ERG

Initiating Coverage:

DiamondRock Hospitality

Real Estate Subsector

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Third Year

Eli Goldstein is a senior equity research analyst at ERG and serves as Financial Sector Lead. He oversees report development across the sector, helping subsector leads and analysts refine their investment theses, valuation work, industry research, and final reports. He also leads coverage of the Real Estate Subsector, with a focus on REITs, property fundamentals, valuation, and sector-specific market trends.

Letter from the *Executive Board*

We are proud to present ERG's Summer 2026 equity research publication, a collection of student-led reports built through detailed company research, financial modeling, valuation work, and investment thesis development.

ERG was founded with a simple goal: to give students a serious environment to learn how to think like investors. Our analysts do not only summarize companies. They build views, test assumptions, compare businesses across sectors, and defend their conclusions through evidence. This publication reflects that process.

This semester, our members worked across multiple sectors and subsectors, covering businesses through both company-specific analysis and broader industry research. Each report required analysts to form a clear recommendation, support it with valuation work, identify key risks, and communicate the thesis in a way that is useful to readers.

We are especially grateful to our sector leads, subsector leads, analysts, and executive board members who helped bring this publication together. Their work strengthened the quality of each report and helped establish the standards ERG will continue to build on.

As a student-led organization, we are still growing, but this publication represents an important step forward. It shows the type of research culture we want to create: rigorous, collaborative, independent, and grounded in thoughtful analysis.

Thank you for reading and supporting ERG.

Sincerely,
The Executive Board
Equity Research Group at Northeastern

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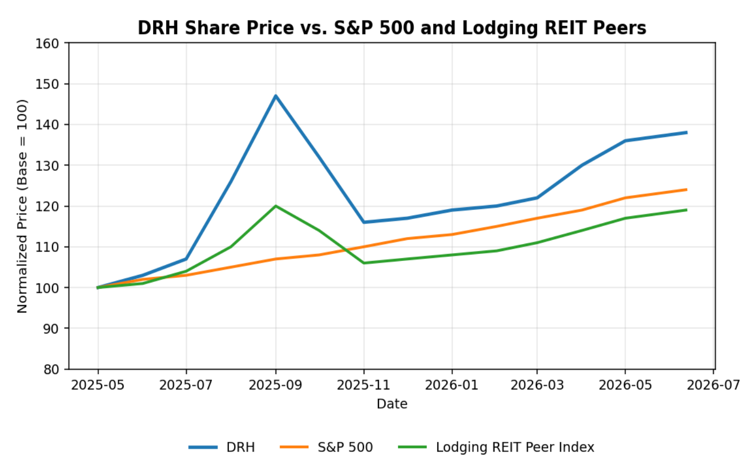
Executive Summary

DiamondRock Hospitality is a lodging-focused REIT that owns 34 premium hotels and resorts across 25 U.S. markets after the May 2026 sale of the Courtyard by Marriott New York Manhattan/Fifth Avenue, earning residual operating profits after paying third-party operators like Marriott, Hilton, and IHG. We rate DRH a BUY with a price target of $14.50, implying approximately 38.5% upside from our May, 2026, price of $10.47, supported by Q1 2026 results that exceeded expectations across key metrics, revised full-year guidance following the May 2026 Courtyard NYC sale, a new $300M share repurchase authorization (roughly 14% of market cap), and FIFA World Cup demand pacing above expectations at DRH's core urban markets.

Trading Data and Recent Price Movement

Metric	Value
Price ($)	$10.47
Date of Price	May 2026
52-Week Range ($)	$6.19 - $11.94
Market Cap ($M)	$2,146M
Enterprise Value ($M)	$3,096M
Fiscal Year End	December 31st
Shares O/S (M)	205M
Float (M)	204M
Avg. Daily Volume	3M
Dividend Yield	3.4%
Price Target	$14.50
Upside/Downside %	38.5%

DiamondRock has recovered significantly from its lows in 2024 as investor sentiment towards lodging REITs has improved, and the market has begun to recognize the company's operational turnaround. The stock's rebound reflects greater confidence in DiamondRock's balance sheet, its recent performance, and the wider recovery in hotel demand. However, despite this recovery, the stock continues to trade below our estimated net asset value, indicating that market concerns regarding interest rates, labor cost inflation and the cyclical nature of the lodging industry persist. The discrepancy between the recent improvement in the share price and the remaining valuation discount supports our view that DRH still has potential for growth.



Business Overview

DiamondRock Hospitality owns and asset-manages 34 premium hotels and resorts across 25 U.S. markets following the May 2026 Courtyard NYC sale, collecting operating profits after paying third-party operators like Marriott, Hilton, and IHG to run the properties. The company addresses a real capital allocation gap in the lodging sector by owning irreplaceable real estate in high-barrier markets while maintaining the operational flexibility of a REIT structure with no development risk. DiamondRock generates revenue through three segments: room revenue (65%), food & beverage (25%), and resort/amenity fees (10%). The company's core driver is RevPAR (occupancy x ADR), with a Total RevPAR of $318 reflecting a premium position. Revenue is transactional and cyclical, meaning hotels reprice nightly with no long-term contracts or subscription revenue. This is both a strength and a weakness, as rapid upside captures strong demand but exposes the business to immediate downside in macroeconomic downturns. DRH owns the real estate but outsources management and franchise functions to third parties while capturing the operating profits. This position puts DRH in the middle of the hospitality value chain, taking on full real estate risk while retaining the full NOI upside that a pure franchisor would not receive.

