MONTHLY RESEARCH WEBINAR

LODGING, RESTAURANTS, AND LEISURE SERVICES: A REOPENING ECONOMY CONFRONTS INFLATION

Moderator:

Jim Kelleher, CFA

Director of Research

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61 Broadway • NYC, N.Y. 10006
Telephone: (212) 425-7500

WHAT'S NEW AT ARGUS?

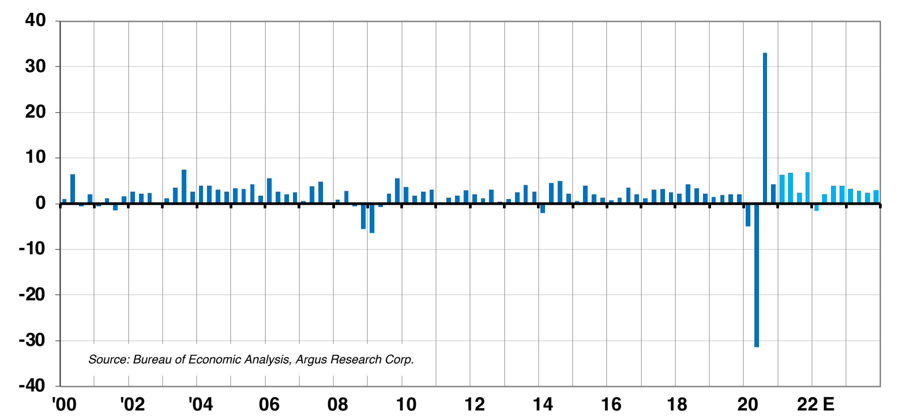
- **Lodging, Restaurants, and Leisure Services: A Reopening Economy Confronts Inflation**
  - Jim Kelleher, CFA, Director of Research
  - Christine Dooley, Senior Analyst
  - John Staszak, CFA, Senior Analyst

- **Argus Quick Notes**
  - ESG Stocks
  - Recession-Proof Stocks
  - Analysts Raising Target Prices
  - Innovative Companies
  - Find these on the homepage of our website

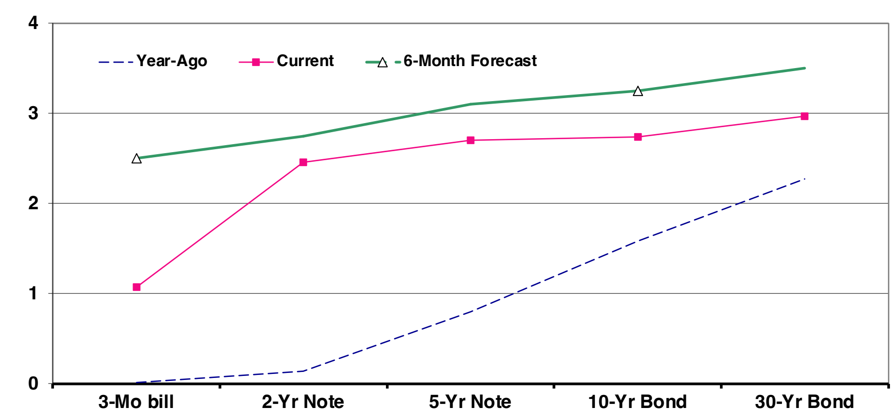
- **Argus In the News**
  - Jim Kelleher on Nvidia's Earnings
  - Stephen Bigger on the Bank Stocks
  - Kris Ruggeri on Under Armour
  - Find information on the homepage of our website

