Target Hospitality (TH)

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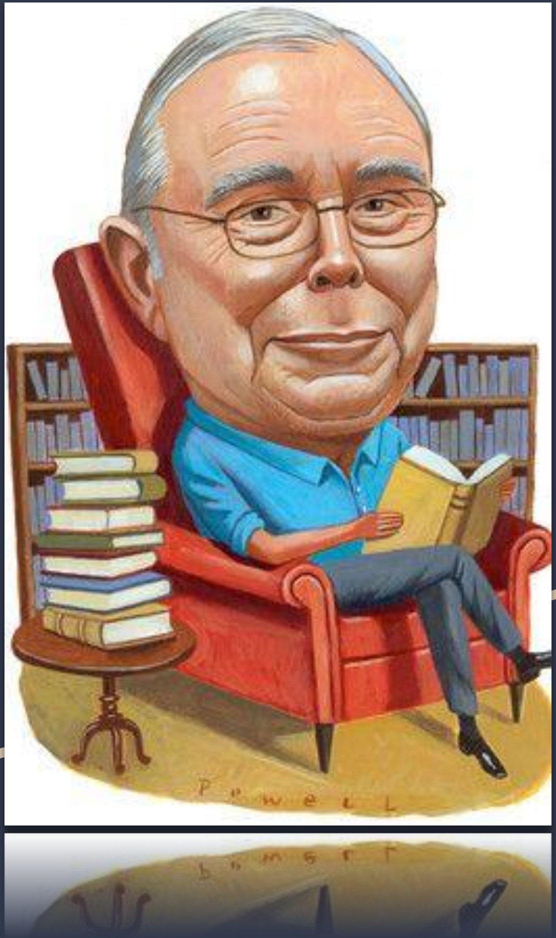
Presentation Outline

- What is the Opportunity?
  - Stock Basics
  - Business Description
- Why The Opportunity Exists?
  - SPAC IPO
  - Illiquidity
- Is This a Good Business?
  - Benefits of Modular Construction
  - Enviable Unit Economics & High FCF Generation
  - Long-Term Contracted Revenues & Large TAM
- Valuation & Risks
  - Permian Basin Capacity
  - Commodity Risk & Illiquidity Risk
  - Growth for Free



"Over the long term, it's hard for a stock to earn a much better return than the business which underlies it earns. If the business earns 6% on capital over 40 years and you hold it for that 40 years, you're not going to make much different than a 6% return — even if you originally buy it at a huge discount. Conversely, if a business earns 18% on capital over 20 or 30 years, even if you pay an expensive looking price, you'll end up with a fine result."

– Charlie Munger

Stock Basics

Stock Symbol	TH / THWWW
Stock Price	$10.08 / $2.45*
Debt/Equity	<2x
Shares	105.7M
Market Cap	$1.04B
52 Week Range	$9.26 - $12.11

*as of 06/10/2019

Business Basics

- Largest vertically integrated specialty rental accommodation and hospitality services company in the U.S.

- Owns a network of 13,000+ beds across 22 geographic sites
  - Heavily concentrated in Permian Basin

- Founded in 2007.
  - Formally Owned by TDR (which is owned by Algeco Global).
  - SPAC IPO in 2018

- Merged with Signor Holdings to complete vertical integration of catering/hospitality and rental accomodations.

Main Customer Mix

Key Takeaway:

One can purchase shares of a business generating over 50% EBITDA margins, 90% FCF conversion and 20%+ EBITDA growth for 35% off -- getting all future growth for *free*.

Multiple Comparables to Draw From

Lodging / Accommodations

- Comparables:
  - Extended Stay America
  - Marriott
  - Wyndham
- Sport similar margins but Target achieves the long-term visibility in their revenues.
- Average EBITDA multiple: 11x

Catering

- Comparables:
  - Sodexo
  - Aramark
  - Compass Group
- Able to charge for value-add services with almost no incremental cost.
- Average EBITDA multiple: 10.5x

Specialty Rental

- Comparables:
  - Mobile Mini
  - Willscot
- 24 month payback period on initial investment
- Target differentiator: Doesn’t have ongoing capex after payback period & higher EBITDA / FCF margins.

Why Does The Opportunity Exist?

SPAC History & Minimal Following

- SPACs are notorious for sketchy stock price performance.
  - There is little data to backtest from.
  - General negative sentiment from most investors.

- The company is just not on many people’s radars.
  - Institutions not allowed to purchase SPAC IPOs.

