Americas: GS Travel and Leisure Conference 2021 – Day 2 Recap

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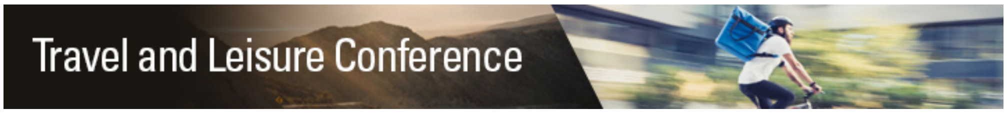


We completed Day 2 of our annual Travel and Leisure conference, including 13 presentations with representatives from the public Leisure, Lodging, Gaming, and Restaurants sectors. We also hosted panels with our GS colleagues in Travel Management and Health and hosted private companies GamePlay Network and Just Salad. We published individual takeaways notes in our micro site here, and provide detailed takeaways and stock ideas below.

Primary takeaways:

Overall... day 2 extended the bullish sentiment of day 1: Public companies across the travel and leisure industry once again highlighted accelerating demand over the past few months led by leisure, but also noted improvements in group/business travel. In contrast to day 1, few management teams called for sustained strength in leisure but all anticipated pervasive labor shortages to prove temporary.

- **Leisure-led demand strength, but rising tide across all domestic segments of travel:** In Day 2 we heard from a larger mix of lodging c-corps as well as amusement park operators, timeshare, and global gaming companies. We continued to hear positive commentary on demand trends around the globe, led by leisure. However, virtually every company highlighted a sequential improvement in demand across segments (group, business, leisure).
- **Pricing up with promotions down:** Perhaps as a corollary to strong demand, we heard FUN/RCL/H/HGV flag positive absolute pricing at the same time marketing/promotions are less needed. While we anticipate promotions will ultimately resume in various sub-sectors, the strength in underlying consumer spending could prop up pricing power.
- **Confident in margin upside following "forced" zero based budgeting:** As revenues rapidly declined during the pandemic companies were effectively forced to cut costs to near zero and re-evaluate what is brought back. As a result, companies spanning sub-sectors (H/RCL/FUN/HGV) exuded confidence in a rationalized cost structure that will likely sustain longer-term. In fact, a majority of

companies expect to achieve higher margins than 2019 levels even after factoring in higher labor.

Key Stock Ideas

FUN (Buy) - Confidence in achieving and exceeding optimization targets: While both SIX and FUN talked to stronger demand trends as parks have reopened, we came away incrementally more confident in FUN achieving and exceeding its optimization plan EBITDA benefits. Management indicated labor inflation will broadly be passed through to consumers with efficiencies at the park and HQ level driving their optimization upside. However, we also note that valuation at ~8X forward 24 month EV/EBITDA is at the most significant discount to pre-covid levels of the amusement park group.

Hyatt (Buy) - Highest torque for business recovery with best in-class unit growth: Ahead of the conference Hyatt announced plans to ramp net unit growth to 6% in 2021 from original plans of 5%+. The most significant contribution to the upwardly revised estimates stems from amending and extending management & franchise agreements with SVC that were previously anticipated to be cancelled. In addition, management highlighted a combination of 1) accelerating demand across corporate, leisure, and group segments; 2) improving capital markets leading to greater development opportunities in select service, and 3) ample buyer interest in owned & leased assets Hyatt is in the process of shopping, which should further fuel a fortress balance sheet and best in-class growth.

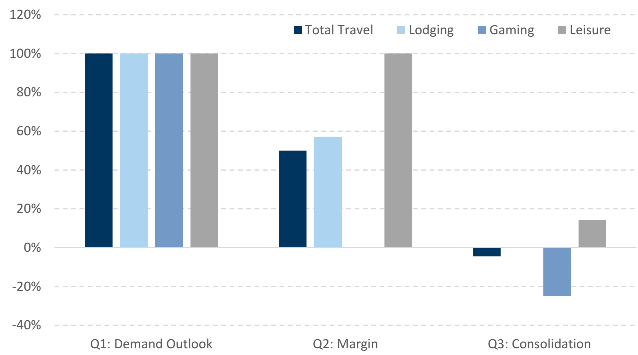
Key Conference Takeaways for Investors

Exhibit 1: The three questions we asked all management teams and summary of responses

	Outlook on Industry Recovery: Optimistic, Stable, Guarded	Industry margin outlook versus 2019: Positive, Stable, Negative	Consolidation/Strategic Actions over next 12 months: Accelerating, Decelerating, Stable
Lodging			
Optimistic/ Positive / Accelerating	100%	57%	0%
Stable	0%	43%	57%
Guarded / Negative / Decelerating	0%	0%	0%
Gaming			
Optimistic/ Positive / Accelerating	100%	25%	13%
Stable	0%	50%	38%
Guarded / Negative / Decelerating	0%	25%	38%
Leisure, Cruise, Timeshare			
Optimistic/ Positive / Accelerating	100%	100%	29%
Stable	0%	0%	57%
Guarded / Negative / Decelerating	0%	0%	14%
Total			
Positive / Accelerating	100%	59%	14%
Stable	0%	32%	50%
Negative / Decelerating	0%	9%	18%

Source: Goldman Sachs Global Investment Research

Exhibit 2: Our companies were uniformly bullish on the demand outlook, broadly positive on margins, and generally do not anticipate significant consolidation...
Net response score (% positive responses minus % negative responses) for our three questions

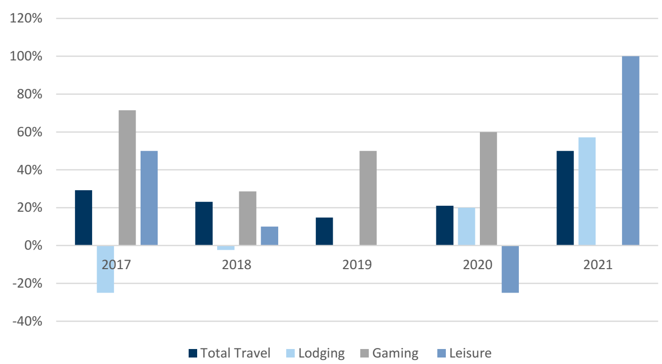


Source: Goldman Sachs Global Investment Research

Exhibit 3: ... with the positive forward demand expectations the highest since we began polling conference participants in 2017...
Net response score (% positive responses minus % negative responses)

Source: Goldman Sachs Global Investment Research

Exhibit 4: ...similarly, expectations for margins are more positive compared to prior years, with the exception of gaming due to expectations for incremental investment into sports betting/iGaming
Net response score (% positive responses minus % negative responses)



Source: Goldman Sachs Global Investment Research

Company specific takeaways and highlights: Lodging

MAR (Covered by Stephen Grambling)

Bottom Line: Although the recovery is being led by leisure currently, MAR believes that pent-up demand exists across other categories as well and added that the factors that will impact recovery include distribution of vaccine and opening up of borders and offices. The company believes the strength and resiliency of its business model was critical to weathering the downturn last year. The Bonvoy loyalty program has also allowed the company to engage better with customers. MAR's overall capital deployment philosophy remains consistent with a focus on profitable investments, and the company is also committed to achieving targeted leverage of 3-3.5x.

