

Lodging

Lodging RevPAR Monitor Special Edition: Delta Variant's Impact on Demand

Applying pressure on the recovery, but only a modest impact so far. However...

Based upon our analysis of millions of future reservations for US hotels from multiple "big data" sources and from conversations with hotel owner/manager contacts and executives at very large travel agencies, the Delta variant has put modest pressure on the growth trajectory of hotel bookings and subsequently the speed of the RevPAR recovery as the rate of improvement has leveled-off of late. However, as we begin to shift to the more corporate-heavy post-Labor Day travel season next month, we are of the view that Delta concerns will put more pressure on demand than what we currently see for August leisure travel.

- **The good news** is that so far the variant appears to be only a speed bump in the road to recovery, a far cry from the massive collapse in bookings 18 months ago when Covid first hit. Additionally given Delta concerns and general post-Labor Day uncertainty, we like that some companies (more so the REITS, less so the C-Corps) have given, in our opinion, very conservative basic outlooks for 3Q in light of Delta concerns. For example: DRH's RevPAR in July was up 54% from 2Q, yet the company only expects 3Q revenues to be up 20-25% from 2Q even when factoring-in several hotels that were closed for part of 2Q.
- **The bad news** is that anecdotal evidence suggests that the variant will likely have a larger impact on corporate travel, which will become more evident as leisure travel subsides post-Labor Day. As the booking window for corporate travel is only 15 days at most, there is not yet enough statistical booking data to conclusively say if there is a clear impact on the expected post-Labor Day reemergence in corporate business travel. *That said, the anecdotal view from large corporate travel agencies and "big data" providers can be summed-up as "if a company has already started traveling, they're likely not going back on lock-down. However, if the company has not resumed traveling, they're going to push off the restart until the surge in Covid cases backs down."*

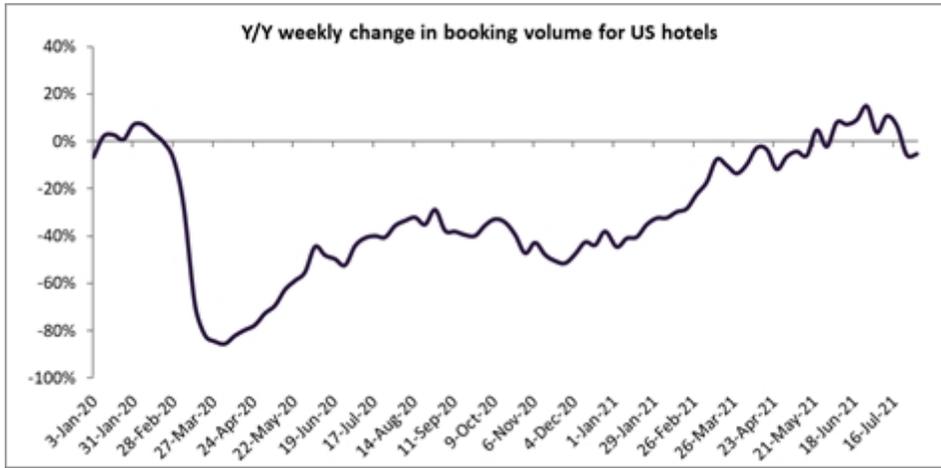
Delta likely has flat-lined the growth trajectory in this summer's leisure-driven RevPAR recovery for the moment. Based on forward-looking booking data, we highlight [Sojern](#) and [ADARA](#) amongst others for example, the growth trajectory in leisure demand has leveled off and has seen a small pull-back since June. We note that complicating the interpretation of the forward data is the difficulty in precisely determining how much of the leveling-off is due to seasonality from the end of the peak-summer travel season and how much is due to the variant.

