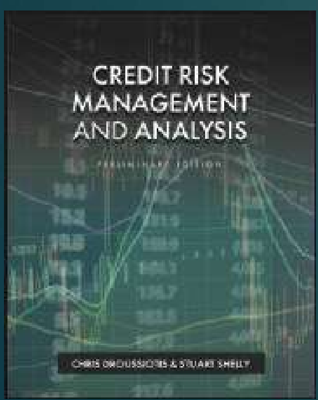
Chapter 6: Financial Credit and Structure of the Loan

Case Study: HOME SUITES (HSE)



Chapter 6

"Credit Risk Management & Analysis"

FINANCIAL STRUCTURE: AN OVERVIEW

- **In performing their credit risk management and analysis, the credit analyst must first understand the operations of the enterprise as a going concern without debt.**
- The first objective of the credit analyst is to develop a deep understanding of their borrowers' operational dynamics, revenues, and expenses.
- The credit analyst should undertake a thorough review of the borrower's historical financial performance and trends.
- The credit analyst must incorporate their understanding of the company and compare its performance to the overall industry.

FINANCIAL STRUCTURE: AN OVERVIEW

- Once the credit analyst has undertaken a comprehensive company review, the next step is to determine how much debt the borrower can reasonably manage based on its financial performance, collateral, corporate structure, and industry dynamics.
- This analysis is called the establishment of the borrower's debt capacity, which is the amount of debt that the company can handle in various sensitivity scenarios.
  - ***In the case of a leveraged buyout (LBO), the premise is that the investor is seeking as much debt as possible to enhance its returns, though too much debt could have other negative implications for all parties involved. Structuring the right amount of debt is the challenge.***
- Independent rating agencies such as Standard & Poor's, Moody's, and Fitch focus on rating these debt facilities and the company (issuer of debt) is the amount of debt relative to their ability to repay it.

DEBT CAPACITY

- **Debt capacity is the amount of financial leverage that the acquired company can support based on its future projected cash flows and its asset base.**
- The future projected cash flows are generally provided to the lender by the borrower or an equity sponsor (a private equity (PE) firm), but in each case, the credit analyst must take an educated evaluation of the reasonableness and voracity of the company forecast to establish their best and most probable or most likely case for forecasted cash flows.
- In the case of an acquisition, or when discussing the value of an enterprise, it is common to frame the valuation in terms of an earnings before interest taxes, depreciation, and amortization (EBITDA) multiple.
- It is not surprising to understand that the same EBITDA multiple concept is used when referring to debt capacity.

DEBT CAPACITY

- The debt capacity of a company can be determined after thorough consideration of the market demand for a company's product, industry sensitivity, company-specific dynamics, and the structural risks associated with the company.
- For every company, and particularly in the case of an acquisition, the enterprise debt capacity is important because the lender needs to assure themselves that the company **can support and maintain a certain amount of debt** without the risk of default and potentially suffering a loss as a result.
- While a valuation of an enterprise and the participants in an industry can result in high EBITDA multiples, the debt capacity EBITDA multiple may be significantly lower.
- Enterprise value multiples may be driven by growth prospects and industry- and enterprise-specific dynamics.
- The enterprise debt capacity is driven by its collateral values and the predictable nature of its stable cash flows.

DEBT CAPACITY

- A highly predictable cash flow business, with high, stable, long-live predictable asset values, such as a utility, might have very high debt capacity multiples, while a less predictable business in the service industry may have a lower debt capacity EBITDA multiple, such as a consulting business.
- The first analysis the credit analyst must make in determining an enterprise debt capacity is a collateral review and specifically a working capital asset review. The collateral review would expand to the fixed assets, both tangible and intangible, such as chattel furniture fixtures, equipment, and real property.
- Once the credit analyst has conducted a thorough collateral analysis, they will perform the detailed financial performance analysis, consisting of historical financial statements review and forecasted cash flow analysis, using sensitivity scenarios.
- The credit analyst debt capacity analysis will culminate in determining what collateral debt capacity an enterprise has and thereafter what additional, if any, cash flow debt capacity the enterprise has or possibly cash flow debt capacity limitations it may have.

