction specifics:

Closing Date: 11/2021, first loan principal payment in March 2022
(\$ 000's)`

| FACILITIES | AMOUNT | SPREAD | MATURITY |
|----------------------------|-----------|-----------------------------------------|----------|
| Revolving | \$400,000 | 50bps (unfunded) L + 400bps (funded) | 11/2026 |
| Term Loan A | \$700,000 | L + 400 | 11/2026 |
| Term Loan B | \$800,000 | L + 550 | 11/2028 |
| Subordinated Bonds | \$795,000 | 9.0% | 11/2029 |
| Refinancing of Term Loan B | N.A. | N.A. | N.A. |

- The interest expenses of the LBO debts over the base case are calculated based on the closing date and maturity of each facility. The year 2021 only includes one month of interest expenses of LBO debts given the scheduled transaction closing of November 2021. Given the loan maturity of November 2026 of Term Loan A and the maturity of November 2028 of Term Loan B, 11 months of interest expenses are included in the maturity year for each facility accordingly.
- Given the flex of pricing of the facilities, the projections conservatively use the upper bound of the pricing range.
- The revolving facility is assumed to be refinanced before maturity to provide liquidity for the Company's short-term general corporate and working capital needs.
- No drawdown of the revolving facility or refinancing of Term Loan B is assumed in the base case, as the base case shows the Company generates sufficient cash through operations. Term Loan A and Term Loan B are assumed to be fully repaid upon maturity.
- Transaction fees are amortized over 7 years post-closing.

BASE CASE RESULTS

- The income statement and cash flow statement results show that the borrower's business will continue to recover post-closing of the LBO transaction and show stable organic growth after 2023. Operating margins also improve over the period.
- The base case cash flow results also demonstrate the business's strong cash flow generating ability. In 2028, accumulated cash available for debt service (CAFDS) covers 116.4% of the total bank debt and 76.1% of the total debt. Cash position also steadily increases over the base case period, except for 2026 and 2028, as the Company needs to pay down the entire Term Loan A and Term Loan B upon maturity.

FIGURE 6.5 SAMPLE INCOME STATEMENT

| (\$ 000's) | Historical | | | | | | PROJECTED | | |
|---------------------------------------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | Dec-20 | Dec-21 | Dec-22 | Dec-23 | Dec-24 | Dec-25 | Dec-26 | Dec-27 | Dec-28 |
| REVENUE | 1,250,779 | 1,309,460 | 1,631,143 | 1,806,409 | 1,897,273 | 1,983,364 | 2,078,379 | 2,178,042 | 2,288,059 |
| Sales Growth | | 4.7% | 24.6% | 10.7% | 5.0% | 4.5% | 4.8% | 4.8% | 5.1% |
| COST OF SALES | | | | | | | | | |
| Gross Profit | 538,267 | 563,520 | 734,578 | 849,636 | 930,319 | 1,012,201 | 1,102,259 | 1,176,895 | 1,259,223 |
| Gross Margin | 43.0% | 43.0% | 45.0% | 47.0% | 49.0% | 51.0% | 53.0% | 54.0% | 55.0% |
| Operating Expenses (excluding D&A) | | | | | | | | | |
| EBITDA | 155,898 | 163,631 | 191,595 | 198,634 | 194,396 | 203,217 | 212,952 | 223,164 | 234,436 |
| % Sales | 30.6% | 30.5% | 33.3% | 36.0% | 38.8% | 40.8% | 42.8% | 43.8% | 44.8% |
| Depreciation and Amortization | | | | | | | | | |
| EBITA (As Amortization of Transaction Fees) | 211,388 | 263,318 | 291,612 | 306,280 | 320,178 | 335,517 | 351,605 | 369,366 | |
| Amort. of Fees | Year | 7 | 31,608 | 31,608 | 31,608 | 31,608 | 31,608 | 31,608 | 31,608 |
| EBIT | | | | | | | | | |
| | 156,892 | 248,056 | 327,782 | 398,035 | 457,198 | 522,182 | 570,518 | 655,421 | |
| INTEREST EXPENSE (INCOME): | | | | | | | | | |
| Existing Debts | | | | | | | | | |
| Revolver | 134,526 | — | — | — | — | — | — | — | — |
| Term Loan A | 167 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Term Loan B | 2,975 | 39,200 | 43,890 | 39,270 | 34,650 | 25,410 | — | — | — |
| New Term Loan B | 4,400 | 56,800 | 64,152 | 63,504 | 62,856 | 62,208 | 61,560 | 61,560 | 61,560 |
| Subordinated Bonds | — | — | — | — | — | — | — | — | — |
| Total Interest Expense | 5,963 | 71,550 | 71,550 | 71,550 | 71,550 | 71,550 | 71,550 | 71,550 | 71,550 |
| EBT Taxes | 8,863 | 78,506 | 146,190 | 221,711 | 286,142 | 361,014 | 435,408 | 581,871 | |
| Tax Rate | 34.0% | 34.0% | 34.0% | 34.0% | 34.0% | 34.0% | 34.0% | 34.0% | 34.0% |
| Tax Expense | 3,013 | 26,692 | 49,705 | 75,382 | 97,288 | 122,745 | 148,039 | 197,836 | |
| NET INCOME (LOSS) | 5,849 | 51,814 | 96,485 | 146,329 | 188,853 | 238,269 | 287,369 | 384,035 | |

