NovaRock Global Research

Equity Research Note — Choice Hotels International, Inc. (CHH) — Initiating Coverage

REVIEWED AND APPROVED — 2026-10-12

Current Price	$105.64 (as of 2026-10-09)
Fair Value (DCF Base Case)	$43.58 (as of report date)
Implied vs. Current Price	-58.7%
Rating	SELL (DCF-based; comps disagree) (sensitivity range: $33-$57/share)
Assumptions Used	9.5% discount rate, 2.5% terminal growth
Capital Return	Dividend Yield 1.1% | Buyback Yield 2.8% (Total Shareholder Yield: 3.9%)

Rating Definitions: BUY: every combination in the valuation sensitivity grid implies a fair value above the current price - i.e. even the most conservative reasonable assumptions still suggest the stock is cheap. SELL: every combination implies a fair value below the current price - even the most generous reasonable assumptions still suggest it's expensive. HOLD: the current price falls inside the sensitivity grid's range - reasonable analysts using different defensible assumptions could land on either side, so a confident directional call isn't supported by this analysis. This is a narrower, more literal use of these labels than some research uses - a HOLD here specifically means the valuation math doesn't clear a bar in either direction, not a vague default.

Investment Note

Choice Hotels International (CHH) — Research Note

Rating: SELL (DCF-based; comps disagree). At $105.64 (price as of 2026-10-09), CHH trades above every cell of our sensitivity grid ($32.81 to $57.29 per share); our base-case fair value is $43.58, or -58.7% versus the price. The base case is a multi-stage DCF on trailing-twelve-month free cash flow of $114.8M to June 30, 2026, a 9.5% discount rate, 2.5% terminal growth and growth fading from 6% to 3%; terminal value is 53.1% of the total. Using FY2025 free cash flow of $124.7M instead gives $47.33, and a three-year average of $159.5M gives $60.56; all three remain well below the price. Fair value is an intrinsic estimate as of the report date, not a 12-month target. The rating follows our DCF-grid rule. A cross-check against the closest peer, Wyndham, points the other way (see Comparable companies), and we treat that disagreement as unresolved.

Results: FY2025 revenue was $1,596.8M, against $1,584.8M in FY2024, and net income was $369.9M, which includes a $100.0M non-taxable gain on acquiring the remaining interest in Choice Hotels Canada (10-K, cash flow statement, PDF p.109). In the second quarter of 2026 net income fell to $64.3M from $81.7M and diluted EPS was $1.41; adjusted diluted EPS rose to $2.02 from $1.92 and adjusted EBITDA was $175.4M (Q2 2026 earnings release, Aug 5, 2026, pp. 2-3 and 17). For the first six months net income was $84.6M versus $126.3M.

Operating trends: In the second quarter U.S. RevPAR rose 1.3%, global net rooms grew 2.6%, U.S. room openings increased 27% and the U.S. royalty rate expanded 11 basis points to 5.2% (release p.1). The release attributes the lower net income mainly to a larger net reimbursable deficit tied to investment in franchisee tools and guest delivery, higher depreciation from owned hotels and the Canada acquisition, and the timing of SG&A (release p.2). Operating cash flow for the first half fell to $67.4M from $116.1M, which the company ties to higher franchise agreement acquisition costs and reimbursable spending (release p.4; 10-Q PDF p.8).

Guidance: On Aug 5, 2026 the company raised its FY2026 adjusted EBITDA outlook to $635M-$650M from $632M-$647M, and set adjusted diluted EPS at $6.86-$7.10. It cut GAAP net income guidance to $230M-$241M from

$265M-$275M, citing higher reimbursable marketing and reservation system expenses, higher interest expense and a higher effective tax rate (release p.5). Net capital outlays for hotel development are expected to fall from $103.4M in 2025 to $20M-$45M in 2026, and the first owned-hotel asset sales are expected in the first half of 2027, subject to market conditions (release pp.4-6). No earnings-call transcript was supplied, so no analyst Q&A is cited.

Cash flow and the DCF basis: Free cash flow here is operating cash flow less capital expenditure. Trailing-twelve-month operating cash flow was $221.7M and capex $107.0M (other property and equipment plus owned hotels), giving $114.8M; FY2025 was $270.4M less $145.8M = $124.7M (10-K PDF p.109; 10-Q PDF p.8). Capex is the sum of two cash-flow lines because the single XBRL capex tag omits owned-hotel spending. The measure is not adjusted for stock-based compensation, and per-share values use the 10-Q cover share count of 45,008,622 (July 29, 2026), not diluted shares. The DCF values the equity directly from this levered cash flow.

