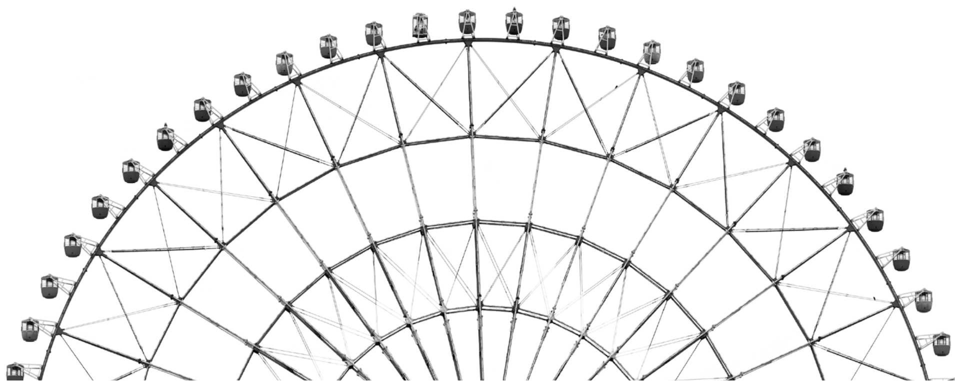
S&P Global
Ratings

Industry Top Trends 2022

Hotels, Gaming, And Leisure

Two Steps Forward, But How Many Steps Back This Time?



What's changed?

That sinking feeling, again. Like a horror movie where the killer just won't die, omicron and future variants present significant challenges getting back to normal.

Even so, we are getting used to setbacks. This may unleash another wave of pent-up leisure spending in spring and summer 2022 that may move the recovery closer to pre-pandemic levels for some issuers than assumed at the same time last year.

What are the key assumptions for 2022?

Gaming. As U.S. regional casinos recover above pre-pandemic levels, Vegas and Macau remain subject to heightened COVID-19-related disruption. If we lose confidence Macau can materially recover in 2022, we could lower ratings on issuers with significant exposure.

Lodging. U.S. revenue per available room (RevPAR) in 2022 could improve to 10% below or flat with 2019, depending on business and group travel recovery. European travel and hotel demand may remain significantly impaired by lockdowns, at least through the first quarter.

Cruise. Transition to positive EBITDA in the second half of 2022 is reliant on full fleets sailing by summer, holding recent good signs of price integrity in forward bookings, and optimizing occupancy and costs given residual virus concerns.

What are the key risks around the baseline?

Omicron and other potential variants. The impact on consumer, business, and group behavior could be biggest in cruise, fitness, and gaming in Vegas and Macau.

Mergers and acquisitions (M&A). With still-low interest rates, the temptation in the leisure sector to pursue scale or other advantages through M&A could be bigger in 2022 than in 2021. Share repurchases will resume for some, increasing risk.

Inflation. While the slow ramp in staffing in many sectors has offset higher wages and helped margin so far, a potential more-normal travel and leisure economy could flip the script as companies staff up and begin to pressure margin.

This report does not constitute a ratings action

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Ratings trends and outlook

Global Hotels, Gaming, and Leisure

Chart 1

Ratings distribution by region

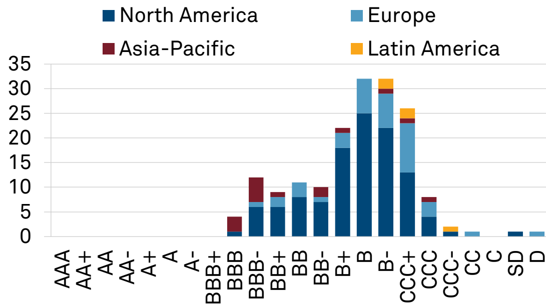


Chart 2

Ratings distribution by subsector

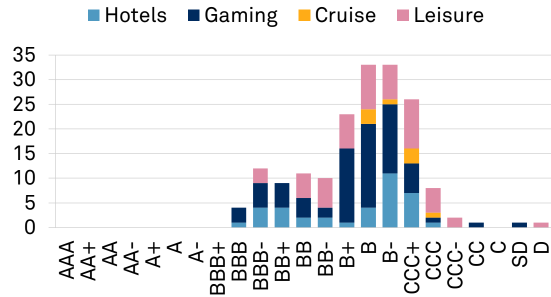


Chart 3

Ratings outlooks

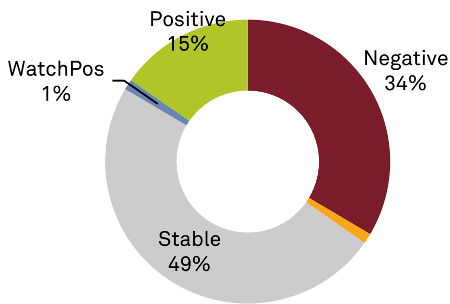


Chart 4

Ratings outlooks by subsector

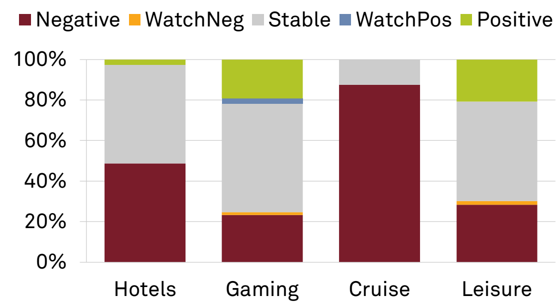


Chart 5

Ratings outlook net bias

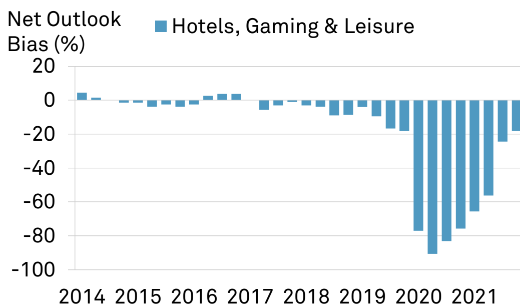
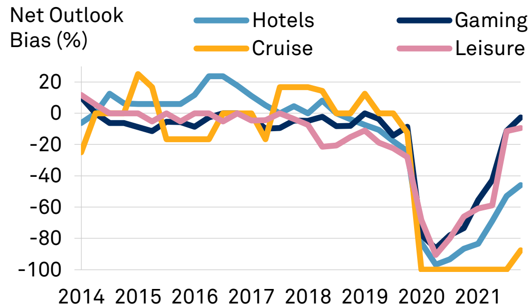


Chart 6

Ratings net outlook bias by subsector



Source: S&P Global Ratings. Ratings data measured at quarter end.

