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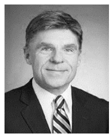

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Industry Top Trends Update

Hotels, Gaming, and Leisure

Higher ratings on pandemic recovery but recession looms

What's changed?

Upgrades. Pent-up demand for travel and leisure activities is driving the recovery in credit measures and some ratings badly hurt during the worst of the pandemic.

Rate strength. Travel and leisure volumes improved and there is continued surprising rate strength in hotels, theme parks, ski venues, Las Vegas, and other leisure activities, even cruise pricing strengthens for bookings in 2023.

Inflation risk to profitability. At some point very high inflation in nondiscretionary consumer items will cause the leisure consumer to pull back on the rate or ticket price they are willing to pay, potentially as labor and other costs continue to rise.

What to look out for?

Summer strength. We assume leisure consumer spending is strong through the summer because people still want their vacation or to engage in leisure activity, but in Q4 of this year and in 2023 we are more cautious.

Low-end gaming. The mid- to high-end leisure consumer is still very strong, but we are hearing about a softening in spending in the low-end gaming customer. It's a small portion of profitability for most casinos, but a signal we're watching.

Inflection-point in cruise. The seasonally strong third quarter should prove to be decisive for the industry with EBITDA turning positive, as nearly all ships are sailing and occupancy is ramping up, but inflation and fuel weigh on margin recovery.

What if there's a recession?

Gaming. Customers may drive to a regional casino rather than fly to Las Vegas, and group convention demand for Las Vegas may soften. But operators have built-in cushion because of surprising revenue and margin strength post-pandemic.

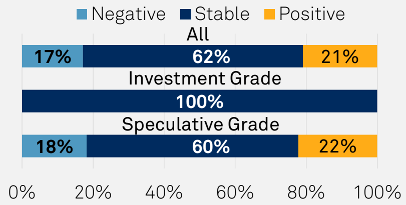
Lodging. At some point the typical link between GDP and lodging demand will return, so we're incorporating macro risks into our base case to ensure cushion in credit measures before raising lodging ratings or revising outlooks to positive.

Cruise. If cruise operators need to lower prices to fill ships, it could slow their ability to dig out from under mountains of pandemic debt, especially if fuel and other costs remain high.

Latest Related Research

- Macao Gaming: COVID Surge Clouds The Path To Recovery, July 7, 2022
- All-Inclusive Resorts Recovery Drives Investments By Major Hotel Brands, June 23, 2022
- U.S. Lodging Trends Move Toward Normal As Macro Risks Rise, May 4, 2022

Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	6	100	106
Downgrades	0	2	2
Upgrades	3	25	28

Ratings data as of end-June 2022. * Year-to-date

Ratings Outlook Net Bias