

Tourism Investor Forum
Hilton Mississauga Meadowvale

February 20th, 2024

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1 – How Companies are Financed – Debt & Equity	September 20
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Mississauga Conference – Differentiating Your Request for Capital	February 11-13
5 – Post Conference Debrief – Now What?	February 20

Nautilus Endeavours' Practice Areas

Tourism Investor Forum
Powered by TIAC AITC

Nautilus Endeavours
corporate finance | business advisory

Business Advisory

Strategy / Corporate Development

- ❖ Expansion plans
- ❖ Geographic development
- ❖ Product/Service development
- ❖ Acquisition decision
- ❖ Divestiture decision
- ❖ Other

Financial / Transaction Oriented Plans

Corporate Finance

Operational Plans

Company Management Team

Mergers & Acquisitions

- ❖ **Buy side** advisory – identifying and pursuing targets, and structuring
- ❖ **Sell side** advisory – preparing financial and marketing materials, managing competitive process
- ❖ **Succession** structuring
- ❖ Whole company or division

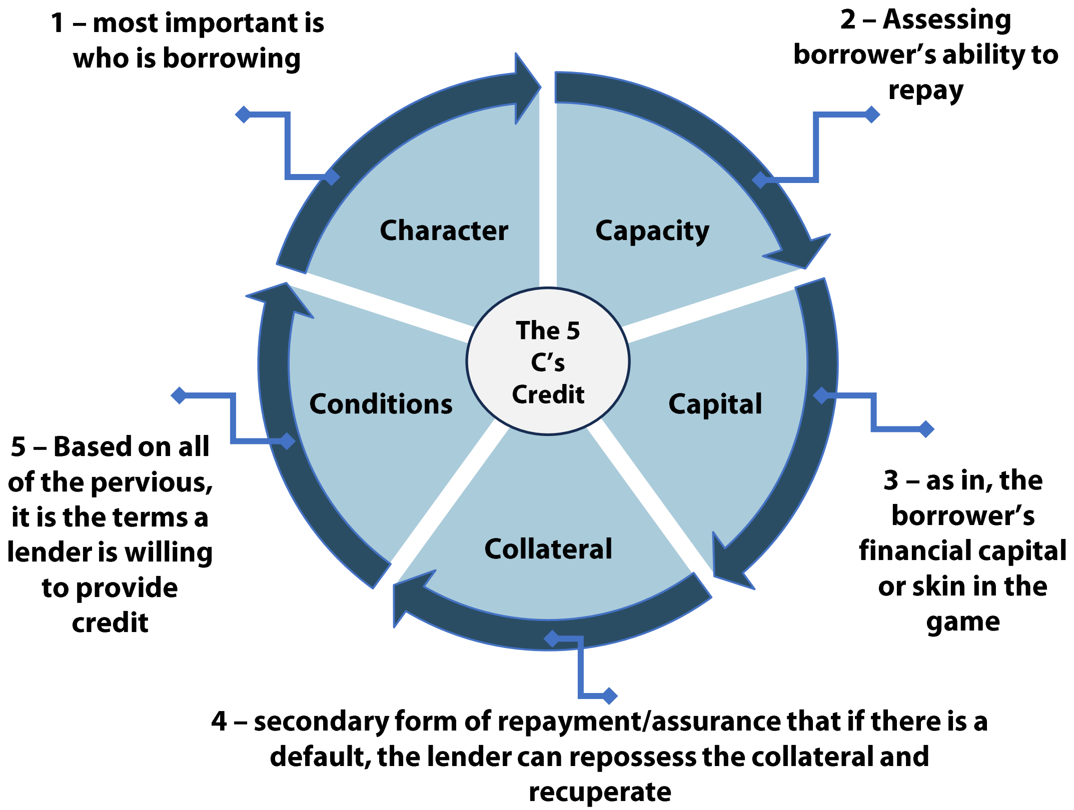
Capital Advisory

- ❖ Assessing capital structure between **debt, equity, and hybrid** products
- ❖ Financial modelling and scenario analysis
- ❖ **Accessing and structuring** commercial and private debt and equity sources

Nautilus Endeavours supplements internal management capacity and skills to support stakeholders in developing strategies (long term orientation) and execute financial transactions (short term orientation)

Overview of 5Cs of Credit and WACC

5 C's of Credit – Guidelines for Lenders/Debt



Weighted Average Cost of Capital (eg Restaurants)