- Illiquidity forces many investors out of the game.
  - Average 25K shares daily

Negative Sentiment Apparent

*“I’ve touched SPACs a few times in my career. They are, without exception, **flaming garbage barges.** In today’s world, there is no reason a company would sell to a SPAC.” – Actual Reddit Comment*

Very Little Following

CVEO MINI

Shortage of Housing in Permian Basin

ECONOMY

In Texas oil town, high times, but low housing supply

By Andy Uhler
April 25, 2018 | 6:40 PM

"The moment that a move-in-ready house goes on the market; it's gone." - Lauren Lambdin, Real Estate agent in Permian Basin

Midland has the fifth-lowest unemployment rate in the nation. People here say that if you want a job and show that you can work, you can get a job, no problem.

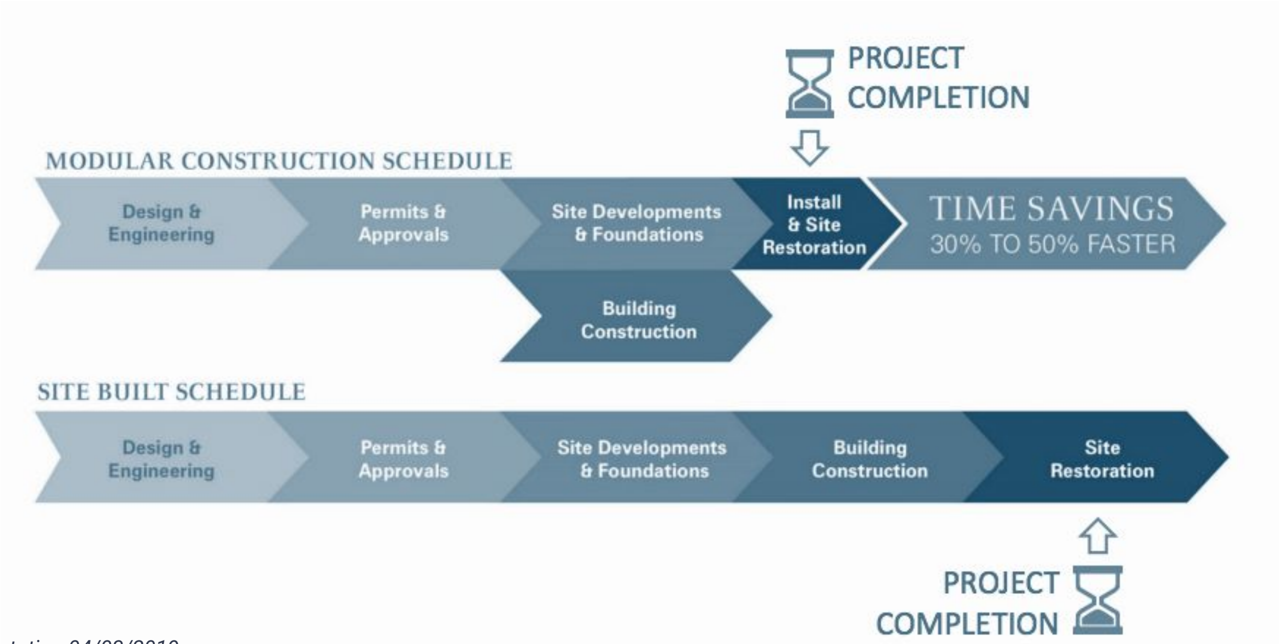
Clear Supply / Demand Imbalance

- According to the article:
  - $60K entry salary with no experience.
  - Apartments are 3-5 month waiting lists.
  - $700 - $800 for an RV spot.
  - 1 bedroom apartments go for $1,450/month.

Is This a Good Business?

The Power of Going Modular

Significantly Reduces Construction Time



The Power of Going Modular

Time Savings

- Complete project up to 50% faster than site build.
- Don’t have to work around weather.
- Translates into faster ROI.

Quality Control & Less Waste

- “Lean” manufacturing eliminates waste.
- Improves efficiency
- Results in less money wasted on extra supplies.

Cost Certainty

- At the end of the day, all of this translates to **cost certainty.**
  - Or as close as one can get.
- Certainty of project timeline reduces over-budget risk.

Key takeaway: By building rental accommodations via modular construction, TH is able to generate higher ROIC *while at the same time* reinvest at faster and higher rates than non-modular construction investments.

