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# Wyndham Hotels & Resorts, Inc. (WH)

Q3 2019 Earnings Call

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Geoffrey A. Ballotti

*President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.*

David B. Wyshner

*Chief Financial Officer, Wyndham Hotels & Resorts, Inc.*

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## OTHER PARTICIPANTS

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Stephen Grambling

*Analyst, Goldman Sachs & Co. LLC*

David Katz

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Welcome to the Wyndham Hotels & Resorts Third Quarter 2019 Earnings Conference Call. At this time, all participants have been placed on a listen-only mode and the floor will be open for your questions following the presentation. [Operator Instructions]

I would now like to turn the call over to Matt Capuzzi, Vice President of Investor Relations.

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Matt Capuzzi

*Vice President-Investor Relations, Wyndham Hotels & Resorts, Inc.*

Thanks, Katherine. Good morning and thank you for joining us. With me today are Geoff Ballotti, our CEO; and David Wyshner, our CFO.

Before we get started, I want to remind you that our remarks today will contain forward-looking statements. These statements are subject to risk factors that may cause our actual results to differ materially from those expressed or implied. These risk factors are discussed in detail in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission and any subsequent reports filed with the SEC.

We will also be referring to a number of non-GAAP measures. Corresponding GAAP measures and a reconciliation of non-GAAP measures to GAAP metrics are provided in our earnings release, which is available on our Investor Relations website at [investor.wyndhamhotels.com](http://investor.wyndhamhotels.com). In addition, we will provide supplemental

information on our website after the call. We may use our website as a means of disclosing material nonpublic information. Such disclosures will be included on our website in the Investor section.

With that, I will turn the call over to Geoff.

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## Geoffrey A. Ballotti

*President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.*

Thanks, Matt. Good morning and thanks, everyone, for joining us today. Our team's continued sharp execution against our strategic and operating plans allowed us to produce solid results in the third quarter. We delivered ongoing expansion of our system size, including our sixth consecutive quarter of positive domestic net rooms growth. International rooms grew by 6%, adjusted EBITDA increased 14% despite a softer-than-expected RevPAR environment, and we deployed more than \$100 million of free cash flow for share repurchases and dividends.

This morning, David and I would like to highlight key accomplishments in the third quarter and provide an update on our strategic goals. As we've previously discussed, our priorities are to drive global growth, to elevate the economy and midscale lodging experience, and to increase the reservation contribution that we make to hotel owners through our branding, our marketing, sales, loyalty and technology distribution platforms.

Starting with our objective to drive quality net rooms growth, we ended the third quarter with 822,000 rooms in our system, a 3% increase since last September, including a positive 1% year-over-year growth here in the United States. In the US, we opened 5,400 rooms in the third quarter, an increase of 6% versus last year's third quarter. Internationally, we opened over 9,000 rooms, 20% more than we did last year and we grew our international system size by nearly 19,000 rooms.

Our fastest-growing region was once again Southeast Asia, which grew 23%. In China, we grew our direct franchise system by 7%, including the addition of our first Microtel in the region. This beautiful new construction Microtel by Wyndham Guiyang is located in the heart of Southwest China's Guizhou province and represents the 11th of our 20 brands now operating in China, with two additional new construction Microtel slated to open later this year. In Latin America, we grew net rooms by 7% highlighted by our first trademark collection by Wyndham in Mexico, the upscale Acanto Hotel Playa del Carmen on the shores of the Riviera Maya.

And in our Europe, Middle East, Eurasia and Africa region, we continue to expand into new markets, including the introduction of the first of two Dolce by Wyndham destination meeting hotels in Denmark located in Aarhus with another planned opening in Copenhagen.

On the retention front, our international retention rate over the past 12 months stands at 94%. Our global direct franchise retention rate has increased to 95% and our domestic retention rate has now increased to 95.6%, as third quarter terminations declined 8% year-over-year.

Our development pipeline closed the quarter at 1,450 hotels and a record 190,000 rooms. Our global pipeline has grown 7% year-over-year, including 10% growth in domestic new construction and 13% growth in international new construction. The growth in our new construction pipeline illustrates our sales teams' ability and our new design-led prototypes' ability to attract select service developers around the world to our brands.

International RevPAR declined 1% in constant currency. We saw continued strength across Europe and Latin America that was more than offset by RevPAR weakness in both China and Canada. Overall, domestic RevPAR declined 1%, consistent with recent industry trends.

Our experience over the last three months reflects continued softness in ADR, especially in the midscale [ph] midweek (00:05:55) segments and most noticeably in the oil and gas markets. However, despite this industry-wide softness, we're not seeing any signs of overbuilding as supply growth remained steady at sub-2% in the roadside markets that are important to our pipeline growth.

RevPAR for our La Quinta brand declined 4% year-over-year in the third quarter. About half of this decline is due to the brand's heavier concentration in hurricane-impacted and energy-related markets, and the remainder is reflective of the industry-wide softness we saw in the third quarter with newer prototype and recently renovated hotels significantly outperforming older and exterior [ph] corner (00:06:38) properties, especially those in the oil and gas and hurricane recovery markets.

