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HYATT HOTELS CORPORATION EQUITY RESEARCH – IMPLICATIONS OF THE NEW INDUSTRY OUTLOOK

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Abstract

The present report contains an in-depth analysis of the implications of the new lodging industry outlook at Hyatt Hotels Corporation as the market continues moving toward recovery after being profoundly affected by a global health crisis. The analysis fundaments on reviewing potential factors and new trends in the industry that can derive the future strategy of Hyatt. The present report is part of a broader Equity Research on Hyatt that aims to establish a target price for the company. A HOLD recommendation is given for investors, estimating a 9,3% return for a target share price of $104,07 for December 2023.

Keywords: Hyatt Hotels Corporation; Lodging Industry; Equity Research; Global Health Crisis

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This report is part of the Hyatt Hotels Corporation report (annexed), developed by Mafalda Gomes and Maxime Gauthier and should be read has an integral part of it.

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Introduction

The present report is part of a broader Equity Research on Hyatt Hotels Corporation with the aim to establish a target price for FY 2023 and provide a recommendation for investors.

While Covid-19 affected all industries, the lodging industry stands among the hardest hit. After being deeply affected by the global health crisis, Hyatt is steadily on the road to a recovery driven by the RevPAR growth, net room growth with a 114,000 rooms pipeline, and, combined with best practices, margins increased. Currently, on an ongoing shift to an asset-light strategy, the company´s expansion strategy focus on the management and franchising portfolio primarily in the Asia Pacific and Europe regions, where there are more growth opportunities, allowing the company to gain market share.

The leading Equity Research contains an in-depth analysis of the company, the sector in which operators and its main competitors, followed by the expected performance that was conducted to its valuation and final target price for FY 2023. Additionally, the Equity Research contains a risk analysis and final recommendation for investors.

The present report condenses an analysis of the lodging industry and trends, along with the forecasted financial statements and risk analysis. My colleague, Maxime Gauthier, focuses his complementary report on company analysis and equity valuation.

Based on the assumptions presented and given the authors' profound analysis of the company and the lodging industry, Hyatt's FY 2023 share price is expected to be $104,07. The authors recommend investors to HOLD, given the 9,3% estimated return.

Lodging Industry Overview

Market Overview

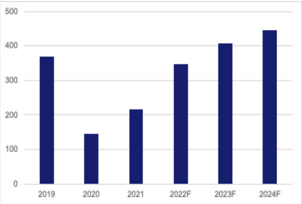

Figure 1: Lodging industry global revenues (in billions of USD) projections for 2022-2024. Source: Statista.

Travel behaviour shifted since the start of the millennium and will force hotel chains to further evaluate their offering. Leisure travel in the US has increased nearly 20% since 2000, decreasing the business travel to only 12.3% in 2021. Additionally, revenue derived from leisure travel is set to grow 14% in 2022 compared to pre pandemic levels while business travel revenues are forecasted to stagnate (AHLA, 2022). This shift will force hotels to revisit their client mix and service offering to gain competitive advantage. The lodging industry is a subsegment of the hospitality industry, along with food and beverage, travel and tourism, and recreation. The industry is highly competitive, with customers having the possibility to choose between international hotel chains, stand-alone boutique hotels and short-stay home rentals. The lodging industry's revenue reached $215,2 billion in 2021 (*fig. 1*), nearly growing 50% year-on-year. Since the industry's performance is directly related to tourism, it is interesting to see the latter's evolution. International arrivals have constantly increased in the last decade, except for 2020, with the closure of international travel. While Covid-19 affected all industries, the lodging industry stands among the hardest hit. 2021 saw an increase of 9,46% in international arrivals, driven mainly by arrivals in Europe and the US. The lodging industry is expected to have a full recovery in 2023/2024 (CBRE, 2022), providing no macroeconomic events such as larger-scale international war, recessions, or a more acute COVID variant occur.

Travel behaviour has shifted since the start of the millennium and will force hotel chains to evaluate their offering further. Leisure travel in the US has increased by nearly 20% since 2000, decreasing business travel to only 12,3% in 2021. Additionally, revenue derived from leisure travel is set to grow 14% in 2022 compared to pre-pandemic levels, while business travel revenues are forecasted to stagnate (AHLA, 2022). This shift will force hotels to revisit their client mix and service offering to gain a competitive advantage.

Demand Analysis

Figure 2: Inbound tourism by purpose of travel. Source: UNWTO, Authors'

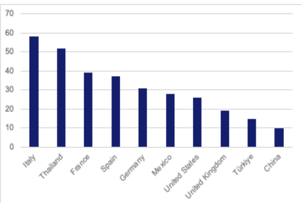

Figure 3: YTD travelers' sentiment (December 2022). Source: UNWTO.

The lodging industry demand includes leisure and business travellers. In 2019, nearly 88,71% of inbound tourism had the purpose of leisure, 3,14% more than in2010 (*fig. 2*). As for the current and future demand, leisure travel will keep prevailing, while corporate travel policies remain uncertain. As countries open borders and ease COVID-19 restrictions, people are more eager to travel again and to discover new experiences while willing to spend more money on a vacation than they would have in the past. This increase in expenditure, explained by increased savings during the lockdown, is defined as "Revenge Travel" (Lilit, 2022). When deciding on travel accommodations, instead of focusing primarily on price and quality, new travellers prioritise a safe and sanitary environment, flexible booking policies, trust, and reputation (AHLA, 2022). The current traveller sentiment favours destinations Italy, Thailand, France, and Spain (*fig. 3*), which is one of the many reasons hotel chains are focusing their expansion plans on Europe and the Asia Pacific. Also, with the rise of remote working and the flexible working environments provided by companies, a new traveller segment emerged where people combine their business trips with leisure: bleisure travel.

Industry Trends

▪ Bleisure

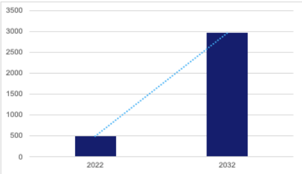

Figure 4: Bleisure tourism market estimated size in $ billions for 2032. Source: Future Market Insights.

Consumer demand has widely changed in the past and is set to continue evolving in the near future. With the decrease in the traditional business travel segment, a new market emerged combining both leisure and business: bleisure travel. With the rise of remote working, which already doubled in 2021, bleisure is set to take over traditional business travel in the upcoming years, with more than 89% of travellers willing to extend their stay for leisure reasons. Companies are also considered enablers, as 57% of businesses already include a business trip extension policy. The lodging industry can already capitalise on this trend, with the average length of business trips increasing from two/three days to more than six days, where more than 80% of guests stay in the same hotel. Hotel brands will have to react now to gain a competitive advantage by offering a hybrid environment dedicated to this market. Diverse properties such as the Park Hyatt St. Kitts offer a bleisure package with various discounts, access to exclusive amenities and a daily food & beverage credit. The bleisure industry is forecasted to reach a value of $2,97 trillion by 2032, representing a 10-year 19,5% CAGR (*fig. 4*).

▪ Asset-Light Strategy

The asset-light business model treats of balance sheet optimisation, as a company diminishes ownership of its physical assets to reduce the risk it bears. The hospitality industry is no stranger to this trend. Marriott International was the precursor in the mid-1990s, yet most players nowadays waited until the second half of the 2010s to get on this trend. Although the phenomenon is widely followed and applied, only brands already cultivating a solid customer base reap the full benefits from this model: increasing the number of properties at a lower cost while mitigating risk in situations of downturns. However, this strategy does bring a downside. Brands give up a certain control over the asset, which can hinder brand image and reputation in specific cases (Blal, 2019). While research on the topic remains scarce, at the moment, there is no immediate effect on the financial performance of hotels other than a short-term increase in net results derived from the sale of properties, a decrease in invested capital along a quicker brand expansion.

▪ Online Travel Agencies (OTAs)

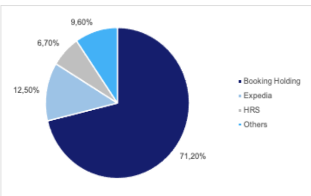

Figure 5: Main players in the OTAs industry. Source: Hotrec Hospitality Europe.

An OTA is an online travel agency where consumers can research and book travel without assistance from a conventional agent. OTAs are an enormous driver of hotel room sales and online bookings in the lodging industry. The industry is highly concentrated in three players: Booking Holding, Expedia, and HRS (*fig. 5*). The stock searching separately, price-sensitive customers are now offered an online service comparing hotels, transportation, and experiences. Consequently, there is a risk that consumers will start to develop a dependency on reservation systems rather than loyalty to hotel brands. Additionally, the OTA market is becoming more concentrated, giving them more pricing power and, consequently, higher commissions. The industry remains exposed to this risk, despite most bookings being derived from direct channels, prompting a possible decrease in hotel chains' profitability through increased commissions and transaction fees. In recent years, hefty investments aimed to reduce the dependency of hotel chains on OTAs. Brands such as Hyatt, Marriott and Hilton revamped their brand website to support complete mobile reservation and dynamic revenue management systems that offer guests tailored experiences. Hyatt recently threatened to terminate its contract with OTA giant Expedia to drive more reservations through direct channels and therefore cut costs on sales and marketing expenses. To effectively distance themselves from OTAs, brands need to increase the value of direct channel reservations in the eyes of price-sensitive customers, and loyalty programmes are a key factor in reaching this objective.

- Loyalty Programmes

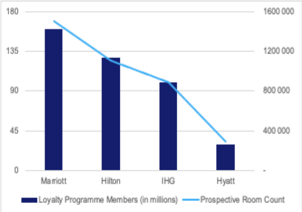

Figure 6: Peers' comparison between total rooms and total loyalty programme members. Source: Company´s annual reports.

Research shows loyal customers book more frequently, are less price-sensitive and have increased expenditure per stay (Catala Consulting, 2022). The Direct Marketing Association defined brand loyalty into four subcategories: Active Loyals who show devoted loyalty to a brand, Habitual Loyals who might look at other alternatives for special services, Situational Loyals and Active Disloyals. The hospitality sector is not unfamiliar with the concept, but only select ultra-luxury brands can genuinely benefit from the first category. Consequently, large hotel chains developed point and tier-based loyalty programmes to attract but mostly retain customers. It is not uncommon for customers to switch brand loyalty for increased value. To mitigate this risk, hotel brands created incentives such as member-only discounts on top of usual advantages, increasing the direct channel versus OTA ratio to 3-1 for Marriott and Hilton. Certain hotel chains also include a tier-based loyalty programme. Gamification techniques play on customers' sense of accomplishment and engage customers into reaching the next tier. Tier-based programmes have been shown to increase engagement by 47% and loyalty by 22% (Snipp, 2017). To help customers reach higher tiers, companies also invest in credit card programmes which allow customers to earn points through their purchases. Companies such as Marriott or Hyatt benefit from a fee for each transaction while customers increase their point balance to redeem later. Hence, loyalty programmes are critical to companies' future strategy in a market where the difference between loyal and disloyal customers heavily impacts brand value.

- Personalisation Through Technology

The industry saw a shift in its marketing strategy, from the customisation trend to a more subtle yet powerful personalisation. While both terms are often incorrectly described as the same, personalisation is the approach to serve customers based on their preference, while customisation lets customers choose their offer based on their liking. With the advancement of technology, the lodging industry has been able to meet clients' expectations. Leveraging clients' data allows hotel chains to tailor their service offerings and promotions, increasing client retention. An insight by Accenture shows that 91% of clients are more inclined to purchase from a company that remembers them and makes them feel connected. Customer Relationship Management (CRM) is a crucial aspect of retention. The technology has been widely deployed in the industry. Using bid data, Artificial Intelligence and automation, the tool helps companies better serve their clients. There is, however, a risk that could impact this technology's future. As data has become extremely valuable, clients are being more cautious with the data they intentionally share. 2019 McKinsey research shows no industry has a trust rating above 50% regarding data sharing and collection, the highest industries being Healthcare and Financial Services. Regulations are also a potential factor discouraging companies from exploiting data fully. Implemented in 2018, GDPR strengthened the guidelines for companies to collect, exploit, store and delete data. Failure to comply with these regulations might lead to fines amounting up to 4% of a business' total revenues. Data exploitation will continue to be a source of value in the future, providing no deterioration of consumer sentiment on data sharing and proper ethical data collection from companies.

- Environmental, Social and Governance (ESG)

Regardless of the business, a company that wants to thrive in the future must have a rigorous dedication to environmental, social, and governance (ESG) topics. Bringing ESG to the epicentre of a company strategy can be a decisive competitive advantage for hotel chains, particularly for those who can tell a captivating narrative about their ESG journey.

Many players in the industry take ESG aims seriously, as they understand its importance to reach competitive advantage but also steer clear of negative publicity. Decarbonisation targets are one of the priorities of many hotels' goals, and as an example, Hilton and IHG aim to, at least, halve their carbon footprint over the next decade.

Diversity, equity and inclusion, and company ethics are the other two main topics among hotels' EGS initiatives. Assets that comply with ESG can generate higher cash flows for investors and create higher exit value. Since 53% of international travellers are willing to spend more on an environmentally responsible product, hotel groups that commit to ESG goals can attract clients and apply a price premium. Additionally, ESG-compliant fixed assets usually have greater construction efficiency, lower operational costs, and, thus, higher long-term values.

Competitive Landscape

Rank	Company	Market Cap (billions of USD)	Market Share (%)
1	Marriott International	51.81	15.81%
2	Oriented Land	44.54	13.59%
3	Hilton Worldwide	36.93	11.27%
4	Las Vegas Sands	28.34	8.65%
5	Galaxy entertainment	19.57	5.97%
6	MGM Records	13.52	4.13%
7	Host Hotels & Resorts	14.13	4.31%
8	Pan Pacific	10.15	3.10%
9	Hyatt Hotels	10.12	3.09%
10	InterContinental Hotels Group	9.85	3.01%
	Others	88.71	27.07%

Figure 7: Lodging industry market capitalization and main players (October 2022). Source: Companies Market Cap.

As of October 2022, the global lodging industry accounted for a total of $327,67B in market capitalisation (*fig. 7*), with Hyatt accounting for 3,09%.

Operating in a highly concentrated market in the US but somewhat fragmented in Europe, Hyatt has multiple sources of competition, and the strongest ones are the following. Large hotel groups such as Marriott International, Hilton Worldwide, and Intercontinental Hotel Group compete on the same spectrum of offerings as Hyatt (*fig. 8*). They propose an alternative to more than 95% of Hyatt's franchised and managed properties. For the purpose of benchmarking, these groups will therefore constitute Hyatt's competitive set, as we believe they represent the closest proxy to Hyatt. These companies regroup 65 brands across the four primary service offerings: luxury, upper upscale, midscale and extended stay. Competition is particularly intense in Upper Upscale and Upscale / Midscale segments (*fig. 9*).

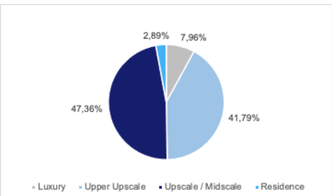

Figure 8: Per brand segment distribution (Hilton, Marriott, IHG). Sources:

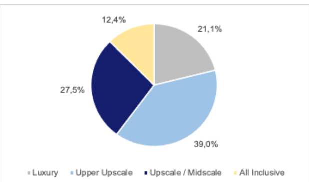

Figure 9: Hyatt brand segmentation distribution (2021). Source: Hyatt´s annual report.

