

# Public Company Comparables

**JF Capital Advisors**

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**CONFIDENTIAL**

**Prepared for AAHOA**



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**AAHOA Description**

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- The attached package is a detailed financial analysis of the trading levels, valuations, and credit statistics of the publicly traded hotel companies (both REITs and C-Corps) in the United States. There is a detailed supporting financial analysis for every single publicly traded hotel company and what is presented herein is just the summary version.
  - The descriptions below explain generally what is being presented on each page and reference Host (REIT) and Hilton (C-Corp) as illustrative examples
  - **Pages 3 and 4** of the enclosed package provide the same information though in a different order. **Page 3 - Summary of Comparables - Analysis By Enterprise Value** shows the company valuation and leverage data sorted by company size, and **Page 4 - Summary of Comparables Analysis - REITs vs. Hotel Companies** shows the company valuation and leverage data sorted by REITs and C-Corps.
  - Equity Market Cap is the fully diluted outstanding share count of the company multiplied by the stock trading price.
    - Host has an Equity Market Cap of \$16.1 billion, and Hilton has an Equity Market Cap of \$23.1 billion
  - Net Debt is the total amount of Debt less any Unrestricted Cash available.
    - Host has Net Debt of \$3.6 billion, and Hilton has Net Debt of \$7.2 billion
  - Enterprise Value is the total value of the company and is the combination of Equity Market Capitalization, Net Debt, and Preferred Stock
    - Host has an Enterprise Value of \$19.8 billion, and Hilton has an Enterprise Value of \$30.4 billion
  - The Enterprise Value/EBITDA Multiple is calculated as Enterprise Value divided by either 2018 or 2019 EBITDA and reflects how many times the market values each dollar of that Company's EBITDA. EBITDA is Earnings Before Interest Taxes Depreciation and Amortization and is a good proxy for pre-tax cash flow
    - Host has a 2019 Enterprise Value to EBITDA multiple of 12.5x, and Hilton has a 2019 Enterprise Value to EBITDA multiple of 13.2x
  - Dividend Yield is the annualized dividend paid out on the common stock divided by the current stock price.
    - Host has a Dividend Yield of 3.7%, and Hilton has a Dividend Yield of 0.8%
  - Recently, valuation multiple for C-Corps got a significant boost as the reductions in corporate tax rates are generating significant increases in free cash flows. This has pushed the Enterprise Value to EBITDA levels higher and has also pushed share prices higher. Additionally, larger companies such as Marriott and Hilton have had significant amounts of untaxed earnings overseas which is now being repatriated with very low tax rates and with the taxes spread over a lengthy period.
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- **Page 5 - Capitalization and Leverage** illustrates the debt and preferred stock levels and metrics. Debt/EBITDA is calculated as the Total Debt divided by EBITDA. It is a reflection of how many years of run-rate EBITDA would be required to repay all of the Debt.
    - Host has a Debt to 2018 EBITDA multiple of 2.3x, and Hilton has a Debt to 2018 EBITDA multiple of 3.5x
  - Debt Yield is calculated as NOI divided by the outstanding Debt and is essentially a cap rate through the Total Debt (rather than value)
    - Host has a Debt Yield of 37.1%, and Hilton has a Debt Yield of 28.8%
  - Debt to Enterprise Value is calculated as Net Debt divided by Total Enterprise Value and is a measure of what percentage of the capital stack is comprised of Debt, as opposed to Equity and Preferred Stock
  - Debt per key is calculated as Net Debt divided by Total Number of Rooms and is a measure of the value of Net Debt a company has with respect to each of its owned rooms
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- **Page 6 - Preferred Analysis** illustrates the preferred stock metrics for those REITs that have outstanding preferred shares. Debt+Pref/EBITDA is calculated as the (Total Debt plus Preferred Stock) divided by EBITDA. It is a reflection of how many years of run-rate EBITDA would be required to repay all of the Debt and all of the Preferred Stock.
    - Ashford has a (Debt + Preferred Stock) to 2018 EBITDA multiple of 9.7x
    - Neither Host nor Hilton have any outstanding preferred shares
  - Preferred Yield is calculated as NOI divided by (Debt + Preferred Stock) and is essentially a cap rate through the Preferred Stock.
    - Ashford has a Preferred Yield of 8.9%
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- **Page 7 - Liquidity - Cash Availability** illustrates the amount of unrestricted cash plus immediate borrowing capacity of each of the REITs and Hotel Companies
  - Total Availability is calculated as amount undrawn under existing revolving credit facilities plus unrestricted cash on the balance sheet
    - Host has Total Availability of \$1,702, and Hilton has Total Availability of \$1,423
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- On **Page 8 - Trading**, we examine the current trading price relative to 52-week and 5-year high and low data. We also look at the overall trading volume liquidity by examining the average trading volume over a 3-month period, and what percentage that is of the total equity market capitalization. We compile the Beta for each company which measure the volatility and riskiness of each stock price vs. the market as a whole. A Beta of 1.0 is in line with the overall market as a whole. A Beta greater than 1.0 is riskier and more volatile than the market as a whole.

