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Zacks Small-Cap Research

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LuxUrban Hotels (LUXH-NASDAQ)

LUXH: INITIATION of innovative hotel operator with unique lease driven asset light business model. The company has a large pipeline of potential opportunities from dislocated hotels.

Utilizing a DCF valuation process containing conservative estimates combined with other valuation methodologies, we believe LUXH could be worth $9.00 per share.

Current Price (05/25/23)	$3.48
Valuation	**$9.00**

OUTLOOK

LuxUrban Hotels (NASDAQ:LUXH) is a provider of short-term hotel rentals at select destination locations and currently operates 20 properties in five cities with 1,807 available rooms to rent. The company's business model is to enter into low-cost lease rights for dislocated hotel properties (including those impacted by COVID-19) through long-term Master Lease Agreements. The company operates an asset light business model and maintains a lean corporate structure. We believe there are substantial opportunities ahead to lease dislocated hotels which would create significant levels of free cash flow. We believe LUXH stock to be materially undervalued at this time.

SUMMARY DATA

52-Week High	**$5.00**
52-Week Low	**$1.24**
One-Year Return (%)	**-3.51**
Beta	**N/A**
Average Daily Volume (sh)	**38,577**
Shares Outstanding (mil)	**32**
Market Capitalization ($mil)	**$116.0**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**72.0**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2023 Estimate	**21.0**
P/E using 2024 Estimate	**5.5**
Zacks Rank	**N/A**

Risk Level	**Medium**
Type of Stock	**Small Value**
Industry	**Lodging**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2021	$3.0 A	$4.0 A	$7.0 A	$7.0 A	$21.0 A
2022	$9.1 A	$10.2 A	$11.5 A	$12.9 A	$43.8 A
2023	$22.8 A	$28.2 E	$35.4 E	$45.8 E	$127.2 E
2024					$220.4 E

EPS / Loss Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2021					
2022	$0.07 A	$0.04 A	-$0.13 A	-$0.38 A	-$0.40 A
2023	-$0.10 A	$0.05 E	$0.09 E	$0.12 E	$0.17 E
2024					$0.64 E

Quarterly revenues may not equal annual revenues due to rounding. Quarterly EPS may not equal annual EPS due to rounding, dilution or intangibles.

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KEY INVESTMENT POINTS



Source: LuxUrban investor presentation

- LuxUrban Hotels (NASDAQ:LUXH) is a provider of short-term hotel rentals at select destination locations and currently operates 20 properties in five popular destination cities.
- The company operates by acquiring low-cost lease rights for dislocated hotel properties (including those impacted by COVID-19) through long-term Master Lease Agreements.
- The company operates an asset light business model and maintains a lean corporate structure. The employee count currently stands at 431 with 194 being unionized at the hotel property level.
- LuxUrban provides a win-win solution for both owners and travels by providing relief to dislocated hotel properties while offering affordable room rates through the company's advanced pricing technologies.
- As of May 15, 2023, the company had 20 short-term stay hotels under Master Lease Agreement which consists of 1,807 rooms that will be hosting guests in 2023. The company's guidance calls for 2,500-3,000 rooms to be available to rent by the end 2023.
- Cities in which the company currently operates hotel properties include New York City, Miami Beach, Washington D.C., New Orleans, and Los Angeles.
- The company has seen meaningful revenue and EBITDA growth over the past five years. EBITDA generation of $25-$30 million is possible in fiscal year 2023, which is a significant increase from adjusted EBITDA of $12.4 million in 2022.
- The company believes that future growth can be funded organically through EBITDA cash generation that can be used to invest in security deposits that are required when signing new Master Leases.
- Cash and equivalents as of March 31, 2023, totaled $2.2 million and unrestricted cash was $1.1 million. Total outstanding debt at the end of the quarter was $9.0 million. In April 2023, the company further reduced debt by $5.0 million through conversion of its outstanding convertible notes.
- The company is led by a seasoned management team with extensive experience in lodging, vacation rentals, technology, and operations.
- LuxUrban went public in August 2022 raising gross proceeds of approximately $13.5 million.
- We believe LUXH stock is worth **$9.00** based on a conservative discounted cash flow (DCF) calculation and peer multiple comparisons.

OVERVIEW



Source: LuxUrban investor presentation

LuxUrban Hotels (LUXH) operates a growing portfolio of lodging properties by utilizing a long-term lease, asset-light business model to acquire and manage short-term rental properties in major metropolitan cities. The company's future growth focuses primarily on seeking to create "win-win" opportunities for owners of dislocated hotels while providing favorable economic returns. Dislocated hotels typically include those impacted by the Covid-19 pandemic and related travel restrictions as well as those facing refinancing issues.

LuxUrban operates these properties in a cost-effective manner by leveraging technology to identify, acquire, manage, and market them globally to business and vacation travelers through dozens of third-party sales and distribution channels including Online-Travel-Agencies (OTAs) and the company's own online travel portal. The company targets both business and vacation travelers under the LuxUrban brand.

The company believes that it has discovered a niche business model as a result of Covid-19 related hotel closures and challenging financial requirements for hotel owners, largely due to significantly higher prevailing interest rates and a difficult refinancing environment. LuxUrban has a multi-year pipeline of potential properties to lease which are believed to be financially advantageous to the company. Although many of the hotels that the company leases were shuttered or underutilized as a result of the global pandemic, other properties were poorly managed properties where the landlord was looking for a more stable tenant. Other opportunities are where owners are looking at a refinancing opportunity and LuxUrban is able to provide a landlord with a more desirable lender-friendly, long-term lease agreement.

Based on the various lodging market dislocations mentioned above, the pipeline of quality leasing opportunities in the North American market should remain strong. The company's opportunities are focused on turnkey properties that require low levels of incremental capital to make the hotels ready for guests that meet their standards. As the low hanging fruit of economically favorable and low capital requirement opportunities become leased by the company or competitors, there are still believed to be many attractive opportunities where the economics will still be favorable even with higher levels of incremental capital.

The company employs an asset light business model where they lease entire hotels on a long-term basis and rent out hotel rooms to guests in these properties. The company currently manages a portfolio of hotel rooms in New York, Washington D.C., Miami Beach, New Orleans, and Los Angeles. As of May 15, 2023, the company has approximately 1,807 rooms available for rent.

