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Wyndham Hotels & Resorts, Inc. (WH)

Q3 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Wyndham Hotels & Resorts, Third Quarter, 2018 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. Please go ahead.

Matt Capuzzi

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

Good morning. 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 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 Form 10 and other filings 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 www.investor.wyndhamhotels.com.

Consistent with the information that we share with you in August, our further adjusted metrics reflect what our results would have looked like if we had completed our spin-off and the acquisition and integration of La Quinta on January 1.

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

Geoffrey A. Ballotti

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

Thanks, Matt. Good morning, everyone and thanks for joining us today. In our first full quarter as an independent public company, we've reported strong results at the high-end of our guidance with adjusted EBITDA of \$166 million and further adjusted EBITDA of \$177 million. We delivered organic growth in both global RevPAR and system size. We grew our development pipeline both sequentially and year-over-year to a record 176,000 rooms. And we continue to strengthen the quality of both our brands and our hotel network.

Most importantly, we made significant progress in our integration of La Quinta. We're off to a strong start as the newest public company in the industry and we see tremendous opportunity ahead both domestically and internationally. Going forward, we see Wyndham Hotels & Resorts continuing to grow as the world's largest hotel franchise company and the provider of select service and upscale brands to both owners and guests. In a moment, our CFO, David Wyshner will walk through our financial results and address our capital allocation strategy, which will continue to focus on returning excess capital to shareholders.

I'd like to spend my time today discussing the progress we're making on three of our strategic objectives, driving room growth, continuing to enhance the strength of our brands and the seamless and successful integration of La Quinta.

First on rooms growth. We continue to expect organic room growth of 2% to 4% this year more likely in the lower half of the range driven by 6% to 8% of international net room growth and a stabilizing domestic system size.

Our total system at September 30 was over 798,000 rooms, which represented a 13% increase from a year ago, a 3% increase excluding our 2018 acquisitions and divestitures and a 2% increase if we further exclude our AmeriInn brand, which we acquired last October. As you peel back these numbers, you see real progress in areas that we've told you we're focusing on, system size stability in the U.S. and direct franchising growth as opposed to master licensee franchise growth internationally.

In the United States, where before last year we had several years of quality-focused domestic shrinkage. We again held our system size steady by adding nearly a 1,000 more quality rooms on a net organic basis. This represents an important milestone in our path to positive long-term domestic net growth while continuing to focus on improving quality across our portfolio. In fact, we've opened over 14,000 U.S. rooms in the first nine months of this year which is up 15% from last year and nearly 35% from two years ago, reflecting what we believe to be the growing interest in the improving quality and performance of our brands.

Internationally, we grew 4% on a net organic basis by growing our direct franchise system by 6% year-over-year. We introduced three of our brands to four countries they've never been sold in before. As expected, we also saw significant improvement this quarter in our retention rate. Our global full-year retention rate has improved on a run rate basis since the end of last quarter by 140 basis points to 94% as property terminations by our international master franchisees were significantly lower and domestic terminations also moderated.

Our international terminations in Q3 were 70% below the average of the prior four quarters due again to significantly lower terminations by our master franchisees. Balancing retention and attrition while ensuring consistent levels of quality across each of our brands will remain our priority. Our team is focused on all of the drivers of rooms growth and rooms openings around the world including adding new brands to new countries. For example, during the third quarter, we introduced the TRYP by Wyndham brand to the country of Georgia and the Dolce by Wyndham brand to both Greece and Malaysia and we opened our first Ramada by Wyndham in

Portugal and our first TRYP by Wyndham in Peru. And that brings me to the second key objective, I'd like to discuss today, the power and recognition of our brands.

Our brands continue to strengthen the value proposition they deliver for our franchisees. During the third quarter, we grew our direct contribution to our franchisees by 19% globally with the growth from our proprietary channels outpacing the growth in contribution from OTAs. Our increased contribution rates are being driven by strong digital and very strong call center performance.

Online bookings on our websites are benefiting from the launch of our new Wyndham Rewards website and continued enhancements to our brand.com websites. Call center bookings are benefiting from our new Signature Reservation Services program where our best-in-class global call centers are now servicing front desk reservation call on behalf of both managed and franchise owners.