Gaming

Ratings trends and outlook

Ratings upgrade and outlook stabilization trends in regional gaming are a bright spot, as forecast EBITDA generation for many may continue to exceed 2019 levels. Macau-focused issuers remain highly vulnerable to COVID disruption because of very high leverage.

Main assumptions about 2022 and beyond

1. COVID-19 remains the wild card for Macau gaming

Pandemic-related travel restrictions remain the biggest near-term threat, and downside risk is building.

2. Europe, Middle East, and Africa (EMEA) gaming performance to surpass fiscal 2019 levels in the second half of 2022, but credit metrics lag

EMEA gaming continued to have mixed performance results in 2021. Many issuers previously forecast a significant rebound in performance in 2021 and are now hoping 2022 is that year.

3. Regional gaming remains resilient, but Las Vegas recovery could stall

Regional gaming revenue rolled ahead of 2019 levels in 2021, but leisure demand could wane in 2022 as consumers deplete accumulated savings and alternate travel and entertainment options fully reopen.

COVID-19 remains a wild card in Macau. Pandemic-related travel restrictions remain the biggest near-term threat for rated issuers in Macau in 2022, resulting in a slow recovery in gross gaming revenue (GGR). Downside risk is building since our rating actions late last year, amid the rise of omicron cases and the tightening of junket activities. Our base case assumes Macau's mass GGR is unlikely to fully recover until 2023 at the earliest. VIP-related revenue should remain weak due to the crackdown of junket activities. This revenue recovery is delayed by about a year compared to our expectations in early 2021 and demonstrates the challenges in forecasting Macau GGR and potential significant revenue variability as a result of China's zero-tolerance COVID-19 policy. We expect this policy will continue through the first half of 2022, but that easing of travel restrictions between Macau and mainland China beginning sometime in 2022 will support improving GGR. In our view, Macau remains a strong market for mass gaming with good long-term growth prospects. Elevated debt leverage is an ongoing risk. Leverage will remain high in 2022 because a more gradual mass GGR revenue and cash flow improvement and weakening VIP revenue increase the odds against the recovery. While we expect most rated issuers' leverage to improve by 2023, it will remain above pre-pandemic levels. As a result, there is a negative rating bias across our portfolio of rated Macau gaming issuers. If we lose confidence the market can materially recover in 2022 in a manner that improves base-case forecast credit measures, we could downgrade issuers with significant Macau exposure.

EMEA gaming performance to surpass fiscal 2019 levels by the end of 2022, but credit metrics lag. With widespread lockdowns in the first quarter of 2021, and selectively in certain jurisdictions starting late in the fourth quarter due to the spread of the omicron COVID-19 variant, EMEA gaming continued to have mixed performance results in 2021. Many issuers previously forecast a significant rebound in performance in 2021 and are

now hoping 2022 is that year. Indeed, for most in the sector, third-quarter 2021 provided a run-rate glimpse of a fully ramped-up and unimpacted business performance across the sector. EMEA issuers with material online operations will have likely comfortably surpassed 2019 performance in this segment in 2021. Those with complementary land-based operations continue to seek to grow their share of online and digital capabilities. We expect some moderation in growth rates in online as lockdowns ease and levels of new recreational gamers normalize, though it is too early to tell, in our view, what portion is structural and what portion relates to pandemic-induced behaviors. Relative to the broader leisure sector, we continue to view EMEA gaming as well positioned in the recovery curve, outperforming 2019 revenues and EBITDA in 2022. Despite this, because of increased debt levels in the sector, key metrics such as debt/EBITDA are likely to remain above 2019 averages. The increased debt is due to many factors such as M&A, shareholder returns, reduction in net cash during the pandemic, and additional liquidity funding during 2020-2021.

Regional gaming is on a roll, but Vegas recovery could stall. Despite variants and surges in virus cases at various points last year, regional gaming revenue proved resilient in 2021, pacing ahead of 2019 levels. Nevertheless, we believe current strong demand trends for regional gaming could wane in 2022 as consumers deplete accumulated savings and alternate travel and entertainment options fully reopen. We also expect regional gaming operators will give back some of the strong margin improvement experienced since the second half of 2020 through higher labor and marketing costs. We believe operators may increase marketing somewhat to compete for consumers' discretionary income as other leisure and travel alternatives fully reopen. Furthermore, we believe a tight labor market could lead to higher labor costs as casinos may need to increase staffing levels, particularly at amenities, as demand dictates. Nevertheless, we believe some improvements operators made to cost structures are sustainable and should support higher margins compared to pre-pandemic levels. Las Vegas, however, faces near-term risks from the omicron variant, which could stall its recovery. Leisure led the way in Las Vegas' recovery last year, as pent-up demand for travel and gaming, loosening of restrictions, and the return of sports and entertainment accelerated its second-half recovery. Although gaming revenue and average daily rate exceeded 2019 levels, visitation and occupancy are lagging, given limited convention business and international travel. Variants delayed the return of some conventions and group meetings to Las Vegas in the third and fourth quarters of 2021 and early 2022. Although 2022 bookings were pacing well compared to 2019 before omicron's emergence, Las Vegas' recovery may stall if the convention business does not rebound enough to smooth a pullback in leisure spending this year.

Key risks or opportunities around the baseline

1. Macau's proposed gaming bill moderates license renewal risks

Gaming concessions expire in June, but we expect current concessionaires to maintain their licenses in the new bidding process.

2. EMEA gaming issuers face regulatory impacts while participating in increased M&A

Regulation remains a focus amid sector consolidation, cross-border acquisitions, and the pursuit of online scale.