Balance sheet: At June 30, 2026 long-term debt was $2,002.3M and cash $42.8M, a net debt position of $1,959.5M, and shareholders' equity was $142.2M (10-Q PDF p.6). The company reports net debt to adjusted EBITDA of 3.1x for the trailing twelve months, within its 3.0x-4.0x target range (release p.4). Net debt is informational context and is not subtracted from the DCF value, because the cash flow base is already after interest. After the balance sheet date, on August 28, 2026, the company entered a $500 million unsecured term loan maturing in 2029 at SOFR plus 1.25%, with a maximum consolidated leverage covenant of 4.5x and limits on dividends and repurchases; proceeds are for general corporate purposes including working capital and debt repayment (8-K, Items 1.01 and 2.03). The June 30 figures above do not reflect it.

Comparable companies: Wyndham (WH), a pure franchisor and our closest comparable, trades at 10.7x FY2026 adjusted EBITDA guidance (enterprise value of $7,937M on June 30, 2026 net debt of $2,606M and a $71.84 price dated September 30, 2026, about a week before the CHH price date) and 14.8x forward earnings; on its own guidance midpoint its P/E is 15.1x. Applied to CHH, WH's EV/EBITDA implies $109.58 per share and its forward P/E $103.30, both close to the $105.64 price; CHH itself trades at 10.5x EBITDA guidance and 15.1x adjusted EPS guidance. Hilton (21.1x EV/EBITDA, 33.57x P/E) and Marriott (18.7x, 29.23x) are much larger and global; they imply $204.03 to $257.67 and are shown for context only, and we do not use a peer median. The DCF and the closest peer disagree materially: the DCF is -58.7% versus the price, while WH-based values average $106.44, +0.8% versus the price. Sources and limits: enterprise values use each peer's June 30, 2026 10-Q (cover share counts, debt and cash; WH 10-Q PDF pp.2 and 7, HLT pp.2 and 4, MAR pp.2 and 8) and WH's Q2 release (p.5); prices and forward P/E multiples come from stockanalysis.com and are not filing-verified; the Hilton and Marriott EV/EBITDA multiples were computed from their filings in a separate session and not reproduced here, as their earnings releases were not available to this pipeline. Adjusted EBITDA and adjusted EPS are company-defined and exclude items our free-cash-flow basis includes. Trailing multiples were not applied because CHH's trailing GAAP EPS includes a $100.0M non-taxable gain. The SELL rests on the DCF; a reviewer weighting the closest peer could rate this HOLD.

Shareholder base and changes: Shares outstanding fell from 46,856,567 at December 31, 2024 to 45,996,087 at December 31, 2025 and 45,179,440 at June 30, 2026 (10-K PDF p.107; 10-Q PDF p.6). The Bainum family and related entities hold a voting block of 19,692,290 shares, 43.04% as of March 23, 2026, with individual family percentages overlapping and not additive; directors and executive officers as a group (18 persons) hold 23.87% (2026 proxy statement, pp. 90-92). Among 5%+ holders the proxy lists Baron at 16.33%, Morgan Stanley at 7.72%, Kayne Anderson Rudnick at 6.51% and Vanguard at 5.10%. Later Schedule 13G filings, shown separately and dated, report Baron at 20.50% (9,328,354 shares, event date June 30, 2026), Morgan Stanley at 6.3% (2,850,856), Kayne Anderson Rudnick at 2.0% (917,165, below 5%) and The Vanguard Group at zero after its January 12, 2026 realignment, with unit-level filings not collected.

Capital return: The dividend is $1.15 per share ($0.2875 quarterly). On a market capitalization of $4,754.7M, trailing-twelve-month dividends of $52.9M give a dividend yield of 1.1% and gross cash buybacks of $133.0M a buyback yield of 2.8%, for a total shareholder yield of 3.9% ($185.9M). That total exceeds free cash flow of $114.8M,

equal to 162% of it; dividends alone are covered 2.2x by free cash flow and are 23.2% of trailing net income excluding the non-taxable gain (our calculation). In the first half the company drew $96.3M net on its revolving credit facilities while returning $133.8M; 1.8 million shares remained under the repurchase authorization at June 30, 2026 (release p.5).