Over 2,600 now of our 6,800 domestic hotels are routing their call volumes to us and experiencing an average 160 basis point lift in ADR, along with a 40% to 50% increase in Wyndham Rewards enrollments. As we continue to demonstrate the ROI of this program to our owners, we believe they will see this as a winning proposition that will drive further growth in both participation and our franchise retention rates.

On our last call, we told you about our simple yet very meaningful decision in April to connect all of our brands under the By Wyndham banner. The By Wyndham endorsement now appears in all of our marketing efforts, all of our advertising, all of our digital presence from our brand.com websites to online searches.

This Wyndham cross-branding helps our guests better understand, which brands belong to our Wyndham Rewards loyalty program and also increases our overall brand awareness. At the same time, the halo effect of Wyndham is elevating our economy in mid-scale brands and driving more direct business to our franchisees. Since we announced the initiative in April, we've seen a 9% increase in searches for brands that did not previously carry the By Wyndham endorsement.

We expect to benefit of our By Wyndham cross-branding to continue to build over time since the transition of property and highway signage will occur over the next few years. Our Wyndham Rewards loyalty program also continues to strengthen the power of our brands. We've added 6 million new members and now have approximately 59 million members enrolled, in addition to welcoming the millions of La Quinta Returns members to Wyndham Rewards next year. Our Wyndham Rewards share of occupancy continues to increase as it also continues to increase Wyndham-affiliated tour volume, vacation ownership sales and rental room nights at Wyndham Destinations, our former sister company and long-term partner in Wyndham Rewards.

Let me wrap [Technical Difficulty] (00:08:57) which is proceeding very well. Most importantly, the brand had another strong quarter with RevPAR outpacing the industry and its Net Promoter Score is growing by 500 basis points to record highs. We continue to be impressed by La Quinta's high-performing franchise sales team, its award-winning architecture, design and construction team along with its phenomenal sales, marketing and operation team members who have joined our company.

In the first full quarter, as the proud owner of La Quinta, we together signed nine new franchise agreements, all for new construction Del Sol prototypes. We opened 550 new La Quinta rooms and we grew the La Quinta pipeline sequentially by 2% to over 24,000 rooms, which includes over a 1,000 rooms that we plan to open in the fourth quarter.

When we announced the La Quinta acquisition, we estimated pre-tax synergies of \$55 million to \$70 million. Our expectations to achieve these synergies remain the same. We're on track for our IT integration of La Quinta into our cloud-based property and central reservation systems and we have identified increased distribution and cost savings opportunities associated with this migration. We also took the first steps in merging the Wyndham Rewards and La Quinta returns loyalty programs this summer by providing status matching and points exchanging between the two programs. We continue to expect that the La Quinta integration will be substantially completed by the first half of 2019.

In summary, while we're pleased with the progress we have made on these key initiatives, we're never satisfied. We remain focused on our objectives and the key drivers of long-term shareholder value namely our earnings, our growth potential, our brand, the successful integration of La Quinta and the strong value proposition we provide to owners. And we are confident in our ability to continue to execute going forward.

And with that, I'll now turn the call over to David.

David B. Wyshner

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Thanks, Geoff and good morning, everyone. Today I'd like to discuss our third quarter results which were strong and at the high-end of our expectations as well as our balance sheet, capital allocation and our 2018 outlook.

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 and walk downs of adjusted amounts to further adjusted metrics that reflect what our business would look like if our spin-off and the acquisition and integration of La Quinta had all occurred on January 1. As we mentioned last quarter, our results reflect our mid-year acquisition of La Quinta and our mid-year spin-off from Wyndham Worldwide. In that context, we believe that 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 total revenues grew 74% in the third quarter including \$238 million of incremental revenues from La Quinta. Excluding the acquisition, revenues grew 5% primarily due to 4% higher royalties and franchise fees, as well as higher license and other fees.