Enviable Unit Economics

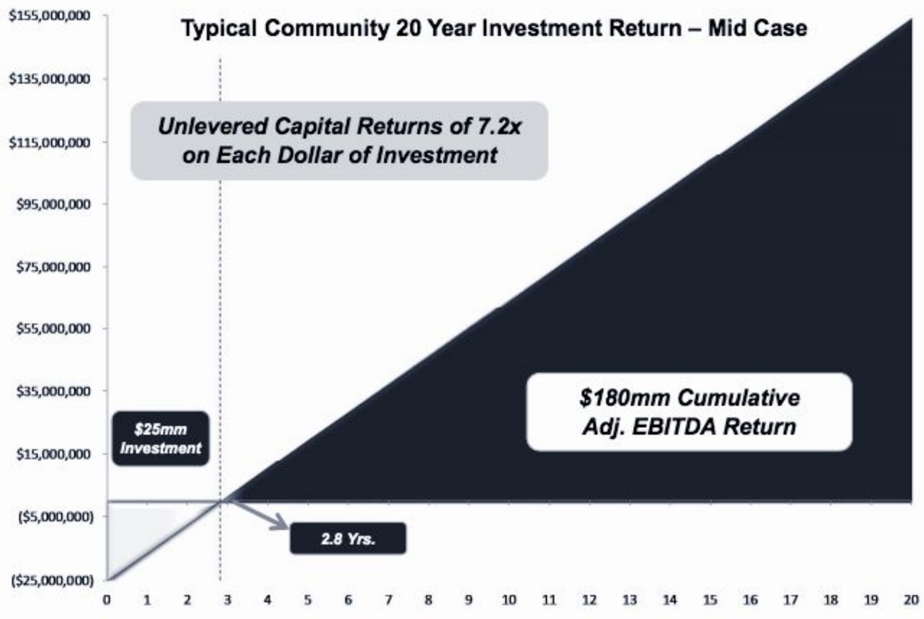
“Typical” Up-front Investment

- ❖ CapEx: $50K / room
- ❖ ADR / COGS: $95pppn / $35pppn
- ❖ Low maintenance capex after initial investment ($3M max/year)

“Typical” Project: 500 bed build-out

- ❖ Total Capex: $25M
- ❖ Average EBITDA/bed = $18K
- ❖ Translates into 36% return per bed, or $9M in total EBITDA/year.
- ❖ Most projects last 20 years: = $180 Cumulative EBITDA from $25M investment.

*Target Hospitality Investors Presentation. Feb. 2018



Long-Term Contracted Revenues

- Long-term “take or pay” contracts provide durability & visibility in revenue streams.
- 83% of 2018 revenue booked on “take or pay”
- 89% of 2019 revenues ($306M) under “take or pay”
- Of their contracted revenues, 85% are Exclusivity contracts.
- Average contract term: 40.6 months (3.38 years).

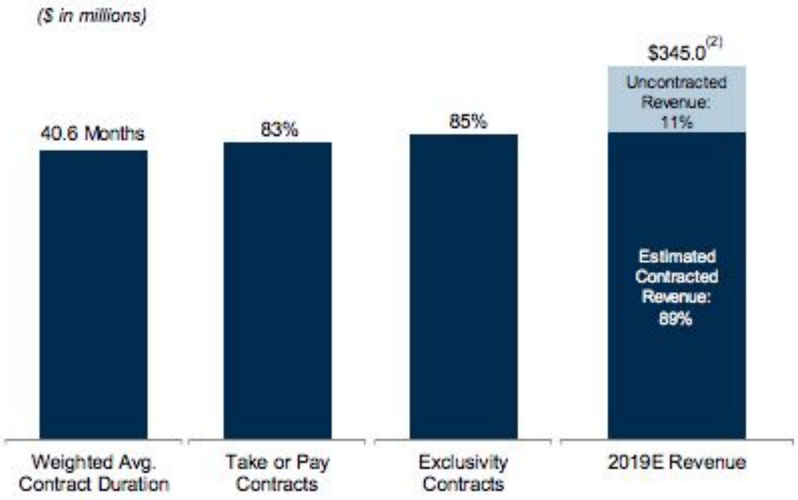


*Image provided by Target Hospitality Investors Presentation Feb. 2018

Increased Scale & Resiliency

2014 - 2016

- ❖ 5,500 bed network.
- ❖ 44% Permian Basin locale.
- ❖ 65% utilization
- ❖ $86 ADR
- ❖ Crude breakeven rate: $70-$90

Present (*as of 09/30/18*)

- ❖ 12,000+ beds, serving 10M meals
- ❖ 81% Permian Basin
- ❖ 84% utilization
- ❖ ~$87 ADR
- ❖ Breakeven $30 - $40

What Future Holds

- ❖ 13,000+ beds, increasing capacity & catering value-adds.
- ❖ Increased expansion in Permian + Keystone XL.
- ❖ Over 87% utilization.
- ❖ $91 ADR.
- ❖ Breakevens below $35.

