ALLIANCE RESEARCH

Tenant Credit Review

Helping the Commercial Real Estate Industry Reduce Financial Risk Since 1989

Green Harbor Inc.

Highlights

Key Positives

- Green Harbor is a well-recognized brand with operations dating back over 30 years.
- The acquisition of the Company by a group of private equity firms resulted in a new management team coming in that resulted in EBITDA margins trending up from 2.1% to 5.2% over the next three years.
- Management told us that integration/transition expenses coming from the initiative to revamp manufacturing were mostly completed in 2019, which should set the stage for better profitability going forward.
- Free cash flow reached $31 million in 2017 and 2018.

Key Negatives/Risks

- Sales growth has been flat-to-down over the periods reviewed, as the Company has grappled with increasing competition while undergoing various internal transitions to deal with these pressures.
- The Company's EBITDA dropped sharply in 2019.
- Green Harbor's leverage ratio spiked to >13X as of the end of 2019 as debt crept higher while EBITDA declined due to cost pressures.
- The Company's balance sheet had a leverage ratio of >5.0X (the level that we consider "highly leveraged") for all periods reviewed.
- The Company's available liquidity was fairly thin as of December 31, 2019, with $4.7 million of cash and only $45 million of availability on its revolver.
- The Company's free cash flow fell sharply in 2019 and resulted in a deficit free cash flow coverage of interest expense for the first time in over five years.
- With yearly principal and interest averaging ~$35.5 million over the next four years, the Company will need to grow revenues and raise EBITDA margins above the 8.9% level in order for free cash flow to provide positive coverage of P&I.
- S&P currently rates the Company 'B-', which is well below Investment Grade, with a 'Negative' outlook.

Financial Highlights

($ 000)	2015	2016	2017	2018	2019
Revenues	$1,205,212	$1,245,267	$1,232,877	$1,207,688	$1,189,349
EBITDA	32,287	35,788	37,673	40,329	21,239
Cash & equivalents	2,223	3,242	3,439	2,455	3,489
Total assets	800,786	805,321	815,232	820,671	801,198
Total debt	234,673	256,436	268,765	282,228	284,551
Equity	100,534	105,673	102,345	105,672	80,579

Conclusions

Risk Assessment/Credit Quality

Our rating of the level of tenant risk in a lease with Green Harbor (see Rating Guide on page 6) at 435 Sterling Way reflects our concerns about the Company's highly leveraged balance sheet and Management's ability to improve profits and cash flow to a level that provides comfortable support of that debt.

While Green Harbor has gone through a significant transition since mid-2018, we are concerned about the magnitude of the pressures on sales, margins, cash flows, and the Company's balance sheet. We see substantial execution risk and feel that it would be prudent for Sterling Partners to put a letter of credit in place to protect at least 50% of its investment in the Green Harbor lease. We would keep that security in place until the Company can achieve the financial benchmarks that we forwarded to you earlier.

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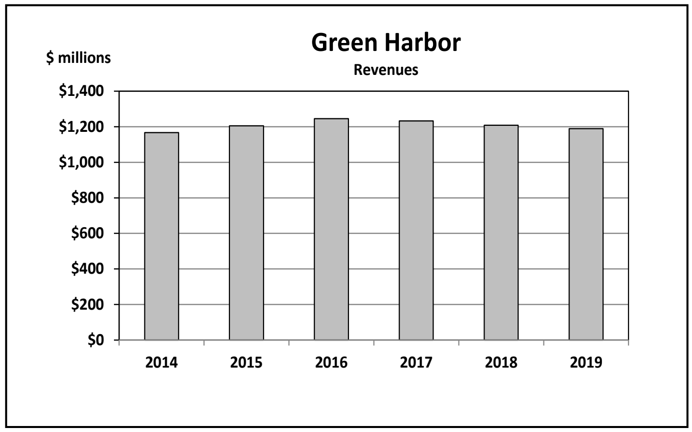
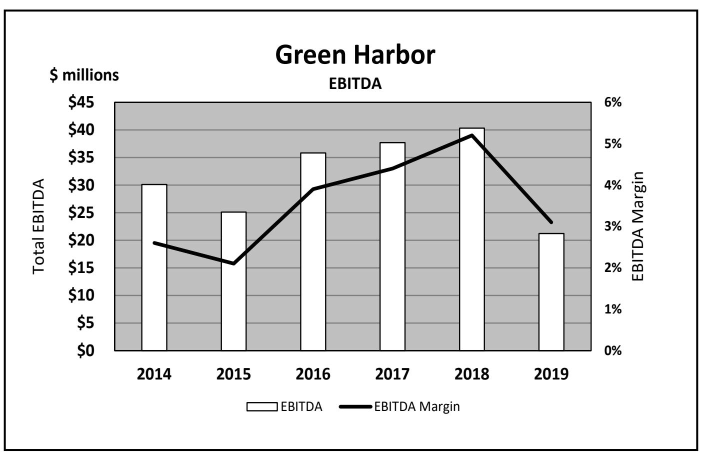
Analyst Notes