3. With stronger balance sheets, M&A and shareholder returns could increase

Credit measures have surpassed pre-pandemic levels for many U.S. gaming operators, but financial policy choices may limit further rating upside.

Macau's recently proposed amendment to its gaming law signals lower license renewal risks for rated issuers. Macau's recently proposed amendment to its gaming law signals lower license renewal risks for rated issuers as we approach the June 2022 expiration of all Macau gaming concessions. We continue to believe all six current concessionaires or subconcessionaires are well positioned to maintain their licenses in the new rebidding process. The government plans to grant up to six licenses with a 10-year term, shorter than the original 20 years. The shorter tenure was not unexpected given that the original concession periods were designed to support the initial development of the casino resorts and provide a reasonable return period. We believe the shorter concession length is aimed at giving the government tighter control over the industry. The focus, in our view, is on providing authorities increased flexibility to adapt to changing industry conditions and development needs. The government also said it did not plan to recommend an increased gaming tax rate, which we view positively. Other regulatory measures are largely within expectations. They are moderately negative, but the immediate credit impact is limited for now. Any social or economic conditions attached to the rebidding process--such as additional investment in nongaming amenities or safeguards for local employee such as enhanced benefits--could affect leverage and profitability. The slower GGR recovery leaves rated issuers with less room to manage these impacts.

EMEA gaming issuers face regulatory changes amid accelerated M&A. Key risks and opportunities to ratings in 2022 include elevated M&A and other leveraging policy decisions, significant regulatory developments, and the potential for credit metric improvement unimpeded by COVID-19. EMEA gaming continues to see a trend of sector consolidation, cross-border acquisitions, and the pursuit of online scale and opportunity. We expect activity to remain high in 2022 as these themes continue to play out. Consequently, we are also witnessing a battle between company strategy and financial policy. Even though some larger issuers have suspended dividends, achieving stated deleveraging targets remains aspirational in the medium term and some are trying to balance deleveraging goals with potential M&A. Regulation remains a focus with the white paper on U.K. gaming regulation due in the first half of 2022. Although some positive run-rate trends emerged in the third quarter 2021, we continue to see pro forma items affecting reported quarterly numbers. After a prolonged period of COVID, fiscal 2022 may offer an opportunity for a cleaner set of results that demonstrate underlying company performance. However, external factors including the omicron variant, rising inflation, and recovery in the macroeconomic environment and consumer spending remain risks.

M&A and shareholder returns could increase in the U.S., given stronger balance sheets. Strong regional gaming revenue recovery and significant margin improvement have resulted in credit measures that are better than pre-pandemic levels for many U.S. gaming operators. As a result, our ratings outlooks on most local and regional gaming operators are stable or positive, or on CreditWatch positive, given these trends. However, potential leveraging acquisitions and financial policy decisions are becoming increasingly important rating risk factors. Gaming operators could elect to use improved cash flow generation, and in some cases, substantial leverage cushion to engage in some combination of leveraging M&A activity, development spending, or increased shareholder returns. These financial policy choices may limit further rating upside in the sector. On the other hand, asset sales could accelerate improvements in credit measures for highly leveraged gaming companies as long as proceeds are used to reduce net leverage.

Hotels and Timeshare

Ratings trends and outlook

Many ratings remain below pre-pandemic levels and the outlook bias is still negative, particularly for full-service upper upscale lodging companies, because revenue and EBITDA will not likely recover fully until 2023.

Main assumptions about 2022 and beyond

1. Despite omicron, 2022 U.S. lodging RevPAR could recover closer to 2019 levels

The industry is starting the year in a better place than we'd previously assumed. However, group and business travel will determine the shape of the recovery.

2. Timeshare companies' EBITDA might experience near-full recovery in 2022

Bookings in 2022 will likely exceed 2019 levels, particularly for those managed by resort systems with a high share of drive-to destinations.

3. Bumpy recovery for Latin America's lodging sector in 2022

Occupancy will continue to lag, although average daily rates are near 2019 levels. Beach resorts will outperform urban hotels.

4. Gradual recovery for EMEA lodging

Confidence will return to European markets, but the sector may continue to struggle with intermittent regional lockdowns.

5. Despite high current caseloads globally, recovery in leisure travel will likely propel online travel agencies (OTAs) to grow revenues toward 2019 levels in 2022

Pent-up demand for travel will help the sector, although uncertainty around COVID-19 may increase volatility.

Despite omicron, 2022 U.S. lodging RevPAR could recover closer to 2019. U.S. RevPAR in 2021 was about 17% below 2019, moderately better than our base-case assumption. As a result, this key revenue driver in the lodging industry is starting the year in a better place, and we are revising our assumption for 2022 RevPAR to be 10% below to flat with 2019. The shape of the lodging recovery in 2022 is highly dependent on the impact of the omicron variant on group and business travel, particularly during the first quarter and possibly in the second quarter. We assume labor shortages continue through at least the next several months and more than offset labor wage inflation, resulting in lower expenses driving a faster EBITDA margin recovery in the first half. However, higher-priced full-service hotels still lag far behind economy leisure-focused hotels. As a result, we believe 2022 EBITDA and credit measures for rated issuers focused on full-service sector could remain well below 2019 levels.

Timeshare companies' EBITDA might fully recover in 2022. Sustained robust leisure travel demand and continued reliance on a high mix of low-cost sales to existing owners could drive EBITDA margin improvement in 2022, and EBITDA could recover to near or above pre-pandemic levels. Volume per guest (VPG), a key revenue driver, is at record levels because timeshare companies are focused on high-quality marketing channels

and selling more points to existing owners, which typically is less expensive than acquiring new customers and has a meaningfully higher percentage of leads converting to sales, rather than on off-premises-contact sales channels that tend to be low-yielding and more exposed to visitation volatility. We believe timeshare demand will be supported by resort systems that have geographic diversity and a high share of drive-to destinations. In spite of omicron, we believe timeshare resort occupancy will remain high due to the investment that owners have made in this purchased product, in comparison to alternative vacation options such as hotel stays. This will likely result in 2022 timeshare bookings that exceed 2019 levels and bolster resort occupancy, food and beverage spending at resorts, and EBITDA. New owner tour flow may recover gradually because timeshare companies are more focused on restoring profitability over the near term.