The company's legacy business involved leasing and renting multifamily residential units. In late 2021, the company began winding down this business to focus on the new strategy of leasing hotels. As of May 2023, that transition has been completed. The company plans to expand its hotel leasing opportunities both domestically and internationally and has targeted London as the next major city of expansion.

The company's goal is to improve operational efficiencies by leveraging proprietary technology to identify, lease, manage, and market globally the available hotel units. Business and vacation travelers are targets through their own online portal as well third party sales and distribution channels such as OTAs. As of the 1st quarter of 2023, the top sales channels represent over 90% of revenues through websites such as Booking.com, Expedia and VRBO.

Cash and equivalents as of March 31, 2023, totaled $2.2 million and unrestricted cash was $1.1 million. Total outstanding debt at the end of the 1st quarter was $9.0 million. In April 2023, the company further reduced debt by $5.0 million through conversion of its outstanding convertible notes.

The company has grown EBITDA significantly in recent years. For the three-year period 2019-2021, cumulative EBITDA losses were ($4.7) million. In 2022 Adjusted EBITDA improved to $12.4 million and company guidance for 2023 calls for Adjusted EBITDA in the range of $25 to $30 million. The company believes that future growth can be funded organically through EBITDA cash generation that can be used to invest in security deposits that are required when signing new Master Leases.



Source: LuxUrban investor presentation

PROPERTY DESCRIPTIONS

PROPERTY	CITY	UNITS	LEASE TERM	DATE COMMENCED	DEPOSIT or LOC
1200 O	Miami Beach	24	10-Year	12/31/2016	$250,000
Blakely	New York City	117	15-Year	11/21/2001	$1,000,000
Herald	New York City	168	15-Year	6/22/2022	$1,500,000
Variety	Miami Beach	68	5.5-Year	3/26/2021	$550,000
Impala / Flora	Miami Beach	48	5-Year	10/1/2021	$515,000
Astor	Miami Beach	42	5-Year	4/15/2022	$350,000
Georgetown	Washington D.C.	79	10-Year	8/1/2022	$500,000
Lafayette	New Orleans	60	19.4-Year	11/1/2022	$300,000
Woodley	Washington D.C.	16	10-Year	9/1/2022	$50,000
Washington	New York City	217	15.2-Year	9/20/2022	$5,500,000
Townhouse	Miami Beach	70	11.2-Year	3/1/2023	$1,250,000
Tuscany	New York City	125	15.0-Year	1/1/2023	$2,250,000
RECENT ADDITIONS					
O-Hotel	Los Angeles	68			
Bogart	Brooklyn	65			
Be Home	New York City	44			
Trinity	Los Angeles	179			
Condor	Brooklyn	35			
Hotel 57	New York City	204			
Hanbee Hotel	New York City	101			
MB Hotel	New York City	77			

TOTAL UNITS AS OF MAY 15, 2023		1,807			

Source: LuxUrban investor presentation

Units by location as of May 15, 2023

Location	Miami Beach	New York	NOLA	DC	LA	Total
Units	252	627	60	95	-	1,034
Properties at March 31, 2023	5	4	1	2	-	12
Properties added after March 31, 2023						
Units	-	526	-	-	247	773
Properties	-	6	-	-	2	8
Total						
Units	252	1,153	60	95	247	1,807
Properties	5	10	1	2	2	20

Source: LuxUrban investor presentation

Case Study – On November 1st, 2022, the company commenced a 19.4-year master lease with the Lafayette Hotel in New Orleans, LA. The refundable security deposit for this lease was $300,000.

The Lafayette Hotel is located on the St. Charles Avenue Streetcar Line within the heart of the Historical Arts and Warehouse Districts. The hotel is walking distance from the French Quarter, Bourbon Street, the Superdome, the New Orleans Riverwalk and many other tourist and business destinations. The hotel also hosts a fine dining restaurant named Desi Vega's Steakhouse.



Source: LuxUrban investor presentation

The 60 room hotel had been undermarketed and underserved, particularly during peak demand occasions such as the New Orleans Jazz & Heritage Festival and Mardi Gras. Prior to LuxUrban taking over, the hotel had limited marketing avenues. The company was able to increase distribution to OTAs and other areas and combined with the company's proprietary revenue management system, they were able to significantly increase RevPAR at the hotel. The revenue management system is able to maximize average daily rates during peak travel times.

The hotel has been rebranded as The Lafayette by LuxUrban Hotels. Recent customer reviews on Priceline.com show an 8.6 rating for cleanliness, 9.0 for staff, and 9.0 for location.

ASSET LIGHT BUSINESS MODEL

LuxUrban's primary business model is to find low-cost, long-term leasing opportunities at dislocated hotel properties. This dislocation typically occurred as a result of the Covid-19 pandemic travel restrictions but can also include poorly managed hotels from previous owners or operators. The company then applies proprietary technology to determine potential profit and cash flow potential. The company uses this technology to dynamically set room prices and market reservations on multiple partner sales channels. This includes Online Travel Agencies (OTAs) such as Expedia, Hotels.com, Booking.com, KAYAK, and AirBNB.

The company typically co-brands its hotel properties with the original hotel name in conjunction with the growingly popular LuxUrban brand. Examples include The Herald 8 by LuxUrban Hotels, The Blakely Powered by LuxUrban, and The Lafayette by LuxUrban.

The hotel properties leased by LuxUrban maintain very high standards of cleanliness, maintenance, and repairs. If newly leased properties are well below these standards and require excess capital improvements, the landlords (owners), often share in these sometimes costly upgrades.

In order to improve economies of scale in certain markets, the company seeks geographic density in certain cities. LuxUrban currently leases 10 hotels in New York City, 5 hotels in Miami Beach, 2 hotels in Los Angeles, 2 hotels in Washington D.C., and 1 hotel in New Orleans.

Taken as a whole, the company's leasing model and overall asset light strategy should create a constantly improving financial profile, increase RevPAR to drive margin expansion, generate cash flow, and reduce total debt. The high margin and growing levels of EBITDA are what allows the company to reinvest that cash flow back into deposits at new lease opportunities.

