Maximizing ROI through your Real Estate Portfolio

Glen Kunofsky | STNL Advisors
Nico DePaul | STNL Advisors
Judson Kauffman | STNL Advisors
Edward Otocka | STNL Advisors

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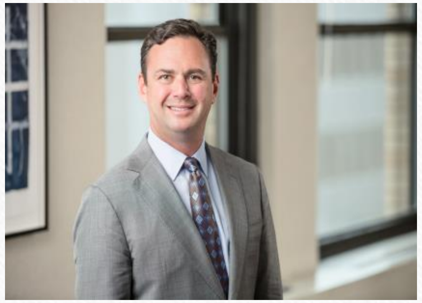
Agenda

- About STNL Advisors
- Introduction of the presenters
- General overview of the M&A Process
- Value add opportunities from Leased/Non-owned real estate
  - Case studies
  - Q&A
- Value add opportunities from Owned real estate
  - Case studies
  - Q&A
- Final Q&A

About 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.
- Expert real estate underwriting through 20 year of working in the space
- One stop shop for being able to sell through Buy and Recast™
- Provides financing and refinancing strategies

Speakers



Glen Kunofsky
Founder

Eddie Otocka
Senior Managing Director

Judson Kauffman
Senior Managing Director

Nico DePaul
Senior Managing Director

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M&A Process Overview

- Value Business at a multiple of EBITDA
- Value owned real estate at Institutional Vs One off sale leaseback value
- Get real estate loan or complete sale leaseback
- Use the sale leaseback financing (and additional fund or debt, if required) to acquire the business
- Consider real estate options for coterminous 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
  - Market rent and vacancy analysis
- Valuation of Owned real estate
  - Value in sale leaseback (one-off/portfolio)
  - Value in hybrid sale leaseback
  - Value of dark properties
- Reduce purchase multiple beyond just sale leaseback

Real Estate Overview

Real Estate Assets

Assets are placed into appropriate execution pool

Leased

Performing
- Rent abatement/renewals
- Restructure
- Buy and Resell
- Extend lease term
- Negotiate for landlord capex contributions
- Secure shorter term high performers

Non-Performing
- Lease termination negotiations
- Market for replacement/subtenant
- Rent reductions/restructure
- Term reductions/restructure

Owned

Performing
- Monetize through sale-leaseback
- Alternative vacant value analysis

Non-Performing
- Sale of dark asset to market
- Find replacement tenant

Leased or Non-Owned Real Estate Strategies

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

Strategy: Lease Negotiation

- Unit Level & Market Evaluation
  - Market/Location Analysis and Impact Study
  - Lease Abstracting – “Mining” for Value
  - Unit Level Economics/Performance and Impact Profitability (Commit or Close)
  - Relocation analysis
- Landlord Profiling
  - Institutional
    - Debt and equity position of landlord
  - Private
    - Debt and equity position of landlord
- Creating Tools for Success and the Right Approach
  - Utilize Property Level Analysis to Generate Leverage in Negotiations
- Customized by location
  - Negotiate and Document the Best Structure for Each Asset

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Case Study: Lease Restructure (Big Box Retail)

PROPERTY METRICS		
Gross Sales	$	13,000,000
Building SF		51,000
Net Income	$	160,000
Add back:		
Interest	$	-
Income Taxes	$	-
Depreciation	$	-
Amortization	$	-
Rent	$	780,000
% Rent	$	-
Overhead / G&A	$	-
EBITDAR	$	940,000

EXISTING		
Rent	$	780,000
Term (Remaining)		5
Rent Increases		2.5% every year
Coverage		1.21
Rent/Sales		6.00%
Rent/SF	$	15.29

RESTRUCTURED		
Rent	$	585,000
Term (New)		20 years
		Four - Five year options
Rent Increases		7.5% every 5 years
Coverage		1.61
Rent/Sales		4.50%
Rent/SF	$	11.47
Year 1 Rental Savings	$	195,000
Total Rental Savings	$	1,236,485

Additional information:

- Landlord profile: Private owner
- Above market rent and increases
- Declining unit level P&L
- Dark big box 0.25 miles down the street

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Case Study: Lease Restructure (Industrial)

Tenant	Mission Critical Industrial facility
Transaction Background	• Institutional landlord • Tenant was paying $700,000 in rent annually • The existing rent was higher compared to market rent • Five years remaining in the lease with two 5-year options
Opportunities	• Rent Reduction • Lease term extension
Benefits Achieved	• STNL negotiated a 15% rent reduction for the tenant by providing market comps to landlord reflecting lower rate comps • The rent after the lease restructure was $595,000 per year, which is a rent savings of $105,000 per year • Secured a long term (15 years lease) with four 5-year options • Secured six months of 50% rent reduction to do needed repairs: roof, parking and new loading Docks