Structuring the Loan

1. Establish available working capital collateral
   - Asset-based loan structure advance rates—dependent on audit and operational capability of lender
   - Wholesale banking structure advance rates
   - Maximum revolver and borrowing base
   - Establish seasonality to provide a range of expectations of outstanding balance and costs of debt
   - Transaction or immediate liquidity needs required—reduces the amount of funding and debt capacity at closing
2. Establish term collateral
   - Equipment—market value, disposition costs, relocation costs, foreclosure costs
   - Real property—specialized versus homogeneous
   - Determine term debt capacity and term debt maturity.
3. Combine collateral debt capacity from 1 and 2 above

Credit Analysis Basics

1. Revenue analysis
   - Products
   - Channels
   - Unit volumes
   - Pricing
2. Cost of goods sold (COGS) analysis
   - Raw materials
   - Work in progress
   - Finished goods
3. Selling, General and Administrative (SG&A) expenses
4. Depreciation and amortization
5. Adjustments
6. EBITDA—normalized, steady-state, predictable enterprise cash flow

TRANSACTION PROCESS AND ANALYSIS: AN OVERVIEW

- A company needs to decide either to raise equity or debt, or both, and that constitutes a transaction.
- Every transaction that involves accessing the capital markets for successful execution is unique.
- Whether a PE firm is tendering 100% of the shares of a publicly traded company or a company is seeking to merge with another company, the capital market raised has different “shapes and sizes.”
- The common goal, of course, is meeting or exceeding return expectation.
- Since each investor, debt, or equity that is participating in the transaction has different objectives, it is important that the transaction is structured to meet everyone’s expectations.

ONE TRANSACTION, MULTIPLE EXPECTATIONS: THE ANALYSIS

Basically, a transaction such as mergers and acquisitions (M&A) or an LBO include multiple parties that are needed for a successful execution such as

- Private, strategic, and public investors;
- Investment bankers and underwriters;
- Commercial bankers who provide bank loans;
- Bond investors;
- Target companies;
- Government regulators; and
- Rating agencies.

STRUCTURING THE TRANSACTION

They are various steps to structuring an LBO. Investment banks that advise the PE investors typically consider the following:

- Measuring debt capacity. What is the maximum debt banks and bond holders, or mezzanine investors are willing to lend?
- Building a financial model that demonstrates how the debt will be serviced and how the PE investor will meet his or her expected return. The financial model will build top-line revenue growth for the acquisition target, cost and income margin assumptions, capital expenditures (Capex) that support the projected growth level, and interest rate assumptions for each type of debt.
- Build the equity cash flows, including a measurable terminal value and appropriate discount rates.

BUILDING THE MODEL AND TESTING THE DEBT REPAYMENT AND EQUITY RETURN USING EXCEL

Building the Historical Analysis

- The first step is to collect all the company's historical financial information (10K and 10Q reports if the target is a publicly traded company)
- In an M&A or an LBO transaction, the sell-side adviser typically provides this information to interested buyers, which might also include industry reports, transaction specifics, and financial projections.

Setting Up the M&A or LBO Transactions Sources and Uses

- • ***Assumption of Purchase Price—Use of Capital.*** The PE firm might hire an adviser (buy-side adviser) to assist them with the purchase price. In general, an experienced PE firm will use basic assumption first to run the numbers such as EBITDA purchase multiples.
- ***Assumption of Financing and Debt Repayment—Source of Capital.*** The sources of capital are determined by the target company's debt capacity.

Building the Projections

- All lines of the income, cash flow, and balance sheet statements need to be addressed in projecting them out.

CASE STUDY:
HOME SUITES (HSE)

CASE STUDY: HOME SUITES (HSE)

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.

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.

CASE STUDY: HOME SUITES (HSE)

TRANSACTION SOURCES & USES ($ 000's)

Sources	Funded	% of Total Cap	FY2020 EBITDAx	FY2019 EBITDAx
Revolver ($400,000)		0.0%		
Term Loan A	700,000	9.2%	1.8x	1.2x
Term Loan B	800,000	10.5%	2.1x	1.4x
Total Bank Debt	**1,500,000**	**19.7%**	**3.9x**	**2.6x**
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**

Uses	Stock Price ($)	Shares Outstanding	Amount
Cash			-
Purchase Price	$ 22.50	184,662	4,154,904
Refinance Debt			3,220,346
Transaction Fees & Expenses	3.00%		221,258
Total Uses			**7,596,508**

