Robert Dunn **Michael Wolleben**

Hidden Opportunities

Valuing possible breakups by providing sum-of-the-parts analysis.

- ✓ Extended Stay America (NASDAQ: STAY) operates a mid-scale, longer-term occupancy lodging business consisting of two reportable segments: (1) Owned Hotels (98% of sales in 2019), which owns and operates 559 hotels with ~62,175 rooms in 40 U.S. states; and (2) Franchise & Management (2% of revenue in 2019), which operates 75 Extended Stay-branded locations, with ~7,675 rooms, for third parties.

- ✓ STAY is among the last remaining integrated lodging concerns continuing to buck the industry trend of separating property ownership and brand management. In that context, a lengthy review of the company's operating structure ended in mid-2019 with no action taken (for the time being). However, recent shareholder developments could prompt STAY to revisit strategic alternatives, including a PropCo/OpCo-type split, or could even portend an outright go-private overture. In that regard, on April 6th Starwood Capital disclosed an ~8.5% investment in STAY (and it has been reported, by the WSJ, that Blackstone has built a ~4.99% stake in recent months). Interestingly, Starwood controls industry competitor InTown Suites, and Blackstone has twice owned STAY outright (in 2004 and 2010, when it outbid suitors, including Starwood). So, while the lodging space will admittedly remain under pressure in the current environment, we think that, in addition to the potential transactional optionality, the extended-stay niche generally, and STAY specifically, will remain relative outperformers (with industry-leading margins and occupancy). In that regard, we estimate that at 8.5x 2022E EV/EBITDA, STAY is undervalued relative to the sum value of its parts. (As well, in the event that the status quo persists, we think value could be unlocked via the continued monetization of assets, with or without the maintenance of a franchise relationship.)

- ✓ Based on management commentary and peer and M&A valuations, value of $27 per share and $1 per share can be projected for STAY's current Owned Hotel and F&M businesses. Accounting for corporate costs and projected net debt of $14 per share yields a base case sum-of-the-parts fair value of ~$14 per share. If the company ultimately pursues strategic alternatives, such as an OpCo/PropCo-type split or even a go-private transaction, we estimate incremental value up to ~$16 per share could be unlocked.

- ✓ Risks include management execution, competition, leverage, and/or a further deterioration of economic activity/prolonged recession.

Extended Stay America, Inc.

(NASDAQ: STAY)

Date (5/14/20)

Price $10.25/share

Market capitalization ~$1.8B

Owned Hotels: $27 per share

Franchise & Management (F&M): $1 per share

Corporate, Net Debt & Other: ($14 per share)

SOTP: $14 per share

NOTE: This publication could be considered as advocating for corporate restructurings. Authors select companies for this report based on the potential for a future value-unlocking transaction. In many cases, these companies have or could come under activist investor pressure, media scrutiny, or general market speculation that a spin-off or asset sale is possible.

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The Background

Extended Stay America (NASDAQ: STAY), based in Charlotte, NC, was founded in January 1995, opened its first two hotels, in South Carolina and Georgia, later that year, and went public in December 1995. By the end of 1997, following the acquisition of StudioPLUS, the company operated ~185 locations, providing guests with affordable extended-stay lodging. In May 2004, the company was purchased by private equity firm Blackstone Group (NYSE: BX) for roughly $3 billion and was combined with another of the firm's holdings, Homestead Studio Suites. In June 2007, BX sold the business to Lightstone Group for ~$8 billion. In June 2009, amid the "Great Recession," the company filed for Chapter 11 bankruptcy protection. In July 2010, a consortium of investors, including Blackstone, purchased the assets, at auction, for ~$3.9 billion, and in October 2010 the company emerged from bankruptcy. In November 2013, the reorganized company, Extended Stay America (ESA), completed an initial public offering with a "paired" share structure, which provides investors with ownership of the company's C-corp. franchise & management business, ESA Management, as well as a 42% interest in ESH Hospitality, a real estate investment trust (REIT), in a single, inseparable security. [Note: The unique structure, illustrated in the Appendix on page 20, allows STAY to enjoy some, but not all (~58%) of the tax benefits afforded REITs.] Currently, STAY operates two reportable business segments (see Background #1): (1) Owned Hotels (~98% of consolidated sales in 2019), which owns and operates 559 hotels in 40 states, with ~62,175 rooms; and (2) Franchise & Management, which franchises or manages 75 ESA-branded properties, with ~7,675 rooms, for third parties.

Background #1 Extended Stay America: Consolidated Selected Financial Items, 2017–2022E
($ in millions)

	2017	2018	2019	2020E	2021E	2022E
Sales:						
Owned Hotels	$1,282.7	$1,259.2	$1,196.1	$949.3	$1,033.8	$1,120.2
Franchise & Management	-	$15.9	$22.1	$20.6	$23.0	$25.4
Total	**$1,282.7**	**$1,275.1**	**$1,218.2**	**$970.0**	**$1,056.8**	**$1,145.5**
Adj. operating income:						
Owned Hotels	$383.1	$394.7	$347.0	$180.4	$242.9	$308.0
Franchise & Management	$3.9	$6.4	$6.8	$7.2	$7.8	$8.5
Corporate	($25.9)	($23.2)	($32.0)	($32.0)	($32.0)	($32.0)
Total	**$361.1**	**$377.9**	**$321.8**	**$155.6**	**$218.8**	**$284.5**
EBITDA	**$590.3**	**$587.3**	**$519.2**	**$350.2**	**$412.6**	**$477.8**
Adj. EBITDA (as reported)	$622.9	$599.7	$535.0	$364.6	$426.6	$493.8
Capital expenditures:						
Owned Hotels	$164.9	$208.0	$260.2	$162.3	$170.6	$184.8
Franchise & Management	-	$0.3	-	-	-	-
Corporate	$1.5	$1.0	$1.1	$2.5	$2.5	$2.5
Total	**$166.4**	**$209.3**	**$261.3**	**$164.8**	**$173.1**	**$187.3**

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

For some context on the following discussion, we would note that in mid-March, STAY withdrew its initial 2020E guidance, provided in late February, amid the growing COVID-19 pandemic. In conjunction with its 1Q 2020 results, reported on May 7th, the company declined to provide any updated financial guidance (other than for capex, D&A, and interest expense expectations; see Background #2). That said, the company did provide a degree of anecdotal color on recent results and current industry conditions; specifically, in 1Q 2020, total adjusted EBITDA declined 16% to $97.7 million on a 5.8% decline in revenue per available room (RevPAR), reflecting a 6.5% decline in average daily rate (ADR) and a 60 bps increase in occupancy to 71.9%. Management noted that RevPAR was up ~2.6% in the first two months of 2020 before declining 19% in March. In April 2020, the company indicated that RevPar declined ~35%, with occupancy rates at roughly ~61%. (For comparison, we would note that the wider mid-scale hotel segment experienced a roughly 80% decline in RevPar, with occupancy levels around 20%, during the same period, per industry research firm STR.) In recent weeks, STAY has indicated that it has experienced modest improvements in RevPAR trends, with occupancy rising to ~65% (in fact, the company noted that occupancy hit 67% on May 6th). Anecdotally, year-to-date RevPAR was down ~14% as of May 6th.

Background #2 Extended Stay America: 2020E Financial Guidance

	Initial	Current
Total sales	**$1.226 - $1.246 billion**	**-**
Comparable system-wide RevPAR	(0.5) - 1.5%	-
Net income	$133 -$154 million	-
EBITDA	$491 - $511 million	
Adjusted EBITDA	**$505 -$525 million**	**-**
Depreciation & amortization	$195 - $200 million	$190 - $195 million
Interest expense, net	$135 million	$135 - $145 million
Capital expenditures	**$215 - $235 million**	**$160 - $190 million**
Diluted shares	177.5 million	-

Source: Company reports.

