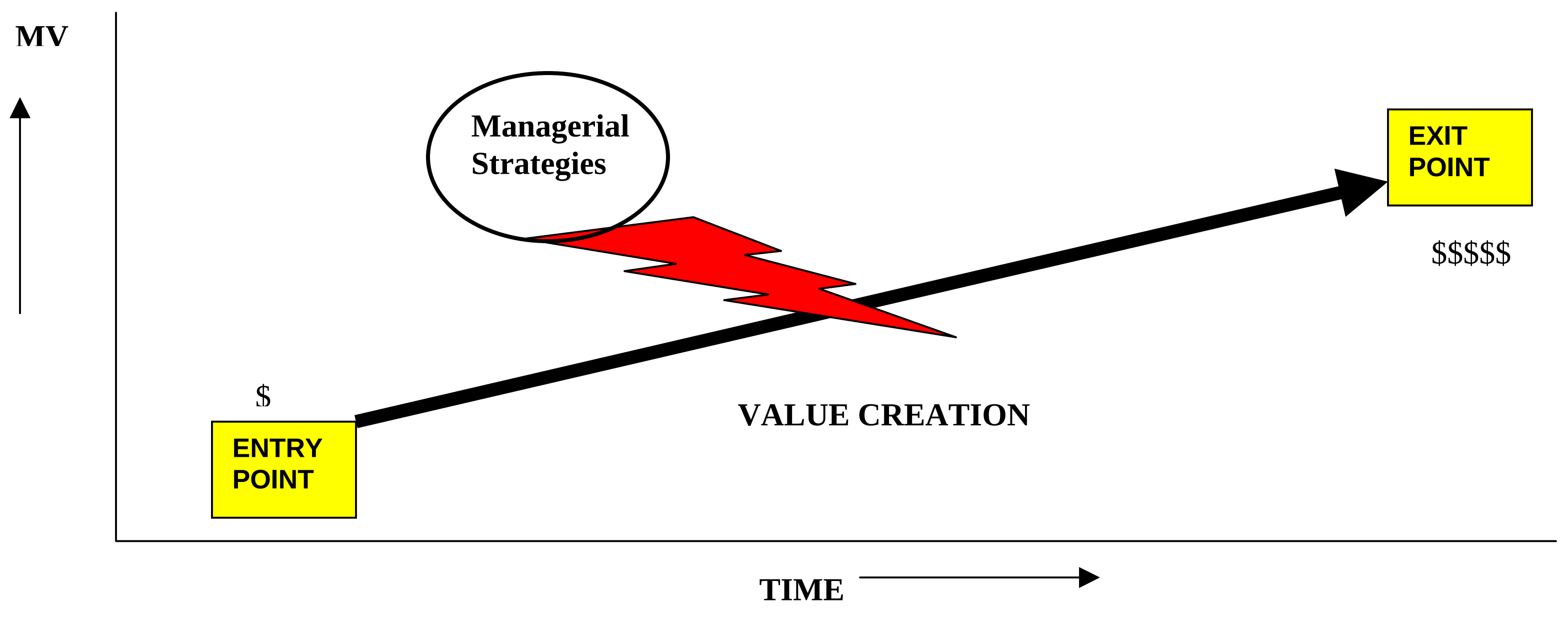
Extended Stay America (ESA) – A Case Study

Lecture Series



Lecture Series I – New Venture (Entry Year)

Extended Stay America (ESA) – A Case Study

Business Description

ESA develops, owns and operates extended stay lodging facilities, which provide an affordable and attractive lodging alternative at a variety of price points for value-conscious guests. The Company's facilities are designed to offer a superior product at lower rates than most other lodging providers within their respective price segments. They feature fully furnished rooms, which are generally rented on a weekly basis to guests such as business travelers, professionals on temporary work assignment, persons between domestic situations and persons relocating or purchasing a home.

Founded by H. Wayne Huizenga and George D. Johnson, Jr., two former Blockbuster Video executives, ESA went public in December 1995 with only two hotels opened and operating. Through its strategic plan of a national rollout of branded extended stay products serving distinct price points, in ten years, ESA grew to a 485 hotel corporation with 51,596 rooms in the moderate price extended-stay format under the brands Extended Stay America, Studio Plus and Crosslands. On May 2004, the Blackstone Group, a private equity investor, bought the company and converted it to a Real Estate Investment Trust (REIT) in conjunction with other Blackstone properties.