Acquisition Target 2020 (Covid) EBITDA = 382,369

Acquisition Target 2019 (normal) EBITDA = 576,528

SOFR Rate/Floor= 1.00%

CASE STUDY: HOME SUITES (HSE)

Home Suites (NYSE: HSE)
Public to Private LBO Transaction

TRANSACTION 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 Capitatlization	**4,281,440**	**11.2x**	**3,315,068**	**7,596,508**	**19.9x**	**13.2x**

Acquisition Target 2020 (Covid) EBITDA = 382,369
Acquisition Target 2019 (normal) EBITDA = 576,528

CASE STUDY: HOME SUITES (HSE)

CREDIT APPLICATION—TERMS AND CONDITIONS

Borrower(s):	Home Suites Inc (the "Borrower")
Guarantor(s)	Home Suites Holdings LLC ("Holdings")
Expected Closing Date:	11/2021
Sponsor(s):	"SuperInv," "AllStar" (60%/40% ownership split)
Agent (s)	Admin Agent Bank (Left Lead): Topbank Bank NA
Facilities:	RC $400,000,000 TL A $700.000,000 TL B $800,000,000
Purpose of Loans:	RC - working capital. TL A and TL B: to fund the LBO transaction

CASE STUDY: HOME SUITES (HSE)

CREDIT APPLICATION—TERMS AND CONDITIONS

Base Rate(s):	SOFR (1% Floor)
Underwriting Fees / OID:	RC: 2.25, TL A: 2.25% TL B: 2.25%
Original Issue Discount (OID)	RC: 97.75 TL A: 97.75 TL B: 99.75%
Pricing Spread(s)	RC: L + 350 – 400 (50bps commitment) TL A: L + 350 – 400 TL B: L + 400 – 550
Maturities:	RC and TL A: 11/2026, TL B: 11/2028
Call Protections	TL B: 101 soft calls 6 months post-closing
Amortization Schedule	TL A: 5%, 10%, 10%, 15%, 15%, the Balance TL B: 1% anually for 6 years, remaining at maturity

CASE STUDY: HOME SUITES (HSE)

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, 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

CASE STUDY: HOME SUITES (HSE)

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	MFN: 50bps (no sunset)

CASE STUDY: HOME SUITES (HSE)

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.

CASE STUDY: HOME SUITES (HSE)

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.

CASE STUDY: HOME SUITES (HSE)

BASE CASE ASSUMPTIONS—CASH FLOW STATEMENT AND BALANCE SHEET STAT EMENT

- 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.

HOME SUITES ("HSE")
Base Case

INPUT OPERATING ASSUMPTIONS

	PROJECTED							
INCOME STATEMENT ASSUMPTIONS	**Dec-21**	**Dec-22**	**Dec-23**	**Dec-24**	**Dec-25**	**Dec-26**	**Dec-27**	**Dec-28**
Revenue Worksheet Assumptions								
Average Daily Rate (ADR)	63.86	65.78	67.75	69.78	71.87	74.03	76.25	78.54
ADR Price Increase %	3.0%	3.0%	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%	80.0%	80.0%
RevPar	**$ 38.95**	**$ 49.33**	**$ 54.20**	**$ 55.83**	**$ 57.50**	**$ 59.22**	**$ 61.00**	**$ 62.83**
Number of Rooms	75,888	77,406	78,954	80,533	82,144	83,786	85,462	87,171
Increase %	2.00%	2.00%	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**	**1,902,871**	**2,004,633**
Revenue fron Frenchised Hotels	**230,451**	**237,365**	**244,486**	**251,821**	**259,375**	**267,156**	**275,171**	**283,426**
Growth	3.00%	3.00%	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**	**2,178,042**	**2,288,059**
Cost of Revenue as % of Revenue	57.0%	55.0%	53.0%	51.0%	49.0%	47.0%	46.0%	45.0%
Operating Expenses (excludind D&A) as % of Revenue	12.5%	11.7%	11.0%	10.2%	10.2%	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%	16.1%	16.1%
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%	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%	0.01%	0.01%
BALANCE SHEET ASSUMPTIONS								
Accounts Receivable Days	5.00	6.00	6.00	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	128.14	128.14
Other Current Liabilities as % of Revenues	-	-	-	-	-	-	-	-