In response to industry conditions, the company has taken steps both to improve safety, including increasing the use of personal protective equipment (PPE) and common area cleaning, and to reduce costs, by eliminating complimentary breakfast service (also for safety), instituting every-other-week housekeeping (on long-term stays), and reducing payroll hours. (Compensation was reduced 20% for senior leadership and Board members, but only ~2% of STAY's field associates have been temporarily furloughed, as all of its hotels remain open.) As well, the company drew down $400 million on its revolvers, ending the March-quarter with $725 million in cash, $3.1 billion of debt, and no significant maturities until September 2024. The company's leverage covenant was suspended through 1Q 2021 (and will then be calculated on an annualized rather than trailing-12-month basis). In addition to the roughly $50 million reduction in anticipated capital spending (see Background #2), primarily on delayed renovations, new builds, and non-guest-facing investments, STAY has suspended its share repurchase program and reduced its quarterly dividend to $0.01 per share (from $0.23). (Anecdotally, management will look to increase its payout as soon as market conditions stabilize.)

Importantly, management indicates that internal stress tests of its balance sheets solidify the company can withstand a prolonged industry downturn, with STAY's chief financial officer (CFO) anecdotally noting that assuming April-type business conditions persist, the company would have enough cash to sustain itself for approximately four years (even at current staffing, overhead, and capex levels). Presumably, that commentary does not even include any proceeds from future (but likely) asset sales. As will be described in more detail later in this report, in recent years STAY has been opportunistically monetizing assets (at attractive valuations) as it pursues a more "asset-light" business model. In its 1Q 2020 conference call commentary, management noted that despite recent market dislocations, the company has "multiple" opportunities to sell properties at "very accretive" valuations to well-financed, non-lodging buyers, with "higher & better use" (HBU) considerations.

For additional context on the potential near-term financial impact of the pandemic, we would highlight recent commentary (on the 2Q 2019 earnings conference call) from STAY's CFO, Brian Nicholson, regarding the sensitivity of the company's current operating model to a recession, as follows: "I think it's fairly simple. Each point of RevPAR is probably worth about $8 million to $10 million in EBITDA. So if we see a recession like frankly every recession I had experienced prior to 2007, 2008, we might see a dip of, call it $40 million to $50 million of EBITDA from where we are today. And that would involve for us a little bit of a shuffling of the deck in terms of timing of capital projects but would not be really disruptive in terms of our plans overall. Even if we saw the really draconian 15% to 20% drops in RevPAR that we saw in the last recession, I don't know that, that $8 million to $10 million would apply all the way down because there would be some changes to the model. We would have a more radical mix shifting to our 30-plus guests and our costs would drop. And so I would expect an EBITDA decline, say more in the neighborhood of $100 million. And again, while that would mean more significant changes to our capital plans and we would—we've kind of tightened the belt further, it's still something that we're very comfortable with our levels of leverage even in that kind of 'doomsday' scenario."

For our part, while this admittedly will be a challenging time for hotel operators generally, we think STAY's business model, which focuses on low-cost, longer-term (almost quasi-residential) customers, will prove significantly more resilient (i.e., a shallower decline with a faster recovery) than for peers that focus on the premium/luxury end of the market, particularly in destination locations, as well as those reliant on group and/or transient (i.e., overnight) business. (As well, the fact that all of STAY's rooms are equipped with a kitchen has emerged as a particular advantage amid widespread restaurant closures.) In that context, we would note that while STAY's recent RevPAR and occupancy figures were down sharply, they compare favorably with wider industry figures, which, again, have indicated declines of ~80% and 20%, respectively. Moreover, we would note that STAY's recovery coming out of the 2008-2009 recession materially outpaced peers; in fact, STAY achieved pre-recession occupancy rates by 2010, while the bulk of competitors did not reach that milestone for five or more years.

Owned Hotels

The Owned Hotels segment (98% of consolidated sales in 2019) owns (via the ESH Hospitality REIT) and operates (via ESA Management) 559 hotels in 40 states, with 62,173 rooms (see Background #3, which we note includes the 120-room location the company opened in Hilton Head, SC, on April 30th).

Background #3 Extended Stay America: Owned Hotel Portfolio (as of May 2020)

State	# of Hotels	# of Rooms	% of Total	State	# of Hotels	# of Rooms	% of Total
California	83	10,047	16.2%	Missouri	8	858	1.4%
Florida	55	6,130	9.9%	Alabama	7	694	1.1%
Texas	39	4,548	7.3%	Indiana	7	616	1.0%
North Carolina	31	3,168	5.1%	Wisconsin	6	666	1.1%
Illinois	30	3,444	5.5%	Kentucky	6	573	0.9%
Virginia	30	3,291	5.3%	Oregon	5	643	1.0%
Georgia	21	2,137	3.4%	Connecticut	5	570	0.9%
Washington	19	2,182	3.5%	Nevada	4	529	0.9%
Maryland	19	2,066	3.3%	Utah	4	484	0.8%
New Jersey	18	2,098	3.4%	Louisiana	4	429	0.7%
Michigan	18	1,989	3.2%	Alaska	4	419	0.7%
Tennessee	17	1,778	2.9%	Rhode Island	4	402	0.6%
Pennsylvania	16	1,711	2.8%	Arkansas	3	306	0.5%
Arizona	14	1,612	2.6%	Mississippi	3	274	0.4%
Ohio	14	1,378	2.2%	Montana	2	208	0.3%
Massachusetts	12	1,334	2.1%	Iowa	2	190	0.3%
South Carolina	13	1,321	2.1%	Delaware	1	142	0.2%
New York	11	1,326	2.1%	Idaho	1	107	0.2%
Colorado	11	1,266	2.0%	New Hampshire	1	101	0.2%
Minnesota	10	1,044	1.7%	Maine	1	92	0.1%
					559	**62,173**	

Source: Company reports.

The extended-stay market, as defined by The Highland Group, consists of hotels with a fully equipped kitchenette in each room that accept reservations but do not require a lease. (All of STAY's rooms are fully furnished, with in-room kitchens/refrigerators, flat-screen TVs, and free Wi-Fi, and all of its properties have on-site laundry facilities.) The overall extended-stay market is an estimated $16-$18 billion (or ~500,000 room) sub-sector of the wider $168 billion (or 5.3 million room) U.S. lodging sector.

As illustrated in Background #4, with an average daily rate (ADR) between $55-$105, STAY is focused on the mid-price (as opposed to either upscale or economy) segment of the market, and more than 40% of its customers stay at its properties for more than 30 days (with an additional

21% staying between 7-29 days). On the former point, management indicates the mid-scale price level comprises more than 30% of the overall extended-stay market, implying the company controls more than 40% of its core addressable market. On the latter point, core customers tend to be self-sufficient, cost-conscious business and/or leisure travelers, professionals with temporary work or training assignments, and people relocating or temporarily displaced from traditional housing in need of a place to stay for more than a week. Competitors include Candlewood Suites (owned by InterContinental) and TownePlace Suites (owned by Marriott), each of which has roughly 40,000 rooms, Hawthorn Suites (owned by Wyndham) and Home2 Suites (owned by Hilton), each with ~10,000 rooms, as well as WoodSpring and MainStay Suites (owned by Choice Hotels) and InTown Suites (owned by Starwood). Other players, such as Hyatt House, Residence Inn (owned by Marriott), and Homewood Suites (owned by Hilton), serve the so-called upscale segment of the market (with ADRs north of $125).