Product and Segment Breakdown

Product	% of Revenue	FY2025 Growth (%)	Key Partners	Notes
Room Revenue	65%	-1.9%	Marriott, Hilton, IHG	Decline due to Westin Washington D.C., but offset by 2024 Minneapolis acquisition
Food & Beverage	25.1%	0%	Hotel F&B operators	Growth in banquets/catering offset by Westin D.C.
Other (Resort/Amenity Fees)	9.8%	4.3%	Third-party amenity managers	Fastest growing segment, new resort fees added at Bourbon Orleans & Lindy Renaissance Charleston

Sources: DRH FY2025 10-K (SEC EDGAR); DRH Q4 2025 Earnings Release (February 26, 2026)

Management & Governance

CEO Jeffrey J. Donnelly: Joined DiamondRock in 2019 as an EVP/CFO after 22 years at Wells Fargo Securities where he co-founded the Real Estate & Lodging Equity Research Platform and oversaw $45B in equity. His vision centers on FCF per share growth, with a discipline in CapEx and buybacks instead of acquisitions.

CFO Briony R. Quinn: Has been with DiamondRock since 2007, starting as an assistant controller and rising to CFO. Follows a conservative, precise guidance philosophy reflected in FY2025 results, which exceeded guidance on RevPAR, Adjusted EBITDA, and FFO per share.

Management track record: DRH has beaten or met guidance in each of the last three reporting periods, and FY2025 marked a company record on both EBITDA and FFO/share. FCF per share has grown approximately 15% since 2023 ($0.62 to $0.71). Labor cost pressure and lodging cyclicality remain real risks given the lack of contractual revenue protection, but three consecutive guidance beats and no debt maturities until 2028 reflect a business executing cleanly.

Capital Allocation: Management views share repurchases at an implied 9% cap rate as accretive and expects to be a net seller of hotels in 2026. In 2025 DRH repurchased 4.8M shares at an average $7.72. The balance sheet has been simplified to three pre-payable loans with no debt maturities until 2028.

Guidance and Outlook: 2026 DRH is expected to grow RevPAR by 1.5–3.5% after Q1 results exceeded management's expectations across key metrics. Adjusted FFO per share of $0.22 surpassed consensus estimates by $0.03; adjusted EBITDA increased by 8% year-over-year; and comparable RevPAR grew by 2.0%, surpassing the flat-quarter outlook. Following the May 2026 Courtyard NYC sale, full-year guidance was revised to $290.2–$302.2 millions of adjusted EBITDA and $1.10–$1.16 of adjusted FFO per share. Revenues over Memorial Day weekend were up by a mid-single-digit percentage, and FIFA demand is accelerating in DRH's core urban markets. Key catalysts include the FIFA World Cup and America's upcoming 250th anniversary celebration.

Industry Overview and Moat Analysis

Industry Overview

The U.S. lodging REIT market sits within a $250B hotel industry, with publicly traded lodging REITs representing approximately $80B in market cap across roughly 15 companies. RevPAR growth has historically tracked 1–1.5x GDP growth, making the sector inherently cyclical. Hotel revenue reprices nightly, meaning downturns hit quickly but recoveries are equally fast. The hospitality market has benefited from a post-COVID shift in consumer spending from goods to experiences, and the growing trend of blending work and leisure travel.

The regulatory and macro-economic environment is mixed heading into 2026. Higher-for-longer interest rates have put downward pressure on valuations in the REIT sector. Labor cost inflation is reaching $131B in 2026 and lodging REITs continue to trade at wide discounts to net asset value due to elevated rates. However, 2026 presents two key demand events that are relatively unknown to the modern hotel REIT market: the FIFA World Cup hosted across U.S. cities and America's 250th anniversary celebration, both of which benefit the premium urban and destination properties where DRH is concentrated.

Comparable Companies Analysis

Company	Market Cap ($M)	EV ($M)	Rev. Growth (%)	Hotel NOI Margin (%)	EBITDA Margin (%)	P/FFO (FY2026E)
DiamondRock [DRH]	$2,146	$3,096	-0.8%	65.0%	26.6%	9.5x
Host Hotels [HST]	$14,600	$19,400	3.0%	67.2%	26.8%	10.6x
Park Hotels [PK]	$2,130	$5,800	-2.0%	64.5%	26.0%	8.7x
Pebblebrook [PEB]	$1,374	$3,690	-1.4%	62.3%	20.1%	9.8x
RLJ Lodging [RLJ]	$1,214	$3,480	-1.5%	70.1%	23.5%	10.2x
Peer Average	$4,830	$8,093	-0.5%	66.0%	24.1%	9.8x

Sources: Peer FY2025 10-Ks (SEC EDGAR); Yahoo Finance and Pitchbook (May 2026)

Note: DRH's key differentiator is its lifestyle and branded hybrid portfolio, urban and destination market exposure, and active share buyback program. DRH trades at 9.5x FY2026E P/FFO, below the peer average of 9.8x, supporting the view that the stock remains undervalued on the lodging REIT metric most relevant to recurring cash earnings power.