Now, let me take a moment to discuss the recent resolution of our issues with CPLG, CorePoint Lodging group, for whom we manage nearly 300 La Quinta properties. Earlier this month, we entered into an agreement with CPLG to resolve any open issues that existed between us. And per the agreement, we will make payments of approximately \$20 million to CPLG, and CPLG has agreed to maintain cash operating reserves with us of approximately \$20 million. In addition, we will continue to invest in several ongoing pricing, revenue management, direct sales, and reservation enhancements to further support CPLG and the La Quinta brand.

We will also work with CPLG to help identify and support the sale of their noncore hotels to buyers, whom we look forward to working with especially as they renovate and elevate these assets under the properties' 20-year franchise agreements with us. Importantly, the agreement with CPLG does not change in any way the underlying fee structures set forth in either the management or franchise agreements between Wyndham and CPLG.

Our teams remain deeply committed to elevating the experience of our brands for the everyday traveler and our overall online review scores, which measure the overall experience of our guests during their stays, continue to improve. As we mentioned on our last call, we're very proud of operating two of the top three brands in both the economy and midscale segments of the 2019 J.D. Power Guest Satisfaction survey released in July.

Microtel by Wyndham finished number one in the economy segment for the 16th time in the past 18 years and Wingate by Wyndham finished number one in the midscale segment for its fifth consecutive year. More recently, in the Business Travel News' 2019 Hotel Brand Survey, Wingate by Wyndham and La Quinta by Wyndham finished number one and number two, respectively, in the midscale category, representing another significant vote of confidence in our brands from BTN's corporate travel audience.

Of all of the messages delivered by our teams to a record of nearly 6,000 attendees at our global conference in Las Vegas last month, remaining focused on elevating their service and quality ratings is more important than ever in terms of online reputation and its direct correlation to driving RevPAR and market share performance. A significant portion of our conference was dedicated to our new design-led brand prototypes and guestroom refresh standards.

Through the involvement and approval of our brand franchisee advisory councils, we continue to invest in the quality of our brands in order to further enhance the value proposition that we provide to hotel developers in each of our core chain scales. In the economy segment and following the recent launch of the new Microtel Moda prototype, Days Inn unveiled a new interior design package for its over 1,400 US hotels. This new in-room design prototype known as Dawn takes inspiration from Days Inn's roots with bright rooms, sun-themed art and a modern touch that builds on the considerable success that Super 8s innovate and Howard Johnson's RENEW prototypes have been having.

In the midscale segment, we showcased our AmericInn Gen 4 prototype with its new modern large guestroom refresh package. In the upper midscale segment, we introduced Arbor, a new interior and exterior prototype to our rapidly expanding Wyndham Garden brand, offering a modern look that creates a natural serenity experience for guests at a reduced cost per key for developers.

The addition of Arbor, coupled with La Quinta's award-winning Del Sol prototype, gives developers two new low-cost and high-return upper midscale development options. And for the extended stay segment, Hawthorn Suite's new dual-branded prototype with La Quinta attached continues to attract significant attention from interested franchisees with one of the very first soon-to-break ground near our headquarters here in New Jersey.

Overall, our conference proved to be a tremendous success for our franchise sales teams, for whom it was a great opportunity not only to sign incremental contracts, but also to generate new development leads.

Delivering reservations to our franchisees in growing that contribution represents an important part of our value proposition. Overall, central system contribution reached 58% globally and a record 71% of all room-night revenue delivered domestically in Q3 an increase of over 300 basis points compared to the third quarter of 2018.

In the quarter, Wyndham Rewards represented a record 41% of US occupancy, which is up more than 500 basis points from a year ago. Total Wyndham Rewards enrolled members increased 34% and 2 million new members were added to the program this quarter, bringing the program to 79 million members. Wyndham Rewards has consistently been ranked among the top hotel loyalty programs in the industry, and in August, was voted one of the two best programs in the industry by the readers of U.S. News & World Report. And this month, our loyalty program received the number one ranking in the lodging industry from the readers of USA TODAY for the second year in a row.

Our by Wyndham cross-branding initiative, umbrella marketing campaign, and other selling programs are having positive impacts. Search volumes, brand dot-com visits and direct online bookings are all up. And we are reminding customers every day that chances are you're only 10 minutes away from a hotel by Wyndham.

We are extremely proud of what our over 15,000 team members have helped us achieve this quarter and throughout the year, as we continue to build on our track record of delivering consistent earnings growth and making Wyndham Hotels & Resorts the world's largest and best franchisor in the over 80 countries we serve.

And with that, I'll now hand the call over to David, who will walk you through the financial highlights. David?

