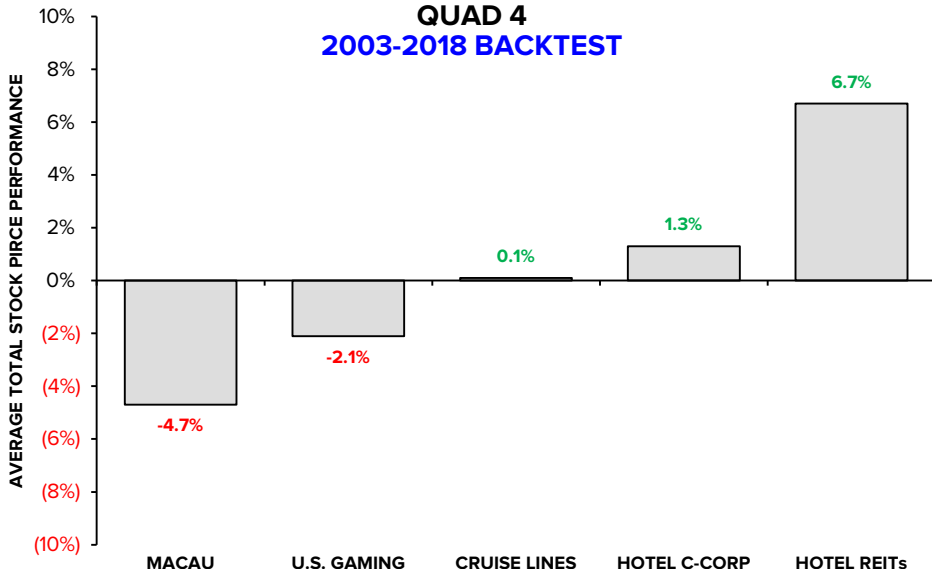# LEGAL

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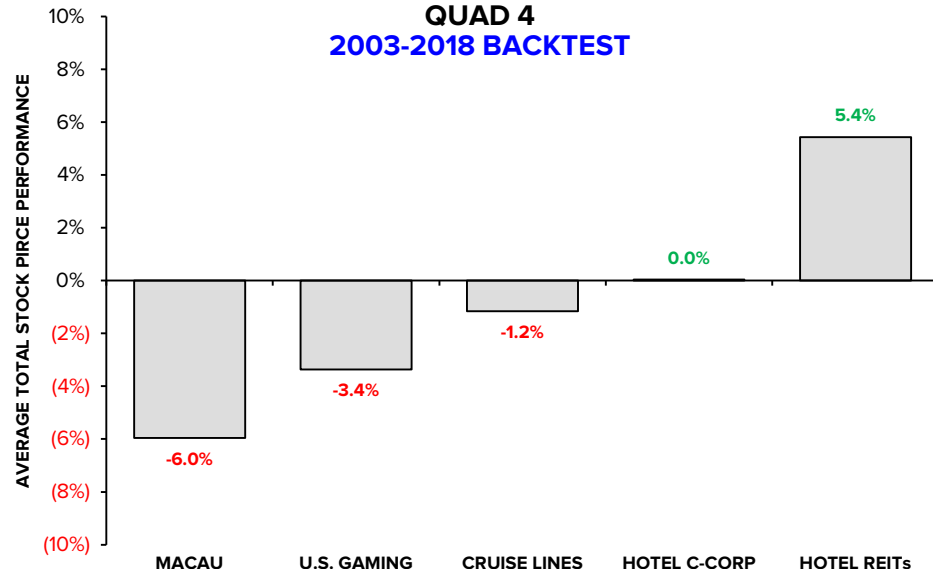
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MACRO | QUAD4 MIXED FOR GLL STOCKS

GLL SUB-SECTOR ABSOLUTE PERFORMANCE vs. QUAD 4
2003-2018 BACKTEST

AVERAGE TOTAL STOCK PIRCE PERFORMANCE

- MACAU: -4.7%
- U.S. GAMING: -2.1%
- CRUISE LINES: 0.1%
- HOTEL C-CORP: 1.3%
- HOTEL REITs: 6.7%

NOTES
(1) HOTEL REIT SAMPLE: HST, LHO, RHP, SHO, DRH, PEB -- MACAU: WYNN, LVS, MLCO – CRUISE LINES: CCL, RCL
HOTEL C-CORP: HLT, H, MAR – US GAMING: BYD, PENN, ERI, MGM, CZR
(2) BACK TEST METHODOLOGY = AVERAGE QUARTERLY PRICE CHANGE IN FULL SERVICE REIT STOCKS vs. A GIVEN QUAD
ENVIRONMENT. STOCK PERFORMANCE WAS EQUALLY WEIGHTED AMONG THE SAMPLE SET

