Jackson Hole Mountain Resort

Jackson Hole Mountain Resort Corporation

HR Ratings® | **Credit Rating Agency**

Corporates
June 12, 2024
A NRSRO Rating*

Jackson Hole Mountain Resort **HR A+ (G)** Stable Outlook	US$125.0m Term Loan **HR A+ (G)** Stable Outlook 46820@AA7	US$30.0m Revolver **HR A+ (G)** Stable Outlook 46820@AB5

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Information Disclosure Form

Rule 17g-7

The Rating Action Commentary (RAC) associated with this disclosure form is an integral part of the form.

1. **Symbol, Number, or Score in the Rating Scale used by HR Ratings as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:**

Entity/Instrument	Rating Action	Rating Type	Rating Code
Jackson Hole Mountain Resort Corporation	Assigned	Long Term Rating	HR A+ (G) / Stable Outlook
US$125.0m Term Loan	Assigned	Long Term Rating	HR A+ (G) / Stable Outlook
US$30.0m Revolver	Assigned	Long Term Rating	HR A+ (G) / Stable Outlook

2. **Version of the Procedure or Methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:**

The rating assigned by HR Ratings to the entity is based in accordance with the following methodologies established by the rating agency:

- Corporate Debt Credit Risk Evaluation, February 2024.

  https://www.hrratings.com/docs/metodologia/Corporates_2024.pdf

3. **Main assumptions and principles used in constructing the procedures and methodologies to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7**

The methodology describes the process used to assess the ability and willingness to meet corporate debt payment obligations in a timely manner and as originally agreed, including dependent structured debt and real estate investment trusts. The process consists of a quantitative analysis based on four financial metrics (three for structured debt) and an analysis allowing for qualitative adjustments, including adjustments related to ESG factors.

The corporate methodology involves the creation of financial models based on HR Ratings projections and when relevant historical performance data. The projections are made under a Base and Stress scenario, both incorporating the relevant historical data. The formal rating period generally incorporates five years of information. The four metrics used in this analysis are: (i) debt service coverage; (ii) debt service coverage including end of previous period cash (iii) years to payment, which measures the ratio between annual free cash flow and net debt; and (iv) the ratio between a market value estimate of corporate assets and its total liabilities. For real estate companies, the fourth metric is replaced by the loan to value ratio.

For both the Base and Stress scenarios the annual weighted average of each metric value is calculated. These annual averages are converted into a numerical rating scale, which is the same for each metric. Subsequently, and for each scenario, the weighted average of the metric numerical ratings is calculated. The final quantitative score is the weighted average of the two scenarios. If historical information is available, this process generally considers two reported and three projected years. However, the methodology considers the possibility of using different rating or time periods, with fewer reported years, and in the case of real estate leasing companies with seven instead of five years.

The rating obtained through this quantitative analysis can be adjusted positively or negatively by applying qualitative notches, which are divided into two categories: general and ESG. General adjustments refer to factors that could over time affect the quantitative rating especially when HR Ratings concludes that these factors cannot be adequately incorporated into the quantitative models. This includes ESG factors that are analyzed to determine their significance for and potential influence on credit risk. The environmental factor analyzes the corporate's environmental approach and policies, considering its lines of business and daily operations, as well as exposure to natural phenomena and environmental regulations. For the social factor, the business approach is evaluated first then the corporate policies regarding all levels of employee benefits, career plans and ability to retain talent and inclusion are evaluated.

Finally, the corporate governance analysis considers five aspects: (i) internal regulations of the corporation, considering their scope, formality and mechanisms for continuous adaptation, (ii) quality of senior management and administration, considering their financial strategies and history of crisis management, (iii) transparency and quality of the information provided, as well as history of non-compliance, (iv) risk associated with the regulatory framework to which each corporation is susceptible and the risk associated with the macroeconomic environment, and (v) management and mitigation strategies associated with the entity's operational risk, as well as the technological tools available for performing daily operations.

The rating incorporates two negative notches, one is associated to the metrics deterioration once the maturity of the credit facility gains a higher weight within our rating period (Refinancing Risk). The other is related to ESG due to the ski resort industry can be significantly affected by climate change, since it directly impacts the environmental conditions necessary for ski and resorts to operate.

4. **Potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7**

- HR Ratings does not validate, guarantee, or certify the accuracy, correctness or completeness of any information and is not responsible for any errors or omissions or for results obtained from the use of such information.
- Ratings and/or opinions assigned by HR Ratings are based on an analysis of the creditworthiness of an entity, issue, or issuer, and do not necessarily imply a statistical likelihood of default.
- The credit ratings do not opine on the liquidity of the issuer´s securities or stock.
- The credit ratings do not consider the possible loss severity on an obligation default.
- The credit ratings are not an opinion of the market value of any issuer´s securities or stock, or the possibility that this value suffer a deterioration.

