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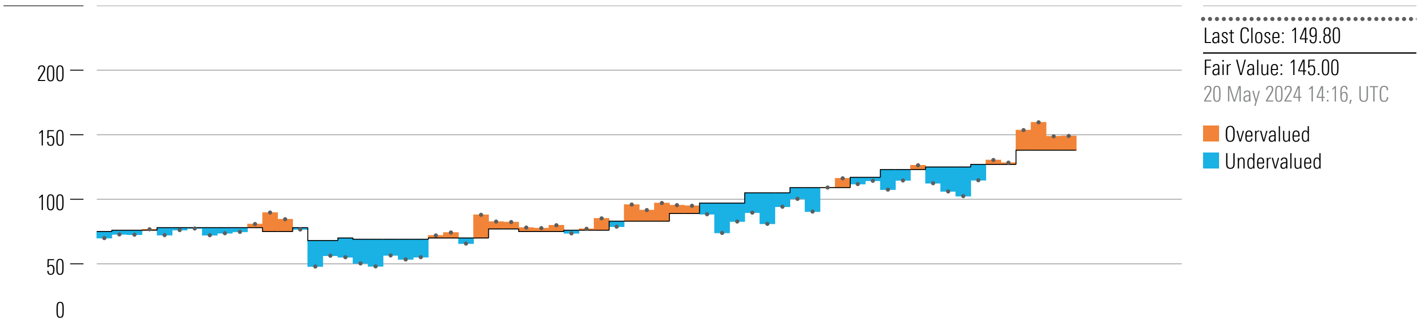
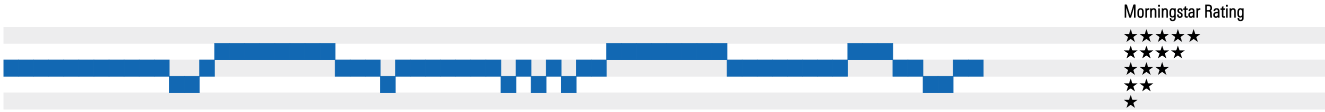
Hyatt Hotels Corp Class A H ★★★ 20 May 2024 14:17, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
149.80 USD 20 May 2024	145.00 USD 20 May 2024 14:16, UTC	1.03	15.08 USD Bil 17 May 2024	Narrow	Mid Blend	Medium	Standard	1 May 2024 05:00, UTC

Price vs. Fair Value



	2019	2020	2021	2022	2023	YTD	
	1.20	1.06	1.16	0.83	1.03	1.03	Price/Fair Value
	33.83	-17.01	29.16	-5.68	44.68	14.41	Total Return %



Total Return % as of 17 May 2024. Last Close as of 20 May 2024. Fair Value as of 20 May 2024 14:16, UTC.

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The primary analyst covering this company does not own its stock.

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

Leisure Travelers Continue to Gravitate to Hyatt's Brands With Group and Business Demand Picking Up

Business Strategy & Outlook Dan Wasiolek, Senior Equity Analyst, 20 May 2024

We see Hyatt's brand intangible asset—the source of its narrow moat—strengthening over the long term. Hyatt's growing brand advantage is evident in its managed and franchised unit growth that has averaged more than 10% annually over the past 10 years (2014-23), well above the long-term US industry supply increase of 2%, according to STR data. We expect Hyatt to expand room and revenue share in the hotel industry over the next decade, buoyed by newer brands like House, Place, Apple Leisure Group, and Studios, supporting its intangible brand advantage. We see the company's room growth averaging 4%-5% annually over the next decade, above the 1%-2% supply increase we estimate for the US industry during this time. We are favorable on Hyatt's long-term competitive advantages and think the firm's high luxury, upper upscale, and upscale exposures across the globe position it to outperform industry demand in 2024, as improving overseas and group travel augments resilient leisure trips.

Hyatt has switching costs—an additional source of its narrow moat—through its managed or franchised rooms, which were 73% of total EBITDA (excluding the corporate expense) in 2023, up from 57% in 2019, buoyed by ongoing owned asset sales. We expect Hyatt to sell a total of $1.3 billion in assets in 2024, leading to over 80% of total EBITDA coming from asset-light business. These asset-light rooms not only offer high returns on invested capital but also provide contract lengths of 20 years that

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Sector	Industry
Consumer Cyclical	Lodging

Business Description

Hyatt is an operator of owned (4% of total rooms) and managed and franchise (96%) properties across around 20 upscale luxury brands, which includes vacation brands (Apple Leisure Group, Hyatt Ziva, and Hyatt Zilara), the recently launched full-service lifestyle brand Hyatt Centric, the soft lifestyle brand Unbound, the wellness brand Miraval, and the midscale extended-stay brand Studios. Hyatt acquired Two Roads in November 2018 and Apple Leisure Group in 2021. The regional exposure as a percentage of total rooms is 54% Americas, 22% rest of world, and 23% Asia-Pacific.

are costly to terminate.

One risk for Hyatt is the Pritzker family having about a 90% voting interest of the shares outstanding. Although the family is required to vote based on the board's recommendations, it controls board seat elections. This structure significantly reduces the ability of minority shareholders to dictate change in the operations of the business. Further, the Pritzker family is allowed to sell up to 25% of its shares in a given year, which presents an overhanging risk.

Bulls Say Dan Wasiolek, Senior Equity Analyst, 20 May 2024

- Hyatt is positioned to benefit from the rising presence of the next-generation traveler through emerging brands Hyatt Place, Hyatt House, Andaz, Centric, Studios, Unbound, Miraval, Two Roads, and Apple Leisure Group
- Hyatt is positioned to see its adjusted ROIC expand over the next several years as it reaches a critical mass of rooms, leading to higher third-party capital commitment.
- Hyatt has only about 20% of the number of rooms of Marriott and is seeing good expansion into international markets like Asia-Pacific, which represents around half of its total pipeline rooms.

Bears Say Dan Wasiolek, Senior Equity Analyst, 20 May 2024

- Independent hotels and home and vacation rentals present an increasing competitive threat, and the advancement of technology and its use by next-generation travelers increases the access to and awareness of these properties.
- The extent and duration of inflation are unknown and stand to materially affect demand for Hyatt's product and increase near-term credit risk for the company.
- The Pritzker family controls an 89% voting interest of the shares outstanding, making it nearly impossible for minority shareholders to dictate change at the company.

Economic Moat Dan Wasiolek, Senior Equity Analyst, 20 May 2024

When evaluating hotel operator moats, we review several key factors, including management expertise, room scale, ability to spend behind marketing and technology, the strength of loyalty programs, success in extending the brand into new verticals and regions, and revenue share. We see Hyatt exhibiting brand and switching cost advantages, which we believe will endure for at least the next 10 years, leading to our narrow moat rating for the company.

