Wyndham Hotels & Resorts, Inc. (WH)

Please refer to Appendix - Important Disclosures and Analyst Certification.

<table>
<thead>
<tr>
<th>Price ($) (5/27/20):</th>
<th>48.49</th>
</tr>
</thead>
<tbody>
<tr>
<td>S2WK H-L ($) :</td>
<td>64 - 15</td>
</tr>
<tr>
<td>Market Cap (mil):</td>
<td>4,514</td>
</tr>
<tr>
<td>Shares Out (mil):</td>
<td>93.1</td>
</tr>
<tr>
<td>Float (mil):</td>
<td>90.9</td>
</tr>
<tr>
<td>Dividend ($) :</td>
<td>0.32</td>
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<tr>
<td>Yield (%):</td>
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<tr>
<td>Rating:</td>
<td>Outperform</td>
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<tr>
<td>Suitability:</td>
<td>Average Risk</td>
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<tr>
<td>Price Target ($) :</td>
<td>S2</td>
</tr>
<tr>
<td>L-Term Rev. Gr Rate Est:</td>
<td>Q1</td>
</tr>
<tr>
<td>L-Term EPS Gr Rate Est:</td>
<td>Q2</td>
</tr>
<tr>
<td>Debt/Cap:</td>
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</tr>
<tr>
<td>ROE:</td>
<td>NM</td>
</tr>
<tr>
<td>FY Dec</td>
<td>2019A</td>
</tr>
<tr>
<td>FY P/E</td>
<td>14.8x</td>
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</table>

**Company Description**

Wyndham Hotels & Resorts is the world’s largest hotel franchising company by the number of properties, with 9,300 hotels across approximately 90 countries on six continents. Through its network of over 828,000 rooms appealing to the everyday traveler, Wyndham commands a leading presence in the economy and midscale segments of the lodging industry. The Company operates a portfolio of 20 hotel brands, including Super 8, Days Inn, Ramada, Microtel Inn & Suites, La Quinta, Baymont, Wingate, AmericInn, Hawthorn Suites, The Trademark Collection and Wyndham. Wyndham Hotels & Resorts is also a leading provider of hotel management services. The Company’s Wyndham Rewards loyalty program offers 83 million enrolled members the opportunity to redeem points at thousands of hotels, vacation club resorts and vacation rentals globally.

**Quick Summary**

Baird's perspective and stock positioning: WH is our top pick. We continue to have a positive view toward shares of WH given that Wyndham's outsized exposures to leisure travelers and drive-to locations position the portfolio well to outperform in the near term, especially as the summer leisure travel season ramps up (albeit off much lower-than-normal levels). The balance sheet is well positioned, in our opinion, and we believe Wyndham has ample liquidity on hand (36+ months of cash in a zero-occupancy scenario). With occupancy levels rising and the economy and midscale chain scales outperforming, we believe investors' previous concerns about the health of the franchisee are now in the rearview mirror.

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.
**Investment Thesis**

**Hotel brand value.** Wyndham’s brands are some of the most recognizable hotel brands in the economy and midscale chain scales; the company’s perceived brand equity is based on its differentiated brands, strong reservation systems, and Wyndham Rewards loyalty program. Given these advantages and the ability to charge higher rates for branded products, the Wyndham brands are attractive to owners.

**Franchised-focus business model generates steady cash flows.** Wyndham’s franchised segment is a high-return, high-margin business that is scalable and requires minimal capital investment. We expect this segment to continue generating solid cash flow growth over the long run via net unit growth and effective royalty rate increases. Also, Wyndham’s value-oriented brands should benefit from a trade-down effect among both business and leisure customers during an economic slowdown or recession.

**International growth opportunities.** Wyndham is a leading franchisor in the United States in the midscale and economy chain scales, but the company’s international footprint, especially in developing countries, presents an opportunity for significant growth potential over the long run given the company’s portfolio of strong brands.

**Balance sheet flexibility bolstered by recent credit facility amendment.** Wyndham amended its credit agreement in April 2020 to provide additional balance sheet flexibility during the COVID-19 demand shock. The credit agreement amendment waives covenant testing until 2Q21 (i.e., the 5.0x first lien leverage ratio limitation); borrowing costs are only increasing 25 bps (now L+225 bps); dividends are capped based on a liquidity test; and buybacks are restricted. At the end of 1Q20, Wyndham had $749 million of cash on hand with a fully drawn $750 million credit facility.

**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.

**Still a relatively new stand-alone public company.** Shares of WH began regular-way trading on June 1, 2018, and the company only has existed as a stand-alone, pure-play hotel company for a relatively short period of time; as such, management’s growth strategies and capital allocation decisions still are being proven out and investors likely are in the early stages of fully understanding Wyndham’s business model and earnings growth profile, in our opinion.

**Competition.** Wyndham competes directly against several other large brand and management companies that have strong brands and similar strategies, especially Choice in the United States. In particular, Hilton’s recent introduction of Tru, a close competitor of La Quinta, is likely to impact relative market share performance of and developer preference for La Quinta. Also, the emergence of alternative lodging accommodations and changing traveler preferences pose a demand risk for traditional hotel owners, operators, and brand companies.

**Brand equity.** Wyndham relies heavily on the strength and perception of its brands. If Wyndham’s brands fall 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 Wyndham’s brands’ market share over time.

**Near-term liquidity risks related to COVID-19.** We believe Wyndham faces heightened near-term liquidity risks as hotels remain close and/or occupancy levels remain depressed due to the COVID-19 demand shock. Timing differences between the funding of system investments and cost reimbursements from owners could negatively impact the company’s near-term liquidity profile. 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 $52 price target is based on our EV/EBITDA analysis, which applies an 11.25x multiple to our 2023 EBITDA estimate discounted back at 12.5% per annum. The applied multiple is lower than franchised-focused peers given Wyndham’s slower net unit growth.
Appendix - Important Disclosures and Analyst Certification

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

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Baird
Wyndham Hotels & Resorts, Inc.
May 27, 2020

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