



# CASE STUDY

## Straight-line effect in the financial statements

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The straight-line effect ("Straight-line") impacts Multiplan's figures in three distinct manners:

- (i) excluding the seasonality effect created by the double rent, normally charged in December;
- (ii) distributing the contractual readjustments ("step ups") throughout the contract term; and
- (iii) contractual changes, such as Covid-19 special conditions granted during the pandemic.

The Straight-line effect records its counterpart in the "Accounts receivable" line in the balance sheet and, at the end of each contract, it should sum up to zero.

### (i) Exclusion of the seasonality effect created by the double rent ("13th rent")

The "13<sup>th</sup> rent" is split into 12 installments, added monthly (January to December) to the Straight-line. Considering a seasonal double rent charged in December, its amount is fully amortized in December, as to neutralize the effects of the 12 installments previously incorporated into the Straight-line, as illustrated below.

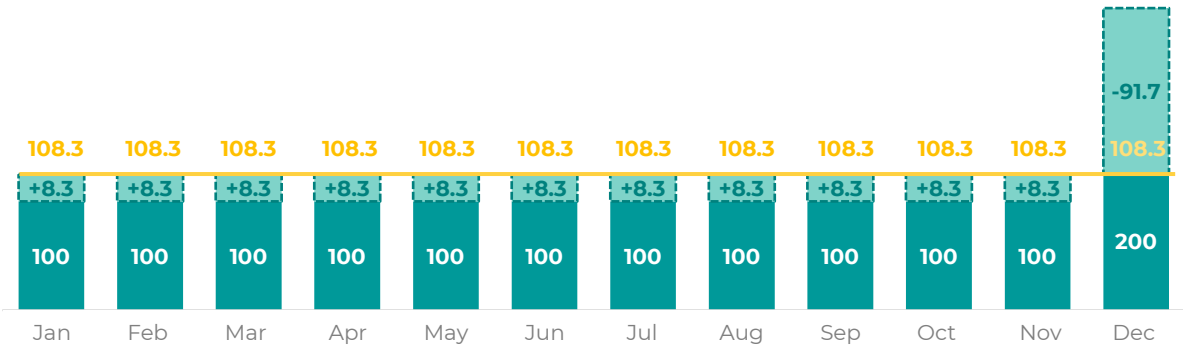
The Straight-line effect depicted in example (i) should sum up to zero at the end of the year.

#### Example (i) – Assumptions:

- Contractual rent: 100/month
- 13<sup>th</sup> rent: 100, in December

### (i) 13<sup>th</sup> rent's effect

Month	Jan	Feb	Mar	Apr-Oct	Nov	Dec	Total
Rental revenue (A)	100	100	100	...7 x 100...	100	100 + 100 = 200	1,300
Straight-line effect (B)	100 / 12 = +8.3	100 / 12 = +8.3	100 / 12 = +8.3	...7 x 8.3...	100 / 12 = +8.3	100 / 12 - 100 = +8.3 - 100 = -91.7	0
Gross revenue with straight-line (C) = (A) + (B)	100 + 8.3 = 108.3	100 + 8.3 = 108.3	100 + 8.3 = 108.3	...7 x 108.3...	100 + 8.3 = 108.3	200 - 91.7 = 108.3	1,300



(ii) Contractual adjustments effect  
("step ups")

In order to neutralize the effect of contractual real adjustments, the Straight-line effect can be calculated as the difference between the average value of the contract and the Rental revenue from each period.

Multiplan aims at signing contracts with a 5-year term with real adjustments after years 2 and 4, also called step ups.

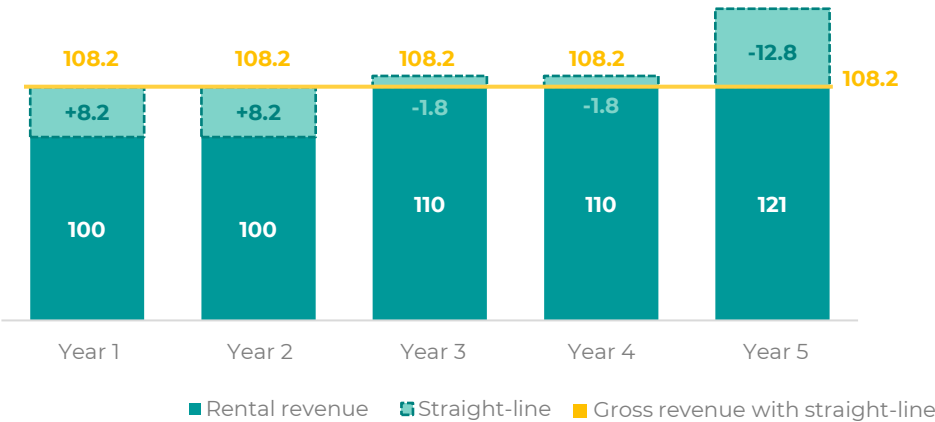
The Straight-line effect depicted in example (ii) should sum up to zero at the end of each contract.