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### David B. Wyshner

*Chief Financial Officer, Wyndham Hotels & Resorts, Inc.*

Thanks, Geoff, and good morning, everyone. Today, I'll discuss our third quarter results as well as our balance sheet, capital allocation, our 2019 outlook, and the progress we've made since our Investor Day last year. My comments will be primarily focused on our adjusted metrics. You can find our complete results in our earnings release, including reconciliations of adjusted amounts to GAAP numbers. We believe the adjusted figures we're providing are helpful in understanding how our business performed and how it will look on a go-forward basis.

Our reported revenues declined due to lower cost reimbursement revenues that have no impact on earnings, as well as the accrual for payments we agreed to make to CorePoint Lodging. Excluding these items, our revenues increased 9%, driven by growth in fee revenues as well as the timing of our global franchisee conference, which was in April last year but in September this year.

Adjusted EBITDA increased 14% to \$190 million in the third quarter, primarily reflecting growth in fee revenues as well as increased synergies from the acquisition of La Quinta. Our adjusted EPS increased 29% to \$1.10 in the third quarter. It's encouraging and invigorating to see our organic growth efforts, our acquisition synergies and our share repurchases combining to drive 29% growth in this key metric.

As we previewed in July, in Q3, we terminated an unprofitable hotel management arrangement that was initiated in 2012 and covered eight US hotels and 2,500 rooms, all of which will remain in our system this year. As a result, we recorded a \$34 million contract termination charge in the third quarter. With the termination of this arrangement and the planned termination of another legacy hotel management arrangement that we accrued for in the second quarter, we expect our future maximum annual hotel-management guaranty obligations will be only \$5 million.

In the third quarter, US RevPAR declined 1% year-over-year, which we believe is consistent with broader industry trends with lower average rate being the primary source of the decline. We saw the strongest results in our Wyndham Grand, Hawthorn, Microtel and AmericInn brands and in the [ph] mountain (00:15:50) in Mid-Atlantic regions. Texas and its neighboring states, properties and energy-related markets and brands like La Quinta that are concentrated in these markets were softer.

Our international RevPAR declined 1% in constant currency and was unchanged on a same-store basis, as higher rates were offset by lower occupancy. Softness in China and Canada was partially offset by strength in Latin America, EMEA and Southeast Asia. In our hotel franchising segment, revenues increased 9% year-over-year in the third quarter due to higher fee revenues and the timing of our global conference. Adjusted EBITDA for the segment grew 10% to \$195 million, reflecting the growth in revenues and increased synergies from the acquisition of La Quinta, partially offset by a \$7 million impact from higher marketing expenses.

In our hotel management segment, revenues declined \$72 million compared to the prior-year period, primarily due to lower cost reimbursement revenues, which have no impact on adjusted EBITDA and payments we agreed to make to CorePoint, which are considered transaction-related and, therefore, do not impact adjusted EBITDA.

Excluding these items, segment revenues increased \$6 million, primarily reflecting higher revenues from our owned properties and \$2 million of management contract termination fees received upon CorePoint's sale of 12 hotels. Adjusted EBITDA increased \$8 million compared to the prior-year quarter, driven by the revenue increases and reduced marketing expenses.

After finishing the migration of La Quinta's technology platform and loyalty program in the second quarter, we focused our integration efforts in Q3 on decommissioning legacy La Quinta reservation systems and completing some [ph] day two (00:17:48) items associated with the migration.

During the third quarter, our results included \$17 million of synergies from La Quinta, which means we have reached full run-rate synergies of \$68 million annually. On our balance sheet, at September 30, we had \$134 million of cash and our debt balance was approximately \$2.1 billion, carrying an all-in weighted average interest rate of 4.8%.

Our net leverage was 3.23 times, the midpoint of our full-year 2019 outlook for adjusted EBITDA, in the lower half of our 3 to 4 times net leverage target range. Excluding specific cash outflow items, such as \$188 million of tax payments related to the La Quinta acquisition and \$60 million of transaction and separation-related expenses, free cash flow in the first nine months of 2019 was \$222 million compared to \$186 million in 2018. The growth in



free cash flow, excluding certain items, is driven by higher adjusted EBITDA, partially offset by higher interest expense due to our debt being in place for all of 2019, but only part of 2018. As a reminder, over time, we continue to expect our normalized free cash flow to approximate our adjusted net income as our business is inherently a cash business.

In August, our board increased our share repurchase authorization by \$300 million to reflect our strong free cash flow and our sustained focus on returning cash to our shareholders. During the third quarter, we returned \$103 million to shareholders through \$75 million of share repurchases and \$28 million of common stock dividends.

Our share repurchase activity in the quarter represented a 50% sequential increase from Q2 and a 70% increase from last year's third quarter. Our approach to capital allocation remains unchanged. We're focused on the organic growth of our business and we will deploy a portion of our free cash flow for development advances and similar opportunities in order to support that growth.

We also intend to grow our dividend over time. Beyond that, we will allocate cash flow to execute opportunistic tuck-in acquisitions that are both strategic and accretive and for share repurchases. Finally, we're reaffirming our 2019 full-year outlook for rooms growth. We have updated our outlook for organic global RevPAR growth to zero to minus 1% to reflect a softer RevPAR environment than we had anticipated.