	Current Cap Structure	
Cost of Equity:	**Low**	**High**
Risk-free rate	2.7%	2.7%
Equity Risk Premium	6.0%	6.0%
Company Specific Risk	12.0%	14.0%
Cost of equity:	**20.6%**	**22.6%**
Cost of debt		
Pre-tax cost of debt	9.4%	11.0%
tax rate	25.0%	25.0%
After-tax cost of debt	7.1%	8.3%
Weighting		
Equity	80.0%	80.0%
Debt	20.0%	20.0%
WACC		
Equity	16.5%	18.1%
Debt	1.4%	1.7%
WACC	**17.9%**	**19.8%**
Average	**18.8%**	
Implied Multiple (private companies multiple)	5.6x	5.1x
Average	**5.3x**	

Notes:
Risk free rate, Equity Risk Premium, Beta, Pre-tax cost of debt, Marginal tax rate (Aswath Damodaran)
Industry: Restaurant and Dining (Classified by Aswath Damodaran (US Market))

Those seeking capital must understand how they fit within these factors for Debt and Equity

Overview of the purpose of CIM

Confidential Information Memorandum (CIM) delivers a consistent message to multiple capital sources and creates competitive tension

YOU HAVE INPUT

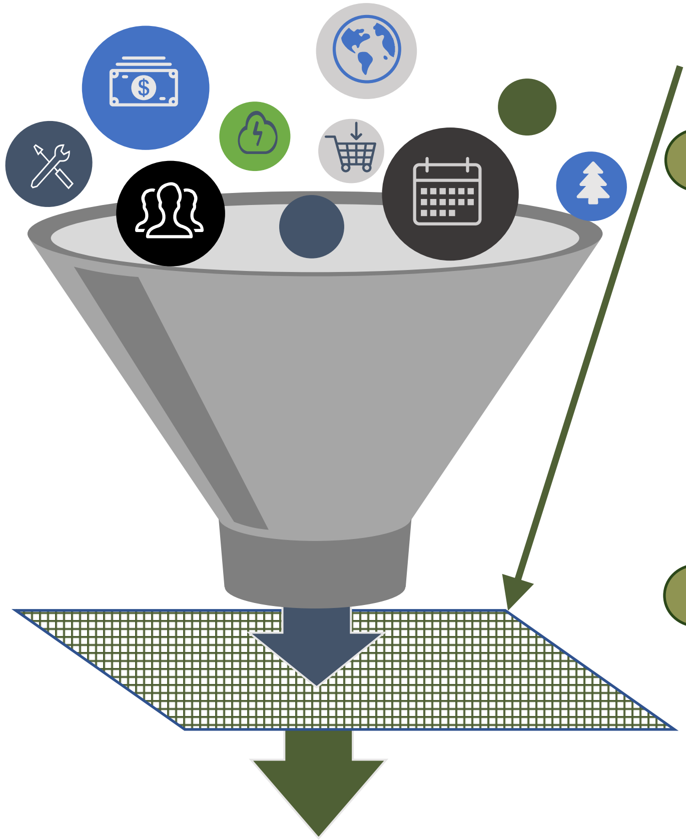
Company Factors to engage in market transaction

4 Transaction Readiness

- Management Preparedness
- Business Plan
- Source and Use of Proceeds

3 Company Specific Drivers

- Relative opportunities for the Company, compared with others in the industry
- Operational efficiencies
- Sustainability of cashflows



Market Factors determining investor decision

IT'S ABOUT TIMING

1 Market & Industry Factors

- Competitive offers (others doing deals)
- Fundamental economics of the sector
- Regulatory or legislative changes impacting how companies operate

2 Financial / M&A Process Dynamics

- Cost of capital
  - interest rates for debt
  - Public equity markets for relative return on equity
- Availability of capital

CIM is the optimal presentation format – as an operator that does not regularly seek capital, one must determine how much detail and time investment vs the capital request (size and complexity)

Key Takeaways on Canadian Tourism Market

1 **Highlights about Canada's Tourism Market extracted from the Conference**

Tourism is making a comeback, but following a substantial shift, many recognize the need to adopt a new approach to safeguard the business against another major downturn.

Think Bigger: Canada to think more globally than it does currently – As a destination with global audience; Canada has so much to offer

Embracing sustainability and **regenerative experiences**, while also understanding guests and elevating their experiences will help in building resilience.

By investing in **technologies** and **strategies** that enhance the guest experience, businesses can create memorable moments that foster loyalty

Even though **tourism is rebounding,** there are **many challenges** facing the industry.

