Tenant Improvement Allowance and Capex - Disclaimer

Disclaimer

This presentation is for illustrative purposes only. This presentation is intended to provide additional information to investors about the impact of tenant improvement allowances and capital expenditures on free cash flow. Other lease-related entries including, but not limited to, straight-line rent expense and cash payments for rent, have been excluded for these purposes and therefore, this presentation does not purport to represent all elements of lease expenditures or the effect of a lease on a company’s financial statements. All numbers and amounts herein are illustrative only, and are not meant to indicate or represent actual figures, results, or amounts. This information should be considered in addition to, not as a substitute for or superior to the disclosures contained in our filings with the Securities and Exchange Commission.

Tenant Improvement Allowance and Capex – Example

Consider the following illustrative example:

- Company A takes possession of a new lease on December 1, 2018 (Q4'18)
- Company A expects to spend $30 on capital expenditures ("capex") related to the build-out of this leased space in Q1'19 and Q2'19. Spend is assumed to be $5 per month
- As part of the lease agreement, Company A is entitled to $15 of tenant improvement allowances ("TIAs")
- Company A receives these TIA reimbursements on a two month delay after the month the capex is spent, which only partially offsets the capex
- Assume the lease term is fifteen months
- The table below outlines the assumed timing of capex and related TIA reimbursements, the cash flow impact of which is shown on the following slide

Month	Capex	TIA reimbursement	Impact to FCF
January	($5)	$-	($5)
February	($5)	$-	($5)
March	($5)	$5	$-
Q1'19 Total	**($15)**	**$5**	**($10)**
April	($5)	$5	$-
May	($5)	$5	$-
June	($5)	$-	($5)
Q2'19 Total	**($15)**	**$10**	**($5)**

Tenant Improvement Allowance and Capex – Impact to Free Cash Flow

	Q4'18		Q1'19		Q2'19	
Cash flow from operating activities:[1]						
Income statement impact of amortization of lease incentive obligation	$	1	$	1	$	1
Change in operating assets and liabilities:						
Non-current liabilities[2]		14		(1)		(1)
Prepaid and other current assets[3]		(15)		5		10
Net cash provided by operating activities	$	-	$	5	$	10
Cash flow from investing activities:						
Capital expenditures		-		(15)		(15)
Net cash used in investing activities	$	-	$	(15)	$	(15)
Free cash flow	$	-	$	(10)	$	(5)

[1] *CFO in this example excludes the impact of straight-line rent expense and cash payments for the lease*
[2] *Includes the lease incentive obligation liability and related amortization of this balance over the lease term*
[3] *Includes the TIA receivable and related cash reimbursements through Q2'19.*

Commentary

1. Company A takes possession of the lease and records a TIA receivable, and a corresponding lease incentive obligation liability. This entry does not impact cash provided by operating activities ("CFO")
2. The lease incentive obligation liability is amortized over the lease term of 15 months, a non-cash entry that does not impact CFO
3. CFO is positively impacted due to cash received from TIA reimbursements, which lag capex by 2 months
4. Capex is reported as a cash outflow from investing, when paid
5. FCF for certain periods may be impacted differently based on the timing of capex and the related TIA reimbursements