Moat Analysis

DRH's moat is rooted in its real estate portfolio of 34 premium hotels located in urban and destination markets. New hotel supply in major cities like New York City, Boston, and San Diego is structurally constrained by zoning, permits, and construction costs, where DRH's existing portfolio benefits from efficient scale that new entrants cannot easily replicate. DRH's core advantage is the assets themselves, not the operator. The moat, however, has real limitations. DRH does not own its brands, meaning guest loyalty resides with Marriott, Hilton, and IHG rather than DRH. Switching costs for customers are low, and economic downturn will pressure occupancy regardless of asset quality. Larger competitors could acquire comparable assets if DRH's NAV discount persists long enough. The moat has a ceiling, but over a 12 18-month investment horizon, the combination of high-quality assets, a clean balance sheet, and proven management execution make the competitive position durable enough to underwrite.

Key Drivers & KPIs

The primary operating metrics for DiamondRock Hospitality are RevPAR, Comparable total RevPAR, adjusted EBITDA, adjusted FFO/Share, and occupancy rate. These KPIs are standard for lodging REITs and hotel operating companies, where traditional GAAP metrics like net income and EPS are not as accurate for business performance due to large non-cash depreciation charges on real estate assets.

KPI	FY25A	FY26E	FY27E	FY28E	FY29E	Impact
RevPAR ($)	$206.86	$213.00	$220.00	$227.00	$234.00	Primary driver of room revenue
Comparable Total RevPAR ($)	$318.12	$325.00	$336.00	$348.00	$358.00	Full hotel earning power
Adjusted EBITDA ($M)	$297.6M	$295M	$309M	$322M	$335M	Core lodging REIT profitability
Adjusted FFO/Share	$1.08	$1.13	$1.20	$1.27	$1.34	REIT equivalent of EPS
Occupancy (%)	71.9%	72.5%	73.0%	73.3%	73.5%	Drives margin and pricing power

Sources: DRH FY2022–FY2025 10-Ks (SEC EDGAR); DRH Q1 2026 Earnings Release (April 30, 2026); ERG estimates

Revenue Model

We forecast revenue using a segment-driven approach across rooms, food & beverage, and other/resort fees rather than applying a flat top-line growth rate. Room revenue is driven by RevPAR growth and stable room count assumptions, while food & beverage and resort fees grow based on out-of-room spending and fee program expansion. These segment-level forecasts flow into our DCF revenue projection, which increases from $1,154M in FY2026E to $1,272M in FY2029E.

Segment	FY25A	FY26E	FY27E	FY28E	FY29E
Room Revenue ($M)	$728.6	$749	$773	$797	$819
Food & Beverage ($M)	$281.8	$290	$300	$310	$320
Other / Resort Fees ($M)	$110.1	$115	$121	$127	$133
Total Revenue ($M)	$1,120.5	$1,154	$1,194	$1,234	$1,272
YoY Growth %	-0.8%	3.0%	3.5%	3.4%	3.0%

Sources: DRH FY2025 10-K; Q4 2025 Earnings Call (Feb. 26, 2026); ERG segment-level revenue model.

Margin Bridge

DRH's EBITDA margin expanded from 23.7% in FY2023 to 26.6% in FY2025 despite flat revenue, driven by disciplined labor productivity and insurance renewal. Looking into FY2026, margin compresses slightly as labor cost from NYC contract renewals offset resort fee growth and post-renovation EBITDA gains.

Margin Driver	Impact (bps)	Explanation
Labor cost inflation	(240)	NYC union contracts, 3% wage growth
Resort/amenity fee growth	60	Higher-margin out-of-room revenue
Post-renovation RevPAR uplift	50	L'Auberge and Palomar drive EBITDA gains
Insurance renewal savings	20	$1M annual premium reduction in 2026
CapEx discipline vs peers	40	CapEx 3% below peer average
F&B margin	(30)	Catering growth carries higher costs
Net margin impact	(100)	Margins compress to 25.6% in FY2026E

Investment Theses

1) Irreplaceable real estate trading below replacement cost.

DRH owns a portfolio of premium hotels in urban and destination markets where new supply is limited by zoning, permitting, and rising construction costs. Because new hotel development has become more expensive, DRH's existing assets would be difficult to replicate at today's cost. This supports the company's NAV-based valuation and helps explain why the current market price understates the value of the underlying real estate. While larger peers like Host Hotels have greater scale, DRH's portfolio mix gives it meaningful exposure to high-barrier markets where RevPAR premiums can remain durable.

2) Underappreciated FFO recovery creates a re-rating opportunity

DRH's FY2025 FFO/share of $1.08 was significantly higher than GAAP EPS of $0.34, showing why FFO is the more useful valuation metric for a lodging REIT. GAAP earnings are reduced by real estate depreciation and one-time charges, while FFO better reflects recurring cash earnings power. DRH currently trades at roughly 9.5x FY2026E FFO/share, below the peer average of 9.8x and peer median of approximately 10.0x. This discount is not fully justified given DRH's record FY2025 Adjusted EBITDA and FFO/share, post-renovation RevPAR gains, resort fee growth, and active share repurchase program. As investors focus more on FFO/share recovery instead of GAAP EPS, we expect DRH's multiple to narrow toward peers.