Background #4 Extended Stay America: Owned Hotels Segment, Selected Items (2017-2022E)
($ in millions)

	2017	2018	2019	3 mos. 2019	3 mos. 2020	2020E	2021E	2022E
Total sales	**$1,282.725**	**$1,259.182**	**$1,196.1**	**$272.3**	**$261.2**	**$949.3**	**$1,033.8**	**$1,120.2**
Room revenue	$1,260.9	$1,237.3	$1,171.7	$267.0	$254.5	$927.4	$1,010.8	$1,096.0
1-6 nights	$467.8	$457.4	$441.4	$101.4	$84.6	$347.8	$379.0	$1,507.0
7-29 nights	$274.9	$261.7	$243.3	$55.1	$54.8	$194.8	$212.3	$1,326.1
30+ nights	$518.2	$518.3	$487.0	$110.5	$115.0	$384.9	$419.5	$1,550.8
Other	$21.9	$21.9	$24.4	$5.3	$6.8	$21.9	$23.0	$24.2
Adj. operating income	**$383.1**	**$394.7**	**$347.0**	**$69.7**	**$48.6**	**$180.4**	**$242.9**	**$308.0**
Hotel operating profit	$705.8	$679.6	$619.8	$136.4	$119.3	$398.7	$491.0	$565.7
EBITDA	**$612.3**	**$604.0**	**$544.4**	**$118.5**	**$99.1**	**$375.0**	**$436.8**	**$501.3**
Operating margin	29.9%	31.3%	29.0%	25.6%	18.6%	19.0%	23.5%	27.5%
Hotel operating margin	55.0%	54.0%	51.8%	50.1%	45.7%	42.0%	47.5%	50.5%
EBITDA margin	47.7%	48.0%	45.5%	43.5%	37.9%	39.5%	42.3%	44.8%
Rooms	68,686	61,552	61,933	61,552	62,053	62,173	62,298	62,423
Occupancy	74.5%	75.9%	76.7%	71.4%	71.4%	65.0%	70.0%	75.0%
ADR	$67.19	$69.67	$67.97	$67.51	$63.35	$62.87	$63.50	$64.14
RevPAR	$50.09	$52.86	$52.16	$48.20	$45.23	$40.87	$44.45	$48.10
Capital expenditures	**$164.9**	**$208.0**	**$260.2**	**$54.8**	**$54.4**	**$162.3**	**$170.6**	**$184.8**

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

In November 2019, Bruce Haase, formerly the chief executive of WoodSpring Suites from 2014-2016 and a STAY Board member since April 2018, replaced Jonathan Halkyard at the company's helm. Soon after his appointment, Mr. Haase laid out an operating plan based on four key pillars: (1) improving the guest experience and property level financial performance; (2) strategically curating and extracting value from REIT assets; (3) concentrating on growth in its asset-light franchising business; and (4) returning capital to shareholders while maintaining a prudent approach to its balance sheet (discussed in the "Balance Sheet and Cash Flow" section of this report).

On the first point, while we would note that STAY's hotel-level operating profit, at nearly 52% (in 2019), remains well above industry peers at ~35%, Mr. Haase sees room for improvement on multiple fronts, including sales, marketing, distribution, and labor optimization, as well as a renewed focus on its core 30-day customers. Regarding the second (and related third) pillar, STAY has been unlocking value from its real estate portfolio in recent years, by monetizing assets that either do not fit STAY's core focus or present buyers with "higher & better use" options at free cash flow multiples of 15x-20x (see Background #5). In most cases, these transactions have also supported growth in the company's franchise business (which STAY began in mid-2017 and will be described in more detail in the F&M section of this report). On the 1Q 2020 conference call, management indicated that despite recent market dislocations, the company is working toward completing several asset sales at "very attractive" multiples and "highly accretive" prices and that it continues to have a longer-term pipeline of additional opportunities (i.e., ~70). Notably, the company indicated all transactions currently in the works are with non-lodging counterparties with continued access to capital.

Background #5 Extended Stay America: Recent Asset Sales (and Refranchise) of Owned Hotels
($ in millions)

Closed	# of Hotels	# of Rooms	State	Franchise	Proceeds	Revenue	Trailing EBITDA	Per key	EV/EBITDA	EV/FCF
Nov-18	14	1,386	Multiple	Yes	$34.9	-	-	$0.0251	-	18.1x
Sep-18	16	1,677	Multiple	Yes	$60.7	-	-	$0.0362	-	17.8x
Sep-18	16	1,772	Multiple	Yes	$58.1	-	-	$0.0328	-	17.8x
Mar-18	1	101	Texas	No	$44.1	-	-	$0.4365	-	19.5x
Feb-18	25	2,420	Multiple	Yes	$111.2	-	$12.5	$0.0459	8.9x	15.5x
Dec-17	1	160	Colorado	No	$16.0	-	-	$0.0999	-	16.0x
May-17	3	500	Canada	No	$43.6	-	-	$0.0871	-	17.5x
May-17	1	101	Massachusetts	No	$5.1	-	-	$0.0504	-	-
Dec-15	53	6,617	Multiple	No	$285.0	$83.5	$29.0	$0.0431	9.8x	-
Avg.					**$658.6**			**$0.095**	**9.4x**	**17.0x**

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

While we expect the company's main focus of growth over the longer term will be on its asset-light franchise business, per Mr. Haase's third pillar, the company does intend to "work through" its company owned or "on-balance sheet" corporate development pipeline (see Background #6); to that end, the company opened a 120-room location in Hilton Head, SC, on April 30, 2020, and indicates it could open 5-6 more locations (that were already under construction) in 2020, with the remainder in 2021-2022. (That said, given the current environment and the likelihood of asset sales we assume net new openings of only ~125 rooms per year through 2022; see Background #4).

Background #6 Extended Stay: Pipeline of Potential New Owned Hotels

Under option		Pre-Development		Under construction		Total pipeline		Opened YTD		Opened 2019	
# Hotels	# Rooms	# Hotels	# Rooms	# Hotels	# Rooms	# Hotels	# Rooms	# Hotels	# Rooms	# Hotels	# Rooms
-	-	4	504	10	1,256	14	1,760	1	120	2	260

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

For our part, considering management's near- and longer- term commentary, including its anecdotal RevPAR sensitivity analysis, as well as the company's performance coming out of the 2008-2009 recession, we think it is reasonable to project that, following a steep decline in 2020, STAY's operations will slowly return to more normalized levels (albeit below prior peaks) in 2021 and 2022, when we estimate Owned Hotels segment sales and adjusted EBITDA could be $1.12 billion and ~$500 million, respectively (see Background #4).

Franchise & Management (F&M)

The Franchise & Management segment (2% of consolidated sales in 2019) has franchise and management arrangements with the third-party owners of 75 Extended Stay-branded hotels comprising 7,677 rooms, including the new 92-room franchise location that was opened in Colonial Heights, VA on May 4th (see Background #7). Franchise arrangements consist of an initial fee as well as ongoing royalties based on a percentage of monthly revenue (for use of the Extended Stay brand); management fees are collected (also based on a percentage of monthly sales) for on-site management services. (Other F&M revenues include the reimbursement of direct and indirect costs, including system-wide platforms, such as marketing, IT, reservation, and revenue management systems.)