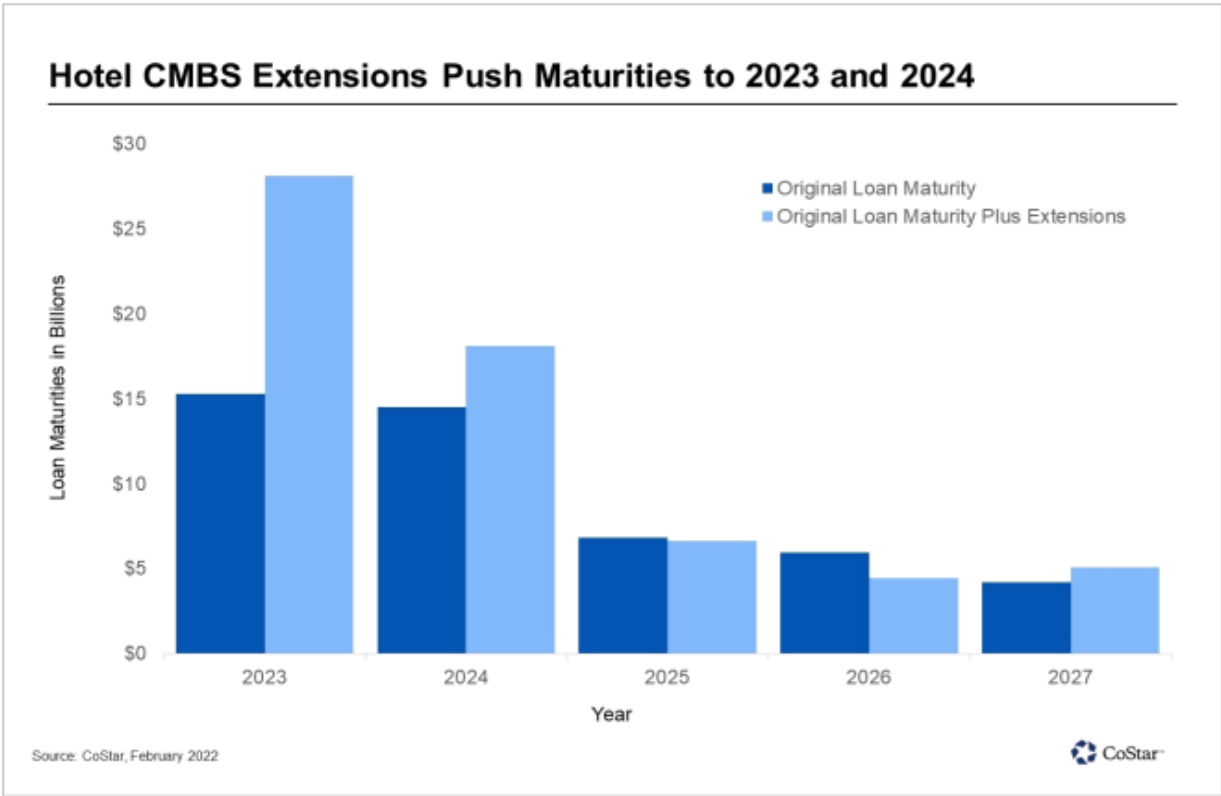
HOTEL INDUSTRY CHALLENGES

There are still residual issues from the Covid-19 pandemic which created many dislocated hotel properties due to lengthy periods of travel restrictions and lockdown controls around the world. Although the pool of these Covid-19 dislocation opportunities has diminished somewhat recently, there are still opportunities in this area that can potentially create positive economics under the company's asset light business model.

However, new hotel challenges have arisen due to rising global interest rates as a result of the U.S. Federal Reserve's efforts to fight global inflation. It's estimated that over $10 billion in hotel related Commercial Mortgage-Backed Security (CMBS) loans have had their maturities extend to 2023 from prior

years. In addition, approximately $31 billion in CMBS loans are set to mature in 2024. The substantial majority of these loans were made at interest rates that are well below the prevailing interest rate environment today. Lenders are now requiring hotel owners to put up more capital before refinancing to offset the risk of higher rate mortgages. Urban hotel operators that cater to short-stay business guests are especially challenged, as revenues at many of these properties have not recovered to pre-pandemic levels.

LuxUrban has a viable and beneficial solution for these potentially stressed hotel owners with the company's multi-year, triple net master lease agreements and asset light business model. By partnering with LuxUrban, hotel property owners can avoid a potential default situation, generate stable cash flow from the lease payments, increases occupancy rates from LuxUrban's advanced booking and reservation technologies, and create a more secure environment to restructure debt with its lenders.



Source: LuxUrban investor presentation

TYPICAL TRANSACTION PROCESS

Property Lease Acquisition – The process typically involves leasing a property with a refundable security deposit or line of credit. These deposits are often large and can range from $250,000 to $5,500,000. The company usually receives a period of free rent to improve the property up to the company's strict standards of quality and cleanliness. If a dislocated hotel happens to be in severe disarray, the hotel landlord (owner) often contributes to the capital improvements as well. The company typically leases the entire property, not just the rooms, which can include restaurants, gyms, or retail storefronts. However, those ancillary services are often subleased to other operators in order to generate additional income and not be burdened with retail and food service management.

Revenue Cycle Management – The company uses proprietary data science and algorithms to manage revenue and create dynamic pricing for room rates. The goal is to maximize occupancy rates and

increase property level cash flow. Starting in 2023, the company plans to pursue previously untapped, higher margin revenue streams at each of their leased properties. These include resort fees, late checkout fees, and lease income from restaurant and retail operations.

Property Operations – LuxUrban operates all aspects of the hotel including staffing. Currently, the company has 237 unionized employees. The company is responsible for hiring an experienced General Manager for the property. The company attempts to streamline all aspects of the operation and continually align staffing levels to current operating requirements and demand levels. Each hotel's lead operational staff have been trained to continuously calculate cost benefit in overall operations. Specifically, company staff are constantly reviewing the return on requested investment capital and the related payback. This is done at both the corporate level as well as the operational level.

Unit Economics – The company has one of the lowest per night property-level break-even costs in the markets in which it operates as a result of leasing the hotel properties at often generational low points. The company estimates that the property-level break-even rate for Revenue per Available Room (RevPAR) as of the end of 2022 was between $135 to $145 a night. RevPAR provides an informative reflection of the hotel business as it combines Average Daily Rates (ADRs) along with occupancy rates. RevPAR for the full year 2022 was $247 well above the property-level break-even level.

