# TRANSFORMATIONAL EPICENTER

## Riviera Maya Jungle Estate

### Sensitivity Analysis

**Document 08 | Data Room - Financial**

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> *This document presents a comprehensive sensitivity analysis testing the financial model under multiple stress scenarios. The analysis evaluates the impact of changes in occupancy, pricing, cost structure, and macroeconomic conditions on key performance metrics. This document is provided for qualified investor due diligence only.*

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## 1. Executive Summary

The sensitivity analysis framework tests the Transformational Epicenter financial model across four discrete scenarios (Conservative, Base Case, Aggressive, Downside) and two continuous sensitivity dimensions (occupancy rate, pricing level). The purpose is to identify the conditions under which the project remains viable, quantify the impact of key variable changes, and demonstrate the robustness of the investment thesis.

### Key Findings

- **The project generates positive returns across all scenarios except the extreme downside case** (5% probability), which models a severe demand shock combined with operational disruptions
- **The expected value (probability-weighted) IRR exceeds 16%** and NPV exceeds $48.7M, confirming strong risk-adjusted returns
- **Occupancy is the primary value driver** -- a 10-percentage-point change in occupancy at Year 3 stabilization moves EBITDA by approximately $2.5M and NPV by approximately $7M
- **Pricing has high leverage** -- a 10% change in average daily rate moves Year 3 EBITDA by approximately $1.3M and NPV by approximately $4.0M
- **The breakeven occupancy of approximately 17%** provides an exceptionally wide margin of safety against demand shortfalls

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## 2. Scenario Analysis Summary

Four scenarios are modeled with assigned probabilities reflecting management's assessment of likelihood based on market conditions, competitive dynamics, and operational readiness.

| SCENARIO | PROBABILITY | Y5 REVENUE | Y5 EBITDA | 5-YR NPV | IRR |
|---|---|---|---|---|---|
| Conservative | 25% | $15,321,600 | $7,303,527 | $38,304,000 | 10% |
| **Base Case** | **50%** | **$17,529,400** | **$10,433,610** | **$52,588,200** | **16%** |
| Aggressive | 20% | $18,620,000 | $12,520,332 | $65,170,000 | 22% |
| Downside | 5% | $8,764,700 | $3,130,083 | -$4,132,050 | -5% |
| **Expected Value (Weighted)** | **100%** | **$16,757,335** | **$9,703,257** | **$48,697,498** | -- |

### Scenario Definitions

**Conservative (25% probability)** -- Models slower-than-expected occupancy ramp, modest pricing pressure, and higher operating costs. Assumes Year 1 occupancy of 45%, stabilizing at 65% by Year 3. This scenario reflects a challenging early market environment where brand awareness builds slowly and competition from lower-priced facilities creates pricing tension. Even in this case, the project generates a 10% IRR and $38.3M NPV.

**Base Case (50% probability)** -- The central projection with 60% Year 1 occupancy ramping to 80% by Year 3. Pricing holds at $2,000/day with no escalation. This scenario reflects management's best estimate of achievable performance given the property's positioning, the target demographic's willingness to pay, and planned marketing investment.

**Aggressive (20% probability)** -- Models faster market penetration with higher occupancy and potential pricing upside. Assumes Year 1 occupancy of 70%, stabilizing at 85% by Year 3. This case reflects a scenario where the Riviera Maya Jungle Estate rapidly establishes itself as the definitive luxury plant medicine destination, benefiting from strong word-of-mouth referrals and media attention. Projects a 22% IRR and $65.2M NPV.

**Downside (5% probability)** -- A stress scenario modeling severe demand disruption, potentially caused by a combination of adverse regulatory changes, a safety incident affecting industry reputation, or a significant macroeconomic downturn reducing luxury discretionary spending. Assumes Year 5 revenue of $8.8M (approximately 50% of base case) with compressed margins. This is the only scenario that produces a negative NPV, and it is assigned a 5% probability reflecting its tail-risk nature.

### Expected Value Calculation

The probability-weighted expected value across all four scenarios produces:

| EXPECTED VALUE METRIC | AMOUNT |
|---|---|
| Expected Y5 Revenue | $16,757,335 |
| Expected Y5 EBITDA | $9,703,257 |
| Expected 5-Year NPV | $48,697,498 |

The expected NPV of $48.7M is 93% of the base case NPV, confirming that the probability-weighted outcome is only modestly below the central projection. This reflects the asymmetric payoff structure: upside scenarios (Aggressive) add more value than downside scenarios subtract, weighted by their respective probabilities.

