



SOHN CONFERENCE – APRIL 23, 2018

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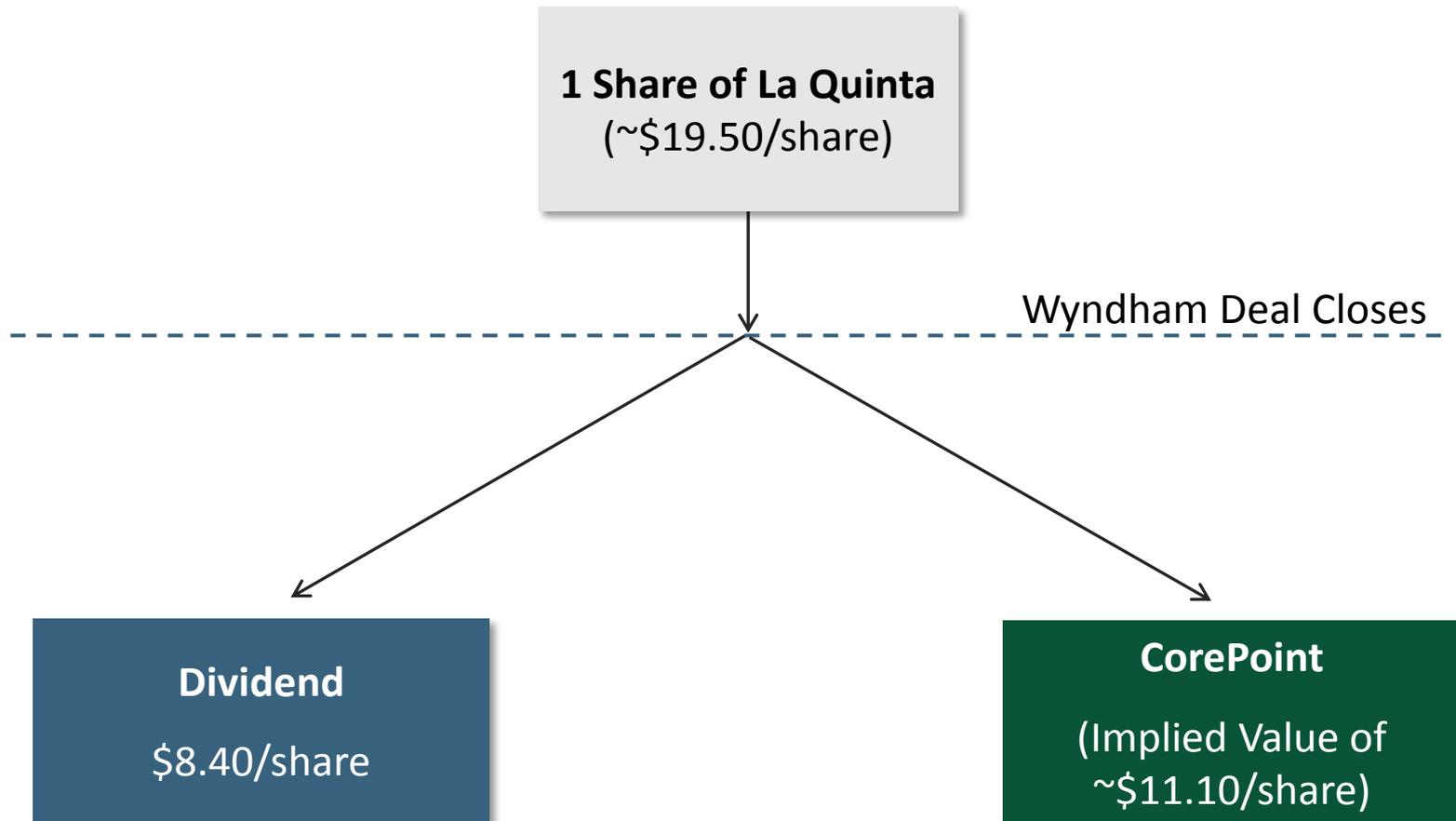
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Thesis Summary

A Classic Undervalued Spin, With an Incentive to Sandbag the Numbers

- La Quinta (LQ) is selling their franchise business to Wyndham and spinning off their owned hotel portfolio into a new REIT (CorePoint) in a taxable spin. The deal will close this quarter.
- The CorePoint spin presents all the hallmarks of a classic undervalued spin
 - Management is going to SpinCo
 - A quirk in the deal / spin incentivizes management to sandbag numbers
 - Attractive acquisition target in a consolidating industry
- We see ~50% upside to the market's current implied price for CorePoint

What Do We Get When We Buy La Quinta (LQ)?