Headwinds confronting the hospitality sector, include product (accommodations and transportation) shortage, staff shortages, rising costs due to wage increases, changing consumer expectations, and reputational challenges including social media scrutiny

Overall, the Answer is to Invest in the Sector

Source: 1) Findings from TIAC Conference 12th February 2024 (Digital Journal)

Theme of market overview – there is a greater demand compared to supply in the current and forecasted environment

Key Learnings about Capital Availability

2 Funding Growth – Cash, Debt, or Equity

Depending on the complexity and scale of a new venture / investment, companies typically select from three key sources of capital to fund growth

Sources of Cashflow	INTERNAL	EXTERNAL	
New Project Factors	**Cashflow from Operations**	**Incremental Debt**	**Incremental Equity**
Operating Start Up Costs	If limited costs to start	If existing cashflows support new debt	May be required to support or replace, either cashflow or debt
Capital Requirements	Pending size of investment, may fund all. At a minimum, to support new debt	If existing cashflows support new debt and there is collateral value	May be required to support or replace, either cashflow or debt
Timing of new cashflows from Project	Balanced against other uses of existing profits	Difficult, if new cashflow is required and long time to profitability (to cover interest and principal)	May be required, if there is a long path to profitability
Predictable Cash Flows	Less reliance on other parts of existing business	Helpful to secure loans	Less dependence on equity

During the conference, we discussed that there remains ample debt and equity capital, though the scrutiny to access is higher today, as costs of capital has increased (remember Risk vs Return)

Key Learnings from Exchanging Conversations

3 4

Related with the company and the management/owners' readiness to raise capital – like the room the stories are varied, as the needs are varied

Adam's Observations

- ✓ *Opportunity for education to all areas of the industry (EDO, DMO, Agencies)*
- ✓ *Opportunity to facilitate more intersection with Government, Corporate Finance and Companies*
- ✓ *Tech / Tourism / Startups is a potential vertical or track*
- ✓ *Startups in real estate, resorts, event centres, Convention Centres is another vertical*
- ✓ *There is a foundation and lots of interests from all stakeholders*

Othello's Observations

- ✓ *From navigating early-stage startup financing to addressing the challenges of expansive growth*
- ✓ *Seeking additional capital and integrating to the capital I have*
- ✓ *Uncovering strategies for limited-use assets*
- ✓ *How should I Finance?*
- ✓ *How do I bring different forms of capital together, all at once?*

The conversation on the intersection of each member/operator and accessing capital has traction

A Walkthrough of Risks and Mitigants

Expansive Plans

Risk

Balancing expansive plans with existing cash flow and collateral limitations

Potential Mitigants

- Conditions – Debt or equity tranche the funding - $X now, and pending performance of each phase, $Y to follow for next phase
- Cashflow – Debt may get interest only during construction
- Capital – put some personal / company equity into the project
- Collateral – May be viewed as lower from an appraised value – are there other unlevered (unpledged) assets to add to security

Anecdotal Examples – acquisition financing, CapEx facilities

Big Questions – can financing be staged? Can my existing cashflow/collateral support the new project on its own?

A Walkthrough of Risks and Mitigants

Limited Use Assets

Risk

Limited use assets may remain idle or generate lower revenue during periods when their primary use is not in demand

Potential Mitigants

- Cashflow – Explore diversification strategies such as finding alternative uses / complimentary or adjacent to intended use
    - Bus tour company, also taking office shuttle contracts
    - targeting shoulder seasons, to maximize asset utilization
- Collateral – May be viewed as lower from an appraised value – are there other unlevered (unpledged) assets to add to security
- Conditions – if debt is required, get lender to put principal holidays (for slow season) or cash sweeps (when there is extra profit)

Anecdotal Example – event / tour bus company, doing office/campus shuttles

Big Questions – Can I use my new asset in partnership with others? Can I give other comfort outside my "idea?"

A Walkthrough of Risks and Mitigants

Early-Stage Request	Potential Mitigants
Risk Potential equity-heavy orientation in early-stage requests	• TAM, SAM, SOM – Have a defined problem, and solution (remember, not 1% of $XX billion market) • Flexibility in Strategy – Often early-stage investors (Venture, Series A) look for fit with founders (Character) as the product/service may need evolutions to find is place in the market • Right money and the right time – is request a paid pilot, or a commercialization? The dollar amounts are different

Anecdotal Example – new line of business for a manufacturing company, they chose to lease building first

Big Questions – Can financing be staged; what other forms of comfort can I give my investor outside my "idea?"

Questions and Dialogue

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