We have tweaked our earnings outlook slightly to reflect our lower RevPAR outlook, cost savings and other items. Our 2019 adjusted EBITDA forecast is now \$610 million to \$615 million. Our outlook now reflects our third quarter share repurchase activity and we have increased the midpoint of our adjusted EPS estimate by \$0.05. As a reminder, our adjusted EPS guidance excludes the impact of future share repurchases we expect to make this year. Consistent with our past practice, we intend to provide our full-year 2020 outlook in February when we announce our full-year 2019 results.

More generally, when we look back and compare the progress we've made since our May 2018 Investor Day, we are pleased with our results. We have driven growth in our system size through six consecutive quarters of positive US net rooms growth and consistent high-single-digit growth of our international direct franchise system. We have strengthened the quality of our brands, as evidenced by our J.D. Power and BTN rankings, as well as improved guest online ratings across our brands.

We've made enhancements to our Wyndham Rewards loyalty program and have maintained our position as one of the top loyalty programs in the hotel industry. We have completed the integration of La Quinta and delivered all of the cost synergies we initially projected. We've adhered to a disciplined capital allocation framework to drive shareholder value and have returned almost \$450 million to shareholders through share repurchases and dividends since we spun off from Wyndham Worldwide.

And with this system, more than 9,200 affiliated hotels primarily in the select service segment, we have the advantage of being able to serve the majority of the needs of the majority of travelers in markets throughout the world. As a result, we remain confident and passionate about our business and our prospects.

With that, I would like to turn the call back over to Geoff.

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**Geoffrey A. Ballotti**

*President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.*

Thanks again, everyone, for joining us today. As David said, we're enthusiastic about our progress and momentum. We're successfully executing on our business objectives, expanding on our strong market position,

and strengthening our industry-leading loyalty program. We continue to work to enhance the value of our contributions to our franchisees and we're very excited about the opportunities that lie ahead.

And with that, David and I would now be pleased to take your questions. Katherine?

## QUESTION AND ANSWER SECTION

**Operator:** The floor is now open for questions. [Operator Instructions] Thank you. And our first question today will come from Joe Greff with JPMorgan. Please go ahead.

Joseph Greff  
*Analyst, JPMorgan Securities LLC*

Hi. Good morning, everybody.

Geoffrey A. Ballotti  
*President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.*

Good Morning, Joe.

Joseph Greff  
*Analyst, JPMorgan Securities LLC*

[indiscernible] (00:23:47) question. One, just given the overall softer industry-wide RevPAR performance, the question we have is when this may lead to lower development activity. Can you speak to this? And can you speak to hotel developer attitudes now versus earlier in the year? With increased macro uncertainty, is there a much lower propensity to find new development deals? And maybe how do these shifting attitudes vary when looking at it across different geographies like the US and China? And then, lastly related to this topic, do you think your pipeline can continue to eke out sequential growth or does it feel like a little flat now or decline over the coming months and quarters?

Geoffrey A. Ballotti  
*President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.*

Yeah. Thanks for the question, Joe. We're not seeing any slowness or softening in our pipeline and we're absolutely thrilled with what happened in the third quarter. We saw a pickup domestically, where our pipeline increased, and internationally, where it increased double digit. We certainly felt that sentiment at our recent global conference. I think developers are looking to this select service market and our brands. We've seen great interest domestically in our new construction prototype brands. But we're also increasingly seeing interest in some of our more traditional brands. Our Days Inn pipeline is improving. Our Super 8 pipeline is improving.

A lot of what we do is conversions and that's a really exciting thing to see. So, we're not seeing any slowdown domestically and we're certainly not seeing it internationally. You asked about China and we were again there thrilled with what happened in China in the third quarter. We saw our pipeline pick up, both from a master's standpoint. We saw a strong unit growth from both our masters and our franchise direct business, but we also saw our pipeline pick up in China and continue to see that.

We have an ability in China to continue to add new brands, as we've been doing. You've seen the growth of our direct franchising brands in that country. We've added now, as we said in the script, our 11th brand with our new



Microtel by Wyndham brand, but we've been able to do that with Wingate, with Wyndham Garden, which is seeing great growth. We've taken Ramada from a dozen hotels to over 100 hotels on a direct franchising base. But recall it, China is less than 5% of our royalty fee income today, but it has the potential to continue to grow. But great growth internationally in Asia, Latin America and Europe, Africa, India and the Middle East.

Joseph Greff

*Analyst, JPMorgan Securities LLC*

Q

Great. Thank you. And then, my last question, my follow-up question relates to the terminated managed hotel deal. It sounds like your base case scenario that these rooms will leave the system next year. Can you remind us how much these hotels generated in revenues and expenses in 2019? And then, were all of the revenues and expenses, were they allocated to the management section or did you have some allocation to the franchise segment?