Latin America's lodging sector is anticipating a bumpy recovery in 2022. Lodging in Latin America remains vulnerable to travel restrictions and local curfew measures as omicron poses downside risks. Sectorwide operating performance should remain below pre-pandemic levels in 2022. Although average daily rates (ADRs) have recovered significantly from 2020, near 2019 levels, occupancy will continue to lag. Therefore, RevPAR may increase in the high-single-digit percentages from a gradual recovery in occupancy rates but remain below 2019. In Mexico, occupancy rates have averaged about 40% in 2021, and we expect them to be near 50% in 2022, but still below pre-pandemic levels of 60%. International and local travelers' composition remains broadly stable, 26% and 74%, respectively, due to higher vaccination rates in North America and Europe, which have resulted in a swifter release of pent-up demand for Mexican beach resorts, as it continues to be attractive for foreign tourism due to a relatively weak Mexican peso. The resorts' proximity to North American travelers is a near-term demand driver. We believe such demand could bring investment capital and acquisition activity to Latin American leisure-focused hotels, particularly for all-inclusive products. Nonetheless, urban hotels will likely continue to underperform the most, as business travel will continue to be undermined by the pandemic and remote work adoption. We expect the sector to proceed cautiously as the pandemic has affected developers' capital expenditures (capex), now more selective, and several operators have restructured their operations, seeking to recover profitability after having adopted leaner structures and asset sales strategies. Although these measures do not completely offset the slow RevPAR recovery, we consider that several companies are better prepared to face potential temporary lockdowns and operating restrictions in 2022, which coupled with pent-up demand should continue to provide a recovery trajectory.

EMEA lodging will be gradual, but bumpy. Midscale and economy hotel operators focused on domestic demand may surpass 2019 RevPAR levels in 2022 partly due to tighter mobility restrictions and rigorous testing requirements driving staycations in Europe and another potential spike in leisure pent-up demand by summer. However, upscale corporate business and international travelers will likely recover more slowly again this year due to mobility restrictions and continued expectation around hybrid working. We expect confidence to gradually improve across Europe, ADRs to be less affected in 2022, and dynamic pricing to be a continuing theme. Improved vaccination rates, booster campaigns, and lower hospitalization rates may increase the confidence level of the average European traveler. Despite omicron, we estimate the booking window in Europe will continue to increase in 2022 and come closer to about 45 days in 2019 compared to 35 days as of December 2021. However, the sector is not out of the woods as every new variant pauses the sector recovery and corporate business travel volumes may not recover for years due to the hybrid working environment. Rated EMEA lodging issuers may take longer to recover compared to U.S. peers due to very high debt and leverage compared to 2019, and higher fixed-labor costs depressing EBITDA margin.

Recovery in leisure travel will likely propel OTAs to grow revenues toward 2019 levels in 2022. Pent-up demand for travel, broader availability of vaccines and treatment

options globally, increased access to testing, and lower hospitalization and fatality rates are resulting in moderating fears of contracting the coronavirus. These factors should continue to propel the demand for leisure travel in 2022 such that OTAs approach 2019 levels of revenue in 2022 and exceed 2019 levels in 2023. Higher ADRs will help offset the somewhat slower recovery in travel volumes from a slower but continued recovery in international travel and regional travel restrictions to stem the spread of virus variants. Notwithstanding, the trajectory of recovery will likely be volatile as COVID increasingly becomes endemic, new virus variants emerge, and consumers and governments react to the data on the rate of spread and severity of the virus.

Key risks or opportunities around the baseline

1. Global lodging faces prolonged business and group travel recovery

Full-service hotels in particular face an uncertain recovery due to the pandemic's effect on business travel.

2. Acquisitions and financial policy choices are key risk factors to watch in 2022

Companies' risk appetites will be key rating drivers as credit metrics improve.

Lodging faces prolonged business and group travel recovery. Lodging issuers focused on full-service hotels potentially face a slower recovery in 2022 if omicron significantly impairs group and business travel through the first quarter and possibly through the first half of the year. This could cause a slower recovery in EBITDA and credit measures for these issuers. Some business travel, particularly for intra-company events, is likely lost permanently to virtual meetings. How much sales and client relationship travel returns is uncertain--we anticipate most, but not all, will do so. Despite our base-case assumption that 2022 U.S. RevPAR could be closer to 2019 levels, the price segment and sector mix of rooms matter significantly for EBITDA and credit measure recovery. EBITDA and credit measures of lower-priced economy and leisure-focused hotel portfolios have already recovered well above 2019 levels, reflected in our ratings on these issuers. In addition, we believe policy choices around acquisitions and the resumption of share repurchases that potentially add leverage will be a key risk factor in 2022. Several issuers used acquisitions in 2021 to move the rooms base more toward leisure and away from full-service city center hotels because of the divergence in the recovery paths. This will likely continue in 2022, potentially driving M&A risk. ADR has also held up surprisingly well compared to prior cycles and may continue to be supportive of margin improvement in 2022. But if the industry gets beyond omicron and the travel economy begins to normalize, an increased level of rate competition may emerge as hotels try to put additional heads in beds.

Acquisitions and financial policy choices are key risk factors to watch in 2022. Despite the risk posed by omicron and potential future variants at least through the first quarter, revenue and EBITDA among lodging and timeshare companies are likely to improve in 2022 as consumers cope with COVID-19. As credit metrics improve, the companies' financial policies and risk appetites will be key rating drivers. Several notable debt-financed transactions occurred in 2021, including Hyatt's acquisition of Apple Leisure Group and Hilton Grand Vacations' merger with Diamond Resorts, which we believe reflects companies moving toward leisure travel and scale advantages and away from the presumed prolonged business and group travel recovery. In addition, some companies that believe they have visibility on their deleveraging path and view their stock prices to be undervalued may opportunistically repurchase stock, thereby slowing down the deleveraging. We could lower ratings if companies prioritize opportunistic transactions and risk-taking before attaining run-rate financial leverage targets, even if we believe the

companies could eventually achieve those targets over several years and the acquisitions would strengthen their business profiles. Because they suffered greater credit metric deterioration during the pandemic and do not have fee-based revenue streams, hotel owners would likely experience a more leveraging impact from engaging in acquisitions compared to lodging managers, franchisors, and timeshare companies.