C. Patrick Scholes
212-319-3915
Patrick.Scholes@truist.com

Gregory J. Miller
212-303-4198
Gregory.J.Miller@truist.com

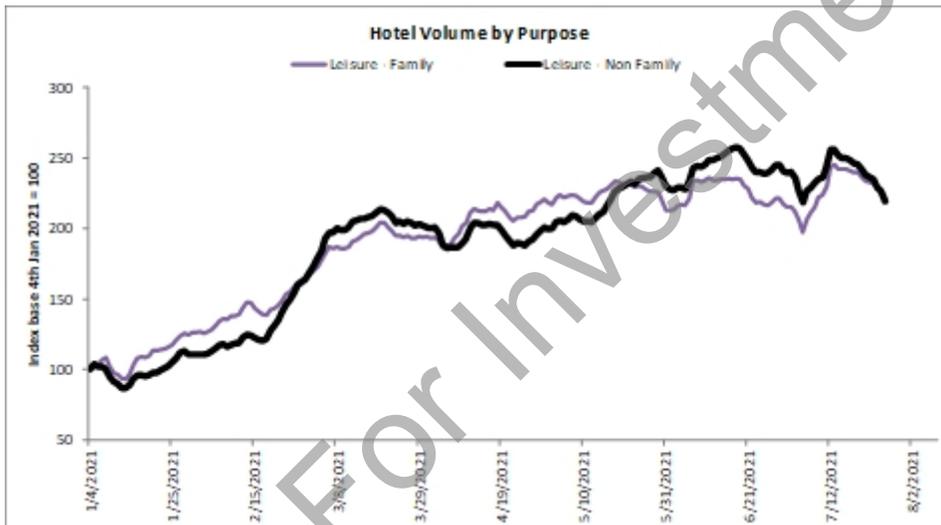
What's Inside

Exhibit A



Source: Truist Securities, Sojern

Exhibit B

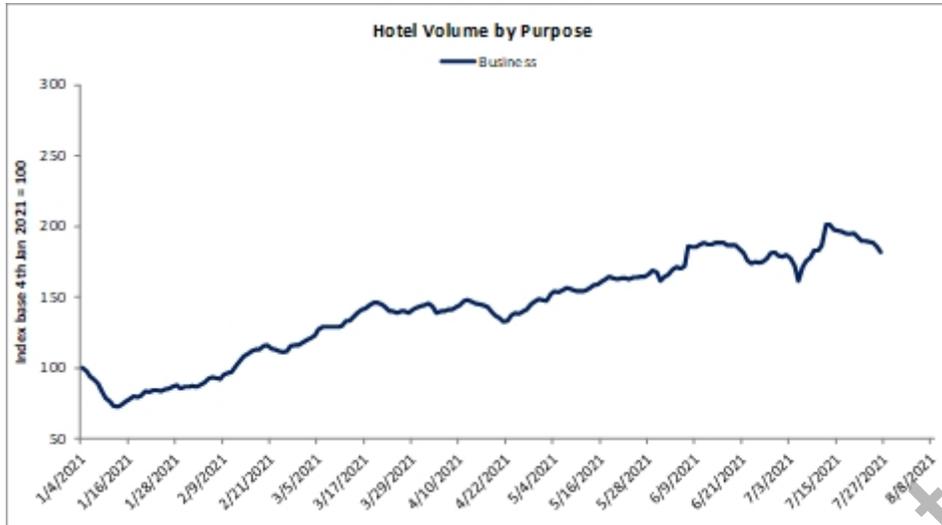


Source: Truist Securities, ADARA

Besides our hotel-specific data, airlines such as Southwest, which skews more towards leisure and non-corporate business, have reported an uptick in cancellations due to the rise of Covid cases (ABC News).

We believe the variant will likely add additional pressure on the return of corporate business and large group events/conventions post-Labor Day. Adding pressure on the initially expected strong post-Labor Day resumption of corporate travel are many sizable companies pushing back office reopenings due to renewed Covid concerns, for example. We surmise that if offices reopenings are being delayed, these corporations are also in no rush to send their employees out to travel. As far as the most recent business travel bookings, similar to the previously noted leisure booking trends, we observe a leveling-off to slight downward trend. As noted previously, as the booking window is still only around 15 days, it is still too early to see exactly what the statistical impact may be for post-Labor Day travel, hence our greater reliance on anecdotal evidence at the moment.