Key Takeaway: TH is simultaneously reducing production costs *while* raising ADRs. Equals incrementally higher ROIC..

Large (and Growing) Addressable Market

Permian Basin's Torrid Growth

"Growth in the Lower 48 onshore crude oil production occurs mainly in the Permian Basin in the Southwest region. This basin includes many prolific tight oil plays with multiple layers … making it one of the lower-cost areas to develop." - US Energy Information Administration

EIA Projections into 2022

- ❖ Domestic crude oil production will surpass 15M/bpd.
- ❖ Production will remain over 14M/bdp through 2040.

Big Dogs Need to Eat

- ❖ Chevron added almost 7 billion barrels of oil & doubled portfolio value -- thanks to Permian Basin.
- ❖ ExxonMobil revised Permian growth plans -- will now produce more than 1 million barrels per day as early as 2024.

ENERGY

Exxon and Chevron just announced big plans to surge oil and gas output from top US field

PUBLISHED TUE, MAR 5 2019 · 10:56 AM EST | UPDATED TUE, MAR 5 2019 · 5:27 PM EST

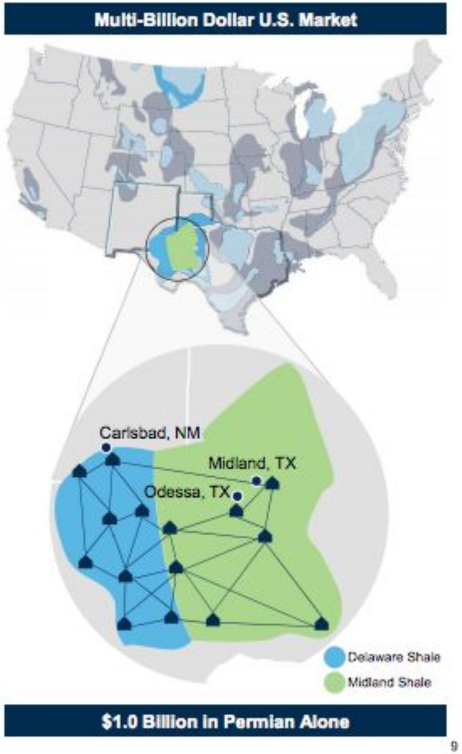
Tom DiChristopher
@TDICHRISTOPHER

SHARE

>$1B Opportunity in Permian Basin

Competitive Advantages

- ❖ 15 existing facilities in Permian Basin.
- ❖ Network effects provides geographic flexibility to customers.
  - ➢ *NIMBYism*
- ❖ Customer base under exclusive long-term contracts provides steep barriers to entry within region.



Target is Logical Choice

- ❖ Target disrupts inferior lodging alternatives:
  - ➢ Extended stay hotels
  - ➢ Motels & RV Parks
- ❖ Provide completely turn-key solution at reduced prices.
  - ➢ Includes security and catering / hospitality.
- ❖ Possible growth in gov't and large-scale projects.

Incremental Growth (For Free!)

Incremental Growth: *New Projects / M&A*

Government Contracts

- South Texas Family Residential Center
- Multiple Government Facilities Contracts
- Approx $90M Contract Value

Keystone Pipeline XL

- Won large catering & facilities contract at Keystone Pipeline.
- Around 4.5M meals served across 11 locations.

LOI on U.S. Refinery

- 2019 start date.
- Existing 596 bed community
  - 24 month contract.
- $35M - $45M with minimal capex.

M&A Opportunities present total of 6,120 “bolt-on” bed network additions.

New Projects add up to >$130M in Incremental Value

Incremental Growth: 2019 Guidance

- Company revised guidance upwards for 2019
  - Revenues: $340 - $350M
  - EBITDA: $175M - $180M

- Prior estimates:
  - Revenues: $300M - $310M
  - EBITDA: $160M - $165M

- Upward guidance on heels of renewal contracts with value >$200M ($45M incremental value-add from Catering & Hospitality).

"We are thrilled with the positive momentum in our business and our increased 2019 outlook for Target Hospitality. The integration of Signor is progressing as anticipated, alongside continued execution of our planned capital and operational enhancements throughout our expansive lodging network."

"Our durable customer contracts provide us with great visibility into our future performance and underpin the stability and resiliency of our business."

