MONETIZING YOUR PORTFOLIO COMPANY'S REAL ESTATE

Presented By:

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Madison O'Connor
About STNL Advisors

General Overview of the M&A Process

Value-Add Opportunities for Lease/Non-Owned Real Estate

Value-Add Opportunities for Owned Real Estate

Final Q&A
Overview of STNL Advisors

STNL Advisors is a real estate consulting group that specializes in unlocking hidden value related to leasehold and fee-owned real estate assets on behalf of sponsors and operators.
Track Record

21
YEAR OPERATING HISTORY

$12 B
CLOSED SALE-LEASEBACK

$350 M
BUY & RECAST PROCEEDS

$75 M
LANDLORD CAPEX CONTRIBUTIONS

$500 M
TENANT RENTAL SAVINGS
M&A Process Overview

- Value Business at a Multiple of EBITDA
- Obtain Real Estate Loan or Complete Sale-Leaseback
- Value Owned Real Estate at Portfolio vs. One-Off Sale-Leaseback Value
- Use the Sale-Leaseback Financing (and Additional Funds or Debt, if Required) to Acquire the Business
- Consider Real Estate Options for Simultaneous Closing or by Taking Title and Selling Over Time
- Analyze Leases and Rents for Leasehold Properties
- Analyze Real Estate Risk Factors for Loss of EBITDA
Value Add Steps

**ANALYZE NON-OWNED REAL ESTATE**
- Arbitrage Opportunities
- EBITDA Increase
- Fund CapEx or New Development

**VALUATION OF OWNED REAL ESTATE**
- Value in Sale-Leaseback
- Value in Hybrid Sale-Leaseback
- Value of Dark Properties

**IMMEDIATELY START TO RETURN CAPITAL INVESTMENT BEYOND SALE-LEASEBACK**
- Buy and Recast™ Opportunity
- Rental Savings
- Sublease / Termination
## Real Estate Overview

### Real Estate Assets

<table>
<thead>
<tr>
<th>Leased</th>
<th>Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Performing</strong></td>
<td><strong>Non-Performing</strong></td>
</tr>
<tr>
<td>Rent Abatement/Renewals</td>
<td>Lease Termination Negotiations</td>
</tr>
<tr>
<td>Restructure</td>
<td>Market for Replacement/Subtenant</td>
</tr>
<tr>
<td>Buy and Sell</td>
<td>Rent Reductions/Restructure</td>
</tr>
<tr>
<td>Extend Lease Terms</td>
<td>Term Reductions/Restructure</td>
</tr>
<tr>
<td>Negotiate for CapEx Contributions</td>
<td><strong>Performing</strong></td>
</tr>
<tr>
<td>Secure Short-Term High Performers</td>
<td>Monetize Through Sale-Leaseback</td>
</tr>
<tr>
<td></td>
<td>Alternative Vacant Value Analysis</td>
</tr>
<tr>
<td></td>
<td><strong>Non-Performing</strong></td>
</tr>
<tr>
<td></td>
<td>Sale of Dark Asset to Market</td>
</tr>
<tr>
<td></td>
<td>Find Replacement Tenant</td>
</tr>
</tbody>
</table>
LEASED / NON-OWNED REAL ESTATE STRATEGIES

- Lease Negotiation
  - Lease Restructure
  - Lease Termination
  - Lease Extension
- Landlord CAPEX Contribution
- Buy and Recast™
- Relocation Analysis
Strategy: Lease Negotiation

UNIT LEVEL & MARKET EVALUATION
- Market/Location Analysis & Impact Study
- Lease Abstracting - "Mining" for Value
- Unit Level Economics/Performance and Impact Profitability
- Relocation Analysis

LANDLORD PROFILING
- Institutional
- Debt & Equity Position of Landlord
- Private
- Debt & Equity Position of Landlord

CREATING TOOLS FOR SUCCESS
- Utilize Property Level Analysis to Generate Leverage in Negotiations

CUSTOMIZED BY LOCATION
- Negotiate and Document the Best Structure for Each Asset
# Case Study: Lease Restructure

**PROPERTY METRICS**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GROSS SALES</strong></td>
<td>$13,000,000</td>
</tr>
<tr>
<td><strong>BUILDING SF</strong></td>
<td>51,000</td>
</tr>
<tr>
<td><strong>NET INCOME</strong></td>
<td>$160,000</td>
</tr>
<tr>
<td><strong>ADD BACK:</strong></td>
<td></td>
</tr>
<tr>
<td>INTEREST</td>
<td>$-</td>
</tr>
<tr>
<td>INCOME TAXES</td>
<td>$-</td>
</tr>
<tr>
<td>DEPRECIATION</td>
<td>$-</td>
</tr>
<tr>
<td>AMORTIZATION</td>
<td>$-</td>
</tr>
<tr>
<td>RENT</td>
<td>$780,000</td>
</tr>
<tr>
<td>% RENT</td>
<td>$-</td>
</tr>
<tr>
<td>OVERHEAD/ G&amp;A</td>
<td>$-</td>
</tr>
<tr>
<td><strong>EBITDAR</strong></td>
<td>$940,000</td>
</tr>
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</table>