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FIGURE 6.6 SAMPLE CASH FLOW STATEMENT

| (\$ 000's) | PROJECTED | | | | | |
|---------------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Dec-21 | Dec-22 | Dec-23 | Dec-24 | Dec-25 | Dec-26 |
| Net Income (Loss) | 5,849 | 51,814 | 96,485 | 146,329 | 188,853 | 238,269 |
| Depreciation and Amortization | 211,388 | 263,318 | 291,612 | 306,280 | 320,178 | 335,517 |
| Amortization of Fees | 31,608 | 31,608 | 31,608 | 31,608 | 31,608 | 31,608 |
| Deferred Taxes | 0 | 2 | 3 | 4 | 6 | 7 |
| Cash Income (CI) | 248,846 | 346,742 | 419,709 | 484,222 | 540,646 | 605,401 |
| | | | | | | 753,412 |
| WORKING CAPITAL ACTIVITIES: | | | | | | |
| Change in Accounts Receivable | (1,487) | (8,876) | (2,881) | (1,408) | (1,500) | (1,562) |
| Change in Inventory | — | — | — | — | — | — |
| Change in Other Current Assets | — | — | — | — | — | — |
| Change in Accounts Payable | (11,339) | 22,255 | 21,137 | 2,647 | 2,405 | 1,740 |
| Change in other Current Liabilities | — | — | — | — | — | — |
| Total Working Capital Activities | (12,826) | 13,379 | 18,256 | 1,238 | 905 | 178 |
| | | | | | | 7,148 |
| Operating Cash Flow (OCF) | 236,020 | 360,121 | 437,964 | 485,460 | 541,550 | 605,580 |
| | | | | | | 7,028 |
| INVESTMENT ACTIVITIES: | | | | | | |
| Capital Expenditures | (203,635) | (253,660) | (280,916) | (295,046) | (308,434) | (323,210) |
| Investments in the JV | — | — | — | — | — | — |
| Total Investment Activities | (203,635) | (253,660) | (280,916) | (295,046) | (308,434) | (323,210) |
| | | | | | | (338,708) |
| Cash Available for Debt Service (CAFDS) | 32,385 | 106,462 | 157,049 | 190,414 | 233,117 | 282,370 |
| Accumulated CAFDS | 32,385 | 138,847 | 295,896 | 486,310 | 719,427 | 1,001,797 |
| CAFDS as a % of Bank Debt at Transaction Closing | 2.2% | 9.3% | 19.7% | 32.4% | 48.0% | 66.8% |
| CAFDS as a % of Total Debt at Transaction Closing | 1.4% | 6.0% | 12.9% | 21.2% | 31.3% | 43.7% |
| | | | | | | (355,817) |

(continued)

FIGURE 6.6 SAMPLE CASH FLOW STATEMENT (CONTINUED)

| (\$ 000's) | PROJECTED | | | | | | | |
|------------------------------------------------|-----------|----------|----------|----------|-----------|-----------|-----------|-----------|
| | Dec-21 | Dec-22 | Dec-23 | Dec-24 | Dec-25 | Dec-26 | Dec-27 | Dec-28 |
| FINANCING ACTIVITIES (PMTs/Borrowings): | | | | | | | | |
| Revolver | — | — | — | — | — | — | — | — |
| Term Loan A | — | (35,000) | (70,000) | (70,000) | (105,000) | (420,000) | — | — |
| Term Loan B | — | (8,000) | (8,000) | (8,000) | (8,000) | (8,000) | (8,000) | (752,000) |
| New Term Loan B | — | — | — | — | — | — | — | — |
| Subordinated Bonds | — | — | — | — | — | — | — | — |
| Total Debt Payments | — | (43,000) | (78,000) | (78,000) | (113,000) | (428,000) | (8,000) | (752,000) |
| Equity Contribution | — | — | — | — | — | — | — | — |
| Total Financing Activities | — | (43,000) | (78,000) | (78,000) | (113,000) | (428,000) | (8,000) | (752,000) |
| Net Change in Cash | 32,385 | 63,462 | 79,049 | 112,414 | 120,117 | (145,630) | 331,031 | (347,377) |
| Beginning Cash | 564,995 | 597,380 | 660,842 | 739,891 | 852,305 | 972,422 | 826,792 | 1,157,822 |
| Ending Cash | 597,380 | 660,842 | 739,891 | 852,305 | 972,422 | 826,792 | 1,157,822 | 810,446 |