Background #7 Extended Stay America: Franchise & Management Portfolio Progression (as of May 2020)

Date	# of franchised hotels added/(removed)	# of franchised rooms added/(removed)	Total # of franchised hotels	Total # of franchised rooms
Jan-18	-	-	1	160
Feb-18	25	2,420	26	2,580
Mar-18	1	101	27	2,681
Sep-18	32	3,449	59	6,130
Nov-18	14	1,386	73	7,516
Apr-19	1	115	74	7,631
Jul-19	(1)	(160)	73	7,471
Aug-19	(1)	(101)	72	7,370
Nov-19	1	102	73	7,472
Dec-19	-	-	73	7,472
Jan-20	1	113	74	7,585
May-20	**1**	**92**	**75**	**7,677**

Source: Company reports.

The Franchise & Management business, which was launched in mid-2017, contemplated the addition of some 200 non-coastal franchise locations through 2021 by offering sophisticated, multi-unit operators (as opposed to one-off entrepreneurs) the option to convert existing assets, purchase Extended Stay hotels, or build new franchise properties. On the build front, STAY estimates land and construction costs of $1-$2 million and $70-$75,000 per key, respectively, with the target of double-digit unlevered cash on cash returns (for franchisees). That said, the company's re-franchising efforts have been the most effective thus far, as 71 of STAY's recent hotel sales have become franchises (see Background #5). (Anecdotally, hotel purchasers are understood to intend to build/convert additional Extended Stay locations in their respective markets over time.) In that context, the company has a full pipeline of 59 franchise opportunities (see Background #8), including 27 executed locations (where F&M applications have been approved, deposits paid, and hotel sites are in various stages of pre-development or construction), 27 commitments (where third parties, primarily previous counterparties in the aforementioned hotel sales, have signed commitments to build or convert additional hotels), and 5 applications (where F&M applications have been filed and deposits paid).

Background #8 Extended Stay America: Franchise & Management Pipeline

Commitments		Applications		Executed		Total pipeline		Opened YTD		Opened 2019	
# Hotels	# Rooms	# Hotels	# Rooms	# Hotels	# Rooms	# Hotels	# Rooms	# Hotels	# Rooms	# Hotels	# Rooms
27	3,348	5	588	27	3,132	59	7,068	1	113	2	217

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Despite the full pipeline, we think it reasonable to assume (given current capital market disruptions) that the near-term trajectory of new hotel developments will face challenges; that said, we think the resilience of STAY's concept and operating model during the current period is likely to serve as a longer-term competitive advantage in future franchise accumulation. All told, we think it reasonable to project, assuming the cumulative addition of ~10 locations, 2022E Franchise & Management segment sales and operating income/adjusted EBITDA of ~$25.5 million and $8.5 million, respectively (see Background #9).

Background #9 Extended Stay: Franchise & Management Segment, Selected Items (2017-2022E)
($ in millions)

	2017	2018	2019	3 mos. 2019	3 mos. 2020	2020E	2021E	2022E
Sales	-	**$15.9**	**$22.128**	**$5.3**	**$5.1**	**$20.6**	**$23.0**	**$25.4**
Franchise & management fees	$3.9	$7.1	$9.0	$2.0	$2.1	$8.4	$8.8	$9.5
Intellectual property eliminations	($3.9)	($3.8)	($3.6)	($0.8)	($0.8)	($3.3)	($3.3)	($3.3)
Franchise & management fees, net	-	**$3.310**	**$5.412**	**$1.225**	**$1.279**	**$5.165**	**$5.586**	**$6.248**
Other F & M revenue	-	**$12.6**	**$16.7**	**$4.1**	**$3.8**	$15.5	$17.4	$19.1
Excluded inter-segment transactions	*($75.7)*	*($80.9)*	*($77.1)*	*($20.3)*	*($20.8)*	*($71.2)*	*($77.5)*	*($84.0)*
Operating income	**$3.9**	**$6.4**	**$6.8**	**$1.5**	**$1.6**	**$7.2**	**$7.8**	**$8.5**
Franchise & management	$3.9	$7.1	$9.0	$2.0	$2.1	$8.4	$8.8	$9.5
Other F&M	-	($0.7)	($2.2)	($0.6)	($0.4)	($1.2)	($1.0)	($1.0)
Capital expenditures	-	**$0.3**	-	-	-	-	-	-

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Balance Sheet and Cash Flow

At the end of 1Q 2020, STAY had net debt of roughly $2.3 billion (see Background #10), comprised of $710 million of unrestricted cash, including ~$400 million drawn from its revolver (as a precautionary measure) and ~$3.0 billion of debt (not including unamortized financing fees and debt discounts). The leverage ratio, by our calculation, was 4.5x (compared to its previous 8.75x covenant). The company's leverage covenants have been suspended through 1Q 2021, at which time they will be calculated on an annualized rather than trailing-12-month basis, but they remain subject to a minimum liquidity covenant of $150 million. As illustrated in Background #10, STAY has no significant maturities until September 2024.

Background #10 Extended Stay: Balance Sheet Snapshot
($ in millions)

	2018	2019	1Q 2020	Facility	Amount	Maturity	Interest rate
Cash	**$287.5**	**$346.8**	**$710.1**	Term Loan B	$628	2026	Libor + 200 bps
Restricted cash	$15.9	$14.9	$14.9	ESH revolver	$350	2024	Libor + 200 bps
				ESA revolver	$50	2024	Libor + 225 bps
Total debt	**$2,402.6**	**$2,639.8**	**$3,039.8**	**Total secured debt**	**$1,028**		
				Senior unsecured notes	$1,300	2025	5.25%
Net debt	**$2,099.3**	**$2,293.0**	**$2,329.7**	Senior unsecured notes	$750	2027	4.625%
				Preferred stock	$7	2020	8.0%
Leverage ratio	4.0x	4.9x	5.9x	**Total unsecured debt**	**$2,057**		
Leverage ratio, net	**3.5x**	**4.3x**	**4.5x**	**Gross debt**	**$3,085**		
				Deferred financing & debt discounts	($45)		
Shareholders equity	$1,310.6	$1,176.3	$1,110.9	**Total debt (as reported)**	**$3,040**		

Source: Company reports.

In an effort to preserve cash in the current environment, STAY has reduced its 2020 capital spending budget to $160-$190 million (from initial plans of $215-$235 million), primarily by reducing renovation and new build plans as well as by delaying some non-guest-facing investments. As well, the company has suspended its share repurchase program and reduced its quarterly dividend to $0.01 per share (from $0.23). (See Background #11.) Importantly, management indicates that internal stress tests of its balance sheets suggest the company can withstand a prolonged industry downturn. Anecdotally, STAY's chief financial officer indicated that assuming April-type business trends persist (e.g., RevPar and occupancy), the company (at current staffing, overhead, and capex levels) would have enough cash to sustain itself for approximately four years (again, before any incremental proceeds from potential asset sales).