Exhibit C



Source: Truist Securities, ADARA

Regarding large group events/conferences, in the past several days we have observed quite a few cancellations of events, for example:

- NY Auto Show and other conventions/conferences/trade shows: https://www.northstarmetingsgroup.com/News/Industry/Cancelled-Events-Covid-19-Delta-Variant?utm_source=eNewsletter&utm_medium=Email&utm_campaign=eltrMtgNews&oly_enc_id=0084G6272056F1
- Stevie Nicks fall concerts: [Stevie Nicks cancels US dates citing rising Covid-19 cases - CNN](#)
- New Orleans Jazz Fest: <https://www.cbsnews.com/news/new-orleans-jazz-festival-canceled-covid-cases-rising/>
- Adding to this that the hotel industry's own conference ALIS had massive last minute cancellations leading to attendance reportedly ~25-30% of normal and that was a few weeks ago just as the LA County Mask Mandate went into effect. Some conventions seem to be getting attendance well north of 50% vs. 2019, so there are big variations here. Getting actual attendance vs. publicized stats is not easy as meeting organizers are not wanting to highlight actual attendance vs. signups.
- **Lastly, we point to an interesting recent survey of meeting planners regarding the variant's impact on upcoming meetings and events** (Prevue Survey). We found it notable that the meeting planners expect larger meetings to see a greater negative impact than smaller corporate events, which makes sense to us:
 - "When asked what size and/or type of meeting they believe could be affected by worsening COVID infection rates in the near term, large corporate meetings and customer-facing events came out on top at 64%. Close behind at 59% were large association annual meetings, conventions and trade shows, following by smaller corporate events such as board meetings (29%)".

As we have noted in prior research, if a September rebound is less pronounced, and if October follows accordingly, we think traditional business travel is unlikely to reaccelerate until well into the late winter/early spring due to normal seasonal work travel trends around the holidays and winter weather (especially Midwest/Northeastern U.S.). Quite simply, even if pent-up corporate demand is evident, we do not expect abnormally high business travel after Thanksgiving. *As far as business transient bookings, we observe a modest pull-back of late in the "big data", though hardly a collapse like we observed 18 months ago.*

China: Where we have clearly seen a substantial impact from the Delta variant. *As we noted last week,* RevPAR results fell off a cliff for the week ending August 7th. Per STR, hotel RevPAR in China in local currency was -28.9% y/y vs. +25.4% y/y in the prior week. Last week's RevPAR was up against a -28.2% comparable result in 2020 vs. -29.5% in the

prior week. *On a 2-year run-rate, which we believe is an equally if not more important KPI, RevPAR was down 49.3% vs. down 11.9% in the prior week's 2-year run-rate. Since we published the note last week, we have received some additional color from STR on what is happening in China:*

- In mid-July, mainland China enjoyed mid-week almost 80% occupancy levels, surpassing that of 2019.
- Guangdong province had just about recovered from mid-June outbreak/slump.
- Delta outbreaks starting in heavily populated provinces like Jiangsu and then spreading onwards, created massive shutdowns across the country.
- As a result, occupancy has dropped around the entire nation, affecting all segments and markets – Weekly occupancy dropping from 70% to 40%, in two weeks.
- China deals with this outbreak like other waves, complete shutdown of cities, testing and isolating millions, before rebooting system.
- Since Delta is harder to shut down and spreads faster, STR has so far seen less efficacy from Chinese vaccines against this variant.
- In light of this, and even if for previous outbreaks have seen faster and more V-shaped recoveries, STR now expects a somewhat slower and more U-shaped pickup this time.
- STR remains confident that it will pick up and reach high levels again, as it's proven before, with 1st tier cities slightly slower
- Footnote: This also affects Macau (borders open) but not Hong Kong (borders mostly closed).