GLL SUB-SECTOR RELATIVE PERFORMANCE vs. QUAD 4
2003-2018 BACKTEST

AVERAGE TOTAL STOCK PIRCE PERFORMANCE

- MACAU: -6.0%
- U.S. GAMING: -3.4%
- CRUISE LINES: -1.2%
- HOTEL C-CORP: 0.0%
- HOTEL REITs: 5.4%

NOTES
(1) HOTEL REIT SAMPLE: HST, LHO, RHP, SHO, DRH, PEB -- MACAU: WYNN, LVS, MLCO – CRUISE LINES: CCL, RCL
HOTEL C-CORP: HLT, H, MAR – US GAMING: BYD, PENN, ERI, MGM, CZR
(2) BACK TEST METHODOLOGY = AVERAGE QUARTERLY PRICE CHANGE IN FULL SERVICE REIT STOCKS vs. A GIVEN QUAD
ENVIRONMENT. STOCK PERFORMANCE WAS EQUALLY WEIGHTED AMONG THE SAMPLE SET
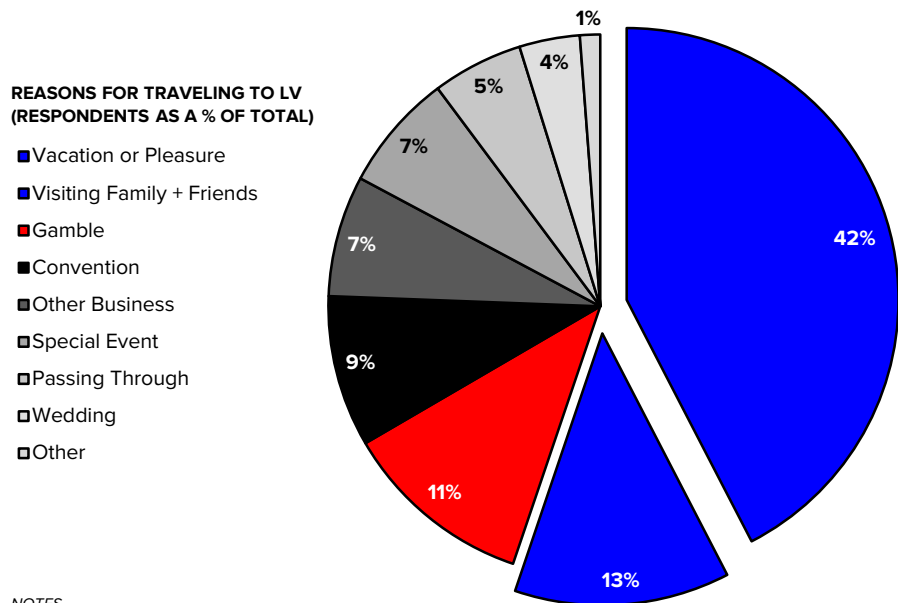
HIGH PROBABILITY MACRO DATA IMPLIES A TOUGH ROAD AHEAD FOR GAMING AND CRUISE LINES

Historical back test suggests, hotel REITs do best in Quad 4. On the other hand, gaming, cruise lines, and hotel C-corps bolster flat to negative average returns in Quad 4.
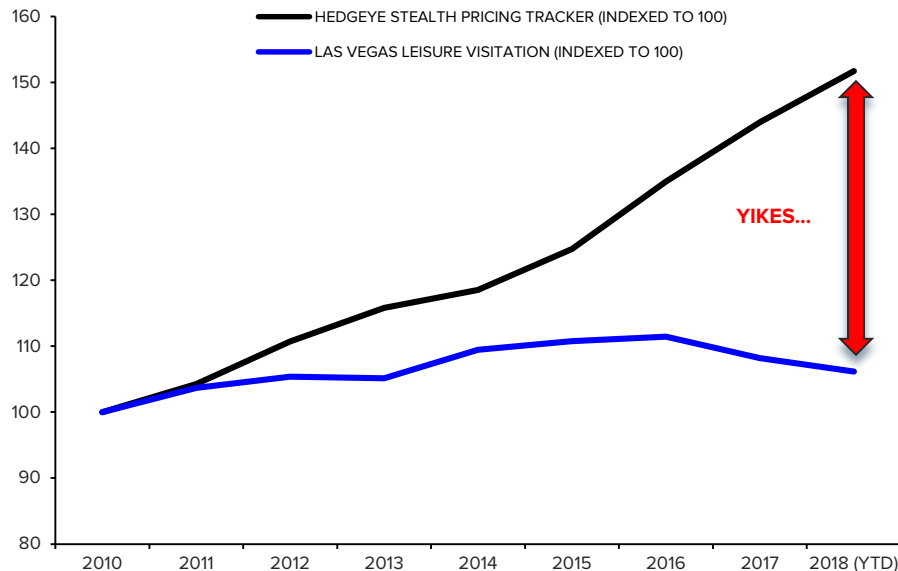
LAS VEGAS STRIP TRENDS

