



Analytical Options

The purpose of providing these analytical options is to give you a way to choose an analytical scope and budget that is appropriate to an individual tenant transaction. The packages represent a modular approach to the tenant analysis process, with each option offering a deeper level of tenant scrutiny. As you add analytical “layers” to a particular tenant analysis, you are able to gain increasing levels of certainty about the strength of a particular tenant and obtain increasingly specific and insightful opinions from The Alliance Group about the viability of the tenant over the life of a lease.

To fully understand the survival potential of a tenant, analysis should cover two key areas: financials and markets. Financial analysis is important because it provides a picture of where a company has been and defines its ability to sell products at a profit, generating positive cash flow and adequately capitalize its business. Market analysis is important because it is forward looking and focuses on the period when a landlord’s dollars will be at risk. Financial statements will not provide information about shifting market dynamics, competitive environments, outmoded products, and misguided strategic plans.

To gain the highest level of certainty about a tenant’s future viability, all aspects of its financials and markets should be analyzed. In the real world, however, budget and time constraints don’t always make that feasible. Our analytical options have been designed to enable you to pick a mix of financial and market packages that balance the depth of tenant scrutiny with a budget that fits the economics of each particular situation.

Written reports present the results of our research in simple, easy-to-understand formats. They vary widely in the depth of their discussions and how specific their recommendations and conclusions are. The basic rule of thumb is that the more comprehensive the analysis and the more information we have to draw on, then the more definite and precise we are able to be with our judgments and opinions. The Alliance Group provides a range of reports that can fit any of your needs, from simple file back up for your decisions, to presentations to investment committees.

Financial Trends Review

This option provides an in-depth review of a tenant’s financials over a 3-4 year period, with the emphasis on understanding long-term trends in all key financial areas -- revenue growth, profit margins, overhead factors, cash flow, balance sheet accounts, debt coverage ratios, overall capitalization, etc. Our analysis often includes discussions with management about areas of concern and issues that require clarification.

The written report (see sample) provides observations about obvious financial strengths and weaknesses and presents discussions and opinions about a tenant's financial condition. The report includes a detailed spreadsheet that summarizes a company’s key financial statistics and scrutinizes the trends over a multiple year period. This trends analysis enables us to discover areas of weakness (if they exist) that hint at future problems for the company.

Estimated fee range:* \$800 - \$1,400

Peer Group Benchmarking

The goal of Benchmarking is to gain insights into industry norms, and whether a tenant is winning or losing within its competitive environment, by measuring its key financial statistics against those of a select peer group. We scrutinize and compare growth rates, profit margins, debt coverage ratios, capitalization, etc., and develop a frame of reference for judging the tenant's financial results. These statistics are often discussed with senior management and areas of strength and weakness versus the competition are closely examined.

If Peer Group Benchmarking is included in a financial analysis, the written report (see sample) includes a comparative table and discussion that compares the target company's financial trends versus those for a number of key competitors. With that added level of knowledge and perspective, we are able to offer more insightful opinions about possible problems that might exist or are developing.

Estimate fee range:* \$400 - \$700

Market Overview

The Market Overview presents information and statistics on the tenant's target market. We use our extensive Wall Street and industry contacts to obtain and scrutinize analyst reports, articles from business and trade journals, and market research reports, as well as information from Alliance's industry files and internal database. We also gather data from multiple on-line databases and the Internet. Current trends within the tenant's target markets are examined and future growth opportunities are defined.

The written report (see sample) presents information and statistics about the tenant's target market, and provides a picture of growth trends and the business opportunities that exists for well-managed companies. Charts and graphs are used to present an overview of historical trends within the market and analysts' expectations of the future.

Estimated fee range:* \$800 - \$1,400

Tenant Credit Rating

Like Standard & Poors rates a company's debt, The Alliance Group now offers a Tenant Credit Rating system that rates the risks involved in a particular tenant transaction. The ratings represent our opinion of the current creditworthiness of a company with respect to a specific lease obligation and are derived from an analysis of a company's key financial and business fundamentals. Our overall Tenant Rating distills the issue of tenant credit down to a single number (see Guide below) and is designed to simplify the process of making leasing/tenant decisions and determining the need for credit enhancements.