Hyatt's prowess in managing hotels on behalf of its third-party owners signals a brand intangible advantage. Given decades of high-quality service, travelers and third-party owners view Hyatt as a brand they can trust to deliver a consistently high-level experience. To this point, Hyatt is one of the industry's leaders of managed properties, with over 600 hotels, one of just a few operators managing more than 100 units. Owners choose to outsource management responsibilities to Hyatt because of its

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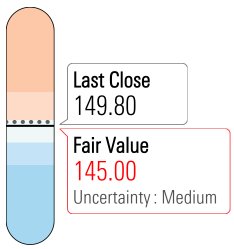
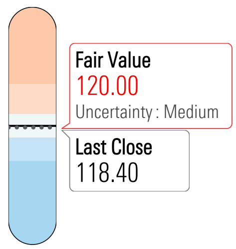
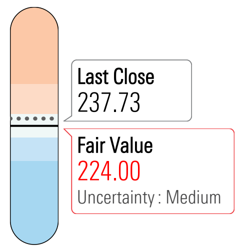
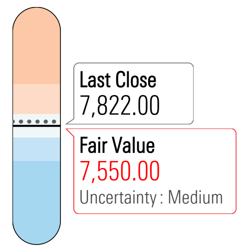
Competitors

	Hyatt Hotels Corp Class A H	Choice Hotels International Inc CHH	Marriott International Inc Class A MAR	InterContinental Hotels Group PLC IHG
				
Economic Moat	Narrow	Narrow	Wide	Wide
Currency	USD	USD	USD	GBX
Fair Value	145.00 20 May 2024 14:16, UTC	120.00 21 Feb 2024 23:22, UTC	224.00 6 May 2024 15:26, UTC	7,550.00 1 Mar 2024 16:59, UTC
1-Star Price	195.75	162.00	302.40	10,192.50
5-Star Price	101.50	84.00	156.80	5,285.00
Assessment	Fairly Valued 19 May 2024	Fairly Valued 19 May 2024	Fairly Valued 19 May 2024	Fairly Valued 19 May 2024
Morningstar Rating	★★★20 May 2024 14:17, UTC	★★★17 May 2024 21:17, UTC	★★★17 May 2024 21:17, UTC	★★★18 May 2024 00:07, UTC
Analyst	Dan Wasiolek, Senior Equity Analyst	Dan Wasiolek, Senior Equity Analyst	Dan Wasiolek, Senior Equity Analyst	Dan Wasiolek, Senior Equity Analyst
Capital Allocation	Standard	Standard	Standard	Standard
Price/Fair Value	1.03	0.99	1.06	1.04
Price/Sales	2.38	3.85	2.94	3.64
Price/Book	4.12	847.69	443.63	4.16
Price/Earning	23.11	25.35	24.56	22.46
Dividend Yield	0.40%	0.97%	0.87%	1.57%
Market Cap	15.08 Bil	5.70 Bil	67.90 Bil	12.72 Bil
52-Week Range	96.77—161.50	108.91—136.02	165.13—260.57	51.78—87.90
Investment Style	Mid Core	Small Core	Large Core	Large Growth

strong brand and management team with scale and expertise in reservation, advertising, marketing, and labor management, which leads to strong revenue per available room, occupancy, and profitability.

Hyatt's industry-leading unit growth showcases that its brand is resonating with third-party owners. Its unit room growth even remained positive during the downturn in 2008 and 2009, up 4.2% and 3.7%, respectively. Additionally, over 2008-19, Hyatt saw net unit growth averaging 6% annually, well above the roughly 1.5% mark of the US hotel industry during that time and the low-single-digit percentage of its narrow-moat peers. We forecast Hyatt's unit growth to expand an average of 4%-5% annually in 2024-33. Third-party hoteliers are drawn to Hyatt's portfolio, since its scale allows owners to team up to spend around $3 billion toward labor, marketing, reservation, distribution, and loyalty; this far exceeds the amounts any boutique or independent hotel owner can afford and supports its brand intangible edge.

Hyatt's brand is also hitting home with travelers, supported by customer satisfaction ratings as measured by J.D. Power, which ranks one of the company's brands in the top five within its core luxury

(Grand Hyatt at number four) and upper-upscale (Hyatt Regency at number four) segments. Also, its Hyatt House brand is ranked number one in the upper-scale extended-stay category. Beyond guest satisfaction ratings, individuals flock to Hyatt's hotels, illustrated by its solid loyalty program, which offers an immediate demand channel for third-party owners, further validating the company's brand intangible advantage. As of 2023, its loyalty program hosted 44 million members, up from 20 million at the end of 2019. Hyatt's loyalty program provides the ability to use and accumulate points across more than 300,000 hotel rooms. Additionally, Hyatt's members are engaging more with the company's brands, representing 43% of total room nights versus around 40% in 2019. This is roughly in line with narrow-moat peers Accor, Choice, and Wyndham.

Hyatt's brand drives third-party owners to sign contracts that are typically for 20 years with 10-year renewal options, providing a switching cost advantage. Termination of these contracts could require significant expenditures to renovate and rebrand a property to meet the specifications of a new brand, resulting in revenue loss for the owner, while also leading to cessation fees that must be paid by the owner.

Hyatt's solid relationship with both owners and travelers has translated to its global revenue share staying at 1%-2% since 2018, good for the eighth-largest globally, yet behind six others within our hotel operator coverage, showcasing its relatively lower scale and established brand. Despite this still-emerging presence, Hyatt shines in the luxury segment, where it has held a 7% share over the last several years, trailing only wide-moat peer Marriott's 11% share. It also controls the number-four revenue position in the upscale segment, with 3% share in 2023, up from 2% in 2018, trailing only the three wide-moat companies under our coverage (Marriott, Hilton, and InterContinental).

One reason we don't ascribe a wide moat or a network advantage to Hyatt is that the company has no notable presence in the midscale category, and wide-moat peers with a broad price point offering could entice these travelers into their ecosystems, where they could remain as they graduate to higher price points, hindering share for Hyatt. Further, Hyatt's geographical presence is behind that of Marriott, Hilton, and InterContinental in all key regions. For instance, in the industry's most important region, the US, Hyatt holds the number-six revenue position versus the top three belonging to the wide-moat hoteliers. Meanwhile, Hyatt is the 15th- and seventh-largest hotelier by revenue in Western Europe and Asia-Pacific, respectively, trailing the wide-moat peers that rank among the top in each region. As a result, Hyatt's contract lengths with third parties average around 20 years versus 20-30 years for its wide-moat competitors.