Conclusion: SELL (DCF-based; comps disagree), under our DCF-grid rule. Even the most generous cell of the grid, $57.29, and the highest alternative base, $60.56, sit well below $105.64, and shareholder returns are running ahead of free cash flow and partly funded by borrowing, with a new $500 million term loan after quarter end. The closest-peer cross-check does not support that conclusion: Wyndham's multiples imply a value near the current price, so the SELL rests on cash flow after real costs, not on relative valuation. At the same assumptions the DCF would reach the current price only if free cash flow were about $278M, 2.4x the trailing figure and above FY2025's entire operating cash flow of $270.4M before any capex. The view would change with a materially stronger cash flow recovery as franchise agreement acquisition costs normalize, proceeds from the planned 2027 owned-hotel sales, or evidence that the reimbursable deficit reverses. Dominic Dragisich's appointment as permanent President and CEO effective August 31, 2026 (8-K, Item 5.02) ends the interim period but does not itself change the cash flow base.

Key Catalysts

• First owned-hotel asset sales are expected in the first half of 2027, subject to market conditions (Q2 2026 release, p.4).

• New leadership: Dominic Dragisich became permanent President and CEO effective August 31, 2026 after serving as Interim CEO since May 20, 2026 (8-K Item 5.02); the Chief Human Resources Officer will also transition at the end of 2026 (8-K, Sep 29, 2026).

• U.S. RevPAR and royalty-rate trajectory: FY2026 guidance is U.S. RevPAR growth of 0% to 1.25% and a 7 to 9 basis point royalty-rate gain (release p.5).

• Normalization of franchise agreement acquisition costs, which drove the first-half drop in operating cash flow (release p.4).

Comparable Companies Cross-Check

DCF implies -58.7% vs. current price; the closest-peer comparison implies +0.8% vs. current price. DCF and comps MATERIALLY DISAGREE - treat the gap itself as a finding, not noise.

Closest peer: Wyndham (WH), a pure franchisor. WH-based values bracket the current price; Hilton and Marriott are much larger and global, shown for context only, and their median is not used.

Peer / metric	Multiple	CHH value/sh	Role
WH - EV/EBITDA (FY26 guidance midpoint)	10.7x	$109.58	PRIMARY comparable (closest pure franchisor); EV and EBITDA from filings, price from stockanalysis.com (Sep 30 close)
WH - forward P/E	14.8x	$103.30	PRIMARY comparable; multiple and price from stockanalysis.com, not filing-verified
HLT - EV/EBITDA	21.1x	$257.67	Context only (larger, global); computed from filings in a separate session, not reproduced here; price from stockanalysis.com
HLT - forward P/E	33.57x	$234.32	Context only; stockanalysis.com

MAR - EV/EBITDA	18.7x	$223.41	Context only (larger, global); computed from filings in a separate session, not reproduced here; price from stockanalysis.com
MAR - forward P/E	29.23x	$204.03	Context only; stockanalysis.com
CHH today	10.5x EV/EBITDA, 15.1x P/E	$105.64	On FY2026 guidance midpoints (adj. EBITDA $642.5M, adj. EPS $6.98)

Wyndham price $71.84 is a 2026-09-30 close (about one week before the CHH price date); HLT $326.56 and MAR $365.88 are 2026-10-09 closes. All three prices and the forward P/E multiples come from stockanalysis.com and are not filing-verified.
EV = price x cover-page shares + debt - cash from each peer's June 30, 2026 10-Q (WH 10-Q PDF pp.2 and 7; HLT 10-Q pp.2 and 4; MAR 10-Q pp.2 and 8). WH adjusted EBITDA guidance $740M midpoint is from its Q2 release p.5.
HLT and MAR EV/EBITDA multiples were computed from the peers' filings in a separate session; this pipeline did not receive their earnings releases (guidance), so it did not reproduce them (it did verify their share counts, debt and cash from the 10-Qs). No peer median is used.
Adjusted EBITDA and adjusted EPS are company-defined; CHH's exclude the reimbursable deficit and franchise agreement acquisition costs that our free-cash-flow basis includes.
Comps caveat: Only one closest peer; HLT and MAR EV/EBITDA multiples not page-verified; prices and P/E multiples from stockanalysis.com; WH price dated Sep 30, 2026.

Balance Sheet & Leverage

Total debt: $2,002.3M | Cash & equivalents: $42.8M | Net position: $1,959.5M net debt

Informational only - not subtracted from the fair value above. This pipeline's cash flow base is already levered (post-interest), so a separate net-debt deduction would double-count it.

Capital Return Detail

Dividends paid	$52.9M (1.1% yield)
Dividend per share	$1.15
Buybacks (gross cash)	$133.0M (2.8% yield)
Total returned	$185.9M (3.9% of market cap)
Dividend payout ratio (TTM net income excluding the $100.0M non-taxable JV gain (our calc))	23.2%
Dividend cover by free cash flow	2.2x
Total returns as % of free cash flow	162% (exceeds FCF)

gross cash buybacks (not net of share issuance); market cap = price x shares outstanding.