The sharing economy heavily disturbed traditional industries in the past decade. The hospitality and lodging industry is not exempt. With its approach to using empty guest rooms in people's houses, Airbnb allowed homeowners to have an extra source of income and propose a home environment to guests at unbeatable prices. Although the platform was soaring in the past, the 40% increase in ADR in the second quarter of 2021 compared to two years prior, combined with a potential decrease in future demand, could be detrimental to the tech giant and sway customers back towards hotels. Airbnb customer satisfaction has recently declined following a drastic increase in Airbnb additional fees, almost doubling the original price per stay. Aside from the recent chip in the company's brand image, countries´ increased rules and regulations could become problematic for Airbnb. Various cities tighten the procedures, such as enforcing homeowners to file the registration number on the listing. Banning listings could heavily discourage new and current hosts from renting their properties and consequently slow down or reduce supply.

Forecast

Future Strategy

Looking ahead, Hyatt developed three significant strategic initiatives which will serve as a roadmap for future performance.

The company first focused its strategy on RevPAR growth. Through an expansion in the high-performing leisure and resort sectors, along with hotel openings in geographical markets underdeveloped by Hyatt compared to its competitors, Hyatt will be able to capture more demand while providing alternatives to its existing customer base. Investment in the brand's website and the industry trend to distance the company from third parties such as OTAs will affect customer retention and increase direct revenues. Coupled with industry-leading revenue management for its O&L properties, but also provided as a service to franchised properties, Hyatt will be able to drive RevPAR growth and hence, both O&L and M&F revenues.

Secondly, the company plans to increase its system-wide presence through its pipeline. As of December 2022, Hyatt committed to an expansion of 114 000 rooms in areas preferred by travellers, such as Europe and Asia Pacific. According to a former hotel asset manager, hotels on average take 5 to 6 years from the contract negotiation to the opening. The expansion represents therefore a 38% growth in the managed and franchised rooms by 2027, generating an increased return per invested capital. An important assumption we took to forecast future performance regards the evolution of the O&L segment: the room count is assumed to remain constant as there is no disclosed information regarding which properties will be sold, when they would be sold, and the gains generated from the sale.

Lastly, derived from the net room growth and best practices, margins are expected to increase benefiting from continuous operational improvement and higher pricing negotiation power. In the O&L segment, between 2013 and 2018 the total number of hours worked per occupied room decreased by 2.35%, while the food and beverage margin increased by 5.4%. These improvements denote the company's efficiency in managing labour and costs. Improvements like these also play another important role, as relationships with owners are vital to the negotiations of Management and Incentive fees, better operational management is key to Hyatt's future performance.

Revenues

The company's revenues were projected using the four primary sources, including:

- Owned & Leased revenues encompassing all primary and ancillary revenues.
- Management & Franchising fee revenues, mainly derived from management and franchise contract negotiations such as a percentage of gross room revenues and F&B revenues along with an incentive fee based on the franchisee's performance.
- Distribution and Destination Management resulting from the company's new business model after the acquisition of ALG.
- While revenues for the reimbursement of costs incurred on behalf of M&F properties account for a large proportion of the revenues, the company will not profit from this caption and is thus forecasted to evolve in line with the costs.

- Key Value Drivers

Average Daily Rate

Segment	Benchmark	Correlation	P-Value
O&L	Local Real GDP	0.3770	0.2829
Americas Full-Service	Local Real GDP	**0.9568**	0.0000
Americas Select-Service	Local Real GDP	**0.9080**	0.0003
ASPAC Full-Service	Local Real GDP	**0.9023**	0.0004
ASPAC Select-Service	Local Real GDP	0.4956	0.3960
EMEA Full-Service	US Inflation	**0.8163**	0.0040
EMEA Select-Service	Local Real GDP	**0.8468**	0.0334

Figure 10: Adjusted cost debt computation. Source: Authors´ computation.

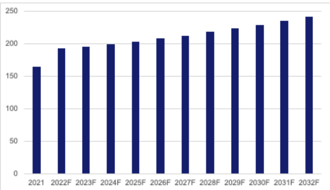

Figure 11: Forecasted system-wide ADR (USD). Source: Authors´ computation.

Hyatt's pricing strategy is established on a value-based basis, meaning the company sets hotel room prices according to customers' perceived value. Given the nature of the business, hotel managers can easily adjust the daily rate given the state of the business.

Therefore, in order to decide the most suitable approach to forecast future prices, we studied the historical ADR changes against US inflation, local GDP growth and advanced economies GDP growth. We found that the increase in ADR mostly correlates better with the local economy growth rather than with US inflation or advanced economies GDP growth (*fig. 10*). In fact, as Hyatt mainly operates in the upper upscale and luxury segment, its target market is less price sensitive. A 2022 CBRE research confirms our findings, reasserting the predicted 2032 system-wide ADR value of $242,6 (*fig. 11*).

Since roughly 50% of EMEA hotels are in the Eurozone, consequent currency exchange issues have marked the past decade. Therefore, the US inflation was taken a proxy to forecast future EMEA full-service rates, in order to absorb any future currency devaluation. Lastly, the O&L and ASPAC select-service segments are statistically insignificant primarily due to the small population of O&L hotels and the lack of data regarding the ASPAC select-service.

Occupancy

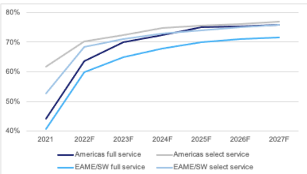

Figure 12: Occupancy rate forecast for management and franchising Americas and EAME/SW segments. Source: authors' computation.

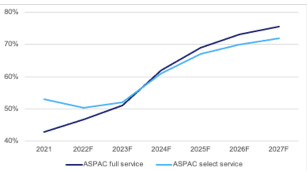

Figure 13: Occupancy rate forecast for management and franchising ASPAC. Source: authors' computation.

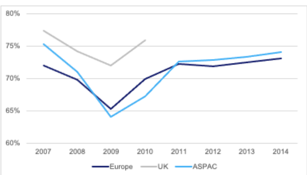

Figure 14: Marriott occupancy rate by region after 2008 financial crisis. Source: Marriott´s annual reports.

Forecasting occupancy is one of the most challenging aspects of future performance estimation as multiple factors come into play, such as the socio-political conditions of a country, inbound tourism, or even the global state of the economy.

According to different reports, the hospitality industry will recover from the pandemic in 2023, although a full recovery of all segments might only happen in 2025.While the Americas and EAME regions are expected to recover relatively quickly during the next couple years (*fig. 12*), ASPAC is expected to take longer to recover. Since nearly 40% of the hotels in the ASPAC region are located in China, both the low travel sentiment and China's Zero Covid Policy affect the segment's recovery (*fig. 13*).

To forecast how the occupancy will evolve after such an unparalleled crisis, an analysis of the occupancy rate evolution after the financial crisis of 2008 was performed. As Hyatt went public during the recovery from the 2008 financial crisis, the authors analysed Marriott International as a proxy. In the aftermath of the financial crisis, the United Kingdom and Europe saw their occupancy rates return past their pre-crisis levels in 2010 and 2011, respectively, and the ASPAC region achieved 95% of their original values in 2011 (*fig. 14*).

An additional parameter affecting occupancy is hotels currently in the pipeline. Following the increase in the number of rooms, the occupancy rate stabilization in the management and franchising segments will not be immediate as hotels tend to stabilize their occupancy rates 2/3 years after their opening (O'Neill, 2011). Thus, management and franchising occupancy rates will fully stabilize in 2029. Since the O&L segment is assumed to have a constant number of rooms in the future, the occupancy rate will stabilise in 2027.

The last parameter affecting the occupancy forecast is the projected market penetration resulting from the expansion strategy. With the expansion of the brand in areas currently without or with very little brand presence, Hyatt will be able to increase alternatives to its customer base and target market, therefore increasing occupancy past historical average in markets such as EAME and ASPAC.

- Owned and Leased

As the O&L segment will not increase in terms of room count, revenue growth will mainly be driven by the growth in occupancy in the short run, sustaining long-term growth through the changes in ADR. Food & Beverage revenues are also expected to grow with increased hotel traffic. The segment is forecasted to gross $2,05 billion by 2032 (*fig. 15*).

- Management and Franchising

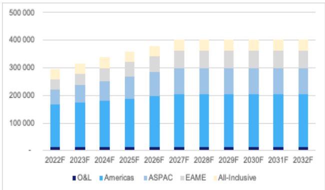

Figure 16: Hyatt´s room count forecasted evolution. Source: Authors´ computation.

Revenues from the Managed & Franchised properties are derived from fees. Hence, they vary regarding the number of properties and rooms under such contracts, the negotiated fees with hotel owners, market demand and the pricing resulting from revenue management practices. The forecasted fee growth will mainly result from the company's expansion plan (*fig. 16*).

Net Management, franchise, and other fees, excluding eliminations	2032F
Americas	856'229'793
ASPAC	399'779'273
EAME/SW	293'725'465
Apple Leisure Group	176'528'617
Corporate and other	44'711'161
Total	**1'770'974'309**

Figure 17: Net Management, franchise, and other fees, excluding eliminations. Source: Authors ´computation.

Additionally, licensing fees include revenues from the company's co-branded credit card programme in collaboration with Chase, which awards cardholders points through every transaction that are redeemable to get free nights at Hyatt hotels. Since only US residents can apply for this credit card, corporate and other revenues will grow in line with US GDP growth, as credit card use is directly related to consumer purchasing power. Net revenues from Managed & Franchised properties will amount to $1,77 billion, predominantly driven by the Americas segment (*fig. 17*).

- Distribution and Destination Management

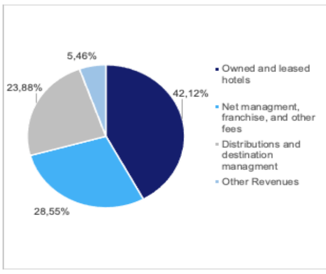

Figure 18: Composition of Hyatt´s 2032 revenues, excluding revenues from reimbursement costs. Source: Authors ´computation.

ALG's distribution and Destination Management services account for the segment's vast majority of revenues. These services are derived from the sale of ALG Vacations' vacation packages, comprising mainly air and ground transportation, accommodation provided by third-party properties, and insurance. Due to the different services included in the package, forecasted revenues are aligned with the US inflation. In the long term, Distribution and Destination Management will account for nearly 24% of the group's total revenues excluding reimbursed expenses on behalf of Managed & Franchised Properties, at $1,23 billion (*fig. 18*).

Cost Value Drivers

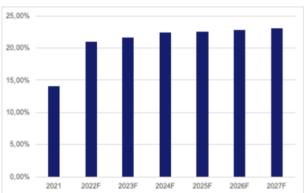

Figure 19: Hyatt´s gross margin evolution. Source: Authors' computation.

Hyatt's cost structure is expected to be more efficient in the immediate future. On the one hand, with the shift in strategy significantly increasing the amounts of Hyatt properties, better procurement management resulting from a higher negotiating power can be expected. On the other hand, Hyatt will continue to implement best practices, especially in Food & Beverage departments, leading to lower O&L properties cost margin. The company's O&L properties' cost margin is forecasted to exceed pre-pandemic values, stabilising around 23% in the long term (*fig. 19*). The Distribution and Destination Management cost margin is expected to decrease slightly based on the 2022 3Q value due to a strong pricing strategy, driving the gross margin to 21,70%.

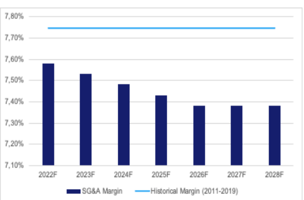

Figure 20: Hyatt´s SG&A forecast. Source: Authors' computation.

Selling, general, and administrative expenses primarily consist of employees' compensation expenses, professional fees, sales and marketing expenses and administrative expenses. Following the company's investment in its website to decrease the reliance on OTAs, the SG&A margin is forecasted to decrease slightly (*fig. 20*).

Lastly, other direct costs treat the condominium units operations along the Unlimited Vacation

Club membership linked to the AMR resorts. Due to the acquisition of ALG, the parent company of AMR resorts, the cost structure is expected to become more efficient in the near future. Following a conservative approach, we expect at least the segment to produce a positive income in 2024.

Investment Capital Value Drives

- Property, Plant & Equipment (PP&E)

Property and Equipment, Net		2021
Land	$	676
Buildings	$	3 065
Leasehold improvements	$	192
Furniture, equipment, and computers O&L	$	63
Construction in progress	$	47
Sum	$	4 043
Percentage of Total PP&E		78,26%
PP&E / O&L Hotel room	$	266 730
Furniture, equipment, and computers M/F	$	1 123
Sum	$	1 123
Percentage of Total PP&E		21,74%
PP&E / Managed and Franchised Hotel room	$	4 162

Figure 21: Property and Equipment, Net breakdown analysis for 2021. Source: Authors' computation.

Property, Plant & Equipment is expected to increase slightly until 2028 following the shift to an asset-light strategy. In order to have a projection as accurate as possible, a breakdown of PP&E per room and per segment was performed. As Managed & Franchised PP&E mainly relates to furniture and equipment, there is a significant difference between the two categories of PP&E per room. Projecting the values in (*fig. 21)*, along with the forecasted room count per segment, the estimated business PP&E results in $3,3 million after accumulated depreciation in 2032.

- Contract Liabilities

Contract liabilities relate primarily to deferred revenues from the loyalty programme and distribution and destination management, representing the obligation towards both companies' respective customers in dollar value. Due to the difference in the two entities' business models, each business's contract liabilities were estimated based on their respective revenues. Since the evolution of loyalty and membership programmes are accounted for in the segments' revenues, the book value of contract liabilities is estimated to reach $3,96 billion by the end of 2032.

- Intangibles

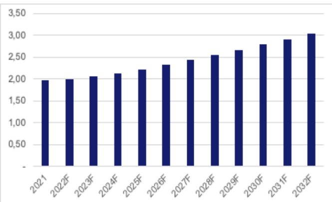

Figure 22: Net intangibles forecast (billions of USD). Source: Authors' computation.

To forecast as accurately as possible, intangibles need to be broken down into the additions to intangibles and the respective accumulated amortisation. Firstly, additions to intangibles are forecasted to remain at 3% of net sales. Accumulated amortisation, on the other hand, is taken until 2026 as reported in the company's quarterly report following their estimations, and thereon growing according to the percentage of additions to intangibles. Forecasted net intangibles will reach a value of $3,04 billion by 2032 (*fig. 22*).

Valuation

Risk Analysis

- Sensitivity Analysis

As the valuation mentioned above relies on assumptions, further sensitivity analyses should be conducted to see the effect of change on both discount and growth rates.

A first analysis was executed to compute the WACC's sensitivity based on both debt and equity costs. Regarding the cost of debt, values from the risk-free rate to the computed cost of equity of 8,39% constitute the first parameter. As for the range of equity costs, three different re-levered betas were computed using the peers' unlevered betas. Thereon, these betas were averaged with the historical equity beta, resulting in a cost of equity range from 8,34% to 8,44%. *Fig. 23* depicts the sensitivity of the WACC given the ranges for debt and equity costs. The minimum and maximum values computed serve as the WACC range in the second analysis.

		Re						
	7,54%	8,34%	8,36%	8,38%	**8,39%**	8,41%	8,42%	8,44%
Rd	3,58%	7,26%	7,28%	7,29%	7,30%	7,31%	7,33%	7,34%
	3,97%	7,32%	7,34%	7,35%	7,36%	7,37%	7,39%	7,40%
	4,37%	7,38%	7,40%	7,41%	7,42%	7,43%	7,45%	7,46%
	4,76%	7,44%	7,46%	7,47%	7,48%	7,49%	7,51%	7,52%
	5,16%	7,50%	7,52%	7,53%	**7,54%**	7,55%	7,57%	7,58%
	6,06%	7,64%	7,66%	7,67%	7,68%	7,69%	7,71%	7,72%
	6,96%	7,78%	7,80%	7,81%	7,82%	7,83%	7,85%	7,86%
	7,86%	7,92%	7,94%	7,95%	7,96%	7,97%	7,99%	8,00%
	8,76%	8,06%	8,08%	8,09%	8,10%	8,11%	8,13%	8,14%

Figure 23: Sensitivity analysis on WACC. Source: Authors´ computation.