MACRO FORECASTS

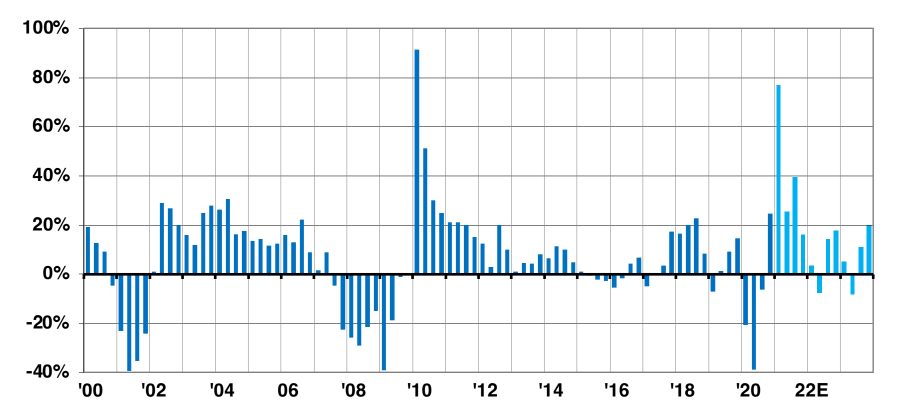
REAL GDP W/FORECASTS (%)



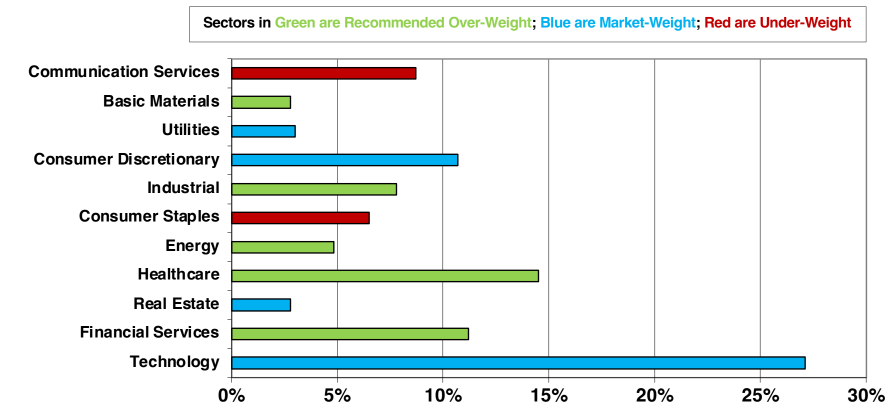
TREASURY YIELD CURVE (%)



S&P 500 QUARTERLY EARNINGS GROWTH



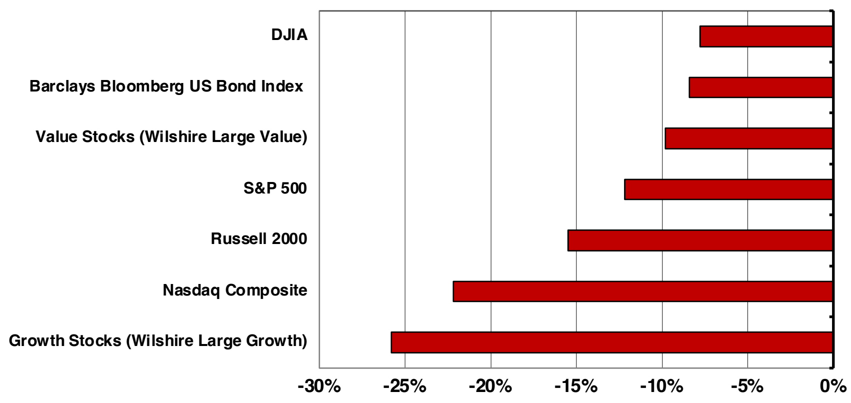
MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500