Adjusted EBITDA increased 34% or 7% in constant currency and excluding our 2018 acquisitions and divestitures. Royalty and franchise fee revenues increased \$31 million or 29% including a 25-point contribution from La Quinta. License fees from Wyndham destinations were \$30 million, compared to \$16 million in the third quarter of 2017.

The timing of marketing spend muted our EBITDA growth in the third quarter. Excluding La Quinta, marketing and reservation revenues exceeded marketing and reservation expenses by \$7 million in the third quarter of 2018, compared to \$14 million in third quarter 2017. This timing difference wasn't a surprise to us, but it did suppress our third quarter EBITDA growth by \$7 million.

Our global RevPAR grew 10% in constant currency in the third quarter including 6 points from La Quinta. Domestic RevPAR grew 11% in the quarter, reflecting 6 points from La Quinta and 3 points from the divestiture of Knights Inn. Excluding these brands, our U.S. RevPAR growth was 2.4%. This growth was pulled down by roughly half of a point, due to lapping the hurricane-related benefit that we saw in the third quarter last year.

In fact, the sequential RevPAR progression, we're seeing from Q2 to Q3 is being driven primarily by hurricane impacts, which were a benefit in the first half of the year and became a headwind in the third quarter as we anniversaried them. When we back out hurricane effects in 2018 acquisitions and divestitures, our U.S. RevPAR growth was 2.5% in the first quarter, 2.6% in the second quarter, and 3.1% in the third quarter. International RevPAR increased 6% in constant currency in the third quarter, all of which was organic reflecting strong performance in a range of geographies including Canada, Turkey, and Brazil.

During the fourth quarter, we expect a headwind from hurricanes of approximately 200 basis points in global RevPAR and approximately 280 basis points in U.S. RevPAR as we lap last year's benefits. This is reflected in our full-year global constant currency RevPAR growth projection of approximately 3%.

As Geoff mentioned, net system sizes up 13% year-over-year or 3% excluding the impact of our 2018 acquisitions and divestitures. Our total pipeline now stands at over 176,000 rooms, of which 54% are international and 71% are new construction. La Quinta pipeline now stands at over 24,000 rooms, 90% of which are new construction. Sequentially, compared to the second quarter, our global pipeline increased 3%. Excluding our 2018 acquisitions and divestitures, our global pipeline is up 5% year-over-year.

Globally, again excluding our 2018 transactions, our average royalty rate was unchanged year-over-year in the third quarter. As Geoff also mentioned, we continue to expect to achieve \$55 million to \$70 million in total synergies from the La Quinta acquisition. We are on target, with both our expected timing of synergy realization and the amount of salary and benefit savings.

As a reminder, virtually all the synergies we projected are cost savings. We've realized \$8 million of synergies at La Quinta in the quarter, which puts our run rate of annual synergies at \$32 million. We expect this to increase to \$35 million to \$40 million at year-end. The math associated with this is that it will allow us to deliver \$8 million to \$9 million of actual synergy benefits during the fourth quarter.

We continue to target completion of substantially all of our integration work in the first half of 2019, as we add La Quinta on to our technology platforms and loyalty programs, positioning us to reach full run rate synergies in the second half of 2019.

As a reminder, you should expect La Quinta to contribute about \$9 million to \$12 million of EBITDA per month in 2018, subject to some seasonality, growing to around \$13 million or \$14 million per month by late 2019 as the business is fully integrated.

At September 30, we had \$387 million of cash on our balance sheet. We started the quarter holding \$240 million of cash that we will ultimately pay to tax authorities and CorePoint Lodging in conjunction with our acquisition of La Quinta.

As of September 30, we still had \$205 million of this temporary cash on our balance sheet. Excluding the \$35 million tax payment we made, we generated \$81 billion of free cash flow during the quarter which we used primarily for share repurchases and dividends. Our debt balance remained at approximately \$2.1 billion, carrying a weighted average interest rate of 4.7%. Three quarters of our debt is fixed rate or swap-to-fixed. There were no borrowings outstanding under our revolving credit facility.

Excluding the \$205 million of temporary cash, our net leverage was 3.3 times the midpoint of our 2018 further adjusted EBITDA forecast, were in the lower half of our three to four times net leverage target. As we mentioned

in August, our primary goal is to grow our business organically and we will deploy a portion of our free cash flow for development advances and similar opportunities.