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

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Case Study: Lease Termination (Industrial)

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 2.0% rental escalations per year

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

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Case Study: Lease Termination (Restaurant)

PROPERTY METRICS		
Gross Sales		DARK LOCATION
Building SF		4,773
Store-Level Net Income	$	-
Add back:		
Interest	$	-
Income Taxes	$	-
Depreciation	$	-
Amortization	$	-
Rent	$	133,420
% Rent	$	-
Overhead / G&A	$	-
EBITDAR	$	-

EXISTING		
Rent	$	133,420
Term (Remaining)		10.7
Rent Increases		2% annually
Coverage		0.00
Rent/Sales		0.00%
Rent/SF	$	27.95

Buyout Fee	$	35,044
STNL Restructure Fee	**$**	**22,351**
Total Cost to Close	**$**	**57,395**
Primary Term Rent Obligation	$	2,251,696
Leased Expiration Date (LED):		
Current		8/31/2030
Revised		2/28/2016
Final Term End Date (Incl Options)		8/31/2052
Revised End Date (Incl Options)		2/28/2016
Total Savings:	$	2,194,301

Synopsis:

- Site was dark for three years by old owner
- This dark location was losing $133,420 annually in rent.
- STNL determined through market research/profiling that the neighbor owned the two adjacent lots. With assemblage opportunity and great redevelopment plan that provided improved access, neighbor bought the site.
- Tenant was able to exit the minimal buy out fee because of the higher and better use of the real estate.

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Strategy: 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 in the 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 vacant 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

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

STRATEGY

1. Buyback, recast, and resell locations at a new rent (rents typically set between 1.50x and 2.50x coverages)
2. Capitalize on arbitrage opportunity between acquisition and disposition CAP rate in three methods:
   a. Proceeds
   b. Rent savings
   c. Lease term security

BENEFITS

1. Capture the real estate value without taking title and ownership
2. Reduce occupancy costs, increase enterprise values / EBITDA
3. Create long-term site control and secure future cash flow
4. Sale arbitrage; covers remodel costs, generates cash flow, proceeds and rental savings

Case Study: Buy and Recast™ (Industrial)

Background:

- An industrial manufacturing facility with four years lease term remaining and rent of $1.2 million

Execution:

- STNL helped the tenant buyback the real estate at 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

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Strategy: Landlord CAPEX Contribution

- Performing facility that requires franchisor mandated remodel
- Negotiate CAPEX contribution from landlord
  - Lease extension
  - Rental increase
  - Cheaper form of capital

Case Study: Landlord CAPEX Contribution

Tenant	National Retailer
Transaction Background	• High performing retail store with institutional landlord • Need to remodel the store as per franchise agreement • Seven years remaining in the lease
Opportunities	• Negotiate Landlord CapEx contributions
Benefits Achieved	• STNL helped the tenant save $500,000 for remodeling costs by negotiating CAPEX contribution with the Landlord • Secured and extended lease term with 15 years lease • Raised rent $15,000 annually (3% of the capital)

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 (Industrial)

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 for: $5 million
New construction for: $8 million
Pre Sale Leaseback of the build-to-suit
New 20 year lease
Cap Rate: 7.00%
Rent: $921,000

- Existing lease was expiring in one 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 was $14/SF vs $22/SF then currently being paid
- STNL also completed a market analysis to determine the availability of alternative of locations that would yield total capital needs plus a lower rent/SF
- Ultimately, STNL leveraged this analysis and marketing platform to secure:
    - Full CapEx contribution from the landlord
    - A new long-term lease
    - An ultimate 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 third party tenant in a lease

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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
- New tax plan advantages of Leasing vs Debt

Sale Leaseback Program

<u>Institutional Sale Leaseback</u>
Higher cap rate (depending on the industry)
Higher volume of transaction
Master lease
More stringent lease terms

VS

<u>One off Sale Leaseback</u>
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 company acquiring restaurant company in a public to private transaction, wanted to explore opportunities to fund their acquisition, improve the restaurant's operations, and maximize proceeds at the lowest cost of capital

Execution:

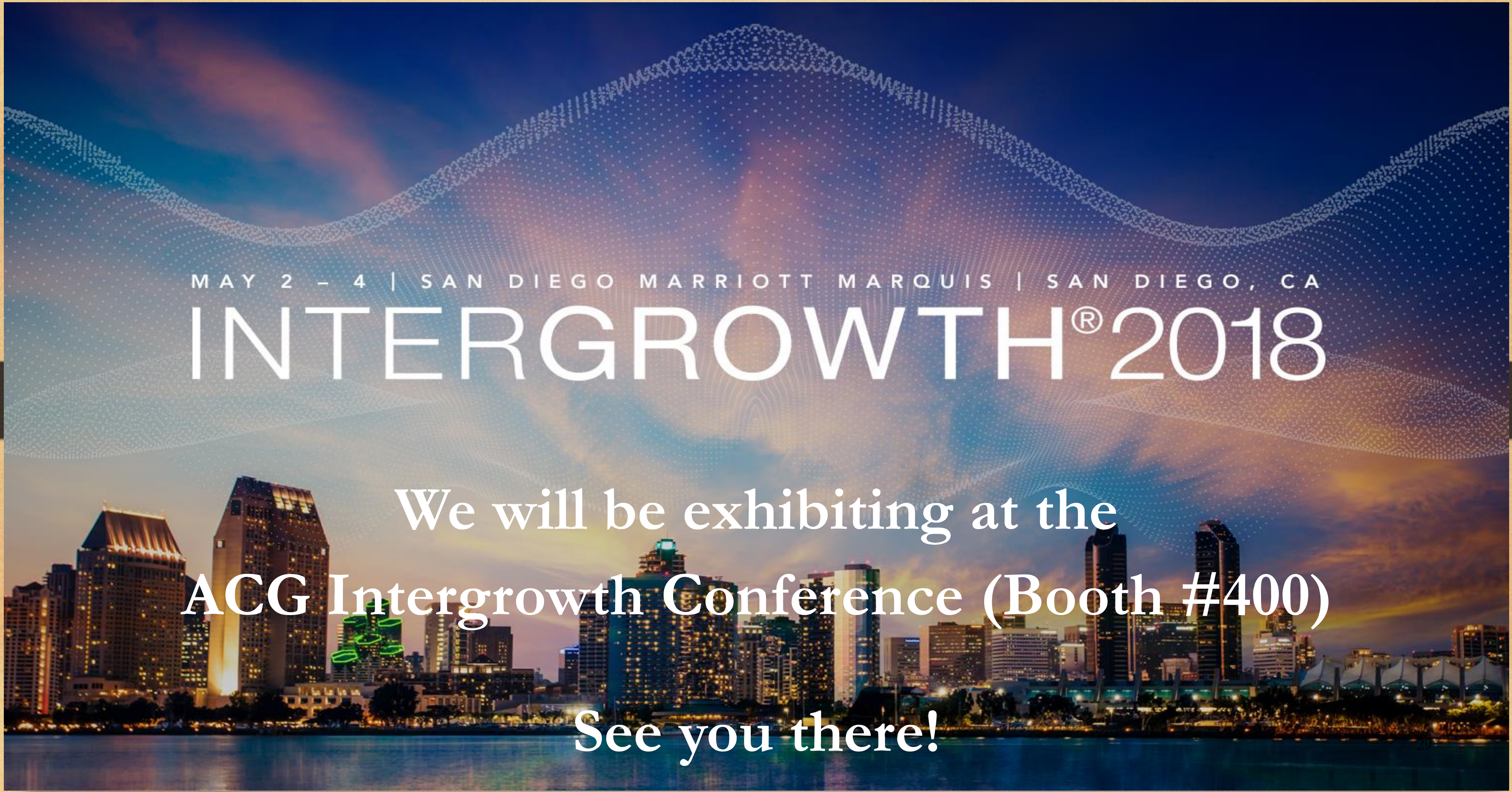
- STNL advisors underwrote and diligenced the entirety of the portfolio on a confidential basis, visiting hundreds of locations
- Created a hybrid strategy that employed: portfolio sales, one-off sales, and a customized disposition program for dark/unutilized assets
- Secured acquisition proceeds through the 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 unutilized asset is found capital
    - 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; found capital
    - Retenanted locations to be sold at a premium to dark value

Deal Team: Engaging in a Real Estate Advisor

- Consulting arm that works hand in hand with your 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 leasebacks
- Customized programs

- Any Questions?

- Feel free to contact us at anytime:
  - Glen Kunofsky | 212.430.5115 | gkunofsky@stnladvisors.com
  - Nico DePaul | 212.430.5186 | ndepaul@stnladvisors.com
  - Judson Kauffman | 212.430.5204 | jkauffman@stnladvisors.com
  - Eddie Otocka | 212.430.5235 | eotocka@stnladvisors.com



We will be exhibiting at the ACG Intergrowth Conference (Booth #400)

See you there!

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