INDUSTRY OUTLOOK

The lodging industry appears to be in a sweet spot currently with rising occupancy rates and increasing average RevPAR. There are still macroeconomic concerns due to rising interest rates and inflation, however, global tourism may rebound to 80%-90% of pre-pandemic levels according to the United Nations World Tourism Organization. In addition, according to the Global Business Travel Association, 86% of global corporate travel suppliers expect 2023 spending by corporate customers to be "much higher" (26%) or "somewhat higher" (60%) compared to 2022. Other travel industry sources expect overall average occupancy levels to increase to 63.6% from 62.7% last year and average RevPAR to increase 3.7% to $96.44.

Recent commentary from executive management at publicly traded lodging operators points towards hardy customer demand from both leisure and business travelers with most giving upbeat forecasts. RevPAR gains have been accelerating through most of 2023 year-to-date. International growth has been an exceptional strong point, particularly in Asian markets such as China where recent Covid-19 restrictions have been lifted.

Zacks Industry outlook for the leisure services industry is neutral. This industry encompasses multiple sub-sectors, including lodging, cruise operators, sports and location-based entertainment providers, film exhibitors, amusement parks, gaming operators, gaming suppliers, and fitness centers. While each sub-sector has its own distinct dynamics, all are joined together by a few common threads. Pricing power for most leisure service providers has declined due to irrational capacity expansion plans established in more prosperous times. Demand is largely a function of disposable income and consumer interest in a particular leisure activity. Historically, growth rates have shown a high level of correlation with GDP and personal disposable income growth rates.

Our neutral outlook for the industry is based on favorable long-term demographic trends offset by a cloudy near-term macroeconomic picture. Disappointing job growth figures threaten to dampen an otherwise strong outlook for GDP growth. We remain concerned that a slow rebound in the jobs picture and higher energy costs could squeeze consumer wallets, negatively impacting their discretionary leisure spending despite a rebound in the overall economy. On the positive side, we expect positive long-term demographic trends to favor industry growth as the baby boomer generation ages and demands more leisure services.

General market fragmentation, the need for scale, and access to capital should continue to push leisure service companies toward consolidation. Sub-sectors further along in the consolidation process like cruise operators, theatrical exhibitors and gaming equipment suppliers should be the first to recover lost pricing power in a budding economic recovery. More competitive sectors will find it harder to rationalize capacity expansion plans. Industry consolidation and positive long-term demographic trends point toward better-than-average growth rates for leisure service industries. Near-term capacity issues and a general lack of product differentiation cause us to remain neutral on the sector.

COMPANY HISTORY

The company was founded in 2017 as CorpHousing to operate and rent multi-family properties in New York City. The company began its pivot to leasing dislocated hotels in 2021 when opportunities arose that had the potential to offer better economic returns than apartment properties.

In August 2022, the company went public at $4.00 per share raising $13.5 million in gross proceeds. These proceeds were used to fund letters of credit on security deposits in order to grow the business as well as to repay $2.5 million in existing debt.

In November 2022, the company changed its official name from CorpHousing Group Inc. to LuxUrban Hotels Inc.

On December 30, 2022, the company dissolved SoBeNY, which was the entity that operated the legacy apartment rental business. This line of business was substantially exited prior to year-end 2022.

MANAGEMENT

Brian Ferdinand
Co-Founder, Chief Executive Officer and Chairman of the Board of Directors

Mr. Ferdinand founded the company in 2017 and has served as Chairman and Chief Executive since that time. He has more than 22 years of business and industry experience, including serving as Chief Operating Officer and a partner at VacationRentals LLC, a provider of loyalty-branded, hotel-alternative accommodations from 2015 to 2017.

Jimmie Chatmon
Chief Operating Officer and Director

Mr. Chatmon was named Chief Operating Officer in November 2022. He has served as Executive Vice President since November 2017 and as a director of the company since November 2021. In this role he has helped the company grow in the short-term rental marketplace, drawing upon his prior experience and analytical expertise in designing daily pricing and distribution strategies, while overseeing the revenue management team. Before joining the company, from July 2016 to November 2017, Mr. Chatmon worked in sales and revenue management at Vacation Rentals LLC, a provider of loyalty-branded, hotel-alternative accommodations. Mr. Chatmon earned his B.S. in Business Administration from the University of Miami in 2015.

Shanoop Kothari
President and Chief Financial Officer

Mr. Kothari has been Chief Financial Officer since January 2022 and assumed the added responsibility of President in November 2022. From January 2019 until September 2021, Mr. Kothari was the Chief Financial Officer of NuZee Inc (Nasdaq: NUZE), an environmentally friendly coffee co-packing services company where he also served in a dual capacity as the company's Chief Operating Officer from July 2020 until May 2021 and as director from October 2019 to March 2021. Prior to joining NuZee, Mr. Kothari was a Managing Director at B. Riley FBR, Inc. ("FBR") from June 2014 until September 2018, where he oversaw the provision of a wide range of financial services to FBR's oil and gas clients. From September 2012 to June 2014, Mr. Kothari was the Chief Financial Officer of a private oil and gas refinery joint venture with HollyFrontier. Mr. Kothari was an investment banker at Credit Suisse working in the energy industry investment segment from June 2005 until September 2012. From May 1998 until April 2003, Mr. Kothari served in a variety of capacities for BindView Development, a publicly traded software company, including as Chief Financial Officer (from January 2001 to May 2001). Mr. Kothari was senior auditor at Price Waterhouse, an international accounting and consulting firm, from June 1995 to May 1998. Mr. Kothari has more than 25 years of accounting, finance and capital markets experience. Mr. Kothari holds a BA in Accounting from Southern Methodist University and an MBA from Rice University. Mr. Kothari is also a licensed CPA and CIA and possesses Series 7 / 24 / 63 licenses.