Not For Investment Purposes

DRH: Valuation and Risks

Our price target of \$8 for DRH is derived by applying a 12.0x target EV/EBITDA multiple to our estimate for 2023 EBITDA. This is in-line with REIT peers (~11.0x-12.5x) adjusted for portfolio quality.

Risks to our rating and price target: Upside risk: specific markets (particularly post-ROI projects) perform better than expected; better than expected macro lodging industry recovery. Downside risk: lodging recovery takes longer than expected, weaker results from ROI projects than forecasted, poor performance of recently acquired assets.

Analyst Certification

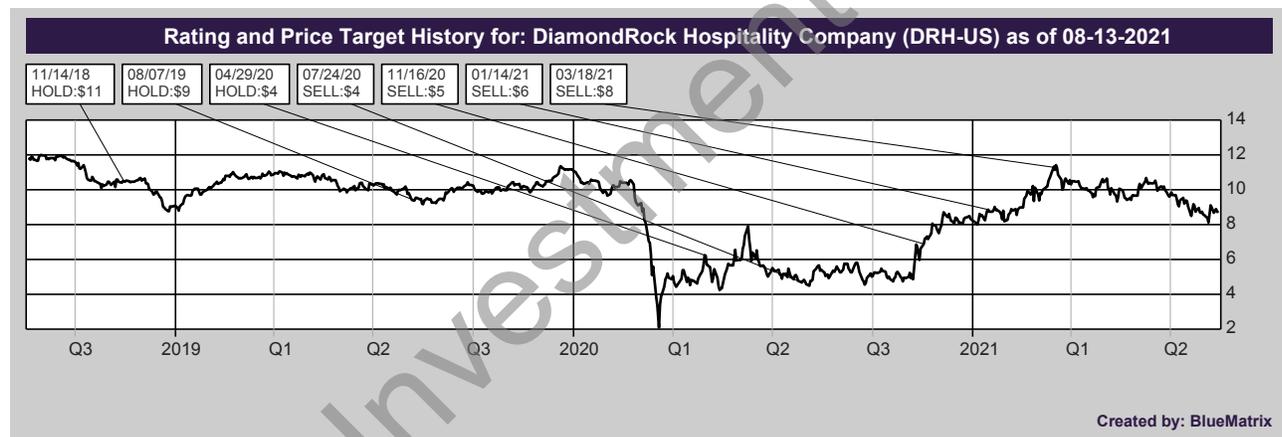
I, C. Patrick Scholes, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Required Disclosures

Truist Securities, Inc. makes a market in the following company: DRH-US

Analyst compensation is based upon stock price performance, quality of analysis, communication skills, and the overall revenue and profitability of the firm, including investment banking revenue.

As a matter of policy and practice, the firm prohibits the offering of favorable research, a specific research rating or a specific target price as consideration or inducement for the receipt of business or compensation. In addition, associated persons preparing research reports are prohibited from owning securities in the subject companies.



Truist Securities Ratings System for Equity Securities

Dissemination of Research

Truist Securities, Inc. ("Truist Securities") seeks to make all reasonable efforts to provide research reports simultaneously to all eligible clients. Reports are available as published in the restricted access area of our website to all eligible clients who have requested a password. Institutional investors, corporates, and members of the Press may also receive our research via third party vendors including: Thomson Reuters, Bloomberg, FactSet, and S&P Capital IQ. Additional distribution may be done by sales personnel via email, fax, or other electronic means, or regular mail.

For access to third party vendors or our Research website: <https://truistresearch.bluematrix.com/client/library.jsp>

Please email the Research Department at EquityResearchDepartment@research.truist.com or contact your Truist Securities sales representative.

Truist Securities Rating System for Equity Securities

Truist Securities, Inc. ("Truist Securities") rates individual equities using a three-tiered system. Each stock is rated relative to the broader market (generally the S&P 500) over the next 12-18 months (unless otherwise indicated).