3) Market continues to misprice credit risk despite considerable improvement since 2024

DRH trades at a discount to NAV despite record FY2025 Adjusted EBITDA and FFO/share, an active buyback program at an implied cap rate above 9%, and a balance sheet with no debt maturities until 2028. Recent macro uncertainty and labor cost inflation are real risks, but they are sector-wide headwinds and not DRH-specific risks that justify a company-specific discount. Since 2024, DRH has reduced near-term maturity risk, refinanced its balance sheet, and continued disciplined capital allocation. The 2026 catalyst stack of the FIFA World Cup and America 250 gives the re-rating a credible near-term trigger, and we expect the discount to narrow as execution continues.

Financial Model

Income Statement

($M unless noted)	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	FY2029E
Revenue	$1,074.9	$1,129.9	$1,120.5	$1,154	$1,194	$1,234	$1,272
YoY Growth (%)	7.3%	5.1%	-0.8%	3%	3.5%	3.4%	3%
COGS	$695.5	$730	$729.5	$748	$773	$797	$819
Gross Profit	**$379.4**	**$399.9**	**$391**	**$406**	**$421**	**$437**	**$453**
Gross Margin (%)	35.3%	35.4%	34.9%	35.2%	35.3%	35.4%	35.6%
R&D	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SG&A	$44	$54	$46	$48	$50	$51	$53
Other OpEx	$80.4	$57.9	$47.4	$63	$62	$64	$65
Total Operating Expenses	**$124.4**	**$111.9**	**$93.4**	**$111**	**$112**	**$115**	**$118**
EBITDA	$255	$288	$297.6	$295	$309	$322	$335
EBITDA Margin (%)	23.7%	25.5%	26.6%	25.6%	25.6%	25.9%	26.1%
D&A	$137	$141	$144	$147	$150	$153	$156
EBIT	$118	$147	$153.6	$148	$159	$169	$179
EBIT Margin (%)	11%	13%	13.7%	12.8%	13.3%	13.7%	14.1%
Interest Expense	$52	$66	$59	$58	$60	$60	$60
Other Income / (Expense)	$5	($33)	($21)	$0	$0	$0	$0
Pre-Tax Income	**$71**	**$48**	**$73.6**	**$90**	**$99**	**$109**	**$119**
Tax Expense	$1	$1	$1	$1	$1	$1	$1
Effective Tax Rate (%)	1.4%	2.1%	1.4%	1.1%	1.0%	0.9%	0.8%
Net Income	**$70**	**$47**	**$72.6**	**$89**	**$98**	**$108**	**$118**
Net Margin (%)	6.5%	4.2%	6.5%	7.7%	8.2%	8.7%	9.3%
Diluted EPS ($)	$0.36	$0.23	$0.34	$0.43	$0.49	$0.55	$0.62
Diluted Shares (M)	195	208	209	205	200	195	190

Sources: DRH FY2023–FY2025 10-Ks (SEC EDGAR); DRH Q1 2026 Earnings Release (April 30, 2026); ERG estimates. Note: EBITDA reflects Adjusted EBITDA per management reporting. FY2025 Adjusted EBITDA of $297.6M excludes non-cash impairment and one-time charges.

Quarterly EPS Estimates

	FY2025A	FY2026E
Q1	$0.06	$0.10
Q2	$0.13	$0.15
Q3	$0.10	$0.12
Q4	$0.05	$0.06
FY	$0.34	$0.43

Sources: DRH Q1–Q4 2025 Earnings Releases (SEC EDGAR); DRH Q1 2026 Earnings Release (April 30, 2026); FY2026E Q2–Q4 ERG estimates anchored to revised management guidance of $1.10–$1.16 adjusted FFO/share

Balance Sheet Snapshot

	FY24A	FY25A	FY26E
Cash & Equivalents	$81.4M	$95M	$100M
Net Debt	$1,013.9M	$950M	$900M
Net Debt / EBITDA (x)	3.5x	3.2x	3x
Current Ratio (x)	1.1x	1.2x	1.2x
Total Equity	$1,520M	$1,550M	$1,600M
Debt Maturity Schedule:	Minimal	Minimal	Minimal
— Near-term (0–2 yr)	$296M	$0	$0
— Medium-term (2–5 yr)	$500M	$500M	$500M

Sources: DRH FY2025 10-K (SEC EDGAR); Q1 2026 10-Q; July 2025 Refinancing Press Release

Free Cash Flow Build

($M unless noted)	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	FY2029E
EBITDA	$255	$288	$297.6	$295	$309	$322	$335
(–) Cash Taxes	($1)	($1)	($1)	($1)	($1)	($1)	($1)
(–) CapEx	($65)	($94)	($85)	($85)	($88)	($92)	($95)
(–/+) Change in Working Capital	($8)	($12)	($12)	($10)	($12)	($13)	($14)
(+/–) Other Adjustments	$5	$6	$6	$6	$6	$6	$7
Unlevered Free Cash Flow	**$186**	$187	$207.6	$203	$213	$223	$232
UFCF Margin (%)	17.3%	16.6%	18.5%	17.7%	18.1%	18.6%	18.8%
(–) Interest Expense (tax-adjusted)	($65)	($65)	($59)	($58)	($60)	($60)	($60)
Levered Free Cash Flow	**$121**	$122	$148.6	$145	$153	$163	$172
FCF Yield (%)	5.6%	5.7%	6.9%	6.8%	7.1%	7.6%	8.0%

