**Target Hospitality Corp.**
**2022 Update Call**
**July 12, 2022, 9:00 a.m. EST.**

Officers and Speakers
Mark Schuck, Senior Vice President of Investor Relations and Financial Planning
Brad Archer, President and Chief Executive Officer
Eric T. Kalamaras, Chief Financial Officer
Troy Schrenk, Chief Commercial Officer

Analysts
Scott Schneeberger, Oppenheimer
Stephen Gengaro, Stifel
Greg Gibas, Northland Securities

**Presentation**

Operator: Good morning, and welcome to the Target Hospitality 2022 Update Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded.

I would now like to turn the conference over to Mark Schuck. Please go ahead.

Mark Schuck: Thank you. Good morning, everyone, and welcome to Target Hospitality's conference call announcing our Expanded Humanitarian Contract and our updated 2022 financial outlook. The press releases we issued last week outlining the Expanded Humanitarian Contract and our 2022 financial outlook, can be found in the Investor section of our website. In addition, a replay of this call will be archived on our website for a limited time.

Please note the cautionary language regarding forward-looking statements contained in these press releases. The same language applies to statements made on today's conference call. This call will contain time-sensitive information, as well as forward-looking statements which are only accurate as of today, July 12, 2022.

Target Hospitality expressly disclaims any obligation to update or amend the information contained in this conference call to reflect events or circumstances that may arise after today's date, except as required by applicable law. For a complete list of risks and uncertainties that may affect future performance, please refer to Target Hospitality's periodic filings with the SEC.

We will discuss non-GAAP financial measures on today's call. Please refer to the press release we issued on Friday, July 8, 2022, posted in the Investors section of our website, to find the

cautionary language and definitions of the forward-looking non-GAAP financial measures referenced in today's call.

Leading the call today will be Brad Archer, President and Chief Executive Officer, followed by Eric T. Kalamaras, Executive Vice President and Chief Financial Officer. After their prepared remarks, we will be joined by Troy Schrenk, Chief Commercial Officer, and open the call for questions.

I will now turn the call over to our Chief Executive Officer, Brad Archer.

Brad Archer: Thanks, Mark. Good morning, everyone, and thank you for joining us on the call today. We are excited to announce the expansion of Target's partnership with our leading national nonprofit customer, and the continuation of the critical hospitality support services we began providing in March of last year. The Expanded Humanitarian Contract represents a 60% increase from the initial contract we announced last year, and will include enhanced amenities and support services for a community population of approximately 6,400 individuals. These critical hospitality solutions will remain focused on supporting a community population including displaced minors, nonprofit employees and related personnel.

Since 2014, the company has placed an increasing focus on expanding its critical hospitality solutions to the United States government and their domestic humanitarian aid mission. This intentional focus has resulted in the company's Hospitality Solutions becoming a critical component of our partner's humanitarian efforts, while simultaneously broadening our end market portfolio and long-term growth opportunities.

Including the Expanded Humanitarian Contract, approximately 73% of Target's 2022 revenue will be derived from its government segment, with the vast majority supported by minimum revenue commitments. These strong revenue characteristics demonstrate the benefits of Target's strategic diversification efforts and intentional focus on establishing itself as the premier provider of Hospitality Solutions, supporting domestic humanitarian aid efforts.

The Expanded Contract will include a significant increase in operational scope, including substantial infrastructure enhancements to the existing campus that will now encompass over 1.7 million square feet of structures on over 280 acres. Target will manage construction of these enhancements, which will create an all-inclusive supersite campus consisting of over 1,600 modular buildings, 150,000 square feet of recreation facilities and multiple education and medical facilities.

This expanded and enhanced community creates a comprehensive and highly customized facility capable of providing critical humanitarian support to our nonprofit partner, jointly serving the United States government. Target anticipates this critical service offering, and all-inclusive supersite community, will be an ongoing solution supporting our partner's domestic humanitarian aid missions.

This transformative agreement will support record 2022 annual revenue of over $500 million predominantly comprised of minimum revenue commitment contracts backed by the United States government. This enhanced financial profile creates the optimal platform for Target to continue pursuing strategic growth initiatives, which will focus on significantly expanding

Target's long-term growth opportunities.

I'll now turn the call over to Eric to discuss the contract economics and our 2022 financial outlook in more detail.

Eric Kalamaras: The [transformative] contract illustrates the benefits and our strategic diversification efforts, which we have focused on expanding our end-market portfolio through high-quality contracts with peer partners. These attributes have significantly increased our revenue visibility and long-term cash flow profile, while materially expanding Target's value creation opportunity set.