Fair Value and Profit Drivers Dan Wasiolek, Senior Equity Analyst, 20 May 2024

After reviewing Hyatt's first-quarter results, we have increased our fair value estimate to $145 per share from $138, mostly due to the company’s equity stake from the February IPO of Juniper Hotels on the

India stock exchange. We remain constructive about the impact of remote working on travel demand. Our stance is formed by higher-income occupations (like computers, finance, legal, and architecture) being the most likely industries to endure remote-working locations. Our fair value estimate represents a 13 times 2024 enterprise value/adjusted EBITDA multiple, excluding net deferrals and finance contracts.

After the sale of Unlimited Vacation Club in early 2024, Hyatt realigned the reporting of its income statement. The key drivers of our financial model are revPAR, managed and franchised room growth, and owned room growth and margins.

Covid-19 drove Hyatt's 2020 revPAR 65% lower, followed by 67% and 60% growth in 2021 and 2022, respectively, as travel demand rebounded. In 2023, revPAR grew another 17%. We see 2024 revPAR growth of 5% (unchanged from our previous forecast), as the company sees resilient leisure travel and strong group and business demand. We model Hyatt's 2024-33 average annual revPAR growth at 3%-4% (unchanged).

We forecast total rooms averaging 4%-5% annual organic growth over the next decade, driven by managed and franchised relationships. Our unit growth forecast is driven by Hyatt's pipeline of 129,000 rooms, which represents an industry-leading 40% of its existing base. Our unit growth forecast is supported by a favorable position with the growing next-generation traveler, driven by new brand launches. The result is average annual revenue growth of 6% over the next 10 years (unchanged).

We estimate margins on owned properties to maintain a mid-20s level through the rest of this decade (unchanged), up from 22.9% in the pre-covid year of 2019 as Hyatt continues to leverage the top line and see operational improvement in a recycled owned-asset portfolio that is higher in quality. We expect a recovery in travel demand to help drive 2028 total operating margins to 12% from about 4% in 2019.

We assume a 9% cost of equity, which is in line with the 9% rate of return we expect investors will demand of a diversified equity portfolio.

Risk and Uncertainty Dan Wasiolek, Senior Equity Analyst, 20 May 2024

Our Morningstar Uncertainty Rating for Hyatt is Medium. Risks remain around inflation, which could delay our forecast recovery in demand.

The travel industry is cyclical. In a downturn (which can occur from an economic growth slowdown, terror attacks, or airborne illnesses like the coronavirus), consumers and businesses look to cut back on expenses like travel. Industry revenue per available room was down 16.6% in 2009, while US GDP growth was down 2.8% that year. Airborne illnesses also can affect travel demand. In 2020, Hyatt's revPAR declined 65% as a result of covid.

Excessive supply can lead to lower occupancy and room rates, which would then affect growth and profitability. Any specific changes affecting convention growth would likely affect Hyatt (near 50% of US rooms group) more than others in the industry and present an additional risk. Finally, we expect competition from boutique hotels predominantly found in international markets (around 30% of Hyatt's room base) and alternative lodging options such as home, apartment, and vacation rentals to remain.

We think Hyatt faces minimal environmental, social, and governance risks. However, like other large brand scale hotel chains, its hotels operate at all hours and days of the year, using energy and supplies, which if not properly managed could disinterest some visitation. Additionally, it has customer data, which it must be careful to protect, so as not to cause distrust. Finally, Hyatt and other large hotel brands require high amounts of human capital, which helps drive traveler experience and therefore is tied to brand intangible asset advantages found in the industry.

Capital Allocation Dan Wasiolek, Senior Equity Analyst, 20 May 2024

We see Hyatt's balance sheet as sound, investment strategy as fair, and shareholder distributions as appropriate, resulting in a Standard Morningstar Capital Allocation Rating.

Hyatt has medium revenue cyclicality and operating leverage, compared with the low operating leverage of some of its peers more exposed to an asset-light business model. Its net debt/EBITDA averaged a very low sub-1.0 times during the prepandemic years of 2018-19. We expect Hyatt's net debt/EBITDA to average just 1.7 during 2024-28. While debt leverage is set to remain at very reasonable levels, we note that about 50% of Hyatt's debt is set to mature in the next three years. Still, we see balance sheet risk as manageable, given Hyatt's overall debt represents 20% of the company's enterprise value (at our existing fair value estimate).

We hold a fair view on Hyatt's investment strategy. Hyatt continues to transition to an asset-light model, and in that process it needs to commit more of its own capital, as third-party owners are incentivized to join the company given its loyalty reach and healthy guest satisfaction scores. Still, Hyatt protects its advantages by culling unprofitable properties, investing in its digital platform, launching new brands, and committing some of its own capital to grow key brands. Overall, we see Hyatt's investment efforts supporting continued economic profits and are constructive on management's ability to execute on these initiatives as well as maintain some of the recent cost savings extracted during the pandemic.

We see Hyatt's shareholder distribution as appropriate. We think Hyatt will continue to support its solid balance sheet by keeping debt levels at conservative levels. We think its dividend as a percentage of net income can expand from historical levels as Hyatt continues to shift to an asset-light business model, which has lower revenue and profitability volatility compared with asset-heavy exposure.

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Analyst Notes Archive

Hyatt Earnings: Luxury, International, and Group Presence Drive Q1 Industry-Leading Demand Dan Wasiolek, Senior Equity Analyst, 9 May 2024

Narrow-moat Hyatt posted industry-leading revenue per available room, or revPAR, growth of 5.5% in its first quarter, which compared with the peer range of a drop of 5.9% at narrow-moat Choice to a 4% lift at wide-moat Marriott. In the period, Hyatt benefited from its exposure to luxury segments, which outperformed economy and midscale segments in the US, as well as its presence in international markets and group events, which we expect to remain growth drivers through 2024. Hyatt maintained its 2024 revPAR guidance of 3%-5%, and we don't expect much change to our 5% estimate. We plan to increase our $138 fair value estimate by a mid-single-digit percentage, mostly due to the company's equity stake from the February IPO of Juniper Hotels on the India stock exchange. We see shares as appropriately valued.

Regionally, Hyatt's US revPAR growth normalized to 2% (excluding the timing of Easter), but overseas demand was stout, led by strong outbound travel in China, where revPAR grew 11.5%, and the rest of Asia-Pacific, where revPAR was up 21.4%. Also, Europe posted solid revPAR growth of 10.2%. Global leisure travel is enduring, with revenue up 7% in the quarter. But business and group look set to drive the top line the rest of 2024 into 2025. Specifically, business revenue was up 6% in the quarter but up 21% in April, helped by technology demand. Group revenue was up 6% in the quarter but higher by 14% in April. Further, group revenue is pacing up 7% for the rest of 2024 and 11% for 2025, with 50% of next year already booked.