Cruise, Recreation, Fitness & Play

Ratings trends and outlook

Ratings and outlook trends are decisively negative in cruise and fitness, which remain vulnerable to COVID-related disruption and weighed down by high debt levels and leverage. Ratings and outlook trends are decisively positive in outdoor recreation, out-of-home entertainment, and play, as still-flush consumers flock to safety and fun.

Main assumptions about 2022 and beyond

1. 2022 will be a tale of two halves for cruise

The first half of this transition year will likely be marked by capacity limitations and negative EBITDA; pent-up demand will provide tailwinds in the second half.

2. Another year of good wholesale and retail demand for leisure vehicles in 2022

Consumer perception about the safety of outdoor activities amid the coronavirus may shift the run rate to a level not seen before the pandemic.

3. Toy companies could continue to reduce leverage in 2022

Growth in consumer spending could drive revenue increases for both Hasbro and Mattel.

4. We expect theme park attendance to recover above pre-pandemic levels

Regional theme parks are likely to recover faster than destination resorts due to increased demand, higher per capita spending, and cost reductions that could improve margins in 2022.

5. A robust backlog of events should bolster a recovery in live entertainment

Still-elevated consumer savings and strong demand could support pricing above pre-pandemic levels in 2022. We expect revenue to exceed pre-pandemic levels.

6. The fitness sector's recovery may remain uneven across geographies and price points

Operators in states with lax or nonexistent COVID-19 restrictions have seen faster membership recoveries than those in states with stricter restrictions.

7. Skier visitation to recover this winter

In addition, ancillary services should help lift revenues at resorts.

Cruise sector will experience a tale of two halves. 2022 will be a transition year with EBITDA turning significantly positive in the second half as cruise operators expect to have their full fleets sailing by the peak summer season. In the first half, we expect limited capacity and continued negative EBITDA. Demand tailwinds from pent-up leisure travel demand, a measured capacity ramp, improving ship occupancy as capacity restrictions ease over time, current booked positions, and a strong base of repeat cruise passengers should support positive EBITDA by the second half of 2022 and adjusted credit measures improving to more sustainable levels in 2023. Our assumption is notwithstanding the recent surge in COVID-19 cases, current recommendations against cruise travel, and

evolving restrictions and safety measures. This is because we believe these factors will have the largest impact on near-term sailings. Royal Caribbean Cruises recently reported that its cumulative advanced booked position for the second half of 2022 was in line with historical levels as of Dec. 30, 2021, and featured higher prices even incorporating the dilutive impact of future cruise credits issued during the pandemic. Carnival and NCL also reported similar trends before the recent surge in cases. Nevertheless, operators' ability to significantly improve cash flow and adjusted credit measures will depend on their success increasing occupancy and pricing closer to 2019, which in our view will depend in part on customers' comfort being in confined spaces, particularly given virus variants, the lack of an approved vaccine for children under age 5, and the negative effect of virus surges on labor supply. Further, the potential for continued port closures or changing travel restrictions could lead to cruise operators being unable to offer premium itineraries, which could also limit pricing recovery.

Strong demand for wholesale and retail leisure vehicles continues in 2022. RV and recreational marine companies will probably experience another year of robust wholesale demand in 2022, as well as good retail demand that is near 2021 levels depending on the product. The perception persists that RVs, boating, and other outdoor activities are safe options for leisure time during the COVID-19 pandemic. As remote work arrangements enter a third year and become a more enduring employee expectation, demand for outdoor recreation will be buoyed. We also believe outdoor recreation will become increasingly enabled by technological advancements and infrastructure investments, including more sophisticated electrification of vehicle interior hardware and parts and accessories, the expansion of wifi access, and the upkeep of campgrounds and the national park system. These factors could shift total industry demand up to a new run-rate level compared to before the pandemic.

We anticipate original equipment manufacturers (OEMs) to ship a record level of wholesale units in 2022 because dealership inventories remain low and manufacturers' backlogs are at record highs. RV retail demand remains good compared to the industry's history, indicating that channel inventory replenishment may take most of 2022 to accomplish. Marine inventory dynamics will likely take longer to resolve since that industry's supply chain is less geographically concentrated and therefore needs greater coordination and transportation time compared with the RV industry, which is mostly in Elkhart, Ind. As a result, OEMs' revenue and EBITDA margin will likely be very healthy in 2022. We also expect RV retailers to generate healthy revenue levels in 2022, with some industry participants anticipating this year could be the second-highest level of RV retail sales on record. RV retailers have demonstrated they can be nimble under periods of shifting demand, and we believe they can generate healthy margin as long as cost structures are flexible, even if total industry sales decline modestly.

Toy companies could continue to reduce leverage in 2022. Hasbro and Mattel reported operating performance through the first three quarters of 2021 that reflected continued strong demand for toys. Additionally, we expect both Hasbro and Mattel grew revenues by the mid-teens-percent area in 2021 compared with 2020. Hasbro's price increases, volume improvements, content production recovery, and synergies likely offset inflationary cost pressures, as did Mattel's price increases and cost-cutting programs. In 2022, we expect growth in consumer spending could drive revenue increases in the low- to mid-single-digit percentages for both Hasbro and Mattel. If both issuers can continue to offset the impact of inflationary cost pressures, and their financial policies remain supportive of deleveraging, then they could continue to improve credit measures through 2022. Currently, we have positive outlooks on both Hasbro and Mattel, signaling that we could raise ratings over the near term if we believe recent improvements in revenue and EBITDA are sustainable.