Key takeaways

Presenters: Anthony Capuano, CEO

- **Recovery trajectory:** While the pace of recovery varies by geography, MAR noted a steady sequential improvement in trends, with worldwide RevPAR in May -44% compared to -50% in April (vs 2019) and global occupancy at ~50%. US and Canada continue to improve as well, with 55% occupancy in May vs 52% in April. While recovery is being led by leisure, MAR believes that pent-up demand exists across other categories as well and added that the factors that will impact recovery include distribution of vaccine and opening up of borders and offices.
- **Europe demand:** US, Canada and China are currently leading the recovery with the increase in domestic demand. Since Europe relies more heavily on International travel, the recovery curve has been relatively flatter, per MAR. However, positive signs have emerged in the region recently, as total bookings over last 2 weeks were down 48% vs down 79% in the first four weeks of the year vs 2019.
- **Business vs group demand:** For the month of May, special corporate demand was at 50% vs 2019. Primary markets are recovering more slowly compared to tertiary and return to office will be critical to corporate demand in those areas, per MAR. Additionally, for the company's biggest group hotels, total room revenue pace in 2022 vs 2019 is up ~4%.
- **MAR's Competitive advantages:** The company believes the strength and resiliency of its business model was critical to weathering the downturn last year. The Bonvoy loyalty program has also allowed the company to engage better with customers. As recovery has been led by leisure, OTAs have seen modest growth but MAR has continued to grow share in direct channels as well. Benefits of booking direct have strengthened through the recovery.
- **Margin and costs:** While headwinds including wage pressure exist, MAR believes in its ability to preserve margins going forward through the various initiatives to improve efficiencies. In the current environment, companies are competing for labor with other industries as well (for instance retail).
- **Construction and development:** MAR highlighted that the availability of construction lending is limited in US right now. While in China, new construction is rising per expectations and similarly in the Middle East. MAR expects the emphasis in US to be on conversion till construction lending is available more freely.
- **Pipeline and NUG:** MAR has guided to gross unit growth ~6% and net unit growth of ~3-3.5% for 2021. The company's current pipeline is ~60% International with ~16% of rooms under construction share. In the coming year, select service growth outside US and Canada is expected to accelerate for the company.
- **Fee difference across markets**: Fee levels vary across markets, with incentive fee having already recovered in China. Franchise fee in the US has not recovered as much and depends on market conditions. Fee levels are set for the full duration at the beginning of the contract, MAR noted. More than half (~60%) of the company's hotels in China belong to the luxury/upper-upscale category, which bodes well for the fee potential in the region.

- **Technology advancements:** Technology solutions in the industry existed before as well, but MAR has seen increased adoption recently and expects consumer acceptance will continue to ramp up even as the impact of the pandemic recedes.
- **Capital deployment:** MAR's overall capital deployment philosophy remains consistent with a focus on profitable investments, and the company is currently committed to achieving targeted leverage of 3-3.5x.

Valuation and risks

We are Buy rated (on CL) with a 12-month price target of $163, based on a 50%/50% weighting on DCF and forward 24-month EV/EBITDA multiple. Downside risks relate to softer-than-expected RevPAR growth, slower unit growth, FX headwinds, or higher integration costs and higher than expected impact from Coronavirus (last closing price - $142.48).

HLT (Covered by Stephen Grambling)

Bottom Line: Management emphasized not only the resilience of its business model through the pandemic, but also how they have improved the value proposition to owners through the pandemic by managing down costs while ensuring consumers are still receiving superior service. These changes are all with the mindset of driving the businesses' flywheel: increased value to the consumer and owners drive new hotel development, which improves the breadth of the system and distribution efficiency of HLT widening the value proposition further for consumers/owners and supporting continuous development. HLT echoed peers regarding strength in leisure demand and a nascent recovery in business/group, but affirmed our view that the company can return to pre-pandemic EBITDA and EPS well before RevPAR recovers through net unit growth (supported by an in construction pipeline equating to >20% of the existing base) and G&A savings.

Key takeaways

Presenters: Kevin Jacobs, CFO & President, Global Development

- **Power of the flywheel and resilience proven in pandemic:** HLT noted its core strategy has not changed and if anything components of it have only accelerated due to the pandemic: geographical diversification (breadth of hotel offering), drives distribution efficiencies and revenue premiums (customers have more options to earn points in the loyalty program), which lead to better returns to owners who will build more hotels as a result. In regard to accelerating components of the flywheel, management noted their relationship with owners was even more aligned during this challenging period, resulting in the rethinking of various operations (streamlining breakfast costs, developing safety standards, evaluating hybrid meetings, etc.).
- **EBITDA and EPS recovery will occur ahead of RevPAR:** HLT is seeing a leisure-led RevPAR recovery, but noted initial signs of pent-up demand in business/group based on conversations with corporate relationships eager to get back out to see clients. Business travel in 1Q21 was 50% of 2019 as some businesses have to travel to survive. Geography - China has been ahead, US close, ME has been good in some

places, Europe/UK/Asia ex China have been laggards. Regardless, HLT anticipates the combination of net unit growth in the 4-5% range annually near-term coupled with lower G&A should enable the company to recover EBITDA and EPS well before RevPAR. **We continue to believe HLT will surpass pre-pandemic EPS in 2022**.

- **Secular drivers intact for development:** Management repeated its focus on developing hotels to serve the global mega trend - a rising middle class around the world drives travel demand. This strategy has meant HLT has opened more limited service properties vs. luxury, but they noted strong market share in the development pipeline across chain scales, including building momentum in Luxury brands. The combination of these factors and HLT still only representing 5% of the world's supply base has not only supported the company's strong in construction pipeline of rooms (>20% of the existing base) but also gives management confidence in accelerating room growth from 4-5% near term, back to 6%+ as the market recovers. Management did indicate the shift to limited service has moved fees/room lower, but this has been a steady shift over time that will not materially change the relationship in the near-to-intermediate term.
- **Competitive advantage in limited service:** The company noted their limited service brands tend to run higher market share vs full service brands given fewer brands in the space, long owner relationships, and successful distribution efficiencies. All of these factors are driving higher RevPAR premiums and widening the competitive moat vs. peers.
- **Owned and leased recovery depends on local markets:** Management believe the inflection point for the segment to reach break-even is RevPAR ~50% down vs 2019. The path to this recovery will be driven by continental Europe which are still largely shut down, and Japan, which also went into lockdown but is rapidly deploying vaccines ahead of the Olympics. Longer-term, the segment was 7-8% of EBITDA pre-pandemic with ~60 hotels (including JVs) that management is not focused on growing so the contribution and corresponding volatility associated with the segment will shrink both as the managed & franchise business grows and non-core leases roll off.

Valuation and risks

We are Buy rated with a 12-month $138 price target based 50/50 on DCF and F24M EV/EBITDA multiple methodologies. Key risks include softer-than-expected RevPAR growth, weaker credit card sign-ups, slower pipeline growth, lower capital allocation and increasing COVID-19-related risks (last closing price - $124.9).

H (Covered by Stephen Grambling)

Bottom Line: Hyatt echoed the comments of other companies that we have hosted in our conference on the bounce back in demand, with a stronger leisure activity vs group and business. The company expects leisure to continue to improve and sees September as the inflection point for business travel (meetings and transient) as companies require employees to come back to office, with that momentum continuing into next year. Additionally, with today's announcement, H expects its net unit growth for 2021 at 6% (vs 5% before).

Key takeaways

Presenters: Mark Hoplamazian, President & Chief Executive Officer

- **Changes to operating model:** The company responded to the changed business environment in the following ways: 1) maintained higher level of services for owners, 2) clustered job roles with a cross functional approach, and 3) digital tools/capabilities expansion. For instance, H noted that the food and beverage experience has been labor intensive but ordering and paying using an app is more efficient and a better experience for the guest as well, while yielding margin benefits over time. Similar to other companies that we have hosted in the conference, H agreed to facing some pressure regarding hiring more employees currently.
- **Business mix:** Management expects to reach a ~70/30 split for managed and franchised vs owned and leased properties in terms of earnings, by next year as they complete their targeted asset disposal of ~$1.5 bil. The company has focused on more leisure and vacation asset opportunities and will continue with the same strategy, which complements H's strong group portfolio.
- **Recovery expectations across segments:** Similar to other companies, H noted that leisure is currently leading the recovery, with transient bookings in 4Q21 running well ahead of 2019, while group and business transient are lagging. H expects leisure to continue to improve and sees September as the inflection point for business travel (meetings and transient) as companies require employees to come back to office, with that momentum continuing into next year.
- **US recovery trajectory vs China:** H noted that in the US business travel is currently at ~35% vs 2019 (group and transient), while China is >80% and continues to grow. Great demand driven by leisure but groups as well. Overall business in China for Hyatt is approaching 2019 levels, even without the International travel. H believes that the recovery in US could mimic China as the vaccine rollouts continue. International inbound for China has traditionally been more business intensive vs leisure, per H.
- **NUG and construction:** With today's announcement, H expects the net unit growth for 2021 at 6% (vs 5% before). Conversion activity in the US is still high, with more conversions from small brands and independent hotels. H added that the select service pipeline is currently slow due to limited availability of lending for construction activities.