Background #11 Extended Stay: Sources and Uses of Cash Flow

($ in millions, except per share amounts)

	2017	2018	2019	3 mos. 2019	3 mos. 2020	2020E	2021E	2022E
Net income	$172.2	$211.8	$165.1	$28.4	$7.8	$9.0	$64.8	$122.9
Depreciation & amortization	$229.2	$209.3	$197.4	$48.8	$50.5	$194.6	$193.8	$193.2
Other	$45.1	$28.8	$37.4	$24.9	$33.9	$0.0	$0.0	$0.0
Net cash from operations	**$446.5**	**$449.9**	**$400.0**	**$102.0**	**$92.3**	**$203.6**	**$258.7**	**$316.1**
Capital expenditures	**($166.4)**	**($209.3)**	**($261.3)**	**$55.3**	**$54.6**	**($164.8)**	**($173.1)**	**($187.3)**
Free cash flow	**$280.1**	**$240.6**	**$138.7**	**$157.3**	**$146.9**	**$38.8**	**$85.6**	**$128.8**
FCF/share	$1.45	$1.27	$0.74			$0.22	$0.48	$0.72
Acquisitions	-	-	-	-	-	-	-	-
Asset sales	$63.9	$309.1	-	-	-	-	-	-
Dividends	($159.0)	($165.8)	($171.0)	($41.9)	($41.4)	($46.7)	($7.1)	($7.1)
Share repurchases	($62.3)	($85.4)	($130.7)	-	($31.1)	-	-	-

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Corporate Governance and Ownership

STAY has a seven-member Board, each elected annually, of which six, including the chairman, Douglas Geoga, are deemed independent, with the lone exception being the company's current chief executive (CEO), Bruce Haase. All committees, including Audit, Compensation, and Nominating & Governance, are composed of (and chaired by) independent directors. Together, all qualified insiders own slightly less than 1% of the outstanding shares (see Background #12).

Background #12 Extended Stay America: Current Insider and Institutional Ownership
(shares in millions)

	Shares held	% ownership
Institutions:		
Vanguard Group	16.7	9.4%
SAR Public Holdings	15.1	8.5%
BlackRock Inc.	10.5	5.9%
River Road Asset Mgmt.	6.9	3.9%
Ameriprise Financial	6.8	3.8%
Long Pond Capital	6.7	3.8%
Schroders PLC	5.1	2.9%
Hawk Ridge Capital Mgmt.	4.6	2.6%
Geode Capital Mgmt.	4.5	2.5%
SouthernSun Asset Mgmt.	4.1	2.3%
Citadel Advisors	4.0	2.3%
Dimensional Fund Advisors	3.9	2.2%
Cooke & Bieler LP	3.5	2.0%
Brown Advisory	3.4	1.9%
Cardinal Capital Mgmt.	3.3	1.9%
Arrowstreet Capital Mgmt.	3.2	1.8%
Burgundy Asset Mgmt.	2.9	1.7%
HG Vora Capital Mgmt.	2.8	1.5%
State Street Corp.	2.6	1.5%
Sterling Capital Mgmt.	2.6	1.4%
Total	**113.2**	**63.8%**

	Shares held	% ownership
Insiders:		
All insiders (18 people)	1.5	0.9%
Total	**1.5**	**0.9%**

Source: Company reports and Bloomberg.

The Breakup

Following years of widespread restructuring and M&A activity, including transactions at Wyndham, La Quinta, Hilton, Marriott, Starwood, and Accor, to name a few, STAY is essentially the last remaining integrated lodging company. In July 2018, STAY first publicly indicated that it was seriously evaluating its corporate structure in an effort to unlock value; by all accounts, the company weighed a range of range of strategic alternatives, including an OpCo/PropCo-type split. In August 2019, the company announced that it had decided to maintain its current corporate structure for the time being and that it preferred to continue executing on its strategic plan, which focused on growth in its asset-light Franchise & Management business.

More recently, in mid-March, *The Wall St. Journal* reported that private equity firm Blackstone (NYSE: BX) had acquired a 4.99% stake in STAY. Subsequently, on April 16th, Starwood Capital (aka SAR Public Holdings; see Exhibit #12) announced that it had purchased ~8.5% of the company (at an average price of ~$9.05, in a range of ~$7-$11 per share). For context, it is important to note that Starwood, a well-known real estate investment firm controlled by Barry Sternlicht, the chief executive of Starwood Property Trust (NYSE: STWD), controls InTown Suites, an extended-stay chain with 188 locations in 22 U.S. states and that Blackstone, the world's largest real estate owner, has twice owned STAY. In May 2004, BX purchased the company for roughly $3 billion and combined it with another of its holdings, Homestead Studio Suites. In June 2007, BX sold the business to Lightstone Group for ~$8 billion. In July 2010, BX, along with Paulson & Co. and Centerbridge Partners, purchased the company again, for ~$3.9 billion, in a bankruptcy auction in which it outbid a range of suitors, including Starwood. (Notably, in November 2013 the consortium took STAY public in its current form.)

On its most recent March-quarter conference call, STAY management declined to comment on individual shareholders but affirmed its commitment to an open dialogue with investors and its willingness to listen to any stakeholder with a "good idea." (Similarly, on the STWD March-quarter conference call, Mr. Sternlicht did not mention STAY by name but did express a bullish tone on real estate assets generally, and the outlook for InTown Suites specifically.) For our part, we think the renewed involvement of savvy and influential real estate investors such as Starwood and Blackstone, which together control ~13.5% of STAY, could prompt the company to revisit strategic alternatives, including an OpCo/PropCo-type split, or even be the subject of an outright take-out offer, which we discern could unlock incremental value beyond the value we currently see on a simple sum-of-the-parts basis. (As well, in the event that the status quo persists, we think value could be unlocked via the continued monetization of assets at accretive valuations, with or without the maintenance of franchise arrangements.)

The Breakdown

Based on the assumptions discussed throughout this report, we think it can be reasonably projected that STAY could generate 2022E sales and adjusted EBITDA of $1.145 billion and ~$478 million, respectively (see Breakdown #1). Notably, our valuation scenarios do not add back stock-based compensation and other expenses that STAY excludes from its reported adjusted EBITDA calculation.

Breakdown #1 Extended Stay America: Adjusted 2017-2019 Results and 2020-2022 Forecasts
($ in millions)

	2017	2018	2019	2020E	2021E	2022E
Sales:						
Owned Hotels	$1,282.7	$1,259.2	$1,196.1	$949.3	$1,033.8	$1,120.2
Franchise & Management	-	$15.9	$22.1	$20.6	$23.0	$25.4
Total	**$1,282.7**	**$1,275.1**	**$1,218.2**	**$970.0**	**$1,056.8**	**$1,145.5**
Adj. operating income:						
Owned Hotels	$383.1	$394.7	$347.0	$180.4	$242.9	$308.0
Franchise & Management	$3.9	$6.4	$6.8	$7.2	$7.8	$8.5
Corporate	($25.9)	($23.2)	($32.0)	($32.0)	($32.0)	($32.0)
Total	**$361.1**	**$377.9**	**$321.8**	**$155.6**	**$218.8**	**$284.5**
EBITDA	**$590.3**	**$587.3**	**$519.2**	**$350.2**	**$412.6**	**$477.8**
EBITDA (as reported)	$590.7	$588.0	$519.6	$350.2	$412.6	$477.8
Stock-based compensation	$7.6	$7.7	$6.9	$8.0	$8.0	$9.0
Asset impairments	$25.2	$43.6	$2.7	-	-	-
Gains on sale	($10.0)	($42.5)	-	-	-	-
System services loss, net	-	-	-	$0.4	-	-
Other expense	$9.5	$2.9	$5.8	$6.0	$6.0	$7.0
Adj. EBITDA (as reported)	**$622.9**	**$599.7**	**$535.0**	**$364.6**	**$426.6**	**$493.8**
Capital expenditures:						
Owned Hotels	$164.9	$208.0	$260.2	$162.3	$170.6	$184.8
Franchise & Management	-	$0.3	-	-	-	-
Corporate	$1.5	$1.0	$1.1	$2.5	$2.5	$2.5
Total	**$166.4**	**$209.3**	**$261.3**	**$164.8**	**$173.1**	**$187.3**

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Breakdown #2 Extended Stay: Public Comparables

($ in millions, except per share amounts)