Shareholding Pattern & Changes

Period	Shares out.	YoY	Cumulative	Buybacks ($M)	Source
Dec 31, 2024	46.86M	-	-	380.7	10-K PDF p.107 (shares); p.109 (buyback)
Dec 31, 2025	46.00M	-1.8%	-1.8%	138.3	10-K PDF p.107 (shares); p.109 (buyback)
Jun 30, 2026 (six months)	45.18M	-1.8%	-3.6%	107.5	10-Q PDF p.6 (shares); p.8 (buyback)

Beneficial ownership - 2026 proxy statement (DEF 14A, filed Apr 22, 2026) (primary source)

Holder	Shares	% out.	As of	Source
Bainum Family Entities & Trusts (White Oak Legacy) (5)	19,692,290	43.04%	*March 23, 2026*	*DEF 14A p.90-92, fn.5*
All directors and executive officers as a group (18 persons)	10,344,754	23.87%	*March 23, 2026*	*DEF 14A p.90-92*
Named insider: Stewart W. Bainum Jr.	9,611,802	21.02%	*March 23, 2026*	*DEF 14A p.90-92*
Named insider: Patrick S. Pacious	295,757	1.35%	*March 23, 2026*	*DEF 14A p.90-92*
Ronald Baron	7,473,575	16.33%	*filing January 20, 2026*	*DEF 14A p.90-92, fn.11 (Schedule 13G/A filed January 20, 2026)*
The Vanguard Group	2,331,972	5.10%	*filing January 30, 2026*	*DEF 14A p.90-92, fn.12 (Schedule 13G filed January 30, 2026)*
Kayne Anderson Rudnick	2,977,459	6.51%	*filing February 13, 2026*	*DEF 14A p.90-92, fn.15 (Schedule 13G/A filed February 13, 2026)*
Morgan Stanley	3,532,775	7.72%	*filing February 12, 2026*	*DEF 14A p.90-92, fn.14 (Schedule 13G/A filed February 12, 2026)*

(5) Shares held by White Oak Legacy, Inc. and other Bainum entities are attributed to several family members who share voting or dispositive control, so the individual percentages the proxy table lists for them (Barbara J. Bainum 21.22%; Bruce D. Bainum 18.57%; Roberta D. Bainum 20.22%; White Oak Legacy, Inc. 14.91%) overlap and cannot be added. The 43.04% aggregate is the controlling-block figure.

Later SEC filings (after the proxy record date)

Holder	Shares	% out.	As of	Source
Baron group (BAMCO, Baron Capital Group, Baron Capital Management, Ronald Baron, funds)	9,328,354	20.50%	*event 06/30/2026 (signed 08/14/2026)*	*SEC Schedule 13G/A No. 20, accession 0001017918-26-000057*
Morgan Stanley (with Atlanta Capital Management)	2,850,856	6.3%	*event 06/30/2026 (signed 08/12/2026)*	*SEC Schedule 13G/A No. 9, accession 0000895421-26-000224*
Kayne Anderson Rudnick Investment Management	917,165	2.0%	*event 06/30/2026 (signed 08/13/2026)*	*SEC Schedule 13G/A No. 3, accession 0001398344-26-014369*
The Vanguard Group	0	0%	*event 03/13/2026 (signed 03/26/2026)*	*SEC Schedule 13G/A No. 1, accession 0000102909-26-000903*

Baron group (BAMCO, Baron Capital Group, Baron Capital Management, Ronald Baron, funds): Up from 7,473,575 shares (16.33%) in the proxy table; percent uses the filer's own share base.
Morgan Stanley (with Atlanta Capital Management): Down from 3,532,775 shares (7.72%) in the proxy table; Atlanta Capital separately reports 2,524,925 shares (5.6%).
Kayne Anderson Rudnick Investment Management: Now below the 5% reporting level; 2,977,459 shares (6.51%) in the proxy table.
The Vanguard Group: Reports zero after Vanguard's Jan 12, 2026 realignment; ownership moved to separately reporting units, whose filings were not collected.

Concentration: controlling block 43.04% plus non-family 5%+ holders 35.66% = 78.7% identified; remainder 21.3%. Our arithmetic as of the proxy record date: controlling family block plus the non-family 5%+ holders in the proxy table. Later Schedule 13G filings (listed separately) may have changed individual holders, so this is not a current snapshot; the remainder is held by all other holders.