Development metrics remain stout, as Hyatt's brands continue to resonate with owners and travelers. Net unit growth increased 5.5% and its pipeline grew 10% to 129,000 rooms, representing a market-leading 40% of its existing base. The hotelier continues to expect room growth of 5.5%-6% in 2024, and we don't plan to change our 5.9% forecast. Meanwhile, travelers continue to sign up to Hyatt's loyalty program, which grew 22% to 46 million members.

Hyatt Earnings: Sturdy Travel Demand Underpins Solid Results, While Prudent Asset Sales Continue Dan Wasiolek, Senior Equity Analyst, 23 Feb 2024

We plan to raise our $127 fair value estimate for narrow-moat Hyatt Hotels by a mid-single-digit percentage to reflect strong 2023 results and a 2024 outlook that is more optimistic than we anticipated, buoyed by steady travel demand but slightly moderated by lower net room growth. We suspect solid results and the successful execution of the asset sale strategy, particularly with the disposal of Unlimited Vacation Club, propelled a low-double-digit pop in the stock price, rendering the shares fairly valued.

In 2023, systemwide revenue per available room grew 17%, slightly outpacing our 16% estimate,

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propelled by resilient fourth-quarter leisure revenue growth (up 6%) and a continued recovery in group (up 11%) and Greater China (up 84%). Reflecting persistent demand trends, management anticipates 3%-5% revPAR growth in 2024, outpacing our 2% estimate and narrowly exceeding wide-moat Hilton's 2%-4% estimate. We intend to raise our estimate to reflect enduring demand, reinforced by Hyatt's more resilient luxury positioning. However, 5.9% room growth in 2023 and an expectation for 5.5%-6% in 2024 fell just below our respective 6.1% and 6.3% estimates. We think historically industry-leading room growth rates, higher construction costs, and interest rates have slowed growth. That said, we continue to forecast 5% average annual room growth throughout our forecast, ahead of the 1%-2% estimated supply increase for the US. Adjusted EBITDA of $1.029 billion fell near our $1 billion estimate for 2023. For 2024, we expect to lift our $1.156 billion estimate to management's guidance of $1.175 billion-$1.225 billion.

We are pleased with Hyatt's shift toward an asset-light business model, which now spans 76% of earnings in 2023, a stark improvement from 47% in 2017. As such, we view the sale of 80% of Unlimited Vacation Club on Feb. 14 as a judicious move that streamlines the firm's reporting structure and secures a steady flow of management and royalty fees.

Hyatt Earnings: Although Full Results Are Delayed, Brand Appears to Continue to Hold Its Allure Dan Wasiolek, Senior Equity Analyst, 15 Feb 2024

Narrow-moat Hyatt offered some insights into its fourth-quarter and full-year 2023 results after postponing its comprehensive earnings announcement and investor call due to the need for additional time to finalize accounting for its Unlimited Vacation Club. Hyatt's comparable systemwide revenue per available room, or revPAR, popped 17% for the full year, edging our 16% estimate. Management, franchise, license, and other fees totaled $985 million in fiscal 2023, ahead of our $958 million expectation, while 15.5% comparable owned and leased hotels revPAR and 5.9% net rooms growth fell just shy of our 16% and 6.1% growth assumptions, respectively. We observe ongoing strength in Hyatt's brand, which continues to gain traction as evidenced by an 8.5% year-over-year increase in its room pipeline to 127,000 rooms, equating to an industry-leading 40% of its existing base.

That said, considering the minimal details provided and the absence of guidance for fiscal 2024, our $127 fair value estimate remains unchanged until full fiscal 2023 results are disclosed. We view shares as fairly valued and recommend investors seek out a larger margin of safety before embracing shares, following a low-single-digit increase on Feb. 15.

Hyatt Earnings: Leisure, Group, and Business Travel Demand Improve Amid Economic Uncertainty

Dan Wasiolek, Senior Equity Analyst, 3 Nov 2023

Narrow-moat Hyatt delivered strong revenue per available room, or revPAR, growth, up 8.9% in its fiscal 2023 third quarter, propelled by resilient demand for leisure (revenue up 2%) and the continued

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recovery in the group (10%) and business segments (19%), reaching 122%, 105%, and 90% of 2019 levels, respectively. As such, management narrowed its 2023 revPAR guidance to 15%-16% (14%-16% prior), and we plan to nudge our 14% estimate to within that range. That said, while we've been sanguine on travel demand since the summer of 2020, we see Hyatt's revPAR decelerating to around 2% in fiscal 2024 as travelers grapple with mounting economic headwinds related to inflation and diminishing savings. Further, higher expenses recorded in Hyatt's owned portfolio and Unlimited Vacation Club fueled a 2% decrease in adjusted EBITDA in the quarter, compelling the firm to lower its fiscal 2023 expectations to $1.005 billion-$1.025 billion (from $1.02 billion-$1.07 billion). As a result, we anticipate moving our $1.08 billion estimate closer to the guided range. Overall, we don't plan on any material change to our $125 fair value estimate and view shares as slightly undervalued.

International travel volume continued to recover in the third quarter, which is still a mid- to high-teens percentage below 2019 levels (from down 60% in the first quarter, according to Hyatt), contributing to revPAR growth in all of Hyatt's geographies. Leading the lift, greater China revPAR rose 56%, which should persist as international capacity improves. We also surmise softer Cancun travel demand, which held Hyatt's Apple Leisure Group to a 2% adjusted revenue decline, is attributable to the segment lapping robust 2022 demand as the booking pace is already up 12% for first-quarter fiscal 2024.

Further, we believe Hyatt's brand continues to resonate, evidenced by strong unit growth of 6.2%, reaching 123,000, while the World of Hyatt program topped 42 million members (from 36 million at the end of 2022).

Hyatt Earnings: Continued Leisure Demand Augmented by International, Business, and Group Trips

Dan Wasiolek, Senior Equity Analyst, 3 Aug 2023

We see little reason to materially alter our narrow-moat Hyatt $123 fair value estimate and view the high-single-digit percentage pullback in shares (which we suspect is tied to overzealous concerns of a slowdown in travel) as an opportunity to revisit this slightly undervalued name.

Hyatt revenue per available room, or revPAR, grew 15%, reaching 108% of 2019's level versus 106% last quarter. The improvement was driven by improving international, corporate, and group demand, which is augmenting enduring leisure travel. In this vein, Greater China revPAR surpassed prepandemic marks for the first time, with Europe up 23% from last year, reaching 130% of 2019's level. Meanwhile, U.S. revPAR increased 4% and remained above prepandemic amounts. We expect U.S. demand to remain resilient and for international trips to pace higher as flight capacity is added. Leisure, business, and group revenue grew 7%, 36%, and 14%, respectively, in the quarter. Specifically, business sales reached 86% of 2019's level, accelerating in May and June to 90%, with the outlook for further improvement. Group demand is also showing signs of lift, with 2024 pacing up 10% and customers booking events beyond next year. As a result, Hyatt tightened its 2023 revPAR growth guidance to 14%-16% from 12%-16%. We don't plan much change to our 2023 revPAR growth forecast of 14%.