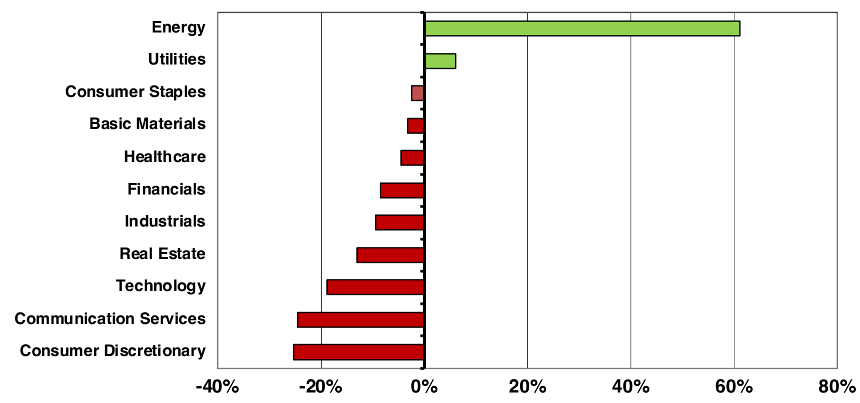
MARKET PERFORMANCE

DATA AS MAY 31, 2022

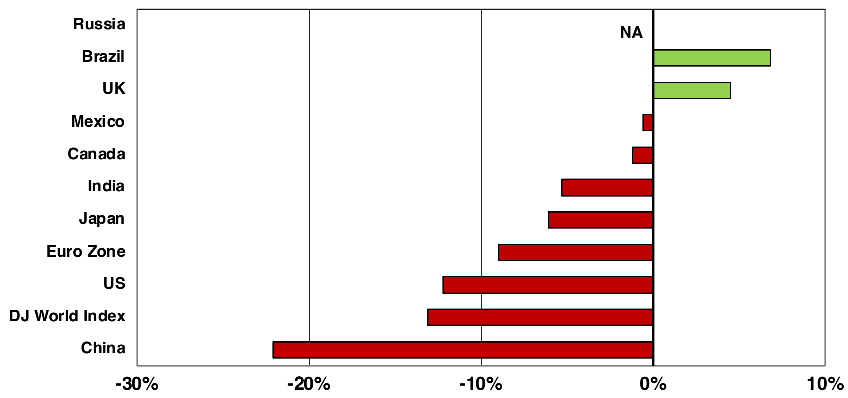
MAJOR INDEX



SECTOR



GLOBAL EQUITY MARKETS



CONSUMER DISCRETIONARY SECTOR

ARGUS®

- **The Consumer Discretionary Sector accounts for 11% of the S&P 500**
  - Restaurants - 9% of the Sector
  - Hotels, Resorts, and Cruise Lines - 6%
  - Gaming - 1.6%
  - Other: Autos & Auto Components, Household Durables, Retail, etc.

  - Our Recommendation is Market Weight

- **Performance**
  - Consumer Discretionary Sector - Down 33% YTD, Up 20% 3yr, underperforming
  - Hotels, Restaurants, Leisure - Down 23% YTD, Down 23% 3yr, underperforming

RESTAURANTS

ARGUS®

Performance

- Down 21% YTD, Up 22% 3yr, underperforming

Macro Drivers

- Inflation - Higher Food, Energy Costs
- Interest Rates – Cap Improvements, More Expensive
- Labor
- Consumer Confidence & Spending

Trends

- Pulling out of Russia
- Trade Unions
- Menus
- Kanye West
- Robots & Automation

Leaders

- Brand and Scale Leaders

HOTELS

Performance

- Down 20% YTD, Down 18% 3yr, underperforming

Macro Drivers

- Inflation – Higher Energy Costs
- Interest Rates – Cap Improvements, More Expensive
- Labor
- Consumer Confidence & Spending

Trends

- Luxury Apartments + Hotels
- Business Travel
- Loyalty Points
- Airfares
- Summer

Leaders

- Brand and Scale Leaders

GAMING

Performance
- Down 37% YTD, Down 37% 3yr, underperforming

Macro Drivers
- Inflation - Higher Food, Energy Costs
- Interest Rates – Cap Improvements, More Expensive
- Labor
- Consumer Confidence & Spending

Trends
- iGaming & Sportsbooks – Pandemic Darlings
- iGaming Land Grab – New Entrants vs Big Casinos
- Advertising - Big $$
- State-by-State Land Grab
- Continued Growth in Gaming, Growth of Verticals
- Vegas – Sports Hub
- Macao – U.S. Licenses

Leaders
- Brand and Scale Leaders

Marriott International, Inc. (MAR)

- Strong pricing and occupancy continue to drive leisure demand higher, while corporate demand continues to improve.
- Urban markets should outperform rural and suburban markets, benefiting margins as urban properties sport higher rates.
- The company's development pipeline remains solid, with prospects for higher interest rates less of a concern than higher construction costs.
- Our long-term rating on MAR remains BUY based on the company's profitable fee-based business, strong liquidity, and emphasis on corporate travel.