Sources: DRH FY2023–FY2025 10-Ks (SEC EDGAR); DRH Q1 2026 Earnings Release (April 30, 2026); FY2026E based on revised management guidance after the May 2026 Courtyard NYC sale ($290.2–$302.2M Adj. EBITDA, $80–$90M CapEx)

Per Share Data

Per-Share Metrics	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	FY2029E
Diluted EPS ($)	$0.36	$0.23	$0.34	$0.43	$0.49	$0.55	$0.62
Revenue / Share ($)	$5.51	$5.43	$5.36	$5.63	$5.97	$6.33	$6.69
FCF / Share ($)	$0.62	$0.59	$0.71	$0.71	$0.77	$0.84	$0.91
Book Value / Share ($)	$7.45	$7.31	$7.42	$7.80	$8.25	$8.71	$9.20
Dividends / Share ($)	$0.12	$0.32	$0.36	$0.36	$0.40	$0.44	$0.48
Payout Ratio (%)	33%	139%	106%	84%	82%	80%	77%

Sources: DRH FY2023–FY2025 10-Ks (SEC EDGAR); DRH Q1 2026 Earnings Release (April 30, 2026); ERG estimates

Note: The FY2024 GAAP payout ratio of 139% appears elevated but is misleading. GAAP net income was suppressed by a $32.6M Westin D.C. impairment and $20.4M in executive severance charges, both one-time and non-cash in nature. On a normalized FFO basis, the FY2024 payout ratio was approximately 33%, well within the lodging REIT sector range and signaling sustainable dividend coverage.

Valuation Methods

Comparable Companies Analysis

Company	Ticker	EV/Revenue	EV/EBITDA	P/E (FY1E)	P/FFO (FY26E)
DiamondRock Hospitality	DRH	2.68x	10.5x	23.7x	9.5x
Host Hotels	HST	3.45x	10.6x	21.6x	10.6x
Park Hotels	PK	2.64x	8.2x	16.0x	8.7x
Pebblebrook	PEB	2.71x	8.1x	31.4x	9.8x
RLJ Lodging	RLJ	2.90x	12.0x	14.7x	10.2x
Peer Average	—	2.93x	9.7x	20.9x	9.8x
Peer Median	—	2.81x	9.4x	18.8x	10.0x
DRH Premium / (Discount) to Median	—	(4.6%)	11.7%	26.1%	(5.0%)

Sources: Peer FY2025 10-Ks (SEC EDGAR); analyst consensus from Yahoo Finance and Pitchbook (May 2026)

Note: Comp-implied prices on EV/EBITDA and P/E are below the current price because DRH trades at a premium to peers on those multiples, reflecting its superior asset quality, balance sheet, and margin profile. The P/FFO method (peer median 10.0x × $1.15 FY2026E FFO) is used as the primary comps anchor in the valuation summary. Our BUY thesis is anchored to NAV ($14.40) and DCF ($13.10–$13.96), which better capture the value of DRH's unencumbered real estate portfolio.

Implied Valuation

Metric	DRH Current	Peer Median	Implied EV ($M)	Implied Price ($)
EV / FY2026E Revenue	2.68x	2.81x	$3,243	$10.87
EV / FY2026E EBITDA	10.6x	9.4x	$2,797	$8.69
P / FY2026E EPS	23.7x	18.8x	--	$8.08

Note: At first glance, DRH's 'BUY' rating seems incompatible with its EV/EBITDA multiple of 10.6x, which is 13% higher than the peer median of 9.4x. However, this premium is justified by DRH's structural advantages, including a higher EBITDA margin of 26.6%, a clean balance sheet with no debt repayments due until 2028, and capital expenditure discipline running 300 bps below peers. The P/E premium is less meaningful for REITs because real estate depreciation distorts GAAP earnings. P/FFO is the more relevant lodging REIT metric, and DRH trades at a discount on P/FFO, at 9.5x versus a peer median of 10.0x. This means the market is valuing DRH's recurring cash earnings below comparable lodging REITs, supporting our BUY rating and $14.50 price target.

Net Asset Value (NAV) Analysis

NAV is the primary valuation framework for lodging REITs because it values real estate at market rates rather than depreciated book value. The methodology applies a market cap rate to forward Net Operating Income (NOI), then subtracts net debt to arrive at equity value per share.