Valuation and risks

We are Buy rated with a 12-month, $93 price target based 25%/25%/50% weighted on DCF, F24M EV/EBITDA multiple and SOTP valuation. Key downside risks include group and business demand, returns on asset recycling and other cash deployment, and increasing COVID-19 cases (last closing price - $79.24).

CHH (Not Covered)

Bottom Line: CHH believes demand is coming back strongly, with the Memorial Day weekend being the strongest in company's history (company's MDW RevPAR +12% vs 2019). RevPAR in the Economy segment has exceeded 2019 levels on a YTD basis, and the company is seeing strength across the portfolio. The company's development pipeline reached 943 properties (~77,000 rooms) at the end of 1Q21, and CHH is targeting to reach historical room growth of 3-4%.

Key takeaways

Presenters: Patrick Pacious, CEO

- **Demand recovery:** CHH highlighted the recent strength in demand, with the Memorial Day weekend being the strongest in company's history. Company's RevPAR for that weekend was ~12% above 2019 levels, and May RevPAR was 4% below 2019. RevPAR in the Economy segment has exceeded 2019 levels on a YTD basis, and company is seeing strength across the portfolio. Additionally, CHH expects the trends in remote working to be beneficial for its properties.
- **Hotel operations:** CHH is focused on unit economics and total cost of ownership. Company is leveraging technology to drive cost down and manage labor. Breakfast is moving to grab and go options. Company's revenue management tool is helping to drive rates & revenue and promotional tools are driving gains across portfolio.
- **Contract structures:** Company has not seen many changes to franchise agreements due to the pandemic. Focused on mitigating labor issue and help the owners to drive down costs and preserve margins.
- **Development pipeline:** Company's development pipeline reached 943 properties (~77,000 room) at the end of 1Q21, and is targeting to reach historical room growth of 3-4%. CHH's portfolio has great mix of new construction and conversion, with ~27% of CHH's pipeline being represented by conversions.
- **Future hotel prototype:** In the company's comfort prototype, there will be a lot more indoor and outdoor spacing, more natural light, bigger breakfast areas, movable furniture, and a more contactless experience with the use of technology.

Company specific takeaways and highlights: Timeshare

TNL (Covered by Stephen Grambling)

Bottom line: Management outlined their strategy going forward including: 1) driving EBITDA and FCF back to 2019 levels through lower provisions, G&A savings, and higher VPGs; 2) growth through Blue Thread, fully utilizing the Travel + Leisure brand, and Panorama; and 3) a pivot to capital returns with potential to raise the dividend.

Key takeaways

Panelists: Mike Hug, CFO

- **Learnings from the pandemic:** Management believes the pandemic provided an opportunity to prove the resilience of the business, as TNL were leaders in VOI sales and EBITDA. During the pandemic, they reduced costs by $60mn and raised their FICO requirement. As a result, they saw loan loss provisions under 19% over the past three quarters including under 17% in one quarter (FY21 guidance following 1Q of <19%).

- **Demand trends:** Management reported seeing forward bookings already at double-digit levels over 2019, which was already a strong year. They expect to approach 2019 levels in owned arrivals, and as their markets re-open they expect unsold inventory will be made available, though they noted that some of their markets including Vegas/Orlando have been impacted by restrictions which augurs further upside as those are lifted.
- **Other re-opening themes:** Other companies within our coverage have called out a lower need for direct marketing given pent-up demand from the consumer, as well as labor pressures. Management indicated they have not seen as much direct marketing benefit given the nature of the product requires more planning ahead compared to, say, a trip to an amusement park. However, they noted part of the VPG lift is partially due to more effective sales staff and better tours. On the labor front management indicated they have not had to modify sales incentives, but are seeing some pressure on the hospitality side. While they have cost-reimbursement contracts, they intend to try to keep maintenance fees down.
- **Blue Thread:** According to management, Blue Thread (TNL's strategic partnership with WH) accounted for 13% of new owner volume vs. 7% in 2019, and drives BPGs 20% higher than overall. They believe the 1Q results show how the partnership can drive the business post-COVID.
- **Fewer defaults than initially anticipated:** Management indicated they used 2009 data to set aside their initial provisions. The consumer has since been healthier than anticipated, with deferrals in the portfolio down to 1% vs. up 6% at its peak, and a high rate of payment resumption following deferrals. They do not expect provisions to come in under 18% (vs. 19% guided), and they have the flexibility to raise FICO requirements if desired but are pleased with the current state of provisions. Ultimately they are anticipating provisions just under 2019 levels.
- **EBITDA generation:** Management indicated RCI memberships, which have historically had lower (30%) margins, and lower interest income (by $100mn) from a reduction of receivables associated with lower sales, will be headwinds to EBITDA in the near-term. However, tailwinds including G&A savings of $60mn, provision tailwinds, and higher VPGs (previously guided to 2Q +15% vs. 2019) will help TNL overcome the headwinds to return to 2019 EBITDA levels.
- **FCF generation and capital allocation priorities:** Apart from the remaining trailing spend associated with the Travel + Leisure Brand ($100mn total for the acquisition), management indicated ~$100mn in capex over the next several years including investment in technology, and re-iterated their target of 50%+ FCF conversion. Management re-iterated their commitment to lowering leverage through increasing EBITDA, and indicated they could take the dividend to 50 cents from 30 cents currently. Once they return leverage to 4.25X, management indicated they could enact share re-purchases, but their main focus is on growing the dividend with the business.
- **Demographic trends and the long-term algorithm:** Management reported the average age of their owners is 55 years. 30% of new owner sales were to

Millennials, with GenXers and Millennials combined making up 70% of new sales. In terms of international expansion, management noted 10% of VOI sales come from Australia/New Zealand/Fiji, with further upside as the middle class in Asia grows. In the US, management believes they have a robust footprint across 162 resorts with 95% of the US population within 300mi of one of their resorts, facilitating drive-to traffic. More recently they have been opening locations in Austin, Nashville, and Portland, to capture more urban markets, but broadly feel their portfolio is robust.

- **Travel + Leisure brand:** Management indicated the Travel + Leisure acquisition provided them with a trusted brand that allows them to market directly to consumers. While management remains quite positive on the timeshare space they anticipate the acquisition will provide an additional revenue stream from consumers who do not wish to be timeshare owners. Furthermore, the re-brand opened TNL up to conversations with other brands who might have had a conflict with the old Wyndham brand. On the subscription travel club business, management does not intend to compete directly with OTAs, but instead provide the fulfillment they felt was missing from Travel and Leisure's content.
- **Industry consolidation:** Management believes consolidation within branded companies would be positive to timeshare, and would provide 1) more publicity for the businesses and 2) make the industry more transparent as private companies become part of public companies. Branded competitors primarily market through partnerships with hotel partners/loyalty programs rather than through open marketing channels, so consolidation could lower competition for marketing ($800mn in volume in 2019).

Valuation and risks

We are Buy rated on TNL with a 12-month price target of $68 (vs. last close $64.65), based on 50/50 DCF/F24M EV/EBITDA. Key downside risks include increasing COVID-19 cases, increasing write-offs/loan loss provisioning, weaker conversion of new customers, worse flow through and inability to capture lower funding rates.