	Extended Stay America Inc	Apple Hospitality REIT Inc	Ashford Hospitality Trust Inc	CorePoint Lodging Inc	DiamondRock Hospitality Co	Host Hotels & Resorts Inc	Park Hotels & Resorts Inc	RLJ Lodging Trust	Sunstone Hotel Investors Inc	Xenia Hotels & Resorts Inc	Choice Hotels International Inc	Hilton Worldwide Holdings Inc	Hyatt Hotels Corp	Marriott International Inc/MD	Wyndham Hotels & Resorts Inc
Ticker	STAY	APLE	AHT	CPLG	DRH	HST	PK	RLJ	SHO	XHR	CHH	HLT	H	MAR	WH
Price (5/13/20)	**$10.25**	**7.88**	**0.64**	**3.65**	**4.50**	**9.83**	**7.29**	**7.98**	**7.40**	**7.27**	**70.70**	**67.00**	**47.02**	**79.33**	**41.59**
Market Capitalization	1,865.3	1,759.7	65.8	211.9	896.6	6,929.7	1,717.5	1,317.5	1,595.7	824.8	3,913.7	18,576.5	4,752.4	25,723.2	3,871.6
Net Debt (Cash)	2,345.5	1,549.2	4,532.3	831.0	1,135.5	3,198.0	3,776.0	1,946.9	724.8	1,218.4	914.5	9,133.0	1,119.0	11,456.0	2,103.0
EV	**4,210.8**	**3,308.9**	**4,598.1**	**1,042.9**	**2,032.1**	**10,127.7**	**5,493.5**	**3,264.4**	**2,320.5**	**2,043.2**	**4,828.3**	**27,709.5**	**5,871.4**	**37,179.2**	**5,974.6**
Revenue 2019A	1,218.2	1,265.8	1,499.4	808.0	933.4	5,441.3	2,815.5	1,560.6	1,109.4	1,145.0	1,106.4	9,442.6	4,927.0	21,133.1	2,058.1
Revenue 2020E	970.0	721.2	1,341.4	570.0	488.1	2,642.7	1,656.0	679.6	554.4	583.5	823.5	6,027.9	2,956.5	13,223.3	1,398.6
Revenue 2021E	1,056.8	1,013.4	1,391.0	639.5	759.4	4,013.1	2,336.8	1,100.1	841.9	835.0	1,036.3	8,619.4	4,063.8	18,482.1	1,802.4
Revenue 2022E	1,145.5	1,155.0	1,448.7	675.0	825.5	4,399.8	2,399.3	1,226.5	924.8	938.0	1,068.0	9,595.7	4,607.9	20,540.8	1,924.0
EV/Sales 2019A	3.5x	2.6x	3.1x	1.3x	2.2x	1.9x	2.0x	2.1x	2.1x	1.8x	4.4x	2.9x	1.2x	1.8x	2.9x
EV/Sales 2020E	4.3x	4.6x	3.4x	1.8x	4.2x	3.8x	3.3x	4.8x	4.2x	3.5x	5.9x	4.6x	2.0x	2.8x	4.3x
EV/Sales 2021E	4.0x	3.3x	3.3x	1.6x	2.7x	2.5x	2.4x	3.0x	2.8x	2.4x	4.7x	3.2x	1.4x	2.0x	3.3x
EV/Sales 2022E	3.7x	2.9x	3.2x	1.5x	2.5x	2.3x	2.3x	2.7x	2.5x	2.2x	4.5x	2.9x	1.3x	1.8x	3.1x
2019A EBITDA	535.0	430.4	415.5	144.3	258.7	1,517.9	778.3	458.9	316.5	298.2	363.9	2,298.8	738.2	3,580.6	612.8
2020A EBITDA	364.6	205.1	327.3	74.1	77.6	231.6	178.8	73.6	82.6	78.1	236.4	1,183.8	177.0	1,666.3	355.8
2021E EBITDA	426.6	313.0	361.7	101.7	162.9	809.8	486.4	247.8	186.9	174.6	331.5	1,915.5	513.4	2,814.6	552.9
2022E EBITDA	493.8	380.0	408.0	111.0	201.8	1,036.1	594.6	299.5	228.2	223.0	367.8	2,225.4	625.3	3,312.5	596.3
2019A EBITDA Margin	43.9%	34.0%	27.7%	17.9%	27.7%	27.9%	27.6%	29.4%	28.5%	26.0%	32.9%	24.3%	15.0%	16.9%	29.8%
2020E EBITDA Margin	37.6%	28.4%	24.4%	13.0%	15.9%	8.8%	10.8%	10.8%	14.9%	13.4%	28.7%	19.6%	6.0%	12.6%	25.4%
2021E EBITDA Margin	40.4%	30.9%	26.0%	15.9%	21.4%	20.2%	20.8%	22.5%	22.2%	20.9%	32.0%	22.2%	12.6%	15.2%	30.7%
2022E EBITDA Margin	43.1%	32.9%	28.2%	16.4%	24.4%	23.5%	24.8%	24.4%	24.7%	23.8%	34.4%	23.2%	13.6%	16.1%	31.0%
2019A EV/EBITDA	7.9x	7.7x	11.1x	7.2x	7.9x	6.7x	7.1x	7.1x	7.3x	6.9x	13.3x	12.1x	8.0x	10.4x	9.8x
2020E EV/EBITDA	11.5x	16.1x	14.0x	14.1x	26.2x	43.7x	30.7x	44.4x	28.1x	26.2x	20.4x	23.4x	33.2x	22.3x	16.8x
2021E EV/EBITDA	9.9x	10.6x	12.7x	10.3x	12.5x	12.5x	11.3x	13.2x	12.4x	11.7x	14.6x	14.5x	11.4x	13.2x	10.8x
Average, ex. STAY		*11.9x*									*12.9x*				
2022E EV/EBITDA	8.5x	8.7x	11.3x	9.4x	10.1x	9.8x	9.2x	10.9x	10.2x	9.2x	13.1x	12.5x	9.4x	11.2x	10.0x
Average, ex. STAY		***9.9x***									***11.2x***				
2019A EPS	$0.96	$1.22	($1.70)	$0.34	$0.38	$1.36	$2.01	$0.50	$0.62	$0.57	$4.26	$3.86	$1.84	$5.90	$3.27
2020E EPS	$0.13	$0.24	($1.80)	($2.95)	($0.26)	($0.66)	($1.54)	($1.12)	($0.68)	($0.84)	$2.30	$1.09	($2.46)	$1.35	$1.28
2021E EPS	$0.66	$0.55	-	($0.86)	$0.06	$0.02	$0.30	$0.04	$0.00	($0.01)	$3.49	$2.87	($0.10)	$4.10	$2.82
2022E EPS	$0.80	$0.58	-	$1.01	$0.20	$0.21	$0.63	-	($0.04)	($0.13)	$4.15	$3.66	$0.91	$5.36	$3.38
P/E 2019A	11.0x	6.5x	-	10.6x	12.0x	7.2x	3.6x	16.1x	11.9x	12.7x	16.6x	-	25.6x	13.5x	12.7x
P/E 2020A	82.1x	32.8x	-	-	-	-	-	-	-	-	30.8x	61.5x	-	59.0x	32.6x
P/E 2021E	16.0x	14.3x	-	-	-	-	-	-	-	-	20.3x	23.4x	-	19.4x	14.8x
P/E 2022E	13.2x	13.6x	-	3.6x	22.5x	48.0x	11.6x	-	-	-	17.0x	18.3x	-	14.8x	12.3x
2022E FCF Yield	6.9%	-	-	0.4%	-	5.4%	8.3%	0.8%	2.0%	16.8%	5.1%	8.6%	-	5.7%	8.8%
2022E Free Cash Flow	128.8	-	(1.1)	0.9	(14.7)	374.4	142.4	10.9	31.8	137.8	201.1	1,591.0	297.7	1,453.3	339.5
2022E FCF Per Share	$0.72	-	($0.01)	$0.02	($0.07)	$0.53	$0.60	$0.07	$0.15	$1.22	$3.63	$5.74	$2.95	$4.48	$3.65
2022E P/FCF	14.5x	-	-	-	-	18.5x	12.1x	-	-	5.9x	19.5x	11.7x	16.0x	17.7x	11.4x
EV / Assets	1.0x	0.7x	1.0x	0.5x	0.6x	0.8x	0.5x	0.6x	0.6x	0.6x	2.9x	1.8x	0.7x	1.5x	1.2x
Leverage ratio, net	4.5x	4.1x	11.1x	7.5x	5.6x	3.1x	6.4x	6.5x	3.2x	5.5x	2.5x	4.1x	1.8x	3.5x	3.5x