David B. Wyshner

*Chief Financial Officer, Wyndham Hotels & Resorts, Inc.*

A

Sure. And in here, we're talking about the two legacy hotel management arrangements that we're terminating. You're right that the base case assumption for us is that of those 6,100 rooms, 700 will leave this quarter and the remaining 5,400 in our base case will leave next year, although we are speaking with the owners of those properties to see if there are opportunities for them to stay in our system depending on what their long-term plans for those properties are or if they're a seller of any of those properties, who the buyers are going to be. But, you're right, our base case is assuming that those 5,400 leave next year.

And going back to why we were so, I guess, eager and pleased to exit these relationships, they were not contributing to our EBITDA because of the structure of those deals. There was about a \$6 million or \$7 million, a negative EBITDA impact associated with one of the transactions and the other one was a net zero impact on us. They weren't contributing royalty fees because of the structure of the deal and the guarantees that we had. So, that's really the benefit associated with exiting those arrangements.

Joseph Greff

*Analyst, JPMorgan Securities LLC*

Q

And in terms of [indiscernible] (00:28:44) to the revenues and expenses and whether that was all in the management segment or any allocation to franchise segment?

David B. Wyshner

*Chief Financial Officer, Wyndham Hotels & Resorts, Inc.*

A

Yeah. It was essentially – thanks. It was essentially all in the managed segment. There would be some pass-through revenues that go away but there's no profitable revenue associated with that.

Joseph Greff

*Analyst, JPMorgan Securities LLC*

Q

Thank you.

**Operator:** The next question today comes from Stephen Grambling with Goldman Sachs. Please go ahead.

Stephen Grambling

*Analyst, Goldman Sachs & Co. LLC*

Q

Thanks. This is a bit of a multipart follow-up to Joe's question, the backdrop in the US. Why do you think the economy segment in aggregate has been trailing overall US RevPAR? Do you expect that will continue in your guidance for 4Q? And as you think about ways to bolster growth in that backdrop, what are some of the different levers you can consider pulling as you think about reinvestment in the brands, pursuing M&A, or driving additional cost cuts? Thanks.

Geoffrey A. Ballotti

*President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.*

A

Sure. Thank you, Stephen. It was certainly a more subdued Q3 in the economy and midscale segment. And I think a difficult late August and early September for economy and midscale hotels, especially with Dorian hitting us during the Labor Day week and impacting us in both the Florida and the Carolinas, we estimate that there was about a 50-basis-point drag to our first quarter RevPAR.

We also have a lot of economy and midscale hotels in the oil and gas markets, which Q3 last year hit record-RevPAR levels in those [ph] STR (00:30:21) energy markets, and they were also lapping much more difficult comps with the hurricane recovery business that were also in those tracks. So, combined about a 70-basis-point drag from the oil and gas market, a 50-basis-point drag from the hurricanes in Q3, and I'd say that would be about the bulk of the drag. David, anything to add to that?

David B. Wyshner

*Chief Financial Officer, Wyndham Hotels & Resorts, Inc.*

A

Sure. As we look going forward, I would say that at this point, we probably expect that Q4 will look a fair amount like Q3. The pressures in energy-related markets are going to be there on a year-over-year basis. And from our perspective, we see opportunities both on the development side and on the sales and marketing side. So, in a little bit of a tougher environment that we're seeing in the economy and midscale space, we're going to look for additional conversion opportunities primarily from independents, where we can bring additional value to the table. And we're having those discussions on a regular basis with independent hotel owners. And so, ideally, over the next few quarters, we'll see benefits from the increased ability to convert properties.

And then, for our existing franchisees, given our size in the economy and midscale space, we're always going to, I think, tend to move with the industry. But we want to look for opportunities to over-perform that a bit through our loyalty program, through the marketing efforts that we're pursuing, to how we continue to refine some of our promotional strategies in ways that we think will be a positive, and through the advertising campaigns we have, both the media advertising and particularly online advertising where we've been seeing some very, very good results. And then, lastly, through some sales efforts and some new strategies we've been deploying in that area to drive both local and national sales.

Stephen Grambling

*Analyst, Goldman Sachs & Co. LLC*

Q

That's helpful. Thanks. And maybe a follow-up, turning to the international segment. I'm not sure I caught this, but it looks like there may have been a little bit of an uptick in deletions in the third quarter in the international segment. I guess what drove that and how should we be thinking about deletions in that segment going forward? Thanks.

Geoffrey A. Ballotti

*President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.*

A

Sure. Our international retention rates have continued to improve over time. We did call out in the script that our master deletions internationally were up. I think when we enter a master license agreement and when we take over a master license agreement as we did in China, we want to make sure that those hotels are up to our standards and that they are with franchisees who are paying us. And I think that's where you saw most of the uptick, Stephen.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Q

And so, I guess, in terms of where that process stands, it sounds like you're still going through quality control and so we should be expecting that to continue, and so you're [ph] now over that. (00:33:35)

Geoffrey A. Ballotti

President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.