5. **Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7**

The Analysis Committee noted no material limitations on the reliability, accuracy and quality on the data relied on in determining the credit rating.

The Analysis Committee noted no lack of information on the scope of historical data that would have better informed any credit rating listed in this disclosure form.

6. **Use of third-party due diligence services as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7**

HR Ratings did not use third party due diligence services for the rating.

7. **Use of servicer or remittance reports to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7**

HR Ratings did not use Servicer or Remittance Reports for the rating.

8. **Description of types of data about any obligor, issue, security or money market instrument relied upon for determining credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7**

Among the main information used for the rating is:
- Annual Audited Financial Statements for Jackson Hole Mountain Resort Corporation and Subsidiaries 2017-2023 by KPMG LLP, provided by a third party.
- Internal Financial Information from May 2020 to February 2024 provided by a third party.
- Financial Model provided by a third party.
- Credit Facility Agreement provided by a third party.
- Company Memo presentation, provided by a third party.
- Sponsor Memo presentation, provided by a third party.
- Stock Purchase Agreement 2024, provided by a third party.
- Equity Commitment Letter 2024, provided by a third party.

9. **Overall assessment of quality of information available and considered in determining credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7**

The quality of the information provided by the third party is considered to be consistent with the quality observed in the ratings that use a similar methodology.

10. **Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7**

The aforementioned rating was not requested by the entity or issuer, or on its behalf. However, the rating was requested by an investor whose identity is kept confidential to the general public, therefore, HR Ratings has received from the investor the corresponding fees for the provision of its rating services. The following information can be found on our website https://www.hrratings.com/: (i) The internal procedures for the monitoring and surveillance of our ratings and the periodicity with which they are formally updated, (ii) the criteria used by HR Ratings for the withdrawal or suspension of the maintenance of a rating, (iii) the procedure and process of voting on our Analysis Committee, and (iv) the rating scales and their definitions.

HR Ratings was paid for services other than determining credit ratings during the most recently ended fiscal year by the person that paid to determine this credit rating.

11. **Explanation or measure of potential volatility to the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule17g-7**

1. Factors that are reasonably likely to lead to a change in the credit rating:
   - **Years of Payment.** Under a scenario where JHMR is able to increase its operations due to a higher demand in the ski market, generating an average FCF of US$33.3m from 2024 to 2027, compared to US$27.9m in our baseline scenario.

This could lead to an average years of payment for the forecasted periods (2024-2027) of 2.6 years vs. 3.1 years in our baseline scenario, leading to a minimum positive impact on the rating.

- **FCF decrease.** Under a scenario where the Company is unable to expand operations due to a decrease in the ski market, reaching an average FCF of US$11.1m from 2024 to 2027 (vs. US$27.9m in our baseline scenario), the rating could present a minimum negative impact.
- **Lower DSCR.** In the scenario where the Company could not reach the expected FCF levels due to higher working capital requirements, resulting in an average DSCR for the projected periods of 1.6x vs 3.9x in our baseline scenario, the rating could have a minimum negative impact.

2. The magnitude of the change that could occur under different market conditions determined by HR Ratings to be relevant to the rating:

- **Inflationary Pressures.** Under a scenario of high inflationary pressures in the US, which cause an increase in the wages of the ski resorts employees, being the main operational cost of the Company, margins could be impacted, resulting in lower EBITDA levels, and the rating could present a minimum negative impact.
- **Market Competition.** Under a scenario in where the US ski and snowboard resorts major players, such as Vail Resorts, Alterra Mountain Company and Boyne Resorts absorb the competitive market, decreasing the Company's revenues and affecting its metrics, the rating could present a minimum negative impact.

NOTE: The Credit Analysis Committee must convene to review and discuss the changes that could occur under different market conditions. All the ratings issued by HR Ratings must be approved by the Credit Analysis Committee in accordance with the applicable methodology and the information available at the time. However, the magnitude of a potential change in the rating that could reasonably occur as a result of the impact of the factors listed above are characterized by the following summary chart:

Rating change impact	Number of notches
Minimum	(0-1)
Moderate	(2 - 3)
Strong	>3

12. Historical performance and expected probability of default and expected loss in event of default as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

For historical performance of each rating listed in the disclosure form, click on the link in the ratings table presented on the first page.

Our credit ratings need to be understood as rankings of the relative creditworthiness of different entities or credits. Creditworthiness takes into consideration both the ability and willingness to meet debt obligations in the manner prescribed in the relevant documentation. Default refers to the noncompliance of previously agreed obligations.