The second analysis computes the share price sensitivity given changes in WACC and growth rate (*fig. 24*). Taking the result from the previous sensitivity, the potential change in discount rate falls between 7,26% and 8,14%. To determine the change in growth rate, two scenarios were approached. The first one, where Hyatt would not be able to create value based on its newly invested capital, uses the RONIC at WACC multiplied by the reinvestment rate of 8%. The second one focuses on a scenario where the company sustains a similar growth to the economy. The sensitivity will thus lie in the range of 0,60% to the long-term nominal GDP growth of 3.94%.

		Growth Rate								
	105,44	0,61%	1,12%	1,64%	2,16%	**2,68%**	2,99%	3,31%	3,62%	3,94%
WACC	7,26%	90,91	95,09	100,05	106,02	113,35	118,65	124,81	132,02	140,60
	7,33%	89,66	93,72	98,52	104,28	111,33	116,43	122,32	129,22	137,39
	7,39%	88,44	92,38	97,02	102,59	109,38	114,28	119,93	126,52	134,31
	7,46%	87,25	91,07	95,56	100,94	107,48	112,19	117,61	123,91	131,34
	7,53%	86,08	89,78	94,14	99,33	**105,64**	110,16	115,36	121,40	128,49
	7,69%	83,56	87,02	91,08	95,90	101,71	105,87	110,62	116,10	122,51
	7,84%	81,14	84,39	88,17	92,65	98,02	101,84	106,19	111,19	117,00
	7,99%	78,83	81,87	85,41	89,57	94,54	98,06	102,06	106,62	111,90
	8,14%	76,62	79,47	82,77	86,65	91,26	94,51	98,18	102,36	107,17

Figure 24: Sensitivity analysis on share price. Source: Authors' computation.

- Scenario Analysis

Rather than giving investors a recommendation solely on this computed share price, we found it necessary to perform a scenario analysis. Given current world events, we have identified two main risks that could certainly alter Hyatt's valuation.

New COVID-19 Variant

Given the failure to totally eradicate the virus, a risk of a dangerous new variant remains. In this scenario, we considered that the new variant would emerge during 2023, limiting the contact between people until the development of a new vaccine.

In this case, the lodging industry would be particularly impacted by the decrease in the occupancy rate. Considering that the industry would start recovery at the end of 2023 and a full recovery would only happen in 2025, the occupancy rate would stabilize in 2030, given that the pipeline would be extended for one year as construction would probably hold. Since the prices mainly follow local economies, the ADR would also be slightly affected. Contrary to 2020, the impact would not be as severe, and the lodging industry would recover faster as the world is more prepared and aware of which precautions to take in the case of a pandemic.

According to experts in the field, the probability of a new pandemic in any given year is estimated to be 3.3%. Therefore, this would be the probability of this scenario, obtaining an $87.1 price per share.

Ukraine-Russia War

In the second scenario, we forecasted a rather pessimistic outlook where Russia continues to prevail over Ukraine, deteriorating the current situation to a point where the travel appetite towards Europe falls. Similar to what happened in Europe during the 2016 season, marked by various terrorist attacks in France, Belgium, and Turkey, Tourism in the market will be affected, impacting the performance of hotels. Without forecasting the collapse of the European Union, as some analysts foresee, we would expect a growing 'fear factor' leading to a decrease in hotel occupancy. Simultaneously, energy prices would continue to increase since Russia remains the main supplier of imported energy. Until Europe comes up with a way to weaken the dependence on Russia's energy, O&L cost margins would increase, and EMEA incentive fees would decrease.

As this scenario remains not very likely, we considered a 10% probability since the evolution of the conflict remains blurry and unpredictable. This scenario would result in a $97.83 price per share.

Final Recommendations

In 2020, the COVID-19 pandemic, unprecedented in contemporary history, significantly impacted most industries. While the economy began to improve in 2021, normality is predicted to return in 2024. Hyatt Hotels Corporation is poised to strengthen its position in the market through a strategy composed of three pillars. These drivers are the adoption of an asset-light strategy, which will increase its return on invested capital, net room growth, and best practices, which will drive its margin expansion, and market penetration combined with successful revenue management. However, it is crucial to remember that a future pandemic or geopolitically motivated concerns could significantly impact Hyatt's operations and growth. Following the assumptions derived from the firm's strategy and communications, the above analysis concluded an intrinsic share price of $104,07, resulting in a return of 9,3%, including capital and dividend gains, over the 6th of January 2023 undervalued stock price of $95,2. Consequently, the authors recommend a HOLD position.

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MASTER IN FINANCE

HYATT HOTELS CORPORATION

COMPANY REPORT

"LODGING INDUSTRY"

9 JANUARY 2023

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Hyatt Hotels Corporation Equity Research

Strengthening its position following a substantial recovery

- Since the announcement in 2017, Hyatt has shown a strong commitment to an asset-light strategy, reducing its Owned & Leased rooms by 25%. Meanwhile, the company has been reenforcing its Management & Franchising pipeline, mainly in ASPAC and EAME/SW regions where growth opportunities are plentiful, which will allow the company to gain market share. The company´s portfolio is expected to grow 36% by 2027.

- The lodging industry reached $215.2 billion In revenues in 2021, nearly growing 50% year-on-year. With an increase of nearly 10% in international arrivals in 2021, it is expected to have a full recovery in 2023/2024, providing no macroeconomic events occur.

- The demand for leisure will keep prevailing, while corporate travel policies remain uncertain. As countries open borders and ease COVID-19 restrictions, customers are more eager to travel an increased expenditure. When deciding on travel accommodations, instead of focusing primarily on price and quality, new travellers place higher priority on a safe and sanitary environment, flexible booking policies, trust, and reputation.

- Hyatt is set to strengthen its position in the market. the analysis concluded an intrinsic share price of $104.07, resulting in a return of 9,3% including both capital and dividend gains.

Company description

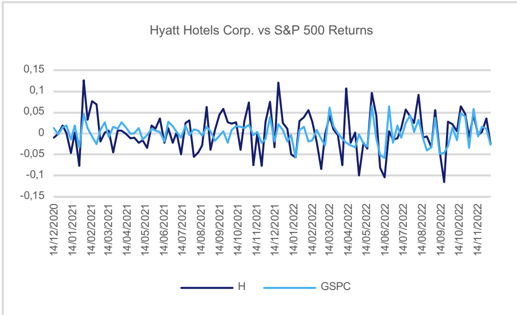
Hyatt Hotels Corporation is world renowned company operating in the lodging industry. Founded in 1957, the company manages, franchises, licenses, owns, and leases a portfolio of properties which mainly includes full-service hotels, select service hotels and resorts in 72 countries. The brand currently has a portfolio of 294 888 rooms and regroups 26 brands.

Recommendation:	**HOLD**
Price Target FY23:	**$104,07**
Price (as of 06-Jan-23)	**$95,22**

Source: Bloomberg

52-week range ($)	108.10 – 70.12
Market Cap ($m)	10,821
Outstanding Shares (m)	107.1

Source: Bloomberg



Source: Yahoo Finance

(Values in € millions)	2021	2022E	2023F
Revenues	3 028	5 846	6 611
EBIT	207	711	1 157
Net Profit	(222)	437	491
Comprehensive Income	(275)	282	379
Core ROIC	(5,25%)	5,18%	8,46%
Core Operational Margin	(7,74%)	5,49%	7,61%
Core Asset Turnover	67,83%	94,40%	111,14%
ROE	(0,53%)	16,60%	15,68%
Free Cashflow	(1 878)	782	544

Source: Company Reports, Authors' Computations

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Company Overview

Hyatt Hotels Corporation (Hyatt) is a hospitality company that operates 1 211 hotels regrouping 294 888 rooms (September 2022). The company owns, leases, and operates hotels under management or franchise agreements in 72 countries. 26 brands belong to the Hyatt portfolio: from Park Hyatt, tailored to a luxury clientele, to Hyatt House with an elevated take on an extended stay (*fig. 1*). The business proposes various offerings, namely full-service hotels, select-service hotels, all-inclusive resorts, vacation ownership, and condominium units. As a result, the company can better understand the market to meet and even exceed clients' expectations. With 65 years of expertise in the lodging industry, Hyatt is currently the second hospitality brand in terms of brand value and had a gross revenue of $4,3 billion in the third quarter of 2023.

Figure 1: Hyatt brand´s portfolio. Source: Hyatt´s website.

Company History

Hyatt began as a standalone hotel neighbouring the Los Angeles International Airport when purchased in 1957 by Jay Pritzker. With the help of his family, Jay Pritzker swiftly expanded the company to become a North American hotel owner-operator and management company. After their internationalisation in 1969, Hyatt Corporation and Hyatt International Corporation were created to ensure different strategies to fit their respective markets. They subsequently went private in 1979 and 1982 following the decision of the Pritzker family. Resulting of the consolidation of the family's assets in 2004, Hyatt Hotels Corporation was formed and launched its Initial Public Offering five years later, on November 10th, 2009, joining the New York Stock Exchange at $25/share. The stock price rose to $99,62 on December 14th, 2022, following a decade of changed in business strategy.

Ownership Structure

On September 30th, 2022, Hyatt had 48 412 428 Class A and 59 071 749 Class B shares outstanding. Class A common stock began publicly trading on the New York Stock Exchange in 2009 and, on January 31st, 2022, was controlled by 25 shareholders of record, mainly banks, brokers, and other financial institutions. This does not account for the substantial number of street name holders retaining ownership rights. There is no established public trading market for Class B common shares held by 78 shareholders. Class A common stock is only eligible for one vote per share, whereas Class B common stock is qualified for 10 votes per share. As of January 31st, 2022, the Pritzker family business interests hold roughly 96,2% of Class B common stock and 0,5% of class A common stock, amounting to 52,4% of the outstanding shares of common stock and 88,8% of the total voting power. The Pritzker family can exert a substantial degree of influence and have a significant concentrated control that may be a risk for investors as the family interests may not align with the company's interests.

Dividend Policy

Declared	Amount
13/02/2020	$0.20
Total dividends in 2020	**$0.20**
13/02/2019	$0.19
17/05/2019	$0.19
31/07/2019	$0.19
30/10/2019	$0.19
Total dividends in 2019	**$0.76**
14/02/2018	$0.15
16/05/2018	$0.15
31/07/2018	$0.15
30/10/2018	$0.15
Total dividends in 2018	**$0.60**

Figure 2: Hyatt´s dividend payment history. Source: Hyatt´s Investors Relation.

In 2020, facing the difficulties of the pandemic, Hyatt had to suspend its quarterly dividend programme to maintain cash flow. In December 2021, the terms of the Revolver Credit Amendment prevented the company from paying dividends until the first quarter of 2022. However, according to dividend history (*fig. 2*), Hyatt only started to pay dividends in 2018. As stated by the company, its ability to pay dividends in the future is subject to its financial performance and if it is in the shareholders' best interests. As a result, Hyatt will not pay dividends in the near future but will reinvest them to support company growth.

Business Model

Hyatt currently operates with five reportable business segments. Firstly, the company mainly distinguishes its hotels between Owned and Leased (O&L) and Management and Franchising. The firm further segments its management and franchising operations according to a geographical area – Americas, Asia Pacific (ASPAC) and Europe Africa Middle East/Southwest Asia (EAME/SW). Furthermore, following the Apple Leisure Group (ALG) acquisition in 2021, the former target company constitutes the fourth reportable segment. According to the company, there is a future possibility to realign the reportable segments after the full integration of ALG. Hyatt includes Corporate and Other as the fifth segment, mainly related to the company´s co-branded credit card programme and unallocated corporate expenses. Lastly, Eliminations refer to management

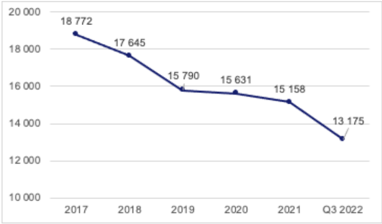

Figure 58: Hyatt´s net debt (book value) / equity (market value) ratio evolution. Source: Hyatt´s annual

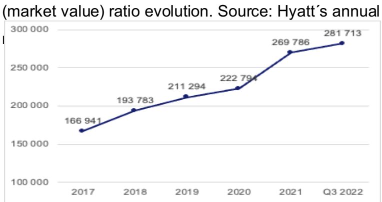

Figure 59: Hyatt´s Core Free Cash Flow Forecast. Source: Authors´ computation.

	2017	Q3 2022
Hyatt	89,89%	95,49%
Hilton	97,41%	98,37%
Marriott	98,55%	98,95%
IHG	99,70%	99,52%

Figure 5: Asset-light lodging industry comparison. Sources: Company´s annual reports.

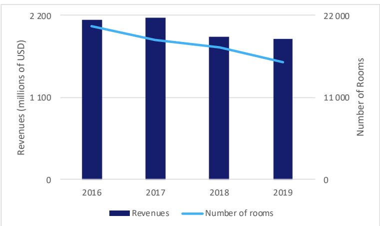

Figure 6: O&L segment revenues and number of rooms evolution. Source: Hyatt´s annual reports.

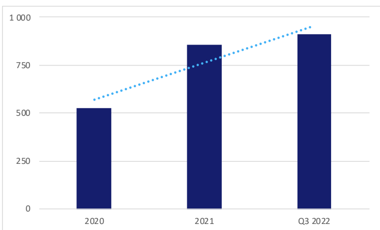

Figure 7: O&L segment revenues recovery after COVID-19 (Billions of USD). Source: Hyatt´s annual reports.

O&L Portfolio (Q3 2022)	Properties	Rooms
Full-service	18	9 506
Select-service	1	171
US	**19**	**9 677**
Full-service	3	1 262
Select-service	2	293
Other Americas	**5**	**1 555**
Full-service	5	1 135
Select-service	1	330
All-inclusive	6	1 279
EAME/SW	**12**	**2 744**
Total	**36**	**13 976**

Figure 8: Hyatt´s O&L portfolio (September 2022). Source: Hyatt´s Q3 2022 Earnings Release.

fee results from the company´s O&L hotels and promotional award redemption results from the co-branded credit card programme.

Although hotel ownership in an influential market magnifies the capacity to control its brand image, in November 2017, Hyatt announced its commitment to an asset-light strategy. Since the announcement, Hyatt decreased its O&L rooms by 29,82%, while management and franchising rooms increased by 68,75% (*fig. 3 & 4*). As opposed to management and franchising businesses, O&L results are usually more susceptible to economic downturns as the company fully absorbs the impact. Consequently, the company can free up capital while mitigating its business risk. Additionally, with the shift to an asset-light strategy, Hyatt has benefited from gains on sale of real estate assets allowing them to pay outstanding debt and invest in portfolio expansion. Compared to Hyatt's main competitors, the company was lagging in the shift to the asset-light strategy. While Hyatt is shifting to this strategy, the company is more asset-heavy than its peers (*fig. 5*).

- Owned and Leased (O&L) segment

A natural consequence of implementing an asset-light strategy is the ongoing shift in the company's revenue structure. When analysing pre-pandemic data, the O&L revenues decreased due to fewer operating properties (*fig. 6)*.

O&L results naturally arise from hotel operations such as rooms, food and beverage, and other ancillary results related to property-level management. In Q3 2022, the O&L segment had $912 million in revenues, a more than 70% growth since 2020 (*fig. 7*). The segment's impressive recovery was driven by the reopening of hotels after the suspension in 2020, combined with countries loosening their COVID-19 restrictions and borders reopening. Additionally, people have a greater desire to travel and want to compensate for the lost time during the pandemic. As of October 2022, the segment included 34 properties (13 334 rooms) predominantly located in the US (*fig. 8*).