LEISURE | LEISURE GUESTS STILL MATTER MOST

VEGAS IS STILL LEISURE FOCUSED

REASONS FOR TRAVELING TO LV (RESPONDENTS AS A % OF TOTAL)

- Vacation or Pleasure
- Visiting Family + Friends
- Gamble
- Convention
- Other Business
- Special Event
- Passing Through
- Wedding
- Other

Pie chart values: 42%, 13%, 11%, 9%, 7%, 7%, 5%, 4%, 1%

AND UNFORTUNATELY, PRICING HAS STUNTED THE OVERALL MARKET GROWTH RATE

— HEDGEYE STEALTH PRICING TRACKER (INDEXED TO 100)
— LAS VEGAS LEISURE VISITATION (INDEXED TO 100)

YIKES...

X-axis: 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018 (YTD)
Y-axis: 80, 90, 100, 110, 120, 130, 140, 150, 160

STEALTH PRICING OUTGROWING LEISURE VISITATION BY 7X

We don't begrudge any company for taking pricing when the demand is there. And for a long time, it was there. However, pricing seems to be materially impacting the trajectory of organic demand (flat would be better).

LEISURE | LOTS OF ALTERNATIVES TO VEGAS

OTHER MARKETS GAINING ON LAS VEGAS IN TERMS OF SEARCH INTEREST...

Legend:
- "LAS VEGAS VACATION" GOOGLE TRENDS SPREAD vs. LEISURE MARKETS
- LAS VEGAS LEISURE VISITATION (TTM, Y/Y CHANGE)

CORRELATION: 0.81

Y-axis (left): GOOGLE TRENDS SPREAD (TTM, MONTHLY)
Y-axis (right): LAS VEGAS LEISURE VISITATION (Y/Y CHANGE)
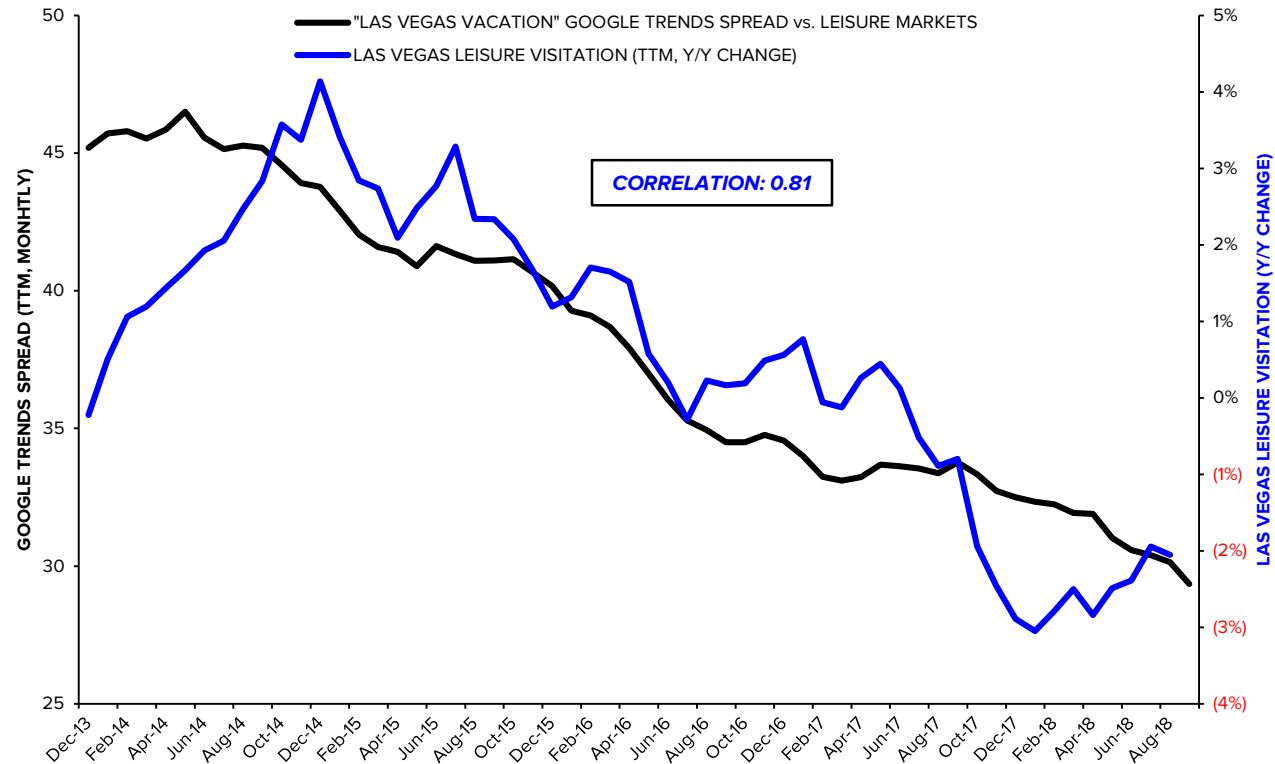
Vegas is still the #1 searched "vacation" on option among many of its competitor markets, but as shown in the **black line**, the spread has narrowed, significantly.