Step	Calculation	Output
Forward NOI	FY2026E EBITDA of $302M less corporate G&A of $25M	$277M
Cap Rate	Premium urban/resort hotel transaction cap rate midpoint	7.0%
Gross Real Estate Value	$277M NOI / 7.0% cap rate	$3,957M
Bridge to Equity NAV	$3,957M gross real estate value + $95M cash - $1,100M total debt	$2,952M
NAV per Share	$2,952M equity NAV / 205M shares	$14.40

DRH is trading at $10.47, which is a 27% discount to its NAV of $14.40. Lodging REITs typically trade at discounts of 5–10% to NAV in normal markets. The current discount of 27% reflects fears about the sector's rates, which should narrow as DRH continues to demonstrate operational momentum. A 6.5% cap rate implies a NAV of $15.89, while a 7.5% cap rate implies a NAV of $13.11. Our weighted valuation framework has produced a final 12-month price target of $14.50. We place the greatest weight on NAV sensitivity because the value of lodging REITs is primarily driven by the market value of their hotel portfolios. Our target price of $14.50 is supported by DRH's NAV discount, its $300 million share buyback program, expected demand for the FIFA World Cup and the potential for the current discount to NAV to narrow.

Sources: DRH FY2025 10-K (SEC EDGAR); DRH Q1 2026 Earnings Release (April 30, 2026); peer transaction cap rates from JLL Hotels & Hospitality Investment Outlook (Q1 2026); ERG estimates

Discounted Cash Flow Analysis

WACC Build up

Component	Value	Source/Assumption
Risk-Free Rate (%)	4.30%	[10-yr UST yield]
Equity Risk Premium (%)	4.70%	[Pitchbook]
Beta (levered)	1.10	[2-yr weekly vs. S&P 500]
Cost of Equity (%)	9.47%	[CAPM: Rf + β × ERP]
Pre-Tax Cost of Debt (%)	5.21%	[Weighted avg. coupon / YTM]
Tax Rate (%)	1.0%	[Effective or marginal]
After-Tax Cost of Debt (%)	5.16%	5.21% * (1-1.0%)
Equity Weight (%)	69.3%	[Market cap / (Market cap + Net debt)]
Debt Weight (%)	30.7%	
WACC (%)	8.15%	

Sources: U.S. Treasury (Apr 30, 2026); Pitchbook (April 2026); Yahoo Finance; DRH FY2025 10-K; Q1 2026 Earnings Release

DCF Projection

($M)	FY2026E	FY2027E	FY2028E	FY2029E	Terminal
Revenue	$1,154	$1,194	$1,234	$1,272	N/A
Revenue Growth (%)	3%	3.5%	3.4%	3.0%	2.5%
EBITDA	$295	$309	$322	$335	N/A
EBITDA Margin (%)	25.6%	25.9%	26.1%	26.3%	N/A
(-) Cash Taxes	($1)	($1)	($1)	($1)	($1)
(-) CapEx	($85)	($88)	($92)	($95)	N/A
(-/+) ΔWC	($10)	($12)	($13)	($14)	N/A
UFCF	$199	$207	$216	$225	$3,278
Discount Factor	0.93	0.86	0.80	0.74	0.74
PV of UFCF	$185	$178	$173	$167	$3,109

Sources: DRH FY2025 10-K; Q4 2025 Earnings Call (Feb. 26, 2026); revenue forecast from ERG segment-level revenue model; WACC built from Pitchbook ERP and U.S. Treasury (April 2026).

Terminal Value Calculation

Terminal Year UFCF ($M)	$225
Terminal Growth Rate (%)	2.5%
Exit EV/EBITDA Multiple (x)	12.0x
Terminal Value — Perpetuity Growth ($M)	$4,201
Terminal Value — Exit Multiple ($M)	$4,020
PV of Terminal Value — Perpetuity Growth ($M)	$3,109
PV of Terminal Value — Exit Multiple ($M)	$2,975
Sum of PV(UFCF) ($M)	$703
Enterprise Value ($M)	$3,812
(-) Net Debt ($M)	($950)
Equity Value ($M)	$2,862
Diluted Shares Outstanding (M)	205
Implied Share Price ($)	$13.96

Sources: DRH FY2025 10-K; WACC built from Pitchbook (April 2026) and U.S. Treasury 10-yr yield (April 30, 2026); peer EV/EBITDA from FY2025 10-Ks

Sensitivity Analysis — WACC vs. Terminal Growth Rate

	TGR 1.5%	TGR 2.0%	TGR 2.5%	TGR 3.0%	TGR 3.5%
WACC -1%	$13.80	$15.33	$17.19	$19.51	$22.45
WACC -0.5%	$12.29	$13.56	$15.07	$16.90	$19.18
Base WACC	$11.01	$12.07	$13.32	$14.81	$16.62
WACC +0.5%	$9.90	$10.80	$11.85	$13.08	$14.55
WACC +1%	$8.95	$9.72	$10.61	$11.64	$12.85

Sources: sensitivity built off base case WACC 8.15% (Pitchbook ERP, U.S. Treasury Apr 30 2026) and TGR 2.5%

Sensitivity Analysis — WACC vs. Exit Multiple

	10.0x	11.0x	12.0x	13.0x	14.0x
WACC -1%	$11.24	$12.48	$13.72	$14.96	$16.20
WACC -0.5%	$10.97	$12.19	$13.40	$14.62	$15.84
Base WACC	$10.71	$11.90	$13.10	$14.29	$15.48
WACC +0.5%	$10.45	$11.62	$12.80	$13.97	$15.14
WACC +1%	$10.20	$11.35	$12.50	$13.65	$14.80

