

## Lodging: Stepping back and examining the Good and the Bad

Cash burn: our analysis/mgmt calls suggest ample liquidity even w/slow recovery

**First the good news:** When we apply a severe stress test (zero revenues, see full assumptions below) to the public hotel companies in our coverage, we find that most have ample liquidity to get through this year and next in such an extreme environment. While we are cognizant that a zero revenue environment is not realistic for most companies, it is for some (at least in the near term if not longer). For example, Choice (CHH, Hold) has noted that only approx. 10% of its hotels in its system are closed whereas PEB (Miller, Hold), Playa (PLYA, Buy), and Ryman (RHP, Hold) have closed all or nearly all of their properties. Subsequently we ran this analysis to see how long companies could stay solvent in such a worst case scenario.

We find that nearly all C-Corps and Hotel REITS in our coverage have liquidity to withstand this severe stress test for at least a year and a half if not much longer:

Liquidity assumptions for our severe stress test

	Cash/ equivalents (M)	Available Credit Facilities (M)	Total Liquidity (M)	Owned hotel operating monthly expense (assumed cut by 75%) (M)	Corp SG&A monthly (assumed cut by 25%) (M)	Net interest monthly (M)	Other (M)	Total monthly expense (M)	Liquidity months
<b>Hotel C-Corps</b>									
H	\$893	\$1,363	\$2,256	\$31	\$22	\$6		\$59	38
WH	\$814	\$0	\$814	\$3	\$11	\$9	\$2	\$25	32
CHH	\$34	\$455	\$489	\$2	\$11	\$3		\$16	31
HLT	\$410	\$1,690	\$2,100	\$28	\$33	\$37		\$97	22
MAR	\$225	\$3,475	\$1,700	\$26	\$59	\$29		\$114	15
PLYA	\$70	\$15	\$85	\$6	\$3	\$4		\$13	6
<b>Hotel REITS</b>									
SHO	\$687	\$500	\$1,187	\$16	\$2	\$3		\$21	58
RLJ	\$800	\$600	\$1,400	\$21	\$3	\$7		\$31	46
HST	\$1,275	\$1,500	\$2,775	\$80	\$6	\$11		\$97	29
PEB	\$715	\$25	\$740	\$23	\$2	\$7		\$32	23
RHP	\$637	\$300	\$937	\$29	\$3	\$9		\$41	23
PK	\$212	\$1,000	\$1,212	\$54	\$4	\$13		\$71	17
DRH	\$20	\$360	\$380	\$14	\$2	\$3		\$20	19

Source: STRH research, Company reports

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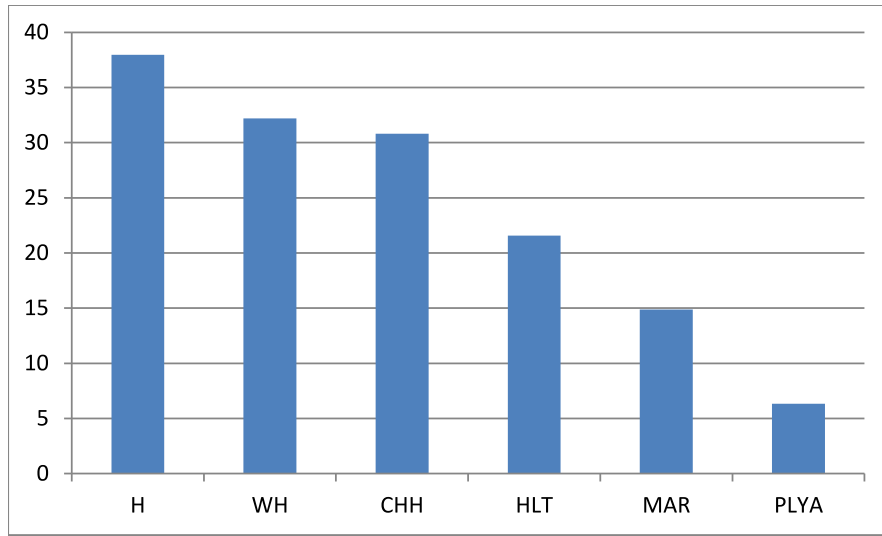
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### What's Inside

Our liquidity analysis of Lodging C-corps and REITS under a severe stress test analysis