So let's take a closer look at what is going on...

<u>NOTES</u>
(1) GOOGLE TRENDS DATA IS INDEXED FROM JAN 2013 TO SEP 2018 (MONTHLY)
(2) OTHER LEISURE MARKETS COMPARED TO LAS VEGAS WERE AN EQUAL WEIGHT AVERAGE OF NASVHILLE, AUSTIN, MIAMI, AND NEW ORLEANS
(3) EACH SEARCH PHRASE WAS COMPARABE e.g. "LAS VEGAS VACATION" WAS COMPARED AGAINST "NASHVILLE VACATION" "AUSTIN VACATION" ETC,
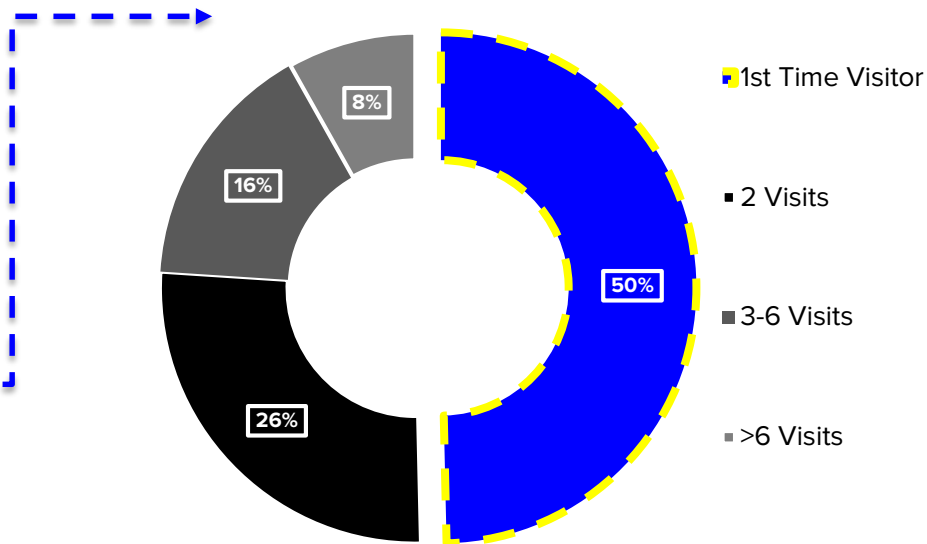
MACAU TRENDS