HGV (Covered by Stephen Grambling)

Bottom line: With the business model proven out during the pandemic, management expressed confidence in the path forward, including: 1) a robust demand recovery; 2) a return to 2019 EBITDA albeit with augmented capex as they re-invest; and 3) confidence in the Diamond acquisition (pending close).

Key takeaways

Panelists: Mark Wang, President & CEO; Dan Matthews, EVP & CFO

- **Pandemic learnings:** Management identified $20-$25mn in potential savings during the pandemic, as they discovered efficiencies particularly in staffing. Other efforts arising from the pandemic include a move to a more selective pre-selection process for marketing and leads, the success of moving their call center to remote, and leveraging the finance business/receivable securitization to be more similar to peers.
- **Pace of recovery:** Management indicated the recovery continues to transpire with

extremely strong demand across all 3 segments and positive forward data points (sales up 500bps among new buyers and existing owners). Management indicated confidence around the vaccine is driving an increase in business volumes, with Hawaii already reaching full bookings despite no travel from Japan. In Japan, which makes up 20% of the business, they are at 70-80% of 2019 levels despite restrictions, and management expects further upside with new vaccine doses delivered today. As they move into the end of 2021 and urban markets like NY/Chicago/Washington, D.C. re-open fully they anticipate further improvement. Management does not believe owners are crowding out new buyers.

- **EBITDA generation and FCF conversion:** With the portfolio having shrunk during the pandemic, there could be a headwind on the financing side until the portfolio builds back up, according to management. However, they have been disciplined on the sales and G&A side, which has translated into a margin level within 100bps of 2019 levels. Management expects to see some cost pressures and higher inventory spend (including $225mn in contractual commitment from just-in-time projects) resulting in HGV standalone expected to see FCF conversion depressed vs. 2020. Combined with the contractual commitment of $225mn there will likely be a higher near-term delta in adj. FCF.
- **Delinquency and defaults:** At the start of the pandemic, management anticipated delinquency and defaults would exceed the rates witnessed during the GFC (-4.5%/7%+, respectively). Ultimately delinquency rates peaked at 3.5%, and were down to 2.7% in Q1 (in line with 2019), though they noted that given the portfolio has shrunk an unchanged, absolute number of defaults could cause a spike relative to the smaller base. Based on current data management expects minimal defaults among individuals whose deferments on mortgages and car loans are expected to roll off, but are monitoring the situation.
- **Trends among the customer-base:** Management indicated the demographics of buyers skews lower than the average for owners; Millennials make up 1/3 of the portfolio but more than half of new buyers. In their view they target age cohorts less so than a certain phase of life, when a more family-oriented product resonates with consumers. With 90% of rooms being one-bedrooms with kitchens, they have found a positive response to their product. To cater to the younger cohort, they are building a more user-friendly website and have rolled out a top-rated digital product. They are also rolling out a term product, which will provide an exit option and attract a wider set of customers.
- **Diamond acquisition:** According to management, the rationale for the Diamond acquisition (pending close) was the complementary product including properties in drive-to markets and under-penetrated states like Arizona (zero properties pre-acquisition) and California (1 property pre-acquisition), and Diamond's events offering which can drive higher VPGs. The feedback so far from Diamond owners has been positive, though there have been inbound questions on how points and fees will evolve which they intend to clear. With the pending Diamond acquisition HGV would have 154 properties vs. 62 currently.
- **Industry consolidation:** Management continues to expect consolidation in the

timeshare industry, and believes they are in a solid position to benefit from this. They anticipate that ultimately there will be three major players from ~7 currently, and highlighted the example of Diamond who has acquired 11 companies in the past and seen success integrating them.

- **Revenue synergies:** With the pending Diamond transaction, management expects revenue synergies to result from the rebrand from Diamond to Hilton, which will allow sales staff to discuss the benefits of the program right away without needing to introduce the brand to prospective customers. They believe being able to cross sell across the two brands/make use of an increased product breadth will result in further revenue synergies.
- **Cost synergies:** On the cost side, management is confident in the $125mn+ they laid out with the merger announcement, following a year of conversations with Diamond management and Apollo. They believe they will save on sales and marketing, be able to save on OTA fees (15-high 20% range) with the rebrand to Hilton, and see savings on the technology side. Once the deal closes management expressed confidence that they will be able to find more savings.

Valuation and risks

We are currently Not Rated on HGV (last closing price - $46.45).

Company specific takeaways and highlights: Gaming

LVS (Covered by Stephen Grambling)

Bottom line: Management re-iterated their commitment to their long-term strategy of: 1) realizing the benefits from their investments in Macau where they expect to reach $4bn in EBITDA in a recovery, and re-investing upwards of $5bn in non-gaming categories; 2) executing on their Singapore investments realizing $600mn-$800mn incremental EBITDA; and 3) evaluating opportunities in NY/TX and in online gaming. In the short term, management indicated a full Macau recovery will require herd immunity from vaccinations in mainland China and a Singapore recovery will be dependent on substantial vaccination rates in feeder markets.

Key takeaways

Panelists: Daniel Briggs, SVP, Investor Relations

- **Key learnings from the pandemic:** Coming out of the pandemic management believes they should aggressively pursue markets with strong growth potential. They remain committed to their prior strategy of re-investment in Macau, as opposed to investment in unfavorable markets like Japan.
- **Re-opening:** Management outlined their observations across Vegas/Macau/Singapore. They believe that the recovery currently transpiring in Vegas will take time to manifest in other markets, based generally on the health situation broadly and the number of vaccines administered in particular; herd immunity

through vaccination will be the key to a full recovery in all their markets, in their view. With 20 million vaccines administered per day in China, they believe full herd immunity could be reached over the next 3-4 months. Management believes the government in China will continue to take the approach of 1) testing; 2) contact tracing; 3) quarantining until they reach herd immunity. Beyond herd immunity through vaccinations locally, the key to a full recovery in Singapore will be the return of flights from all over Asia (requiring vaccinations in source markets).

- **Doing more with less:** In Macau, management related the 1Q data point that they saw 16-17% of 2019 visitation but notched premium mass GGR at 47% of 2019 levels. They indicated spend levels at or above 2019 levels, especially in retail, and longer stays. In Singapore, they are seeing a larger local market and are generating $500-600mn in annualized EBITDA. Management indicated the increased spending is partially the result of pent-up demand though longer stays and non-gaming product could drive sustainable spend levels.
- **Long-term growth potential in Macau:**
  - **Mass:** The mass market totaled $22bn in GGR in 2019 (including slots), split roughly equally across base mass and premium mass; management anticipates both will see substantial growth going forward. As China's GDP grows, infrastructure/connectivity to Macau increases, and more hotel rooms are built, mass could see growth of at least twice China's GDP growth, in management's view; with LVS commanding about 30% of the market, management believes they are well positioned to benefit from growth in the segment.
  - **Retail:** Management indicated substantial long-term potential for the retail business, given the duty-free status in Macau. If Hong-Kong were to re-open more slowly and take longer to be re-connected to the mainland, Macau could see out-performance there.
  - **New hotel suites:** LVS has added 293 suites at the Four Seasons in Macau, and 370 new suites at The Londoner to better serve the high end premium mass marketing. They have also added entertainment attractions to the marketer they will market through social platforms like WeChat as Macau fully re-opens.
  - **VIP:** Management is not as positive on VIP, which they believe will lag the recovery in mass given transparency issues and improvements to the premium mass product which will allow premium mass to be able to compete with the junkets' offerings. If VIP does bounce back faster than anticipated, they intend to participate, however.
- **EBITDA in a recovery:** Management believes that, in a recovery, their new investments can power EBITDA generation in Macau beyond the $3.2bn of EBITDA notched in 2019 to $4bn. They anticipate the Venetian will be able to do $1.5-1.7bn in EBITDA (vs. $1.4bn in 2019) and that the Londoner will be able to ramp close to that (vs. $726mn in 2019). They believe the Four Seasons will be able to far exceed prior results ($345mn in 2019), and believe the Parisian will be able to ramp back to prior levels ($544mn in 2019).