Sources: base exit multiple based on peer median EV/EBITDA from FY2025 10-Ks; base WACC 8.15% from Pitchbook ERP and U.S. Treasury 10-yr (April 30, 2026)

Probability-Weighted Scenarios

Scenario	Prob. (%)	FY2026E Adj. FFO/Share ($)	Multiple (x)	Implied Price ($)	Weighted ($)	Key Assumptions
Bull	30%	$1.25	12.8x	$16.00	$4.80	Rate cuts, RevPAR 5%, higher buybacks
Base	55%	$1.16	11.9x	$13.80	$7.59	RevPAR 1–3%, guidance met, no recession
Bear	15%	$1.05	8.5x	$8.93	$1.34	Mild recession, labor inflation, multiple compression
Probability-Weighted Price Target	100%	—	—	—	$13.73	—

Sources: DRH revised FY2026 guidance ($1.10–$1.16 adjusted FFO/share); peer P/FFO multiples from FY2025 10-Ks and consensus estimates (May 2026)

ESG Assessment

Dimension	Assessment
Environmental	**Positive** – Won the 2026 Leader in the Light Award for the second consecutive year, recognizing DRH's commitments toward energy efficiency and carbon reduction initiatives throughout their portfolio
Social	**Neutral** – Strong franchise partnerships (Marriott, Hilton, and IHG), ensures labor standards with modest exposure to NYC union contracts (7% of labor base)
Governance	**Negative but improving** – Low insider ownership (0.97%), although clean CEO/CFO transition and independent board majority signal stronger governance discipline moving forward

Notes: DRH's ESG profile is solid for a small-cap lodging REIT, with environmental leadership being its strongest dimension and no material ESG risk to the BUY thesis.

Sources: DRH 2025 Sustainability Report; NAREIT Leader in the Light Award (March 2026); DRH FY2025 Proxy Statement

Valuation Summary

For lodging REITs, NAV is the most relevant valuation framework because the underlying source of value is real estate rather than earnings. While DCF, P/FFO, and scenario analysis provide useful cross-checks, we place the greatest weight on NAV because it directly captures the market value of DRH's hotel portfolio. Accordingly, our valuation framework places the greatest weight on NAV sensitivity, with the remaining weight distributed across P/FFO, DCF, and scenario analysis.

Method	Implied Price ($)	Weight (%)	Contribution ($)
NAV Sensitivity — 6.5% Cap Rate	$15.89	52.5%	$8.34
P/FFO	$11.50	15.0%	$1.73
DCF – Perpetuity	$13.96	10.0%	$1.40
DCF – Exit Multiple	$13.10	10.0%	$1.31
Scenario Analysis	$13.73	12.5%	$1.72
Weighted Fair Value / Price Target (rounded)		100.0%	$14.50

Note: We round the weighted fair value to a $14.50 price target to avoid overstating precision. The P/FFO implied price of $11.50 is based on the peer median P/FFO multiple of 10.0x applied to DRH’s FY2026E adjusted FFO/share estimate of $1.15.

DRH is trading at $10.47, which is a 27% discount to its NAV of $14.40. Lodging REITs typically trade at discounts of 5–10% to NAV in normal markets. The current discount of 27% reflects fears about the sector's rates, which should narrow as DRH continues to demonstrate operational momentum. A 6.5% cap rate implies a NAV of $15.89, while a 7.5% cap rate implies a NAV of $13.11. Our BUY thesis is anchored to NAV ($14.40) and DCF ($13.10–$13.96), which better capture the value of DRH’s unencumbered real estate portfolio.

This BUY rating is supported by:
(1) the $300 million share buyback program, which represents around 14% of the company's market capitalization;
(2) expected FIFA World Cup demand in multiple DRH markets; and
(3) our belief that the current 27% discount to net asset value will narrow toward the historical range of 10–15% for lodging REITs.

Ownership & Short Interest

The ownership picture is mixed. Institutional ownership is high at 99%, but it skews heavily passive as BlackRock and Vanguard alone hold over a third of shares outstanding, which is not the same as active conviction. Insider ownership of 0.97% is light by REIT standards and worth flagging. Short interest at 7.1% of float with 4.8 days to cover is higher than typical REIT expectations, especially given DRH's record FY2025 results, signaling continued skepticism from the bear side. The setup leaves room for a re-rating if execution holds, but the lack of insider buying and persistent short positioning keeps the upside in check.

Metric	**Value**
Institutional Ownership (%)	99%
Top 5 Institutional Holders	BlackRock (19.0%), Vanguard Group (15.6%), State Street (6.2%), Pzena Investment Mgmt (4.2%), Alyeska Investment Group (4.2%)
Insider Ownership (%)	0.97%
Short Interest (% of Float)	7.1% (14.4M shares)
Days to Cover	4.8 days

Sources: Simply Wall St ownership data; MarketBeat short interest data; Pitchbook (April 30, 2026)