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  - On **Page 9 - Total Return**, we evaluate the current year to date, prior years, and cumulative total return to investors, factoring in any common stock share price appreciation or depreciation plus the dividends received.
    - Host has a cumulative return of 220.7%, and Hilton has a cumulative of 76.3% since their respective IPOs

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  - On **Page 10 - Implied Share Prices**, we illustrate what the current stock price would be for the REITs, with an assumed NOI cap rate of 8.0% an EBITDA Multiple of 11.0x for the Hotel Companies
    - Host would have an Implied Share Price of \$20.51, and Hilton would have an Implied Share Price of \$59.76

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  - **Page 11 - Relative Size** illustrates the Total Equity Value and Enterprise Value of each company with respect to the overall Sector (Overall Lodging Industry)
    - Host's Enterprise Value represents 8.8% of the Sector, and Hilton's Enterprise Value represents 13.6% of the Sector
  - While there are many companies in the universe that we track, there is a huge discrepancy in size so that for the REITs, the top 3 comprise 43.% of the hotel REIT equity market capitalization and 39.4% of the hotel REIT Enterprise Value.
  - For the C-Corps, the top 5 companies account for 89.8% of the Hotel C-Corp equity market capitalization and 88.4% of the Hotel C-Corp Enterprise Value.
  - As a result, major institutional investors spend more time and effort trading in the larger cap stocks because they can accumulate a sizeable investment position and they can exit that position when appropriate, whereas with a smaller company, it may take an extended period of time to sell out of a significant position

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  - **Page 12 - Stabilized EBITDA Analysis** shows much additional EBITDA each Company needs to achieve an Enterprise Value/EBITDA multiple of 11.0x
    - Host would need total EBITDA growth of only 6.2% and Hilton would need 21.2% in order to reach an Enterprise Value to EBITDA Multiple of 11.0x
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- **Page 13 - EBITDA Growth Analysis** shows the Implied Enterprise Value for each company assuming an annual EBITDA growth of 5.0% over 3 years and the current Premium/Discount to the respective Enterprise Value
    - Host's Implied Enterprise Value would be \$21,532, representing a 20.2% premium to the current Enterprise Value
    - Hilton's Implied Enterprise Value would be \$29,019, representing a 5.3% premium to the current Enterprise Value
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- **Page 14 - Implied Cap Rates Based on Assumed Growth** calculates the REIT cap rate at various assumed annual growth rates (NOI / Enterprise Value) based on the Enterprise Values currently in the public marketplace. This factors in all of the property level NOI but also factors in the corporate G&A expense.
    - Host's Implied Cap Rate with an annual NOI growth rate of 2.5% is 7.1%
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- **Page 15 - Unlevered Yields Based on Assumed Growth** calculates the Hotel Company Unlevered Yields at various assumed annual growth rates (EBITDA / Enterprise Value) based on the Enterprise Values currently in the public marketplace. This factors in all of the property level EBITDA but also factors in the corporate G&A expense.
    - Hilton's Unlevered Yield with an annual EBITDA growth rate of 2.5% is 8.0%
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- **Page 16 - Summary of Comparables Analysis - 2018 EBITDA Illustrative Decline Analysis** shows the Implied Enterprise Value for each company assuming an overall decline in 2018 EBITDA of 10.0%
    - Host's Implied Enterprise Value would be \$16,909 assuming an Enterprise Value / EBITDA Multiple of 12.0x, and its stock price would be \$17.74 versus the current price of \$21.53
    - Hilton's Implied Enterprise Value would be \$22,789 assuming an Enterprise Value / EBITDA Multiple of 12.0x, and its stock price would be \$52.12 versus the current price of \$77.62
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- **Page 17 - Summary of Comparables Analysis - 2019 EBITDA Illustrative Decline Analysis** calculates an adjusted share price for each company by applying the respective company's 2018 and 2019 multiples to Adjusted 2019 EBITDA
    - Host's 2019 Implied Share Price would be \$19.13 using 2019 Adjusted EBITDA of \$1,431, which assumes a decline of 10.0%
    - Hilton's 2019 Implied Share Price would be \$68.35 using 2019 Adjusted EBITDA of \$2,098, which assumes a decline of 10.0%
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- **Page 18 - Illustrative EBITDA Multiple Decrease** calculates an adjusted share price for each company by assuming a 1.0x EBITDA multiple decrease from the current trading levels
    - Host and Hilton's Implied Share Prices would be \$19.43 and \$69.88, respectively
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- **Pages 19-21 - WACC - Based on Subject Company, WACC - Optimal Industry Capital Structure and WACC - Optimal Industry Capital Structure with Re-Levered Beta** calculate the Weighted Average Cost of Capital (WACC) is the blended cost of the company's debt and equity. We evaluate the WACC under 3 separate scenarios:
    - 1) Actual capital structure in place with current 10-Year Treasury Rates
    - 2) Capital structure with 4.00% for the 10-Year Treasury Rate with actual beta
    - 3) Capital structure with 4.00% for 10-Year Treasury Rate with re-levered betas
  - For purposes of calculating the WACC, we separately calculate the Cost of Equity and the Percentage of Equity and then the Cost of Equity.
  - To calculate the Cost of Equity, we use the Capital Asset Pricing Model (CAPM), where:  
Cost of Equity = Risk Free Rate + ( $\beta$  \* Risk Premium) + Liquidity Premium.
    - Risk Free Rate is generally the 10-Year Treasury Rate
    - Risk Premium is the long term market risk premium of 6.0%
    - Beta ( $\beta$ ) is a measure of volatility of the specific stock or company to the market as a whole; it is essentially a measure of risk
    - Liquidity Premium is extra return that investors generally demand for investing in companies, with very small equity market capitalization and are illiquid in trading
    - As an example, Host's WACC of 8.4% implies that based on its current capital structure, it needs to earn a 8.4% return on all invested capital to provide sufficient compensation to its equity and debt capital providers
    - Host's WACCs are 8.4%, 7.9%, and 9.5% in each of the 3 scenarios
    - Hilton's WACCs are 7.3%, 8.1%, and 8.2% in each of the 3 scenarios
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- **Page 22 - Industry Outputs** provides summary data and statistics on the combined set of publicly traded REITs and C-Corps.
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