- **Investment opportunities remaining and ROI:** Management believes Macau predominantly needs more hotel capacity, and would re-invest into lodging, retail, entertainment, and convention/exhibition capacity rather than gaming capacity. The returns on these investments would come from gaming, with GGR generated from incremental visitors. Management believes that they can generate ~$2bn in EBITDA on ~$5bn investment, powering EBITDA reaching $5bn-6bn if they spent $5bn-$10bn on significantly expanding their hotel inventory.
- **Concession renewals:** With LVS' concession expiry set for June of 2022, management's expectation is that sometime later this year, the law will be changed to allow six concessionaires rather than three and that some time in early 2022 there will be some sort of extension. They do not know how long that extension will be but indicated it is likely to be a few years and possibly as long as 5-10 years. Management is not especially concerned about the outcome of the renewals given their plans for re-investment into retail/convention/lodging/entertainment which will create employment and support small and medium-sized enterprises which is in-line with the Macanese government's expectations for them.
- **Margins:** Going forward management does not expect significant cost outs in Macau, and anticipates they will grow employment and add services and infrastructure. While they will always be focused on margins and operating efficiently they do not expect to outline a margin enhancement opportunity based on scaling back the breadth of their offering/broader operation in Macau. They do see margin opportunity through growing premium mass/hotel/retail.
- **Singapore:** Management expressed confidence in Singapore's recovery and that market's appeal for tourism long-term. They are expanding their hotel and retail inventory, are constructing an arena, and are expanding the original Marina Bay Sands. They believe they will be able to meet their historical returns of 20% ROIC; as such they expect a $3-4bn investment to yield an incremental $600mn-$800mn annual incremental EBITDA. Management had originally targeted an opening for the MBS expansion in 2024-2025 but due to a COVID-related construction pause did provide an update to the expected completion date.
- **Balance sheet and funding:** Management does not intend to monetize their retail mall in Singapore at this time. Instead, management believes the sale of the Las Vegas asset (pending close), coupled with a return to operations, will provide enough liquidity in the near-term to pay down some debt, maintain an investment grade rating, and over time use a combination of debt and equity to pay for expansion. Management re-iterated that they will not institute a dividend or buy back stock until the business re-opens and starts generating FCF.
- **Impetus for the Vegas sale:** While management felt positive about Vegas in aggregate they felt the return opportunities were not as promising as re-investment into Macau/Singapore or expansion into potential markets like NY/TX. Management expects taxes on the asset sale to be a low double digit amount of the cash coming in, about $600mn or less in tax leakage. In 4Q, when they expect the acquisition could close, they would receive $4bn cash from VICI, $1.05bn cash from Apollo, and a six-year, $1.25bn note.

- **OSB/iGaming:** Management is interested in online, especially iGaming. They are bringing talent to help them evaluate their strategy, but it is a nascent effort at the firm. They are not yet ready to commit to a certain investment amount, figure or strategy, but will continue to look at online gaming closely.
- **Consolidation:** Management is positive on their current markets, as well as B2C and digital, and do not see as many attractive opportunities to grow through consolidation. Management is not as positive on Australia as they are on China in terms of long-term growth.

Valuation and risks

We are Buy rated on LVS with a 12-month price target of $72 (vs. last close $55.92), based on equal parts SOTP, F24M EV/EBITDA, and DCF. Key risks are softer Macau visitation/GGR growth, longer duration to travel restrictions from COVID-19 disruption, slower property ramp, cannibalization, infrastructure delays, regulation changes, and concession renewals.

Emerging Growth Gaming Panel: ACEL (Covered by Stephen Grambling) and Game Play Network (Not Covered)

Bottom line: Both management teams provided an overview of their unique business models and positioning for future growth. Game Play Network management highlighted their ability to provide online gaming products that are functionally akin to iGaming using horse racing odds, allowing them to operate in up to 40 U.S. states (vs. 6 states with legalized iGaming). ACEL management outlined key areas of growth including in their legacy market of IL, through the pending Century deal, and in nascent/potential markets like LA/SD/WV/MO/VA.

Key takeaways

Panelists: Andrew Rubenstein, CEO of Accel Entertainment Inc.; David Marshall, CEO of Game Play Network; Aaron Fischer, CFO and CSO of Game Play Network

ACEL

- **Company overview/background:** ACEL was founded 12 years ago, and the company has since grown from a family business into being the largest route operator in the United States. They operate in more than 2700 locations, and operate more than 13k slot machines in IL. They have another ~100 locations/~500 machines in GA, and with the pending acquisition of Century Gaming Technologies, another route operator, will be live in MT/NV with another 9k machines. Management intends to continue growing through launches in new states and acquisitions (see our note on the recent Investor Day for more on management's strategy).
- **Competitive advantage:** Management believes they have succeeded at cultivating relationships with their customers to the point where they are not simply a provider of business equipment, but are also akin to a consultant helping family owned businesses. They help optimize game play, operating hours, and provide additional amusement equipment and payment processing.

- **Long-term drivers:** With the Century acquisition, management believes they can implement their rewards/bonusing platforms, and in states that allow vertical integration (MT/NV/LA/SD/WV) expect to leverage Century's equipment manufacturing subsidiary, Grand Vision Gaming. Management believe their variety of products and platform offers a unique value proposition for their business partners. They see long-term upside through expanding into both currently-legal states and states which could legalize VLTs in the future, such as MO/VA.
- **Pandemic learnings:** In ACEL management's view, one of the primary impacts of the pandemic was to deprive people of entertainment in a social environment. Given their business is a more socially-based version of gaming compared to casinos, they are seeing the benefits of substantial pent-up demand. Given VLTs' convenience and proximity they were able to grow their player-base during the pandemic, and they expect additional upside from the return of the older demographic and the implementation of higher bet limits.
- **Unit economics and margin expansion:** The cost of entering a new market is always significant, so ACEL seeks opportunities where they can scale to 500-800 locations in a reasonable time period. Management believes the winning strategy in new markets is to rapidly invest and grow as quickly as possible. They anticipate margins will continue to grow in IL, as they realize operating leverage on fixed investments in marketing and technology, and believe they can grow the Illinois base 40-50% across acquisitions and organic growth, with margin expansion powering additional upside. Management reported they are winning 40% of new establishment growth, outpacing their current market share.
- **Player rewards program:** With legislation passed, management hopes to receive the final green light within the next 12-18 months to move forward with the implementation of player rewards in IL, with success depending on how convenient they can be to their establishment partners who are trying to retain customers as other leisure options re-open.

Game Play Network

- **Company overview/background:** According to management Game Play Network has the largest footprint for iGaming in the United States. Management had previously founded GBet.com in the 1990s, which offered online horse racing as the only legal form on online gaming in the United States. They utilize live horse racing to create a backbone that allows the company to generate outcomes that consumers can play games on, for a standard iGaming experience (for example iSlots). The use of horse racing odds instead of using a random number generator, bingo card, or lottery ticket, allows the company to operate legally in a greater number of states as horse racing is legal in 40 U.S. states. They are live in 22 states and offer both their main B2B platform, and a B2C product called BSpot. Game Play Network recently announced a deal with CZR's SuperDraft, and they expect additional deals to follow.
- **Competitive advantage:** Management believes their unique advantage is their ability to operate where others cannot; they have multiple segments/avenues for

growth across iGaming, land based gaming (through devices in stadiums), and social games.