MACAU | PENETRATION IS THE OPPORTUNITY

CASINO GAMING PENETRATION
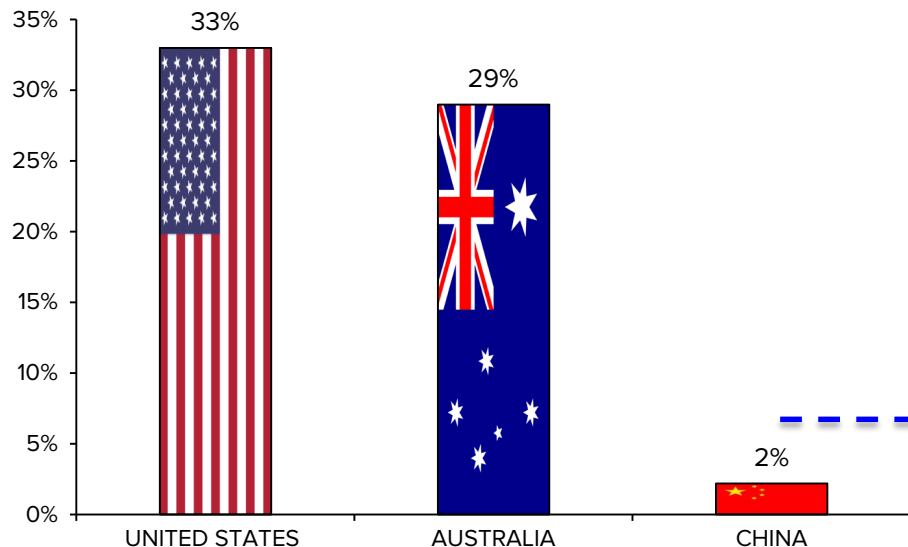
MAINLAND CHINA VISITATION DRIVEN BY 1ST TIME VISITORS

- 1st Time Visitor — 50%
- 2 Visits — 26%
- 3-6 Visits — 16%
- >6 Visits — 8%

NOTES
(1) CHINA ESTIMATE IS BASED OFF THE MOST RECENT VISITATION STATISTICS AS A % OF ADULT POPULATION
(2) UNITED STATES ESTIMATE IS BASED OFF AN A.G.A. STUDY CONDUCTED IN 2014
(3) USING A SIMILAR METHODOLOGY AS THE CHINA PENETRATION STUDY, THE US WOULD BE FULLY PENETRATED
(4) AUSTRALIA PENETRATION IS ESTIMATED via A COMPILATION OF 4 STATE LEVEL SURVEYS FROM 2012-2014
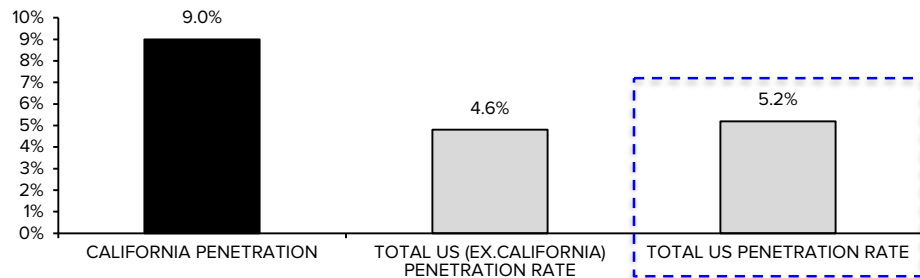
NOTES
(1) DATA WAS COLLECTED FOR THE TRAILING 12 MTH PERIOD

PROGRESS ON PENETRATING THE UNDERPENETRATED - FIRST TIMERS MAKE UP THE LION'S SHARE OF VISITATION NOW

The Chinese adult population remains woefully underpenetrated from a gaming perspective. This is the long term opportunity for Macau. What's encouraging is that the number of first time visitors is now above 50%, a rate probably not seen since Venetian opened. The future is now

MACAU | A COMPARISON TO LAS VEGAS

LAS VEGAS VISITOR PENETRATION

Chart values:
- CALIFORNIA PENETRATION: 9.0%
- TOTAL US (EX. CALIFORNIA) PENETRATION RATE: 4.6%
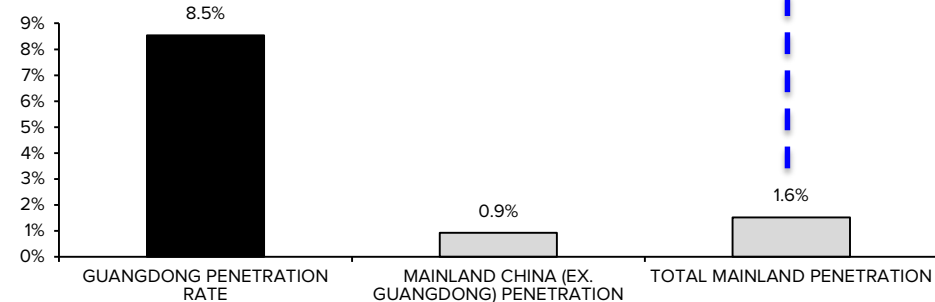- TOTAL US PENETRATION RATE: 5.2%

NOTES
(1) PENETRATION WAS DETERMINED USING 2016 AIRPORT ARRIVALS DATA
(2) PENETRATION TO CALIFORNIA COULD BE EVEN HIGHER WHEN CONSIDERING VISITORS THAT DRIVE

MACAU VISITOR PENETRATION

Chart values:
- GUANGDONG PENETRATION RATE: 8.5%
- MAINLAND CHINA (EX. GUANGDONG) PENETRATION: 0.9%
- TOTAL MAINLAND PENETRATION: 1.6%