ESA Customer

Moderate price extended-stay hotels cater to value-conscious business customers who primarily require accommodations for five nights or longer (ESA's average length of stay is 18 nights). Extended-stay hotels offer fewer amenities than traditional full-service hotels. Extended-stay hotels account for approximately 225,000 of the 4.4 million rooms in the U.S. lodging industry.

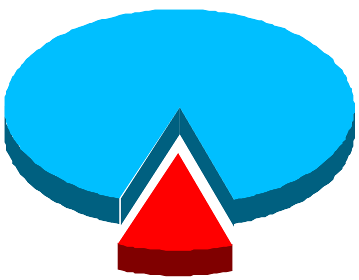
ESA Strategy - found a new niche

Taken out of ESA's first filed financial statements after it's IPO, management stated the following:

"We believe that extended stay hotels generally have higher operating margins, lower occupancy break-even thresholds, and higher returns on capital than traditional hotels. This is primarily a result of the typically longer length of stay, lower guest turnover, and lower operating expenses. We also believe the extended stay market is one of the most rapidly growing and underserved segments of the U.S. lodging industry, with demand for extended stay lodging significantly exceeding the current and anticipated near-term supply of dedicated extended stay rooms."

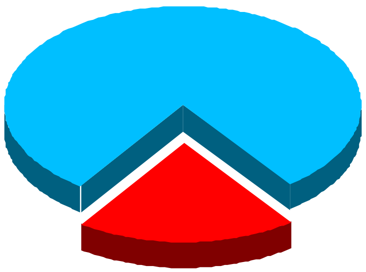
According to Smith Travel, at the time when ESA was established, there was a supply shortage of rooms in the lower price point extended lodging market. As it stand at the time, because of the supply shortage of rooms in this medium-priced extended stay market, most firms pay more by using traditional hotels or upper-scale longer-term hotels. The graph below indicated the difference between the supply/demand curve in 1995 (the year that ESA entered the extended-stay market):

Industry Supply



Extended Stay Lodging
15,000 Rooms

Industry Demand



Extended Stay Lodging
300,000+ Rooms

The Company's long-term objective was to have dominant national brands in three segments of the extended stay lodging market. The Company's strategy was to pursue an aggressive national rollout of its three branded lodging concepts primarily through the development of new properties, but in certain cases through acquisitions as well. ESA's rollout plan was modeled on the national rollout plan executed successfully by its management team at Blockbuster Video. Due to current constraints in the capital markets, the Company's short-term strategy was to allocate its available capital primarily to the Extended StayAmerica brand in order to create sufficient mass to promote national brand awareness and to dominate the economy segment.

The extended stay hotel business was a highly profitable segment with EBITDA margins nearing 58%, the highest in the lodging industry. The uniformity of property design, development and operations keep per unit construction costs low and make it suitable for management's national rollout strategy.

The principal elements of the company's rollout strategy were:

- ***Build Brand Awareness*** The rollout strategy is designed to preemptively build brand awareness and visibility throughout the country simultaneously. Increased visibility of ESA's brands is expected to generate trial and familiarity with the brand, and its presence in all regions throughout the country is expected to generate repeat business from travelers due to familiarity and satisfaction with the product.

- ***Appeal to Value Conscious, Longer Stay Guests*** The Company's facilities are designed to offer quality accommodations for guests at substantially lower rates than most other extended stay lodging providers. The Company's existing facilities offer extended stay accommodations for $159 to $399 per week. These rates contrast with average rates of approximately $500 to $750 per week for traditional higher-end extended stay hotels. The Company's three brands allow for effective price segmentation of customers.

- ***Low Labor Cost Amenities:*** The Company's properties contain a variety of hotel amenities that are attractive to the extended stay guest but are less labor-intensive than those of traditional hotels. Among these are a fully-equipped kitchenette, weekly housekeeping with twice-weekly towel service, color television with cable or satellite hook-up, coin-operated laundromat, and telephone service with free voice mail messaging.

- ***Standardized Properties:*** The Company has developed standardized plans and specifications for its facilities, which result in lower construction and purchasing costs and establish uniform quality and operational standards. The average construction cost for an ESA property varies significantly by brand and by geographic location due to differences in land and labor costs. Similarly, the average weekly rate charged and the resulting cash flow from these properties will vary significantly but generally are expected to be in proportion to the development costs. For the 329 properties opened from January 1, 1996 through December 31, 1999, the average development cost was approximately $5.3 million. In 1999, the Company opened a number of properties in the Northeast and West where average development costs are higher, resulting in average development costs for 1999 of $6.5 million per property. In 2000, the Company's average development cost per property will increase to approximately $8.3 million as ESA continues to expand in the Northeast and West. Total construction time is approximately 8-10 months; cash-on-cash returns at the property level are targeted at 16%.