A

Yeah. There'll be some of that. I mean, we're thrilled that our international retention rates have moved over time from the sort of 92% to 93% to nearly – I think we're at 93.8% over the last 12 months. And to the extent that we have the opportunity to move those retention rates, as we've been able to move our US retention rates from 92% to 93% to 94% to 95.6% today, the opportunity is certainly there for us to do that as we continue to emphasize the growth in our direct franchising business, which in a country like China now is a third of our room count and growing double digit. As we mentioned, in all of our business internationally, aside essentially from China, is direct franchising where we have much more ability to improve our retention rates and control the deletion rate.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you so much.

**Operator:** Our next question today comes from David Katz with Jefferies. Please go ahead.

David Katz

Analyst, Jefferies LLC

Q

Hi. Good morning, everyone. Just a couple of details and then a bigger picture question. You referred to the year-over-year comps of moving the franchisee conference. Have you given us some detail? And I did look back at the 2Q, at which would've included April last year. How much movement is that in revenue and how do we think about that as we model next year, where is that going to be placed?

David B. Wyshner

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Sure. The conference is about \$16 million or \$17 million of revenue that's comprised both of attendee fees that we charge. Think of it as, ballpark, 5,000-plus attendees at \$2,000 each, plus sponsorship revenues that we get. We run the conference essentially to break even, roughly speaking. So there's not really a significant EBITDA effect with that.

And in the next calendar year, we don't have a conference. Our approach is to have a conference every 18 months. So, the next one is scheduled for April of 2021, and that every 18 months cycle is what we've been on for a while and our game plan is to continue that. So, again, our next conference will be in April of 2021.

David Katz

*Analyst, Jefferies LLC*

Got it. And so there's no profit associated with that in either period?

Q

David B. Wyshner

*Chief Financial Officer, Wyndham Hotels & Resorts, Inc.*

Correct.

A

Geoffrey A. Ballotti

*President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.*

We run it as a breakeven.

A

David Katz

*Analyst, Jefferies LLC*

The other revenues line item that you have on the P&L went up considerably also. Is that all La Quinta-driven, or is there something else in that bucket?

Q

David B. Wyshner

*Chief Financial Officer, Wyndham Hotels & Resorts, Inc.*

Yeah. The other revenue includes credit card revenues that we generate, IT fees that we charge to franchisees, certain reservation fees and then it's a catch-all for other things. It has moved up and we are collecting some additional fees and we've been using that to support our marketing reservation and loyalty programs.

A

So, when you look at some of the overspend marketing reservation and loyalty expenses compared to revenues, the additional other fees that we've had, we've been using some of those to support those marketing reservation and loyalty activities and to offset the overspend you could see running through our P&L.

David Katz

*Analyst, Jefferies LLC*

Got it. And just one last bigger picture question about La Quinta. I know there's been a lot of comparability noise. There's obviously been the CorePoint goings-on. Is it fair to say that you are essentially where you expected to be from a return perspective on La Quinta? And when we get into next year, is it fair to assume a much cleaner set of comparisons and a little clearer information around La Quinta going forward?

Q

Geoffrey A. Ballotti

*President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.*

Thanks, David. We absolutely are where we expected to be from a return standpoint with La Quinta. We're ahead of where we expected to be on our synergy numbers. We're extremely pleased with the resolution. With La Quinta, we look forward to working with them on what's most important, which is driving their market share and driving their margin growth and we do feel that the RevPAR is moving in the right direction.

A

David Katz

*Analyst, Jefferies LLC*

Okay. Perfect. Thank you.

Q

**Operator:** Our next question comes from Patrick Scholes with SunTrust. Please go ahead.

Patrick Scholes

*Analyst, SunTrust Robinson Humphrey, Inc.*

Hi. Good morning, Geoff and David.

Geoffrey A. Ballotti

*President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.*

Hi, Patrick.

Patrick Scholes

*Analyst, SunTrust Robinson Humphrey, Inc.*

A question for you on capital allocation. It looks like in the most recent quarter you stepped up the level of buyback. My question for you is, should we think about that as sort of the new run rate going forward or was that sequential uptick more of result of your stock pulling back after those comments from CorePoint? And then you...

David B. Wyshner

*Chief Financial Officer, Wyndham Hotels & Resorts, Inc.*

Good morning.

Patrick Scholes

*Analyst, SunTrust Robinson Humphrey, Inc.*

...backing up the [ph] truck (00:39:02) a little bit?

David B. Wyshner

*Chief Financial Officer, Wyndham Hotels & Resorts, Inc.*

Good morning, Patrick. I think it's a bit of both. Our strong free cash flow excluding items has allowed us to lean into share repurchases as our stock price and multiple were under pressure, and we've been able to do this while keeping our net leverage in the lower half of our targeted range.

So, as we look ahead and think about this, we continue to feel our stock is undervalued particularly on a multiple basis compared to peers. And while we don't publish a specific forecast for share repurchases, I do see us near-term looking to deploy most or all of our free cash flow for share repurchases and dividends, absent any significant acquisitions.