Kevin Mikolashek
Chief Compliance Officer

Mr. Mikolashek has been Chief Compliance Officer since September 2021. Prior to joining the company, from April 2018 until September 2021, he served as Managing Director for Misbah-Maher Consultancy, a consulting firm focused on Federal Government contracts in Afghanistan, and for Maher Legal Services, a law firm. From November 2015 to March 2018, Mr. Mikolashek was Senior Counsel at the Enforcement Division of the Federal Reserve Board of Governors, investigating large financial institutions. From November 2005 to November 2015, he served in the U.S. Department of Justice as an Assistant United States Attorney in the Eastern District of Virginia, where he led complex procurement fraud investigations into some of the nation's largest defense contractors and represented the United States in civil litigation. From January 1997 to November 2005, Mr. Mikolashek served as an Army Judge Advocate Officer, prosecuting felonies, providing legal advice to combat commanders, and representing the Army in civil litigation. Since May 2016, Mr. Mikolashek has been on the Board of Directors of, a non-profit organization that provides relief to the hungry as homeless and has served as Treasurer for that organization since May 2017. Mr. Mikolashek served in the United States Army from 1997 to 2005. Mr. Mikolashek holds an M.B.A from the University of Virginia Darden Graduate School of Business, a J.D. from the Dickinson School of Law of Pennsylvania State University, and a B.A. from the Shippensburg University of Pennsylvania.



Source: LuxUrban.com

INSIDER TRADING AND OWNERSHIP

Executive officers and board members collectively own approximately 72.0% of the outstanding shares of the company. CEO and Co-Founder Brian Ferdinand owns 56.2% of the outstanding shares which makes LuxUrban a “controlled” company under Nasdaq rules. Mr. Ferdinand is able to substantially influence the outcome of any activity that requires a shareholder vote.

Name	Shares of Common Stock Owned	Percentage Ownership
Brian Ferdinand, Chairman and Chief Executive Officer[2]	16,537,303	56.2%
Jimmie Chatmon, Chief Operating Officer and Director[3]	1,733,000	5.92%
David Gurfein, former President and Chief Operating Officer[4]	975,199	3.32%
Shanoop Kothari, President and Chief Financial Officer[5]	1,466,833	5.0%
Karl Rothman, Chief Accounting Officer[6]	157,000	*
Kevin J. Mikolashek, Chief Compliance Officer[7]	75,000	*
Leonard Toboroff, Director[8]	450,000	1.53%
Aimee J. Nelson, Director	46,833	*
Jeffrey Webb, Director	46,833	*
David Berg, Director	46,833	*
Donald Engel, Director	46,833	*
EBOL Holdings LLC[9]	1,500,417	5.10%
Greenle Partners LLC Series Alpha P.S. and affiliate[9]	2,901,822	9.87%
All executive officers and directors (and nominees) as a group[11]	21,164,167	72.0%

* Represents less than 1.0% of class.

Source: LuxUrban SEC filings

FINANCIAL REVIEW

1st quarter 2023 financial results

On May 10th, 2023, the company reported record financial results for the 1st quarter of 2023. Net rental revenues increased 151% to $22.8 million from $9.1 million in the 1st quarter of 2022. This was primarily driven by an increase in average available rental units to 988 compared to 479 for the 1st quarter of 2022. RevPAR increased to $257 compared to $211 in the 1st quarter of 2022 and $247 at the end of 2022.

1st quarter gross profit increased to $5.4 million (23.5% gross margin) from $2.5 million (27.6% gross margin) in the 1st quarter of 2022. Net loss in the 1st quarter of 2023 was ($2.8) million, or ($0.10) per share compared to net income of $1.4 million or ($0.07) in the 1st quarter of 2022. The company incurred a large number of non-cash and non-recurring items during the quarter. These include rent expense amortization, non-cash expenses related to share issuance, and non-cash financing costs associated with shares issued for revenue share agreements. Adjusted cash net income rose to $2.2 million compared to $1.4 million in the prior year period. EBITDA increased to $4.0 million from $2.2 million in the 1st quarter of 2022.

During the quarter, the company began hosting guests at two hotels, one in New York City and one in Miami, bringing the total of active hotels to 12 at quarter end. As of May 9, 2023, the company had 20 hotels under lease agreement that are currently taking reservations.

The number of units increased to 1,034 at quarter end compared to 479 in the prior year period and 844 at the end of 2022. As of May 15, 2023, the room count had increased to 1,807.

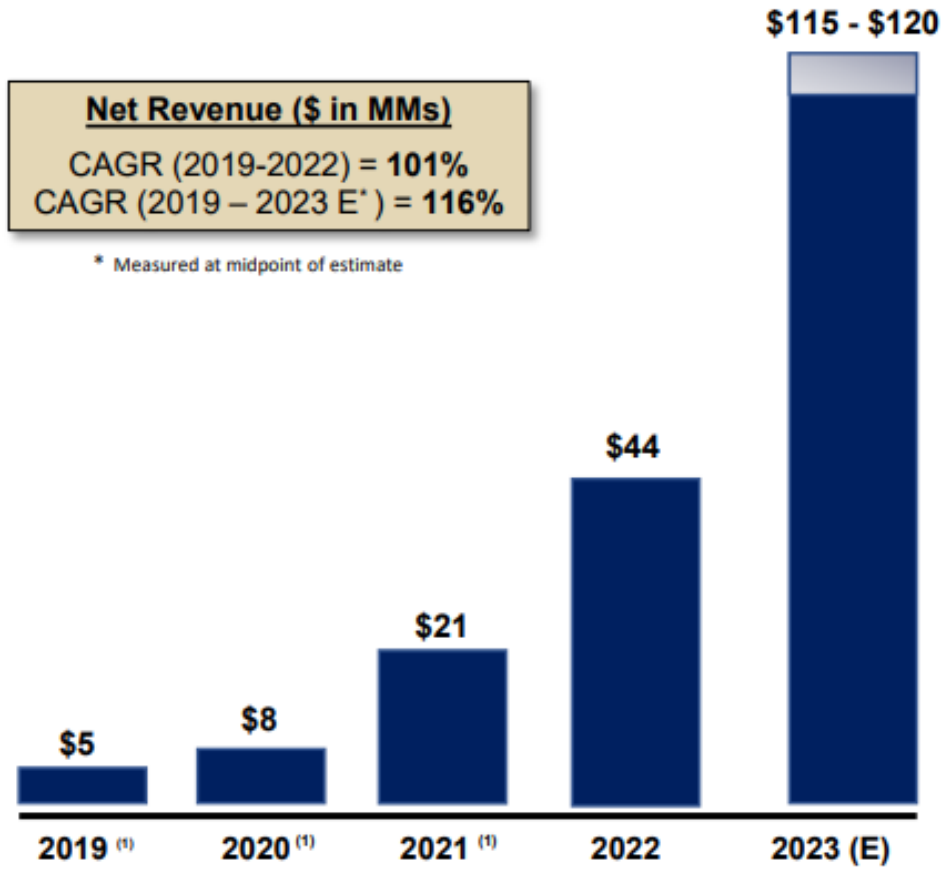
As of March 31, 2023, cash and cash equivalents were $2.9 million compared to $1.1 million at the end of 202, and restricted cash was unchanged at $1.1 million. Total debt at the end of the 1st quarter declined to $9.0 million from $14.0 million as of December 31, 2022. Net debt on March 31, 2023 declined to $6.1 million from net debt of $10.3 million at December 31, 2022. Cash based days payables outstanding declined to 35 days as of March 31, 2023 from 40 days at the end of 2022.