- ***Brad Archer, President & CEO of Target Hospitality***

Back of Envelope Valuation

Pessimism: *Negative Growth, Lower Margins*

Back of Envelope FCFF

Revenues	**$226.35**	**Note: Reduced Revenues -10% after 2019*
EBITDA	**$79.22**	**Note: 15% Margin Compression*
Less: Interest & Taxes	*-$41.68*	
After-Tax Op. Earnings	**$37.54**	
Add: D&A	*$29.16*	
Less: Capex	*-$4.53*	**Note: Double Normal Cap-ex*
FCFF	**$62.18**	

Equity Value / Share

	Perpetuity Approach	EBITDA Approach	**10x EBITDA Multiple*
Enterprise Value	$921.03	$822.70	
Net Debt	$357	$357	
Shares Outstanding	105.7	105.7	
Equity Value	***$5.34***	***$4.41***	
Upside %	***-46.85%***	***-56.33%***	

Enterprise Value

Long term growth rate	3%
2023 FCF x (1+g)	64
Terminal value in 2023	915
Stage 2: PV of TV	**568**
Enterprise value (stage 1 + 2)	**903**
EV/EBITDA	**11.39**

*With 15% margin compression, 10% annual revenue decline and higher than average capital expenditures, **share prices would be valued at half of what they're trading today.** 50% downside.*

Stagnant: *No Growth, Steady State*

Back of Envelope FCFF

Revenues	**$345.00**	**Note: Steady State 2019 Revenues*
EBITDA	**$175.95**	**Note: Historical Average Margins*
Less: Interest & Taxes	*-$77.33*	
After-Tax Op. Earnings	**$98.62**	
Add: D&A	*$44.45*	
Less: Capex	*-$3.45*	**Note: Normal Cap-ex*
FCFF	**$139.63**	

Equity Value / Share

	Perpetuity Approach	EBITDA Approach	
			**11.5x EBITDA Multiple*
Enterprise Value	$1,802.44	$1,783.15	
Net Debt	$357	$357	
Shares Outstanding	105.7	105.7	
Equity Value	***$13.68***	***$13.49***	
Upside %	***35.54%***	***33.73%***	

Enterprise Value

Long term growth rate	3%
2023 FCF x (1+g)	144
Terminal value in 2023	2,054
Stage 2: PV of TV	**1,276**
Enterprise value (stage 1 + 2)	**1,802**
EV/EBITDA	**10.24**

*Assuming **zero** top-line growth, historical average margins and capex, shares are trading at a **35% discount to fair value.***

Optimist: *Modest Top-Line Growth*

Back of Envelope FCFF

Revenues	**$603.41**	**Note: 15% CAGR Top-Line*	
EBITDA	**$307.74**	**Note: Historical Average Margins*	
Less: Interest & Taxes	*-$135.24*		
After-Tax Op. Earnings	**$172.49**		
Add: D&A	*$77.75*		
Less: Capex	*-$6.03*	**Note: Normal Cap-ex*	
FCFF	**$244.21**		

Equity Value / Share

	Perpetuity Approach	EBITDA Approach	
			**12x EBITDA Multiple*
Enterprise Value	$2,923.67	$2,985.48	
Net Debt	$357	$357	
Shares Outstanding	105.7	105.7	
Equity Value	***$24.28***	***$24.87***	
Upside %	***140.67%***	***146.47%***	

Enterprise Value

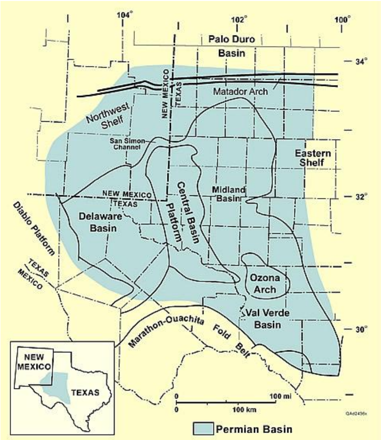
Long term growth rate		3%
2023 FCF x (1+g)		252
Terminal value in 2023		3,593
Stage 2: PV of TV		**2,231**
Enterprise value (stage 1 + 2)		**2,924**
EV/EBITDA		**9.50**

At 15% top-line growth, historical margins/capex and improved balance sheet, Target Hospitality would approach a $3B Enterprise Value. ***Share Price reflect a near 146% upside.***

Risks

Commodity, Basin and SPAC Stigma

Commodity Risk is always a concern when investing in a company whose main customers rely on commodity prices for demand of their product.



Permian Basin has dealt with overcapacity once before -- and it could happen again. If infrastructure doesn't improve, companies won't be able to export the oil off the fields.

Illiquidity and SPAC stigma could easily keep share prices suppressed longer than an investor can remain sane.

The Big Picture: *Durable business, stable competitive advantages, high cash flow generation and ability to reinvest at higher than market rates … for cheap!*

Questions?

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