So, when you look at the numbers over the last few quarters, we've averaged around \$55 million to \$60 million a quarter in share repurchases and we were at \$75 million this past quarter. Those seem like the right sort of numbers to be thinking about for us.

Patrick Scholes

*Analyst, SunTrust Robinson Humphrey, Inc.*

Okay. Great, David. Thank you for the color.

Geoffrey A. Ballotti

*President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.*

Thanks, Patrick.

**Operator:** Our next question comes from Anthony Powell with Barclays. Please go ahead.

Anthony F. Powell

*Analyst, Barclays Capital, Inc.*

Q

Hi. Good morning, guys. A question on the CPLG agreement. You agreed to invest in what you call ongoing pricing, direct sales and revenue management tools. How will you pay for those and will those come out of the synergies that you've already achieved in La Quinta?

David B. Wyshner

*Chief Financial Officer, Wyndham Hotels & Resorts, Inc.*

A

Sure. I think some of the activity is going to be part of our normal course capital expenditures over the next 9 or 12 months, and I don't see them changing our capital spending numbers significantly. I view that as fitting into what we typically do.

I think with respect to a few other elements of the agreement, there will be probably a few million dollars of additional annual cost that we're taking on as part of that and that will run through our normal P&L. I think you could look at it as part of – as a – I guess as an offset to either some of the synergies. We tend to – I think our inclination is to feel that we're essentially done with the integration. We've achieved \$67 million of annual synergies. We'll continue to look for a few million dollars more there, but to view some of the additional support that we're providing to CPLG and the La Quinta brand as more of a normal operational item that we'll have going forward. And if there's some additional costs there, we'll look to offset them in other ways.

Anthony F. Powell

*Analyst, Barclays Capital, Inc.*

Q

Got it. Thanks. So just stepping back, I mean you published an 8% to 14% EPS growth potential in your investor presentation from May 2018, assuming RevPAR growth of 2% to 3%. In the current environment of, let's say, 0% RevPAR growth, what can you do to offset that to get back to that high-single-digits or low-teens EPS growth over time?

David B. Wyshner

*Chief Financial Officer, Wyndham Hotels & Resorts, Inc.*

A

Sure. I think a couple of things. The first is that when we look at our long-term earnings and growth forecast, we do view that as being over time. And so, I think there will be some periods that are a little bit stronger and some that may be a little bit tougher. And certainly, the RevPAR environment over the last few months has fallen into the tougher category.

And so, as we look ahead in terms of opportunities to mitigate any continued softness, what we want to do is take advantage of the opportunity we've seen in the past to increase conversions from independent brands to toss at that. The timing from one quarter to the next may not be perfect, but we see opportunities to offset in that area.

And the second opportunity for us is to continue to manage costs very carefully. And we have been doing that, I think you can see a bit of that in our third quarter results and we'll continue to look for cost savings opportunities to mitigate any softness that's there.



And then lastly, I think the international growth opportunities for us continue to be very significant and we want to take advantage of those. We've been investing over time to build up the position and the strength we have in international markets to be able to deliver the high-single-digit direct franchising growth we're seeing in a lot of markets and that's the – that, I would say, is a third key opportunity for us to seize.

Anthony F. Powell

*Analyst, Barclays Capital, Inc.*

Q

Got it. So, on a conversion point, we've seen a lot of press from Oyo being very aggressive in the US conversion market. Have you run into them in any of your deals and what's your comments around that competitor?

Geoffrey A. Ballotti

*President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.*

A

Sure. We have been watching Oyo for a few years now in both India and China and have seen no impact in either of those very important markets for us. We're certainly watching them here in the United States and, to-date, have seen no impact.

Anthony F. Powell

*Analyst, Barclays Capital, Inc.*

Q

Great. Thank you.

**Operator:** Our next question comes from Shaun Kelley with Bank of America. Please go ahead.

Dany Asad

*Analyst, Bank of America Merrill Lynch*

Q

Hey. Good morning, guys. This is actually Dany Asad on for Shaun. My question is – it's on the development side. So, can you just first remind us how much of your pipeline is conversions versus new builds, and if the conversions that you're seeing are primarily coming from independents or are you getting other brand? And then, I'll just – my follow up is, what was your experience in conversion activity during prior cycles or periods of industry softness?

Geoffrey A. Ballotti

*President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.*

A

Sure. Thanks, Dany. Just to recall, our pipeline right now is at a record of 190,000 rooms. It's never been stronger, and what excites us most about the pipeline is how, as David pointed out a while ago, it's growing fastest in our new construction segment and that's both domestically and internationally. We're seeing really strong growth. A 10% growth in our new construction pipeline domestically. Again, we think it's largely because of the success of our new prototypes, which in the economy and midscale space developers are looking to build, and it's grown 13% internationally on the new construction front.

So, 73% is new construction, roughly 60% is international, and we have tremendous opportunity to grow as we add new brands into markets like we did this quarter in China, adding new brands and we continue to do in Southeast Asia, Latin America, Europe, Africa, India and the Middle East.