Theme park attendance likely to recover above pre-pandemic levels. Pent-up demand for out-of-home entertainment brought visitors back to theme parks in 2021 and our current expectation is that theme park attendance will continue to improve and could

finish 2022 with higher visitation than in 2019. We believe consumers will continue to view theme parks as a safe entertainment option and demand will remain strong. We believe regional theme parks will continue to recover at a faster pace as lagging group business returns by the third quarter. Destination resorts Disney and Universal will lag because of a slower recovery in international visitation, which we expect to return to normal levels by the end of the year. We believe per capita spending will decline modestly but will remain meaningfully above pre-pandemic levels as consumers continue to benefit from elevated savings. As such, we expect industrywide revenue in 2022 to exceed 2019 levels and for EBITDA margin to improve as cost cutting over the past two years leads to margin improvements in a fully recovered state. Lastly, significant cost mitigation, stronger-than-expected demand, and a pullback in capital spending in 2021 have left regional theme parks with higher-than-normal cash balances compared with pre-pandemic years. We expect issuers' first use of excess cash will be to reinvest in their business through higher capital spending programs in 2022 as they make up for lost investment over the past two years.

Pent-up demand should drive a recovery in live entertainment. We expect the number of events (sporting events, theatrical performances, and concerts) to grow substantially in 2022, supported by a strong pipeline of events that have been postponed over the course of the pandemic. Event attendance, especially within the U.S., recovered throughout the summer as the global vaccination effort progressed, restrictions on live events were mostly lifted, and consumers began to feel more comfortable in traditional entertainment venues. Absent a return of pandemic-related restrictions, we expect the number of events to be at or above pre-pandemic levels, driven by events that have been rescheduled into 2022, and for the number of fans per event to exceed 2019 levels as a result of pent-up demand. Although ticket pricing could moderate from very high levels at year-end 2021, still-elevated consumer savings and strong demand could support pricing above pre-pandemic levels in 2022. As a result, we believe revenue across the industry will exceed pre-pandemic levels.

The fitness sector's recovery may remain uneven across geographies and price points. Operators of budget gyms have seen a more aggressive recovery in member counts and revenue than operators of higher-cost luxury gyms. Additionally, operators in states where COVID-19 restrictions, including mask mandates, have been more lax or nonexistent have seen faster membership recoveries than operators in states with stricter restrictions, and we expect this trend to continue. At the end of 2021, some low-cost gym operators with concentrations in the Southern U.S. have seen levels of membership that have surpassed 2019 year-end levels, but luxury gyms are ending 2021 with memberships as low as 30% below 2019 year-end levels. We expect that memberships could recover from 10% up from 2019 for low-cost gyms, and 20% down for high-cost gyms, and that revenue could be in the same range.

Skier visitation to recover this winter. U.S.-based ski resort operators proved resilient over the course of the pandemic, flexing their cost structures to cope with varying COVID-19 restrictions throughout the 2020/2021 ski season. We expect a recovery in revenue in 2022 as ancillary segments such as food and beverage, rentals, and retail can operate under less severe restrictions compared to the 2020/2021 ski season. Additionally, we expect industrywide skier visitation to be at or modestly above pre-pandemic levels in 2022. While we believe some consumers may opt to stay closer to home, we believe visitation at destination resorts will recover in 2022. Furthermore, absent a spike in hospitalization rates or a new, more virulent variant, we expect traditional demand drivers, such as snowfall and weather, will play a more important role in 2022 than COVID-related factors. As a result, we expect skier visitation to increase in fiscal 2022 5%-10% above fiscal 2019 levels. In addition, we expect a recovery in ancillary services leading to total revenue in line with pre-pandemic levels. We expect effective ticket prices to be modestly lower as a result of significant expansion of the two largest pass networks, the Epic and Ikon passes, which are sold at a discount to lift tickets.

Key risks or opportunities around the baseline

1. Ship deliveries add to already colossal debt levels and slow deleveraging

Debt-financed orders made before the pandemic create headwinds as the industry looks to substantially reduce leverage.

2. Unprecedented and dynamic RV retail demand could mask risks

We believe a decline in retail sales was attributable to the lack of inventory at dealerships. Evolving retail volumes and prices will be an important indicator of the industry's underlying demand over the next few quarters.

3. Inflationary pressures for toy manufacturers do not appear to have abated

So far, Hasbro and Mattel have passed through price increases to retailers, helping to mitigate inflation.

4. Reimposition of COVID-related restrictions and a pullback in consumer spending are primary risks for out-of-home entertainment

The risk is greatest for theme park and live event attendance, while skier visitation would likely remain resilient.

5. Omicron, other potential variants could jeopardize the fitness recovery

Further COVID-19 containment measures could prompt fitness operators to pull back on growth capex in the face of membership declines.

Ship deliveries add to already colossal debt levels and slow deleveraging. A return to profitability in the second half of 2022 and significantly higher cash flow generation is key to repairing cruise balance sheets that were significantly impaired over the past two years by extraordinary borrowing during the industry's shutdown. As a result, ratings on the three large cruise operators remain 'B' with negative outlooks, signaling our view that substantial uncertainty remains as to their recovery paths, particularly given the omicron variant. Further, future contracted ship deliveries, which were ordered before the pandemic and are financed largely with debt, represent longer-term risks to the industry's ability to substantially reduce mountains of debt accumulated during the pandemic. Notwithstanding an expected slower cadence of ship deliveries in the next few years, as compared to pre-pandemic levels, ship deliveries will hamper operators' ability to quickly reduce leverage. How operators manage future ship orders will also be key to how quickly balance sheets recover.

Unprecedented, dynamic RV retail demand could mask risks. While wholesale and retail demand remain robust as of December 2021, risks in the near-term retail picture could translate into volatility for OEMs and the industry. Retail units sold of new RVs declined significantly by 25%-30% in third-quarter 2021, which we believe was attributable to the lack of inventory at dealerships stemming from supply chain constraints rather than a drop in consumer interest. Firm retail new unit prices and very good growth in used RVs sold by rated dealers RV Retailer and Camping World suggest consumers adapted to low channel inventory by buying up available used RVs in the secondary market. New unit retail volumes declined while their prices remained firm, which does not indicate a demand contraction because a contraction typically entails declines in both retail volumes and prices. The evolution of retail volumes and prices will be an important indicator of the industry's underlying demand over the next few quarters. We assume retail demand peaked in 2021, and 2022 demand could decline modestly but prices will remain firm. If our assumption does not materialize and our forecast for volume and price

is not persistent, 2022 retail demand could be more volatile, resulting in a need by OEMs to adapt quickly. Since the surge of retail demand in 2021 was steeper than many industry participants anticipated, the eventual reversal in demand could also be severe. Furthermore, supply chain disruptions and the resulting price increases, which one manufacturer estimated to be 8%-30% depending on the product, are an additional headwind if they approach a level that consumers cannot bear.