We will also continue to deploy free cash to pay dividends. Beyond that, we will allocate cash flow to tuck-in acquisitions that are both strategic and accretive and to share repurchases with the amount going to each depending largely on the opportunities that are available. On that note, we paid our second quarterly dividend of \$25 million or \$0.25 per share in September. And we've repurchased \$778,000 of common stock for \$44 million in the third quarter. We've retired more than a million shares in our first four months as an independent company. We plan to continue to deploy cash flow for dividends and share repurchases in the fourth quarter.

Now, let me turn to our outlook, the details of which are in our earnings release. Revenue is now expected to be \$1.81 billion to \$1.86 billion. The increase from our prior projection reflects the need to record more items as cost reimbursement revenue at La Quinta than we had previously anticipated with no impact on EBITDA. Our adjusted EBITDA forecast is now \$500 million to \$510 million, so the midpoint remains unchanged from our prior outlook.

Total depreciation, amortization stock-based compensation and net interest expense in the aggregate is largely consistent with our prior projection. Adjusted diluted EPS is now forecasted to be \$2.62 to \$2.68, \$0.02 higher at the midpoint than before reflecting our third quarter share repurchases. Our further adjusted 2018 forecast which assumes that our spin-off and the acquisition and integration of La Quinta had all been completed on January 1 is very similar to what we previously provided with the exception that it now reflects incremental La Quinta cost reimbursement revenues as well as a tightening of ranges to reflect having only one quarter remaining this year.

Our further adjusted outlook calls for revenues of \$2.06 billion to \$2.11 billion, adjusted net income of \$300 million to \$315 million, adjusted EBITDA of \$594 million to \$605 million, rooms growth of 11% to 13% including organic growth of 2% to 4%, and RevPAR growth of 7% to 8% which works out to approximately 3% excluding our 2018 acquisitions and divestitures.

Let me proactively address one of the questions you may have. Since third quarter adjusted EBITDA exceeded the midpoint of guidance by \$7 million, why is full year adjusted EBITDA guidance unchanged? The answer is that a few million dollars of the surplus in Q3 was due to timing favorability between the third and fourth quarters. And currency movements have negatively impacted our results by around \$4 million. We've been working to offset the currency effects which you can see in our third quarter results. So in total, we haven't seen anything that significantly changes our view of the year as a whole.

Lastly, I want to take the opportunity to highlight two additional points about our business and our industry. First, as I discussed in detail on our last quarterly call, an independent hotel brand is likely to be worth more as part of a large brand family like Wyndham than on its own. As evidence of this, we've significantly increased the earnings contributions from our acquisitions. Well, investors may be able to invest in our stock and the stock of an independent brand, a public market investor can't produce the synergies that we can. This, in a nutshell is why it can make good sense for us to pursue smart, strategic acquisitions.

And second, according to the STR data that are now available, economy and mid-scale hotel demand grew about 0.5 point faster than supply in the first nine months of the year. This is a continuation of a trend, we've seen for a while and one reason why when looking at the lodging cycle, we don't think there's any oversupply issue developing in select service lodging.

In conclusion, our quarterly results were solid and above our expectations. Our full-year further adjusted EBITDA outlook is consistent with what we shared with you previously and we remain highly enthusiastic about finishing 2018 on a strong note and about the opportunities in front of us in 2019.

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

Geoffrey A. Ballotti

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

Thanks, David. As David said, our results for the third quarter were strong and demonstrate continued progress on our strategic objectives. We have a strong market position with tremendous global brand awareness and industry-leading loyalty program, a state-of-the-art technology and distribution platform and a team member base now of 16,000 hard working professionals. These strengths position us very well to take full advantage of the opportunities that lie ahead. We will maintain a focus on organic room growth, on identifying and integrating accretive acquisitions and on a shareholder-friendly approach to capital deployment. Our business model, our recent results, our outlook including the integration with La Quinta and our growth potential all continue to make us very optimistic about our future.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Thank you. We'll take our first question from Joe Greff with JPMorgan. Please go ahead.