Subsequent to the end of the 1st quarter, the company entered into an agreement with the holder of its' senior secured convertible notes totaling approximately $5.0 million. The terms of this agreement are designed to allow the company to eliminate all debt associated with the Convertible Notes and gain access to new equity capital through a mandatory conversion feature. We expect the company to be debt free by the end of 2023.

On May 22, 2023, the company announced it had acquired the future revenue share payment obligations from its Pre-IPO investors. This arrangement had early investors receive a portion of revenues from certain hotel properties through 2038. Consideration was paid to these investors in the form of 6.74 million shares of common stock. Due to the accretive nature of this transaction, the company was able to increase 2023 EBITDA guidance to $25-$30 million.

Company CEO Brian Ferdinand stated*, "We have continued to adhere to a disciplined, asset-light growth strategy by focusing on select, high-quality properties in destination locations, strict underwriting criteria, and optimizing operational efficiencies across our organization. Our success in this regard is evidenced by significant quarter-over-quarter increases in net rental revenue and EBITDA, an expanded property operations portfolio, and an improved debt profile. We continue to see significant, long-term growth opportunities as hotel owners and operators confront the challenging financial realities created by the lingering effects of pandemic-induced property closures and rapidly rising interest rates. The long-term triple net lease alternatives that we offer allow these owners to improve property cash flows without losing ownership. We are committed to expanding our property portfolio in existing and new markets, enhancing our margins, and elevating our brand, while providing the highest-level guest experience to business and vacation travelers from around the world."*

President and Chief Financial Officer Shanoop Kothari stated, *"Our previously announced initiatives to significantly reduce or eliminate debt, enhance cash flow, and support our growth objectives began to manifest in Q1 2023. Our total debt declined by $5.0 million from December 31, 2022 to March 31, 2023 as a result of our previously announced debt to equity conversion initiatives and debt paydown via cash generated from operations. We continue to improve our liquidity position and made significant strides over the quarter. For the balance of 2023, we expect to continue to reduce our legacy pre-IPO debt, reduce our overall cost of capital and continue to improve our liquidity position."*



Source: LuxUrban investor presentation

2022 full year results

LuxUrban recorded a record year in 2022 in terms of revenue and EBITDA growth. Net rental revenue increased 105% to $43.8 million compared to $21.4 million in fiscal year 2021. This was largely driven by an increase in average units available to rent from 473 in 2021 to 680 in the full year 2022. RevPAR increased 99% to $247 during the year compared to $124 in the prior year period. The number of hotels under Master Leases increased to 10 by the end of the year. Units available to rent at year-end was 844 units.

Gross profit increased to $12.4 million (28% gross margin) compared to $2.1 million (9.9% gross margin) in the prior year. Net loss was ($9.4) million or ($0.40) per share compared to a loss ($2.2) million in 2021. Adjusted cash net income, which excludes non-cash items such as stock compensation and other non-recurring expenses improved to $3.8 million. EBITDA for the year was $8.3 million and Adjusted EBITDA was $12.4 million. The company reported EBITDA losses in 2021.

As of December 31, 2022, cash and short-term investments totaled $3.7 million, restricted cash was $1.1 million, and total debt stood at $16.5 million. $9.1 million of the debt consisted of Senior Secured Notes, $2.0 million was short-term business financing, and the other $5.4 million was miscellaneous debt.

LuxUrban Chairman and CEO Brian Ferdinand stated, *"Our performance in 2022 reflected our thoughtful approach to creating a sustainable, scalable and predictable operating model. The costs and expenses*

we recorded in 2022 should not mask the significant progress we made in expanding our business and establishing a foundation for anticipated continued growth in 2023. We more than doubled net rental revenue, improved the efficiency of our operations, and, on an adjusted basis, reported our fifth consecutive quarter of positive EBITDA. We completed our initial public offering, underwent a corporate re-branding, increased our property portfolio on a fully funded basis, established LuxUrban's presence in New Orleans, and added property density in New York City and Miami. We also exited our legacy apartment rental business as part of our plan to focus exclusively on the short-term stay hotel rental business. Although this shift resulted in non-recurring cash exit costs of $4.1 million in 2022, we believe that we are now well-positioned to capitalize on the ongoing recovery in global travel."

Security Deposits

As of March 31, 2023, the company had refundable security deposits with hotel landlords (owners) totaling $15.3 million. Deposits vary by state and by property and represent an asset to the company as after lease expiration, the company expects the return of the deposit barring any extraordinary circumstances.

Company Guidance

The company recently updated its 2023 financial outlook which calls for net rental revenues in the $115 to $120 million range and EBITDA in the $25 to $30 million range. The company also gave preliminary financial guidance for the 2024 fiscal year which calls for net rental revenue in the $220 to $240 million range and EBITDA in the $48 to $60 million range.

RISKS

- Inflation and price volatility in the global economy could negatively impact the lodging industry and the company's operating results. The company's financial performance is subject to macro-economic conditions and its impact on discretionary consumer spending. General inflation in the U.S. has risen to levels not experienced in recent decades which includes high energy prices, elevated prices for consumer goods, higher prevailing interest rates which increases borrowing costs, and high labor costs.