- **Long-term drivers:** Long-term, management expects to be able to utilize the marketing prowess, large user-base, and physical distribution capabilities of their B2B customers to generate revenue across their business segments. They anticipate their top-line revenues in the long-run may be limited in magnitude vs. the top players in gaming, but anticipate being one of the most profitable players in online gaming.
- **Legislative environment for Game Play:** Management believes the pandemic led to a substantial shift in transactions to online, with the growth in sports betting the most significant growth area. However, with the growth in OSB accompanied by an increase in competition and marketing intensity, management believes iGaming has since become a more attractive opportunity for many gaming firms. Management noted the much lower propensity for states to legalize iGaming, which provides them with an opportunity to serve online gaming operators in 34 states (pending roll-out beyond the current 22 states) where others cannot currently launch. Management indicated they are limited in the number of B2B partners with the CZR/SuperDraft deal.
- **Expansion plans and TAM:** Management plans to expand to 34 states, addressing 75% of the US population. Looking to projections from a number of analysts sizing a $40bn iGaming TAM if the whole country legalized iGaming, management sizes a TAM of $30bn, and believes their B2B customers could reach 10-20% of that TAM ($3bn-$6bn). Game Play's offering is structured as a revenue share contract, and with minimal operating expenses they believe they will be able to be highly profitable. Given valuation for many online players often involves projections far into the future (our own methodology is based on our 2033 TAM estimates), they believe the ability to address a sizable portion of the long-run TAM now will be of significant benefit to firms in the space.
- **Technology and game development:** Game Play generates the outcomes of games within the platform. This is similar to a typical iGaming arrangement, where the outcome has to be generated in the game. In iGaming, however, the game itself must be licensed if the "math" is internal. Under their model the platform must be licensed but the games do not, so the games are all third party. On the supply side this opens game development to those who may not have built games for standard iGaming given the onerous licensing requirements and onerous limits on A/B testing. On the demand side their model allows them to reach video games companies who would otherwise avoid iGaming.
- **Unit Economics and margin structure:** In horse racing there are a number of levers they control, including return to player - state by state, brand partner by brand partner, and game by game. They can control the jackpot size, and allow customers to decide how to reach partners.
- **Competition:** Management believes they possess a technological and operational head start given they have been operating their model for nearly 25 years. In addition, they have 39 patents, including a patent on the live horse racing engine

powering their products. Finally, those currently on the platform will have a head start when it comes to acquiring users, so even if jurisdictions do legalize they could have an advantage there. Otherwise, given the lack of online gaming competition in many markets, they look at broader entertainment as competition.

Valuation and risks

We are Buy rated on ACEL with a 12-month, $15.50 price target (vs. $12.97 close), based on equal weighted F24M EV/EBITDA and DCF. Key risks to our Buy rating include incremental competition, unfavorable regulatory changes, prolonged disruption from COVID-19, and a decline in consumer spending.

Company specific takeaways and highlights: Amusement Parks

FUN (covered by Stephen Grambling):

Bottom line: Management outlined their near and long-term strategy as they begin to fully re-open their parks, calling out: 1) their transformation plan, which they believe will deliver $50mn incremental EBITDA on top of record 2019 EBITDA; 2) new initiatives to drive revenue including a focus on F&B/events/tech-enabled guest experience; and 3) the puts and takes to the MLP structure which they believe position them well to return capital to unit holders and would provide advantages if corporate tax rates increase. In the short term, management called out strong visitation/in-park spend and some labor pressures.

Key takeaways

Panelists: Richard Zimmerman, CEO

- **Re-opening trends:** Management noted strong May visitation and in-park spend, as consumers, flush with cash, unleashed pent-up demand and savings as they re-opened their parks. Management expects the last restrictions on occupancy to come off on June 15th, though they will continue sanitization efforts to make visitors (especially parents) feel comfortable. Early data from season passholders (who were prioritized when parks re-opened) shows in-park spend is comparable or greater to last year, which was already up mid teens vs. 2019. This has been led by strength in F&B, merchant games, and premium experiences like Fast Lane. Management may consider extending operating days further, and could potentially expand the calendar to make the most use of their assets, with the focus on getting maximum value out of their assets.
- **Optimization plan:** Management relayed details on their optimization plan, with the goal to drive efficient, top-line growth. Initially management had outlined 200-300bps margin expansion (~$30-$45mn on 2019 numbers), which they then supplanted with a $50mn uplift, split across: 1/3 fixed, 2/3 variable costs and revenue. According to management, the amusement park model had historically been one of decentralized operations, so they are trying to take advantage of centralized technology to drive growth. They remain confident in their estimates, as

they can manage labor and price efficiently given their technology. They also noted their starting point for the $50mn is on record performance in 2019.

- **Pricing:** Management is focused on implementing dynamic pricing to maximize yield, which includes eliminating deep discount channels, taking pricing to where they see demand, and eliminating discounts.
- **Single day vs. season passes:** In contrast to peer SIX who today discussed a re-pivot towards single-day tickets, FUN management indicated they are focused heavily on season pass sales, which includes adjusting pricing and marketing to re-direct some visitation to off-peak hours.
- **Event strategy:** Management intends to continue their strategy of holding events to drive further revenue. For instance, they found in 2020 they could successfully hold a food and wine festival, priced at $30-$45, with a strong response from visitors. One consistent point of customer feedback has been a desire for better culinary offerings, so FUN has hired executive and sous chefs to improve the F&B at their parks. Guests have indicated they want F&B to be not just part of events but part of the normal park experience. Management is still in the planning stages of their F&B strategy but expect these efforts to drive revenue.
- **Labor pressures:** Like other companies in our coverage, management is seeing some pressure, but their approach has been to source high quality applicants to raise productivity. In some markets, they have adjusted hourly wages higher, for example to $20 per hour at Cedar Point. They cited their existing labor model which already relied on sourcing employees from other labor markets including having dormitories at 7 parks. Management noted they have had to close Cedar Point in OH on Tuesday-Wednesday as they rebuild the employee base.
- **Capital allocation:** Following recent capital raises, where they generated $1.3bn and $700mn after re-configuring their capital structure, management indicated they are focused on re-investment and de-levering. They intend to de-lever under 5x to as low as 3-4x, which would allow them to then pursue capital distributions. In the immediate term, they indicated their priority is to invest to drive top-line growth with $100mn in capex outlined in 2021. This spend will center on improving the mobile app, showing wait times for rides, improving in-park navigation, and streamlining park entrances. They intend to update their 2021 capex estimate and outline 2022 capex estimates at the next earnings call.
- **Media/content strategy:** Management remains committed to engaging with media companies/IP owners to brand rides/parks. The pandemic had disrupted some testing for Monster Jam and Grand Carnivale, and so as they re-emerge from the pandemic, management intends to continue to pursue this strategy.
- **Puts and takes to the MLP structure:** FUN was structured as an MLP (Master Limited Partnership) in 1987 because the business was spinning off far more cash than what could be re-invested at the time, so the investors were looking for a tax-efficient structure. Management believes the structure is simpler than the opco-propco REIT structure while providing tax advantages vs. C-Corps. Prior to the pandemic, the $3.74 distribution (similar to a dividend) offered substantial value, in management's view, to the equity holders, and if corporate tax rates were to

increase they believe their structure would become even more attractive. According to management, it would take 85% Yes votes to convert to a C-Corp structure, but in a transaction this would only require 2/3 Yes votes.

- **Industry consolidation:** Management believes FUN's structure is conducive to M&A, and highlighted the company's acquisitive history including both single park purchases (recently Schlitterbahn/Sawmill Creek in 2019), and multiple park acquisitions. Currently their focus is on internal operations, though they will explore opportunities for M&A as the amusement parks industry recovers.

Valuation and risks

We are Buy rated on FUN with a 12-month price target of $63 (vs. prior close $46.00), based on 50% EV/2022 EBITDA and 50% DCF. Key downside risks include 1) delays in reopening properties or incremental social distancing impact due to government or other mandates; 2) a slower rebound in demand; 3) higher labor inflation or required reinvestment in the properties after the past year of largely being shutdown; and 4) lower actualization of cost cuts.