Source: Company reports, Bloomberg, and Institutional Research Group estimates

Owned Hotels

In terms of public peers, STAY's Owned Hotel business could be compared with lodging-focused real estate investment trusts (REITs), such as Apple Hospitality (NYSE: APLE), Ashford Hospitality (NYSE: ASH), CorePoint Lodging (NYSE: CPLG), DiamondRock Hospitality (NYSE: DRH), Host Hotels & Resorts (NYSE: HST), Park Hotels & Resorts (NYSE: PK), RLJ Lodging (NYSE: RLJ), Sunstone Hotel Investors (NYSE: SHO), and Xenia Hotel & Resorts (NYSE: XHR), which trade at ~12.0x consensus 2021E EBITDA and ~10.0x 2022E EBITDA (see Breakdown #2). Recent M&A activity in the sector has averaged ~14x forward EV/EBITDA (see Breakdown #3).

Breakdown #3 Extended Stay: Lodging REIT Sector M&A
(currency in millions)

Announced	Closed	Target	Acquirer	EV	Trailing EBITDA	Forward EBITDA	Trailing EV/EBITDA	Forward EV/EBITDA
Sep-19	Sep-19	Chesapeake Lodging Trust	Park Hotels & Resorts	$2,540.2	$174.0	$177.5	14.6x	14.3x
Sep-18	Dec-18	La Salle Hotel Properties	Pebblebrook Hotel Trust	$5,030.7	$321.6	$325.0	15.6x	15.5x
Apr-17	Sep-17	FelCor Lodging Trust	RLJ Lodging Trust	$2,451.6	$217.3	$221.3	11.3x	11.1x
Avg.							**13.8x**	**13.6x**

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Applying a discounted multiple of 9.5x to STAY's 2022E EBITDA of ~$501 million yields a base case segment value of ~$4.76 billion, or roughly $27 per share (see Breakdown #4).

Breakdown #4 Extended Stay America: Est. Value of Owned Hotels Segment Based on 2022E EBITDA
($ in millions, except per share amounts; shares in millions)

		Owned	
2021E Revenue		$1,033.8	
Revenue growth est.		8.4%	
2022E Revenue		**$1,120.2**	
Operating margin		27.5%	
Operating income		**$308.0**	
EBITDA margin		44.8%	
2022E EBITDA		**$501.3**	
Applied multiple	8.5x	**9.5x**	10.5x
Enterprise value	$4,260.8	**$4,762.0**	$5,263.3
Diluted shares	178.2	178.2	178.2
Per share basis	$23.91	**$26.73**	$29.54

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Franchise & Management (F&M)

In terms of publicly traded peers, STAY's F&M business could be compared with other lodging C-corp./brand management concerns, including Choice Hotels (NYSE: CHH), Hilton (NYSE: HLT), Hyatt (NYSE: H), Marriott International (NASDAQ: MAR), and Wyndham (NYSE: WH), which, on average, trade at ~13x consensus 2021E EV/EBITDA and ~11x 2022E EBITDA (see Breakdown #2). In terms of recent M&A, recent transactions have averaged ~15.0x trailing EV/EBITDA and ~14.5x forward EV/EBITDA (see Breakdown #5).

Breakdown #5 Extended Stay America: Lodging Sector M&A
(currency in millions)

Closed	Acquirer	Target	EV	Trailing EBITDA	Forward EBITDA	Trailing EV/EBITDA	Forward EV/EBITDA
Sep-18	Marriott Vacations	ILG, Inc.	$5,008.7	$351.0	$358.8	14.3x	14.0x
May-18	Wydham Hotel & Resorts	La Quinta	$1,950.0	$113.0	$117.0	17.3x	16.7x
Sep-16	Marriott Int'l	Starwood	$13,863.6	$990.0	$1,113.0	14.0x	12.5x
Avg.						**15.2x**	**14.4x**

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Applying a rough peer multiple of 11x to 2022E EBITDA of $8.5 million yields a base case segment value of $93.5 million, or ~$1 per share (see Breakdown #6).

Breakdown #6 Extended Stay America: Estimated Value of F&M Segment Based on 2022E EBITDA
($ in millions, except per share amounts; shares in millions)

		F&M	
2021E Revenue		$23.0	
Revenue growth est.		10.5%	
2022E Revenue		**$25.4**	
Operating margin		33.5%	
Operating income		**$8.5**	
EBITDA margin		33.5%	
2022E EBITDA		**$8.5**	
Applied multiple	10.0x	**11.0x**	12.0x
Enterprise value	$85.0	**$93.5**	$102.0
Diluted shares	178.2	178.2	178.2
Per share basis	$0.48	**$0.52**	$0.57

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Accounting for corporate costs capitalized at ~9.5x, or the weighted average applied to segment earnings, as well as projected net debt of ~$2.14 billion, yields a sum-of-the-parts valuation of roughly $2.4 billion, or about $14 per share (see Breakdown #7).

Breakdown #7 Extended Stay America: Sum-of-the-Parts Fair Value Estimate

($ in millions, except per share amounts; shares in millions)

	Owned	F&M	Corp./Other	Enterprise Value	Net Debt & Other	Market Cap
2022E Revenue	**$1,120.2**	**$25.4**	**-**			
Operating margin	27.5%	33.5%				
Operating income	**$308.0**	**$8.5**	**($32.0)**			
EBITDA margin	44.8%	33.5%				
2022E EBITDA	**$501.3**	**$8.5**	**($32.0)**		**($2,137.6)**	
Applied multiple	**9.5x**	**11.0x**	**9.5x**		**1.0x**	
Enterprise value	**$4,762.0**	**$93.5**	**($304.8)**	**$4,550.7**	**($2,137.6)**	**$2,413.2**
Diluted shares	178.2	178.2	178.2		178.2	178.2
Per share basis	**$26.73**	**$0.52**	**($1.71)**		**($12.00)**	**$13.54**
Bull	$29.54	$0.57	($1.89)		($12.00)	$16.23
Base	$26.73	$0.52	($1.71)		($12.00)	$13.54
Bear	$23.91	$0.48	($1.53)		($12.00)	$10.86

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

In the event that STAY ultimately moves to revisit strategic alternatives, including a PropCo/OpCo-type split (or even a go-private transaction with a financial/strategic acquirer), we estimate incremental value could be unlocked. Assuming, for simplicity's sake, that management fees total 5% of total room sales and that each entity trades at a modest premium given their respective potential value to possible strategic acquirers (as well as the long runway for growth of the F&M business), a value of $2.8 billion, or ~$16 per share, could be derived (see Breakdown #8).