CASE STUDY: HOME SUITES (HSE)

OPERATING ASSUMPTIONS

HOME SUITES ("HSE")
Base Case
Transaction closing: 11/2021

DEBT SCHEDULE ASSUMPTIONS

($ 000's)		Historical	PROJECTED							
		Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26	Dec-27	Dec-28
Interest Rate Assumptions										
SOFR Rate		0.60%	1.10%	1.60%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%
SOFR Iincrease / Decrease			0.5%	0.5%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Revolver	**COMMITMENT**	**FUNDED AMOUNT**								
Outstanding (unfunded)	400,000	-	400,000	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%	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%
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%	94.00%
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%
Interest rate			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%
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
Interest rate			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

CASE STUDY: HOME SUITES (HSE)

HOME SUITES ("HSE")
Base Case

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	712,512	745,940	896,565	956,773	966,954	971,163	976,120	1,001,147	1,028,836
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 (excludind D&A)	155,898	163,631	191,595	198,634	194,396	203,217	212,952	223,164	234,436
EBITDA	382,369	399,889	542,983	651,002	735,923	808,984	889,307	953,731	1,024,787
% Sales	30.6%	30.5%	33.3%	36.0%	38.8%	40.8%	42.8%	43.8%	44.8%
Depreciation and Amortization		211,388	263,318	291,612	306,280	320,178	335,517	351,605	369,366
EBITA (A as Amortization of Transaction Fees)		188,500	279,664	359,390	429,643	488,806	553,790	602,126	655,421
Amort. of Fees Year Amort:	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		134,526	-	-	-	-	-	-	-
Revolver		167	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Term Loan A		2,975	39,200	43,890	39,270	34,650	25,410	-	-
Term Loan B		4,400	56,800	64,152	63,504	62,856	62,208	61,560	-
New Term Loan B		-	-	-	-	-	-	-	-
Subordinated Bonds		5,963	71,550	71,550	71,550	71,550	71,550	71,550	71,550
Total Interest Expense		148,030	169,550	181,592	176,324	171,056	161,168	135,110	73,550
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%
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

CASE STUDY: HOME SUITES (HSE)

CASE STUDY: HOME SUITES (HSE)

HOME SUITES ("HSE")

Base Case

CASH FLOW STATEMENT

($ 000's)

	PROJECTED							
	Dec-21	**Dec-22**	**Dec-23**	**Dec-24**	**Dec-25**	**Dec-26**	**Dec-27**	**Dec-28**
Net Income (Loss)	5,849	51,814	96,485	146,329	188,853	238,269	287,369	384,035
Depreciation and Amortization	211,388	263,318	291,612	306,280	320,178	335,517	351,605	369,366
Amortization of Fees	31,608	31,608	31,608	31,608	31,608	31,608	31,608	-
Deffered Taxes	0	2	3	4	6	7	9	12
Cash Income (CI)	**248,846**	**346,742**	**419,709**	**484,222**	**540,646**	**605,401**	**670,591**	**753,412**
WORKING CAPITAL ACTIVITIES:								
Change in Accounts Receivable	(1,487)	(8,876)	(2,881)	(1,408)	(1,500)	(1,562)	(1,638)	(1,706)
Change in Inventory	-	-	-	-	-	-	-	-
Change in Other Current Assets	-	-	-	-	-	-	-	-
Change in Accounts Payable	(11,339)	22,255	21,137	2,647	2,405	1,740	8,786	8,734
Change in other Current Liabilities	-	-	-	-	-	-	-	-
Total Working Capital Activities	(12,826)	13,379	18,256	1,238	905	178	7,148	7,028
Operating Cash Flow (OCF)	236,020	360,121	437,964	485,460	541,550	605,580	677,739	760,441
INVESTMENT ACTIVITIES:								
Capital Expenditures	(203,635)	(253,660)	(280,916)	(295,046)	(308,434)	(323,210)	(338,708)	(355,817)
Investments in the JV	-	-	-	-	-	-	-	-
Total Investment Activivites	(203,635)	(253,660)	(280,916)	(295,046)	(308,434)	(323,210)	(338,708)	(355,817)
Cash Available for Debt Service (CAFDS)	32,385	106,462	157,049	190,414	233,117	282,370	339,031	404,623
Accumulated CAFDS	32,385	138,847	295,896	486,310	719,427	1,001,797	1,340,828	1,745,451
CAFDS as a % of Bank Debt at Transaction Closing	2.2%	9.3%	19.7%	32.4%	48.0%	66.8%	89.4%	116.4%
CAFDS as a % of Total Debt at Transaction Closing	1.4%	6.0%	12.9%	21.2%	31.3%	43.7%	58.4%	76.1%
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 Activivites	-	(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