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Q

Good morning, guys. My first question, Geoff is on the rooms growth, you commented that the domestic system size has been stable which is great. In other words, gross room additions and deletions have been a wash which is an improvement relative to the last couple of years. Can you talk about – when you think about the level of deletions or a churn domestically over the next couple of years, can you share with us how you see that trends? And can you remind us maybe what your targets are here? I know that kind of gets you more to the 3% to 4% range, but if you could share with us your latest thoughts, I think that'd be helpful.

Geoffrey A. Ballotti

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

A

Sure. Thanks, Joe. As you point out, we have made great progress and we're very happy with the momentum we're making domestically and also internationally which I'd like to touch on in a second. But domestically to your question, this was the second year really where we we're seeing a stabilized domestic system size and we're opening more rooms than we ever have domestically on a gross rooms basis as I mentioned and that's really help stabilize. We'll be continued to focus on that bottom 5% to 10% of our portfolio from a quality basis and our target is to continue to stabilize the system this year and see our domestic system begin to grow.

On a long-term basis, as we've said, we'd like to see it move from 0 to 1 to 1 to 2 and that will do great things for our overall rooms growth. Where we're most encouraged right now is the progress we're making internationally, where our room growth as you saw declined in the first quarter and second quarters based on the work we're

doing with our master franchises. But when you look at what happened as we expected in the third quarter with 6,000 rooms of positive international growth, we're really excited about that growth and where we're seeing it overseas.

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Q

Great. And then, David my follow-up question is, in the 4Q, what's baked in for U.S. RevPAR growth on a sort of a same-store ex M&A adjusted basis?

David B. Wyshner

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Joe, the Q4 number is – it's what brings us to a range of approximately 3%. It works out to being slower than where we have been so far this year as we have the lapping of the hurricane issues. I expect it to be in the range of 1%.

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Q

Thank you, guys.

Operator: Thank you. Our next question comes from Stephen Grambling with Goldman Sachs. Please go ahead.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Q

Hey, good morning. I guess, first when you think about the underlying acceleration that you had cited in demand year-to-date, I guess, focusing on the U.S., what customer basis, regions or other segments are driving that? And then, second follow-up to Joe's question on room growth, as you move from 0 to 1, 1 to 2, one, is that ex-La Quinta? And second, do you have any line of sight or expectation around what brands or chain scales of that growth is likely to come from? Thanks.

Geoffrey A. Ballotti

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

A

Joe (sic) [Stephen] (00:27:47), I'll take the second part of that first, Stephen. And going forward, our room growth will include both AmericInn and La Quinta as it will be in there. And as we saw in the quarter, we saw a good growth in both AmericInn and La Quinta. And what's driving that is a great franchise sales team, is a great and increasing and growing pipeline. In terms of where that growth is occurring domestically aside from where we're seeing it with AmericInn and La Quinta, it's in our brands like Trademark, which has just seen tremendous growth.

Last year, we introduced the brand. We opened 50-ish hotels in Europe. We've introduced and opened 60 hotels this year in the United States. We're now at over 100 hotels with Trademark and we have another 70 in our pipeline. We're seeing it in our new construction brands like Hawthorn, like Microtel, like our number one mid-scale brand rated by J.D. Power right now, which has seen a great start to the year, Wingate by Wyndham.

And then internationally, we're seeing great growth as I mentioned overseas. Our China direct business continues to grow. Our pipeline was up 16% in China with our direct franchise business only. We have over 40,000 direct

franchise rooms in that country. Strong growth in Southeast Asia and in a solid pipeline in Europe, I would like to see it stronger and in Latin America as well.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Q

And then, in terms of sources of demand, I would say that the demand strength that we've seen the outpacing versus supply has been fairly broad-based. We overcame some calendar challenges and the challenge associated with the eclipse in the third quarter. And that points to strong leisure demand across a number of different markets. We've also seen particularly strong demand in energy-related markets, which really span up from Texas all the way through West Virginia and parts of the upper Midwest and in energy-related or in oil-related tracks demand and RevPAR growth had been particularly strong. But when we look across a range of geographies and different sources of bookings, we're seeing fairly broad-based strength and more consistency than anything else. And then, I would just point out that our business does tend to be more leisure-oriented than some other companies with the estimated 75% or so of our business coming from leisure demand.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Q

Helpful. Thanks so much. I'll jump back in the queue.