Inflationary pressures for toy manufacturers have not abated. Hasbro and Mattel will likely face continued supply chain disruptions and inflationary cost pressures through 2022. So far, Hasbro and Mattel have passed through price increases to retailers, partially mitigating inflationary pressures. According to our macroeconomists, low unemployment and good household savings rates have likely buffered consumers' willingness and ability to absorb price increases, but inflation-adjusted hourly wages are declining, which in conjunction with falling consumer confidence could weigh on consumers' moods and purchasing power. We believe retailers' willingness to continue to share higher input costs with toy manufacturers depends on consumers' willingness to pay higher prices.

Reimposition of pandemic-related restrictions and a pullback in consumer spending are primary risks for out-of-home entertainment. Although currently not expected under our base-case assumptions, the reimposition of COVID-related restrictions remains the most significant risk to theme park and live event attendance, revenue, and profitability. While skier visitation will likely remain resilient in the face of additional variants, renewed restrictions on the company's ancillary segments (e.g., food and beverage, rental, and retail) could impact total revenue and profitability resorts have to make an about face in the middle of the ski season. Infection rates have taken a dramatic turn for the worse to begin 2022 as a result of the omicron variant. However, we believe the likelihood that stay-at-home orders are reinstated in the U.S., similar to those in March 2020, is low and that consumers will feel comfortable returning to traditional out-of-home entertainment options such as theme parks, concerts, sporting events, and theatrical performances. Though, this does not preclude a new and more virulent variant that results in some consumers pulling back on some activities. Furthermore, regional travel restrictions or capacity limitations, especially in jurisdictions outside the U.S., could continue to be a drag on performance. While we believe ticket pricing for live events and theme parks will remain elevated in 2022, we believe per capita spending could decline as consumers burn through savings accumulated throughout the pandemic. Finally, tight labor conditions and increased labor costs could impede margin improvements expected in 2022. While seasonal changes to staffing levels are typically routine adjustments, labor shortages and COVID-related work exclusions could make the shift more difficult in 2022.

Omicron and other coronavirus variants could jeopardize fitness recovery. With all fitness operator ratings in the 'CCC' category, default risk remains high, and further COVID-19 containment measures in response to fast-spreading variants could result in local restrictions, including mask mandates. These restrictions could drive an increase in freezes and cancellations, which could slow or reverse recent positive membership and revenue trends. With balance sheets already battered from significant cash burn during prior closures, leverage could spike further and liquidity could tighten, which could result in downward ratings pressure across the sector. We expect that if fitness operators were to see further membership declines from the COVID-19 pandemic, they could pull back significantly on growth capex in 2022 to help mitigate cash burn.

Related Research

- Macau's Proposed Gaming Bill Moderates License Renewal Risks, Jan. 16, 2022
- ESG Credit Indicator Report Card: Leisure, Dec. 8, 2021
- Macau Gaming: COVID Remains the Wild Card, Nov. 24, 2021
- Will CLOs Be Singing The Delta Blues? Corporate Credit, COVID Variants, and CLOs, Oct. 21, 2021

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Industry forecasts

Global Hotels, Gaming, and Leisure

Chart 7

Revenue growth (local currency)

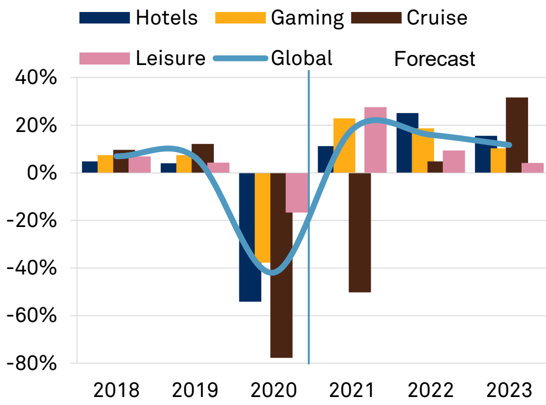


Chart 8

EBITDA margin (adjusted)

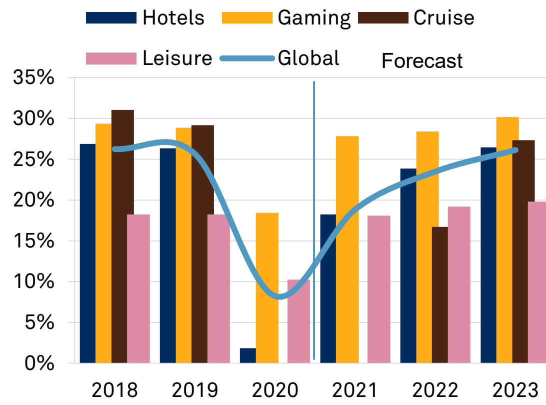


Chart 9

Debt / EBITDA (median, adjusted)