VEGAS, THE MORE MATURE MARKET, COMMANDS FAR LESS 'FIRST TIMERS'

Chart values:
- LAS VEGAS - FIRST TIME VISITORS (% OF TOTAL): 20%
- MACAU - FIRST TIME VISITORS (% OF TOTAL): 50%
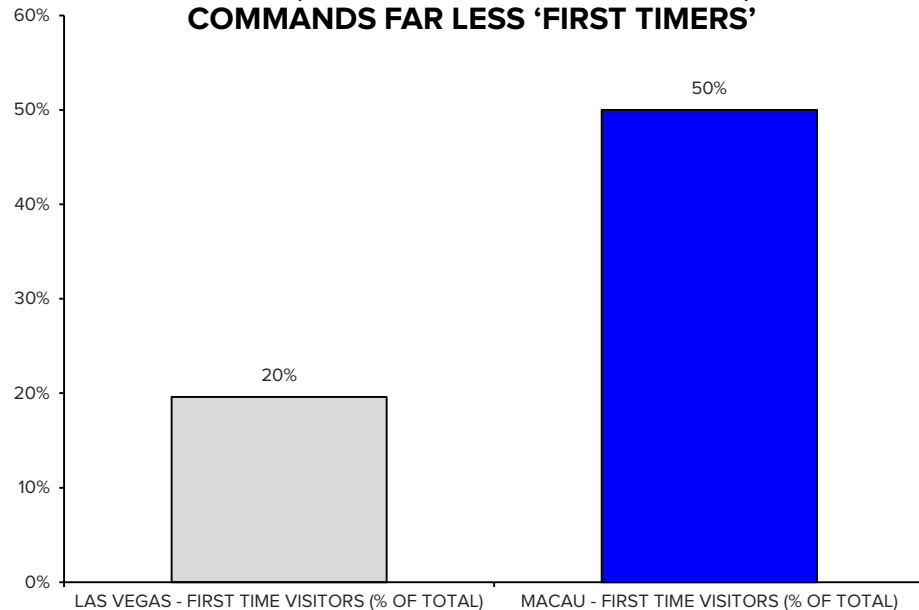
NOTES
(1) LAS VEGAS FIRST TIME VISITORS ESTIMATE = 5 YR AVERAGE OF LVCVA VISITOR SURVEY
*(2) MACAU FIRST TIME VISITORS ESTIMATE = TTM (FEB 2018) DATA SOURCED FROM THE GOVERNMENT*

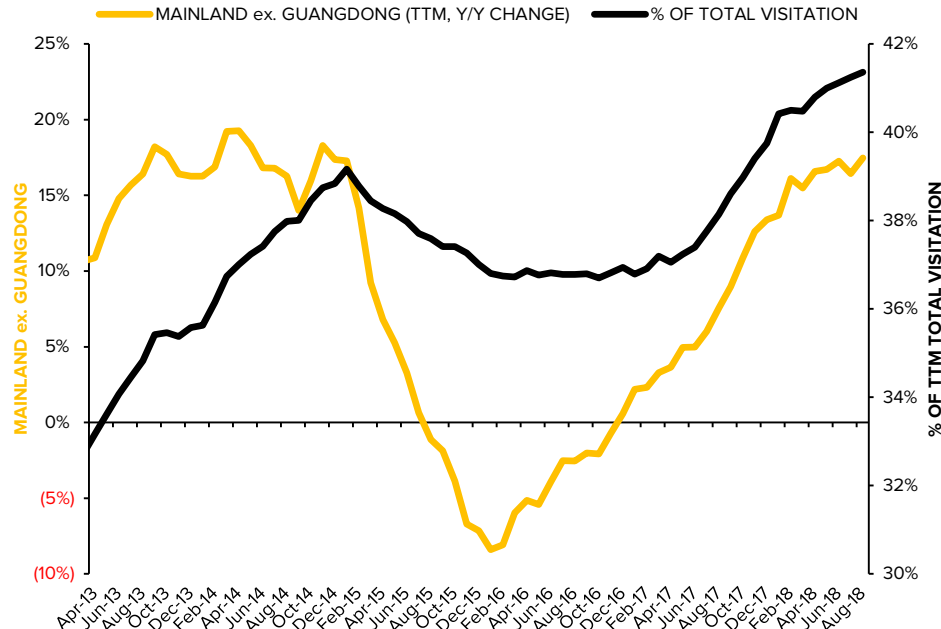## VEGAS-ESQUE PENETRATION / MATURITY IS YEARS AWAY FOR MACAU