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

David Katz

Analyst, Jefferies LLC

Q

Hi, good morning.

Geoffrey A. Ballotti

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

A

Good morning.

David Katz

Analyst, Jefferies LLC

Q

I wanted to just talk about specifically La Quinta and the pipeline. I think you indicated there's 24,000 rooms in the pipeline. How would you have us thinking about that starting to accelerate as it becomes integrated into your platform and your sales force? What could that look like as we get into the first half of next year and how many rooms should we be looking for that to become?

Geoffrey A. Ballotti

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

A

I think our guidance at 2% to 4% would be consistent with La Quinta, David and that's what we saw in the first quarter of having site into the franchise sales efforts and it's a really strong team. When we took over the brand or, I guess, at this time last year, they were at about 880-ish hotels and they are today at 911 hotels and we've seen strong pick up as we've talked about in both applications and executions in the pipeline now at nine executed in the quarter. And what we've added is now at 24,000 rooms, which I believe, David, is up sequentially 2%.

David B. Wyshner

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

That's correct. So our La Quinta pipeline grew 2% in the third quarter alone.

David Katz

Analyst, Jefferies LLC

Q

Got it. And if I can just focus on capital allocation for a second, please, David, you made some commentary around potential further acquisitions and so forth. Obviously, the share repurchases are ramping up in a obviously weak-ish equity market. How do you think about the boundaries or that decision process in the near-term and let's say the next four to six quarters, please?

David B. Wyshner

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Sure. Starting with the question of acquisitions, those are hard. They tend to be a little bit lumpy and a little bit hard to predict and to control the timing of. And as a result, it's hard to know exactly when the next brand acquisition for us will occur. On average, over the last 20 or 30 years, we've averaged about a brand acquisition every 18 months. And we'll continue to look for good accretive additions to our brand portfolio.

We're obviously cognizant of the pressure that our stock and our industry have been under recently and as a result we're going to look for the opportunity to be more aggressive in terms of share repurchases in the fourth quarter than we have been, than we otherwise might have been. And I don't have a specific number associated with that, but we certainly are cognizant of what's been going on in the market and do view it as an opportunity to use the fire power that we've saved over the course of the year in terms of our free cash flow and to deploy it in the coming months.

David Katz

Analyst, Jefferies LLC

Q

Okay. And if I can ask one last detail around the cash payment to CorePoint, I think we had previously indicated it was going to be \$240 million and as of today it's \$205 million. Are we allowed to sort of know what happened there? What caused the reduction in it? And is that sort of full and final at this point for \$205 million?

David B. Wyshner

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Got you. Sure. The reason for the reduction from \$240 million to \$205 million is that we paid \$35 million in the third quarter. So, there's no change in the expectation of the aggregate amount there. They need to pay it, has been pushed out a little bit. So, we're getting the benefit of holding that cash a little bit longer than we had initially anticipated, but there's no change in the expectation that it will be \$240 million in total. It's just that only \$35 million has been paid so far.

David Katz

Analyst, Jefferies LLC

Q

Got it. Got it. Okay. Thank you very much.

Operator: And our next question comes from Patrick Scholes with SunTrust. Please go ahead.

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

Hi. Good morning.

Q

Geoffrey A. Ballotti

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

Good morning.

A

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

If I heard correctly, I believe you said domestically you did 2.4% RevPAR in the quarter. And you know as I look at what Smith Travel did for the various chain scale segments, it certainly looks like you did about 1 point to 1.5 points better than Smith Travel would have implied. So my question is, is it fair to think that you picked up some market share in the quarter?

Q

Geoffrey A. Ballotti

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

Yeah. I think we did, Patrick in our economy brands. We saw good economy growth and share gain. And I think our mid-scale brands were in line domestically. We're really excited about our – our global RevPAR was internationally whereas David mentioned we saw really strong growth across Canada, which we track as international and in Europe, which outperformed again.