## 3. Occupancy Sensitivity (Year 3)

Occupancy rate is the single most impactful variable in the financial model. The table below shows Year 3 financial performance at five occupancy levels, holding all other assumptions constant. Year 3 is used as the reference year because it represents the first year of stabilized operations in the base case.

| OCCUPANCY | GUESTS | REVENUE | EBITDA | NET INCOME | EBITDA MARGIN |
|---|---|---|---|---|---|
| 50% | 412 | $13,151,040 | $12,313,732 | $8,619,612 | 93.63% |
| 60% | 494 | $15,768,480 | $14,864,834 | $10,405,384 | 94.27% |

| | | | | | |
|---|---|---|---|---|---|
| 72% (Base) | 593 | $18,928,560 | $17,944,823 | $12,561,376 | 94.80% |
| 80% | 659 | $21,035,280 | $19,998,149 | $13,998,704 | 95.07% |
| 90% | 741 | $23,652,720 | $22,549,251 | $15,784,476 | 95.33% |

### Occupancy Sensitivity Analysis

**Revenue Impact** -- Each 10-percentage-point increase in occupancy adds approximately $2.6M in annual revenue (at Year 3 pricing). This relationship is nearly linear because revenue is a direct function of guest volume, which scales proportionally with occupancy.

**EBITDA Impact** -- EBITDA scales more favorably than revenue because fixed costs are absorbed across a larger guest base. Moving from 50% to 90% occupancy increases EBITDA by $10.2M (83%) while revenue increases by $10.5M (80%), demonstrating the operating leverage in the model.

**Margin Expansion** -- EBITDA margins improve consistently with occupancy, reflecting the fixed cost dilution effect. Even at 50% occupancy, the EBITDA margin exceeds 93%, confirming the project's structural profitability across a wide range of demand scenarios.

**Breakeven Reference** -- The facility-level breakeven is approximately 17% occupancy (138 guests/year). All occupancy levels in this sensitivity table are substantially above breakeven, confirming that the project is profitable across the full range of plausible operating scenarios.

## 4. Pricing Sensitivity

Pricing sensitivity measures the impact of changes in the average daily rate on Year 3 financial performance. The analysis holds occupancy constant at the base case level and varies price by +/-10% and +/-15%.

| PRICE CHANGE | AVG PRICE | Y3 REVENUE IMPACT | Y3 EBITDA IMPACT | NPV IMPACT |
|---|---|---|---|---|
| -15% | $22,610 | -$2,839,284 | -$1,987,499 | -$5,962,496 |
| -10% | $23,940 | -$1,892,856 | -$1,324,999 | -$3,974,998 |
| **Base** | **$26,600** | **$17,529,400** | **$10,968,943** | **$52,588,200** |
| +10% | $29,260 | +$1,892,856 | +$1,324,999 | +$3,974,998 |
| +15% | $30,590 | +$2,839,284 | +$1,987,499 | +$5,962,496 |

### Pricing Sensitivity Analysis

**Revenue Pass-Through** -- Price changes flow through to revenue on a near 1:1 basis because guest volume is held constant. A 10% price increase adds $1.89M in Year 3 revenue; a 10% decrease removes the same amount.

**EBITDA Leverage** -- The EBITDA impact of pricing changes is approximately 70% of the revenue impact. The difference reflects the fact that some direct costs (medical evacuation reserve, which is calculated as a percentage of revenue) scale with price, while others (food, supplies) are fixed per guest regardless of pricing.

**NPV Multiplier** -- The NPV impact is approximately 3x the Year 3 EBITDA impact, reflecting the compounding effect of sustained pricing changes over the five-year projection period. A 10% price increase adds approximately $4.0M to NPV; a 15% increase adds approximately $6.0M.

**Downside Protection** -- Even with a 15% price reduction (to $22,610/day, equivalent to approximately $1,700/day), the project remains profitable with positive NPV. This confirms that the financial model is not dependent on aggressive pricing assumptions.