**EXISTING**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
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<tbody>
<tr>
<td><strong>RENT</strong></td>
<td>$780,000</td>
</tr>
<tr>
<td><strong>TERM</strong></td>
<td>5 YEARS</td>
</tr>
<tr>
<td><strong>REMAINING</strong></td>
<td></td>
</tr>
<tr>
<td><strong>RENT</strong></td>
<td>2.5%</td>
</tr>
<tr>
<td><strong>INCREASES</strong></td>
<td>EVERY YEAR</td>
</tr>
<tr>
<td><strong>COVERAGE</strong></td>
<td>1.21</td>
</tr>
<tr>
<td><strong>RENT/SALES</strong></td>
<td>6.00%</td>
</tr>
<tr>
<td><strong>RENT/SF</strong></td>
<td>$15.29</td>
</tr>
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</table>

**RESTRUCTURED**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td><strong>RENT</strong></td>
<td>$585,000</td>
</tr>
<tr>
<td><strong>TERM</strong></td>
<td>20 YEARS</td>
</tr>
<tr>
<td><strong>REMAINING</strong></td>
<td></td>
</tr>
<tr>
<td><strong>RENT</strong></td>
<td>7.5%</td>
</tr>
<tr>
<td><strong>INCREASES</strong></td>
<td>EVERY 5 YEARS</td>
</tr>
<tr>
<td><strong>COVERAGE</strong></td>
<td>1.61</td>
</tr>
<tr>
<td><strong>RENT/SALES</strong></td>
<td>4.50%</td>
</tr>
<tr>
<td><strong>RENT/SF</strong></td>
<td>$11.47</td>
</tr>
<tr>
<td><strong>YR 1 RENTAL SAVINGS</strong></td>
<td>$195,000</td>
</tr>
<tr>
<td><strong>TOTAL RENT SAVINGS</strong></td>
<td>$1,236,485</td>
</tr>
</tbody>
</table>

**LANDLORD PROFILE:** PRIVATE OWNER

**CONDITIONS:**

- ABOVE MARKET RENT & INCREASES
- DECLINING UNIT LEVEL P&L
- DARK BIG BOX 0.25 MILES DOWN STREET

**BIG BOX RETAIL**
## Case Study: Lease Restructure

<table>
<thead>
<tr>
<th>TENANT</th>
<th>Corporate Headquarter Facility</th>
</tr>
</thead>
<tbody>
<tr>
<td>TRANSACTION BACKGROUND</td>
<td>Institutional landlord</td>
</tr>
<tr>
<td>Tenant was paying $800,000 in rent annually</td>
<td></td>
</tr>
<tr>
<td>The existing rent was higher compared to market rent</td>
<td></td>
</tr>
<tr>
<td>2 Years remaining on the lease with Two 5-Year options</td>
<td></td>
</tr>
<tr>
<td>Facility not being fully utilized</td>
<td></td>
</tr>
</tbody>
</table>

### OPPORTUNITIES
- Rent Reduction
- Lease Term Extension
- Reduction of Leased Space

### BENEFITS ACHIEVED
- Negotiated a 50% reduction for the tenant by providing market comps to landlord reflecting lower rent comparables
- The rent after the lease restructure was $400,000 per year, which is a rent savings of $400,000 per year
- Secured a long term (10-Year lease) with Four 5-Year options
- Reduced leased space by 30%
## Strategy: Lease Termination

### OPERATIONAL HURDLES
- Declining Sales
- Brand Challenges
- Significant CapEx Requirements

### HIGHER AND BETTER USE
- Property and Trade Area Analysis
- Entitlement and Restrictive Covenants

### UNDERSTAND LEASE LEVERAGE
- ROFO/ROFR/Purchase Option
- Assignment Language/Sublet
- Remaining Rental Obligation
Case Study: Lease Termination

**BACKGROUND**
PE Firm owned portfolio company that operates five facilities
It completed an add-on acquisition which came with one leased facility that was obsolete
Existing rent for the leased unit was $300,000 per year
Four years remaining in the lease with 2% annual rent escalations

**EXECUTION**
STNL advised the PE firm to form a shell entity prior to closing and assign the lease to the shell entity
Terminated the lease after negotiating $240,000 as the termination fee

**RESULT**
Secured long term EBITDA and cash flow for the company
Rental savings after termination and fee: $960,000 over four years
### Case Study: Lease Termination