FIGURE 6.7 SAMPLE BALANCE SHEET

| (\$ 000's) | Pre-Transaction Dec-20 | Debit | Credit | Post-Transaction | | | | PROJECTED | | | |
|----------------------------------|---------------------------|-------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|----------------|
| | | | | Dec-20 | Dec-21 | Dec-22 | Dec-23 | Dec-24 | Dec-25 | Dec-26 | Dec-27 |
| Current Assets | | | | | | | | | | | |
| Cash | 564,995 | | 564,995 | 597,380 | 660,842 | 739,891 | 852,305 | 972,422 | 826,792 | 1,157,822 | 810,446 |
| Accounts Receivable | 16,451 | | 16,451 | 17,938 | 26,813 | 29,694 | 31,103 | 32,603 | 34,165 | 35,803 | 37,509 |
| Inventory | — | | — | — | — | — | — | — | — | — | — |
| Other Current Assets | — | | — | — | — | — | — | — | — | — | — |
| Total Current Assets | 581,446 | | 615,318 | 687,655 | 769,585 | 883,408 | 1,005,025 | 860,957 | 1,193,626 | 847,955 | |
| Goodwill & Other Intangibles | 94,978 | | 3,093,810 | 3,188,788 | 3,188,788 | 3,188,788 | 3,188,788 | 3,188,788 | 3,188,788 | 3,188,788 | 3,188,788 |
| Capitalized Fees | — | | 221,258 | 189,649 | 158,041 | 126,433 | 94,825 | 63,216 | 31,608 | — | — |
| Tangible Assets | 4,135,146 | | 4,127,392 | 4,117,734 | 4,107,037 | 4,095,803 | 4,084,058 | 4,071,751 | 4,058,854 | 4,045,306 | |
| LTI & Other Assets | 95,410 | | 95,410 | 95,410 | 95,410 | 95,410 | 95,410 | 95,410 | 95,410 | 95,410 | 95,410 |
| Total Assets | 4,906,979 | | 8,216,557 | 8,247,627 | 8,287,252 | 8,358,232 | 8,436,497 | 8,248,514 | 8,536,677 | 8,177,458 | |
| Current Liabilities | | | | | | | | | | | |
| Accounts Payable | 303,838 | | 303,838 | 292,498 | 314,753 | 335,890 | 338,537 | 340,942 | 342,682 | 351,468 | 360,202 |
| Other Current Liabilities | — | | — | — | — | — | — | — | — | — | — |
| Total Current Liabilities | 303,838 | | 303,838 | 292,498 | 314,753 | 335,890 | 338,537 | 340,942 | 342,682 | 351,468 | 360,202 |
| Existing Long-Term Debt | 3,220,346 | | 3,220,346 | — | — | — | — | — | — | — | — |
| Revolver | — | | — | — | — | — | — | — | — | — | — |
| Term Loan A | — | | 700,000 | 700,000 | 665,000 | 595,000 | 525,000 | 420,000 | — | — | — |
| Term Loan B | — | | 800,000 | 800,000 | 792,000 | 784,000 | 776,000 | 768,000 | 760,000 | 752,000 | — |
| New Term Loan B | — | | 795,000 | 795,000 | 795,000 | 795,000 | 795,000 | 795,000 | 795,000 | 795,000 | 795,000 |
| Subordinated Bonds | — | | 2,295,000 | 2,295,000 | 2,252,000 | 2,174,000 | 2,096,000 | 1,983,000 | 1,555,000 | 1,547,000 | 795,000 |
| Total Debt | 3,220,346 | | | | | | | | | | (continued) |

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FIGURE 6.7 SAMPLE BALANCE SHEET

| (\$ 000's) | Pre-Transaction | Debit | Credit | Post-Transaction | PROJECTED | | | | |
|---------------------------------------|------------------|------------------|-----------|------------------|------------------|------------------|------------------|------------------|------------------|
| | | | | | Dec-20 | Dec-21 | Dec-22 | Dec-23 | Dec-24 |
| Other Liabilities / Deferred Taxes | 321,701 | | | 321,701 | 321,703 | 321,706 | 321,710 | 321,716 | 321,723 |
| Total Liabilities | 3,845,885 | | | 2,920,538 | 2,909,199 | 2,888,456 | 2,831,596 | 2,756,247 | 2,645,658 |
| Shareholder's Equity | | | | | | | | | |
| Common Stock | 2,131 | 2,131 | 5,301,508 | 5,301,508 | 5,301,508 | 5,301,508 | 5,301,508 | 5,301,508 | 5,301,508 |
| Other Equity | 1,112,560 | 1,112,560 | — | — | — | — | — | — | — |
| Retained Earnings | (53,597) | (53,597) | — | 5,849 | 57,663 | 154,149 | 300,478 | 489,331 | 727,600 |
| Total Shareholder's Equity | 1,061,094 | | | 5,301,508 | 5,307,357 | 5,359,171 | 5,455,657 | 5,601,986 | 5,790,839 |
| Total Liabilities & Equity | 4,906,979 | 7,596,508 | | 8,222,046 | 8,216,557 | 8,247,627 | 8,287,252 | 8,358,232 | 8,436,497 |
| | | | | | | | | | |
| | | | | | | | | | |

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FIGURE 6.8 SAMPLE CREDIT RATIOS—BASE CASE

| | Dec-21 | Dec-22 | Dec-23 | Dec-24 | Dec-25 | Dec-26 | Dec-27 | Dec-28 |
|----------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|-------------|
| Coverage Ratio | | | | | | | | |
| EBITDA/Interest | 2.70x | 3.20x | 3.58x | 4.17x | 4.73x | 5.52x | 7.06x | 13.93x |
| Covenant | 2.00x | 2.00x |
| EBITDA Cushion (\$ 000's)* | (103,829) | (203,883) | (287,818) | (383,275) | (466,872) | (566,971) | (683,511) | (877,687) |
| Senior Leverage Ratio | | | | | | | | |
| Senior Secured Debt/EBITDA | 3.75x | 2.68x | 2.12x | 1.77x | 1.47x | 0.85x | 0.79x | 0.00x |
| Net Senior Secured Debt/EBITDA | 2.26x | 1.47x | 0.98x | 0.61x | 0.27x | 0.00x | 0.00x | 0.00x |
| Covenant (Net Senior Secured Leverage Ratio) | 4.25x | 4.25x | 3.75x | 3.75x | 3.25x | 3.25x | 3.25x | 3.25x |
| EBITDA Cushion (\$ 000's)* | (187,508) | (355,651) | (480,573) | (616,271) | (742,652) | (909,858) | (1,078,600) | (1,274,155) |
| Total Leverage Ratio | | | | | | | | |
| Total Debt/EBITDA | 5.74x | 4.15x | 3.34x | 2.85x | 2.45x | 1.75x | 1.62x | 0.78x |
| Net Total Debt/EBITDA | 4.25x | 2.93x | 2.20x | 1.69x | 1.25x | 0.82x | 0.41x | 0.00x |
| Covenant (Net Total Leverage Ratio) | 6.00x | 6.00x | 5.00x | 5.00x | 4.00x | 4.00x | 4.00x | 4.00x |
| EBITDA Cushion (\$ 000's)* | (116,952) | (277,790) | (364,180) | (487,184) | (556,339) | (707,255) | (856,437) | (1,028,648) |
| Total Debt/Total Capitalization | 30.2% | 29.6% | 28.5% | 27.2% | 25.5% | 20.5% | 19.7% | 10.6% |

* How much the EBITDA has to drop before the company violates the covenant

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- The financial covenants of the transaction consist of the net senior secured leverage ratio and net total debt leverage ratio. The deal team also sets an interest coverage ratio to monitor the performance. All of the external and internal covenants have been comfortably met with sufficient cushions.