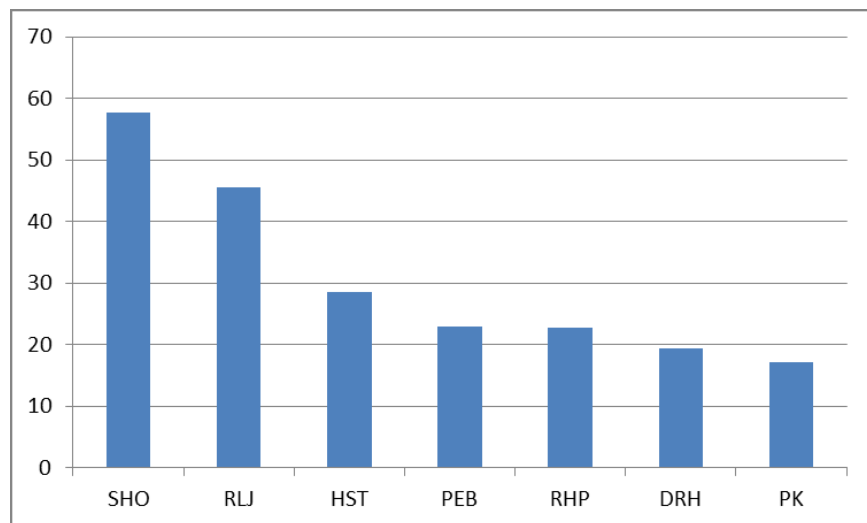
Exhibit 2: Hotel C-Corps: Months of liquidity in our severe stress test



Source: STRH research, Company reports

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Exhibit 3: Hotel REITS: Months of liquidity in our severe stress test



Source: STRH research, Company reports

**Note that in our analysis we make the following high-level conservative assumptions:** 1) All hotels are closed and operating costs can be reduced by approx. 75% for closed hotels that a company owns (For PK we have assumed operating expenses are cut 65% per discussions with management), 2) Corporate SG&A is reduced by 25%, 3) All capex is halted, 4) No dividends are paid, 5) No additional sources of liquidity are added other than what has already been publically stated, 6) Lenders allow companies to “extend and pretend” with debt covenants, and 7) Real estate taxes and insurance remain constant.

**Now the bad news:** [As we have discussed in recent research](#), based on observations of what is happening with RevPAR and re-openings in China, **we believe it will be a slower and longer recovery in the US than what the more optimistic/bullish management teams and investors expect.** China is approx. 7 weeks ahead of the US as far as when RevPAR first fell off a cliff and while absolute occupancy has come off its lows in China it is still only at 30%. That said, this is not an exact apples-apples comparison as China implemented far more stringent social distancing requirements than the US, and while we do not claim to be medical professionals, it may take longer (how much longer is a question no one can answer with certainty at this time).