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Hyatt's brand continues to resonate, witnessed by 6.9% unit growth in the quarter, along with 5% year-over-year lift in its room pipeline to 119,000 rooms. The hotelier's pipeline represents an industry-leading 40% of its existing base and supports our forecast for more than 6% unit growth annually during the next five years. We plan to maintain this forecast, despite financing concerns fueled by the simmering banking system in the United States, as we expect strong conversion activity.

Finally, owned operating margins remained 300 basis points above 2019's level at 26.2%, tracking ahead of our full-year estimate of 25%.

Hyatt: Long-Term Demand, Room Growth, and Cash Flow Expansion Remain on Horizon Dan Wasiolek, Senior Equity Analyst, 11 May 2023

Hyatt Hotels' investor day highlighted the company's ongoing asset-light transformation, positive secular travel trends, and unique positioning, which we believe will support healthy financial results and its brand intangible asset—the source of its narrow moat. We plan to increase our $120 fair value estimate by a low-single-digit percentage to account for a working capital adjustment in 2023, leaving the shares undervalued.

Hyatt’s asset-light transformation (representing of 75% of total EBITDA in 2022, up from 47% in 2017) is pushing higher returns on investment capital (from 9% in 2017 to an estimated high 20s by 2027) and free cash flow (17-percentage-point conversion rate increase since 2017). This has driven more capital to allocate toward the business, shareholder returns, and obtaining investment-grade status. Since 2017, Hyatt’s asset sales have averaged a 16 times adjusted EBITDA multiple and have been recycled into acquisitions (Miraval, Two Roads, and Apple Leisure Group) that have generated 2 times the amount of earnings of those hotels sold.

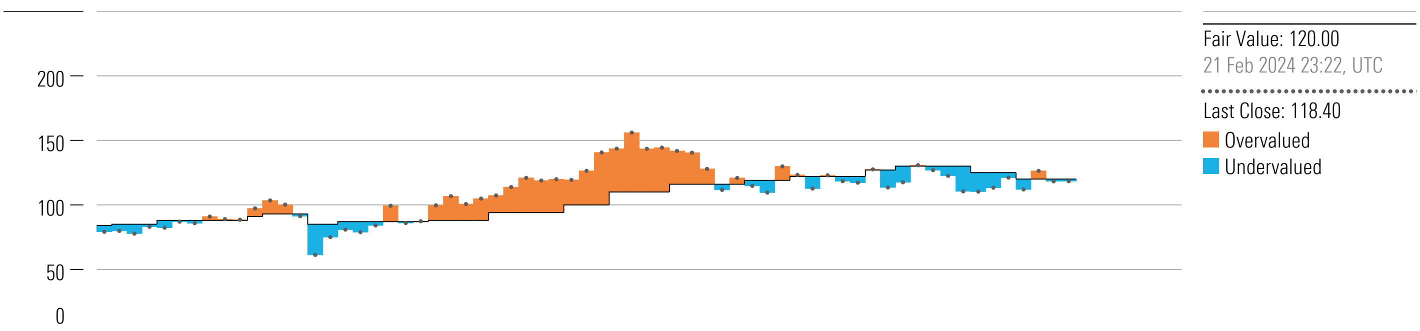
The company stands to benefit from existing industry tailwinds like the desire for experiences and remote work flexibility. As a result, it sees 2024-25 revenue per available room growth of 3%-7% (versus our 4%-5% forecast), 6%-7% unit growth (in line with our expectation), and free cash flow in 2025 of $750 million (we expect $800 million). We think Hyatt is uniquely positioned to post industry-leading room growth for the next decade. This view is framed by its room pipeline representing 38% of its existing base and its portfolio averaging just 4 rooms per U.S. market versus 14 for narrow-moat peers Marriott, Hilton, and InterContinental. One brand to help Hyatt expand into underserved interstate and small-town markets is the new upper-midscale extended-stay Studios, which already has 100 letters of intent. We plan to maintain our 5% average annual room growth forecast for 2023-32.

Morningstar Equity Analyst Report | Report as of 20 May 2024 14:19, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

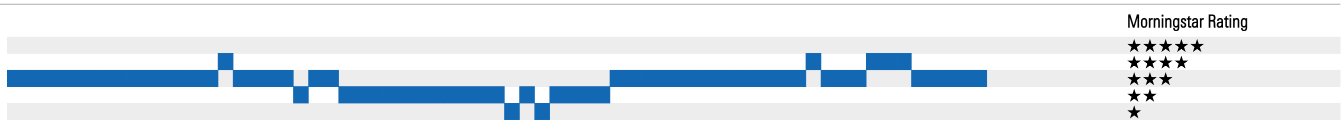
Hyatt Hotels Corp Class A H ★★★ 20 May 2024 14:17, UTC

Competitors Price vs. Fair Value

Choice Hotels International Inc CHH

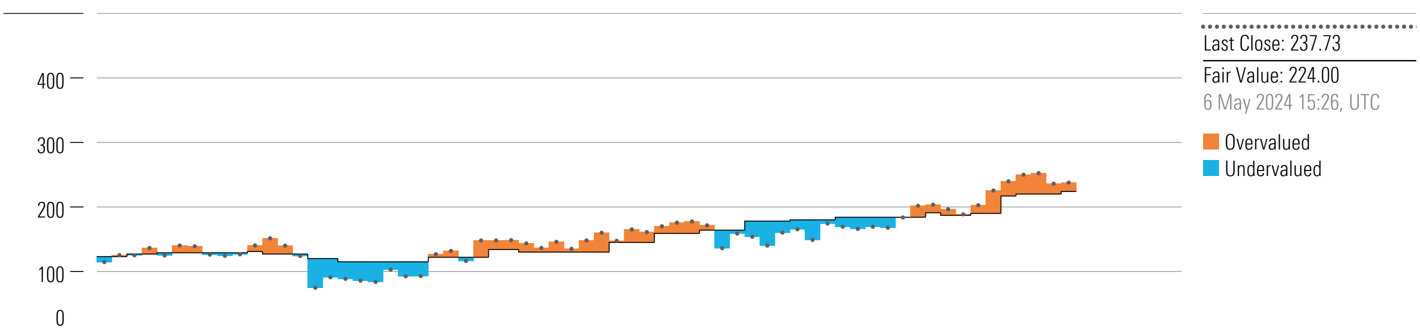


	2019	2020	2021	2022	2023	YTD
Price/Fair Value	1.11	1.21	1.42	0.92	0.91	0.99
Total Return %	45.71	3.41	46.58	-27.03	1.61	4.76

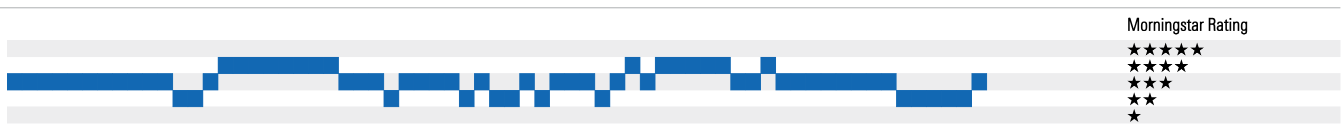


Total Return % as of 17 May 2024. Last Close as of 17 May 2024. Fair Value as of 21 Feb 2024 23:22, UTC.