Buy (B) – the stock's total return is expected to outperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Hold (H) – the stock's total return is expected to perform in line with the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Sell (S) – the stock's total return is expected to underperform the S&P 500 or relevant benchmark over the next 12-18 months (unless otherwise indicated)

Not Rated (NR) – Truist Securities does not have an investment rating or opinion on the stock

Coverage Suspended (CS) – indicates that Truist Securities' rating and/or target price have been temporarily suspended due to applicable regulations and/or Truist Securities Management discretion. The previously published rating and target price should not be relied upon.

Truist Securities analysts have a price target on the stocks that they cover, unless otherwise indicated. The price target represents that analyst's expectation of where the stock will trade in the next 12-18 months (unless otherwise indicated). If an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of Truist Securities Research Management not to assign a target price; likewise certain stocks that trade under \$5 may exhibit volatility whereby assigning a price target would be unhelpful to making an investment decision. As such, with Research Management's approval, an analyst may refrain from assigning a target to a sub-\$5 stock.

Legend for Rating and Price Target History Charts:

B = Buy

H = Hold

S = Sell

D = Drop Coverage

CS = Coverage Suspended

NR = Not Rated

I = Initiate Coverage

T = Transfer Coverage

Truist Securities ratings distribution (as of 08/17/2021):

Coverage Universe			Investment Banking Clients Past 12 Months		
Rating	Count	Percent	Rating	Count	Percent
Buy	501	70.27%	Buy	159	31.74%
Hold	205	28.75%	Hold	74	36.10%
Sell	7	0.98%	Sell	2	28.57%

Other Disclosures

Information contained herein has been derived from sources believed to be reliable but is not guaranteed as to accuracy and does not purport to be a complete analysis of the security, company or industry involved. This report is not to be construed as an offer to sell or a solicitation of an offer to buy any security. Truist Securities, Inc. and/or its officers or employees may have positions in any securities, options, rights or warrants. The firm and/or associated persons may sell to or buy from customers on a principal basis. Investors may be prohibited in certain states from purchasing some over the counter securities mentioned herein. Opinions expressed are subject to change without notice.

Truist Securities, Inc.'s research is provided to and intended for use by Institutional Accounts as defined in FINRA Rule 4512(c). The term "Institutional Account" shall mean the account of: (1) a bank, savings and loan association, insurance company or registered investment company; (2) an investment adviser registered either with the SEC under Section 203 of the Investment Advisers Act or with a state securities commission (or any agency or office performing like functions); or (3) any other person (whether a natural person, corporation, partnership, trust or otherwise) with total assets of at least \$50 million.

Truist Securities, Inc. is a registered broker-dealer and a member of FINRA and SIPC. It is a service mark of Truist Financial Corporation. Truist Securities, Inc. is owned by Truist Financial Corporation and affiliated with SunTrust Investment Services, Inc. and BB&T Securities, LLC. Despite this affiliation, securities recommended, offered, sold by, or held at Truist Securities, Inc., SunTrust Investment Services, Inc. or BB&T Securities, LLC (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Truist Bank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Truist Bank may have a lending relationship with companies mentioned herein.

Please see our Disclosure Database to search by ticker or company name for the current required disclosures, including valuation and risks. Link: <https://truist.bluematrix.com/sellside/Disclosures.action>

Please visit the Truist Securities (formerly known as SunTrust Robinson Humphrey) equity research library for current reports and the analyst roster with contact information. Link: <https://truistresearch.bluematrix.com/client/library.jsp>

Truist Securities, Inc., member FINRA and SIPC. Truist and Truist Securities are service marks of Truist Financial Corporation.

If you no longer wish to receive this type of communication, please request removal by sending an email to EquityResearchDepartment@Research.Truist.com

© Truist Securities, Inc. 2021. All rights reserved. Reproduction or quotation in whole or part without permission is forbidden.

ADDITIONAL INFORMATION IS AVAILABLE at our website, TruistSecurities.com, or by writing to: Truist Securities, Research Department, 3333 Peachtree Road N.E., Atlanta, GA 30326-1070

Not For Investment Purposes