During the call, I will address the contract structure, contract economics, balance sheet impacts and outline the modifications to our 2022 financial outlook. The Expanded Humanitarian Contract will operate similar structure to Target's existing government services contract, and will be centered around annual minimum revenue commitments. Additionally, this contract will include variable services revenue that will align with monthly changes to community population.

The initial minimum revenue commitment consists of both annual recurring lease revenue of approximately $196 million, and nonrecurring infrastructure enhancement revenue of approximately $194 million. I will discuss the elements of the nonrecurring infrastructure revenue in more detail shortly. Combined, these two minimum revenue commitments provide for initial minimum annual contract value of approximately $390 million, which is fully committed over the contract term.

Additionally, there is a recurring variable services revenue component that flexes with community population levels. Including the variable services revenue, the maximum potential revenue contribution based upon peak capacity of 6,400 individuals, raises the initial total maximum annual contract value to $575 million.

As I described, the infrastructure enhancement revenue of approximately $194 million is nonrecurring, and will be fully amortized over the initial 18 months of the contract. The amortization period is the result of a technical accounting application and is not indicative of Target's view on the continuation or longevity of this contract.

To properly reflect (inaudible) revenue mix resulting from the significant increase to Target's government segment minimum revenue contracts, Target will adjust various reporting metrics to accurately report segment performance, specifically, beginning with Target's second quarter 2022 reporting period, Target will no longer [scrutiny] report average daily rate or utilization as it pertains to the government segment or consolidated reporting metric. We believe this change will more adequately reflect the nature of our government segment contract. Target's HFS segment reporting characteristics will remain unchanged.

With respect to cost of services, which will not be reported on a per-person basis, but we anticipate cost of services to remain in line with the initial contract, therefore, recurring unit economics of the Expanded Humanitarian Contract will remain similar to the original contract put in place last year.

Further, the scalable nature of Target's business model will allow us to support the significantly

expanded operational scope with minimal increases to corporate expenses. The increasing scale and scope of the facility will require substantial infrastructure enhancements, and will result in a transitory increase in Target's capital spending. However, the increase in 2022 capital spending will be balance sheet-neutral over the next few quarters, and Target anticipates maintaining a total net leverage ratio below 3x for the next few quarters.

Additionally, Target anticipates meaningful leverage improvement by year-end 2022, with a goal of being nearly debt free on a net cash basis by the end of 2023. The significantly Expanded and enhanced Humanitarian Contract, along with a strong business fundamental, supports sustained momentum and confident in our 2022 financial outlook.

The strength of Target's strategic position as North America's market leader, provide a premier vertically-integrated modular and hospitality solutions supports approximately 99% of the company's anticipated 2022 revenue being under contact with approximately 73% of contracted revenue having minimum revenue commitments.

Additionally, on a pro forma basis, we now expect approximately 73% of Target's 2022 revenue to be related to the government segment, with approximately 27% related to the HFS segment.

A significant increase in consolidated revenue and associated net income will result in an increase to Target's anticipated cash tax payment. Target anticipates 2022 cash tax payments of between $23 million and $27 million with an effective cash tax rate between 13% and 15%. This positive business momentum supports Target's 2022 financial outlook, and marks a 74% increase in revenue and a 152% increase in just the EBITDA from full year 2021.

These fundamentals have resulted in a 53% increase to Target's 2022 financial outlook, that now consists of total revenue between $500 million and $510 million, adjusted EBITDA between $295 million and $305 million, discretionary cash flow between $320 million and $330 million, with capital spending between $190 million and $200 million, with earnings per share between $1.40 and $1.45.

Additionally, we've provided a second quarter 2022 financial outlook consisting of total revenue between $102 million and $107 million, and adjusted EBITDA between $50 million and $55 million. Our 2022 full year and second quarter financial outlook includes a portion of revenue derived from the variable services component of the Expanded Humanitarian Contract.

Due to the variable nature of the services revenue component, we intend on providing appropriate market updates when the relevant changes to the community population are known.

Target's enhanced balance sheet will allow the company to continue evaluating a range of capital allocation initiatives (inaudible) maximizing long-term shareholder value. Additionally, this strong financial position creates the optimal platform to continue pursuing our strategic growth aspirations focused on further expanding the company's long-term growth opportunities. These strategic growth initiatives will focus on utilizing Target's existing operating capabilities across a wide range of adjacent end markets and applications, which we believe provide the greatest opportunity to continue accelerating value creation.

With that, I'll turn the call back over to Brad for closing comments.

Brad Archer: Thanks, Eric. This transformative contract illustrates the benefit of Target's unique position as North America's largest provider of vertically-integrated hospitality solutions. We have intentionally positioned Target as the premier provider of these critical hospitality solutions, allowing us to continue supporting our partner's domestic humanitarian aid missions in the local communities they serve.

I appreciate everyone joining us on the call today. And we will now open the line for questions.