Breakdown #8 Extended Stay America: Potential PropCo/OpCo Split (Or Other Strategic Alternatives)

($ in millions, except per share amounts; shares in millions)

	PropCo	OpCo	Corp./Other	Enterprise Value	Net Debt & Other	Market Cap
2022E Revenue	$1,064.1	$81.4	-			
2022E EBITDA	**$469.1**	**$40.7**	**($32.0)**		**($2,137.6)**	
Applied multiple	**10.0x**	**14.5x**	**10.4x**		**1.0x**	
Enterprise value	**$4,690.7**	**$590.1**	**($331.5)**	**$4,949.3**	**($2,137.6)**	**$2,811.7**
Diluted shares	178.2	178.2	178.2		178.2	178.2
Per share basis	**$26.33**	**$3.31**	**($1.86)**		**($12.00)**	**$15.78**
Bull	$28.96	$3.54	($2.04)		($12.00)	$18.46
Base	$26.33	$3.31	($1.86)		($12.00)	$15.78
Bear	$23.69	$3.08	($1.68)		($12.00)	$13.10

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

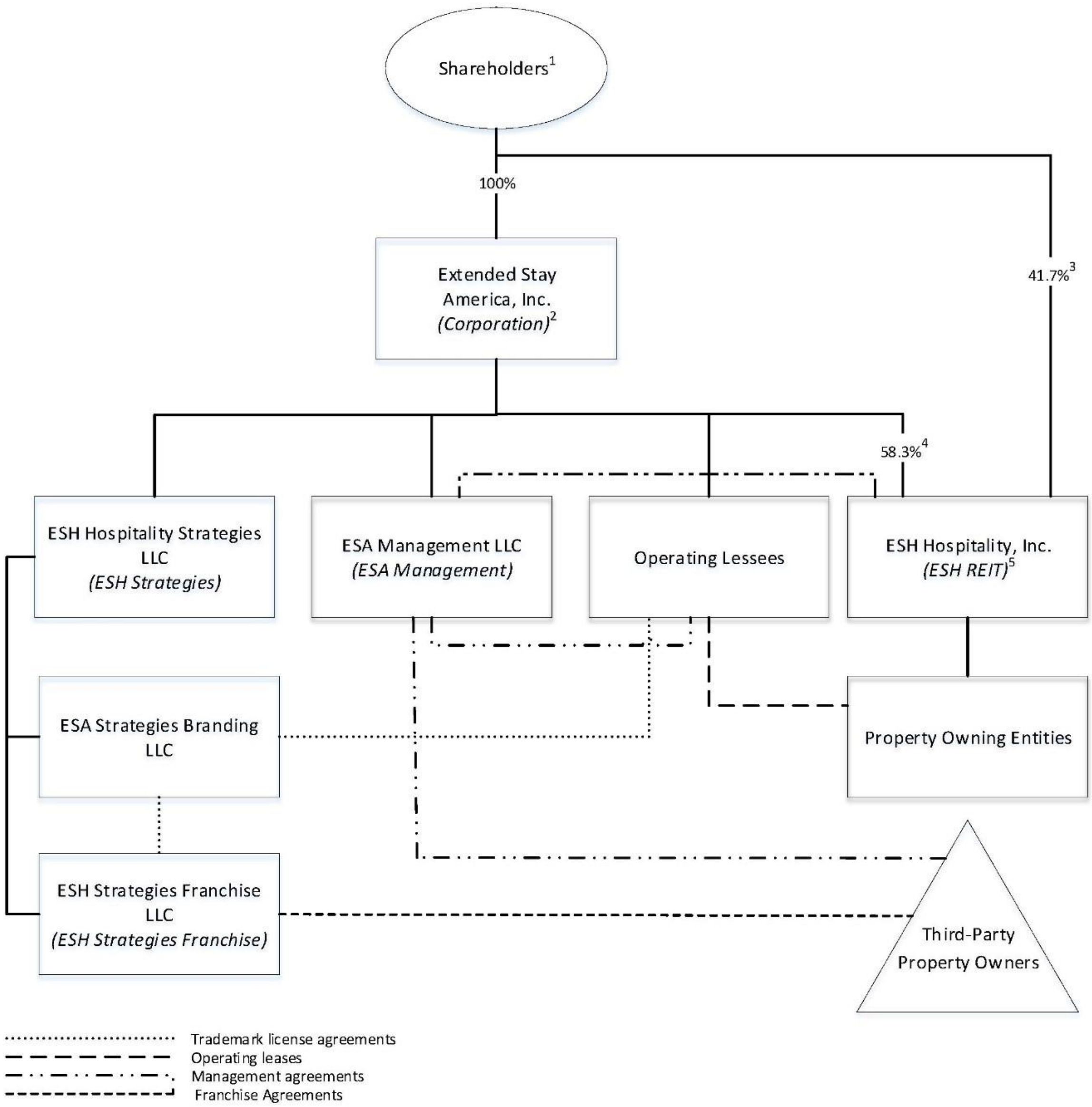
The Wrap-Up

STAY is among the last remaining integrated lodging concerns continuing to buck the industry trend of separating property ownership and brand management. In that context, a lengthy review of the company's operating structure ended in mid-2019 with no action taken (for the time being), but recent shareholder developments could prompt STAY to revisit strategic alternatives, including a PropCo/Opco split, or may even portend an outright go-private overture. In that regard, on April 6, Starwood Capital announced an ~8.5% investment in STAY (and Blackstone has reportedly built a ~4.99% stake in recent months). Interestingly, Starwood controls industry competitor InTown Suites, and Blackstone has twice owned STAY outright (in 2004 and 20010, when it outbid suitors, including Starwood). So, while the lodging space admittedly will remain under pressure in the current environment, we think that, in addition to the potential transactional optionality, the extended-stay niche generally, and STAY specifically, will remain relative outperformers (with industry-leading margins and occupancy). In that regard, we estimate that at 8.5x 2022E EV/EBITDA, STAY is undervalued relative to the sum value of its parts. (As well, in the event that the status quo persists, we think value could be unlocked via the continued monetization of assets, with or without the maintenance of a franchise relationship.)

Based on management commentary and peer and M&A valuations, value of $27 per share and $1 per share can be projected for STAY's current Owned Hotel and F&M businesses. Accounting for corporate costs and projected net debt of $14 per share yields a base case sum-of-the-parts fair value of roughly $14 per share. If the company ultimately pursues strategic alternatives, such as an OpCo/PropCo-type split or even a go-private transaction, we estimate incremental value up to ~$16 per share could be unlocked.

Risks include management execution, competition, leverage, legislation, and/or a further deterioration of economic activity/prolonged recession.

Appendix



1. Management and certain members of the Boards of Directors of each of the Corporation and ESH REIT hold approximately 0.6% of the Paired Shares.
2. Obligor under the Corporation Revolving Credit Facility, as defined.
3. Shares of Class B common stock of ESH REIT, which are generally entitled to one vote per share. ESH REIT's Class A and Class B common stock are generally entitled to the same distributions.
4. Shares of Class A common stock of ESH REIT, which are entitled to the greater of (x) one vote per share or (y) the number of votes per share that would entitle the Class A common stock to approximately 55% of the total voting power of ESH REIT. ESH REIT's Class A and Class B common stock are generally entitled to the same distributions.
5. Obligor under the ESH REIT Credit Facilities, as defined, and the Unsecured Intercompany Facility, as defined, and issuer of the 2025 Notes, as defined, and the 2027 Notes, as defined.