**Restaurant**

<table>
<thead>
<tr>
<th>Property Metrics</th>
<th>Existing</th>
<th>Buyout</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Sales</td>
<td>Dark Location 4,773</td>
<td>$133,420</td>
</tr>
<tr>
<td>Building SF</td>
<td>$ -</td>
<td>$133,420</td>
</tr>
<tr>
<td>Store Level</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Net Income</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Add Back:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Income Taxes</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Depreciation</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Amortization</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Rent</td>
<td>$133,420</td>
<td>$ -</td>
</tr>
<tr>
<td>% Rent</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Overhead/G&amp;A</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>EBITDA</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Rent</td>
<td>$133,420</td>
<td>$ -</td>
</tr>
<tr>
<td>Term Remaining</td>
<td>10.7 years</td>
<td></td>
</tr>
<tr>
<td>Rent Increases</td>
<td>2% every year</td>
<td></td>
</tr>
<tr>
<td>Coverage</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td>Rent/SALES</td>
<td>0.00%</td>
<td></td>
</tr>
<tr>
<td>Rent/SF</td>
<td>$27.95</td>
<td></td>
</tr>
<tr>
<td>Buyout Fee</td>
<td>$35,044</td>
<td></td>
</tr>
<tr>
<td>STNL Restructure Fee</td>
<td>$22,351</td>
<td></td>
</tr>
<tr>
<td>Primary Term</td>
<td></td>
<td>$2,251,696</td>
</tr>
<tr>
<td>Rent Obligation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leased Expiration Date</td>
<td>8/31/2030</td>
<td>8/31/2052</td>
</tr>
<tr>
<td>Current</td>
<td>8/31/2030</td>
<td>2/28/2016</td>
</tr>
<tr>
<td>Revised</td>
<td>2/28/2016</td>
<td>2/28/2016</td>
</tr>
<tr>
<td>Final Term End Date</td>
<td>8/31/2052</td>
<td>2/28/2016</td>
</tr>
<tr>
<td>Revised End Date</td>
<td>2/28/2016</td>
<td>2/28/2016</td>
</tr>
<tr>
<td>Total Savings</td>
<td>$2,194,301</td>
<td></td>
</tr>
</tbody>
</table>

STNL determined through market research that the neighbor owned two adjacent lots. With assemblage opportunity and great redevelopment plan that provided improved access, neighbor bought site. As a result, the tenant was able to exit the minimal buy out fee because of the higher and better use of the real estate.

**Conditions:**
- Site was dark for 3 years
- Location losing $133,420 annually in rent
Strategic Approach: Lease Extension

**REAL ESTATE**
- Existing Rent vs. Market Rent
- Unit Level Profitability Metrics

**LEASE ABSTRACTION**
- Remaining Lease Term/Renewal Options
- Negotiating Rent Reduction in Exchange for Term
- Analysis of Market Rent in the Options
- Credit Enhancements
Case Study: Lease Extension

**TENANT**
Casual Dining Restaurant in Times Square

**TRANSACTION BACKGROUND**
Extremely high performing unit with sales more than 8x the Company's average sales
Tenant was paying 50% less rent than the market
4.5 Years remaining on lease with no option

**OPPORTUNITIES**
Lease Term Extension

**BENEFITS ACHIEVED**
STNL conducted a vacancy analysis of the area for the landlord; demonstrating increasing vacancies and lower market rent
STNL negotiated and secured a lease extension for the client: 15 years lease with two 5-year options
Rent only increased 25% vs. market rate at 50% higher
Secured a substantial portion of EBITDA
Long-term control over site for 25 more years
Secured cash flow for company for resale in future
Strategy: Buy and Recast™

OBJECTIVE
Secure future EBITDA through long-term control of the real estate

PROCESS
Client enters into a contract to purchase existing real estate, restructures the lease, and takes profit on the arbitrage spread from the sale with or without taking title

STRATEGY
Buyback, recast, and resell facilities at new rent (rents typically set between 1.50x - 2.50x coverages)
Capitalize on arbitrage opportunity between acquisition and disposition CAP rate through three methods- Proceeds, Rent Savings, Lease Term Security

BENEFITS
Capture the real estate value without taking title and ownership
Reduce occupancy costs, increase enterprise values / EBITDA
Create long-term site control and secure future cash flow
Sale arbitrage: covers remodel costs, generates cash flow, proceeds and rental savings
Case Study: Buy and Recast™ INDUSTRIAL

BACKGROUND
An industrial manufacturing facility with 4 years lease term remaining and rent of $1.2 Million

EXECUTION
STNL helped the tenant buyback the real estate at a 10% cap rate
Tenant sold the property to a new investor on a 15-Year lease at 6.75% cap rate

RESULT
New breakeven rent (including friction costs) of $850,500
New 15-Year Lease
$350,000 of EBITDA creation annually
More flexible lease terms
Tenant never took title / direct deed
Strategy:
Landlord CapEx Contribution

