

CASE STUDY: HOME SUITES (HSE)

Continuing the HSE case study, this section will focus on other analytical work that is done by the bank's internal departments, as well as the quantitative approach to rating the transaction by the external rating agencies. Other analysis that is done by other departments related to this deal will due diligence on the borrower referred to KYC. HSE information is used again from other chapters for a better flow.

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 mid-priced 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 Private Equity Firms

SuperInv and AllStar announce that the two private equity (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 stronger than its peers. The PE firms' offer of \$22.50 per share represents a premium of 20% to HSE's share closing price on April 2. Shares of HSE rose more than 22% before the opening bell.

FACILITIES TERMS & CONDITIONS

Borrower:	Home Suites, Inc.
Guarantor for the Loan:	Home Suites Holdings LLC (“Holdings”) and each material wholly owned domestic restricted, subsidiary, subject to customary exceptions
Investors/PE Sponsor(s)	“SuperInv,” “AllStar” (60%/40% ownership split)
Agent (s)	Admin Agent Bank (Left Lead): Topbank Bank NA
Term Facilities	TL A: \$700,000,000 TL B: \$800,000,000 Subordinated Notes (SN): \$795,000,000
Purpose of Loans	TL A, TL B, and SN: to fund the LBO transaction

Base Rate(s)	Term Loan A & B 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. SN: Fixed Rate
Pricing	TL A: $L + 350 - 400$ TL B: $L + 400 - 550$ SN: 9.0% Fixed
Maturities	TL A: November 2026 TL B: November 2028 SN: November 2031
Call Protections	TL B: 101 soft calls 6 months post-closing SN: 105, 104, 103, 102, 101 (Year 1–Year 5, respectively) and 100 thereafter
Amortization Schedule	TL A: annual amortization schedule of 5%, 10%, 10%, 15%, 15% with quarterly payment (first payment in 3/2022), remaining at maturity. TL B: 1% per annual with quarterly payment (first payment in 3/2022), remaining at maturity SN: Years 1–9 (0%) and Year 10 (100%)
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	<p>Financial Condition Covenants</p> <p>Indebtedness</p> <p>Liens</p> <p>Fundamental Changes</p> <p>Restricted Payments</p> <p>Transactions With Affiliates</p> <p>Certain Amendments</p> <p>Amendments to other Loan Documents Regarding Debt Incurrence</p>
Events of Default	<p>Missed Interest or Principal Payment</p> <p>Material Inaccurate in Representations and Warranties</p> <p>Breach of Covenants</p> <p>ERISA Event</p> <p>Cross-Default</p> <p>Insolvency</p> <p>Change of Control</p> <p>Material Adverse change</p>
Mandatory Prepayments	<p>Subject to reinvestments or prepayment of loans:</p> <p>100% proceeds from selling assets subject.</p> <p>100% proceeds from equity investment</p>
Excess Cash Sweep	<p>Starts at 50% with two step-downs:</p> <ul style="list-style-type: none"> • Step-down to 25% at 2.50x net first lien leverage ratio • Step-down to 0% at 1.50x net first lien leverage ratio

FIGURE 8.4 SAMPLE RATING ASSESSMENT REPORT

ASSIGNED RATING			
Assigned ratings:	Rating	Outlook	Comments
Issuer	B	Stable	
Bank Loan	B+	Stable	
Subordinated Notes	B-	Stable	
Country:	USA	AA+ Negative	
Industry Sector:	Consumer Discretionary		
Industry Specific:	Hospitality & Leisure		
Company Description:	Hotel in the extended stay market		
Financial Covenants:	Yes		
FINANCIAL RISK ANALYSIS			
	Dec-21	Estim. Rating	Comperative Average
Coverage Ratio			
EBITDA / Interest	2.70x	BB-	
Solvency and Leverage Ratios			
Senior Secured Debt / EBITDA	3.75x	B-	
Net Senior Secured Debt / EBITDA	2.26x	B+	
Total Debt / EBITDA	5.74x	B	
Net Total Debt / EBITDA	4.25x	B+	
Total Debt / Total Capitalization	30.2%	B	

(continued)

FIGURE 8.4 SAMPLE RATING ASSESSMENT REPORT (CONTINUED)

PROJECTIONS (\$ 000's)	Historical	PROJECTED				
	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
REVENUE	1,250,779	1,309,460	1,631,143	1,806,409	1,897,273	1,983,364
Sales Growth		4.7%	24.6%	10.7%	5.0%	4.5%
COST OF SALES	712,512	745,940	896,565	956,773	966,954	971,163
Gross Profit	538,267	563,520	734,578	849,636	930,319	1,012,201
Gross Margin	43.0%	43.0%	45.0%	47.0%	49.0%	51.0%
Operating Expenses (excludind D&A)	155,898	163,631	191,595	198,634	194,396	203,217
EBITDA	382,369	399,889	542,983	651,002	735,923	808,984
% Sales	30.6%	30.5%	33.3%	36.0%	38.8%	40.8%
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