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# Wyndham Hotels & Resorts, Inc. (WH)

Q1 2021 Earnings Call

## CORPORATE PARTICIPANTS

### **Matt Capuzzi**

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

### **Michele Allen**

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

### **Geoffrey A. Ballotti**

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

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## OTHER PARTICIPANTS

### **Joseph Greff**

*Analyst, JPMorgan Securities LLC*

### **Dany Asad**

*Analyst, BofA Securities, Inc.*

### **David Katz**

*Analyst, Jefferies LLC*

### **Ian Zaffino**

*Analyst, Oppenheimer & Co., Inc.*

### **Patrick Scholes**

*Analyst, Truist Securities, Inc.*

### **Michael J. Bellisario**

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

### **Stephen Grambling**

*Analyst, Goldman Sachs & Co. LLC*

### **Alton K. Stump**

*Analyst, Longbow Research LLC*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, and welcome to the Wyndham Hotels & Resorts First Quarter 2021 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, Senior Vice President of Investor Relations. Please go ahead.

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### **Matt Capuzzi**

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

Thank you, operator. Good morning, and thank you for joining us. With me today are Geoff Ballotti, our CEO; and Michele Allen, 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). We are providing certain measures discussing future impact on a non-GAAP basis only, because without unreasonable efforts, we are unable to provide the comparable GAAP metric.

In addition, last evening, we posted an investor presentation containing supplemental information on our Investor Relations website. We may continue to provide supplemental information on our website in the future. Accordingly, we encourage investors to monitor our website in addition to our press releases, filings submitted with the SEC, and any public conference calls or webcasts.

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, and thanks everyone for joining us today. Our select-service franchise business model delivered a strong start to 2021 with domestic RevPAR of down 25% to 2019 tracking ahead of what we estimated internally for the first quarter. And with consumer demand continuing to increase, our RevPAR has also improved significantly throughout the month of April. Month-to-date, our domestic RevPAR is down only 7% to 2019 with economy occupancy and RevPAR now running ahead of 2019 levels.

Across all brands, we're seeing occupancies in the 70s in Florida, Arizona and Utah; in the 60s in almost a dozen other states including California, Texas and Georgia. And in total, 75% of our domestic system are in states that are at or above 50% occupancy month-to-date. We're also seeing steady improvements internationally as Michelle will cover later, most notably in China where spending on travel is once again back to near pre-COVID levels. Throughout the quarter, we were highly encouraged to see cancellation rates normalize, our average booking windows lengthen. In March, website bookings surpassed 2019 booking levels. Consumer confidence is back. Hotels are selling out again. And our busy summer season is upon us, a period over the next six months where the US Travel Association is reporting that nearly 9 out of every 10 Americans surveyed are planning to take a trip.

Adjusted EBITDA for the quarter was \$97 million, down 11% to 2020 and down only 14% to 2019. Free cash flow generation was equally strong with adjusted EBITDA converting at 60%. Our operations team opened 7,600 rooms which was 23% higher than what we opened last year in the first quarter. Conversions were strong, accounting for 70% of our total openings in the quarter. And despite continued travel restrictions and buy/sell transaction volumes near historic lows due to ongoing lender forbearance and government stimulus, our franchise sales team signed 13,000 new rooms in the quarter which was 87% of what was signed in the first quarter of 2019. Our global pipeline grew sequentially for the third consecutive quarter to 187,000 rooms. Room terminations were significantly below prior year and more importantly, 34% lower than what they were in the first quarter of 2019.

Foreclosures remained at around 0.5% of our domestic system and we successfully entered into agreements with servicers for 26 of the 31 domestic hotels in foreclosure at the end of the quarter as our net room growth for the full year tracked on pace with expectations. Owners in the select-service segments of this industry are recognizing the power of a brand. According to STR in 2019, occupancies for branded hotels in our core segments were 300 basis points higher than non-branded hotels, and costs were 500 basis points lower. In 2020, STR highlights that economy branded hotels outperformed independent hotels by 1,300 basis points, while midscale branded hotels outperformed independent hotels by 500 basis points. And so our teams are finding that prospective new franchisees are looking for immediately recognizable brands like ours in the economy and midscale space, brands that can provide strong central system contribution at a lower distribution cost.