We are hard pressed to find another market in our coverage space that is as visible and measurable as that of Macau. **If Macau were to reach levels of penetration that are comparable to Las Vegas, we'd need to see a CAGR of 10% visitation growth for the next 15 years.**

MACAU | STRONG VISITATION AND FAVORABLE MIX

VISITATION GROWTH HAS BEEN ACCELERATING FOR 2+ YEARS

— MAINLAND CHINA (TTM, Y/Y CHANGE)   **— TOTAL VISITORS (TTM, Y/Y CHANGE)**
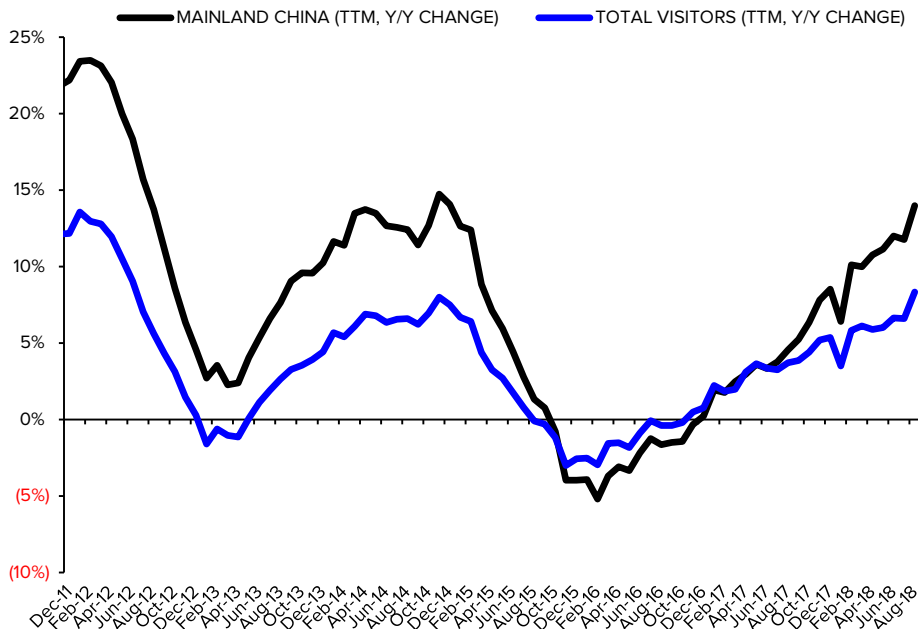
WITH THE OUTER PROVINCES SERVING AS A KEY INGREDIENT

— MAINLAND ex. GUANGDONG (TTM, Y/Y CHANGE)   **— % OF TOTAL VISITATION**
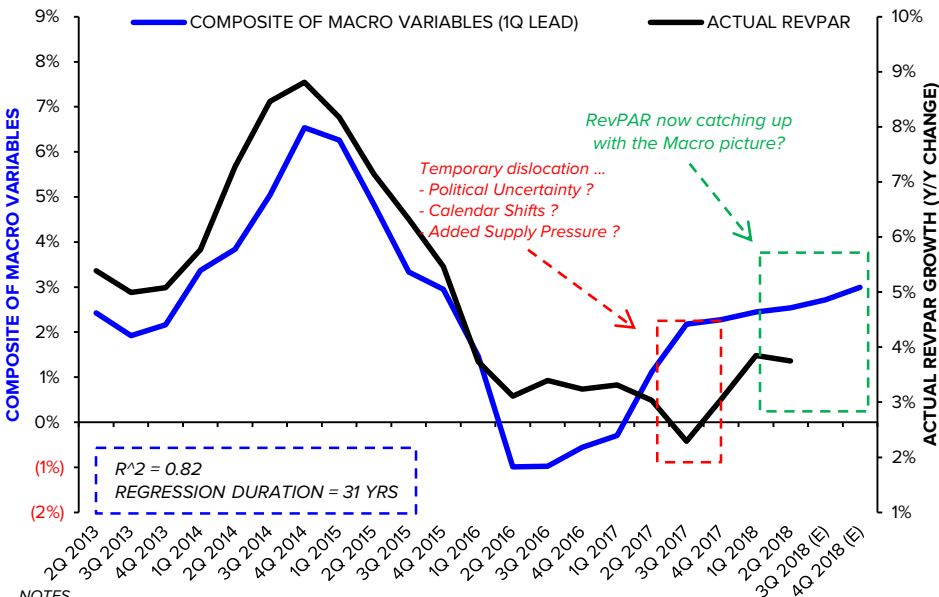

