## Extended Stay America, Inc. (STAY)

### Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

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<tbody>
<tr>
<td>52WK H-L ($) :</td>
<td>18 - 5</td>
<td>Average Risk</td>
<td>Q1</td>
<td>0.16A</td>
<td>0.07E</td>
<td>0.05E</td>
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<tr>
<td>Market Cap (mil):</td>
<td>2,148</td>
<td>Price Target ($) :</td>
<td>Q2</td>
<td>0.32A</td>
<td>0.07E</td>
<td>0.23E</td>
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<tr>
<td>Shares Out (mil):</td>
<td>177.5</td>
<td>L-Term Rev. Gr Rate Est:</td>
<td>Q3</td>
<td>0.33A</td>
<td>0.16E</td>
<td>0.27E</td>
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<tr>
<td>Float (mil):</td>
<td>152.1</td>
<td>L-Term EPS Gr Rate Est:</td>
<td>Q4</td>
<td>0.14A</td>
<td>0.03E</td>
<td>0.09E</td>
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<tr>
<td>Avg. Daily Vol (mil):</td>
<td>3.88</td>
<td>Debt/Cap:</td>
<td>Total</td>
<td>0.95A</td>
<td>0.32E</td>
<td>0.63E</td>
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<tr>
<td>Dividend ($) :</td>
<td>0.04</td>
<td>ROE:</td>
<td>NM</td>
<td>12.7x</td>
<td>37.8x</td>
<td>19.2x</td>
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<tr>
<td>Yield (%):</td>
<td>0.3</td>
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### Company Description

Extended Stay America (NYSE: STAY) is the largest owner-operator of extended-stay hotels in North America with 559 company-owned and managed hotels. STAY also manages or franchises an additional 75 hotels. While the company has broad-based geographic exposure, the portfolio exhibits a bias toward coastal markets. We view the company's owner-operator model, perpetuated through the paired-share structure, as advantageous relative to other hotel brands and owner-operators given Extended Stay's ability to implement more streamlined renovations and growth strategies.

The company’s extended-stay hotels are designed to provide an affordable and attractive alternative to traditional lodging or apartment accommodations and are targeted toward self-sufficient, value-conscious guests. These hotels feature fully furnished rooms with in-room kitchens, complimentary grab-and-go breakfast, free Wi-Fi, flat screen TVs, and limited housekeeping service. The typical guest includes business travelers, professionals on temporary work or training assignments, persons relocating, temporarily displaced, or purchasing a home, and anyone else in need of temporary housing.

### Quick Summary

**Baird's perspective and stock positioning.** Valuation is the primary driver of our Neutral rating as shares already have recouped a majority of their YTD decline relative to the trough prices that were reached in mid/late-March. We believe the company's likely better-than-peers near-term operating results (due to the portfolio's extended-stay focus and secondary/tertiary market exposures) are more clearly understood by investors today and better reflected in shares at current valuation levels (10.6x NTM EBITDA and ~$70,000/key).

**Our view of the recovery:** We continue to expect a long road to recovery for the hotel sector; we believe the pandemic's impact on hotel fundamentals is likely to last longer than the impact on the overall economy. U.S. occupancies have been on the rise in recent weeks driven by the leisure traveler, and occupancies should continue to trend higher given the loosening of stay-at-home restrictions. However, business transient (a price-taking customer generally) and large group demand (which drives compression and higher ADR) are two of the industry's higher-profit segments and ones that are likely to recover more slowly. We believe corporations will continue to be risk averse with their travel/conference attendance policies until a vaccine is widely available. International markets also have been slower to recover, particularly in Europe, which will impact H, HLT, and MAR more than CHH and WH.

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Michael J. Bellisario  
Sr. Research Analyst  
mbellisario@rwbaird.com  
414.298.6130

Amanda Sweitzer, CFA  
Sr. Research Associate  
asweitzer@rwbaird.com  
414.298.1706
Investment Thesis

Underlying real estate remains undervalued. We continue to believe Extended Stay has numerous value-creating options that could eventually be evaluated/pursued, including a potential LBO, debt recapitalization, or an OpCo/PropCo split. The vast majority of STAY’s value (i.e., 80%-90% based on our math) is in the underlying real estate, and we continue to estimate that an OpCo-PropCo split and/or LBO transaction could result in a valuation well above the level where shares are currently trading.

Closing the ADR gap relative to peers should drive RevPAR growth and margin expansion. Extended Stay operates at an ADR discount to its largest mid-priced extended-stay peers. We believe Extended Stay will be able to drive rate increases through additional capital investments and operational improvements, the latter of which are a top priority for the new executive team.

New development projects and third-party franchise deals provide tailwinds for growth. Extended Stay’s new development and conversion projects as well as third-party franchise deals should boost the overall portfolio’s growth profile and add brand value as the company looks to focus more on higher-return asset-light growth in the coming years.

Extended-stay portfolio more defensively positioned. Given the extended-stay product offering and geographic exposure to secondary and tertiary markets, we believe Extended Stay’s value-oriented brand should benefit from a trade-down effect among both business and leisure customers during an economic slowdown or recession. Also, in a lower demand environment, the company has the ability to shift its mix to a longer-stay customer, which is less volatile than the more transient-focused guests.

Risks & Caveats

Hotel industry is highly cyclical. The hotel industry is a cyclical industry and is heavily dependent on the overall health of the U.S. and global economy, particularly the business traveler. Economic downturns and external events such as terrorism or pandemics can have significant impacts on the profitability of the industry. Key drivers include GDP growth, corporate profitability, employment, and consumer sentiment.

Competition from major global brand companies. In the mid-priced extended-stay segment, Extended Stay competes with many recognizable brands from several major global brand companies: Candlewood Suites (InterContinental), Home2 Suites (Hilton), and TownePlace Suites (Marriott). These major global brand companies have powerful reservation systems and loyalty programs that drive business to their hotels; additionally, their much larger system sizes allow them to capture a more diverse and broader customer base than Extended Stay.

Brand equity. Extended Stay relies heavily on the strength and perception of its brand. If the ESA brand falls out of favor with customers, third-party owners, or developers, overall performance will likely be negatively impacted. Competitive brands are consistently being introduced or developed, and they can erode Extended Stay’s market share over time.

Near-term liquidity risks related to COVID-19. We believe Extended Stay is well capitalized but the company faces heightened near-term liquidity requirements due to the COVID-19 demand shock, which is likely to limit share repurchase activity and common dividend payments in the near term. Also, political unrest, terrorism, pandemics, and other demand shocks create uncertainty and can have a significant impact on guests’ willingness to travel.

Supplemental Information

Our $12 price target is based on our EV/EBITDA multiple analysis, which applies a 9.25x multiple to our 2Q22E-1Q23E EBITDA estimate discounted back at 16.5% per annum. The applied multiple is in line with the stock’s pre-crisis NTM valuation multiple.
Appendix - Important Disclosures and Analyst Certification

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Rating and Price Target History for: Extended Stay America, Inc. (STAY) as of 05-27-2020

1 Robert W. Baird & Co. Incorporated makes a market in the securities of STAY.

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Extended Stay America, Inc.
May 27, 2020

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