Catalysts and Timelines

Catalyst	Timeline	Thesis Link	Mechanism
FIFA World Cup	Summer 2026	Thesis 1 (portfolio quality)	RevPAR uplift in NYC, Boston, and LA, where DRH's core urban markets benefit disproportionately
Continued share buybacks	Ongoing 2026	Thesis 3 (capital allocation)	Repurchases at 9% implied cap rate are accretive to FFO/share and drive EPS growth
America 250 anniversary celebrations	Year-long 2026	Thesis 2 (FFO recovery)	Domestic travel surge to historic destinations like Boston, Charleston, where DRH owns properties
Fed rate cuts (if materialized)	H2 2026	Thesis 3 (valuation discount)	Lower discount rates compress lodging REIT yields, narrow NAV discount
NYC Courtyard disposition	May 2026 (completed)	Thesis 3 (capital allocation)	Asset recycling at premium prices funds buybacks and simplifies balance sheet
Q2 & Q3 2026 earnings prints	Aug & Nov 2026	Thesis 2 (FFO recovery)	Beats versus revised guidance ($1.10-$1.16 adjusted FFO/share) would trigger further re-rating

Sources: DRH Q1 2026 Earnings Release (April 30, 2026); DRH Press Release on Courtyard NYC sale (May 4, 2026); FIFA & America 250 official event calendars; Federal Reserve dot plot (March 2026 FOMC)

Risks and Mitigants

Risk	Probability	Impact	Mitigant
Macro recession / leisure travel slowdown	30%	High	Diversified urban and leisure mix; clean balance sheet with no maturities until 2028
Labor cost inflation outpaces ADR growth	65%	Medium	Resort fee growth and post-renovation EBITDA gains offset wage pressure
Higher-for-longer interest rates	45%	Medium	$1.5B in refinancing locked at SOFR + 1.35%; all debt prepayable without any penalty
Underperformance of recently renovated hotels	15%	Medium	L'Auberge and Palomar Phoenix delivering strong RevPAR index gains post-renovation
Competitive new supply in key markets	10%	Medium	Portfolio concentrated in high-barrier markets where new construction is structurally constrained
Loss of franchise / brand agreements	5%	High	Long-term franchise contracts and premium asset quality drive strong renewal terms

Sources: DRH FY2025 10-K Risk Factors (SEC EDGAR); DRH Q1 2026 Earnings Call (April 30, 2026)

Thesis Invalidation Triggers

1) RevPAR growth turns negative for two consecutive quarters, signaling cyclical deterioration in core demand.
2) Net Debt/EBITDA exceeds 4.5x, indicating balance sheet deterioration compared to peer norms.
3) Adjusted FFO/share falls below the low end of revised full-year guidance of $1.10, or management lowers guidance again.
4) Management abandons the buyback program or pivots to large M&A above $200M, signaling weak capital allocation discipline.
5) EBITDA margin compresses below 24% for two consecutive quarters, indicating labor inflation has overwhelmed pricing power.
6) Short interest rises above 12% of float, indicating new negative information beyond sector-level skepticism.
7) A formal SEC investigation or financial restatement occurs.

Conclusion

DiamondRock Hospitality is a high-quality lodging REIT that remains mispriced despite a strong recovery and record FY2025 Adjusted EBITDA and FFO/share. The portfolio of 34 premium hotels, a clean balance sheet with no maturities until 2028, and active buybacks at 9%+ implied cap rates point to continued FFO/share growth that the market is not fully reflecting. We believe sector-wide cyclicality concerns are masking DRH's company-specific strengths, including superior asset quality, disciplined capital allocation, and clear 2026 catalysts in the FIFA World Cup and America 250. Our base case supports a $14.50 price target and a BUY rating over a 12-to-18-month horizon, reflecting revised guidance, Q1 outperformance, NAV of $14.40, and the $300M buyback program as a structural floor. Macro recession risk and labor cost inflation remain the key watch items.

Rating: BUY | **Price Target:** $14.50 | **Upside:** +38.5% | **Time Horizon:** 12-18 months

Appendix

Sources & Methodology

This report uses a combination of company filings, public market data, third-party financial databases, peer company disclosures, and ERG estimates. Primary company sources include DiamondRock Hospitality's FY2025 Form 10-K, Q1 2026 Form 10-Q, Form 8-K filings, earnings releases, investor presentations, company press releases, and earnings call transcripts. These materials were used to evaluate DRH's portfolio composition, revenue mix, operating performance, capital structure, management guidance, recent asset sales, share repurchase activity, and forward outlook.

Market and financial data were sourced from Bloomberg, FactSet, PitchBook, Yahoo Finance, MarketBeat, Simply Wall St, SEC EDGAR, and publicly available peer company filings. Peer analysis was based on comparable lodging REITs with similar exposure to hotel ownership, RevPAR cyclicality, FFO generation, leverage, and NAV-based valuation frameworks. Valuation inputs, including trading multiples, enterprise value, market capitalization, share count, dividend yield, and short interest, were reviewed across multiple sources where available to improve consistency.

ERG estimates were developed using a segment-level revenue model across room revenue, food & beverage, and other/resort fee revenue. Forecasts were informed by historical company performance, management guidance, RevPAR trends, margin assumptions, capital expenditure expectations, balance sheet positioning, and lodging REIT peer benchmarks. The final valuation reflects a blended approach using NAV, DCF, peer multiples, and P/FFO analysis, with assumptions adjusted for DRH's asset quality, balance sheet risk, capital allocation strategy, and exposure to 2026 demand catalysts.

Disclosures

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