CREDIT APPLICATION—PROJECTIONS (STRESS CASE)

Besides the base case, the bank lenders will also run a stress case to test the repayment capacity and covenant compliance in the “worst-case scenario.” The stress case normally pressures the borrower’s growth and margin to see if the business will still be able to meet the debt obligations.

STRESS CASE ASSUMPTIONS—INCOME STATEMENT

- To test the borrower’s performance during the downturn, the stress case assumes a recession scenario in 2024: ADR drops by 15% (vs. 13.3% during COVID-19), the occupancy rate drops from 80% to 55% (vs. 73% to 61% during COVID-19), no growth in numbers of rooms and no growth in revenue from franchised hotels (vs. growth during COVID-19). A moderate recovery is assumed afterward.
- COGS and operating expenses as a percent of revenue are also projected to increase during the recession year to further pressure the margins.
- Depreciation and amortization as a percent of revenue are assumed to be at the same level as 2020 over the projection period.
- The tax rate is 34% per opinions from the management and accounting advisers.

STRESS CASE ASSUMPTIONS—CASH FLOW STATEMENT AND BALANCE SHEET STATEMENT

- Capex and deferred taxes as a percent of revenue are projected to be the same prior to the projected recession year. In 2024, as the revenue and profits start to decline, the stress case assumes the management would cut or postpone Capex to save cash. Capex is projected to increase as a percent of revenue as the business starts to recover.
- Cash related to working capital is calculated as changes reflected on the balance sheet as calculated by days of working capital items.
- AR days are assumed to increase over the stress case period as management continues efforts to stimulate growth by offering longer credit period terms to customers.

FIGURE 6.9 SAMPLE OPERATING ASSUMPTIONS

| | PROJECTED | | | | | | | |
|-----------------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Dec-21 | Dec-22 | Dec-23 | Dec-24 | Dec-25 | Dec-26 | Dec-27 | Dec-28 |
| INCOME STATEMENT ASSUMPTIONS | | | | | | | | |
| Revenue Worksheet Assumptions | | | | | | | | |
| Average Daily Rate (ADR) | 63.86 | 65.78 | 67.75 | 57.59 | 57.59 | 58.16 | 59.33 | 61.11 |
| ADR Price Increase % | 3.0% | 3.0% | 3.0% | -15.0% | 0.0% | 1.0% | 2.0% | 3.0% |
| Occupancy Rate | 61.0% | 75.0% | 80.0% | 55.0% | 50.0% | 70.0% | 70.0% | 70.0% |
| RevPar | \$ 38.95 | \$ 49.33 | \$ 54.20 | \$ 31.67 | \$ 28.79 | \$ 40.71 | \$ 41.53 | \$ 42.77 |
| Number of Rooms | 75,888 | 77,406 | 78,954 | 78,954 | 79,743 | 81,338 | 82,965 | |
| Increase % | 2.00% | 2.00% | 2.00% | 0.00% | 0.00% | 1.00% | 2.00% | 2.00% |
| Total Revenue | 1,079,008 | 1,393,778 | 1,561,923 | 915,250 | 829,772 | 1,185,030 | 1,232,905 | 1,298,839 |
| Revenue from Owned Hotels | 230,451 | 237,365 | 244,486 | 244,486 | 244,486 | 246,931 | 251,869 | 259,426 |
| Growth | 3.00% | 3.00% | 3.00% | 0.00% | 0.00% | 1.00% | 2.00% | 3.00% |
| Total Revenue | 1,309,460 | 1,631,143 | 1,806,409 | 1,159,735 | 1,074,258 | 1,431,961 | 1,484,775 | 1,558,265 |
| Cost of Revenue as % of Revenue | | | | | | | | |
| Operating Expenses (excluding D&A) as % of Revenue | 12.5% | 12.5% | 12.5% | 17.3% | 13.0% | 12.0% | 12.0% | 12.0% |
| Depreciation and Amortization (D&A) as % of Revenue | 12.8% | 12.8% | 12.8% | 12.8% | 12.8% | 12.8% | 12.8% | 12.8% |
| Tax Rate | 34.0% | 34.0% | 34.0% | 34.0% | 34.0% | 34.0% | 34.0% | 34.0% |
| CASH FLOW STATEMENT ASSUMPTIONS | | | | | | | | |
| Capital Expenditures as % of Revenue | 15.6% | 15.6% | 15.6% | 6.0% | 6.0% | 8.0% | 12.0% | 13.0% |
| Deferred Taxes as % of Taxes | 0.01% | 0.01% | 0.01% | 0.01% | 0.01% | 0.01% | 0.01% | 0.01% |
| BALANCE SHEET ASSUMPTIONS | | | | | | | | |
| Accounts Receivable Days | 5.00 | 6.00 | 6.00 | 7.00 | 8.00 | 8.00 | 8.00 | 8.00 |
| Inventory Days | — | — | — | — | — | — | — | — |
| Other Current Assets % of Revenues | — | — | — | — | — | — | — | — |
| Accounts Payable Days | 143.12 | 128.14 | 128.14 | 150.00 | 150.00 | 143.00 | 129.00 | 129.00 |
| Other Current Liabilities as % of Revenues | — | — | — | — | — | — | — | — |