Despite the ongoing shift to an asset-light model, several distinctive properties will remain in the company's portfolio, such as the Hyatt Regency in Orlando, a series of uniquely positioned properties in European cities, and the Miraval portfolio. Owning distinctive properties in influential markets enhances Hyatt's capacity to control and improve brand identity and guest satisfaction. Besides a contribution in total revenues of more than 20%, another reason to keep O&L properties in the brand's portfolio concerns the overall improvement in the segment's gross operating margin, excluding the years affected by the pandemic (*fig. 9*).

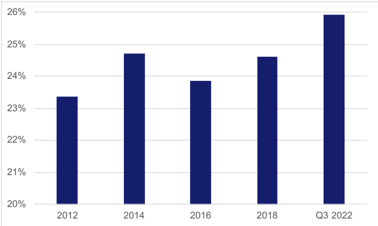

Figure 9: O&L segment gross operating margin. Source: Hyatt annual reports.

Managed and Franchised Portfolio (Q3 2022)	Properties	Rooms
Full-service	240	87'842
Select-service	471	66'310
All-inclusive	72	25'785
Americas	**783**	**179'937**
Full-service	139	45'242
Select-service	49	8'766
ASPAC	**188**	**54'008**
Full-service	131	30'949
Select-service	29	5'043
All-inclusive	44	11'776
EAME/SW	**204**	**47'768**
Total	**1'175**	**281'713**

Figure 10: Managed & Franchised Segment properties and rooms by area. Source: Company's annual report

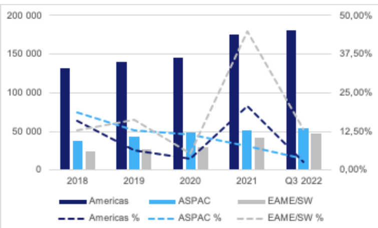

Figure 11: Management and Franchising number of rooms growth by region. Source: Hyatt´s annual reports.

▪ Management and Franchising Segments

The Management and Franchising segment plays an essential role in the business. It allows the company to amplify its brand presence worldwide and gain market share while mitigating the business risk. The segment is fee-based, deriving from hotel management and franchise agreements. Hotel management agreements typically provide a two-tiered feed structure. There can be either a base management fee, consisting of a percentage of gross revenues, or an incentive management fee, consisting of a percentage of a hotel profitability measure. On franchise agreements, the franchise fees consist of an initial application fee and an ongoing royalty fee estimated as a percentage of gross room revenues, depending on the brand under which the property is licensed and its location.

As of October 2022, the management and franchising segments included 1 177 properties (281 713 rooms), mainly from the Americas segment, followed by ASPAC and EAME/SW *(fig. 10)*. The ASPAC and EAME/SW regions have been a priority in the company's expansion strategy *(fig. 11)*, following growth opportunities allowing the company to gain market share. Total Management and Franchising revenues have been following the segment portfolio expansion. In Q3 2022, the segment amounted to $2,35 billion in revenues, a more than 50% recovery compared to 2020, driven by the ease of COVID-19 countries' restrictions combined with the enormous segment portfolio. The recovery has been more notorious in the Americas and EAME/EW regions that offset a slower recovery in the ASPAC region due to the Zero Covid policy implemented in China, accounting for nearly 40% of ASPAC hotels *(fig. 11)*.

▪ Apple Leisure Group (ALG)

In November 2021, Hyatt acquired the Apple Leisure Group, a North American hospitality group specialising in resort brand management and leisure travel, for $2,7 billion in cash. The AMR Collection, a brand that consolidates the company's resort brands under one umbrella, comprises more than 100 properties (33 000 rooms) operating in the Caribbean, Latin America, and Europe. Additionally, the deal included a vacation packages distribution business in North America (ALG Vacations) along a destination services management (Amstar), a leisure travel technology platform (Trisept Solutions), and ALG's paid membership programme (Unlimited Vacation Club) with more than 11 000 subscribers. ALG closed the first nine months of 2022 with $1,01 billion in revenues after grossing $166 million in the last three months of 2021. Hyatt bet

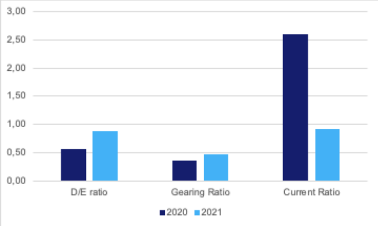

Figure 12: ALG acquisition impact on Hyatt´s key financial ratios. Source: Hyatt´s annual reports.

on the high-performing resort and all-inclusive markets to increase its brand presence following the constant shift towards leisure travel. The acquisition propelled Hyatt to the second position in all-inclusive room count, right behind Marriott. The deal, however, increased the debt position of the firm, temporarily increasing Hyatt's gearing ratio to 0,47 and decreasing the current ratio to 0,92 *(fig. 12)*. The company's solvency position is expected to stabilise in the near future.

Environmental, Social, and Governance Analysis

ESG has become increasingly important for investors' company selection and investment decisions. According to a study by the US Trust, 78% of millennial investors and 63% of Generation X investors reviewed their portfolio for impact in 2018, against only 28% for baby boomers (US Trust, 2018). Gen Z, Millennials, and Women are set to receive the most significant wealth transfer recorded in history. 95% of Millennials who are saving and investing include ESG in their investment criteria, and 57% sold stocks from companies they thought did not positively impact these areas (Case, 2021).

Hyatt launched in 2021 its ESG platform World of Care which combines its commitments to care for the planet, people, and responsible business, providing an opportunity to support future landmarks and initiatives. While the company recognised the importance of ESG management and started to invest in the matter, it remains behind its peers in most aspects. With a Sustainalytics score of 30,16 (High Risk), they are falling behind Hilton Worldwide (17,4 - Low Risk), Intercontinental Hotel Group (19,4 - Low Risk), and Marriott International (22,0 - Medium Risk). While Hyatt produced science-based targets, they are yet to come up with specific net-zero targets. Hyatt pledged in 2021 a reduction of 27,5% in Scope 1 and 2 GHG emissions (fully controlled by the company) by 2030. The company is ahead of its commitment, with an actual 6% reduction between 2019 and 2021. However, with all current strategies put in place by the company, Hyatt does not reach 2030 or 2050 net zero goals.

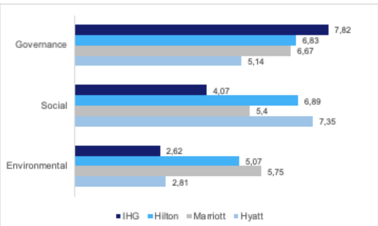

Figure 13: ESG score comparison between Hyatt, Hilton, Marriott, and IHG (December 2022). Source: Bloomberg.

Hyatt's Environmental and Governance materiality scores are severely (*Fig. 13*). Following Hyatt's core values of "caring for people so they can be their best", the company committed to improving all social areas, from employees to suppliers and community, mainly through Diversity, Equity & Inclusion. The company holds a social materiality score of 7,35/10, leader among its peers, and has been featured multiple times in the Fortune "Top 100 Best Companies to Work For" and has been certified "Great Place to Work" since 2016.

Hyatt (Q3 2022)	RevPAR ($)	Occupancy	ADR ($)
System-wide	119,32	61,61%	193,67
Owned and Leased	166,47	64,30%	258,9
Americas full-service	155,93	63,70%	244,79
Americas select-service	106,24	70,30%	151,12
ASPAC full-service	77,84	46,70%	166,69
ASPAC select-service	33,83	50,40%	67,12
EAME/SW full-service	121,25	59,80%	202,76
EAME/SW select-service	60,74	68,30%	88,93

Figure 14: Hyatt RevPAR, Occupancy, and ADR per segment (Q3 2022). Source: Hyatt´s Q3 2022 Earnings Release.

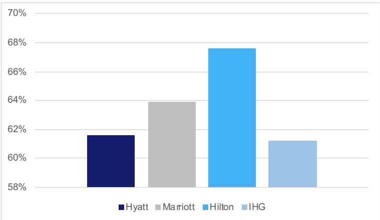

Figure 15: Occupancy peers' comparison (Q3 2022). Source: Company´s Q3 2022 Earnings Releases.

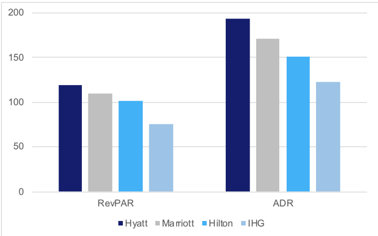

Figure 16: RevPAR and ADR peers 'comparison (Q3 2022). Source: Company´s Q3 2022 Earnings Release.

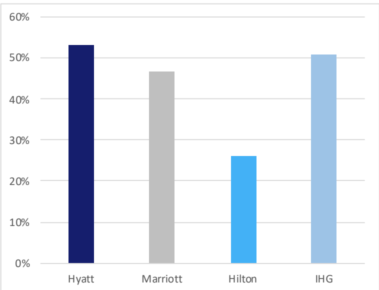

Figure 17: RevPAR growth 2021-2022 Q3 industry comparison. Source: Company´s annual reports.

Occupancy (Q3 2022)	Hyatt	Marriott	Hilton
O&L	64,3%	-	57,7%
Americas	66,5%	67,5%	70,5%
ASPAC	47,3%	51,3%	52,3%
EAME/SW	60,9%	59,8%	65,9%

Figure 18: Occupancy peers´ comparison by segment. Source: Company´s annual reports.

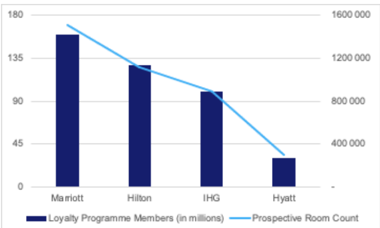

Figure 19: Peers´ comparison between total rooms and total loyalty programme members. Source: Company´s annual reports.

The company needs to mitigate both environmental and governance risks in the near to medium future to retain millennial and gen Z customers and investors.

Key Performance Indicators

- Revenue per Available Room (RevPAR)

RevPAR is the most relevant performance indicator in the hospitality industry, corresponding to the product of the average daily rate (ADR) and daily occupancy percentage. Changes in the ADR typically have a more significant impact on margins and profitability. In contrast, changes in occupancy rates have a more relevant impact on room revenues as they are more prompt to change variable results.

As of the 30th of September 2022, Hyatt's comparable system-wide hotel's RevPAR was $119,32 *(fig. 14)*, mainly driven by the performance of the Americas segment. While Hyatt registered a lower occupancy percentage than its peers *(fig. 15)*, a substantially higher ADR allowed Hyatt to outperform its competition regarding both year-to-date RevPAR and its year-on-year growth *(fig. 16 & 17).*

Occupancy

Compared to its peers *(fig. 18)*, Hyatt recorded a lower occupancy rate in all segments for the year-to-date 2022. Due to the substantially higher number of rooms and loyalty programme members *(fig. 19)*, Marriott and Hilton have the advantage of increased alternatives for guests seeking change, which allows them to retain and even attract more clients. There is however an opportunity to increase occupancy in specific markets. Following Hyatt's strategy to expand its portfolio mainly in EAME and ASPAC, the company will be able to provide current and potential guests with alternatives to the competition already well-implemented, gaining market penetration.

Average Dailly Rate (ADR)

The ADR is generally used as a performance indicator in the industry as it assesses pricing levels. This measure is the only one which is almost entirely endogenous from the industry perspective. Therefore, it should always be compared to occupancy levels to have a justified comparison between companies. Compared to its peers *(fig. 20)*, Hyatt has a substantially higher overall ADR in most segments while standing in the same range of occupancy percentage. Hyatt was able to capitalise on better revenue management and better pricing strategy following the health crisis, confirming the company´s RevPAR superiority compared to its competitors. Both Hyatt's and Hilton's O&L segments show the highest ADRs, reflecting those brands taking an asset-light

ADR (Q3 2022)	Hyatt	Marriott	Hilton
O&L	258,90	-	202,64
Americas	204,59	176,6	157,5
ASPAC	150,53	122,94	102,22
EAME/SW	187,36	199,71	147,18

Figure 20: ADR peers´ comparison by segment. Sources: Company´s annual reports.

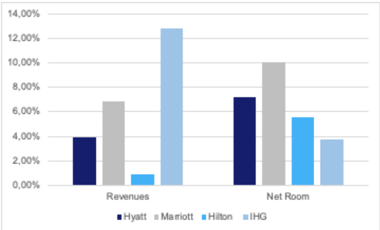

Figure 21: Revenues and net room CAGR 2011-2019 peers´ comparison. Sources: Company´s annual reports.

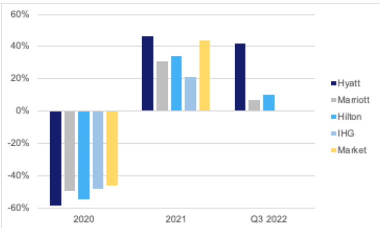

Figure 22: Peers' revenues growth comparison with the market. Sources: Company´s annual reports.

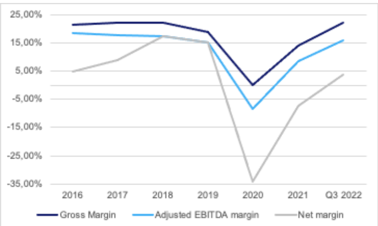

Figure 23: Hyatt´s gross margin, EBITDA margin, and Net margin. Sources: Hyatt´s annual reports.

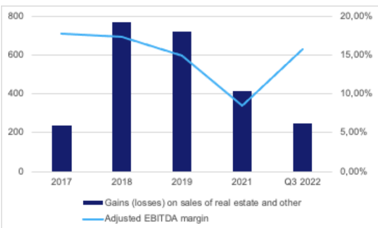

Figure 24: Hyatt´s gains (losses) on sales of real estate comparison with adjusted EBITDA margin. Sources: Hyatt´s annual reports.

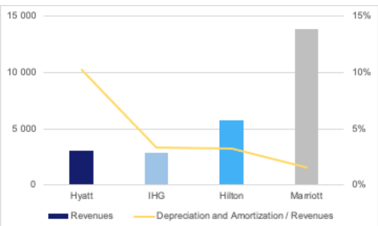

Figure 25: Depreciation and Amortization Expenses to Revenues Ratio peers´ comparison in 2021. Source: Company´s annual reports.

approach still want to retain flagship properties in their portfolio. Hyatt's revenue management is a crucial source of present and future competitive advantage, offering the highest possible price accounting for time, place and, most importantly, customers.

Financial Performance Analysis

▪ Revenues

Hyatt has recorded fitful growth over the last decade, mainly caused by the shift in business model. Despite the drastic reduction of O&L properties in 2014, the group displayed a 3,89% CAGR for the 2011 to 2019 period, fundamentally driven by a 104% net managed & franchised room growth. When comparing the revenues and net room growth to the benchmark (*fig. 21*), Hyatt's growth was sharper than Hilton's despite a nearly similar net room CAGR. Only Marriott and IHG displayed higher growths, channelled mainly through the 2016 acquisition of Starwood Hotels & Resorts for Marriott and RevPAR growth for IHG.

Global travel restrictions due to the pandemic crisis heavily disrupted the industry in March 2020. Despite the shift to an asset-light strategy four years earlier, Hyatt saw a drastic decline in revenues caused by a severe drop in demand. Year-end 2020 revenues amounted to 41,16% of the prior year's revenues. As Hyatt's revenue decrease was stronger than the industry over the health crisis, the company registered a more substantial growth than the market for 2021 and its benchmark for two consecutive years (*fig. 22*). These growths are mainly supported by better revenue management, responsible for RevPAR growth discussed earlier, along the company's net room growth.