A

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

Okay. And then, my follow-up question concerns revenue synergies. [Technical Difficulty] (00:36:23) lot about cost synergies. How should we be thinking about the status or what is the latest on progression in revenue synergies with La Quinta acquisition?

Q

David B. Wyshner

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Yeah. I think revenue synergies will show up over time, first of all, in our ability to add rooms and to grow the system size as well as in RevPAR as the benefits of By Wyndham cross-branding and the addition of the La Quinta returns to the Wyndham Rewards loyalty program take effect. I think some of the systems changes that we're making and the opportunities to improve the websites and digital presence of La Quinta will be helpful as well from a revenue perspective. But just to be clear, the synergies that we've assumed, the \$55 million to \$70 million of synergies are virtually all cost savings and the only revenue synergy that's built into that is tied to adding La Quinta to our credit card program. So what we think, we can do a number of things that will be helpful from a RevPAR and rooms growth perspective over time, those are not part of the synergy assumption numbers that we've shared.

A

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

Okay. Thank you for the color. That's it.

Q

Operator: Our next question comes from Jared Shojaian with Wolfe Research. Please go ahead.

Jared Shojaian

Analyst, Wolfe Research LLC

Q

Hi. Good morning, everyone. Thanks for taking my question. Just going back to the domestic growth topic, I think part of the reason you haven't really had any net growth in recent years is because there really hasn't been much industry development at the low-end of the chain scale, so can you talk about why you think that is especially in regard to some of the commentary here today about the demand strength you're seeing right now at the lower end? And can you talk about how you see development opportunities trending from here at more, more in the economy budget segment, not domestically over the next few years?

Geoffrey A. Ballotti

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

A

Sure. Thanks, Jared. Yeah. Our issue domestically has been our focus on quality where we've said goodbye, parted ways with the 80,000 or 90,000 economy and mid-scale hotels that have not met our quality standards. There we see tremendous growth and opportunity in the economy brands. Our ability to convert independents to our economy brands has continued to be strong. And I think you see that in the pick-up in terms of our gross room adds as we part ways with less lower quality hotels in our system.

And we're really excited about our growth opportunities in economy and mid-scale, both converting from competitors and with independents where we have growth opportunity even without a lot of construction going on in the economy space, as you know.

Jared Shojaian

Analyst, Wolfe Research LLC

Q

Okay. Thank you. And I'm wondering if you can help me understand the economics for an owner at the lower-end of the chain scale a little bit better. Because I think typically owners in Super 8, Days Inn system will end up paying all in about 12% of their revenue including royalties and all related marketing fees. So, for branding to make sense, they basically have to cover that 12%. So, maybe you can share what kind of revenue premium, economy owners typically get from using the brand and what kind of a cost advantage they usually get from just being part of a bigger system, whether that be the OTA savings, GAAP or procurement or anything else that you can call out?

Geoffrey A. Ballotti

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

A

Sure. Yeah. The OTA savings, you are spot on with that, Jared, is the biggest. When you look at an independent or you look at our competitor that's in a brand that's not contributing, the share of occupancy that we are through our central channels, it becomes a pretty easy and compelling value proposition for the franchisee.

If you think that most independents are doing roughly half of their business through an OTA, at a OTA commission rate, which might be 700 basis points, 800 basis points higher than what they would be receiving through a Wyndham arrangement with us. And more importantly being able to shift that mix from 50% of their business coming through the OTA down to where it should be in the mid-20s, that becomes a very compelling value proposition.

We're seeing great interest, again from independents, which is – explains the launch of – [ph] in success of Trademark (00:40:55), which went from 0 to 100 open hotels with 70 now opened, I believe or 60-ish in the U.S. on just that basis from a value proposition standpoint. And we think that our central systems domestically deliver 67% of the [ph] feed (00:41:12) to our economy and mid-scale hotel. It's really powerful.