**Questions and Answers**

Operator: We will now begin the question-and-answer session. (Operator Instructions). Scott Schneeberger from Oppenheimer.

Scott Schneeberger: I'm going to two overriding questions. The first one -- Eric, if you could share on just kind of the background of the $194 million infrastructure investment, could you talk about kind of the recognition timing on the cash flow statement and the P&L of that reimbursement from the government? And just confirm, please, it is a full 100% reimbursement.

Eric Kalamaras: Scott, good morning. Thanks for joining this morning. So correct, it is a full reimbursement. So the way we think about that happening over the next few quarters is you have to bear this in mind, that this is not -- it's not a reimbursement that you'll tend to see this through a couple of quarters, but basically, this is the full capital that we'll be putting out. And the government will then be reimbursing us over the next couple of quarters.

When we think the amortization of the capital, that will be stretched out over the 18-month period. And the function on that is really, as we described, it's a technical accounting application on this. A couple of different ways we could go with that. We chose the more short-term application to it primarily really to reconcile it and because we knew it's going to be nonrecurring, and so we just felt like that was more appropriate to do over the initial term and then the option period, which is the following 6 months. I would submit that there's also the option for us to extend that over a period of nearly 5 years, but we chose to do the latter on that.

So as you think about the second half, which is why we describe this as being transitory, look, we think that by the time we hit the end of Q3, early part of Q4, that largely, that will have been in and out of the balance sheet, right, meaning we'll expect the capital and largely be completely reimbursed. And that will be the balance sheet and cash flow statement effect. And then of course, on the income statement, you'll see the rest of that revenue continue to carry out through the rest of 2023.

Scott Schneeberger: Great, thanks. And obviously, with that sort of commitment from the government, it looks highly likely that we will see an extension again of this contract come May 15, 2023. Just logically, that would appear the case. Could you please provide your thoughts on that, maybe any parallels to your Dilley, Texas, government facility as well on kind of the lifecycle of how that went in your partnership with the government?

Brad Archer: Yes, hey, Scott. This is Brad. Good morning. I'll take that one. But look, as we talked, the initial term is for 1 year with the 6 months extension -- very typical of a government contract and the annual appropriation cycle. When you look at this contract, it's very similar to how our government facility in South Texas started out 8 years ago, and it continues to operate today. To that point, we view the substantial infrastructure investment that the government is putting in in West Texas is a clear, long-term commitment to the facility, and I guess what you're alluding to, but we absolutely look at this as a long-term project, just like Dilley was, starts out and continues to operate.

And when you put that type of money into it, it's a highly customized facility as well, the thought is, it's going to be used long-term. And we've been through this before and so that's the reason we're willing to go after projects like this. The government likes the service we provide; they love our partner that operates the facility as well. So we think we're set up well long-term for that.

Scott Schneeberger: Great, it sounds good. And then finally for me, could you speak please to your utilization visibility at the West Texas government facility? With regard to that variable revenue component, Eric, the $185 million maximum revenue, that extra piece, your visibility on that, and maybe some discussion of the quarterly cadence of building out the expansion? We've talked about the CapEx spend, but when will those incremental 24 beds be fully available? If you can just talk about the build there?

Eric Kalamaras: Sure, so -- sure, let me address the initial buildout phase first. So we expect the initial buildout to take, call it, 4 to 5 months, which is why I'm saying by the end of Q3, you should largely see this kind of come in and out of the balance sheet, if you will. So look, we'll -- hopefully, look, hopefully, we can do it sooner than that, but that's generally what we're targeting there on that.

As it relates to the utilization, look, there are effectively monthly allocations that the government will go through, and while we have some near-term visibility on this, the longer-term piece really is going to be subject to the policy initiatives. So for that reason, I think here's what you can expect from Target on this. We will generally be thinking internally from a planning perspective, running out the -- at the minimum revenue commitments. And then as we know, more information heading into the following several months. What we would likely be doing is putting out some sort of reporting to you all to then calibrate models from that point forward, so that we can keep you at least abreast as to the latest information, the latest trends, as we have them and as we see them and as they've been communicated.

I think where it becomes a little more challenging is to do things too far out, you start getting much more than a couple of quarters. And it starts becoming a little bit more challenging because they [can] change. And so the way we'd anticipate doing that now is to report to you on a little more frequent basis than maybe what we have historically.

Scott Schneeberger: Okay. Understood. Thanks very much for fielding all my questions. I'll turn it over.

Operator: Stephen Gengaro from Stifel.

Stephen Gengaro: Congrats on the contract. Really, just a couple of quick ones for me. You guys have laid out a lot of detail. When we think about the infrastructure reimbursement revenue $194 million over 18 months, should we be thinking about that at a low-margin level, like you had in the South Texas facility before the first contract roll to that portion? Like is there like a 20% to 30% gross margin realized on that, or that a zero margin endeavor?