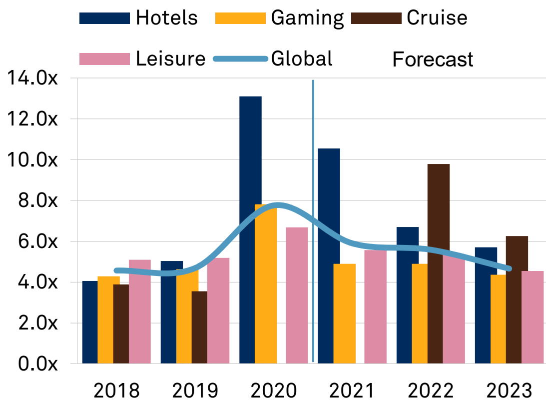
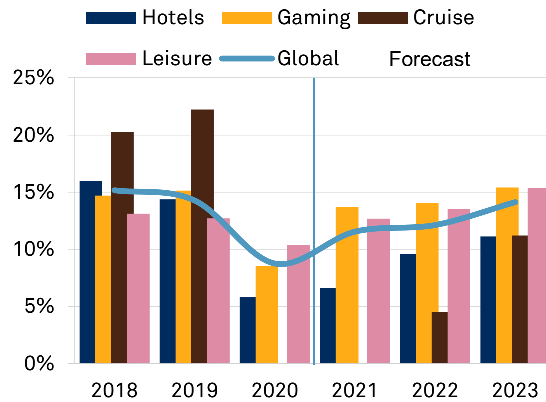


Chart 10

FFO / Debt (median, adjusted)



Source: S&P Global Ratings. Revenue growth shows local currency growth weighted by prior-year common-currency revenue-share. All other figures are converted into U.S. Dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations.

Cash, debt, and returns

Global Hotels, Gaming, and Leisure

Chart 11

Cash flow and primary uses

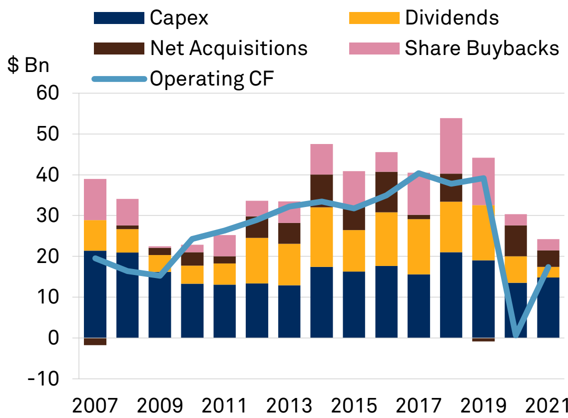


Chart 12

Return on capital employed

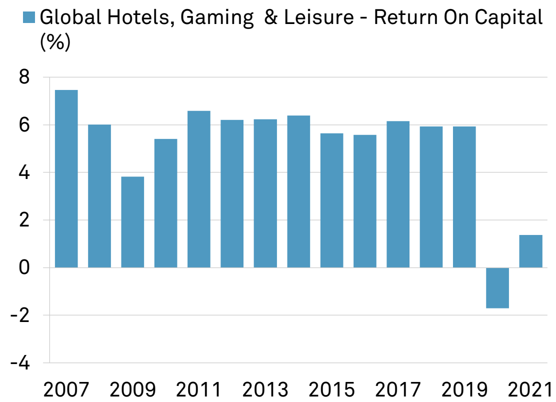


Chart 13

Fixed versus variable rate exposure

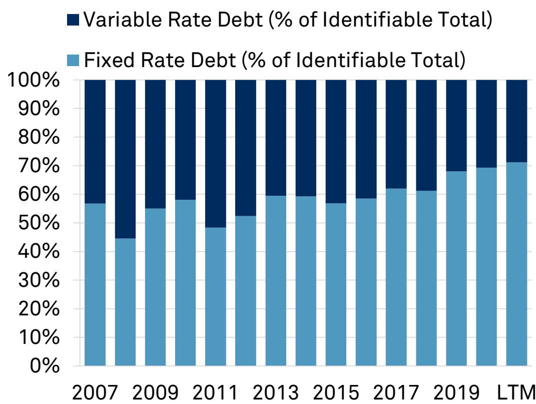


Chart 14

Long term debt term structure

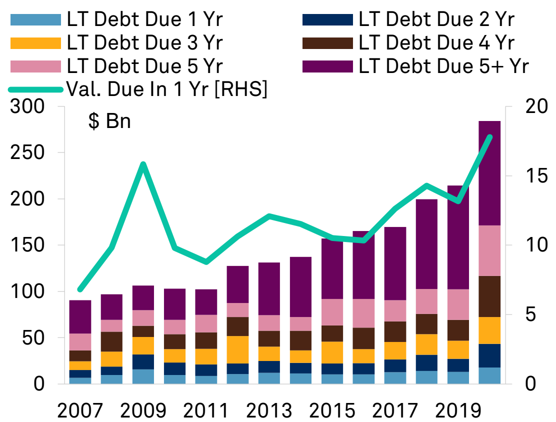


Chart 15

Cash and equivalents / Total assets

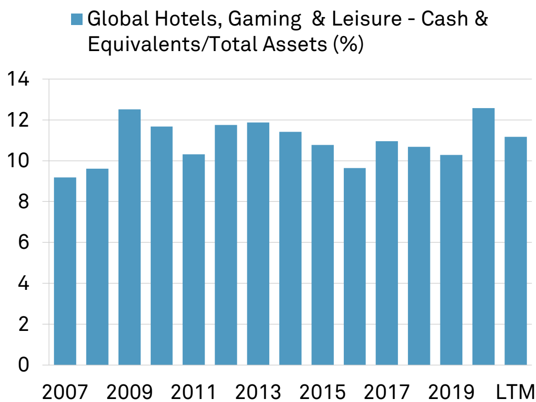
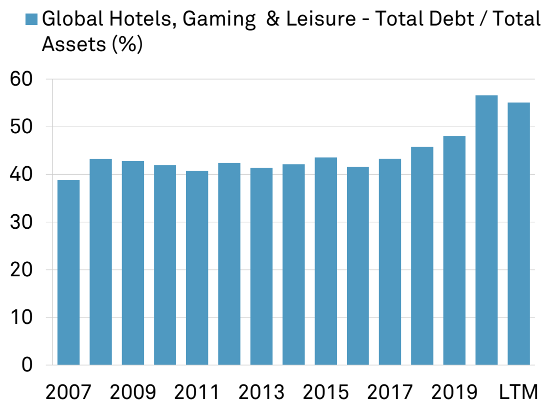


Chart 16

Total debt / Total assets



Source: S&P Global Market Intelligence, S&P Global Ratings calculations. Most recent (2021) figures are using last twelve months (LTM) data.

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