▪ Profitability

Historically, Hyatt has shown a stable gross margin *(fig. 23)*, suggesting proper management practices and efficiency in its core business operations. However, compared to its peers in 2021, the 14,04% company gross margin was significantly behind the 26,51% peers' average due to the high fixed costs in O&L properties. Following the company's decision to switch to an asset-light model, its EBITDA margin, adjusted for non-core sources of revenues, has been improving (*fig. 24*). Despite the company's efforts, Hyatt is still considered asset-heavy compared to its peers. As a result, Hyatt has a cost structure heavily affected by depreciation costs that are not proportional to revenues compared to its peers (*fig. 25*), leading to a lower adjusted EBITDA margin in 2021 (*fig. 26*).

Although the company had a positive EBIT in 2021, the income tax was the reason behind the negative net income. The tax's high value reflected a 2020

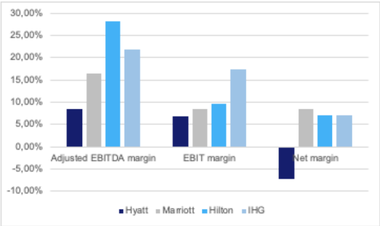

Figure 26: Peers´ profitability ratios comparison (2021) Sources: Company´s annual reports.

valuation allowance recorded on U.S. federal and state deferred tax assets. As a result, Hyatt was the only company among its competitive set to show a negative net margin of -7,32% in 2021.

As for Q3 2022, the company improved its profitability ratios mainly due to the ongoing recovery following hotel reopening and ALG business incorporation. Overall, Hyatt is expected to improve its profitability ratios through the ongoing demand recovery and the completion of its shift to an asset-light position.

- Liquidity and Solvablity Ratios

Following the acquisition of ALG in cash, Hyatt's liquidity position decreased. ALG operates with a different business model with memberships, distribution, and destination management. The target shows different profiles than Hyatt in terms of deferred revenues. ALG, offering a membership service, will recognise the unearned revenue at the membership's end. In this instance, contract liabilities linked to memberships will remain high with a planned increase in memberships sold. Distribution and destination management services requiring upfront payment, unearned revenues are forecasted to remain a substantial portion of the company's contract liabilities.

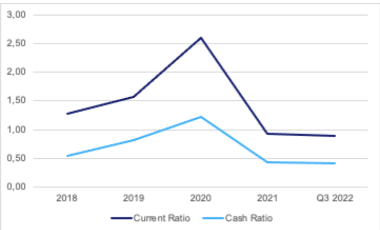

Figure 27: Hyatt´s current and cash ratios. Source: Hyatt´s annual reports.

Assuming the liabilities of the acquired company at the end of 2021, the group increased its current contract liabilities and accounts payable while simultaneously seeing its short-term investments drop to help finance the acquisition. The liquidity ratios hence fall below one in Q3 2022 (*fig. 27*). In theory, having a current ratio below one is problematic since it does not satisfy the short-term financial equilibrium. However, Hyatt's case might not be as alarming as one could think. On the one hand, the pandemic affected ALG's current contract liabilities, increasing unearned revenue linked to the distribution and destination management segment. Revenue recognition is expected in the coming year, rebalancing the current ratio. On the other hand, the company's liquidity position is on par with Hilton's, far above Marriott's but below IHG's (*fig. 28*), demonstrating a relatively volatile market in terms of financial position, where loyalty programmes often increase current liabilities.

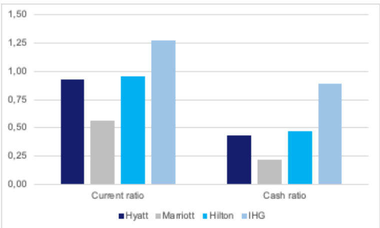

Figure 28: Peers´ liquidity ratios comparison. Source: Company´s annual reports.

Looking at the long-term financing situation of the company, the solvability position further decreased, mainly due to the ALG acquisition. Hyatt's solvency ratio understandably dropped following the increase in debt announced in the second quarter of 2020 and the assumed liabilities from the merger. Regarding financial autonomy, the ratio decreased to 0,28, signalling a mild dependency from creditors (*fig. 29*). Hyatt's financial autonomy position is not alarming but should remain watched upon with current fluctuating interest rates. The lodging industry relies heavily on creditors, especially in an environment where

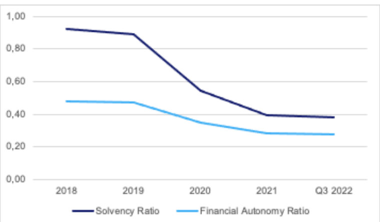

Figure 29: Hyatt´s solvency and financial autonomy ratios. Source: Hyatt´s annual reports.

companies expand to remain competitive. With a forecasted market recovery, this ratio is expected to stabilise to pre-crisis levels.

The company's liquidity and solvability positions have worsened in the past two years; it is a typical behaviour following mergers and acquisitions and an understandable one considering the pandemic's impact.

- Core Asset Turnover

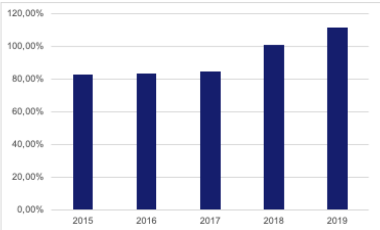

Figure 30: Hyatt core asset turnover evolution. Source: Hyatt´s annual report.

Core asset turnover is used to establish how efficient a company is to generate sales, in other words, how dependent on its invested capital the firm is to generate revenue. The lodging industry is especially interested in this metric, as different business models affect the asset intensity of the business. A heavy component of traditional hotel chains' invested capital is PP&E, driven company's origin where an entrepreneur bought a property and expanded this way to get the most revenues. After disposing of several properties in 2016, the invested capital drastically decreases, reflected in the 2018 core asset turnover (*fig 30*). Multiplying core asset turnover with core operational margin yields the core ROIC, increasing too in 2018.

- Return on Invested Capital (ROIC) and Return on Equity (ROE)

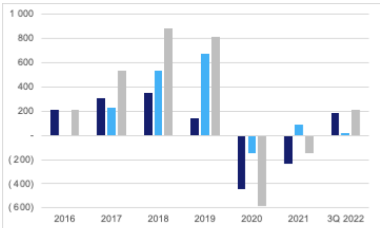

Figure 31: Hyatt´s operating result breakdown between core and non-core result. Source: Hyatt´s annual reports.

Q3 2022	Hyatt	Marriott	Hilton
ROIC	3,08%	14,61%	4,50%
ROE	8,40%	119,17%	-

Figure 32: ROIC and ROIC peers' comparison (Q3 2022). Source: Company´s Q3 Earnings Release.

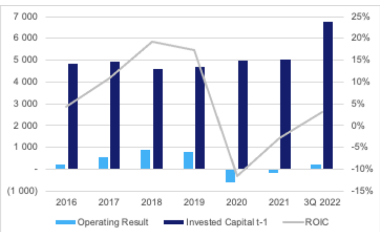

Figure 33: Hyatt´s ROIC, operating result and invested capital evolution. Source: Hyatt´s annual reports.

Core Breakdown	2019	2020	2021	3Q 2022
Core Operationl Margin	2,86%	-21,38%	-7,74%	4,34%
Core Asset Turnover	111,16%	44,54%	67,83%	69,49%
Core ROIC	3,18%	-9,52%	-5,25%	3,02%

Figure 34: Hyatt´s Core ROIC breakdown in core operational margin and core asset turnover. Source: Hyatt´s annual reports.

Following the shift in business model, the company saw its ROIC and ROE increase. The rapid growth mainly came from the gains on the sale of their properties which considerably drove the non-core result (*fig. 31)*. Due to the nature of the gains, these high returns are not a good proxy for the future.

Hyatt's and its peers' ROE sharply decreased in 2020, caused by the overall negative net result. While recovery started in 2021 and Hyatt's benchmark all saw their net results turn positive again, Hyatt was compelled to liquidate most of its deferred tax assets, causing a negative result. Although the 2022 fiscal year is not yet complete, Hyatt shows an increase in its 3Q ROE attaining 8,40%, a good omen for the company's future performance (*fig. 32*).

Hyatt's ROIC was 3,08% in the most recent quarter of 2022, emphasising the company's lack of success in creating value *(fig. 33)*. This shortcoming is attributed to two events. The simultaneous decrease in revenues and increased invested capital following the ALG acquisition drove the return under the computed WACC, ultimately destroying value. Core ROIC is on pace to surpass the 2019 value, showing a promising performance for the near future once the shift to asset-light is completed. This increase will be mainly due to better profitability of investment translated by the Core Asset Turnover along lower cost margins *(fig. 34)*.

Lodging Industry Overview

Market Overview

Travel behaviour shifted since the start of the millennium and will force hotel chains to further evaluate their offering. Leisure travel in the US has increased nearly 20% since 2000, decreasing the business travel to only 12.3% in 2021. Additionally, revenue derived from leisure travel is set to grow 14% in 2022 compared to pre pandemic levels while business travel revenues are forecasted to stagnate (AHLA, 2022). This shift will force hotels to revisit their client mix and service offering to gain competitive advantage. The lodging industry is a subsegment of the hospitality industry, along with food and beverage, travel and tourism, and recreation. The industry is highly competitive, with customers having the possibility to choose between international hotel chains, stand-alone boutique hotels and short-stay home rentals. The lodging industry's revenue reached $215,2 billion in 2021 (*fig. 35*), nearly growing 50% year-on-year. Since the industry's performance is directly related to tourism, it is interesting to see the latter's evolution. International arrivals have constantly increased in the last decade, except for 2020, with the closure of international travel. While Covid-19 affected all industries, the lodging industry stands among the hardest hit. 2021 saw an increase of 9,46% in international arrivals, driven mainly by arrivals in Europe and the US. The lodging industry is expected to have a full recovery in 2023/2024 (CBRE, 2022), providing no macroeconomic events such as larger-scale international war, recessions, or a more acute COVID variant occur.

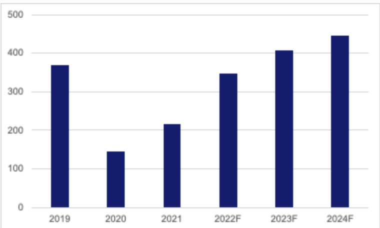

Figure 35: Lodging industry global revenues (in billions of USD) projections for 2022-2024. Source: Statista.

Travel behaviour has shifted since the start of the millennium and will force hotel chains to evaluate their offering further. Leisure travel in the US has increased by nearly 20% since 2000, decreasing business travel to only 12,3% in 2021. Additionally, revenue derived from leisure travel is set to grow 14% in 2022 compared to pre-pandemic levels, while business travel revenues are forecasted to stagnate (AHLA, 2022). This shift will force hotels to revisit their client mix and service offering to gain a competitive advantage.

Demand Analysis

The lodging industry demand includes leisure and business travellers. In 2019, nearly 88,71% of inbound tourism had the purpose of leisure, 3,14% more than in

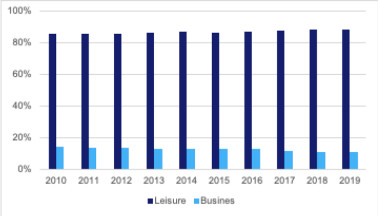

Figure 36: Inbound tourism by purpose of travel. Source: UNWTO, Authors' Computations

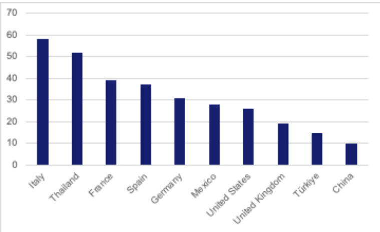

Figure 37: YTD travelers' sentiment (December 2022). Source: UNWTO.

2010 (*fig. 36*). As for the current and future demand, leisure travel will keep prevailing, while corporate travel policies remain uncertain. As countries open borders and ease COVID-19 restrictions, people are more eager to travel again and to discover new experiences while willing to spend more money on a vacation than they would have in the past. This increase in expenditure, explained by increased savings during the lockdown, is defined as "Revenge Travel" (Lilit, 2022). When deciding on travel accommodations, instead of focusing primarily on price and quality, new travellers prioritise a safe and sanitary environment, flexible booking policies, trust, and reputation (AHLA, 2022). The current traveller sentiment favours destinations Italy, Thailand, France, and Spain (*fig. 37*), which is one of the many reasons hotel chains are focusing their expansion plans on Europe and the Asia Pacific. Also, with the rise of remote working and the flexible working environments provided by companies, a new traveller segment emerged where people combine their business trips with leisure: bleisure travel.

Industry Trends

▪ Bleisure

Consumer demand has widely changed in the past and is set to continue evolving in the near future. With the decrease in the traditional business travel segment, a new market emerged combining both leisure and business: bleisure travel. With the rise of remote working, which already doubled in 2021, bleisure is set to take over traditional business travel in the upcoming years, with more than 89% of travellers willing to extend their stay for leisure reasons. Companies are also considered enablers, as 57% of businesses already include a business trip extension policy. The lodging industry can already capitalise on this trend, with the average length of business trips increasing from two/three days to more than six days, where more than 80% of guests stay in the same hotel. Hotel brands will have to react now to gain a competitive advantage by offering a hybrid environment dedicated to this market. Diverse properties such as the Park Hyatt St. Kitts offer a bleisure package with various discounts, access to exclusive amenities and a daily food & beverage credit. The bleisure industry is forecasted to reach a value of $2,97 trillion by 2032, representing a 10-year 19,5% CAGR (*fig. 38*).

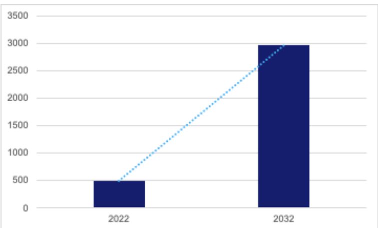

Figure 38: Bleisure tourism market estimated size in $ billions for 2032. Source: Future Market Insights.

▪ Asset-Light Strategy

The asset-light business model treats of balance sheet optimisation, as a company diminishes ownership of its physical assets to reduce the risk it bears. The hospitality industry is no stranger to this trend. Marriott International was the precursor in the mid-1990s, yet most players nowadays waited until the second half of the 2010s to get on this trend. Although the phenomenon is widely followed and applied, only brands already cultivating a solid customer base reap the full benefits from this model: increasing the number of properties at a lower cost while mitigating risk in situations of downturns. However, this strategy does bring a downside. Brands give up a certain control over the asset, which can hinder brand image and reputation in specific cases (Blal, 2019). While research on the topic remains scarce, at the moment, there is no immediate effect on the financial performance of hotels other than a short-term increase in net results derived from the sale of properties, a decrease in invested capital along a quicker brand expansion.

- Online Travel Agencies (OTAs)

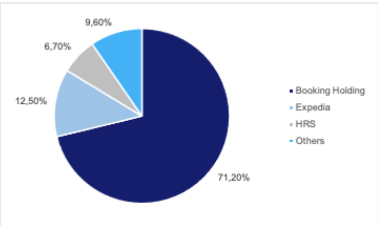

Figure 39: Main players in the OTAs industry.
Source: Hotrec Hospitality Europe.