Revenues – Green Harbor's revenues have been in the ~$1.2 billion range since at least 2014, with 2017, 2018, and 2019 showing modest revenue declines. The more recent top line declines are primarily due to the Company's mid-2018 business strategy shift that created elevated churn at some of their current customers so that the Company could expand their total addressable market in future years. It is still too early to predict whether this strategic initiative will lead to better revenue trends in the foreseeable future.



Competition is a significant risk to Green Harbor. There is a wide set of cleaning products manufacturers and distributors and, for the most part, Green Harbor's products and distribution services do not have any major differentiating factors.

Profitability – Green Harbor's profitability trend was inconsistent over the periods reviewed, with EBITDA declines in 2014 and 2015, followed by a return to growth in 2016-2018, followed by a sharp decline in 2019. The Company saw significant pressure in the early 2010s as competition with big box retailers heated up, and Green Harbor responded by bringing in a new CEO in 2013 who oversaw efforts to modernize the Company's supply chain to keep costs down. These efforts finally began to bear fruit in 2016 and helped EBITDA grow for three years.



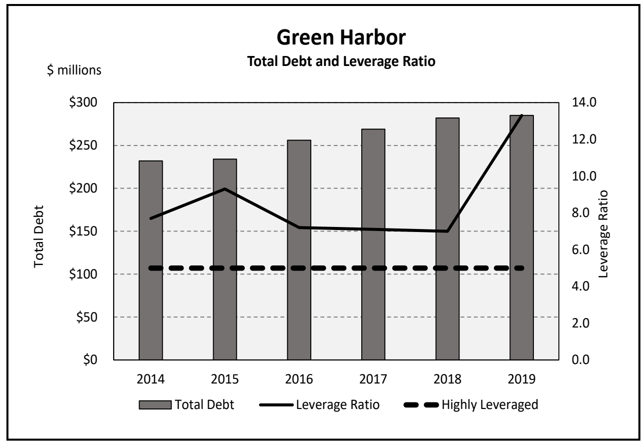
The EBITDA decline in 2019 was driven in large part by a 2018 strategic initiative to revamp manufacturing, which required some up-front investments and elevated costs. Combined with other cost pressures and activity delays due to tariffs, EBITDA fell (47%) year-over-year and EBITDA margins were down >150 basis points.

Management told us that integration/transition expenses were mostly completed in 2019, which should set the stage for better profitability going forward. Furthermore, Management outlined several actions that were taken in 2018-2019 including a sales team transition and a new CRM that the CFO believes will save the Company ~$10 million annually going forward. We note that in 2019, the Company added $10 million back into adjusted EBITDA versus $5 million in 2018. The majority of this was related to "supply chain implementation" and "project spend" costs, which we do see as reasonable add-backs, especially given the CFO's comments (noted above).

Capitalization – We would rate the Company's December 2019 balance sheet as highly leveraged, with its leverage ratio standing at 13.3X (we consider any ratio above 5.0 to be "highly leveraged"). The leverage ratio has been >5.0X since 2014, and it would take a significant increase in EBITDA to bring it down below this level, something we do not foresee occurring in the near term.