- ***Operating Efficiencies:*** The design and price level of ESA properties attract guest stays of several weeks, which results in a more stable revenue stream and which, coupled with low-labor amenities, leads to lower relative administrative and operational costs and higher operating margins.

Products

The Company currently operates three extended stay lodging brands at the mid-price, economy and budget price-service points of the market. The typical design criteria for each of the brands is shown in the following table:

Brand Comparison

	StudioPLUS	**Extended Stay America**	**Crossland**
Customer	White Collar	Mix	Blue Collar
Product Segment	Up-Scale	Mid-Price	Economy
Price Segment	Mid-Price	Economy	Budget
Room Size	425 sq. ft.	300 sq. ft.	225 sq. ft.
Weekly Rate	$299-$399	$199-$299	$159-$199
Average Length of Stay	2-3 weeks	3-4 weeks	4-6 weeks

Source: Extended Stay America

Lecture Series I (Cont') – New Venture (Early Years)

A Chronological History of Extended Stay America, Inc. – Early Years (1995-1997)

1995

January 9, 1995	Extended Stay America, inc. is co-founded by George D. Johnson, Jr., former President of the Consumer Products Division of Blockbuster Entertainment Corp., a division of Viacom, Inc. and H. Wayne Huizenga, Chairman and Co-chief Executive Officer of AutoNation, Inc., and former Vice Chairman of Viacom, Inc., and Chairman and Chief Executive Officer of Blockbuster Entertainment Corp. The co-founders and management have invested $7,500,00 (the Company issue privately 15,000,00 shares or 50 cents per share) Mr. Johnson is named President and Chief Executive Officer of Extended Stay America, Inc. and Mr. Huizenga is named Chairman of the Board of Directors.
March, 1995	**ESA raised $50,000,000 of equity in the private placement market pricing additional 15 million shares at approximately $3.33 per share.**
August, 1995	The first Extended StayAmerica Efficiency Studios property opens in Spartanburg, South Carolina. **The Cost of the property was $6,5000,000.** The Company acquires a Welcome Inn in Marietta, Georgia **for $2,3000,000.**
December 19, 1995	The Company closed an IPO of 10,120,000 shares of its Common Stock at $6.50 a share and a concurrent offering to existing shareholders of 4,135,650 shares of Common Stock at an offering price of $6.05 per share. The Company's stock begins trading on the NASDAQ under the symbol "STAY."

The Company ends 1995 with 2 open hotels (see above), 9 properties under construction (**spend $6,730,000**), 32 sites under option (**paid $2,388,000**) and 72 employees.

	1995 (First Year of Operation)						
	January 1995	March 1995	August 1995	August 1995	December 1995	December 1995	
ASSETS							
Cash	7,500,000	57,500,000	51,000,000	48,700,000	139,500,683	130,382,683	
Property & Equipment (Constructed)			6,500,000	6,500,000	6,500,000	6,500,000	
Poperty & Equipment (Acquired)		Spartanburg, SC		2,300,000	2,300,000	2,300,000	
Properties Under Construction			Marietta, GA			6,730,000	9 properties
Site Deposits						2,388,000	32 Sites
Other Assets					-	-	
Total Assets	**7,500,000**	**57,500,000**	**57,500,000**	**57,500,000**	**148,300,683**	**148,300,683**	
DEBT							
Bank Loan	-	-	-	-	-	-	
Corporate Bonds	-	-	-	-	-	-	
Other Loans	-	-	-	-	-	-	
Total Debt	-						
EQUITY							
Initial Owner's Capital	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000	**IPO**
Private Placement		50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	$6.05*4,135,650
Public Investment (IPO) - Private Investors					25,020,683	25,020,683	
Public Investment (IPO) - Public Investors		-	-	-	65,780,000	65,780,000	**IPO**
Retained Ernings (Value Creation)		-	-	-	-	-	$6.50*10,120,000
Total Equity	7,500,000	57,500,000	57,500,000	57,500,000	148,300,683	148,300,683	
Debt + Equity	**7,500,000**	**57,500,000**	**57,500,000**	**57,500,000**	**148,300,683**	**148,300,683**	
Shares							
Initial	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000	33.9%
Private Placement		15,000,000	15,000,000	15,000,000	15,000,000	15,000,000	33.9%
IPO (to Private)					4,135,650	4,135,650	9.3%
IPO (to Public)					10,120,000	10,120,000	22.9%
Total Shares	15,000,000	30,000,000	30,000,000	30,000,000	44,255,650	44,255,650	100.0%