- The COVID-19 pandemic and the impact of actions to mitigate the pandemic have materially adversely impacted and may continue to materially adversely impact the travel industry and the hotel business. Future global pandemics may have similar adverse effects on the industry.

- The company may be unable to negotiate satisfactory leases or other arrangements for proposed new properties or renew or replace existing properties on economically satisfactory terms. The business model depends substantially on property owners and managers leasing to the company properties that meet specific brand criteria on lease terms that work within the company's business model. Competition for quality properties in desirable, often over-booked, locations can be intense at times.

- The company expends resources relating to the preparation and repair of its newly leased properties, which may be higher than anticipated due to unforeseen circumstances. The preparation includes furnishing and redesigning a newly leased property and bringing it onto the company's remote management platforms. Although the company tries to have the landlord or developer bear the out of pocket opening costs, the company is sometimes responsible for all or a portion of these costs.
- The long-term and fixed-cost nature of the company's leases may limit operating flexibility and could adversely affect its liquidity and operating results. The leases typically provide for fixed monthly

payments that are not tied to occupancy rates or room rates and usually contain minimum rental payment obligations. The obligations to landlords under these agreements typically extend for many years and the company does not have a corresponding source of guaranteed revenue because guests typically stay for less than a week at these hotels. If the company cannot maintain sufficient occupancy rates and pricing, the lease expenses may exceed lodging revenue which would cause property level operating losses.

VALUATION

Our primary valuation tool utilizes a Discounted Cash Flow process which assumes high levels of growth in additional rooms available to rent in the near-to-mid term as the company continues to add a steady flow of Master Leases on dislocated properties. We expect the growth to slow to single-digit levels in 2026 due to the declining level of dislocated hotels that would offer attractive economics to the company. Over the next 3-5 years, we expect Adjusted EBITDA margins to reach the high end of the company's objectives, which is approximately 25%.

Utilizing a conservative 12.0% discount rate in our DCF calculation, we arrive at a price target of approximately **$9.00** per share. We believe this to be a conservative valuation target as it's possible that the company will find additional economically favorable hotel dislocations that are above our, and the company's expectations. This possibility may occur if the hotel industry refinancing troubles come to fruition at a level greater than expected in 2024.

On a 2024 Price/Earnings basis, using a sector multiple of 14.0x and a peer group multiple of 19x, relative valuations for LuxUrban stock based on our 2024 GAAP EPS estimate of **$0.64** could be worth **$9.00** and **$12.00,** respectively. The peer group used in this calculation includes MAR, HLH, H, WH, CHH, IHG, VAC and HGV. Due to the limited operating history of the company, we do not believe the stock will trade in line with its larger, more established peers in the near-mid term time frame.

We estimate the company's EV/EBITDA ratio to be approximately 4.0x-5.0x based on our 2023 EBITDA estimates. This is also a significant discount to industry peers which currently have EV/EBITDA ratios in the mid-teens range.

SUMMARY

We believe LuxUrban Hotels is entering a robust new growth phase based on its ability to sign new hotel leases as a result of higher levels of EBITDA being generated. The company has the potential to grow both revenues and EBITDA at double-digit growth rates for the foreseeable future if they are able to execute on their lease based, asset light strategy. The company's current stock price does not likely reflect that potential level of profitable growth going forward and we believe the stock to be significantly undervalued at this time, particularly when compared to competitors.

A recession or troubled economic times is not necessarily a bad thing for the company based on their business model. In an economic downturn, the company's operating properties may experience declining occupancy levels and average daily rates. However, this would also create a much higher level of dislocated hotels for them to take advantage of with the lease driven, asset light business model.

Investors may be getting the rare opportunity to get in on the ground floor of a dynamic travel and leisure company that is poised for rapid growth. With the company trading at such a large discount to intrinsic value, a margin of safety appears to exist at this time.