Eric Kalamaras: Sure. Thanks, Stephen, I appreciate the question. So look, I want to be thoughtful about the communication here on this. The margin is not -- look, it's not cost-free, but I want to be thoughtful around communicating, right, what that is. There are a variety of reasons for that. The most -- the first and foremost, we do not always necessarily know what the government is going to put out, and we don't necessarily want to be the ones necessarily communicating the government's information on that, okay?

So I appreciate the question. I'm going to respectfully decline on that, but I understand where you're coming from. But suffice to say that we think the margin is appropriate and reasonable, and within line of similar projects that we put in place.

Stephen Gengaro: Okay. That's fair, okay. And then the other quick one is when we look at the other two numbers, the 196 and the 185 for lease reservation and occupancy based. Those are annual contributions, correct?

Eric Kalamaras: That's right, correct.

Stephen Gengaro: Okay. So okay, that's all right, I just wanted to make sure of that. And then I'd imagine that there would be a margin differential on that, just based on the lower cost for the lease reservation and a higher cost as occupancy rises. Is that a reasonable way to think about it?

Eric Kalamaras: Yes, and I think you're saying there's a difference in the margins between the two revenue streams, is that what you're saying?

Stephen Gengaro: Exactly.

Eric Kalamaras: Yes, there is.

Stephen Gengaro: Okay.

Eric Kalamaras: Yes, think about it this way. Think about the variable services revenue, think about that as being -- as a gradual step-down as that revenue increases from a margin perspective, almost as though it's an incentive from a margin perspective. Think about it in those -- in that term.

Stephen Gengaro: Okay. All right, good, very good. That's all I have. The only other quick one I'd just ask you is given your comments about being debt-free -- excuse me -- net debt-free by the end of 2023, does that lead you guys to start thinking about some type of distribution of cash to shareholders at that point?

Eric Kalamaras: Sure. So look, clearly, our cash accumulation will be significant. We've said for some time that we look to grow and diversify the business. So anything we do, it really needs to

fit within those long-term objectives. So while all options are on the table, we believe there is a logical progression as to how we might think through those things. And so having said all that, look, we will do what we need to do to maximize the value of Target. And we'll take those one step at a time and -- but like I said, all options remain on the table.

Stephen Gengaro: Okay. Well, thank you and congrats again on this. This is a big contract. Thank you.

Operator: (Operator Instructions). Greg Gibas from Northland Securities.

Greg Gibas: Congrats on the big contract. I was wondering when you back out maybe that CapEx reimbursement component, what do you kind of view as the run rate either revenue or EBITDA stream for the business?

Eric Kalamaras: I think you have to think about that as a function also of how you view the variable revenue portion, right? So you have to -- so I'll give you the answer just from a minimum revenue commitment period as opposed to thinking about it just in terms of adding in the variable numbers because you can obviously add the additional variable components that you see fit going forward a bit on that.

But look, I think when you peel back the onion away from the infrastructure enhancement revenue, look, the pro forma revenue of the business is approaching nearly $300 million, right? So I think there are time where it could perhaps be a little bit less than that, but by and large, you're going to be in that kind of $275 million, $300 million area.

Greg Gibas: Great, very helpful. And just to follow-up on kind of your comments on being net cash breakeven, I guess, at the end of 2023, where do you kind of foresee that cash balance being at the end of 2022?

Eric Kalamaras: Sure. So look, good question. I'd say that you're -- it's not unreasonable to have, by the end of this year -- again, it depends, as I mentioned, it depends on where the variable revenue goes, right? So I'd say based upon an initial base cases today, it is not unreasonable to say that you've got a net cash balance perhaps in excess of $200 million.

Greg Gibas: Okay, great. I guess last one for me was just kind of following-up on margins. Understand your reasoning regarding not disclosing on the kind of CapEx buildout margins. But is there kind of an overall margin level from this contract that you'd maybe relatively compare to your existing maybe margin level? Or how should we think about the incremental margins from this contract relative to maybe your existing contracts?

Eric Kalamaras: Sure. Look, I think we would -- I would say this. We would view this as being equal to, or better, than the existing portfolio across Target, okay? So again, I want to be [a little] sensitive there, but I'd say it's better than what we currently have and a portfolio average.

Greg Gibas: Okay. Appreciate the color, and thanks, guys.

Operator: There are no more questions in the queue. This concludes our question-and-answer session. I would like to turn the conference back over to Brad Archer for any closing remarks.

Brad Archer: Just thanks for joining the call today, and look, we look forward to speaking with you again here shortly in August. Have a good day.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.