Open items

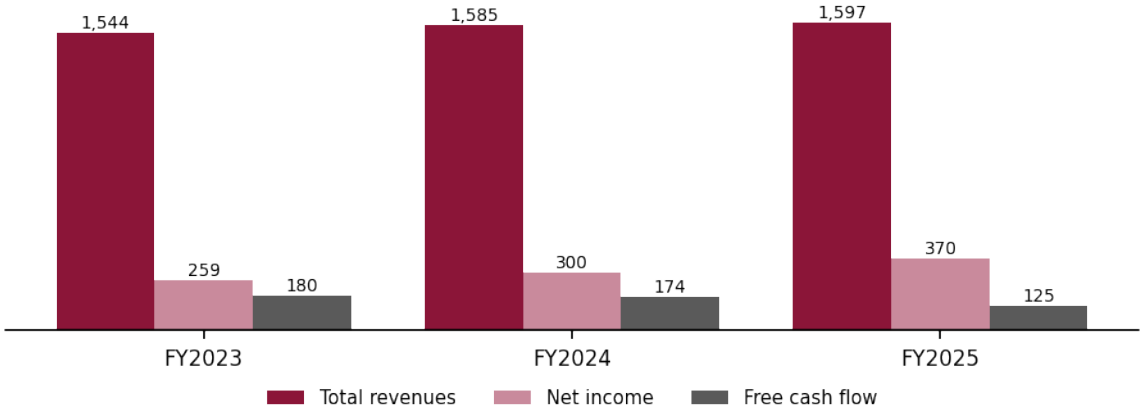
• Form 4 insider trades not collected (insider holdings are in the proxy table).

• The Jun 30, 2026 row's change is versus Dec 31, 2025 (six months), not a full year; the 10-Q cover shows 45,008,622 shares at Jul 29, 2026.

• Vanguard's separately reporting units' Schedule 13G filings were not collected.

Multi-Year Trend

Metric	FY2023	FY2024	FY2025
Total revenues	$1,544.2M	$1,584.8M	$1,596.8M
Net income	$258.5M	$299.7M	$369.9M
Free cash flow	$180.3M	$173.6M	$124.7M



Financial Summary (Most Recent Year)

Line item	Value	Source
FY2025 total revenues	$1,596.8M	10-K PDF p.105
FY2025 net income (incl. $100.0M gain)	$369.9M	10-K PDF p.105
FY2025 diluted EPS	$7.90	10-K PDF p.105
FY2025 operating cash flow	$270.4M	10-K PDF p.109
FY2025 capex (other P&E + owned hotels)	$145.8M	10-K PDF p.109
TTM Jun-2026 operating cash flow	$221.7M	derived: FY25 + H1-26 - H1-25
TTM Jun-2026 capex	$107.0M	derived
TTM Jun-2026 free cash flow (DCF base)	$114.8M	derived
Long-term debt (Jun 30, 2026)	$2,002.3M	10-Q PDF p.6
Cash (Jun 30, 2026)	$42.8M	10-Q PDF p.6
Shares outstanding (Jul 29, 2026)	45,008,622	10-Q cover

Valuation Sensitivity — Fair Value per Share ($)

Rows: discount rate. Columns: terminal growth rate.

Discount Rate	2.0%	2.5%	3.0%	3.5%
8.5%	$49	$51	$54	$57
9.5%	$42	$44	$45	$48
10.5%	$37	$38	$39	$41
11.5%	$33	$34	$35	$36

Methodology & Limitations

• Comps-based relative valuation included above - see Comparable Companies Cross-Check.

• Fair value is highly sensitive to the discount rate / terminal growth pair (see grid above).

• Fair value is an intrinsic-value estimate as of the report date, not a 12-month price target.

• Free cash flow is operating cash flow less capital expenditure; it is not adjusted for stock-based compensation, and per-share values use period-end shares outstanding, not fully diluted shares.

• Comps caveat: Only one closest peer; HLT and MAR EV/EBITDA multiples not page-verified; prices and P/E multiples from stockanalysis.com; WH price dated Sep 30, 2026.

• This note reflects NovaRock's structured multi-stage analytical process (Analyst, Risk Review, Final Edit) and was reviewed and approved by Jasvinder Singh, Founder and Principal Analyst, on 2026-10-12.

Disclosures

Full disclosures, methodology notes, and conflicts-of-interest policy are maintained on novarockcorp.com's legal pages and apply to this note. Drafting of this note used AI-assisted research tools. This report has been reviewed, finalized, and approved by Jasvinder Singh, Founder and Principal Analyst, on 2026-10-12.