As our ratings measure relative creditworthiness, they do not necessarily reflect any specific statistical probability of default. However, HR Ratings provides to the market participants the default rate for historical default and loss statistics for the class or subclass of the credit rating. Although the default rate is not the expected probability of default or loss given default, we consider it the ratio that could be interpreted by market participants as such. The default rate for each of the asset classes in which HR Ratings provides ratings and for each rating category is publicly available for each calendar year at: https://www.hrratings.com/regulatory_disclosure/transition_matrix.xhtml

13. Assumptions made by HR Ratings in determining announced credit ratings and examples of how assumptions impact the rating as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

1. Assumptions made in the ratings process that, without accounting for any other factor, would have the greatest impact on the credit rating if proven false or inaccurate:

   HR Ratings bases its ratings and/or opinions on information obtained from sources that are believed to be accurate and reliable. The assumption is that the information provided is reliable and credible, however, does not validate, guarantee or certify the accuracy, correctness or completeness of any information and is not responsible for any errors or omissions or for results obtained from the use of such information.

   - In our baseline scenario we expect the Company's revenue to reach US$161.4m in 2027 vs. US$143.7m in 2023, this represents a $CAGR_{23-27}$ of 2.9%. This growth will be mainly driven by an increase in the operations derived from an increase in the price tickets of the business lines, as well as an increase in the volume of the skiers' days in the resort.
   - For the projected periods, we expect an EBITDA of US$60.0m in 2027 compared to US$51.7m in 2023, this represents a $CAGR_{23-27}$ of 3.8%. This will be because of better absorptions in the operational costs derived from the growth in volume of skier visitors in the Company.
   - In our baseline scenario, we expect an FCF of US$32.0m in 2027 compared to US$19.9m in 2023. This will be driven as a result of the increase in the operating results, which would be enough to cover working capital requirements and maintenance CAPEX. We expect the maintenance CAPEX provision to be 100% of the depreciation of plant, property and equipment recorded in the income statement for the projected periods.
   - We expect the Company to reach a total debt of US$125.0m in 2027 (vs. US$0.1m in 2023), the debt is comprised by the US$125.0m of Term Loan (TL) with a fixed rate of 8.0%. The amortization scheme of the credit facility considers to be fully paid at its maturity date in February 2031. This will lead to years of payment of 2.5 years in 2027 (vs. -1.7 years of payment in 2023).
   - For the DSCR and the DSCR with cash metrics, given the FCF generation and the net debt service levels, we expect an average metrics for the period 2024 to 2027 of 3.9x and 9.3x respectively (vs. -37.7x and -145.5x in 2023).

2. Analysis, using specific examples, of how each of the assumptions identified in the preceding paragraph impacts the credit rating:

- Under a scenario where JHMR could not reach the expected revenue levels, due to a slower economic growth or a decrease in the ski resort market, reaching average revenues from 2024-2027 of US$134.2m, compared to US$152.2m in our baseline scenario, the rating could be negatively affected.
- In terms of EBITDA, if the Company cannot maintain its operational efficiencies as a consequence of a decrease in sales. Also supported by inflationary pressures that affect the operational costs of JHMR, mainly in the ski-resort employees' wages, reaching average EBITDA levels of US$42.5m in 2024-2027 (vs. US$54.3m in our baseline scenario), the rating could be negatively affected.
- In the scenario where the FCF generation is negatively affected due to a lower EBITDA and higher working capital requirements, leading to an average FCF of US$11.1m in 2024-2027 compared to US$27.9m in our baseline scenario, the rating could be negatively affected.
- If the Company is under a scenario where the FCF generation had a positive impact due to operational efficiencies, leading to an average FCF of US$33.3m in the projected periods 2024-2027 (vs. US$27.8m in the baseline scenario). This could lead to an average years of payment for the forecasted periods of 2.6 years vs. 3.1 years in our baseline scenario, and the rating could be upgraded.
- Under the scenario where the FCF generation is negatively affected, leading to an average DSCR and DSCR with cash metrics for the period 2024 o 2027 of 1.6x and 6.9x respectively (vs. 3.9x and 9.3x in the baseline scenario), and the rating could be negatively affected.

14. Representations, warranties and enforcement mechanisms available to investors as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7

The reporting of representations, warranties, and enforcement mechanisms does not apply to any of the credit ratings listed in this disclosure form.

Credit Rating Attestation

I, Jesús Pineda, Corporates Manager have the responsibility for this rating action and, to the best of my knowledge:

- No part of the credit rating was influenced by any other business activities;
- The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated; and
- The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument

Mexico City, June 12, 2024

/s/ Jesús Pineda, Corporates Manager
HR Ratings de México, S.A. de C.V.

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