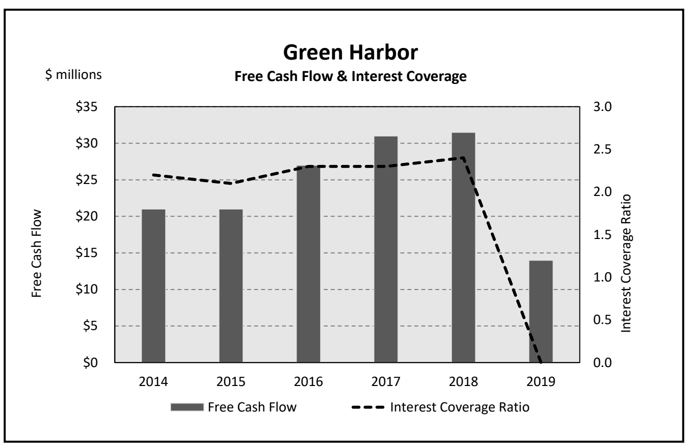
Analyst Notes

Green Harbor's debt includes $200 million from a revolving credit facility (max of $350 million) and $35 million from a term loan that collectively carry an interest rate of 5.7%, with both maturing in April 2024. The Company also has subordinated debt of $50 million with interest rates ranging from 2.6% to 5.50% and maturity dates ranging from 2019 to 2025; and $35 million of additional long-term commitments that is comprised of a mix of mortgages and capital leases.



The Company was purchased by multiple Private Equity players in 2016 which led to the significant turnover of the executive team in the subsequent year. Management told us that their sponsors are expected to be committed long-term and that most of them have an investment horizon of at least seven years. The $35 million of 3rd party debt on Green Harbor's balance sheet is held by the Company's private equity owners and is interest-only (4.0% interest rate) until 2024.

Cash Flow/Liquidity – The Company's free cash flow came in between $20-$33 million annually from 2014-2018 before declining $10 million in 2019 due to the decline in EBITDA. Green Harbor generated comfortable interest coverage ratios in the 2.1-2.4X range from 2014-2018, with that coverage falling into a deficit last year. Going forward, interest expense is likely to remain in the ~$18 million range, while the Company has principal payments of $15 million, $17 million, $16 million, and $22 million in 2020-2023, which averages $17.5 million a year.



With yearly principal and interest averaging ~$35.5 million over the next four years, the Company will need to grow revenues and raise EBITDA margins above the 8.9% level in order for free cash flow to provide positive coverage of P&I. While Management expresses confidence about achieving that, falling short of that mark will mean internal cash flow will need to be supplemented by draws from the credit line or equity infusions by the Company's private equity owners.

While the revolver does not mature until 2024, if Green Harbor's results fail to improve and/or capital market conditions are tighter at that time, the Company's ability to refinance this debt could be impaired. This could lead to Green Harbor having to take more onerous new terms in any replacement debt which could materially increase their interest expense in 2024 and beyond.

As of December 2019, Green Harbor's available liquidity included $3.5 million of cash and $45 million of availability on its revolving credit facility. While the maximum availability on the revolver is $350 million, it is calculated based on the lower of that number and a percentage of the Company's total assets, which means it could be lower at certain times.

Analyst Notes

Scope of Analysis

Our analysis of Green Harbor included (i) a review of the Company's audited year-end statements for 2014 – 2019; (ii) an online search and review of information about Green Harbor; (iii) a review of articles from trade and business publications; and (iv) an interview with the Management team.

Corporate Profile

Green Harbor manufactures and distributes cleaning products and carpet washing products for the home and the commercial user. The Company's products are sold through a network of retailers, including the major big box chains. Commercial customers include a wide range of enterprises, with an emphasis on the foodservice, hospitality, retail, industrial, and healthcare industries. The Company operates seven manufacturing facilities within the U.S., as well as its own fulfillment network.

In April of 2016, the Company was purchased by multiple private equity players, which led to significant changes with the Management team and the eventual strategic initiative to find new areas of growth that began in 2018.

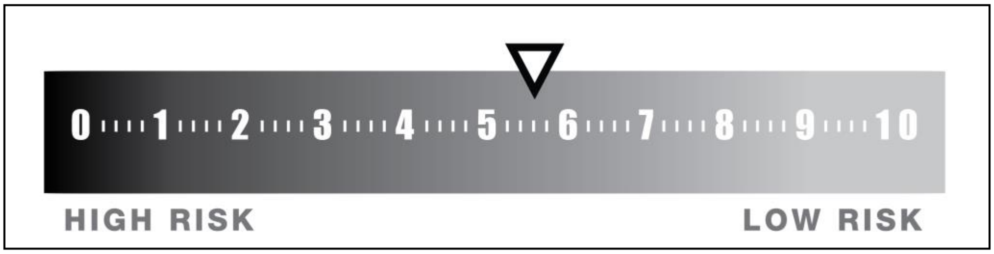
Green Harbor Company
Financial Spreadsheet