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FIGURE 6.10 SAMPLE DEBT SCHEDULE ASSUMPTIONS

| (\$ 000's) | Historical | PROJECTED | | | | | | |
|----------------------------------|------------|-----------|----------|----------|-----------|-----------|---------|---------|
| | | Dec-20 | Dec-21 | Dec-22 | Dec-23 | Dec-24 | Dec-25 | Dec-26 |
| Interest Rate Assumptions | | | | | | | | |
| LIBOR Rate | 0.60% | 1.10% | 2.60% | 2.60% | 2.60% | 2.60% | 2.60% | 2.60% |
| LIBOR Increase / Decrease | 0.5% | 0.5% | 1.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Revolver | | | | | | | | |
| Outstanding (unfunded) | 400,000 | — | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 |
| Outstanding (funded) | — | — | — | — | — | — | — | — |
| Increase / (Decrease) | — | — | — | — | — | — | — | — |
| Interest Payment | 167 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Unfunded Fee | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% |
| Spread | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% |
| Interest rate | 5.10% | 5.60% | 6.60% | 6.60% | 6.60% | 6.60% | 6.60% | 6.60% |
| Term Loan A | | | | | | | | |
| Outstanding | 700,000 | 700,000 | 665,000 | 595,000 | 525,000 | 420,000 | — | — |
| Increase / (Decrease) | — | (35,000) | (70,000) | (70,000) | (105,000) | (420,000) | — | — |
| Interest Payment | 2,975 | 39,200 | 43,890 | 39,270 | 34,650 | 25,410 | — | — |
| Spread | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% |
| Interest rate | 5.10% | 5.60% | 6.60% | 6.60% | 6.60% | 6.60% | 6.60% | 6.60% |
| % Amort | 5.00% | 10.00% | 10.00% | 15.00% | 15.00% | 60.00% | | |
| Term Loan B | | | | | | | | |
| Outstanding | 800,000 | 800,000 | 792,000 | 784,000 | 776,000 | 768,000 | — | — |
| Increase / (Decrease) | — | (8,000) | (8,000) | (8,000) | (8,000) | (768,000) | — | — |
| Interest Payment | 4,400 | 56,800 | 64,152 | 63,504 | 62,856 | 62,208 | — | — |
| Spread | 5.50% | 5.50% | 5.50% | 5.50% | 5.50% | 5.50% | 5.50% | 5.50% |
| Interest rate | 6.60% | 7.10% | 8.10% | 8.10% | 8.10% | 8.10% | 8.10% | 8.10% |
| % Amort | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 94.00% |

(continued)

| (\$ 000's) | Historical | | | | | | PROJECTED | | |
|--------------------------------------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------|
| | Dec-20 | Dec-21 | Dec-22 | Dec-23 | Dec-24 | Dec-25 | Dec-26 | Dec-27 | Dec-28 |
| New Term Loan B (refinancing) | | | | | | | | | |
| Outstanding | — | — | — | — | — | — | 700,000 | 693,000 | 686,000 |
| Increase / (Decrease) | — | — | — | — | — | — | 700,000 | (7,000) | (7,000) |
| Interest Payment | — | — | — | — | — | — | 66,500 | 66,500 | 65,835 |
| Spread | 5.50% | 5.50% | 5.50% | 5.50% | 5.50% | 5.50% | 5.50% | 5.50% | 5.50% |
| Interest rate | 9.50% | 9.50% | 9.50% | 9.50% | 9.50% | 9.50% | 9.50% | 9.50% | 9.50% |
| % Amort | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 1.00% |
| Subordinated Bonds | | | | | | | | | |
| Outstanding | 795,000 | 795,000 | 795,000 | 795,000 | 795,000 | 795,000 | 795,000 | 795,000 | 795,000 |
| Increase / (Decrease) | — | — | — | — | — | — | — | — | — |
| Interest Payment | 5,963 | 71,550 | 71,550 | 71,550 | 71,550 | 71,550 | 71,550 | 71,550 | 71,550 |
| Interest rate | 9.00% | 9.00% | 9.00% | 9.00% | 9.00% | 9.00% | 9.00% | 9.00% | 9.00% |
| Total Interest Payment | 13,504 | 169,550 | 181,592 | 176,324 | 171,056 | 227,668 | 140,050 | 139,385 | |
| Total Loan Principal Increase / (Decrease) | — | (43,000) | (78,000) | (78,000) | (113,000) | (488,000) | (7,000) | (7,000) | |
| Total Payment | 13,504 | 126,550 | 103,592 | 98,324 | 58,056 | (260,332) | 133,050 | 132,385 | |
| Total Senior Debt | 1,900,000 | 1,857,000 | 1,779,000 | 1,701,000 | 1,588,000 | 1,100,000 | 1,093,000 | 1,086,000 | |
| Total Debt Outstanding | 2,695,000 | 2,652,000 | 2,574,000 | 2,496,000 | 2,383,000 | 1,895,000 | 1,888,000 | 1,881,000 | |

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- AP days are projected to reduce from 143.12 days in 2020 to 128.14, which is the prior COVID-19 level in 2022 and 2023. The Company negotiated more favorable terms during the pandemic but as business goes back to normal, the AP days will also fall back to the normal level. After the assumed recession hits the business in 2024, AP days are projected to increase again.

