THE DAILY CHECK-IN WITH GOLDMAN SACHS

GUEST: STEPHEN GRAMBLING, GAMING, LODGING AND LEISURE ANALYST, GOLDMAN SACHS RESEARCH
HOST: LIZ BOWYER, GLOBAL HEAD OF BRAND AND CONTENT STRATEGY
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Liz Bowyer: Hi, Stephen.

Stephen Grambling: Hi, Liz.

Liz Bowyer: You cover the gaming, lodging, and leisure industries for Goldman Sachs Research. Just given the outsized impact that the pandemic had on those industries, how are you assessing the potential for recovery now that there's a vaccine?

Stephen Grambling: Well, there's really combating forces because you have the rise in COVID cases, fears around the new variant, rising cases that are also combined with restrictions, and then the vaccine which is giving people hope. And so we've seen a lot of pent-up demand. We're starting to see forward bookings start to solidify particularly on the leisure side of the space in the end of 2021 and also in 2022. And we think that there's a lot of pent-up demand just based on the amount of savings that has increased and that will likely flow back out from a consumer standpoint, which is about $1.3 trillion in 2020 that could come out in the end of 2021 and 2022.

Liz Bowyer: So in the fall you introduced a recovery framework to assess the recovery across these different industries. Give us a sense of how that works.

Stephen Grambling: Yeah, the recovery framework was supposed to look at not just how stocks are going to trade around the vaccine, which I think there's always this knee-jerk reaction of buying the things that maybe will be the most impacted, but also looking further out and saying which companies and industries have historically rebounded the fastest? Which companies still have long-term growth potential after the pandemic or maybe even as a result of the pandemic? And then which ones maybe have structural impacts that could be a headwind as a result of the pandemic? And then we balance that with how the balance sheets of these companies has evolved through this period where you have little or zero revenue which can create cash burn and create incremental net debt.

Liz Bowyer: And what's the framework telling you today about recovery in some of these sectors?

Stephen Grambling: So in aggregate, it's largely affirmed our view that this would be a space that you want to own in that recovery. And so 24 out of the 28 stocks that I cover have outperformed the S&P 500 since that time. They've had an outperformance of 32% versus the S&P 500 up 14%. There still is some choppy near-term challenges for these companies in reopening, but what we've been really surprised by is that actually business travel and business travel-related stocks which we thought might be lagging have actually performed quite well.

Liz Bowyer: So as you look at what might happen to some of these industries over the long term, to what extent is China a good indicator, having returned to nearly pre COVID levels of economic activity?

Stephen Grambling: It's a great question. So travel in China, for the most part, has mirrored macro indicators, which for the most part would suggest that there's not really a change in behavior. And then we can actually dive a little bit deeper into those trends and see that leisure hotel demand is actually up versus 2019 levels. And more importantly, business travel demand, while it's not up, it has dramatically improved to basically above prior recessionary type levels. So there isn't a lot of changes in business or consumer behavior that we can really pinpoint, which bodes well for the US once we have cases come down and people feel like they're able to travel again.

Liz Bowyer: And any sense of when we might get to that place in the United States?

Stephen Grambling: Right, so if you look at our health care and economist expectations around when there'll be broad distribution of the vaccine and when you'll start to see cases come down, you know, really by mid April and May is when we think we're going to be at a pretty good run rate in terms of vaccine delivery. Around that time you should start to see policies come into place that will enable people to travel again. It'll be slow at first, so there's not necessarily a flick of the light switch and all of a sudden everybody's going out traveling again. But if we think about call it the summer, that's when we should start to see, you know, much more significant improvements in demand. And then really I would say call it 4th of July on is when we would be anticipating this kind of step function shift to more of a normalized, albeit still down, but normalized, you know, level of declines in broader lodging, gaming, and leisure.

Liz Bowyer: So just thinking about the longer term trends, even as we emerge from the pandemic, surely there will be some elements of the work-from-home experience that have a longer term impact. How are you thinking about that for the industries that you cover?

Stephen Grambling: We generally think there's going to be blurring of lines. So there's been this trend even before the pandemic where there was the blurring of business and leisure that we called "bleisure." And that was because there was a huge increase, 16% compound annual growth, in just people's ability to work from home. During the pandemic, there's different surveys that suggest that 62% of people were working from home, you know, towards the height of the lockdowns. And so when we think about what was happening before and what could be accelerated, what we'd expect is that you would have this blend of business and leisure trips or these "bleisure" trips which tend to be longer in duration. They'll both be for people working to see their teams, for example, when they're working remote and maybe they're not seeing them every single day. And it creates opportunities for both extended stay demand, whether that's in houses, apartments, or hotels.

Liz Bowyer: Another trend that's obviously been accelerated is the digital transformation. What have you seen from the industries that you cover?

Stephen Grambling: So there's a combination of really new industries popping up. The primary example of that is interactive or digital gaming, so online gambling, as well as sports betting, which passed legislation in 2018 but has seen accelerating bills coming up and really accelerating adoption from the consumer as they were stuck at home and starting to engage in this category in a much faster way than you've seen in other markets like the UK or Australia where maybe sports betting was already legal and people were used to it. But here you've had this acceleration in that.

There's also new ways of doing business, whether that's pushing towards direct bookings whether it's hotels or cruise rather than using agents. It's also less linear advertising and much more digital or social advertising to try to create that engagement with the consumer and get them to come onto this whether it's the ship or to go into a hotel. And then there's also contactless, cashless, and cardless, which the implications of that are that many of these companies could actually come out on the other side with a better margin structure and more profitable.

Liz Bowyer: So given all of that and just the fact that gaming, lodging, and leisure were among the hardest hit industries during the pandemic, do you think the recovery has been priced into those stock prices?

Stephen Grambling: The short answer is, no, we don't think the recovery is fully embedded in these stocks. And that may come as a surprise as many of the stocks have actually rebounded or come very close to where they were pre pandemic, even though many people are currently not, you know, traveling. But the S&P 500 is also over 30% higher from just a valuation standpoint than it was pre pandemic. So when you're thinking about this environment of low interest rates plus an S&P 500 that's re-rated and you look at this space which should have outsized growth not only in a recovery but then thereafter because this has actually been a structurally growing industry relative to everything else in consumer discretionary, so this is this mixed shift towards experiences over products, which had a temporary reprieve during the pandemic. It actually creates a lot of opportunity we think on the other side.

Liz Bowyer: Thanks, Stephen.