Why Do We Think The Company Is Incentivized To “Sandbag”?

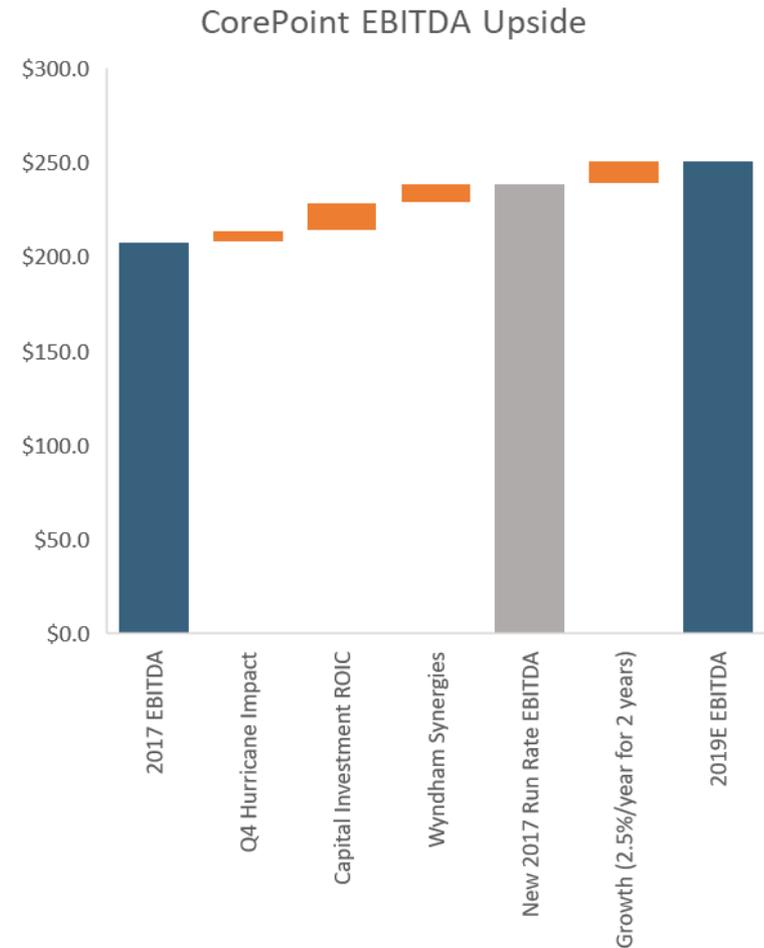
Taxes create incentive to keep the market price low

- As part of the deal, Wyndham will “set aside a reserve of \$240 million for estimated taxes” to cover the taxes associated with the taxable spin.
- This payment was heavily negotiated and has a curious structure
 - If taxes > \$240m, CorePoint will pay Wyndham the excess
 - If taxes < \$240m, CorePoint **gets to keep the difference**
- How is the tax determined?
 - The difference between CorePoint’s tax basis in their hotels (~\$1.7B) and their market value at time of spin
 - Lower CorePoint share price = Lower market value = Less taxes owed = More cash to CorePoint
 - At today’s price, we estimate Wyndham would owe CorePoint ~\$90m (~\$0.80/share in value)
- Management’s RSU spin package is set at a fixed dollar amount
 - Lower CorePoint share price = More shares for management

CorePoint Is Dramatically Underearning

20% Upside in CorePoint 2019 EBITDA

- CorePoint did ~\$207m in Adjusted EBITDA in 2017
- 2017 earnings were dramatically below the company's earning potential
- Earnings growth will be driven by 3 factors
 1. Hurricane effect rolling off (+\$6m)
 2. Returns from recent capital investments (+\$15m)
 3. Synergies from Wyndham taking over La Quinta brand (+\$10m)
- By 2019, EBITDA will approach \$250m