STRESS CASE ASSUMPTIONS—DEBT SCHEDULE

- Most of the debt schedule assumptions remain unchanged compared to the base case, except for the refinancing of Term Loan B, which occurs two years prior to its maturity. As the business is assumed to be hit by the recession during the stress case period, the borrower would need to refinance Term Loan B and extend the maturity to remain in an adequate liquidity position. The new Term Loan B is assumed to have the same spread as the existing one.

STRESS CASE RESULTS

- The income statement and cash flow statement results show that even though the borrower's business would decline during the assumed recession period, the Company would still manage to meet the debt obligations and generate positive cash flow from operating activities. After refinancing Term Loan B, the borrower would be able to maintain adequate liquidity.
- The base case cash flow results also show that the accumulated CAFDS covers 70.6% of the total bank debt amounts and 46.2% of the total debt amounts. And the borrower would still be able to pay down the entire Term Loan A at maturity.
- Senior leverage ratio and total leverage ratio of the borrower will peak at 7.96x and 4.94x, respectively, in 2024 because of deteriorated operating results during the assumed recession. Net senior leverage ratio would remain below the financial covenant levels. The net total leverage ratio, however, would break the covenant in 2024, and the Sponsors would need to execute a one-time equity cure to inject additional equity to remain in compliance with the financial covenant set in the credit agreement. As the growth resumes in later years of the stress case, leverage ratios would drop again.
- The EBITDA/interest coverage covenant set by the deal team would be violated in 2024. However, given the cash position in 2024, the borrow would still be able to make debt payments.

FIGURE 6.11 SAMPLE INCOME STATEMENT—STRESS CASE

| (\$ 000's) | PROJECTED | | | | | |
|----------------------------------------------------|------------|-----------|-----------|-----------|-----------|-----------|
| | Historical | Dec-20 | Dec-21 | Dec-22 | Dec-23 | Dec-24 |
| REVENUE | | 1,250,779 | 1,309,460 | 1,631,143 | 1,806,409 | 1,159,735 |
| Sales Growth | | 4.7% | 24.6% | 10.7% | -35.8% | -7.4% |
| COST OF SALES | | 712,512 | 640,155 | 797,417 | 883,099 | 695,841 |
| Gross Profit | | 538,267 | 669,304 | 833,726 | 923,310 | 463,894 |
| Gross Margin | | 43.0% | 51.1% | 51.1% | 51.1% | 40.0% |
| Operating Expenses (excluding D&A) | | 155,898 | 163,631 | 203,829 | 225,730 | 200,724 |
| EBITDA | | 382,369 | 505,673 | 629,897 | 697,580 | 263,170 |
| % Sales | | 30.6% | 38.6% | 38.6% | 38.6% | 22.7% |
| Depreciation and Amortization | | 167,083 | 208,128 | 230,492 | 147,978 | 137,072 |
| EBITA (As Amortization of Transaction Fees) | | 338,591 | 421,769 | 467,088 | 115,192 | 260,404 |
| Amort. of Fees | | 7 | 31,608 | 31,608 | 31,608 | 31,608 |
| EBIT | | 306,982 | 390,161 | 435,480 | 83,584 | 228,796 |
| INTEREST EXPENSE (INCOME): | | | | | | |
| Existing Debts | | 134,526 | — | — | — | — |
| Revolver | | 167 | 2,000 | 2,000 | 2,000 | 2,000 |
| Term Loan A | | 2,975 | 39,200 | 43,890 | 39,270 | 34,650 |
| Term Loan B | | 4,400 | 56,800 | 64,152 | 63,504 | 62,856 |
| New Term Loan B | | — | — | — | — | — |
| Subordinated Bonds | | 5,963 | 71,550 | 71,550 | 71,550 | 66,500 |
| Total Interest Expense | | 148,030 | 169,550 | 181,592 | 176,324 | 171,056 |
| EBIT Taxes | | 158,953 | 220,611 | 253,888 | (92,740) | 57,740 |
| Tax Rate | | 34.0% | 34.0% | 34.0% | 34.0% | 34.0% |
| Tax Expense | | 54,044 | 75,008 | 86,322 | (31,532) | 19,631 |
| NET INCOME (LOSS) | | 104,909 | 145,603 | 167,566 | (61,209) | 38,108 |
| | | | | | | 77,942 |
| | | | | | | 144,956 |
| | | | | | | 179,038 |