An OTA is an online travel agency where consumers can research and book travel without assistance from a conventional agent. OTAs are an enormous driver of hotel room sales and online bookings in the lodging industry. The industry is highly concentrated in three players: Booking Holding, Expedia, and HRS (*fig. 39*). The stock searching separately, price-sensitive customers are now offered an online service comparing hotels, transportation, and experiences. Consequently, there is a risk that consumers will start to develop a dependency on reservation systems rather than loyalty to hotel brands. Additionally, the OTA market is becoming more concentrated, giving them more pricing power and, consequently, higher commissions. The industry remains exposed to this risk, despite most bookings being derived from direct channels, prompting a possible decrease in hotel chains' profitability through increased commissions and transaction fees. In recent years, hefty investments aimed to reduce the dependency of hotel chains on OTAs. Brands such as Hyatt, Marriott and Hilton revamped their brand website to support complete mobile reservation and dynamic revenue management systems that offer guests tailored experiences. Hyatt recently threatened to terminate its contract with OTA giant Expedia to drive more reservations through direct channels and therefore cut costs on sales and marketing expenses. To effectively distance themselves from OTAs, brands need to increase the value of direct channel reservations in the eyes of price-sensitive customers, and loyalty programmes are a key factor in reaching this objective.

- Loyalty Programmes

Research show loyal customers book more frequently, are less price-sensitive and have increased expenditure per stay (Catala Consulting, 2022). The Direct Marketing Association defined brand loyalty into four subcategories: Active

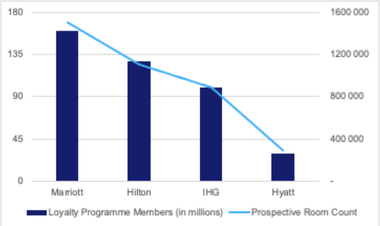

Figure 40: Peers' comparison between total rooms and total loyalty programme members. Source: Company´s annual reports.

Loyals who show devoted loyalty to a brand, Habitual Loyals who might look at other alternatives for special services, Situational Loyals and Active Disloyals. The hospitality sector is not unfamiliar with the concept, but only select ultra-luxury brands can genuinely benefit from the first category. Consequently, large hotel chains developed point and tier-based loyalty programmes to attract but mostly retain customers. It is not uncommon for customers to switch brand loyalty for increased value. To mitigate this risk, hotel brands created incentives such as member-only discounts on top of usual advantages, increasing the direct channel versus OTA ratio to 3-1 for Marriott and Hilton. Certain hotel chains also include a tier-based loyalty programme. Gamification techniques play on customers' sense of accomplishment and engage customers into reaching the next tier. Tier-based programmes have been shown to increase engagement by 47% and loyalty by 22% (Snipp, 2017). To help customers reach higher tiers, companies also invest in credit card programmes which allow customers to earn points through their purchases. Companies such as Marriott or Hyatt benefit from a fee for each transaction while customers increase their point balance to redeem later. Hence, loyalty programmes are critical to companies' future strategy in a market where the difference between loyal and disloyal customers heavily impacts brand value.

- Personalisation Through Technology

The industry saw a shift in its marketing strategy, from the customisation trend to a more subtle yet powerful personalisation. While both terms are often incorrectly described as the same, personalisation is the approach to serve customers based on their preference, while customisation lets customers choose their offer based on their liking. With the advancement of technology, the lodging industry has been able to meet clients' expectations. Leveraging clients' data allows hotel chains to tailor their service offerings and promotions, increasing client retention. An insight by Accenture shows that 91% of clients are more inclined to purchase from a company that remembers them and makes them feel connected. Customer Relationship Management (CRM) is a crucial aspect of retention. The technology has been widely deployed in the industry. Using bid data, Artificial Intelligence and automation, the tool helps companies better serve their clients. There is, however, a risk that could impact this technology's future. As data has become extremely valuable, clients are being more cautious with the data they intentionally share. 2019 McKinsey research shows no industry has a trust rating above 50% regarding data sharing and collection, the highest industries being Healthcare and Financial Services. Regulations are also a potential factor discouraging companies from exploiting data fully. Implemented in 2018, GDPR strengthened the guidelines for companies to collect, exploit, store and delete data. Failure to comply with these regulations might lead to fines amounting up to

4% of a business' total revenues. Data exploitation will continue to be a source of value in the future, providing no deterioration of consumer sentiment on data sharing and proper ethical data collection from companies.

- Environmental, Social and Governance (ESG)

Regardless of the business, a company that wants to thrive in the future must have a rigorous dedication to environmental, social, and governance (ESG) topics. Bringing ESG to the epicentre of a company strategy can be a decisive competitive advantage for hotel chains, particularly for those who can tell a captivating narrative about their ESG journey.

Many players in the industry take ESG aims seriously, as they understand its importance to reach competitive advantage but also steer clear of negative publicity. Decarbonisation targets are one of the priorities of many hotels' goals, and as an example, Hilton and IHG aim to, at least, halve their carbon footprint over the next decade.

Rank	Company	Market Cap (billions of USD)	Market Share (%)
1	Marriott International	51.81	15.81%
2	Oriented Land	44.54	13.59%
3	Hilton Worldwide	36.93	11.27%
4	Las Vegas Sands	28.34	8.65%
5	Galaxy entertainment	19.57	5.97%
6	MGM Records	13.52	4.13%
7	Host Hotels & Resorts	14.13	4.31%
8	Pan Pacific	10.15	3.10%
9	Hyatt Hotels	10.12	3.09%
10	InterContinental Hotels Group	9.85	3.01%
	Others	88.71	27.07%

Figure 41: Lodging industry market capitalization and main players (October 2022). Source: Companies Market Cap.

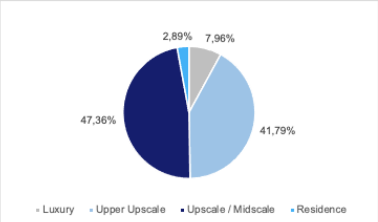

Figure 42: Per brand segment distribution (Hilton, Marriott, IHG). Sources: Companies´ annual reports.

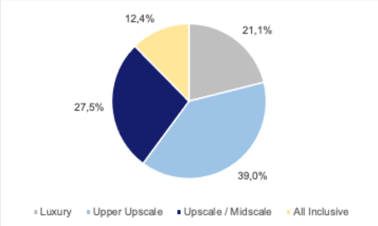

Figure 43: Hyatt brand segmentation distribution (2021). Source: Hyatt´s annual report.

Diversity, equity and inclusion, and company ethics are the other two main topics among hotels' EGS initiatives. Assets that comply with ESG can generate higher cash flows for investors and create higher exit value. Since 53% of international travellers are willing to spend more on an environmentally responsible product, hotel groups that commit to ESG goals can attract clients and apply a price premium. Additionally, ESG-compliant fixed assets usually have greater construction efficiency, lower operational costs, and, thus, higher long-term values.

Competitive Landscape

As of October 2022, the global lodging industry accounted for a total of $327,67B in market capitalisation (*fig. 41*), with Hyatt accounting for 3,09%.

Operating in a highly concentrated market in the US but somewhat fragmented in Europe, Hyatt has multiple sources of competition, and the strongest ones are the following. Large hotel groups such as Marriott International, Hilton Worldwide, and Intercontinental Hotel Group compete on the same spectrum of offerings as Hyatt (*fig. 42)*. They propose an alternative to more than 95% of Hyatt's franchised and managed properties. For the purpose of benchmarking, these groups will therefore constitute Hyatt's competitive set, as we believe they represent the closest proxy to Hyatt. These companies regroup 65 brands across the four primary service offerings: luxury, upper upscale, midscale and extended stay. Competition is particularly intense in Upper Upscale and Upscale / Midscale segments (*fig. 43*).

The sharing economy heavily disturbed traditional industries in the past decade. The hospitality and lodging industry is not exempt. With its approach to using empty guest rooms in people's houses, Airbnb allowed homeowners to have an extra source of income and propose a home environment to guests at unbeatable prices. Although the platform was soaring in the past, the 40% increase in ADR in the second quarter of 2021 compared to two years prior, combined with a potential decrease in future demand, could be detrimental to the tech giant and sway customers back towards hotels. Airbnb customer satisfaction has recently declined following a drastic increase in Airbnb additional fees, almost doubling the original price per stay. Aside from the recent chip in the company's brand image, countries´ increased rules and regulations could become problematic for Airbnb. Various cities tighten the procedures, such as enforcing homeowners to file the registration number on the listing. Banning listings could heavily discourage new and current hosts from renting their properties and consequently slow down or reduce supply.

Forecast

Future Strategy

Looking ahead, Hyatt developed three significant strategic initiatives which will serve as a roadmap for future performance.

The company first focused its strategy on RevPAR growth. Through an expansion in the high-performing leisure and resort sectors, along with hotel openings in geographical markets underdeveloped by Hyatt compared to its competitors, Hyatt will be able to capture more demand while providing alternatives to its existing customer base. Investment in the brand's website and the industry trend to distance the company from third parties such as OTAs will affect customer retention and increase direct revenues. Coupled with industry-leading revenue management for its O&L properties, but also provided as a service to franchised properties, Hyatt will be able to drive RevPAR growth and hence, both O&L and M&F revenues.

Secondly, the company plans to increase its system-wide presence through its pipeline. As of December 2022, Hyatt committed to an expansion of 114 000 rooms in areas preferred by travellers, such as Europe and Asia Pacific. According to a former hotel asset manager, hotels on average take 5 to 6 years from the contract negotiation to the opening. The expansion represents therefore a 38% growth in the managed and franchised rooms by 2027, generating an increased return per invested capital. An important assumption we took to forecast future performance regards the evolution of the O&L segment: the room count is assumed to remain constant as there is no disclosed information regarding which properties will be sold, when they would be sold, and the gains generated from the sale.

Lastly, derived from the net room growth and best practices, margins are expected to increase benefiting from continuous operational improvement and higher pricing negotiation power. In the O&L segment, between 2013 and 2018 the total number of hours worked per occupied room decreased by 2.35%, while the food and beverage margin increased by 5.4%. These improvements denote the company's efficiency in managing labour and costs. Improvements like these also play another important role, as relationships with owners are vital to the negotiations of Management and Incentive fees, better operational management is key to Hyatt's future performance.

Revenues

The company's revenues were projected using the four primary sources, including:

- Owned & Leased revenues encompassing all primary and ancillary revenues.
- Management & Franchising fee revenues, mainly derived from management and franchise contract negotiations such as a percentage of gross room revenues and F&B revenues along with an incentive fee based on the franchisee's performance.
- Distribution and Destination Management resulting from the company's new business model after the acquisition of ALG.
- While revenues for the reimbursement of costs incurred on behalf of M&F properties account for a large proportion of the revenues, the company will not profit from this caption and is thus forecasted to evolve in line with the costs.

▪ Key Value Drivers

Average Daily Rate

Hyatt's pricing strategy is established on a value-based basis, meaning the company sets hotel room prices according to customers' perceived value. Given the nature of the business, hotel managers can easily adjust the daily rate given the state of the business.

Therefore, in order to decide the most suitable approach to forecast future prices, we studied the historical ADR changes against US inflation, local GDP growth

Segment	Benchmark	Correlation	P-Value
O&L	Local Real GDP	0.3770	0.2829
Americas Full-Service	Local Real GDP	**0.9568**	0.0000
Americas Select-Service	Local Real GDP	**0.9080**	0.0003
ASPAC Full-Service	Local Real GDP	**0.9023**	0.0004
ASPAC Select-Service	Local Real GDP	0.4956	0.3960
EMEA Full-Service	US Inflation	**0.8163**	0.0040
EMEA Select-Service	Local Real GDP	**0.8468**	0.0334

Figure 44: Adjusted cost debt computation. Source: Authors´ computation.

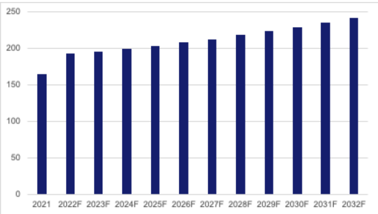

Figure 45: Forecasted system-wide ADR (USD). Source: Authors´ computation.

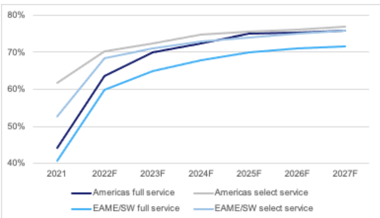

Figure 46: Occupancy rate forecast for management and franchising Americas and EAME/SW segments. Source: authors' computation.

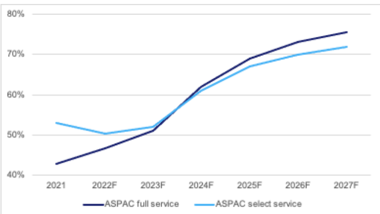

Figure 47: Occupancy rate forecast for management and franchising ASPAC. Source: authors' computation.

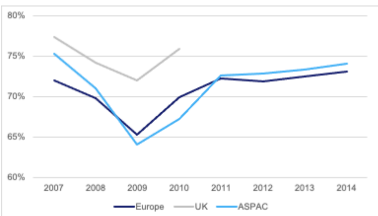

Figure 48: Marriott occupancy rate by region after 2008 financial crisis. Source: Marriott´s annual reports.

and advanced economies GDP growth. We found that the increase in ADR mostly correlates better with the local economy growth rather than with US inflation or advanced economies GDP growth (*fig. 44)*. In fact, as Hyatt mainly operates in the upper upscale and luxury segment, its target market is less price sensitive. A 2022 CBRE research confirms our findings, reasserting the predicted 2032 system-wide ADR value of $242,6 (*fig. 45*).

Since roughly 50% of EMEA hotels are in the Eurozone, consequent currency exchange issues have marked the past decade. Therefore, the US inflation was taken a proxy to forecast future EMEA full-service rates, in order to absorb any future currency devaluation. Lastly, the O&L and ASPAC select-service segments are statistically insignificant primarily due to the small population of O&L hotels and the lack of data regarding the ASPAC select-service.

Occupancy

Forecasting occupancy is one of the most challenging aspects of future performance estimation as multiple factors come into play, such as the socio-political conditions of a country, inbound tourism, or even the global state of the economy.

According to different reports, the hospitality industry will recover from the pandemic in 2023, although a full recovery of all segments might only happen in 2025.While the Americas and EAME regions are expected to recover relatively quickly during the next couple years (*fig. 46*), ASPAC is expected to take longer to recover. Since nearly 40% of the hotels in the ASPAC region are located in China, both the low travel sentiment and China's Zero Covid Policy affect the segment's recovery (*fig. 47*).

To forecast how the occupancy will evolve after such an unparalleled crisis, an analysis of the occupancy rate evolution after the financial crisis of 2008 was performed. As Hyatt went public during the recovery from the 2008 financial crisis, the authors analysed Marriott International as a proxy. In the aftermath of the financial crisis, the United Kingdom and Europe saw their occupancy rates return past their pre-crisis levels in 2010 and 2011, respectively, and the ASPAC region achieved 95% of their original values in 2011 (*fig. 48*).

An additional parameter affecting occupancy is hotels currently in the pipeline. Following the increase in the number of rooms, the occupancy rate stabilization in the management and franchising segments will not be immediate as hotels tend to stabilize their occupancy rates 2/3 years after their opening (O'Neill, 2011). Thus, management and franchising occupancy rates will fully stabilize in

2029. Since the O&L segment is assumed to have a constant number of rooms in the future, the occupancy rate will stabilise in 2027.

The last parameter affecting the occupancy forecast is the projected market penetration resulting from the expansion strategy. With the expansion of the brand in areas currently without or with very little brand presence, Hyatt will be able to increase alternatives to its customer base and target market, therefore increasing occupancy past historical average in markets such as EAME and ASPAC.

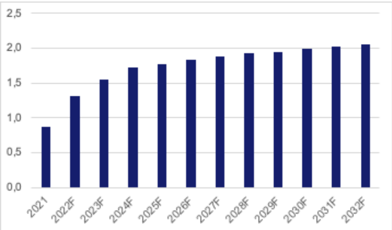

Figure 49: O&L segment revenues forecast (billions of USD). Source: Authors´ computation.