AN ALL TIME HIGH IN THE OUTER PROVINCE CONTRIBUTION TO MACAU VISITATION

Unlike Las Vegas, visitation to Macau is accelerating – always good – but the mix is very encouraging for Macau's long term prospects. Growth from the outer Chinese provinces is higher, suggesting massive penetration into China is occurring. Coupled with a higher number of first time visitors and a younger demographic, the tail of growth continues to look longer and better.
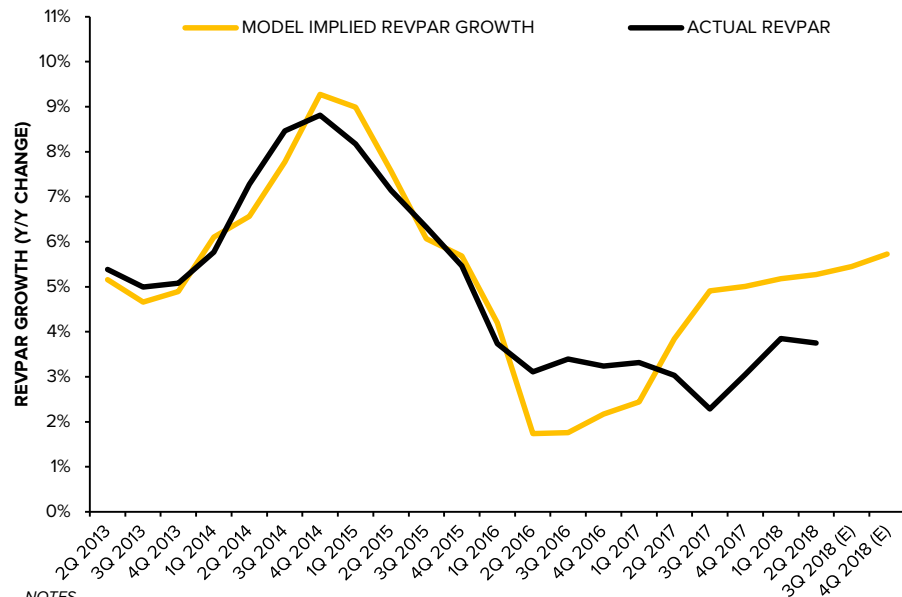
HOTEL TRENDS

LODGING | HEDGEYE QUARTERLY MACRO MODEL

HE QUARTERLY MACRO REVPAR MODEL SUGGESTS THAT THERE IS MORE LEFT IN THE TANK

- COMPOSITE OF MACRO VARIABLES (1Q LEAD)
- ACTUAL REVPAR

RevPAR now catching up with the Macro picture?

Temporary dislocation …
- Political Uncertainty ?
- Calendar Shifts ?
Added Supply Pressure ?

R^2 = 0.82
REGRESSION DURATION = 31 YRS

COMPOSITE OF MACRO VARIABLES

ACTUAL REVPAR GROWTH (Y/Y CHANGE)

NOTES
(1) GIVEN CALENDAR SHIFTS, WE SHOW THE DATA ON A 2Q MOVING AVERAGE BASIS
(2) MACRO MODEL OUTPUT FOR 4Q18 (E) IS HOLDING REPORTED JULY INPUT DATA CONSTANT FOR AUG AND SEPT
(3) 3Q 18 (E) OUTPUT UTILIZES QUARTERLY DATA ALREADY REPORTED

HEDGEYE REVPAR MODEL vs ACTUAL REPORTED STR REVPAR

- MODEL IMPLIED REVPAR GROWTH
- ACTUAL REVPAR

REVPAR GROWTH (Y/Y CHANGE)

NOTES
(1) GIVEN CALENDAR SHIFTS, WE SHOW THE DATA ON A 2Q MOVING AVERAGE BASIS
(2) MACRO MODEL OUTPUT FOR 4Q18 (E) IS HOLDING REPORTED JULY INPUT DATA CONSTANT FOR AUG AND SEPT
(3) 3Q 18 (E) OUTPUT UTILIZES QUARTERLY DATA ALREADY REPORTED

HEDGEYE PROPRIETARY INDICATORS SUGGEST ACCELERATING REVPAR GROWTH IS ON THE WAY

Our quarterly predictive model shows a 0.82 R^2 to 1 quarter out RevPAR. The model is not perfect - we were a quarter early on the RevPAR acceleration call last year but 4Q really picked up steam, particularly in November and December. Over time, actual RevPAR has historically regressed to the leading indicator data trend line of our model. The model is historically statistically very significant in predicting **one and two quarter out RevPAR** - and it remains very bullish, and suggests a 3-5% run rate could be sustainable.