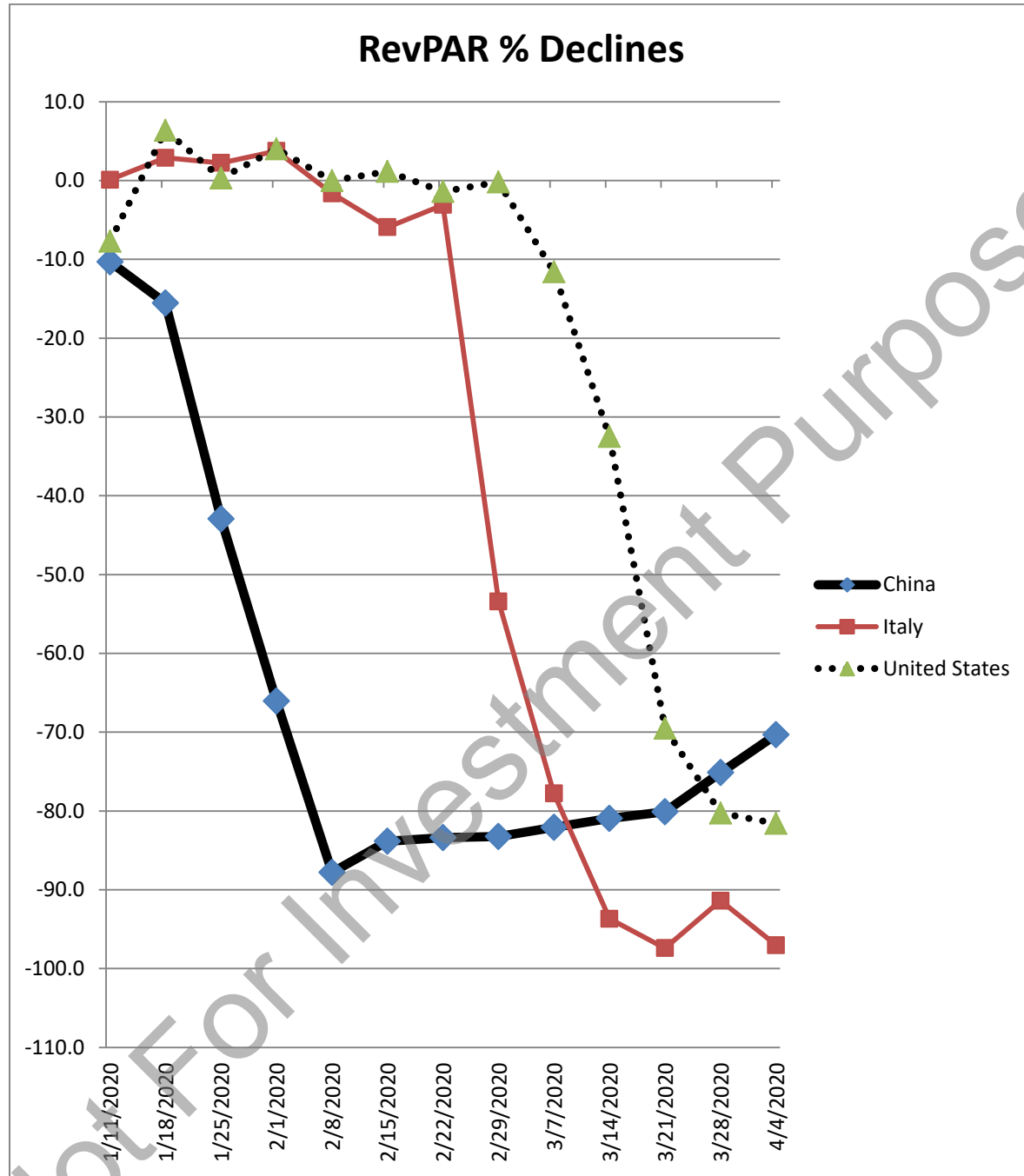
**We look closely at how hotels in China are faring as we believe it not unreasonable to think that a similar pattern to what is happening in China is a preview of what might happen in the US, though exact recovery timing and trajectories in the US are still big unknowns.** The most recent statistics out of China from STR for the week ending April 4th:

- RevPAR was -70.3% y/y for the week ending April 4th, **an improvement** from -76.8% for the trailing 28 days.
- ADR was -38.3% y/y for the week ending April 4th, **a deceleration** vs. -36.0% for the trailing 28 days.

- Occupancy was -52.0% y/y for the week ending April 4th, **an improvement** vs. -63.8% for the trailing 28 days.
  - **Absolute occupancy in China was only 30.2%.** Absolute occupancy levels for hotels **that were still open** in China bottomed out at approx. 10% the week of February 8th. This was approx. 21 days after occupancy first started to see rapid deceleration in China or 7 weeks ahead of when this happened in the US. By comparison, peak weekly absolute occupancy in China in early January was 65%.
  - **US: Absolute occupancy levels for hotels that were still open in the US for the week ending April 4th was 21.6%.** So far it has been approx. 4 weeks after occupancy first started to see rapid deceleration in early-mid March in the US. By comparison, peak weekly absolute occupancy in the US in early mid-February was 64%.