Marriott International Inc Class A MAR



	2019	2020	2021	2022	2023	YTD
Price/Fair Value	1.19	1.08	1.14	0.83	1.19	1.06
Total Return %	41.19	-12.57	25.26	-9.29	52.78	5.65

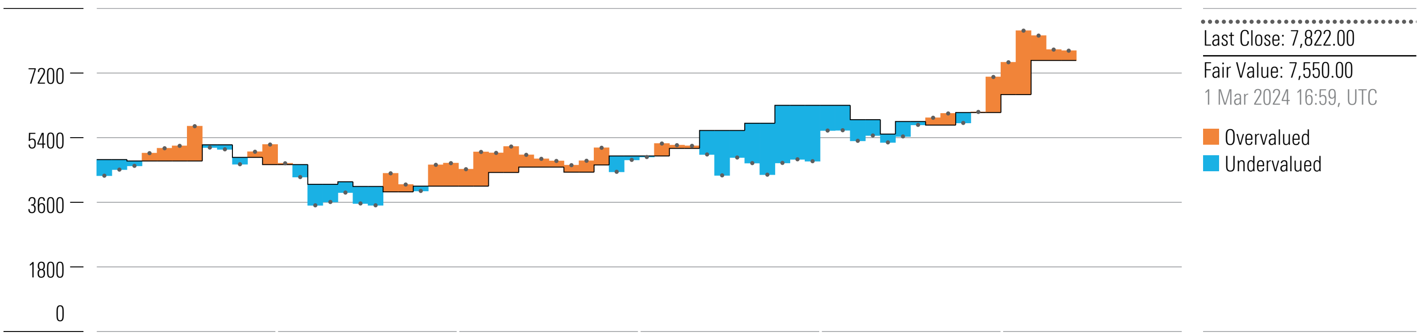


Total Return % as of 17 May 2024. Last Close as of 17 May 2024. Fair Value as of 6 May 2024 15:26, UTC.

Morningstar Equity Analyst Report | Report as of 20 May 2024 14:19, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 12 of 21

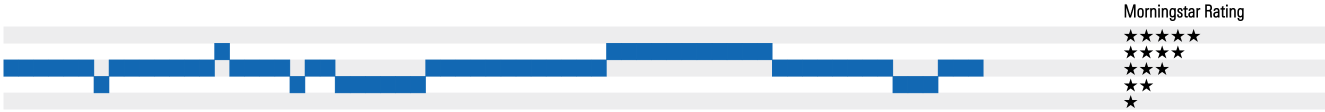
Hyatt Hotels Corp Class A H ★★★ 20 May 2024 14:17, UTC

InterContinental Hotels Group PLC IHG



	2019	2020	2021	2022	2023	YTD	
	1.12	1.16	0.98	0.75	1.16	1.04	Price/Fair Value
	23.41	-9.95	1.94	1.43	51.87	11.51	Total Return %

Morningstar Rating



Total Return % as of 17 May 2024. Last Close as of 17 May 2024. Fair Value as of 1 Mar 2024 16:59, UTC.

Morningstar Equity Analyst Report | Report as of 20 May 2024 14:19, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 13 of 21

Hyatt Hotels Corp Class A H ★★★ 20 May 2024 14:17, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
149.80 USD 20 May 2024	145.00 USD 20 May 2024 14:16, UTC	1.03	15.08 USD Bil 17 May 2024	Narrow	Mid Blend	Medium	Standard	1 May 2024 05:00, UTC

Morningstar Historical Summary

Financials as of 31 Mar 2024

Fiscal Year, ends 31 Dec	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	TTM
Revenue (USD Mil)	4,415	4,328	4,265	4,462	4,454	5,020	2,066	3,028	5,891	6,667	1,714	6,701
Revenue Growth %	5.5	-2.0	-1.5	4.6	-0.2	12.7	-58.8	46.6	94.6	13.2	2.0	6.5
EBITDA (USD Mil)	950	582	684	1,150	1,354	1,445	-491	544	974	894	681	1,330
EBITDA Margin %	21.5	13.5	16.0	25.8	30.4	28.8	-23.8	18.0	16.5	13.4	39.7	19.9
Operating Income (USD Mil)	279	323	268	260	332	197	-632	-273	414	322	45	287
Operating Margin %	6.3	7.5	6.3	5.8	7.4	3.9	-30.6	-9.0	7.0	4.8	2.6	4.3
Net Income (USD Mil)	344	124	206	389	769	766	-703	-222	455	220	522	684
Net Margin %	7.8	2.9	4.8	8.7	17.3	15.3	-34.0	-7.3	7.7	3.3	30.5	10.2
Diluted Shares Outstanding (Mil)	154	144	134	126	115	106	101	104	111	108	106	107
Diluted Earnings Per Share (USD)	2.23	0.86	1.53	3.08	6.68	7.21	-6.93	-2.13	4.09	2.05	4.93	6.45
Dividends Per Share (USD)	—	—	—	—	0.60	0.76	0.20	0.00	0.00	0.45	0.15	0.60

Valuation as of 30 Apr 2024

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Recent Qtr	TTM
Price/Sales	2.1	1.6	1.7	2.1	1.7	2.0	2.6	4.1	1.9	2.1	2.6	2.4
Price/Earnings	48.1	26.4	37.6	44.1	9.9	19.3	-39.2	-24.6	75.2	29.3	78.1	72.5
Price/Cash Flow	20.3	13.7	15.2	16.1	24.6	20.0	-22.3	161.3	19.8	20.3	21.5	20.0
Dividend Yield %	—	—	—	—	0.89	0.85	0.53	—	—	0.35	0.38	0.4
Price/Book	1.9	1.6	1.8	2.4	1.8	2.4	2.2	2.9	2.8	3.7	4.5	4.2
EV/EBITDA	10.6	12.3	11.9	8.8	5.6	7.2	-18.5	20.5	12.8	18.0	0.0	0.0