PERFORMING FACILITY THAT REQUIRES REMODEL/EXPANSION

Negotiate CapEx Contribution from Landlord through:

- Lease Extension
- Rental Increase
- Cheaper Form of Capital
# Case Study: Landlord CapEx Contribution

<table>
<thead>
<tr>
<th>TENANT</th>
<th>National Retailer</th>
</tr>
</thead>
</table>
| TRANSACTION BACKGROUND | High performing retail portfolio with Public REIT  
Need to remodel the stores as per franchise agreement and close one location  
Seven years remaining on master lease |
| OPPORTUNITIES       | Negotiate Landlord CapEx contributions and release of location for store closure   |
| BENEFITS ACHIEVED   | STNL helped the tenant save $1,250,000 for remodeling costs by negotiating CapEx contribution with the Landlord  
Secured and extended lease term to 20 years  
Raised rent $30,000 annually  
Terminated lease with regard to closure site |
Strategy: Relocation Analysis

RELOCATION STRATEGY TO REDUCE OCCUPANCY COST OR TO LEVERAGE AGAINST EXISTING LANDLORD

- Property and Trade Area Analysis
- Market Rent Analysis
- Alternative Use Analysis
Case Study: Relocation Analysis

**EXISTING LEASE FOR A LABORATORY SPACE / GLOBAL HQ**

- **RENT:** $1,350,000
- **LEASE TERM:** 1 YEAR REMAINING
- **SITE NEEDED $2.9 MILLION TO UPGRADE LABORATORY SPACE**

**BUY A NEW SITE**

- **LAND COST:** $5 MILLION
- **CONSTRUCTION COST:** $8 MILLION
- **PRE SALE-LEASEBACK OF THE BUILD-TO-SUIT**
  - **LEASE TERM:** NEW 20-YEAR LEASE
  - **CAP RATE:** 7.00%
  - **RENT:** $921,000

**TRANSACTION BACKGROUND**

- Existing lease was expiring in 1 year and Landlord did not want to reduce rent or provide capital for necessary upgrades
- STNL conducted a market analysis to determine NNN rent for the market, which was $14/SF vs. $22/SF then currently being paid
- STNL also completed a market analysis to determine the availability of alternative locations that would yield total capital needs plus a lower rent / SF

**BENEFITS ACHIEVED**

- Full CapEx Contribution from Landlord
- New Long-Term Lease
- Rental Reduction of $430,000
OWNED REAL ESTATE STRATEGIES

Sale-Leaseback Programs
- Institutional Sale-Leaseback
- Private or One-Off Sale-Leaseback
- Hybrid Sale-Leaseback

Disposition of Vacant Properties or Excess Land
- Value for Dark Sales
- Value after Signing 3rd Party Tenant in a Lease
Sale-Leaseback Advantage

- Liquidity and Access to Capital
- Improved Balance Sheet
- Tax Benefits
- Maintain Long Term Control Over the Space (NNN Lease)
- Reduce Capital Requirements at Acquisition
SALE-LEASEBACK PROGRAM

INSTITUTIONAL SALE-LEASEBACK
- Higher Cap Rate
- Higher Volume of Transaction
- Master Lease
- More Stringent Lease Terms

ONE-OFF SALE-LEASEBACK
- Lower Cap Rate
- Lower Volume of Transaction
- Single Site Leases
- More Flexible Lease Terms
Case Study: Hybrid Sale-Leaseback/ Dark Site Dispositions

**OPPORTUNITY**
A private equity firm acquiring a restaurant company in a public to private transaction wanted to explore opportunities to fund their acquisition, improve the restaurants’ operations, and maximize proceeds at the lowest cost of capital.

**EXECUTION**
- STNL Advisors underwrote and diligenced the entirety of the portfolio on a confidential basis, visiting hundreds of locations.
- Created a hybrid strategy that employed portfolio sales, one-off sales, and a customized disposition program for dark / underutilized assets.
- Secured acquisition proceeds through sale of four portfolios simultaneously with PE’s acquisition of business.
- Secured very favorable bridge financing on one-half of the remaining real estate to be sold in the private, one-off market.
- In one-year, 80% of the bridged real estate has been sold at a 125 basis point premium to the portfolio market.
- Customized sale program for dark and underutilized assets was found capital.

**BENEFITS ACHIEVED**
- Reduced operating expenses (taxes, insurance, utilities) that contributed to negative EBITDA real estate.
- Properties sold for well above a very low book value attributed to the assets.
- Retenant locations to be sold at a premium to dark value.
DEAL TEAM: ENGAGING AN ADVISOR

- Consulting arm that works hand in hand with in-house real estate department
- Can be a supplement for portfolio companies with limited real estate resources
- Expert in the space of Buy and Recast™, lease negotiation, restructuring and sale-leaseback
- Development / expansion support throughout construction process
QUESTIONS?

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