1996

January, 1996	The Company acquires an Apartment Inn in Norcross, Georgia for $2,600,000.
February, 1996	The Company purchases two Hometown Inn properties in Norcross and Riverdale, Georgia – both for $3,600,000.
May, 1996	The Company acquires a Guesthouse Inn in Lenexa, Kansas, and another Apartment Inn in Lawrenceville, Georgia for $4,500,000 .
June 5, 1996	The Company closes a public offering of 19,550,000 shares of Common Stock at $15.50 per share.
July, 1996	The Company purchases four properties in Las Vegas, Nevada. The Company acquires a property in Lakewood, Colorado – all of who were purchased for $10,500,000.

The Company ends 1996 with 40 Extended StayAmerica Efficiency Studios (82% more than originally projected) - spending $168,000,000 for 28 new constructions, 50 properties under construction (spend $28,000,000), 106 sites under option (paid $9,400,000) and 800 employees.

1997

January 1997	The Company completes construction of its first Crossland Economy Studios
February 1997	The Company raises a private placement of Common Stock
May 1997	The Company constructs its first Extended Stay Efficiency Studios in California.
September 1997	The Company raises [$] million of bank debt.

The Company ends 1997 with 185 properties (including the two shown above). The new properties opened in 1997 through construction (excluding the two properties above) cost ESA [$] million. Also at the end of December 31, 1997, ESA had 84 properties under construction where the Company spend additional [$] million during 1997, and 146 sites under option. During the 1997, ESA spend additional [$] million for site deposits.

ESA's Financial Performance since inception

Lecture Series II – Financial Analysis (Value Creation Years)

INCOME STATEMENT

	ESA's as Public Company								ESA as a Private Company	
	Actual FY Ended 12/31/1996	Actual FY Ended 12/31/1997	Actual FY Ended 12/31/1998	Actual FY Ended 12/31/1999	Actual FY Ended 12/31/2000	Actual FY Ended 12/31/2001	Actual FY Ended 12/31/2002	Actual FY Ended 12/31/2003	Actual FY Ended 12/31/2004	Actual FY Ended 12/31/2005
Total Revenues	38,809	130,800	283,087	417,662	518,033	541,530	547,910	549,720		
Revenue Growth		237.0%	116.4%	47.5%	24.0%	4.5%	1.2%	0.3%		
Operating Costs	16,560	60,391	122,469	180,429	214,499	230,200	252,430	273,630		
Property EBITDA	22,249	70,409	160,618	237,233	303,534	311,330	295,480	276,090		
Property EBITDA Margin	**57.3%**	**53.8%**	**56.7%**	**56.8%**	**58.6%**	**57.5%**	**53.9%**	**50.2%**		
Corporate Operating Expenses	16,867	29,951	39,073	42,032	44,433	47,480	48,820	51,240		
EBITDA	**5,382**	**40,458**	**121,545**	**195,201**	**259,101**	**263,850**	**246,660**	**224,850**		
Depreciation and Amortization		21,300	42,300	60,200	66,269	72,140	78,820	80,430		
EBIT		19,158	79,245	135,001	192,832	191,710	167,840	144,420		
Interest Expense	-	-	20,521	56,074	76,808	76,559	80,762	79,040		
Interest Income	-	-	-	-	668	560	862	520		
Net Interest Expense	-	-	20,521	56,074	76,140	75,999	79,900	78,520		
Income Before Taxes		19,158	58,724	78,927	116,692	115,711	87,940	65,900		
Other Merger related one-time expenses		16,558	12,000	(1,100)						
Taxes			18,724	32,827	46,680	51,700	30,840	25,540		
Net Income		2,600	28,000	47,200	70,012	64,011	57,100	40,360		