For the years ended on Saturday closest to December 31

($ in thousands) *Fiscal year*	*2015*	*2016*	*2017*	*2018*	*2019*
For the period					
Revenues	$1,205,212	$1,245,267	$1,232,877	$1,207,688	$1,189,349
Year-to-year growth rate	3%	3%	(1%)	(2%)	(2%)
Pre-tax income (as reported)	15,443	25,677	24,582	21,333	(42,565)
EBITDA (adjusted)	25,115	35,788	37,673	40,329	21,239
Margins					
Gross margin	12.6%	13.0%	13.1%	13.5%	11.5%
EBITDA margin	2.1%	3.9%	4.4%	5.2%	3.1%
Expense ratios (% of revs.)					
Sales & Marketing expense	4.3%	4.9%	5.1%	5.3%	6.0%
G&A expense	7.3%	7.4%	7.5%	8.4%	9.6%
Cash Flow					
EBITDA	25,115	35,788	37,673	40,329	21,239
Capital expenditures	(4,329)	(8,545)	(6,587)	(8,851)	(7,013)
Free cash flow	20,786	27,243	31,086	31,478	14,226
Interest expense	(9,769)	(11,972)	(13,458)	(13,319)	(17,902)
Interest coverage	2.1 x	2.3 x	2.3 x	2.4 x	Deficit
From operating activities	9,239	22,319	25,731	21,112	8,234
From investing activities	(6,123)	(12,341)	(15,229)	(17,901)	(19,211)
From financing activities	(2,784)	(8,959)	(10,305)	(4,195)	12,011
Net change in cash & equiv.	332	1,019	197	(984)	1,034
***At period end*[1]**					
Assets					
Cash & equivalents	2,223	3,242	3,439	2,455	3,489
Accounts receivable	210,991	215,655	222,898	223,810	218,009
Inventories	334,011	342,567	344,904	340,717	337,602
Total current assets	695,991	700,301	668,536	646,469	622,581
Prop., plant & equip. (net)	50,119	53,905	55,431	57,643	58,009
Goodwill	32,989	34,579	31,278	30,608	29,561
Intangibles	11,454	13,891	28,712	28,632	36,097
Total assets	800,786	805,321	815,232	820,671	801,198
Liabilities/Equity					
Accounts payable	182,597	181,115	185,909	172,873	183,045
Revolving credit facility	93,871	116,768	124,758	197,514	199,849
Current portion of sub. notes	13,293	17,834	18,723	12,094	13,099
Current portion of 3rd party debt	1,430	4,502	5,290	5,003	7,320
Total current liabilities	475,800	480,875	505,883	535,971	554,817
Subordinated notes	112,751	100,098	97,652	43,561	36,783
LT 3rd party debt	13,330	17,234	22,342	24,056	27,500
Shareholder's equity	100,534	105,637	102,345	105,672	80,579
Key financial ratios					
Current ratio	1.5	1.5	1.3	1.2	1.1
Quick ratio	0.8	0.7	0.6	0.6	0.4
Leverage ratio	9.3	7.2	7.1	7.0	13.3

[1] These are balance sheet highlights. Certain line items have been excluded.

Rating Guide



Tenant Risk[2]/Credit Quality

Rating	Tenant Risk	Credit Quality	Security Recommended
0 – 1	Very high	Deficient	Avoid as tenant
1 – 3	High	Unsafe	Full security
3 – 5	Worrisome	Poor	Full/Partial security
5 – 7	Some concerns	Fair	Partial security
7 – 9	Low	Good	None or partial security
9 – 10	Very low	Excellent	No security

This rating is based on an analysis of a company's key financial documents and business fundamentals, as well as comparative data drawn from the Alliance Group's proprietary Tenant Index of more than 6,000 companies that reside in our research database. In our peer group studies, IndexSearch software is used to categorize and weigh companies by size, industry, risk levels, and other key factors to narrow the peer group and ensure a meaningful group of comparable companies.

Michael F. Calhoun has 25 years of experience in financial analysis, business management and corporate evaluation. He is President of The Alliance Group, a consulting firm specializing in corporate due-diligence studies, acquisition searches, business valuations and investment analysis services. Mr. Calhoun is a former investment analyst for both the Dreyfus Corporation and Oppenheimer Management.

[2] Tenant Risk refers to the possibility that a tenant will default during the life of a lease.