



Tenant Credit Review

Club Mediterranee SA

Scope of Analysis

Our analysis of Club Mediterranee (“Club Med” or the “Company”) included (i) a review of the Company’s 2007 year-end annual report; year-end financial statements for fiscal 2005, and a financial report for the first six months of 2008; (ii) a review of articles from trade and business publications; and (iii) a review of information found on Club Med’s website.

Corporate Profile

Club Méditerranée, commonly known as Club Med, is a French Corporation of vacation resorts found in many parts of the world, usually in exotic locations.

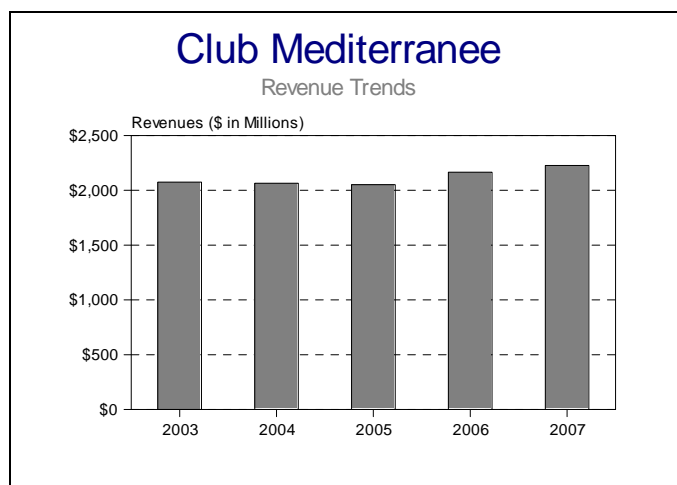
In the 1990s, the Club’s fortunes declined as competitors copied its concepts and holidaymakers demanded more sophisticated offerings. The Club fell deeply into losses in the downturn following the September 11, 2001, attacks. In 2002 a new CEO was appointed, and a new strategy was announced, returning to a focus on the holiday villages and upmarket vacationers. The Club returned to profit in 2005.

In 2006 and 2007, Club Med and its partners dedicated a total of \$530 million to renovate and revamp the group’s portfolio of offerings and to close underperforming properties. As of June, 2008 the resort company operated 80 villages, in Europe, Africa, USA, The Caribbean, Brazil, Southern Asia, French Polynesia and Australia.

Observations

We have summarized the key financial statistics from the documents we reviewed in the spreadsheet found on page two of this report. The following discussion pertains to those figures.

- The Company’s **revenues** have recorded single digit growth in the last 2 ½ years, with the 8% growth in 2008 reflecting the beneficial impact of the village upgrade program. We should point out that Club Med’s business is seasonal in nature, with seasonal and closed villages causing first half revenues to be less than the second half.
- **Profit** margins have been declining overall since 2005, with EBITDA margin dropping by a third in fiscal 2007 versus 2006, which translates to total EBITDA falling from \$135 million to \$90 million. That is not a great trend to take into a recession when revenues will be declining and overhead factors will be increasing as a percentage of revenues.



**Club Mediterranee SA
Financial Spreadsheet**

For the years ended December 31,

(\$ in millions) Fiscal year	2005	2006	2007	Six months 2008
For the period				
Revenues	\$2,103	\$2,219	\$2,238	\$978
Year-to-year growth rate	(1%)	6%	1%	8%
Operating income (EBIT)	104	45	18	6
Pre-tax income	55	4	(15)	(12)
EBITDA	211	135	90	54
Margins				
Operating (EBIT) margin	4.9%	2.0%	0.8%	0.6%
Pre-tax margin	2.6%	0.2%	(0.7%)	(1.2%)
EBITDA margin	10.0%	6.1%	4.0%	5.5%
Expense ratios (% of revs.)				
Purchases expense	44.2%	43.7%	44.1%	39.4%
External services expense	21.5%	22.0%	20.8%	20.6%
Employee expense	18.8%	19.1%	19.1%	20.0%
Rent	7.7%	8.3%	8.5%	10.3%
Interest expense	2.3%	1.9%	1.5%	1.8%
Cash Flow				
EBITDA	211	135	90	54
Capital expenditures	(147)	(178)	(132)	(77)
Free cash flow	64	(43)	(42)	(23)
Interest expense	(49)	(41)	(34)	(18)
Interest coverage ratio	1.3x	Deficit	Deficit	Deficit
Net free cash flow	15	(84)	(76)	(41)
From operating activities	37	61	19	44
From investing activities	170	(10)	(55)	(58)
From financing activities	(204)	(41)	(34)	(8)
Net change in cash & equiv.	10	6	(74)	(30)
At period end¹				
Assets				
Cash & equivalents	206	213	139	110
Accounts receivable	209	244	294	227
Inventories	27	27	28	28
Total current assets	457	484	462	365
Prop., plant & equip. (net)	1,258	1,108	1,085	1,140
Intangible assets	235	235	246	102
Total assets	2,089	2,094	2,055	2,021
Liabilities/Equity				
Short-term borrowings	62	141	46	228
Accounts payable	206	219	237	186
Total current liabilities	649	786	724	770
Long-term debt	561	446	526	335
Stockholders' equity	675	663	632	588
Key financial ratios				
Current ratio	0.7	0.6	0.6	0.5
Quick ratio	0.7	0.6	0.6	0.4
LT debt/Total capital	45%	40%	45%	36%

¹ These are balance sheet highlights. Certain line items have been excluded.

- Free **cash flow** has been negative in the last 2 ½ years, which makes life difficult for a Company that is carrying over one-half billion dollars in debt on its books. The spreadsheet shows that Club Med's interest coverage ratio has been in a deficit condition since 2006. The Company has a \$152 million principal payment due in 2009 that will be difficult to refinance in today's turbulent credit markets.
- Club Med has a **balance sheet** that is highly leveraged with \$563 of total borrowings. The Company's \$110 million of cash reserves brings net debt down to \$453 million, which is a very difficult position for Club Med to be in when cash flow is decidedly negative and a very difficult travel market is predicted for the foreseeable future.

Conclusions

Club Med is going through a restructuring at a very difficult time. No amount of renovation work at the Company's Villages will be able to overcome projected declines in the worldwide travel industry. Club Med is entering this difficult economic period with free cash flow deficits, a \$152 million principal payment due in less than a year, and very tight credit markets. Management will be walking a financial tightrope in trying to navigate through this environment.

The Company's future largely depends upon how much worldwide travel contracts in the next year or two. Club Med's vacation village operations are particularly sensitive to economic cycles, with economic slowdowns in the regions where the Company does business adversely affecting demand for leisure activities generally and for vacation travel in particular. That is not a good position for a company to be in when it is struggling financially.

Certainly, the \$110 million of cash on Club Med's books will help the Company work its way through this period, but, in a worst case scenario, those funds could dissipate quite rapidly.

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Michael F. Calhoun has 25 years of experience in financial analysis, business management and corporate evaluation. He is President of The Alliance Group, a consulting firm specializing in corporate due-diligence studies, acquisition searches, business valuations and investment analysis services. Mr. Calhoun is a former investment analyst for both the Dreyfus Corporation and Oppenheimer Management.