To the second part of your question, during slower economies, we have seen consistent 3% net unit growth, and we saw that in 2007, 2008 and 2009. Our conversion activity during that period picked up. Our brands become, in

a way, more attractive during slowdowns and we're seeing great interest, as David pointed out, in our conversion brands right now.

Dany Asad

*Analyst, Bank of America Merrill Lynch*

Great. That's it for me. Thank you.

Q

**Operator:** Our next question comes from Michael Bellisario with Baird. Please go ahead.

Michael J. Bellisario

*Analyst, Robert W. Baird & Co., Inc.*

Good morning, everyone.

Q

Geoffrey A. Ballotti

*President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.*

Good morning, Michael.

A

Michael J. Bellisario

*Analyst, Robert W. Baird & Co., Inc.*

Just first, one follow-up guidance. I know you mentioned 4Q RevPAR should be about similar to 3Q, but are we correct to assume the midpoint of the updated full-year range is really kind of, plus or minus, down 2% at the midpoint, is that the right math there?

Q

David B. Wyshner

*Chief Financial Officer, Wyndham Hotels & Resorts, Inc.*

No. I think the right way to look at it is more consistent with what we've seen in the third quarter. And in particular, we had US and international each down 1% in the third quarter. And strangely, because our international business is lower RevPAR but growing faster, minus 1% internationally and minus 1% in the US worked out to be minus 2% on a global basis. And so, I think it's helpful to break those apart a little bit and look at each of them as having been minus 1%.

A

Michael J. Bellisario

*Analyst, Robert W. Baird & Co., Inc.*

Got it. That's helpful. And then just on the royalty rate decline, I believe it was down 7 basis points. Could you just talk about the main drivers of that reduction versus the prior quarters increase and then how we should be thinking about that trend going forward?

Q

David B. Wyshner

*Chief Financial Officer, Wyndham Hotels & Resorts, Inc.*

Sure. I think over – there obviously is a little bit of noise or non-comparability in the royalty rate numbers year-to-date because of the inclusion and the addition of La Quinta. The other thing that's going on is that so far this year, we've seen some faster growth in some of our lower royalty rate brands and particularly faster growth in Trademark has impacted royalty rate a little bit. And I would expect that impact to continue, call it, into the fourth and first quarters, and then we should be at a – I would expect a more consistent run rate there.

A

Generally speaking, over time, what we've seen is that our royalty rate tends to be pretty consistent over time and even internationally, where the royalty rate is lower, as we get more and more critical mass in particular countries, we're able to move royalty rates up.

So, as I look at both our US royalty rate and our global royalty rate, I think we'll see probably a little bit of pressure over the next couple of quarters but over a longer period of time, I expect those to be pretty steady, consistent with our longer-term trends.

Michael J. Bellisario

*Analyst, Robert W. Baird & Co., Inc.*

Thank you.

**Operator:** Our final question today comes from Dan Wasiolek with Morningstar. Please go ahead.

Dan Wasiolek

*Analyst, Morningstar, Inc.*

Good morning, guys. It seems like your brand is resonating pretty well here. Wondering if you can maybe give some stats around your RevPAR index for the overall portfolio or specific brands? And then, in regards to RevPAR and slowing environments during past cycles, how has your economy and midscale, mostly nonurban portfolio, performed relative to the overall industry? We used to come across some data that kind of shows that maybe those segment scales could be more resilient in slowdown periods relative to, say, luxury sales scale segments. Thank you.

Geoffrey A. Ballotti

*President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.*

Sure. Thanks, Dan. We're thrilled with our RevPAR index and the progress we're making. Internationally, our RevPAR is up 60 basis points in the quarter. Domestically, where we're most focused is on our economy brands and we're now able to say that all five of our large economy brands have seen their RevPAR trend up over 100% fair market share and we were not able to say that several years ago. To see a brand like Super 8 move from the mid-90s to 100% fair share, to see Days Inn now running at 104%, 105% market share, as is Howard Johnson's, is something that is hats off to all of our teams that are working so hard on the quality front, and on the refresh and prototype front as we're doing.

To the second part of your question, our brands have performed well from a market share standpoint during slowdowns. Again, I think there's great interest from the developers in our brands but also from consumers in our brands as times get a little bit tougher and consumers tend to trade down into the leisure markets we are in.

Dan Wasiolek

*Analyst, Morningstar, Inc.*

Okay. Great. Thank you.

**Operator:** We have no further questions at this time. I would now like to turn the floor back over to Geoff Ballotti for closing remarks.

Geoffrey A. Ballotti

*President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.*

Thanks again, Katherine, and thanks everyone for your time this morning. We appreciate your attention and your interest in Wyndham Hotels & Resorts. And David and I look forward to talking with you, along with Matt, at the upcoming investor conferences that we might be seeing you at or talking on the phone soon. Happy Halloween.

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**Operator:** This does conclude today's program. Thank you for your participation. You may disconnect at any time.

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