Operating Performance / Profitability as of 31 Mar 2024

Fiscal Year, ends 31 Dec	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	TTM
ROA %	4.2	1.6	2.7	5.1	10.1	9.5	-8.0	-2.0	3.7	1.8	4.3	5.6
ROE %	7.3	2.9	5.2	10.1	20.5	20.1	-19.6	-6.6	12.5	6.1	14.5	18.6
ROIC %	6.3	2.9	4.5	6.9	15.4	14.2	-9.8	-1.7	7.1	3.8	7.4	10.5
Asset Turnover	0.5	0.6	0.6	0.6	0.6	0.6	0.2	0.3	0.5	0.5	0.1	0.6

Financial Leverage

Fiscal Year, ends 31 Dec	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Recent Qtr	TTM
Debt/Capital %	23.0	20.7	27.0	27.3	30.7	33.6	51.1	54.8	42.7	42.0	41.1	—
Equity/Assets %	56.8	52.6	50.4	50.7	48.0	47.1	35.2	28.3	30.0	27.8	31.2	—
Total Debt/EBITDA	1.5	2.4	2.3	1.3	1.2	1.4	-7.4	8.0	3.5	3.8	4.9	—
EBITDA/Interest Expense	13.4	8.6	9.0	14.4	17.8	19.3	-3.8	3.3	6.5	6.2	17.9	8.9

Morningstar Analyst Historical/Forecast Summary as of 29 Feb 2024

Financials

Fiscal Year, ends 31 Dec 2023	2022	2023	Estimates 2024	2025	2026
Revenue (USD Mil)	5,891	6,667	7,036	7,371	7,962
Revenue Growth %	94.6	13.2	5.5	4.8	8.0
EBITDA (USD Mil)	908	1,029	1,177	1,240	1,371
EBITDA Margin %	15.4	15.4	16.7	16.8	17.2
Operating Income (USD Mil)	398	305	583	760	884
Operating Margin %	6.8	4.6	8.3	10.3	11.1
Net Income (USD Mil)	365	276	344	655	746
Net Margin %	6.2	4.1	4.9	8.9	9.4
Diluted Shares Outstanding (Mil)	111	108	104	100	96
Diluted Earnings Per Share(USD)	3.28	2.56	3.30	6.52	7.74
Dividends Per Share(USD)	0.00	0.45	0.60	1.22	2.32

Forward Valuation

	2022	2023	Estimates 2024	2025	2026
Price/Sales	1.6	2.0	2.1	2.0	1.9
Price/Earnings	27.6	50.9	45.2	22.9	19.3
Price/Cash Flow	—	—	—	—	—
Dividend Yield %	—	0.4	0.4	0.8	1.6
Price/Book	2.7	3.9	4.4	4.3	4.5
EV/EBITDA	13.7	15.6	15.0	14.2	12.9

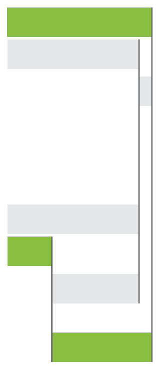
Morningstar Equity Analyst Report | Report as of 20 May 2024 14:19, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 14 of 21

Hyatt Hotels Corp Class A H ★★★ 20 May 2024 14:17, UTC

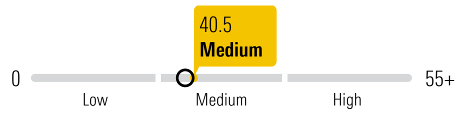
Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
149.80 USD 20 May 2024	145.00 USD 20 May 2024 14:16, UTC	1.03	15.08 USD Bil 17 May 2024	Narrow	Mid Blend	Medium	Standard	1 May 2024 05:00, UTC

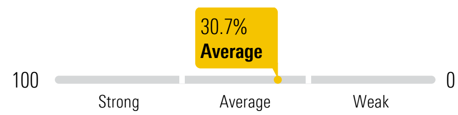
ESG Risk Rating Breakdown

Exposure	
Company Exposure[1]	40.5
– Manageable Risk	36.9
Unmanageable Risk[2]	**3.6**
Management	
Manageable Risk	36.9
– Managed Risk[3]	11.3
Management Gap[4]	**25.5**
Overall Unmanaged Risk	**29.1**



● Subject ○ Subindustry (39.0)

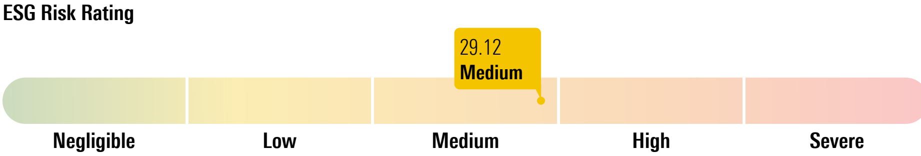




- Exposure represents a company's vulnerability to ESG risks driven by their business model
- Exposure is assessed at the Subindustry level and then specified at the company level
- Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure

- Management measures a company's ability to manage ESG risks through its commitments and actions
- Management assesses a company's efficiency on ESG programs, practices, and policies
- Management score ranges from 0-100% showing how much manageable risk a company is managing

ESG Risk Rating



ESG Risk Ratings measure the degree to which a company's value is impacted by environmental, social, and governance risks, by evaluating the company's ability to manage the ESG risks it faces.

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 30.7% 4. Management Gap assesses risks that are not managed, but are considered manageable 5. ESG Risk Rating Assessment = Overall Unmanaged Risk = Management Gap plus Unmanageable Risk

ESG Risk Rating Assessment[5]

ESG Risk Rating is of May 01, 2024. Highest Controversy Level is as of May 08, 2024. Sustainalytics Subindustry: Travel, Lodging and Amusement. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: sustainalytics.com/esg-ratings/.

Peer Analysis 01 May 2024

Peers are selected from the company's Sustainalytics-defined Subindustry and are displayed based on the closest market cap values

Company Name	Exposure	Management	ESG Risk Rating
Hyatt Hotels Corp	40.5 | Medium	30.7 | Average	29.1 | Medium
Choice Hotels International Inc	39.7 | Medium	34.6 | Average	27.0 | Medium
Marriott International Inc	41.4 | Medium	52.5 | Strong	21.4 | Medium
InterContinental Hotels Group PLC	40.1 | Medium	57.5 | Strong	18.9 | Low
Accor SA	44.2 | Medium	65.6 | Strong	17.6 | Low

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Appendix

Historical Morningstar Rating

Hyatt Hotels Corp Class A H 20 May 2024 14:17, UTC

Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
—	—	—	—	—	—	—	★★★	★★★	★★	★★	★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★	★★★★	★★★★	★★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★★	★★	★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★	★★★	★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★	★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★
Dec 2019	Nov 2019	Oct 2019	Sep 2019	Aug 2019	Jul 2019	Jun 2019	May 2019	Apr 2019	Mar 2019	Feb 2019	Jan 2019
★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★