Hilton Worldwide Holdings, Inc. (HLT)

- HLT's room rates remain solid and we see no evidence that travel demand has reached its peak.
- Leisure demand remains strong, but additional demand is coming from recovery in the company's convention and corporate businesses.
- Management continues to expect net unit growth (NUG) to increase by a mid-single-digit pace, as existing hotel owners convert to Hilton. However, we believe that NUG could increase faster than investors currently anticipate and expect NUG to ramp up to 6%-7% growth if conversions continue at the current pace.

MGM Resorts International (MGM)

- We think prospects for the company's 29 U.S. casinos and BetMGM (the company's sports betting and iGaming segment) are favorable.
- In 2022, we expect increased occupancy and higher room prices to boost revenue.
- MGM ended 2021 with solid results in Las Vegas and we expect a return to profitability in 2022.
- We also expect China's easing of its zero-tolerance COVID policy to benefit MGM China's results.
- The city of Osaka has chosen MGM to construct and operate Japan's first integrated resort and we expect it to obtain a license later this year.

Boyd Gaming Corporation (BYD)

- Demand for Boyd's gaming locations remains robust, with its Las Vegas Locals and Downtown Las Vegas properties reporting particularly strong results during the first quarter.
- Historically low unemployment and strong travel demand should boost hotel occupancy.
- Going forward, we expect Boyd's operating margin to increase as a result of favorable operating leverage at the company's Las Vegas properties and at its regional casinos.
- We also see the company's partnership with FanDuel and the expansion of its online betting platform as future growth drivers.

McDonald's Corporation (MCD)

- We expect McDonald's, with its strong digital, delivery, and drive-thru businesses, to endure a period of soft industry sales better than most other restaurant chains.
- During the current period of industry weakness, we prefer large restaurant chains like McDonald's that offer value menus, spend heavily on advertising, and have clean balance sheets.
- On May 19, MCD announced the sale of its restaurants in Russia to a current licensee who will operate these restaurants under a different name.
- We believe that McDonald's vast size enables it to purchase commodities at favorable prices, and endure inflationary headwinds better than its competitors.

Chipotle Mexican Grill, Inc. (CMG)

- We think that Chipotle has a healthy balance sheet (approximately $616 million in cash and cash equivalents in 1Q22) along with robust mobile ordering and delivery platforms that will help it to recover as the economy reopens.
- While some consumers may be put off by Chipotle's relatively high prices, we expect its strong brand to continue to attract customers.
- More than four-fifths of new restaurants are constructed with Chipotlanes; these restaurants require a small additional outlay and return, on average, 80%.
- Management plans to enter mid-sized markets and plans to raise the store count to more than 7,000.
- We remain confident that Chipotle can achieve its long-term goals of mid-single-digit comps, high single-digit revenue growth, and mid-teens operating margins.

Booking Holdings Inc. (BKNG)

- We have a favorable view of online travel companies, and particularly of BKNG given its focus on Europe, where it generates most of its gross profit.
- We expect the company to benefit from the strength of its Booking.com brand in Europe and from relatively high European coronavirus vaccination rates.
- Over the next two years, we expect a strong recovery in the travel industry and see bookings above 2019 levels.
- On valuation, BKNG is trading at a projected 2022 P/E of 19.4, below the average for other on-line booking companies; however, we believe that it merits a higher multiple given the company's strong earnings outlook.
- Our target price of $2,700 implies a projected 2022 P/E of 23.5 and a potential return of 21% from current levels.

Southwest Airlines Co. (LUV)

- Southwest is among the best low-cost carriers, with a clean balance sheet, a strong management team, and low costs and fares.
- The company's financial strength should enable it to broaden its network and increase its number of routes.
- LUV is among the best at hedging fuel prices and we project just a high-single-digit increase in its fuel expense in 2022.
- Our BUY rating is based on the company's record of above-peer-average revenue growth, simple fare structure and reputation for generally good customer service.
- With $16.7 billion in liquidity and an emphasis on leisure travelers, Southwest appears well posi-

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