	Actual FY Ended 12/31/1996	Actual FY Ended 12/31/1997	Actual FY Ended 12/31/1998	Actual FY Ended 12/31/1999	Actual FY Ended 12/31/2000	Actual FY Ended 12/31/2001	Actual FY Ended 12/31/2002	Actual FY Ended 12/31/2003	Actual FY Ended 12/31/2004	Actual FY Ended 12/31/2005
Other Operating Info										
Occupancy Rate	73%	73%	73%	74%	80%	76%	78%	79%		
AWR	261.00	263.00	286.00	292.00	304.58	326.47	344.77	363.07		
Balance Sheet Items										
Total Debt	-	135,000	653,000	853,000	938,614	1,152,135	1,332,344	1,486,366		
Total Book Equity	628,714	834,659	866,751	915,590	982,631	1,029,067	1,086,167	1,126,527		
Cash Flow Items										
Capex	274,084	610,201	634,821	330,301	260,975	345,588	344,296	276,716		
Ratio Analysis										
EBITDA / Interest			5.9x	3.5x	3.4x	3.4x	3.1x	2.8x		
Total Debt / EBITDA	0.0x	3.3x	5.4x	4.4x	3.6x	4.4x	5.4x	6.6x		
Total Debt / Total Capitalization	0.0%	13.9%	43.0%	48.2%	48.9%	52.8%	55.1%	56.9%		

Lecture Series III – Corporate Valuations (Exit Year)

Valuation Analysis

Blackstone Group Acquisition of ESA (3/2004)

Private equity firm Blackstone Group has agreed to acquire lodging chain Extended Stay America for $1.99 billion. With the purchase, Blackstone will assume $1.13 billion worth of Extended Stay America's debt ($19.625 per share).

Date Anouncement	Target	Acquiror	Acquisition Price /Share	Shares Outstanding	Equity Value ($mm)	Total Debt ($mm)	Enterpised Value (EV)	EBITDA (last reported)	EBITDA Multiple
3/8/2004	Extended Stay	Blackstone Group	$ 19.93	95,077,000	$ 1,894.88	$ 1,231.50	$ 3,126.38	$ 224.85	13.90x

Blackstone Group completed on May 11 its acquisition of Extended Stay America Inc. in a transaction valued at over $3.1 billion, including debt. Blackstone paid $19,62 per share--a 204 percent increase for shareholders who bought into Extended Stays initial public offering in December 1995.

PRESS RELEASE

Spartanburg, SC – May 11, 2004 - Extended Stay America, Inc. announced today that it has completed its merger with an affiliate of The Blackstone Group. Under the terms of the merger agreement, ESA stockholders will receive $19.625 per share in cash, without interest.

As of 8:00 A.M. Eastern Daylight Time (EDT) on Tuesday, May 11, 2004, approximately $169,100,000 in the aggregate principal amount of the ESA 9.15% Senior Subordinated Notes due 2008 (the "2008 Notes"), constituting approximately 85% of the 2008 Notes, and approximately $291,851,000 in the aggregate principal amount of the ESA 9 7/8% Senior Subordinated Notes due 2011 (the "2011 Notes" and together with the 2008 Notes, the "Notes"), constituting approximately 97% of the 2011 Notes, had been tendered and not withdrawn in connection with the previously announced cash tender offers for the Notes. All Notes validly tendered and not withdrawn in the offers have been accepted for payment. In addition, ESA announced that it has successfully completed the related consent solicitations for the Notes. The offer to acquire all of the outstanding Notes expired, as scheduled, on Tuesday, May 11, 2004 at 8:00 A.M. EDT.

About The Blackstone Group

The Blackstone Group, a private investment and advisory firm with offices in New York, London and Hamburg, was founded in 1985. The firm has raised a total of approximately $32 billion for alternative asset investing since its formation. The Blackstone Group's six core businesses are Private Equity Investing, Private Real Estate Investing, Corporate Debt Investing, Marketable Alternative Asset Management, Corporate Advisory, and Restructuring and Reorganization Advisory.

IRR Analysis for Wayne Huizenga and George D. Johnson, Jr (the founders of ESA) and the initial Private Placement Investors invested in 1995:

IRR Analysis

Year of Seed Investment	1995
Exit Year	2004
Years under initial ownership	9
Sell price (EV)	3,126,380,000
Less Debt (at Exit)	1,235,500,000
Equity Value	1,890,880,000

Ownership at Exit Year (2004)

Seed Investor	8.0%
Private Placement Investors	8.0%
Public	84.0%
Total Ownership at Exit Year	100.0%

Investment

Seed Investor	7,500,000
Private Placement Investors	50,000,000

IRR

Seed Investor	**1917%**
Private Placement Investors	**203%**

Cash Flows:

Entry Year									Exit Year
1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
(7,500,000)									151,270,400
(50,000,000)									151,270,400