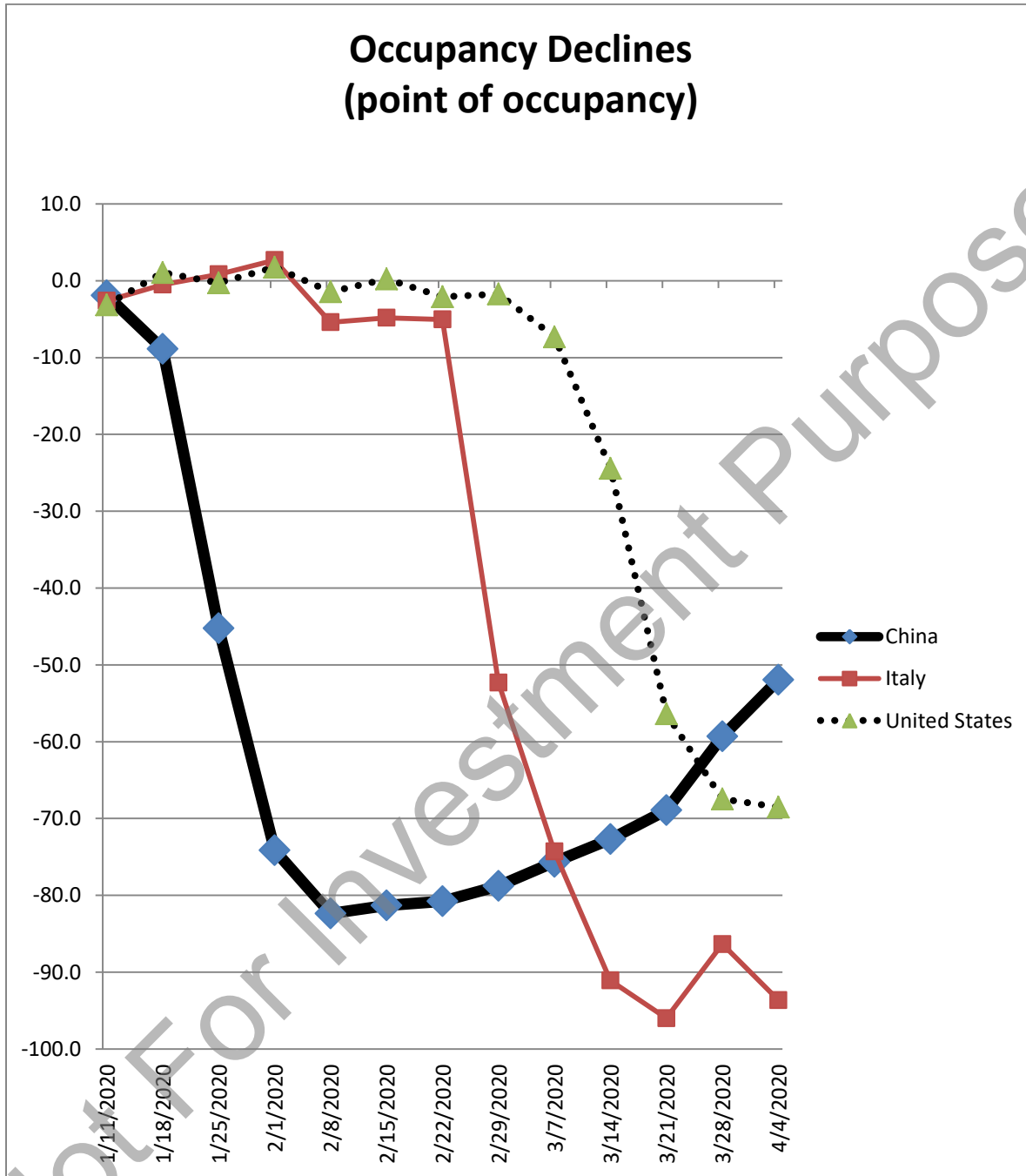
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Exhibit 4: RevPAR for China, Italy, US