Choice Hotels International Inc CHH 17 May 2024 21:17, UTC

Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
—	—	—	—	—	—	—	★★★	★★★	★★★	★★★	★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★★	★★★★	★★★★	★★★	★★★	★★★	★★★★	★★★	★★★	★★★	★★★	★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★	★★	★★	★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★	★★	★	★★	★★	★★	★★	★★	★★	★★	★★	★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★	★★	★★★	★★★	★★	★★★	★★★	★★★	★★★	★★★★	★★★	★★★
Dec 2019	Nov 2019	Oct 2019	Sep 2019	Aug 2019	Jul 2019	Jun 2019	May 2019	Apr 2019	Mar 2019	Feb 2019	Jan 2019
★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★

Marriott International Inc Class A MAR 17 May 2024 21:17, UTC

Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
—	—	—	—	—	—	—	★★★	★★	★★	★★	★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★	★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★★★	★★★	★★	★★★	★★★	★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★	★★★	★★	★★	★★★	★★	★★★	★★★	★★★	★★★	★★	★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★
Dec 2019	Nov 2019	Oct 2019	Sep 2019	Aug 2019	Jul 2019	Jun 2019	May 2019	Apr 2019	Mar 2019	Feb 2019	Jan 2019
★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★

Morningstar Equity Analyst Report | Report as of 20 May 2024 14:19, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

InterContinental Hotels Group PLC IHG 18 May 2024 00:07, UTC

Dec 2024 —	Nov 2024 —	Oct 2024 —	Sep 2024 —	Aug 2024 —	Jul 2024 —	Jun 2024 —	May 2024 ★★★	Apr 2024 ★★★	Mar 2024 ★★★	Feb 2024 ★★	Jan 2024 ★★
Dec 2023 ★★	Nov 2023 ★★★	Oct 2023 ★★★	Sep 2023 ★★★	Aug 2023 ★★★	Jul 2023 ★★★	Jun 2023 ★★★	May 2023 ★★★	Apr 2023 ★★★	Mar 2023 ★★★★	Feb 2023 ★★★★	Jan 2023 ★★★★
Dec 2022 ★★★★	Nov 2022 ★★★★	Oct 2022 ★★★★	Sep 2022 ★★★★	Aug 2022 ★★★★	Jul 2022 ★★★★	Jun 2022 ★★★★	May 2022 ★★★★	Apr 2022 ★★★	Mar 2022 ★★★	Feb 2022 ★★★	Jan 2022 ★★★
Dec 2021 ★★★	Nov 2021 ★★★	Oct 2021 ★★★	Sep 2021 ★★★	Aug 2021 ★★★	Jul 2021 ★★★	Jun 2021 ★★★	May 2021 ★★★	Apr 2021 ★★	Mar 2021 ★★	Feb 2021 ★★	Jan 2021 ★★
Dec 2020 ★★	Nov 2020 ★★	Oct 2020 ★★★	Sep 2020 ★★★	Aug 2020 ★★	Jul 2020 ★★★	Jun 2020 ★★★	May 2020 ★★★	Apr 2020 ★★★	Mar 2020 ★★★★	Feb 2020 ★★★	Jan 2020 ★★★
Dec 2019 ★★★	Nov 2019 ★★★	Oct 2019 ★★★	Sep 2019 ★★★	Aug 2019 ★★★	Jul 2019 ★★	Jun 2019 ★★★	May 2019 ★★★	Apr 2019 ★★★	Mar 2019 ★★★	Feb 2019 ★★★	Jan 2019 ★★★

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

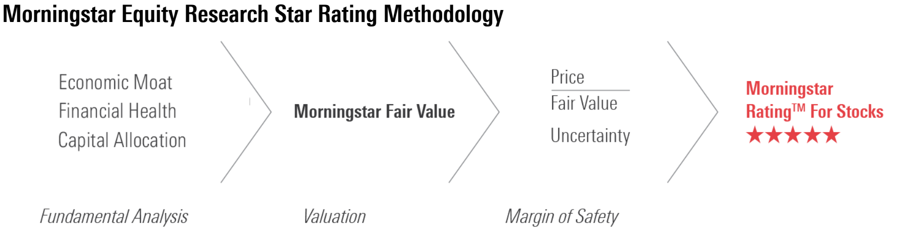
Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future outcomes for the intrinsic value of a company, and any-

Morningstar Equity Research Star Rating Methodology



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thing that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the Uncertainty Rating provides guidance in portfolio construction based on risk tolerance.

Our Uncertainty Ratings are: Low, Medium, High, Very High, and Extreme.

	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

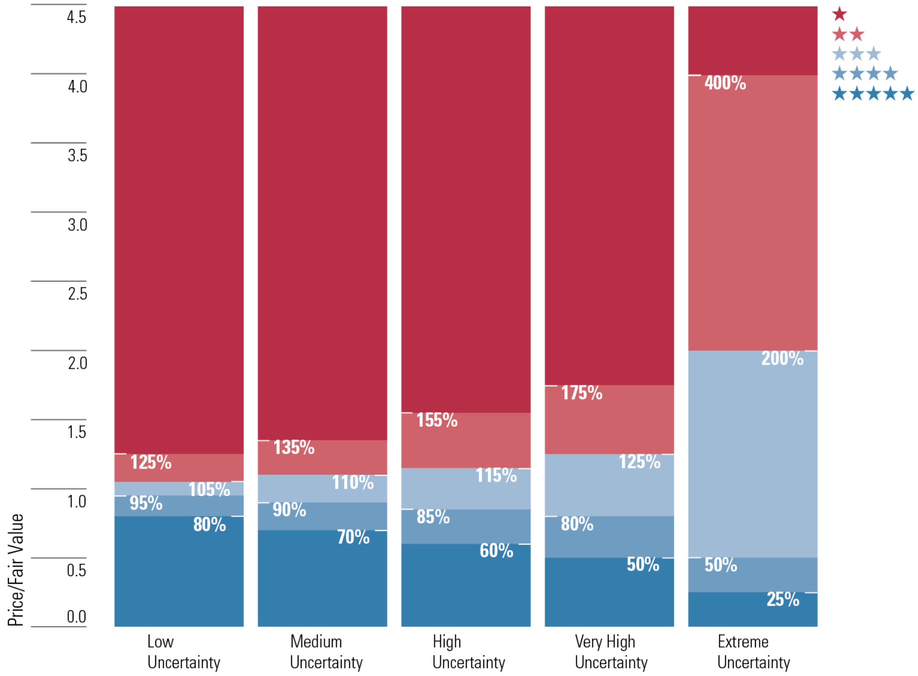
4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com

Morningstar Star Rating for Stocks

Morningstar Equity Research Star Rating Methodology



Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider compan-

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ies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

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Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

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