A Tenant Rating Report (see sample) includes data developed from three of our analytical options -- Financial Trends Review, Peer Group Benchmarking and a Market Overview -- as well as a number of additional areas of scrutiny. There are eight financial and business factors that are part of a company's Tenant Credit Rating, with each category assigned an individual rating and those eight numbers used to arrive at an overall Tenant Credit Rating. The table below shows how that rating is used to judge a company's suitability as a tenant, which allows for clear decision-making.

Tenant Credit Rating Guide

<u>Rating</u>	<u>Outlook</u>	<u>Level of Tenant Risk</u>	<u>Need for Credit Enhancements</u>
1-2.9	Precarious	Unacceptable	Avoid as tenant
3-4.9	Vulnerable	High	Protection needed
5-6.9	Fair	Areas of Concern	Should be considered
7-8.9	Good	Low	Unnecessary
9-10	Excellent	Minimal	Unnecessary

A key advantage is that, once an initial rating has been established, inexpensive updates can be done periodically in order to detect changes in the overall rating of a particular tenant. Shifts into a higher risk category can be charted and a course of action can be initiated.

With small emerging companies and markets, size and stage of evolution take on a dominant level of importance in judging a tenant's creditworthiness. The Alliance Group's rating system focuses on the future and the duration of time that a lease will be in place. While a company might have a strong current capacity to meet its leasing obligations, a landlord must consider how stable and predictable company fundamentals will be over the life of a lease. Established companies in established industries are much less affected by unfavorable business and economic conditions and are less vulnerable to changing markets, emerging competition, outmoded technologies and other evolutionary changes that cannot be predicted. As a result, the rating system gives extra weighting to factors that relate to size and stage of development.

Estimated fee range:* \$3,100 - \$3,900

Comprehensive Tenant Analysis

The Tenant Analysis Report (see sample) is our most rigorous and comprehensive written report on a tenant's future viability. The report is the most effective way for you to present large tenant transactions to investment committees, joint venture partners, lenders and other key decision-makers. Clients also use this comprehensive analysis to justify build-to-suit projects, sanction a building acquisition or prepare a building for sale.

This report combines information from all of the analytical packages, including our Tenant Credit Rating option, and typically includes face-to-face interviews with key senior executives at the company's headquarters. The goal of these meetings is to rigorously examine every aspect of the tenant's operation (executive, financial, marketing, sales, production, technical, etc.), as well as determine the skills of the executives heading those individual areas. The face-to-face nature of management interviews enables us to obtain the most in-depth and complete picture of the tenant's strengths and weaknesses.

A key value-added feature of this package is direct interviews with key industry executives that enable us to develop the most certain picture of a tenant's viability as a competitor within its markets. These interviews furnish first-hand data directly from the marketplace that is not filtered through management or friendly analysts. Instead of relying on secondhand sources, Alliance is able to develop an *independent* point-of-view about a tenant's competitive strengths and weaknesses.

Another important value-added is interviews with customers that provide direct comparisons with competitors and determine the tenant's abilities versus the competition. Interviews with suppliers and distributors provide perspective from people who know the markets, the competitors and whether a company has the ability to win within that environment. Interviews with trade association executives and industry analysts and consultants draw from sources that spend their time scrutinizing the marketplace. Interviews with the tenant's senior management enable us to determine how their mind-set might differ from the realities of the marketplace.

The report provides our most comprehensive presentation and discussion of information gathered from our research efforts and covers all aspects of a tenant's financials, markets and overall business operations. In-depth coverage of financial issues provides the reader with a perspective on the tenant's past results and establishes its current and future ability to pay its rent. In-depth coverage of market-related issues provides a clear picture of the tenant's current position and viability in the marketplace, defines the future opportunities within that market, and examines the overall competitive environment. Finally, the report utilizes The Alliance Group's Tenant Credit Rating System, which can be used to accurately judge a company's suitability as a tenant and offers our opinion on its potential to remain a stable and dependable tenant over the life of its lease.

Estimated fee range:* \$5,500 - \$6,600

Note:*

The pricing on the reports is presented in estimated ranges since analytical projects vary widely in the complexity of financial documents, availability of market data, the cooperation of management, and other project-specific issues. The estimated fee schedules assume that a single company or market is being examined. The scrutiny of technology-based companies often requires specialized research efforts: markets are frequently ill defined; the ability of management to productize a technology must be judged; and complex technologies need to be examined.

Expenses are in-addition to analytical fees.

All invoice payments are due on a net 30 day basis unless alternative arrangements are made prior to the start of a particular project.