

Dear Valued Clients:

We want to make you aware of a recent development with one of our holdings. Specifically, on March 15th, Extended Stay America (NASDAQ: STAY) announced a go-private transaction with a 50/50 joint venture between Blackstone Real Estate Partners and Starwood Capital Group that, we believe, significantly undervalues the Company. For this reason, and others as detailed below, we intend to oppose the Board of Directors on the proposed transaction. As you may have seen in the news, we are not alone in our opposition. We believe this is the right course of action as both investors and fiduciaries.

For over 32 years, we have never felt compelled to publicly oppose a Board decision and have never written a formal letter in opposition to a corporate action of a portfolio business. This does not mean that we always agree with management. On the contrary, we develop authentic relationships with management that allow us to express disagreement in a thoughtful, respectful and private manner.

With respect to our opposition in this matter, our thesis is clear and is driven by the following key themes:

**Valuation:** The price does not in our view adequately reflect the full value of the Company.

- The transaction price represents a multiple of nearly 17x 2020 EBITDA. However, 2020 was clearly an exceptional year, particularly for the hospitality industry, and we do not believe the 2020 EBITDA figure is at all representative of the normalized earnings power of the business.
- The Company has pointed out that based on 2019 EBITDA, the transaction price represents an 11x multiple, which is at the high end of the historical trading range for the last few years. However, we do not believe that 2019 was a good baseline as the Board was in the process of evaluating strategic options, and we believe that they were distracted from focusing on operating the business. In late 2019, the Board appointed a new CEO who has hired several key leaders and begun to implement a new strategic plan.
- The Company's resilience throughout the pandemic, coupled with an improving US economy and recently implemented strategic initiatives, provides a reasonably clear path to increasing shareholder value.
- In addition, we do not believe that the historical EBITDA multiple is appropriate given the stability of the earnings power of the business. The Company has had three different CEO's since we initially invested in late 2017, and each has developed and implemented a different strategy. Throughout much of 2018 and 2019, the Company was considering strategic options, which hindered management's ability to execute operationally. We believe that consistent and focused execution of the current strategy will result in increased EBITDA and that the market will assign a higher multiple to the business.

**Timing:** We believe the timing of the proposed transaction is suspect for several reasons.

- The economy is showing strong signs of recovery. Expectations are particularly high for the lodging sector as more Americans receive vaccinations.
- Extended Stay's business fundamentals are improving. As mentioned above, the Company has been working on several initiatives over the last year that should improve operational performance.
- Asset sales are resuming. Extended Stay sold a single property in late 2020 for a \$53M gain, and we believe there will be opportunities for additional gains to be realized as the lending and development markets continue to recover.



- Management’s own commentary suggests there is significant value to be unlocked. Consider the following, select quotes from the most recent quarterly earnings call on February 26, 2021:
  - “More now than ever, Extended Stay America is focused on maximizing the value of our dominant position in the extended stay segment to drive long-term value for our shareholders.”
  - “Our strategies are integrated into a plan designed to maximize the value of our REIT assets, ensure that our renovation capital is targeted at those assets with the highest RevPAR potential, drive more business through our proprietary distribution channels and accelerate the growth of our franchise business. And for those assets with limited RevPAR potential that may not fully benefit from the improvements to our commercial engine or warrant long-term capital investments, we are continuing our efforts to realize accretive value for our shareholders through our asset disposition strategies.”
  - “The Extended Stay America brand is a powerful asset, an asset that I do not believe we have fully leveraged in the past.”
  - “In 2020, we established a strong commercial leadership team with significant extended stay experience. We began putting into motion several important commercial improvements.”

**Process:** We believe the Board’s process for this decision departs from best practices in myriad respects:

- The buyers approached the Board with an offer to buy the business; other offers were not solicited.
- Blackstone signed a confidentiality agreement on February 10, 2021, Starwood signed a confidentiality agreement on March 10, 2021, and the transaction was finalized on March 14, 2021. We believe this is a very short due diligence period.
- The transaction includes a “no-shop” provision that deters other potential bidders from coming forward.
- Management has made no comments other than the press release, which contained scant detail.

We do not engage in this opposition lightly, but as you know, we take corporate governance very seriously. We conduct our own due diligence before casting proxy votes. In this instance, the circumstances warrant us opposing the transaction – in our view, the deal undervalues Extended Stay’s business, is at odds with management’s own assessments, occurs at a profoundly inopportune time relative to the market recovery, and was the product of a flawed and truncated diligence process.

Please contact us with any questions or concerns you may have.

Best regards,

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