David B. Wyshner

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

And I would just add to that [indiscernible] (00:41:20) four or five points of the amounts that our franchisee pays are for marketing and reservation activity. And as a result, [indiscernible] (00:41:29) need to do anyway and we believe strongly that by being part of one of our systems, part of one of our brands and sharing in the scale synergies that we have, that we deliver significantly more value for that spending for their marketing and reservation contribution than an independent hotel could on its own.

Jared Shojaian

Analyst, Wolfe Research LLC

Q

Okay. Thank you. And just a real quick follow-up by Geoff, I think you talked about growing the share of your loyalty members and your occupancy, but I didn't hear the exact percentage. Can you share what percentage of your room nights are occupied by loyalty members?

Geoffrey A. Ballotti

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

A

Sure. Yeah, it is our fastest growing share of occupancy, Jared and that was the point we were making in the script is its – it continues to grow. It was up a 100 basis points in the quarter. We're approaching for our mid-scale brands roughly 40% share of occupancy and high 30s for our economy brands. Certain brands could trend over 50% in the mid-scale space, but overall, I think it's fair to say that roughly 40% of the room nights in our mid-scale brands are coming through the Wyndham Reward channels.

Jared Shojaian

Analyst, Wolfe Research LLC

Q

Great. Thank you very much.

Operator: We'll take our next question from Ian Zaffino with Oppenheimer. Please go ahead.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Q

Hi. Great. Thank you. [indiscernible] (00:42:52) on the direct growth you mentioned in China. Are we seeing an acceleration there, because I know we'd talked about maybe the opportunity of it accelerating as you move away from the bigger deals? Are we kind of at that point yet? And what should we kind of expect of the mix going forward or at least the outlook going forward? Thanks.

Geoffrey A. Ballotti

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

A

Yeah. Ian, thank you. It's still a smaller percentage of our total business in China, because of the 17 years we've been there with our master franchise relationships, which are not growing as fast now as our direct business. Our direct business, I believe represents roughly about a third – over 30% of the rooms today and our China direct business grew in the quarter 20%. So we, last quarter had 26,000 rooms and we grew that to 32,000 rooms and where the growth is coming from are of existing brands that are selling very well like our Ramada brand, which just opened last week its 100th hotel in China and most of that is coming direct. We don't have a Ramada franchise relationship over there that's all direct franchise sales.

And through the introduction of new brands, we've told you that we've announced new brands to China selectively. This quarter, we introduced two new brands and both of those brands sold. So I would say, we could continue to grow our direct business, but it will be percentage-wise, a lower percent than our overall China business. But having said that, I believe our overall system in the quarter grew in China 5%, 20% of that being direct offset by the masters which grew slower.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Q

Okay. That's really helpful. Thank you very much.

Operator: And we'll take today's last question as a follow-up from Stephen Grambling with Goldman Sachs. Please go ahead.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Q

Hey, thanks for letting me jump back on. So, I guess, turning to the international segment, I mean, given the correction in the market, some signs of softening in China and some of the other industries, are you seeing any change in customer behavior or owner interest as you think about the forward? Thanks.

Geoffrey A. Ballotti

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

A

Stephen, we're really not. We're from a consumer standpoint we're happy to see our RevPAR in China grow. It was up 2%. On the direct side, our franchise consumer business was essentially flat, but overall we saw RevPAR growth on a constant currency basis. And we're certainly not seeing any lack of interest from our developers. Our China team is doing an exceptional job and is having another really strong year. As we continue to do what we feel is the right thing with a couple of long-term master franchisees that have been with us for a long time and need to focus on their low performing, low quality hotels.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you so much.

Operator: Guys, it appears we have no further questions. I will return the floor back to Geoff Ballotti for any additional or closing remarks.

Geoffrey A. Ballotti

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

Well, thank you, Keith and thanks everybody for spending part of your morning with us. We know it's a busy time of year. We appreciate your interest in Wyndham Hotels & Resorts and we look forward to seeing you during our travels or talking to you again in February. Take care and most importantly, Happy Halloween.

Operator: And this will conclude today's Wyndham Hotels & Resorts third quarter 2018 earnings conference call. Please disconnect at this time and have a great day.

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