Home Suites ("HSE")
Base Case

BALANCE SHEET

($ 000's)	Pre-Transaction	Debit	Credit	Post - Transaction	PROJECTED							
	Dec-20			Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26	Dec-27	Dec-28
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			581,446	615,318	687,655	769,585	883,408	1,005,025	860,957	1,193,626	847,955
Goodwill & Other Intagibles	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	3,188,788
Capitalized Fees	-	221,258		221,258	189,649	158,041	126,433	94,825	63,216	31,608	-	-
Tangible Assets	4,135,146			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			8,222,046	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	700,000	665,000	595,000	525,000	420,000	-	-	-
Term Loan B	-		800,000	800,000	800,000	792,000	784,000	776,000	768,000	760,000	752,000	-
New Term Loan B					-	-	-	-	-	-	-	-
Subordinated Bonds	-		795,000	795,000	795,000	795,000	795,000	795,000	795,000	795,000	795,000	795,000
Total Debt	3,220,346			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
Other Liabilities / Deferred Taxes	321,701			321,701	321,701	321,703	321,706	321,710	321,716	321,723	321,732	321,744
Total Liabilities	3,845,885			2,920,538	2,909,199	2,888,456	2,831,596	2,756,247	2,645,658	2,219,405	2,220,200	1,476,946
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)		-	5,849	57,663	154,149	300,478	489,331	727,600	1,014,969	1,399,004
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	6,029,108	6,316,477	6,700,512
Total Liabilities & Equity	4,906,979	7,596,508	7,596,508	8,222,046	8,216,557	8,247,627	8,287,252	8,358,232	8,436,497	8,248,514	8,536,677	8,177,458

CASE STUDY: HOME SUITES (HSE)

CASE STUDY: HOME SUITES (HSE)

HOME SUITES ("HSE")
Base Case

SUMMARY INFO & CREDIT ANALYSIS

	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	2.00x	2.00x	2.00x	2.00x	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*

CASE STUDY: HOME SUITES (HSE)

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.

CASE STUDY: HOME SUITES (HSE)

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.

CASE STUDY: HOME SUITES (HSE)

STRESS CASE ASSUMPTIONS—CASH FLOW STATEMENT AND BALANCE SHEET STAT EMENT

- 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.
- 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 agai

HOME SUITES ("HSE")
Stress Case
Transaction closing: 11/2021

DEBT SCHEDULE ASSUMPTIONS

($ 000's)		Historical	PROJECTED							
		Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26	Dec-27	Dec-28
Interest Rate Assumptions										
SOFR Rate		0.60%	1.10%	1.60%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%
SOFR Iincrease / Decrease			0.5%	0.5%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Revolver	**COMMITMENT**	**FUNDED AMOUNT**								
Outstanding (unfunded)	400,000	-	400,000	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%	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%	94.00%
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%
Interest rate			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%	1.00%	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
Interest rate			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

CASE STUDY: HOME SUITES (HSE)

CASE STUDY: HOME SUITES (HSE)

HOME SUITES ("HSE")