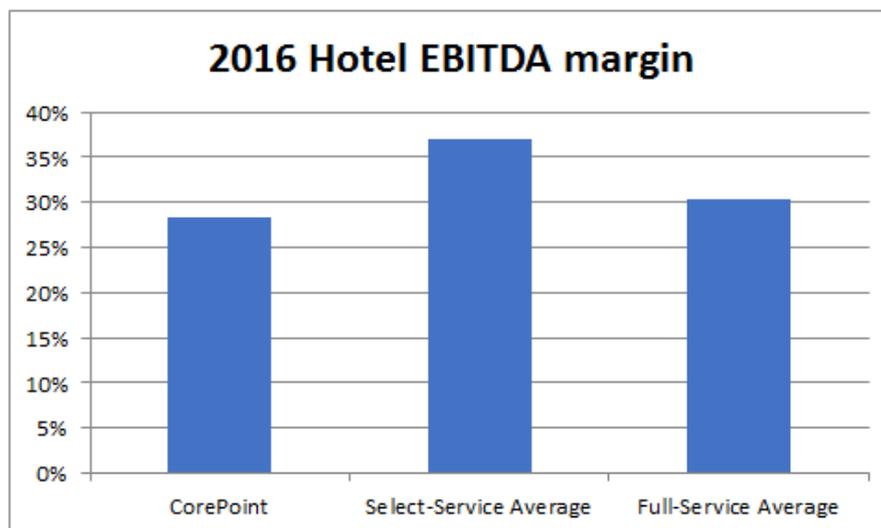


The Wyndham Opportunity Is Particularly Compelling

- The synergies from combining hotel platforms should significantly boost all of the hotels in the system.
 - Wyndham is forecasting synergies will boost La Quinta's earnings by ~50%
 - Most synergies will accrue to the brand / management company, but the benefits to the hotels and franchisees should be significant as well
- Potential cost savings from better OTA pricing, improved purchasing power, etc.
 - New Wyndham will be the largest U.S. hotel company
 - Significant nationwide purchasing power compared to a small, standalone player like La Quinta
- Significant revenue synergy potential
 - La Quinta's reward program has 13 million members; New Wyndham has more than 60 million
 - Improved corporate sales coverage
- La Quinta currently underperforms peers on a variety of KPIs
 - For example, Average Daily Rate (ADR) is ~6% below Comfort Inn
 - Closing this gap alone would drive most of our forecast earnings growth

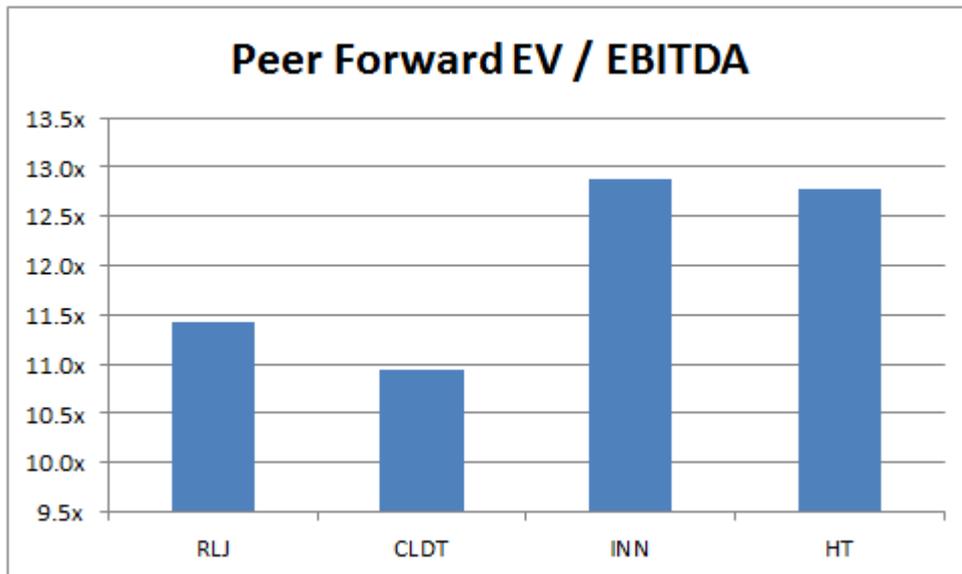
Can CorePoint Really Grow EBITDA By >20% In 2 Years?