### Price Elasticity Considerations

The sensitivity analysis assumes no volume impact from price changes. In practice, price reductions could increase demand while price increases could reduce it. However, in the luxury medical wellness segment, price elasticity is relatively low because:

1. **Limited alternatives** -- Guests seeking medically supervised plant medicine treatment in a luxury setting have few comparable options
2. **High value of outcome** -- The perceived value of transformational healing far exceeds the price premium
3. **Wealth insensitivity** -- The target demographic (UHNW individuals) is less price-sensitive than the broader market
4. **Prestige pricing** -- In luxury markets, higher prices can signal quality and exclusivity, potentially increasing demand

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## 5. Key Risk Factors

The following risk matrix identifies the primary threats to financial performance, assessed by probability of occurrence and potential impact on the financial model.

### Risk Assessment Matrix

| RISK FACTOR | PROBABILITY | IMPACT | MITIGATION | MODEL IMPACT |
|---|---|---|---|---|
| **Regulatory change** (ibogaine restriction in Mexico) | Low (10%) | Severe | Multi-modality offerings; psilocybin, ketamine as alternatives; geographic diversification | Revenue could decline 30-40% if ibogaine restricted; other modalities partially offset |

| | | | | |
|---|---|---|---|---|
| **Safety incident** (serious adverse event) | Low (5%) | Severe | Hospital-grade protocols; full medical screening; 24/7 monitoring; insurance coverage; crisis plan | Temporary occupancy decline of 20-30% for 6-12 months; reputational recovery plan |
| **Slower demand ramp** (brand awareness) | Medium (30%) | Moderate | Phased marketing investment; referral programs; strategic partnerships; PR strategy | Captured in Conservative scenario; 45% Y1 occupancy vs. 60% base |
| **Cost overruns** (renovation/construction) | Medium (25%) | Moderate | 6% contingency reserve; phased renovation; fixed-price contracts where possible | $847,500 contingency covers ~21% overrun on renovation budget |
| **Currency risk** (MXN/USD) | Medium (35%) | Low-Moderate | Majority of costs in MXN; revenue in USD; natural hedge; forward contracts if needed | Favorable USD/MXN movement could reduce costs 5-10%; adverse movement increases costs |
| **Key person risk** (founder/CMO departure) | Low (10%) | Moderate | Vesting schedules; employment contracts; operational documentation; deep bench | Temporary operational disruption; 3-6 month recruitment cycle |
| **Competition** (new entrants) | Medium (30%) | Low-Moderate | First-mover advantage; brand establishment; talent lock-up; proprietary protocols | Pricing pressure of 5-10% over 3-5 years; captured in Conservative scenario |
| **Economic downturn** (luxury spending decline) | Low-Medium (20%) | Moderate | UHNW clients less cyclically sensitive; medical necessity positioning; flexible pricing | 10-20% volume decline in severe recession; rapid recovery expected |

## Risk-Weighted Impact Summary

| RISK CATEGORY | EXPECTED ANNUAL IMPACT | MANAGEMENT RESPONSE |
|---|---|---|
| Regulatory | Low ($0-$500K) | Active monitoring; alternative modality readiness |

| | | |
|---|---|---|
| Operational | Low ($0-$300K) | Comprehensive protocols; insurance; contingency reserves |
| Market/Demand | Moderate ($500K-$1.5M) | Diversified marketing; referral programs; pricing flexibility |
| Financial | Low ($0-$400K) | Conservative budgeting; currency hedging; contingency |
| **Total Expected Risk Cost** | **$500K-$2.7M/year** | **Covered by operating margin buffer** |

The total expected annual risk cost of $500K-$2.7M is well within the operating margin buffer. At Year 3 base case EBITDA of $10.97M, even the upper bound of expected risk costs ($2.7M) would reduce EBITDA margin from 63% to 47% -- still highly profitable.

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# 6. Downside Protection

## Structural Protections

The Transformational Epicenter investment thesis incorporates multiple layers of downside protection:

### 1. Real Asset Backing

The Riviera Maya Jungle Estate provides tangible collateral with an assessed acquisition value of $5,800,000. In a liquidation scenario, the improved property (post-renovation) would have an estimated fair market value of $8-$10M, providing significant capital recovery even in a complete operational failure.

| DOWNSIDE SCENARIO | ESTIMATED RECOVERY | % OF CAPITAL |
|---|---|---|
| Orderly sale (operating business) | $12-$15M | 87-109% |
| Asset sale (property + equipment) | $8-$10M | 58-73% |
| Fire sale (property only) | $5-$6M | 36-44% |

### 2. Low Breakeven Occupancy

The 17% breakeven occupancy means the facility must serve only approximately 138 guests per year (fewer than 3 per week) to cover all operating costs. This provides an enormous buffer against demand shortfalls and ensures the facility remains cash-flow positive through all but the most severe demand disruptions.