Stress Case

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	1,159,735	1,074,258	1,431,961	1,484,775	1,558,265
Sales Growth		4.7%	24.6%	10.7%	-35.8%	-7.4%	33.3%	3.7%	4.9%
COST OF SALES	712,512	640,155	797,417	883,099	695,841	537,129	700,043	725,862	761,789
Gross Profit	538,267	669,304	833,726	923,310	463,894	537,129	731,918	758,913	796,476
Gross Margin	43.0%	51.1%	51.1%	51.1%	40.0%	50.0%	51.1%	51.1%	51.1%
Operating Expenses (excludind D&A)	155,898	163,631	203,829	225,730	200,724	139,653	171,835	178,173	186,992
EBITDA	382,369	505,673	629,897	697,580	263,170	397,475	560,083	580,740	609,484
% Sales	30.6%	38.6%	38.6%	38.6%	22.7%	37.0%	39.1%	39.1%	39.1%
Depreciation and Amortization		167,083	208,128	230,492	147,978	137,072	182,713	189,452	198,829
EBITA (A as Amortization of Transaction Fees)		338,591	421,769	467,088	115,192	260,404	377,370	391,288	410,655
Amort. of Fees — Year Amort: 7		31,608	31,608	31,608	31,608	31,608	31,608	31,608	
EBIT		306,982	390,161	435,480	83,584	228,796	345,762	359,680	410,655
INTEREST EXPENSE (INCOME):									
Existing Debts		134,526	-	-	-	-	-	-	-
Revolver		167	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Term Loan A		2,975	39,200	43,890	39,270	34,650	25,410	-	-
Term Loan B		4,400	56,800	64,152	63,504	62,856	62,208	-	-
New Term Loan B		-	-	-	-	-	66,500	66,500	65,835
Subordinated Bonds		5,963	71,550	71,550	71,550	71,550	71,550	71,550	71,550
Total Interest Expense		148,030	169,550	181,592	176,324	171,056	227,668	140,050	139,385
EBT Taxes		158,953	220,611	253,888	(92,740)	57,740	118,094	219,630	271,270
Tax Rate		34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%
Tax Expense		54,044	75,008	86,322	(31,532)	19,631	40,152	74,674	92,232
NET INCOME (LOSS)		104,909	145,603	167,566	(61,209)	38,108	77,942	144,956	179,038

HOME SUITES ("HSE")

Stress Case

CASH FLOW STATEMENT								
($ 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	-
Deffered 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 Activivites	(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%
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)	(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 Activivites	-	(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

CASE STUDY: HOME SUITES (HSE)

Home Suites ("HSE")
Stress Case

BALANCE SHEET

($ 000's)	Pre-Transaction	Debit	Credit	Post - Transaction	PROJECTED							
	Dec-20			Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26	Dec-27	Dec-28
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 Intagibles	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	3,188,788
Capitalized Fees	-	221,258		221,258	189,649	158,041	126,433	94,825	63,216	31,608	-	-
Tangible Assets	4,135,146			4,135,146	4,171,698	4,217,230	4,267,653	4,189,259	4,116,643	4,048,487	4,037,208	4,040,953
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			8,222,046	8,274,139	8,405,674	8,525,325	8,361,270	8,221,936	7,865,406	7,985,640	8,169,645
Current Liabilities												
Accounts Payable	303,838			303,838	251,018	279,946	310,026	285,181	220,738	274,263	256,537	268,499
Other Current Liabilities	-			-	-	-	-	-	-	-	-	-
Total Current Liabilities	303,838			303,838	251,018	279,946	310,026	285,181	220,738	274,263	256,537	268,499
Existing Long Term Debt	3,220,346	3,220,346		-	-	-	-	-	-	-	-	-
Revolver	-		-	-	-	-	-	-	-	-	-	-
Term Loan A	-		700,000	700,000	700,000	665,000	595,000	525,000	420,000	-	-	-
Term Loan B	-		800,000	800,000	800,000	792,000	784,000	776,000	768,000	-	-	-
New Term Loan B					-	-	-	-	-	700,000	693,000	686,000
Subordinated Bonds	-		795,000	795,000	795,000	795,000	795,000	795,000	795,000	795,000	795,000	795,000
Total Debt	3,220,346			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
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	3,845,885			2,920,538	2,867,722	2,853,654	2,805,739	2,702,893	2,525,451	2,090,979	2,066,257	2,071,224
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	1,061,094			5,301,508	5,406,417	5,552,020	5,719,586	5,658,377	5,696,485	5,774,427	5,919,383	6,098,421
Total Liabilities & Equity	4,906,979	7,596,508	7,596,508	8,222,046	8,274,139	8,405,674	8,525,325	8,361,270	8,221,936	7,865,406	7,985,640	8,169,645

CASE STUDY: HOME SUITES (HSE)

CASE STUDY: HOME SUITES (HSE)

HOME SUITES ("HSE")
Stress Case

SUMMARY INFO & CREDIT ANALYSIS

	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	2.00x	2.00x	2.00x	2.00x	2.00x	2.00x	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*

CASE STUDY: HOME SUITES (HSE)

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.