SIX (covered by Stephen Grambling):

Bottom line: Management outlined their strategy including: 1) their transformation plan to unlock $80mn-$110mn in value; 2) driving an improved guest experience through re-balancing the season pass vs. single day ticket mix, investment into technology, and improved in-park experience; and 3) long-term capital allocation priorities with re-investment and de-levering a larger priority compared to M&A. In the short term, management discussed sustained demand and visitation trends and labor pressures.

Key takeaways

Panelists: Sandeep Reddy, EVP and CFO; Stephen Purtell, SVP, Investor Relations, Treasury and Strategy

- **Pandemic learnings:** Management relayed the details of their transformation plan including benefits of $80-$110mn, with half of that being fixed costs within their control ($35mn in 2021 and the full $40mn-$55mn amount in 2022), and the remaining part tied to attendance returning to 2019 levels ($30mn-40mn revenue and the remaining amount based on variable labor). In their view the seeds of the transformation were already present pre-pandemic, as they saw attendance stagnating and costs growing faster than revenue. Once SIX was able to shore up the balance sheet they were able to execute on the transformation starting in June/July, and they have zeroed in on the guest experience to unlock value in the core business.
- **Single day vs. season passes:** One key focus for management has been re-balancing their pass model. While they believe they had effectively implemented season passes in the early 2010s, they believe their pricing for single day tickets has not offered enough value to some consumers, creating a drag on single-day visitation. Most of SIX's guests live within 100-150mi from their locations, an area covering 200mn people. Unique visitors are 10% or 20mn of that population, and so

implementing attractive pricing for those who might live further away will be key to driving top-line revenue.

- **Capital allocation priorities:** As SIX shifts from defense to offense with the re-opening, management's priorities remain re-investing to boost profits in the core and to realize the value of their assets. Their immediate focus is on completing the transformation plan, with capital expenditure mainly devoted to better technology and in-park experiences (including better F&B) driving revenue from per caps, with some capex for deferred asset maintenance as well. These investments will all fold into the 9-10% of revenue to capex they have targeted. After the transformation plan their next focus is on returning leverage to 3-4X adj. EBITDA. Management's priority remains taking care of the core and then seeing if there are further avenues of growth, making M&A a very distant third, in management's view.
- **Improving the guest experience:** Apart from re-balancing their season pass/single day pass mix, management indicated key focus areas for improving the guest experience include: a better app, a re-designed website which is reducing friction, mobile ordering, contactless payments, and better food and beverage options.
- **Pent-up demand and margins:** Management noted substantial pent-up demand, but believe attendance and other trends have seen sustained momentum. They believe progress on vaccinations and lower cases has helped visitors feel more comfortable visiting their parks, and anticipate that they will see sustained strength during their peak season of Memorial Day-Labor Day. Management wants to maintain price value and avoid unnecessarily raising prices. They believe they will see substantial spend if prices are fair and the product is improved.
- **Marketing:** Management intends to market in 2021, both to drive demand and to ensure solid messaging. Because they did not market much in 2020, they wanted to avoid skipping two years to avoid diluting their messaging, but they will match marketing to expected demand. They expect to continue their shift from traditional TV/radio advertising towards online advertising, and expect marketing to run at 3-4% going forward (though it could be as high as 4-5%).
- **Long-term growth algorithm:** Management expects to continue their technology enhancements and find new ways of improving the guest experience (though these costs are not expected to be outside of the 9-10% of capex to revenue so they are fully funded). As the environment normalizes they expect their productivity enhancements and revenue enhancements to grow EBITDA low- to mid-single digits, and will provide more specifics as time goes on.
- **Labor:** The figures in management's transformation plan already included pressure from wages they had expected pre-pandemic. They believe their labor management model and productivity improvements will help mitigate wage pressures, though they acknowledge labor has been hard to come by in some markets. They anticipate shortages will ease as unemployment rolls off, and believe there is a silver lining as higher wages/stimulus/unemployment benefits result in more discretionary cash for consumers and propensity to spend.

Valuation and risks

We are Neutral rated on SIX with a 12-month price target of $49 (vs. last close $46.06), based on equal parts F24M EV/EBITDA and DCF. Key risks include: slower/faster rebound in demand, higher/lower recapture of share of wallet, more/less cash burn from COVID-19 park closures, higher/lower impact on margins from operating investments, and higher/lower cost reductions.

Company specific takeaways and highlights: Cruise

RCL (covered by Stephen Grambling):

Bottom line: RCL expressed confidence in protocols based on already launched cruises and plan to sail out of Florida, Alaska, and Southampton, with a more normal back half of the year. Management expects the experience to be similar to before for fully vaccinated guests, with no requirement of masks and movement permitted around the ship. For non-vaccinated guests, a negative test will be required in addition to some other protocols, none of which is expected to affect the onboard experience.

Key takeaways

Panelists: Jason Liberty, Executive Vice President & CFO

- **Recent developments:** Management expressed confidence in protocols based on already launched cruises. They plan to sail out of Florida, Alaska, and Southampton, with a more normal back half of the year. Each brand will have slightly different vaccination requirements, for instance Silversea - 100% vaccination and Celebrity - 95% vaccinated.
- **Guest onboard experience:** Management expects the experience to be similar to before for fully vaccinated guests, with no requirement of masks and movement permitted around the ship. For non-vaccinated guests, a negative test will be required in addition to some other protocols, none of which is expected to affect the onboard experience. Additionally, there are medical facilities available to deal with covid cases onboard.
- **Cost of resuming sailing:** For RCL, getting a ship back online broadly involves bringing it to the required location and getting the crew vaccinated. Load factor (occupancy) for the ships is expected to depend on the location of sailing, with ~50-60% in the early days, and subsequently ramping up over time.
- **Order book for new ships and industry capacity:** Net capacity increase for the industry is expected to be ~4% between 2020-25, per RCL. For the company, the new order book remains intact with a delay of ~8-10 months.
- **Future cruise credits:** FCCs issued by the company are expected to have some impact in 2022 and 2023. RCL added that the majority of their future bookings are new bookings.
- **Cost management:** RCL has identified areas to improve cost structure to support margins, while ensuring there is no negative impact to the guest experience. Vast majority of labor for RCL is ship crew, where inflation impact is minimal.

- **ESG positioning:** Company has been making progress on various components of its ESG positioning and will continue on that path. RCL has made investments in technology to reduce carbon footprint of operations, including optimization tools to figure out sailing route and other tools to monitor ship operations.
- **Leverage and liquidity:** In terms of leverage, RCL believes that 3.5x is the right level for the company. RCL could consider refinancing opportunities, once there have better visibility on return of operations.

Valuation and risks

We are Neutral rated with a $95 12-month price target based 50/50 on DCF and 2022 EV/EBITDA multiple methodologies. Upside and downside risks relate to the impact from COVID-19, supply growth, fuel prices, inflation/deflation in other input costs or FX, exogenous events, and pricing power (last closing price - $94.95).

Company specific takeaways and highlights: Restaurants

Just Salad (Private, Not Covered - Hosted by Jared Garber)

Bottom line: Just Salad is a fast-growing restaurant chain that operates 46 units across 6 states in the Fast Casual segment of the Restaurant industry. Mr. Kenner highlighted (1) the strong growth of the brand pre-COVID and how the chain's healthy menu, attractive price points, and sustainability efforts resonate with Millennials/GenZ, (2) the challenges of running a restaurant chain (primarily in urban centers) during the COVID-19 pandemic, (3) the strength the brand is seeing in residential locations/green shoots for accelerating sales in commercial/office locations, (4) the current staffing environment in the industry and what the company is doing to attract workers, and (5) the technology and sustainability initiatives that can help drive the company's continued growth.