- Owned and Leased

As the O&L segment will not increase in terms of room count, revenue growth will mainly be driven by the growth in occupancy in the short run, sustaining long-term growth through the changes in ADR. Food & Beverage revenues are also expected to grow with increased hotel traffic. The segment is forecasted to gross $2,05 billion by 2032 (*fig. 49*).

- Management and Franchising

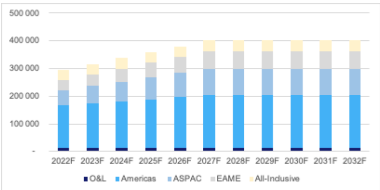

Figure 50: Hyatt´s room count forecasted evolution. Authors´ computation. Source: Authors ´computation.

Revenues from the Managed & Franchised properties are derived from fees. Hence, they vary regarding the number of properties and rooms under such contracts, the negotiated fees with hotel owners, market demand and the pricing resulting from revenue management practices. The forecasted fee growth will mainly result from the company's expansion plan (*fig. 50*).

Net Management, franchise, and other fees, excluding eliminations	2032F
Americas	856'229'793
ASPAC	399'779'273
EAME/SW	293'725'465
Apple Leisure Group	176'528'617
Corporate and other	44'711'161
Total	**1'770'974'309**

Figure 51: Net Management, franchise, and other fees, excluding eliminations. Source: Authors ´computation.

Additionally, licensing fees include revenues from the company's co-branded credit card programme in collaboration with Chase, which awards cardholders points through every transaction that are redeemable to get free nights at Hyatt hotels. Since only US residents can apply for this credit card, corporate and other revenues will grow in line with US GDP growth, as credit card use is directly related to consumer purchasing power. Net revenues from Managed & Franchised properties will amount to $1,77 billion, predominantly driven by the Americas segment (*fig. 51*).

- Distribution and Destination Management

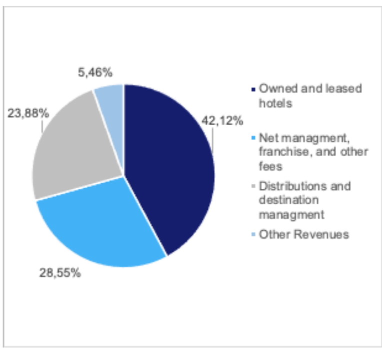

Figure 52: Composition of Hyatt´s 2032 revenues, excluding revenues from reimbursement costs. Source: Authors ´computation.

ALG's distribution and Destination Management services account for the segment's vast majority of revenues. These services are derived from the sale of ALG Vacations' vacation packages, comprising mainly air and ground transportation, accommodation provided by third-party properties, and insurance. Due to the different services included in the package, forecasted revenues are aligned with the US inflation. In the long term, Distribution and Destination Management will account for nearly 24% of the group's total revenues excluding reimbursed expenses on behalf of Managed & Franchised Properties, at $1,23 billion (*fig. 52*).

Costs Value Drivers

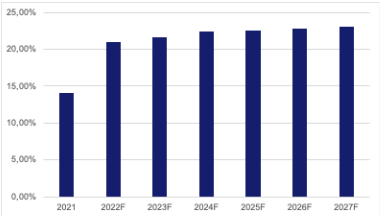

Figure 53: Hyatt´s gross margin evolution. Source: Authors' computation.

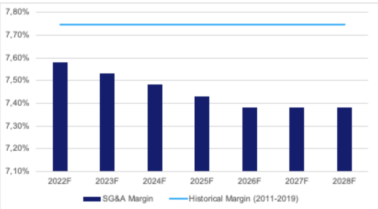

Figure 54: Hyatt´s SG&A forecast. Source: Authors' computation.

Hyatt's cost structure is expected to be more efficient in the immediate future. On the one hand, with the shift in strategy significantly increasing the amounts of Hyatt properties, better procurement management resulting from a higher negotiating power can be expected. On the other hand, Hyatt will continue to implement best practices, especially in Food & Beverage departments, leading to lower O&L properties cost margin. The company's O&L properties' cost margin is forecasted to exceed pre-pandemic values, stabilising around 23% in the long term (*fig. 53*).

The Distribution and Destination Management cost margin is expected to decrease slightly based on the 2022 3Q value due to a strong pricing strategy, driving the gross margin to 21,70%.

Selling, general, and administrative expenses primarily consist of employees' compensation expenses, professional fees, sales and marketing expenses and administrative expenses. Following the company's investment in its website to decrease the reliance on OTAs, the SG&A margin is forecasted to decrease slightly (*fig. 54*).

Lastly, other direct costs treat the condominium units operations along the Unlimited Vacation Club membership linked to the AMR resorts. Due to the acquisition of ALG, the parent company of AMR resorts, the cost structure is expected to become more efficient in the near future. Following a conservative approach, we expect at least the segment to produce a positive income in 2024.

Investment Capital Value Drives

- ### Property, Plant & Equipment (PP&E)

Property and Equipment, Net		2021
Land	$	676
Buildings	$	3 065
Leasehold improvements	$	192
Furniture, equipment, and computers O&L	$	63
Construction in progress	$	47
Sum	$	4 043
Percentage of Total PP&E		78,26%
PP&E / O&L Hotel room	$	266 730
Furniture, equipment, and computers M/F	$	1 123
Sum	$	1 123
Percentage of Total PP&E		21,74%
PP&E / Managed and Franchised Hotel room	$	4 162

Figure 55: Property and Equipment, Net breakdown analysis for 2021. Source: Authors' computation.

Property, Plant & Equipment is expected to increase slightly until 2028 following the shift to an asset-light strategy. In order to have a projection as accurate as possible, a breakdown of PP&E per room and per segment was performed. As Managed & Franchised PP&E mainly relates to furniture and equipment, there is a significant difference between the two categories of PP&E per room. Projecting the values in (*fig. 55)*, along with the forecasted room count per segment, the estimated business PP&E results in $3,3 million after accumulated depreciation in 2032.

- ### Contract Liabilities

Contract liabilities relate primarily to deferred revenues from the loyalty programme and distribution and destination management, representing the obligation towards both companies' respective customers in dollar value. Due to the difference in the two entities' business models, each business's contract liabilities were estimated based on their respective revenues. Since the evolution of loyalty and membership programmes are accounted for in the segments' revenues, the book value of contract liabilities is estimated to reach $3,96 billion by the end of 2032.

- Intangibles

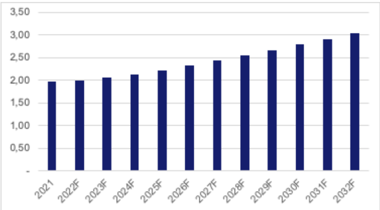

Figure 56: Net intangibles forecast (billions of USD). Source: Authors' computation.

To forecast as accurately as possible, intangibles need to be broken down into the additions to intangibles and the respective accumulated amortisation. Firstly, additions to intangibles are forecasted to remain at 3% of net sales. Accumulated amortisation, on the other hand, is taken until 2026 as reported in the company's quarterly report following their estimations, and thereon growing according to the percentage of additions to intangibles. Forecasted net intangibles will reach a value of $3,04 billion by 2032 (*fig. 56*).

Valuation

Discounted Cash Flow (DCF)

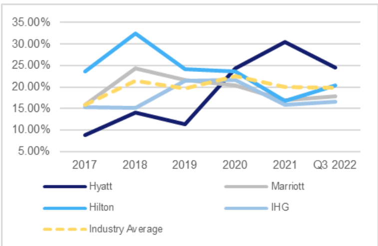

Figure 57: Net Debt (book value) / Equity (market value) peers' and average industry comparison. Source: Companies' annual report.

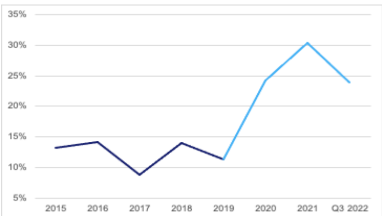

Figure 3: Hyatt´s O&L number of rooms evolution. Source: Hyatt´s annual reports.

Selecting a method that best fits the capital structure and the assumptions taken to forecast future performance to value a company is essential. Hyatt's capital structure deviated slightly in 2017 with a net debt-to-equity ratio of 8,79%, following the repayment of the outstanding revolving credit facility account of 2016. However, following the $400 million senior notes issue to pay back some of its debt due in 2019, the company's debt level drastically increased in 2018. Since the extraordinary occurrence of the pandemic, combined with the strategic acquisition of ALG, Hyatt's capital structure deviated from its historical values, exceeding its main competitors and industry average *(fig. 57).* Besides these outlier years, Hyatt has shown a stable debt-to-equity position along with its peers, and the capital structure is expected to converge to historical levels in the future *(fig. 58).* Thus, considering the assumptions derived from the company's strategy combined with the planned acquisition of new hotel brands, Hyatt expects to hold its 28,10% net debt-to-equity position. Therefore, the Discounted Cash Flow model is the most appropriate model to value the business. The company's core free cash flow will be discounted using the Weighted Average Cost of Capital (WACC), whereas the non-core and the net debt values will be estimated using the Q3 2022 book value.

Operating (Core) Free Cashflow

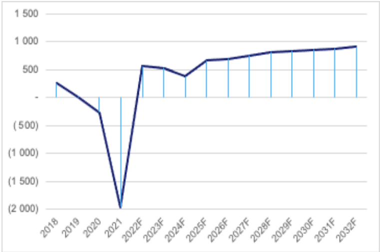

Figure 4: Hyatt´s Management and Franchising number of rooms evolution. Source: Hyatt´s annual reports.

Fig. 59 depicts the evolution of the company's cash generation through its primary operations. Based on the aforementioned assumptions, this evolution plays a crucial role in estimating Hyatt's equity value. Following the changes in their core invested capital after the acquisition of ALG and the strategic development of the pipeline, Hyatt will sustain constant levels of free cash flow until the company reaches its steady state in 2032.

Weighted Average Cost of Capital (WACC)

Some aspects of the cost of capital were computed using the Capital Asset Pricing Model. This method requires two exogenous rates, one reflecting a risk-free investment and a market risk premium. The company being listed on the New York Stock Exchange and headquartered in Chicago, the 10 Year Treasury Bill yield was used as a proxy to reflect a riskless investment as the default rate on US government-backed loans is considered null. As of the 5th of January 2023, the 10-Year Treasury Bill yield was 3,58%. Using the trailing twelve-month including sustainable pay-out market risk premium of 4,19%, estimated by Damodaran, was deemed the best proxy. Given the computed values hereafter, the WACC used to value Hyatt Hotel Corporation is 7,54%.

- Cost of Debt

βd	0,17
Asset Beta of Hotels and Resorts	0,8
βd Adjusted	0,136
Rd (CAPM)	**4,15%**
YTM Representative Bond	6,24%
p(default) of Hyatt	0,13%
LGD	60%
Rd	**6,16%**
Adjusted Rd	**5,16%**

Figure 61: Cost of equity computation. Source: Authors' computation.

The cost of debt was computed using the Yield to Maturity (YTM) of a representative corporate bond adjusted for the loss given default of an unsecured debt multiplied by the company's probability of default. The resulting cost of debt was 6,16%. To obtain the most accurate value, we adjusted the rate using the risk-free rate calculated through CAPM. The debt beta from the security rating was computed and adjusted for the hospitality industry. Using CAPM, the cost of debt amounts to 4,15%, resulting in a final adjusted cost of debt of 5,16% (*fig. 60*).

- Cost of Equity

To compute the cost of equity, it is first essential to compute the equity beta. The first step is to regress Hyatt's simple returns over the market's returns (S&P 500). The data regression was performed over two years of weekly returns, purposely excluding the volatility generated from the covid, leading to a levered beta of 0,98.

This beta ought to be adjusted, as it reflects the current capital structure, which drastically changed during the acquisition of ALG. A forward-looking beta is through a bottom-up approach. Averaging the unlevered betas of comparable

βe	0.98
Relevered βe With 20	1.00
Adjusted βe	0.99
Re	8.39%

Figure 62: Hyatt´s Management and Franchising portfolio (Q3 2022). Source: Hyatt´s Q3 2022 Earnings Release.

companies reflects the market risk of a debt-less company. This value is consequently re-levered at Hyatt's future capital structure to obtain the forward-looking beta of 1. The adjusted beta, averaging the two values, is hence 0,99.

Before obtaining the true cost of equity, an additional risk factor should be considered to reflect the global operations of Hyatt. To account for the business operated in foreign countries, a country risk premium was computed, taking each country's equity risk premium and applying a weighted average of where Hyatt operated. The Country Risk Premium of 0,66% was added to the market risk premium, resulting in a cost of equity of 8,39% (*fig. 61*).

Steady State Equilibrium and Perpetuity Outlook

- ### Core Return on Invested Capital & New Invested Capital

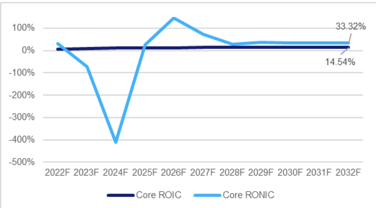

Figure 44: ADR correlation comparison with local GDP and US inflation. Source: Authors´ computations.

Hyatt's forecasted ROIC exceeds its Cost of Capital in the steady state (14,54% vs 7,54% respectively), highlighting a value creation by the company. The company's returns will not be as dependent on the invested capital, reflecting the decision to diminish the owner-operator status for a management and franchise model. This shift increasing the core asset turnover, combined with the improved core operational margin, explains the improvement of the company's core ROIC. Hyatt will become more efficient at using its invested capital, emphasised by the RONIC standing at 33,32% (*fig. 62)*.

- ### Growth Rate

Hyatt's long-term strategy will reap its results in 2031. Both the operational cashflows and Hyatt's overall value will gradually increase by 2,68% per annum. The rate can be divided into the reinvestment rate and the return on invested capital, with stable values of 8,0% and 33,32%, respectively. According to IMF forecasts, the global nominal GDP will converge towards 3,94% by 2027. Hyatt will therefore lose weight in the future economic landscape. Nevertheless, sustaining its long-term growth in line with the economy without any radical improvement would be challenging for a company as big as Hyatt.

Hyatt’s Equity Value

The aforementioned parameters help us compute the enterprise value of Hyatt and consequently, its equity value. Using the cost of capital of 7,54%, both core free cash-flows and terminal value of the firm have been discounted to present value and amount to $13,26 billion. Adding the book value of the company's net debt and non-core accounts, we obtain the total enterprise value amounting to $11,29 billion, resulting in a share price of $105,44.

Risk Analysis

▪ Sensitivity Analysis

As the valuation mentioned above relies on assumptions, further sensitivity analyses should be conducted to see the effect of change on both discount and growth rates.

A first analysis was executed to compute the WACC's sensitivity based on both debt and equity costs. Regarding the cost of debt, values from the risk-free rate to the computed cost of equity of 8,39% constitute the first parameter. As for the range of equity costs, three different re-levered betas were computed using the peers' unlevered betas. Thereon, these betas were averaged with the historical equity beta, resulting in a cost of equity range from 8,34% to 8,44%. *Fig. 63* depicts the sensitivity of the WACC given the ranges for debt and equity costs. The minimum and maximum values computed serve as the WACC range in the second analysis.