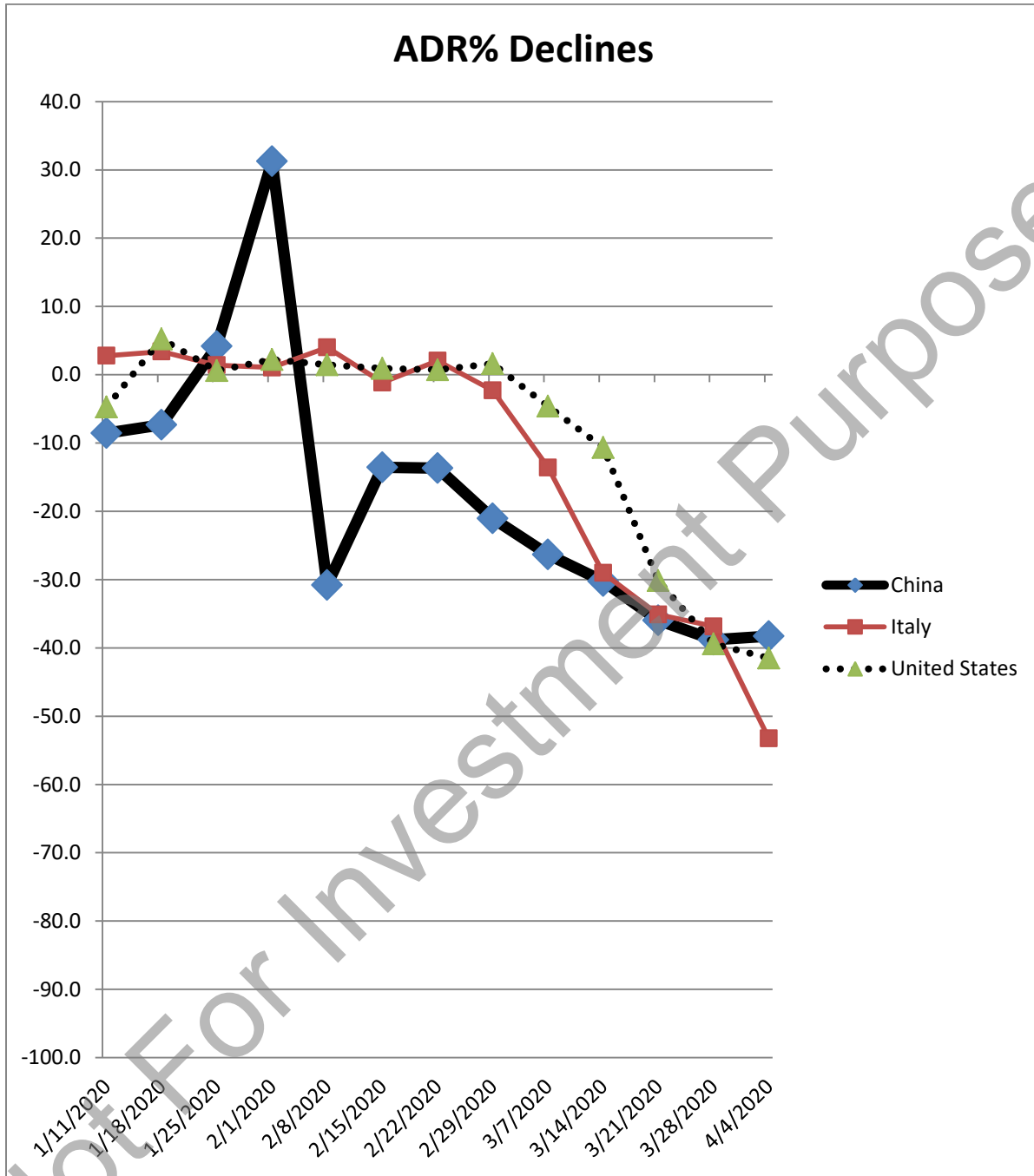
Source: STR, STRH research

Exhibit 5: Occupancy for China, Italy, US



Source: STR, STRH research

Exhibit 6: ADR for China, Italy, US



Source: STR, STRH research

## Companies Mentioned in This Note

**Choice Hotels International, Inc.** (CHH, \$70.05, Hold, C. Patrick Scholes)  
**DiamondRock Hospitality Company** (DRH, \$4.75, Hold, C. Patrick Scholes)  
**Hyatt Hotels Corporation** (H, \$51.76, Hold, C. Patrick Scholes)  
**Hilton Worldwide Holdings Inc.** (HLT, \$66.64, Hold, C. Patrick Scholes)  
**Host Hotels & Resorts, Inc.** (HST, \$11.41, Hold, C. Patrick Scholes)  
**Marriott International, Inc.** (MAR, \$78.09, Hold, C. Patrick Scholes)  
**Pebblebrook Hotel Trust** (PEB, \$10.96, Hold, Gregory Miller)  
**Park Hotels & Resorts Inc.** (PK, \$7.95, Buy, C. Patrick Scholes)  
**Playa Hotels & Resorts N.V.** (PLYA, \$2.04, Buy, C. Patrick Scholes)  
**Ryman Hospitality Properties, Inc.** (RHP, \$32.00, Hold, C. Patrick Scholes)  
**RLJ Lodging Trust** (RLJ, \$8.12, Sell, Gregory Miller)  
**Sunstone Hotel Investors, Inc.** (SHO, \$8.61, Hold, C. Patrick Scholes)  
**Wyndham Hotels & Resorts, Inc.** (WH, \$32.06, Buy, C. Patrick Scholes)

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