PROJECTED INCOME STATEMENT & BALANCE SHEET

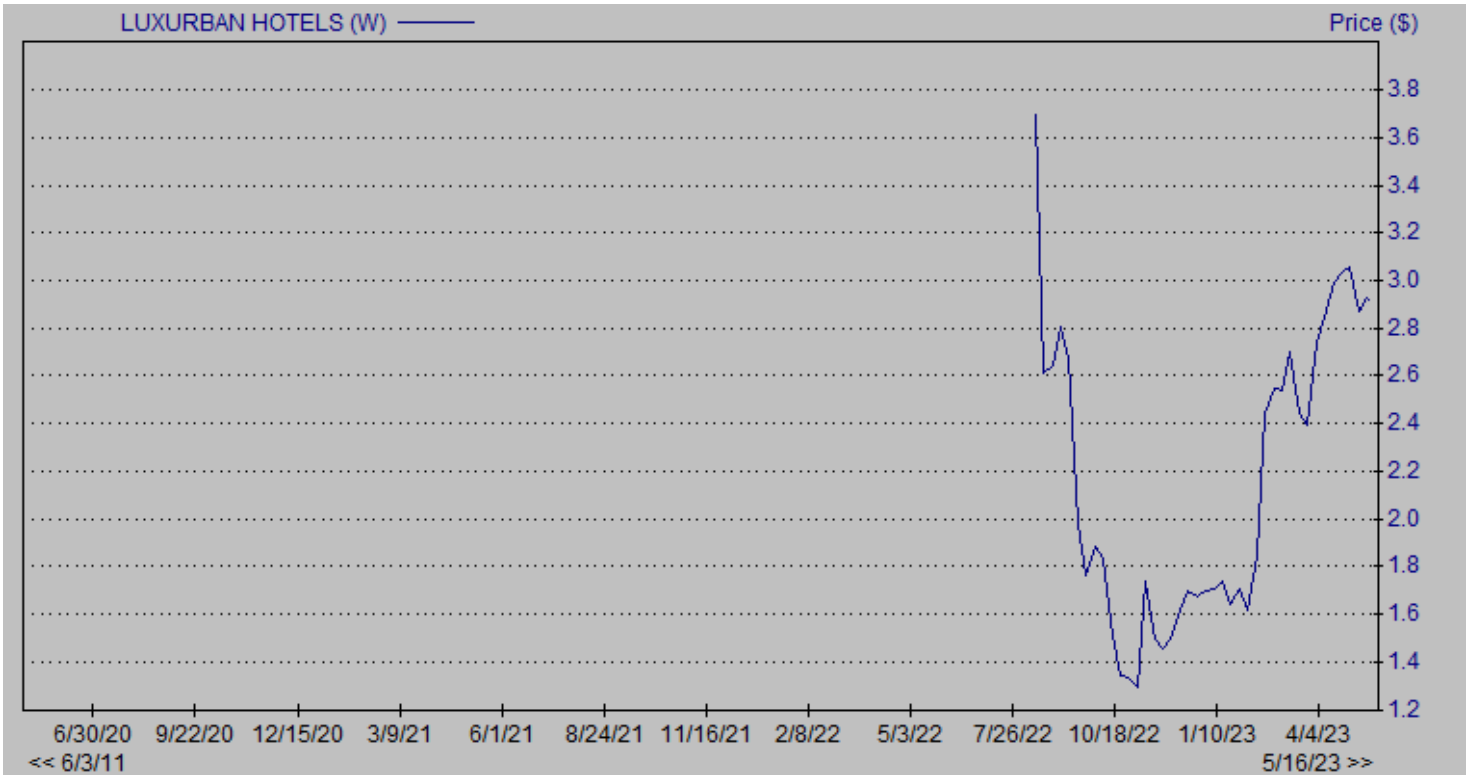
Income Statement		Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
Net Sales		**21,379,913**	**43,825,424**	**127,233,075**	**220,402,969**	**252,813,600**
Growth		*#DIV/0!*	*105.0%*	*190.3%*	*73.2%*	*14.7%*
Cost of Goods Sold		**18,944,039**	**29,555,344**	**88,585,478**	**153,234,211**	**175,135,528**
%		*88.6%*	*67.4%*	*69.6%*	*69.5%*	*69.3%*
Depreciation & Amort		**325,114**	**1,894,731**	**6,734,300**	**6,734,300**	**6,734,300**
Gross Profit		**2,110,760**	**12,375,349**	**31,913,297**	**60,434,458**	**70,943,772**
Margin		*9.9%*	*28.2%*	*25.1%*	*27.4%*	*28.1%*
SG&A Expenses		**2,844,637**	**6,794,111**	**11,820,888**	**12,411,933**	**12,536,052**
% of sales		*13.3%*	*15.5%*	*9.3%*	*5.6%*	*5.0%*
Stock Compensation		**0**	**2,547,536**	**2,390,276**	**2,270,762**	**2,270,762**
% of sales		*0.0%*	*5.8%*	*1.9%*	*1.0%*	*0.9%*
Research & Development		**0**	**0**	**0**	**0**	**0**
% of sales		*14`%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Non-Cash Items		**0**	**0**	**884,816**	**1,000,000**	**750,000**
% of sales		*0.0%*	*0.0%*	*0.7%*	*0.5%*	*0.3%*
Operating Income		**(733,877)**	**3,033,702**	**16,817,316**	**44,751,763**	**55,386,957**
Margin		*-3.4%*	*6.9%*	*13.2%*	*20.3%*	*21.9%*
EBITDA		**(408,763)**	**7,475,969**	**24,436,432**	**52,486,063**	**62,871,257**
Margin		*-1.9%*	*17.1%*	*19.2%*	*23.8%*	*24.9%*
Other Expenses/(Income)		**(127,058)**	**(1,584,105)**	**(161,921)**	**(99,362)**	**(231,883)**
%		*-0.6%*	*-3.6%*	*-0.1%*	*0.0%*	*-0.1%*
EBIT		**(606,819)**	**4,617,807**	**16,979,237**	**44,851,124**	**55,618,840**
%		*-2.8%*	*10.5%*	*13.3%*	*20.3%*	*22.0%*
Total Interest Exp (net)		**1,626,565**	**7,518,267**	**8,171,154**	**8,171,154**	**8,171,154**
%		*7.6%*	*17.2%*	*6.4%*	*3.7%*	*3.2%*
Net Profit Before Tax		**(2,233,384)**	**(2,900,460)**	**8,808,083**	**36,679,970**	**47,447,686**
%		*-10.4%*	*-6.6%*	*6.9%*	*16.6%*	*18.8%*
Income Tax		**0**	**0**	**2,828,245**	**11,961,210**	**15,709,763**
% Effective Rate		*0.0%*	*0.0%*	*32.1%*	*32.6%*	*33.1%*
% Cash Tax Rate		*0.0%*	*0.0%*	*32.1%*	*32.6%*	*33.1%*
Minority Interests or Preferred Stock		**0**	**0**	**0**	**0**	**0**
Net Profit		**(2,233,384)**	**(2,900,460)**	**5,979,838**	**24,718,760**	**31,737,923**
%		*-10.4%*	*-6.6%*	*4.7%*	*11.2%*	*12.6%*
Non-recurring income (expense)			(6,489,893)			
Average Diluted Shares Outstanding			23,432,870	34,500,000	38,500,000	41,500,000
Reported FD EPS			(0.40)			
Zacks EPS		**0.00**	**(0.12)**	**0.17**	**0.64**	**0.76**

Source: Zacks analyst

	Dec-22	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Dec-23	Dec-24	Dec-25
REVENUES								
Net Rental Revenues	**$43,825,424**	***$22,814,175***	***$28,188,000***	***$35,431,200***	***$40,799,700***	**$127,233,075**	**$220,402,969**	**$252,813,600**
% Change								
Number of Hotels	**10**	***12***	***20***	***24***	***25***	**25**	**35**	**40**
Number of Rooms - Ending	**844**	***1,034***	***1,807***	***2,200***	***2,500***	**2,500**	**3,500**	**4,000**
Number of Rooms - Average		***939***	***1,392***	***1,900***	***2,300***	**1,633**	**2,825**	**3,600**
RevPAR	**$247**	***$257***	***$225***	***$207***	***$197***	**$222**	**$214**	**$192**
Occupancy	**77.0%**	***75.0%***	***75.0%***	***74.0%***	***73.0%***	**74.3%**	**75.0%**	**74.0%**
ADR	**$321**	***$343***	***$300***	***$280***	***$270***	**$298**	**$285**	**$260**

Source: Zacks analyst

HISTORICAL STOCK PRICE



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