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FIGURE 6.12 SAMPLE CASH FLOW STATEMENT—STRESS CASE

| (\$ 000's) | PROJECTED | | | | | | | |
|---------------------------------------------------|------------------|------------------|------------------|-----------------|-----------------|------------------|------------------|------------------|
| | Dec-21 | Dec-22 | Dec-23 | Dec-24 | Dec-25 | Dec-26 | Dec-27 | Dec-28 |
| Net Income (Loss) | 104,909 | 145,603 | 167,566 | (61,209) | 38,108 | 77,942 | 144,956 | 179,038 |
| Depreciation and Amortization | 167,083 | 208,128 | 230,492 | 147,978 | 137,072 | 182,713 | 189,452 | 198,829 |
| Amortization of Fees | 31,608 | 31,608 | 31,608 | 31,608 | 31,608 | 31,608 | 31,608 | — |
| Deferred Taxes | 3 | 4 | 5 | (2) | 1 | 2 | 4 | 5 |
| Cash Income (CI) | 303,603 | 385,344 | 429,671 | 118,376 | 206,789 | 292,266 | 366,020 | 377,873 |
| WORKING CAPITAL ACTIVITIES: | | | | | | | | |
| Change in Accounts Receivable | (1,487) | (8,876) | (2,881) | 7,514 | (1,365) | (7,840) | (1,158) | (1,517) |
| Change in Inventory | — | — | — | — | — | — | — | — |
| Change in Other Current Assets | — | — | — | — | — | — | — | — |
| Change in Accounts Payable | (52,819) | 28,927 | 30,080 | (24,845) | (64,443) | 53,525 | (17,726) | 11,962 |
| Change in other Current Liabilities | — | — | — | — | — | — | — | — |
| Total Working Capital Activities | (54,306) | 20,052 | 27,199 | (17,331) | (65,808) | 45,685 | (18,883) | 10,444 |
| Operating Cash Flow (OCF) | 249,296 | 405,396 | 456,870 | 101,045 | 140,981 | 337,951 | 347,137 | 388,317 |
| INVESTMENT ACTIVITIES: | | | | | | | | |
| Capital Expenditures | (203,635) | (253,660) | (280,916) | (69,584) | (64,455) | (114,557) | (178,173) | (202,574) |
| Investments in the JV | — | — | — | — | — | — | — | — |
| Total Investment Activities | (203,635) | (253,660) | (280,916) | (69,584) | (64,455) | (114,557) | (178,173) | (202,574) |
| Cash Available for Debt Service (CAFDS) | 45,662 | 151,736 | 175,955 | 31,461 | 76,526 | 223,394 | 168,964 | 185,743 |
| Accumulated CAFDS | 45,662 | 197,398 | 373,353 | 404,813 | 481,339 | 704,733 | 873,697 | 1,059,440 |
| CAFDS as a % of Bank Debt at Transaction Closing | 3.0% | 13.2% | 24.9% | 27.0% | 32.1% | 47.0% | 58.2% | 70.6% |
| CAFDS as a % of Total Debt at Transaction Closing | 2.0% | 8.6% | 16.3% | 17.6% | 21.0% | 30.7% | 38.1% | 46.2% |

(continued)

| (\$ 000's) | PROJECTED | | | | | | | |
|------------------------------------------------|-----------|----------|----------|----------|-----------|-------------|---------|---------|
| | Dec-21 | Dec-22 | Dec-23 | Dec-24 | Dec-25 | Dec-26 | Dec-27 | Dec-28 |
| FINANCING ACTIVITIES (PMTs/Borrowings): | | | | | | | | |
| Revolver | — | — | — | — | — | — | — | — |
| Term Loan A | — | (35,000) | (70,000) | (70,000) | (105,000) | (4, 20,000) | — | — |
| Term Loan B | — | (8,000) | (8,000) | (8,000) | (8,000) | (768,000) | — | — |
| New Term Loan B | — | — | — | — | — | 700,000 | (7,000) | (7,000) |
| Subordinated Bonds | — | — | — | — | — | — | — | — |
| Total Debt Payments | — | (43,000) | (78,000) | (78,000) | (113,000) | (488,000) | (7,000) | (7,000) |
| Equity Contribution | — | — | — | — | — | — | — | — |
| Total Financing Activities | — | (43,000) | (78,000) | (78,000) | (113,000) | (488,000) | (7,000) | (7,000) |
| Net Change in Cash | 45,662 | 108,736 | 97,955 | (46,539) | (36,474) | (264,606) | 161,964 | 178,743 |
| Beginning Cash | 564,995 | 610,656 | 719,393 | 817,347 | 770,808 | 734,334 | 469,728 | 631,692 |
| Ending Cash | 610,656 | 719,393 | 817,347 | 770,808 | 734,334 | 469,728 | 631,692 | 810,435 |

FIGURE 6.13 SAMPLE BALANCE SHEET STATEMENT—STRESS CASE

| (\$ 000's) | Pre-Transaction Dec-20 | Debit | Credit | Post-Transaction | | | | Projected | | | |
|-----------------------------------------|---------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|---------------|
| | | | | Dec-20 | Dec-21 | Dec-22 | Dec-23 | Dec-24 | Dec-25 | Dec-26 | Dec-27 |
| Current Assets | | | | | | | | | | | |
| Cash | 564,995 | 564,995 | 610,656 | 719,393 | 817,347 | 770,808 | 734,334 | 469,728 | 631,692 | 810,435 | |
| Accounts Receivable | 16,451 | 16,451 | 17,938 | 26,813 | 29,694 | 22,181 | 23,545 | 31,385 | 32,543 | 34,060 | |
| Inventory | — | — | — | — | — | — | — | — | — | — | |
| Other Current Assets | — | — | — | — | — | — | — | — | — | — | |
| Total Current Assets | 581,446 | 581,446 | 628,594 | 746,206 | 847,042 | 792,989 | 757,879 | 501,114 | 664,235 | 844,496 | |
| Goodwill & Other Intangibles | | | | | | | | | | | |
| Capitalized Fees | 94,978 | 3,093,810 | 3,188,788 | 3,188,788 | 3,188,788 | 3,188,788 | 3,188,788 | 3,188,788 | 3,188,788 | 3,188,788 | |
| Tangible Assets | — | 221,258 | 221,258 | 189,649 | 158,041 | 126,333 | 94,825 | 63,216 | 31,608 | — | — |
| LTI & Other Assets | 4,135,146 | 4,171,698 | 4,217,730 | 4,267,453 | 4,189,259 | 4,116,643 | 4,048,487 | 4,037,208 | 4,040,953 | | |
| Total Assets | 4,906,979 | 95,410 | 95,410 |
| Current Liabilities | | | | | | | | | | | |
| Accounts Payable | 303,838 | 303,838 | 251,018 | 279,946 | 310,026 | 285,181 | 220,738 | 274,263 | 256,537 | 266,499 | |
| Other Current Liabilities | — | — | — | — | — | — | — | — | — | — | |
| Total Current Liabilities | 303,838 | 303,838 | 251,018 | 279,946 | 310,026 | 285,181 | 220,738 | 274,263 | 256,537 | 266,499 | |
| Existing Long-Term Debt | | | | | | | | | | | |
| Revolver | — | — | — | — | — | — | — | — | — | — | |
| Term Loan A | — | 700,000 | 700,000 | 665,000 | 595,000 | 525,000 | 420,000 | — | — | — | |
| Term Loan B | — | 800,000 | 800,000 | 792,000 | 784,000 | 776,000 | 768,000 | — | — | — | |
| New Term Loan B | — | 795,000 | 795,000 | 795,000 | 795,000 | 795,000 | 795,000 | 700,000 | 693,000 | 686,000 | |
| Subordinated Bonds | — | 2,295,000 | 2,295,000 | 2,252,000 | 2,174,000 | 2,096,000 | 1,983,000 | 1,495,000 | 1,488,000 | 1,481,000 | |
| Total Debt | 3,220,346 | 3,220,346 | 3,220,346 | 3,220,346 | 3,220,346 | 3,220,346 | 3,220,346 | 3,220,346 | 3,220,346 | 3,220,346 | |

