




## Market Update

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Martin Wu, Eric Gao  
Executive Committee Members

- **The U.S. Economy Delivers a Strong Third Quarter Performance**
  - The U.S. economy grew 5% in the third quarter, compared to 2.1% in the previous quarter
  - Growth was driven by higher wages in a tight labor market that fueled consumer spending
  - The economy's resilience has led many analysts to revise their forecasts in favor of a soft landing, but there is still speculation regarding worker productivity and real wage growth
- **ECB Holds off on Rate Increase After 10 Consecutive Hikes**
  - The European Central Bank's interest rate will remain at 4% following 10 consecutive rate hikes, which is the first rate hold since the ECB started tightening monetary policy last July
  - Weak business activity and growth in the Eurozone is an ongoing concern for the ECB
  - The ECB intends to keep its monetary policy sufficiently tight in order to meet its current inflation forecasts of 5.6% this year, 3.2% the following year, and 2.1% in the medium term
- **Automotive Companies Scale Back on Their EV Growth Plans**
  - Leading car companies are cutting back on electric vehicle growth plans amidst weakened consumer demand due to high interest rates as well as the ongoing auto workers strike
  - Year-over-year EV sales growth has slowed to 51% in 2023, down from 69% last year
  - Honda and GM recently announced the discontinuation of their \$5 billion plan to develop low-cost EVs, and Tesla has delayed the construction of a manufacturing plant in Mexico

# COMPANY OF THE WEEK: CHOICE HOTELS (NYSE: CHH)

- **Choice Hotels Bids \$7.8 Billion for Wyndham Hotels** 
  - Choice Hotels' unsolicited offer prices Wyndham stock at \$90 per share, valuing Wyndham at a 14.9x EV/EBITDA multiple based on consensus 2023 projections
  - The deal would be paid in 55% cash and 45% stock, targeting Choice's current stock dip
- **Wyndham Rejects Offer, Citing Growth and Debt Concerns**
  - Wyndham's leadership has concerns about merger regulatory approval and asymmetric effects on product deployments, franchisee uncertainty, and earnings growth impairment
  - Positive revenue rooms for Choice Hotels have decreased by 38% over the past two years
  - The deal would drive Net Debt/EBITDA up 3.8x to 6.4x, double the median multiple of competitors, leaving the new entity highly levered in an environment of rising interest rates
- **A Merger Would Pass Effects Onto Franchisees and Owners**
  - Wyndham's franchisees, through groups like the AAHOA, have voiced concerns about brand dilution and decreased autonomy in operating individual limited-service properties
  - A combined loyalty program and central reservation system can increase network effects across program membership and increase property conversion flexibility for franchisees
  - Both companies are asset light and rely heavily on franchisee willingness to accept new brand requirements, a consolidated reservation system, and corporate leadership for growth



# DEAL OF THE WEEK: CHEVRON ACQUIRES HESS

- **Chevron to Acquire Hess Corp in a \$53bn All-Stock Transaction**
  - Chevron is a leading oil and gas company that specializes in energy and chemical operations
  - Hess Corp is an independent energy company that focuses on the exploration of crude oil
  - The purchase price of \$171 per share will be funded solely by stock, representing a 10.3% premium to Hess' 20-day average share price and an LTM EV/EBITDA multiple of 10.7x
- **Hess Adds Industry Leading Assets to Chevron's Operations**
  - Hess' asset portfolio will give Chevron access to record-breaking oil deposits in Guyana
  - Chevron expects to generate about \$1bn in run-rate cost synergies within a year of closing
  - The deal will expand Chevron's shale output by 40% to 1.3mm barrels per day, keeping its production capacity on par with Exxon following its Denbury and Pioneer acquisitions
- **The Deal Shows Optimism in the Industry Despite Climate Action**
  - High energy costs from the war in Ukraine have generated substantial profits for Chevron
  - US oil companies continue to invest in fossil fuels despite renewable energy initiatives
  - The acquisition has drawn attention from environmentalists who see oil as a setback to climate goals, but Chevron maintains that it is a commitment to lowering carbon emissions



# THE FINANCE SOCIETY

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