Key takeaways

Panelists: Nick Kenner, CEO Just Salad (Private)

- **Running a restaurant during COVID:** Mr. Kenner provided views on his experience running a restaurant during COVID-19, especially in the NYC market which was hit particularly hard, in which he noted things were extraordinarily difficult as the company went from 40-50% top-line growth to a virtual halt. He spent a lot of time on employee and customer safety at the outset, and successfully re-opened most locations in the summer of 2020. In addition to the challenges that came with COVID, Mr. Kenner also highlighted some silver linings, such as the opportunity to focus on culinary/menu innovation, take advantage of attractive real-estate deals (of which they signed many), and, importantly, a validation of the business model beyond an office-lunch occasion.
  - The pandemic was also an opportunity for Just Salad to support the community and cement a lasting legacy for the brand (in line with their sustainability initiatives), donating more than $1mn of food to local NYC hospitals to support front-line workers.

- **Re-Opening and Green Shoots in Urban Centers:** Mr. Kenner highlighted that the brand has seen strong sales momentum in many of its more residential locations, such as Brooklyn, Upper East/West Side, and Chelsea. In many of these locations, sales volumes are (and have been) basically running at pre-COVID levels, while the brand is seeing more dinner ordering coupled with higher average check/attach rates that suggests family ordering. As office building capacity starts to improve, Mr. Kenner noted that locations closer to commercial office space are starting to see green shoots, and he is optimistic that trends will continue to accelerate through the summer. Mr. Kenner noted that he believes 70-80% of people will return to offices by September, but the question of how often people visit offices (presumably less than 5 days/week) drives some uncertainty around customer frequency trends vs pre-COVID.
- **Labor/Staffing is the Primary Challenge for Re-Opening:** This trend is playing out across the industry, as restaurant chains look to staff up as capacity improves and sales accelerate. Historically, Mr. Kenner noted that hiring has never been a challenge as the brand has industry-leading GlassDoor scores and pays $16.50/hr on average. Employees - especially a younger generation - are also drawn to the brand for the ability to work with fresh food vs typical Fast Food jobs. In the past, Just Salad would generate interest from ~100 applicants on a hiring day event, whereas now those events are only attracting 5-10 potential candidates, and Mr. Kenner noted that there is a need to incentivize people back to work. Just Salad is paying both sign-on and referral bonuses to improve staffing levels, and Mr. Kenner noted that Florida has been one of the tougher markets to attract workers.
- **Long-Term Strategy for Growth:** Just Salad is primarily company-owned, and Mr. Kenner highlighted the brand's strong 4-wall economics that have driven ~50% cash-on-cash returns historically. Healthy eating trends are only accelerating, with the younger generation of consumers placing significant value on better food options for good value. Mr. Kenner believes Just Salad is well-positioned to growth alongside this trend, and that the pandemic reinforced his vision that Just Salad (and Fast Casual concepts more broadly) can be very successful in non-urban markets.
- **Digital Integration and Loyalty Remain Key for Restaurants:** Digital and technology integration continue to be key for restaurants, and Just Salad now does more digital business than it has people walking into its restaurants. Mr. Kenner noted that digital/tech integration (for restaurants broadly), is no longer a point of competitive advantage, but rather table stakes to operate in a competitive industry. On loyalty, Mr. Kenner noted that frequency is still the key KPI for Just Salad (vs average check boost), but he sees a shift away from "buy 10 get 1 free" type platforms, towards more of a surprise-and-delight program (special offers, high menu innovation, etc). He highlighted SBUX as having created the blueprint for a strong loyalty program. Mr. Kenner also noted that robotics and automation are likely the next leg of evolution for the restaurant industry, and are both elements that Just Salad is thinking about and testing.
- **Sustainability is Core to the Just Salad Brand:** Mr. Kenner highlighted the company's industry-leading reusable bowl program that saves more than 75k pounds of plastic waste per year, and also noted that the company is carbon-labeling

to help consumers make more informed decisions about their food's environmental impact, removed consumer-facing plastic, and removed beef and pork from its menus due to environmental concerns. Mr. Kenner also noted that the company is educating its employees about sustainability (with "sustainability champions" at each location), and the company is becoming more vocal within the environmental political movement, supporting the Break Free from Plastic Act. Mr. Kenner highlighted that his company has a radical commitment to sustainability, and he views it as a competitive advantage as younger generations (Millennials/GenZ) demand this shift.

Key Takeaways from GS Travel/Medical Management Team

Bottom line: The key theme emphasized by both panelists was momentum. From this time last year, in the US we have seen the workforce move from almost entirely remote to a large number of corporations beginning their return to office and return to travel plans. While corporate travel volumes are currently low vs. historical levels and international travel is still largely on hold, the panelists expect this to change as government regulations ease likely through the end of the year. In terms of permanent changes to corporate travel driven by the pandemic, the panelists highlighted that hybrid group events and more self-service technology are likely here to stay as is a potentially higher bar for internal travel (a historically small proportion of Goldman's travel budget). In this note, we provide more detailed takeaways from the session.

Key takeaways

Panelists: Gautam Awalegaonkar, (VP, Global Head of Travel and Expense, Goldman Sachs) and Stephen Watts (VP, Associate Medical Director, Goldman Sachs)

- **Return to Travel:** Corporate travel volumes remain depressed, but have recovered from the height of the pandemic. For example, this morning Southwest Airlines noted that its corporate volume has improved to down 77% vs. 2019 in May, an improvement from down 90% to 95% in the second quarter of 2020. With respect to progress across regions, China saw one of the earliest recoveries in air travel (the International Air Transport Association, "IATA," noted China traffic was down 2.6% in March 2021 vs. global average of down 32.3%), followed by Australia/New Zealand, with the step-up in the US traffic recovery gaining momentum over the last several months (the 7-day moving average for TSA daily throughput as of June 7, 2021, was down 29% vs. 2019, compared to down 56% as of February 28, 2021).
- **Internal vs. External Travel:** Historically, the Goldman budget for travel has leaned heavily towards client-focused travel with a 70/30 or 80/20 split between external and internal trips over time. Post-pandemic, it was commented that the share of external travel could increase further as travelers likely become more conscious of the ROI on internal travel and potentially consider substituting some in-person internal meetings with virtual meetings.
- **Partner Contract Updates:** Mr. Awalegaonkar highlighted that contract discussions

with airlines and hotels had resumed this year after these negotiations were mostly shelved in 2020 during the height of the pandemic. Pricing has remained fairly static throughout the pandemic as airlines/hotels are likely hesitant to mark-to-market given the disruption of COVID-19 and as Goldman's volumes are still down significantly (pricing is typically tied to volume commitments in corporate contracts). Looking forward, Mr. Awalegaonkar does not anticipate much change to the airline industry dynamic, as there has not been any change to the key players. However, he noted there could be some market share shift on the hotel side and therefore potential implications to hotel pricing, as it is yet to be seen which of the hotels that remain closed today will be closed permanently.

- **Group Meetings:** As CDC guidelines and local government restrictions have eased, there has been an uptick in the approval of hosting/attending group meetings across the corporate space. Mr. Awalegaonkar flagged that it is his view that hybrid group events (i.e., with both in-person and virtual components) are here to stay in the medium term. Mr. Watts believes that the key determinants of a broader resumption of group events will continue to be community case rates and vaccinations rates, and that there will likely be different safety/health protocols for individuals with confirmed vaccination status vs. those without as these events ramp-up.
- **Travel Technology:** The pandemic has sped up adoption of more self-service capabilities (e.g., self check-in for airline/hotel partners, mobile boarding passes, ability to change reservations via an app, etc.) and is going to drive a need for health/safety monitoring and compliance technology over the medium term. On the latter, it was noted that the health monitoring technology (e.g., Health Passport, Health Attestation, etc.) landscape is fragmented with seven to eight apps currently in use across various governments and airlines.

Disclosure Appendix

Reg AC

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