(continued)

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| (\$ 000's) | Pre-Transaction | | Post-Transaction | | PROJECTED | | | | | | | | |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|--|
| | Dec-20 | Debit | Credit | Dec-20 | Dec-21 | Dec-22 | Dec-23 | Dec-24 | Dec-25 | Dec-26 | Dec-27 | Dec-28 | |
| Other Liabilities /Deferred Taxes | 321,701 | | | 321,701 | 321,704 | 321,708 | 321,714 | 321,712 | 321,713 | 321,715 | 321,720 | 321,725 | |
| Total Liabilities | <u>3,845,385</u> | | | <u>2,920,538</u> | <u>2,867,722</u> | <u>2,853,654</u> | <u>2,805,739</u> | <u>2,702,893</u> | <u>2,525,451</u> | <u>2,090,979</u> | <u>2,056,257</u> | <u>2,071,224</u> | |
| Shareholder's Equity | | | | | | | | | | | | | |
| Common Stock | 2,131 | 2,131 | 5,301,508 | 5,301,508 | 5,301,508 | 5,301,508 | 5,301,508 | 5,301,508 | 5,301,508 | 5,301,508 | 5,301,508 | 5,301,508 | |
| Other Equity | 1,112,560 | 1,112,560 | — | — | — | — | — | — | — | — | — | — | |
| Retained Earnings | (53,597) | (53,597) | — | 104,909 | 250,512 | 418,078 | 356,869 | 394,977 | 472,919 | 617,875 | 796,913 | | |
| Total Shareholder's Equity | <u>1,061,094</u> | | <u>5,406,417</u> | <u>5,552,020</u> | <u>5,719,586</u> | <u>5,658,377</u> | <u>5,696,485</u> | <u>5,774,427</u> | <u>5,919,383</u> | <u>6,098,421</u> | | | |
| Total Liabilities & Equity | <u>4,906,979</u> | <u>7,596,508</u> | <u>7,596,508</u> | <u>8,222,046</u> | <u>8,274,139</u> | <u>8,405,674</u> | <u>8,525,325</u> | <u>8,361,270</u> | <u>8,221,936</u> | <u>7,865,406</u> | <u>7,995,640</u> | <u>8,169,645</u> | |

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FIGURE 6.14 SAMPLE RATIO ANALYSIS—STRESS CASE

| | Dec-21 | Dec-22 | Dec-23 | Dec-24 | Dec-25 | Dec-26 | Dec-27 | Dec-28 |
|----------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Coverage Ratio | | | | | | | | |
| EBITDA/ Interest | 3.42x | 3.72x | 3.84x | 1.49x | 2.32x | 2.46x | 4.15x | 4.37x |
| Covenant | 2.00x |
| EBITDA Cushion (\$'000's)* | (209,614) | (290,797) | (334,396) | 89,478 | (55,363) | (104,747) | (300,640) | (330,714) |
| Senior Leverage Ratio | | | | | | | | |
| Senior Secured Debt / EBITDA | 2.97x | 2.31x | 1.98x | 4.94x | 2.99x | 1.25x | 1.19x | 1.13x |
| Net Senior Secured Debt / EBITDA | 1.76x | 1.17x | 0.81x | 2.01x | 1.14x | 0.41x | 0.11x | 0.00x |
| Covenant (Net Senior Secured Leverage Ratio) | 4.25x | 4.25x | 3.75x | 3.75x | 3.25x | 3.25x | 3.25x | 3.25x |
| EBITDA Cushion (\$'000's)* | (296,416) | (456,343) | (547,806) | (121,786) | (257,886) | (704,615) | (775,107) | (858,849) |
| Total Leverage Ratio | | | | | | | | |
| Total Debt / EBITDA | 4.54x | 3.58x | 3.12x | 7.96x | 4.99x | 2.67x | 2.56x | 2.43x |
| Net Total Debt / EBITDA | 3.33x | 2.43x | 1.94x | 5.04x | 3.14x | 1.83x | 1.47x | 1.10x |
| Covenant (Net Total Leverage Ratio) | 6.00x | 6.00x | 5.00x | 5.00x | 4.00x | 4.00x | 4.00x | 4.00x |
| EBITDA Cushion (\$'000's)* | (224,949) | (374,463) | (426,249) | 1,868 | (85,309) | (303,765) | (366,663) | (441,843) |
| Total Debt / Total Capitalization | 29.8% | 28.9% | 27.5% | 27.0% | 25.8% | 20.6% | 20.1% | 19.5% |

* How much the EBITDA has to drop before the company violates the covenant