### 3. High Gross Margins

The 83% gross margin means that each dollar of revenue lost reduces profit by only $0.83, while fixed costs remain covered. This high margin structure ensures profitability is maintained across a wide range of revenue scenarios.

**4. Diversified Revenue Drivers**

Revenue is diversified across four program lengths (7/14/21/28 days), multiple treatment modalities (ibogaine, psilocybin, bio-optimization), and a broad geographic catchment area (Americas, Europe, MENA). No single referral channel, program, or market segment represents a concentration risk.

**5. Contingency Reserves**

The $847,500 contingency reserve (6% of total project cost) provides a dedicated buffer for construction overruns, and the medical evacuation reserve ($809/guest) accumulates a growing safety fund for emergency medical costs.

### Stress Test Results

| STRESS SCENARIO | REVENUE IMPACT | EBITDA IMPACT | CASH POSITION | VIABILITY |
|---|---|---|---|---|
| 50% occupancy for 12 months | -25% | -35% | Positive | Viable |
| 30% occupancy for 6 months | -40% (period) | -55% (period) | Draw on reserves | Viable with adjustments |
| 15% price reduction permanent | -15% | -20% | Positive | Viable |
| 20% cost increase permanent | Neutral | -12% | Positive | Viable |
| Combined: 50% occ + 10% price cut | -35% | -45% | Tight | Requires cost reduction |

The stress test results confirm that the project remains viable under severe individual stress scenarios and requires active management intervention only under a severe combination of adverse conditions.

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## 7. Monte Carlo Context

### Distribution of Outcomes

While a full Monte Carlo simulation is not presented in this document, the scenario framework and sensitivity analysis provide the building blocks for probabilistic assessment. The key distributional characteristics are:

**Positively Skewed Returns** -- The distribution of potential outcomes is positively skewed: the upside scenarios (Aggressive, potential add-on revenue, pricing power) add more value than the downside scenarios subtract. This asymmetry favors the investor.

**Concentrated Probability Mass** -- 75% of the probability weight (Base Case + Conservative) produces positive returns with IRR ranging from 10% to 16%. Only 5% of the probability weight produces negative NPV.

**Fat Tail Protection** -- Even the extreme downside (5% probability) produces an IRR of only -5%, not a total loss. Real asset backing ensures significant capital recovery in all scenarios.

## Key Variable Distributions

| VARIABLE | DISTRIBUTION | LOW | EXPECTED | HIGH |
|---|---|---|---|---|
| Year 1 Occupancy | Normal | 35% | 60% | 75% |
| Stabilized Occupancy | Normal | 65% | 80% | 90% |
| Average Daily Rate | Lognormal | $1,700 | $2,000 | $2,400 |
| Direct Cost/Guest | Normal | $4,200 | $4,629 | $5,200 |
| Fixed OpEx Growth | Normal | 2% | 4% | 6% |

## Correlation Assumptions

The analysis recognizes that key variables are not independent. In particular:

- **Occupancy and pricing** tend to move together in premium markets (higher demand enables pricing power)
- **Occupancy and direct costs** have a slight positive correlation (higher utilization may increase per-guest costs through overtime and premium sourcing)
- **Economic conditions** affect both occupancy and pricing but have a muted impact on UHNW spending patterns

These correlations reinforce the positively skewed return profile: favorable conditions improve multiple variables simultaneously, while adverse conditions have partially offsetting effects (lower occupancy reduces direct costs).

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## Cross-References

| DOCUMENT | RELATIONSHIP |
|---|---|
| Doc 06: Financial Projections | Base model that this analysis stress-tests |
| Doc 07: Unit Economics Model | Per-guest assumptions underlying sensitivity ranges |
| Doc 09: Capitalization Table | Equity structure context for return calculations |
| Valuation Report | Enterprise valuation incorporating scenario-weighted outcomes |

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