Example (ii) – Assumptions:

- Contract term: 5 years
- Contract value: 100/year
- 10% real adjustment after years 2 and 4
- Contract average value =  $541 / 5 = 108.2$ /year

(ii) Step up effect

Year	1	2	3	4	5	Total
Rental revenue (A)	100	100	$100 \times 1.1 = 110$	110	$110 \times 1.1 = 121$	541
Straight-line effect (B) = (C) - (A)	$108.2 - 100 = +8.2$	$108.2 - 100 = +8.2$	$108.2 - 110 = -1.8$	$108.2 - 110 = -1.8$	$108.2 - 121 = -12.8$	0
Gross revenue with straight-line (C)	$541 / 5 = 108.2$	$541 / 5 = 108.2$	$541 / 5 = 108.2$	$541 / 5 = 108.2$	$541 / 5 = 108.2$	541



(iii) Contractual changes:  
special Covid-19 conditions

Seeking to balance profitability and tenant financial health, Multiplan may eventually grant concessions, which do not impact the Straight-line.

On the other hand, contractual conditions granted during the Covid-19 pandemic will have a direct impact on the Straight-line.

This impact can have an initial positive effect which is subsequently counterbalanced by the negative impact that the special condition granted has on the Rental revenue. During its amortization, the Straight-line presents an opposite effect for the remainder of the contractual tenor.

The Straight-line effect depicted in example (iii) should sum up to zero at the end of each contract.

Example (iii) – Assumptions:

- Contract term: 5 years
- Value of the contract: 100/year
- Covid-19 special condition granted in year 2: -10
- Condition granted will be amortized from year 2 until the end of the contract (year 5)

(iii) Contractual changes’ effect

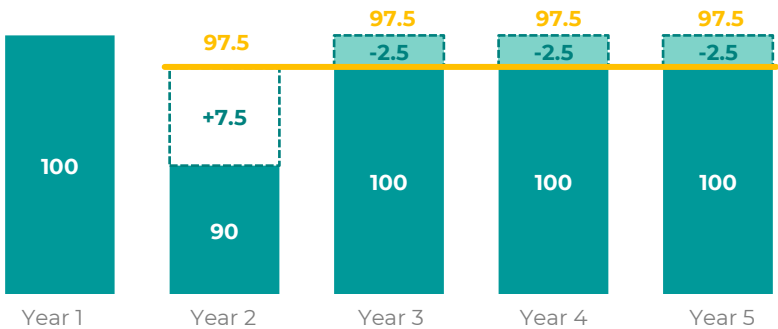
Breakdown of the Straight-line effect:

Year	1	2	3	4	5	Total
Effect of Covid-19 conditions on the straight-line (A)	0	+10	0	0	0	10
Amortization of Covid-19 conditions (B) = (A) / remainder of the contract	0 *	$-(10 / 4) = -2.5$	$-(10 / 4) = -2.5$	$-(10 / 4) = -2.5$	$-(10 / 4) = -2.5$	-10
Straight-line (C) = (A) + (B)	0	$10 - 2.5 = +7.5$	$0 - 2.5 = -2.5$	$0 - 2.5 = -2.5$	$0 - 2.5 = -2.5$	0

\*The amortization of Covid-19 condition starts on the period it was first granted (Year 2).

Impact on results:

Year	1	2	3	4	5	Total
Rental revenue (D)	100	$100 - 10 = 90$	100	100	100	490
Straight-line (C)	0	$+10 - 2.5 = +7.5$	$0 - 2.5 = -2.5$	$0 - 2.5 = -2.5$	$0 - 2.5 = -2.5$	0
Gross Revenue with straight-line (E) = (D) + (C)	100	$90 + 7.5 = 97.5$	$100 - 2.5 = 97.5$	$100 - 2.5 = 97.5$	$100 - 2.5 = 97.5$	490



■ Rental revenue ■ Straight-line ■ Gross revenue with straight-line