- Given their Texas concentration, the oil bust has significantly impacted CorePoint's earnings
 - PF CorePoint did \$269m in EBITDA in FY2015
 - As we continue to lap the oil bust, earnings should continue to recover
- At \$250m in Adj. EBITDA, CorePoint's Hotel EBITDA margins would be just over 30%
 - That margin would be more in line with Full-Service hotel peers
 - Select service peers (CLDT, APLE, INN, RLJ, HT) hotel EBITDA margins are >35%
 - CorePoint's hotel EBITDA margins were ~34% as recently as FY15



What Is CorePoint Worth?

- Peers trade for at least 11x forward EBITDA
- CorePoint will take out a \$1,035m loan as part of the spin
- CorePoint price target of ~\$14.60/share
 - Adjusted for the loan and using low end of peer multiples



CorePoint Value Build

Forecasted EBITDA	\$ 250.6
Multiple	11.0x
<u>EV</u>	<u>\$ 2,756</u>
Less: CMBS Debt	\$ (1,035)
Equity Value	\$ 1,721
Shares Out	118.0
Equity / Share	\$ 14.59
Cash Div	\$ 8.40
Total LQ Value	\$ 22.99

The Tax Agreement Supports Our CorePoint Valuation

$$\text{Tax Payment} = (\text{Estimated EV} - \text{Tax Basis}) * (\text{Tax Rate})$$



$$\$240m = (\text{Estimated EV} - \$1,700m) * (25\%)$$



$$\$2,660m = \text{Estimated EV}$$

(Implied CorePoint Share Price ~\$13.75)

Hidden Balance Sheet Value

- 1) At today's prices, CorePoint would keep ~\$90m (\$0.80/share) in excess tax payments from Wyndham.

- 2) The merger agreement calls for a "target net debt" number at La Quinta
 - If they close below the target number, CorePoint keeps the cash.
 - La Quinta is currently well below their target net debt.
 - We estimate they'll spin with ~\$120m, or ~\$1/share, in excess cash.

- 3) CorePoint has targeted leverage of ~6x EBITDA.
 - At ~\$250m in EBITDA and with above adjustments, CorePoint would be ~3.5x levered.
 - Significant opportunity for capital allocation.
 - Management has been aggressive repurchasing shares in the past

CorePoint Is An Attractive Acquisition Target

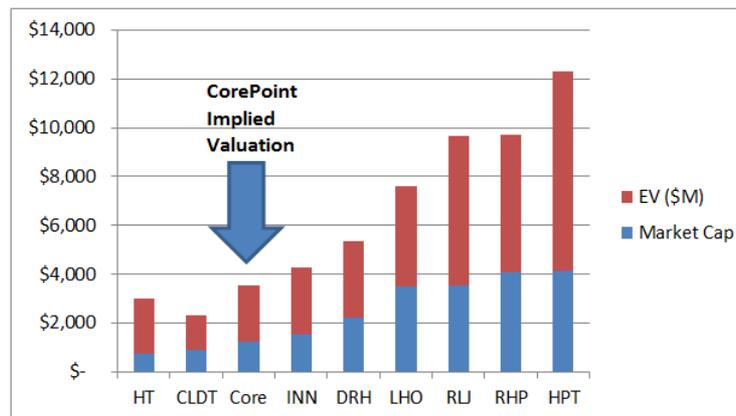
➤ CorePoint will be an attractive acquisition target post spin

- Taxable spin, so no tax issues with immediate acquisition
- At spin, CorePoint will be one of the smallest Hotel REITs

➤ The Hotel REIT space is undergoing a period of strong consolidation.

- Ashford (AHT) and RLJ Lodging (RLJ) had a bidding war for FelCor last year
- Pebblebrook (PEB) just launched a hostile offer for LaSalle (LHO)
- Foreign and financial buyers remain very involved in the space

➤ Based on prior deals, we think a strategic acquirer could realize at least \$20m in synergies (>\$2/share at an 11x multiple)



Putting it all together