					Re			
	7,54%	8,34%	8,36%	8,38%	**8,39%**	8,41%	8,42%	8,44%
	3,58%	7,26%	7,28%	7,29%	7,30%	7,31%	7,33%	7,34%
	3,97%	7,32%	7,34%	7,35%	7,36%	7,37%	7,39%	7,40%
	4,37%	7,38%	7,40%	7,41%	7,42%	7,43%	7,45%	7,46%
	4,76%	7,44%	7,46%	7,47%	7,48%	7,49%	7,51%	7,52%
Rd	**5,16%**	7,50%	7,52%	7,53%	**7,54%**	7,55%	7,57%	7,58%
	6,06%	7,64%	7,66%	7,67%	7,68%	7,69%	7,71%	7,72%
	6,96%	7,78%	7,80%	7,81%	7,82%	7,83%	7,85%	7,86%
	7,86%	7,92%	7,94%	7,95%	7,96%	7,97%	7,99%	8,00%
	8,76%	8,06%	8,08%	8,09%	8,10%	8,11%	8,13%	8,14%

Figure 63: Sensitivity analysis on WACC. Source: Authors´ computation.

The second analysis computes the share price sensitivity given changes in WACC and growth rate (*fig. 64*). Taking the result from the previous sensitivity, the potential change in discount rate falls between 7,26% and 8,14%. To determine the change in growth rate, two scenarios were approached. The first one, where Hyatt would not be able to create value based on its newly invested capital, uses the RONIC at WACC multiplied by the reinvestment rate of 8%. The second one focuses on a scenario where the company sustains a similar growth to the economy. The sensitivity will thus lie in the range of 0,60% to the long-term nominal GDP growth of 3.94%.

	Growth Rate								
105,44	0,61%	1,12%	1,64%	2,16%	**2,68%**	2,99%	3,31%	3,62%	3,94%
7,26%	90,91	95,09	100,05	106,02	113,35	118,65	124,81	132,02	140,60
7,33%	89,66	93,72	98,52	104,28	111,33	116,43	122,32	129,22	137,39
7,39%	88,44	92,38	97,02	102,59	109,38	114,28	119,93	126,52	134,31
7,46%	87,25	91,07	95,56	100,94	107,48	112,19	117,61	123,91	131,34
7,53%	86,08	89,78	94,14	99,33	**105,64**	110,16	115,36	121,40	128,49
7,69%	83,56	87,02	91,08	95,90	101,71	105,87	110,62	116,10	122,51
7,84%	81,14	84,39	88,17	92,65	98,02	101,84	106,19	111,19	117,00
7,99%	78,83	81,87	85,41	89,57	94,54	98,06	102,06	106,62	111,90
8,14%	76,62	79,47	82,77	86,65	91,26	94,51	98,18	102,36	107,17

WACC

Figure 64: Sensitivity analysis on share price. Source: Authors' computation.

- Scenario Analysis

Rather than giving investors a recommendation solely on this computed share price, we found it necessary to perform a scenario analysis. Given current world events, we have identified two main risks that could certainly alter Hyatt's valuation.

New COVID-19 Variant

Given the failure to totally eradicate the virus, a risk of a dangerous new variant remains. In this scenario, we considered that the new variant would emerge during 2023, limiting the contact between people until the development of a new vaccine.

In this case, the lodging industry would be particularly impacted by the decrease in the occupancy rate. Considering that the industry would start recovery at the end of 2023 and a full recovery would only happen in 2025, the occupancy rate would stabilize in 2030, given that the pipeline would be extended for one year as construction would probably hold. Since the prices mainly follow local economies, the ADR would also be slightly affected. Contrary to 2020, the impact would not be as severe, and the lodging industry would recover faster as the world is more prepared and aware of which precautions to take in the case of a pandemic.

According to experts in the field, the probability of a new pandemic in any given year is estimated to be 3.3%. Therefore, this would be the probability of this scenario, obtaining an $87.1 price per share.

Ukraine-Russia War

In the second scenario, we forecasted a rather pessimistic outlook where Russia continues to prevail over Ukraine, deteriorating the current situation to a point where the travel appetite towards Europe falls. Similar to what happened in Europe during the 2016 season, marked by various terrorist attacks in France, Belgium, and Turkey, Tourism in the market will be affected, impacting the performance of hotels. Without forecasting the collapse of the European Union, as some analysts foresee, we would expect a growing ‘fear factor’ leading to a decrease in hotel occupancy. Simultaneously, energy prices would continue to increase since Russia remains the main supplier of imported energy. Until Europe comes up with a way to weaken the dependence on Russia’s energy, O&L cost margins would increase, and EMEA incentive fees would decrease.

As this scenario remains not very likely, we considered a 10% probability since the evolution of the conflict remains blurry and unpredictable. This scenario would result in a $97.83 price per share.

Final Recommendations

In 2020, the COVID-19 pandemic, unprecedented in contemporary history, significantly impacted most industries. While the economy began to improve in 2021, normality is predicted to return in 2024. Hyatt Hotels Corporation is poised to strengthen its position in the market through a strategy composed of three pillars. These drivers are the adoption of an asset-light strategy, which will increase its return on invested capital, net room growth, and best practices, which will drive its margin expansion, and market penetration combined with successful revenue management. However, it is crucial to remember that a future pandemic or geopolitically motivated concerns could significantly impact Hyatt's operations and growth. Following the assumptions derived from the firm's strategy and communications, the above analysis concluded an intrinsic share price of $104,07, resulting in a return of 9,3%, including capital and dividend gains, over the 6th of January 2023 undervalued stock price of $95,2. Consequently, the authors recommend a HOLD position.

Appendix

Income Statement

(in millions of dollars, except per share amounts)	2021	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
CORE OPERATIONS												
Total Revenues	3 028	5 846	6 611	7 238	7 815	8 295	8 775	8 982	9 179	9 371	9 566	9 766
COGS												
Owned and leased hotels	(725)	(990)	(1 163)	(1 288)	(1 320)	(1 360)	(1 398)	(1 427)	(1 449)	(1 475)	(1 501)	(1 528)
Distribution and destination management	(112)	(780)	(807)	(824)	(840)	(857)	(874)	(892)	(910)	(928)	(946)	(965)
Depreciation and amortization	(310)	(303)	(305)	(304)	(312)	(320)	(328)	(333)	(338)	(343)	(348)	(353)
Other direct costs	(127)	(238)	(239)	(240)	(245)	(250)	(254)	(259)	(263)	(268)	(273)	(278)
SG&A												
Selling, general, and administrative	(366)	(443)	(498)	(542)	(581)	(612)	(648)	(663)	(678)	(692)	(706)	(721)
Costs incurred on behalf of managed and franchised properties**	(1 639)	(2 607)	(2 968)	(3 259)	(3 646)	(3 935)	(4 227)	(4 330)	(4 432)	(4 526)	(4 623)	(4 721)
Equity earnings (losses) from unconsolidated hospitality ventures	28	17	22	25	27	28	30	31	31	32	33	33
% of Revenues	0,92%	0,34%	0,34%	0,34%	0,34%	0,34%	0,34%	0,34%	0,34%	0,34%	0,34%	0,34%
Result before taxes and OCI	**(223)**	**501**	**654**	**806**	**899**	**989**	**1 075**	**1 109**	**1 141**	**1 171**	**1 202**	**1 233**
Statutory Tax	47	(105)	(137)	(169)	(189)	(208)	(226)	(233)	(240)	(246)	(252)	(259)
Statutory tax rate	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
Tax Adjustments	3	(40)	-		-	-	-	-	-	-	-	-
Effective tax rate	604%											
Foreign currency translation adjustments, net of tax benefit (provision) of $1, $(2), and $— for the years ended December 31, 2021, December 31, 2020, and December 31, 2019, respectively	(61)	(35)	(14)	8	8	8	8	8	8	8	8	8
CORE RESULT	**(234)**	**321**	**503**	**645**	**718**	**789**	**857**	**884**	**909**	**933**	**957**	**982**
NON-CORE OPERATIONS												
COGS												
Net gains (losses) and interest income from marketable securities held to fund rabbi trusts***	43	30	30	30	30	30	30	30	30	30	30	30
Gains (losses) on sales of real estate and other	414	250	0	0	0	0	0	0	0	0	0	0
Asset impairments	(8)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)
Other income (loss), net	(19)	(53)	(40)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Result before taxes and OCI	**430**	**210**	**(27)**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**
Statutory taxes	(90)	(44)	6	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Taxes Adjustments	(259)	(40)	-	-	-	-	-	-	-	-	-	-
Unrecognized pension benefit (cost), net of tax benefit (provision) of $—, $—, and $1 for the years ended December 31, 2021, December 31, 2020, and December 31, 2019, respectively	3	0	0	0	0	0	0	0	0	0	0	0
Unrealized gains (losses) on derivative activity, net of tax benefit (provision) of $—, $8, and $5 for the years ended December 31, 2021, December 31, 2020, and December 31, 2019, respectively	7	5	2	1	1	1	1	1	1	1	1	1
Unrealized gains (losses) on available-for-sale debt securities, net of tax benefit (provision) of $— for the years ended December 31, 2021, December 31, 2020, and December 31, 2019.	(2)	(15)	7	7	7	7	7	7	7	7	7	7
Non Core Result	**89**	**116**	**(12)**	**13**	**13**	**13**	**13**	**13**	**13**	**13**	**13**	**13**
FINANCING OPERATIONS												
Interest expense	(163)	(196)	(142)	(115)	(97)	(96)	(96)	(96)	(92)	(89)	(85)	(81)
Result before taxes and OCI	**(163)**	**(196)**	**(142)**	**(115)**	**(97)**	**(96)**	**(96)**	**(96)**	**(92)**	**(89)**	**(85)**	**(81)**
Statutory Taxes	34	41	30	24	20	20	20	20	19	19	18	17
Financing Result	**(129)**	**(155)**	**(112)**	**(91)**	**(77)**	**(76)**	**(76)**	**(76)**	**(73)**	**(70)**	**(67)**	**(64)**
Total Comprehensive Income	**(275)**	**282**	**379**	**566**	**654**	**726**	**795**	**822**	**850**	**876**	**904**	**932**

Balance Sheet

(in millions of dollars)	2021	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Core Invested Capital												
Operating Cash	61	117	132	145	156	166	176	180	184	187	191	195
Receivables	633	725	632	623	673	714	755	773	790	806	823	840
Inventories	10	16	18	21	22	23	25	25	26	26	27	27
Prepaids	175	250	258	274	296	314	332	340	347	354	362	369
Property and equipment, net	2 848	2 584	2 632	2 681	2 730	2 778	2 827	2 827	2 827	2 827	2 827	2 827
Operating lease right-of-use assets	446	370	370	370	370	370	370	370	370	370	370	370
Intangibles, net	1 977	2 005	2 058	2 130	2 220	2 327	2 440	2 556	2 674	2 795	2 918	3 044
Deferred tax assets	14	-	-	-	-	-	-	-	-	-	-	-
Other assets (core)	571	654	661	725	811	892	973	1 002	1 031	1 057	1 084	1 111
Equity method investments	216	251	261	198	204	210	217	221	224	228	233	237
Goodwill	2 965	3 120	3 120	3 120	3 120	3 120	3 120	3 120	3 120	3 120	3 120	3 120
Accounts payable	(523)	(549)	(435)	(242)	(261)	(277)	(292)	(298)	(305)	(311)	(317)	(324)
Accrued expenses and other current liabilities	(299)	(421)	(471)	(469)	(522)	(562)	(602)	(617)	(631)	(645)	(658)	(672)
Contract Liabilities Linked to Hyatt Operations	(1 065)	(1 100)	(1 280)	(1 427)	(1 562)	(1 673)	(1 784)	(1 827)	(1 868)	(1 907)	(1 947)	(1 988)
Contract Liabilities Linked to ALG Operations	(1 462)	(1 600)	(1 643)	(1 680)	(1 716)	(1 752)	(1 788)	(1 825)	(1 862)	(1 901)	(1 940)	(1 980)
Other long-term liabilities (core)	(374)	(474)	(396)	(285)	(308)	(326)	(345)	(353)	(361)	(369)	(376)	(384)
Total core invested capital	**6 193**	**5 948**	**5 918**	**6 183**	**6 233**	**6 326**	**6 424**	**6 493**	**6 566**	**6 640**	**6 716**	**6 794**
Non-Core Invested Capital												
Assets held for sale	-		-	-	-	-	-	-	-	-	-	-
Financing receivables	41	60	57	50	54	58	61	63	64	65	67	68
Other assets (non-core)	1 463	1 520	1 558	1 617	1 746	1 854	1 961	2 007	2 051	2 094	2 138	2 182
Accrued compensation and benefits	(187)	(209)	(213)	(230)	(248)	(264)	(279)	(285)	(292)	(298)	(304)	(310)
Other long-term liabilities (non-core)	(765)	(919)	(974)	(1 062)	(1 146)	(1 217)	(1 287)	(1 318)	(1 346)	(1 374)	(1 403)	(1 433)
Total non-core invested capital	**552**	**452**	**428**	**376**	**406**	**431**	**456**	**467**	**477**	**487**	**497**	**508**
Total Invested Capital	**6 745**	**6 400**	**6 346**	**6 559**	**6 639**	**6 757**	**6 880**	**6 960**	**7 043**	**7 127**	**7 213**	**7 301**
Financing Result												
Excess of cash	899	-	-	-	-	-	-	-	-	-	-	-
Restricted cash	57	356	264	289	312	331	350	358	366	374	381	389
Short-term investments	227	259	191	115	124	131	139	142	145	149	152	155
Total debt	(4 362)	(3 166)	(2 574)	(2 169)	(2 149)	(2 145)	(2 134)	(2 059)	(1 981)	(1 898)	(1 811)	(1 721)
Redeemable noncontrolling interest in preferred shares of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-
Noncontrolling interests in consolidated subsidiaries	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Total financing result	**(3 182)**	**(2 555)**	**(2 122)**	**(1 769)**	**(1 716)**	**(1 686)**	**(1 648)**	**(1 562)**	**(1 472)**	**(1 379)**	**(1 281)**	**(1 180)**
Equity (Net of noncontrolling interests)	**3 563**	**3 845**	**4 224**	**4 790**	**4 923**	**5 070**	**5 232**	**5 399**	**5 571**	**5 749**	**5 932**	**6 121**
Transactions with shareholders	627	-	-	-	(522)	(579)	(633)	(655)	(677)	(698)	(720)	(743)
Payout Ratio	*228%*	*0%*	*0%*	*0%*	*80%*	*80%*	*80%*	*80%*	*80%*	*80%*	*80%*	*80%*

Free Cash Flow Map

(in millions of dollars, except per share amounts)	2021	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
Core Result	(234)	321	503	645	718	789	857	884	909	933	957	982
Core Invested Capital	6 193	5 948	5 918	6 183	6 233	6 326	6 424	6 493	6 566	6 640	6 716	6 794
Δ Core IC	1 728	(244)	(30)	265	50	93	98	70	73	74	76	78
Core FCF	**(1 963)**	**565**	**534**	**380**	**668**	**697**	**759**	**814**	**837**	**859**	**881**	**905**
Non Core Result	89	116	(12)	13	13	13	13	13	13	13	13	13
Non Core IC	552	452	428	376	406	431	456	467	477	487	497	508
Δ Non Core IC	4	(100)	(23)	(52)	30	25	25	11	10	10	10	10
Non Core FCF	**85**	**217**	**11**	**65**	**(17)**	**(11)**	**(11)**	**3**	**3**	**4**	**3**	**3**
Financing Result	(129)	(155)	(112)	(91)	(77)	(76)	(76)	(76)	(73)	(70)	(67)	(64)
Plus: Δ Financing IC (t-t1)	1 380	(627)	(432)	(354)	(52)	(30)	(38)	(86)	(90)	(94)	(97)	(101)
Plus: Δ Equity (t-t1)	352	282	379	566	133	147	161	167	172	178	183	189
Less: Comprehensive Income	(275)	282	379	566	654	726	795	822	850	876	904	932
FCFF Financing	**1 878**	**(782)**	**(544)**	**(445)**	**(651)**	**(685)**	**(748)**	**(817)**	**(840)**	**(862)**	**(885)**	**(908)**

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Report Recommendations

Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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