Over the past several years and no more so than in 2020, we've tailored our brands offerings to fit guests' evolving needs, which when combined with our powerful sales, marketing, loyalty, and distribution platform helped our franchisees gain market share versus their STR comp sets of 350 basis points in 2020 followed by another 400 basis points this quarter. A few examples of recent independent conversion activity this quarter include the award winning and LEED certified Viana Hotel & Spa by Trademark located on Long Island, minutes away from Bethpage Golf Course in Jones Beach. In the heart of the European Union, the Hotel Avenue Louise Brussels became our 50th European conversion to the Trademark brand. And in the Caribbean, we converted the award winning Kunuku Aqua Resort in Curaçao along with the Turtle Island Beach Resort in Belize, both to Trademark Collection hotels by Wyndham.

On the Wyndham conversion front, in the newest boomtown on Colorado's Front Range and in Morgantown, West Virginia's epicenter of history, we converted the Origin Westminster hotel and the hotel Morgantown, two highly rated lifestyle hotels to our growing upscale Wyndham brand as part of a nine-hotel package deal with the Thrash Group of Mississippi, who have another four hotels to convert to the Wyndham brand in Austin, Tupelo, Mobile and Kansas City later this year and next. And internationally, we converted the beautiful five star hotel in the heart of downtown Shenyang Hainan Province China to a full service Wyndham.

In addition to our team's ability to convert 52 hotels to Wyndham brands in the quarter, we saw 17 hotels under construction in the fourth quarter progress to opening, including our fifth new construction Microtel to open in China, Tianjin, which was also the first of seven new-build Microtel hotels our China team expects to open this year, bringing our Microtel by Wyndham brand to 11 direct franchise hotels in total in a country where we introduced the brand only two short years ago. We also opened the very first new construction Moda prototype in Canada, the Microtel Inn & Suites, Quebec across from the tourist center on scenic Lac Megantic. Developer interest and demand for our new-build Microtel Moda prototypes is thriving and our franchise sales team's ability to penetrate high-barrier markets like Phoenix, Newark, Kansas City, Missouri, and Raleigh, North Carolina which are just four of the over 100 Microtels now under development in our pipeline, stems from Microtel's highly efficient design which requires less land to construct and where 70% of the build-out is rentable square footage versus about 60% for its peers. Microtel has become one of our most popular new construction prototypes to sell throughout this pandemic to developers who believe that now is the time to be building at a significantly lower cost per key for a brand that drove a full year 2019 RevPAR index of over 115%.

On an overall basis, our development pipeline grew 120 basis points sequentially. We signed 112 new hotel agreements in the quarter, representing 90% of 2019 signings. The domestic pipeline improved 70 basis points, reflecting both conversion and new construction growth. And internationally, the pipeline increased 150 basis points sequentially, primarily reflecting continued interest in new construction overseas. Our China pipeline at over 62,000 rooms is almost entirely direct-franchised and it now sits with 20% more rooms than it did a year ago. Our Shanghai-based development team's ability to execute and open nine of the 18 available direct franchise brands that we've so far selectively decided to sell in China has shifted our concentration from a primarily all-master license country to over one-third of the China room mix now being direct franchise agreements where we are receiving 100% of the royalty fees. Moreover, our China team's ability to open 40 full-service five star Wyndham and Wyndham brand hotels in key capital cities and provinces is a strong testament to Wyndham's growing brand recognition and franchise sales efforts. Just over 1,400 China hotels are now sold under our by Wyndham umbrella branding.

Our entire organization remains focused on doing everything we possibly can to help restore owner profitability to pre-COVID levels. Earlier this month, based on extensive feedback from our franchise advisory councils, our owners and our guests, we expanded our industry leading relief measures by reducing breakfast brand

requirements for our economy hotels. These changes are designed to help franchisees lower operational costs while maintaining guest satisfaction. And we believe that they are the most significant breakfast relief measures taken by a major hotel company to-date. The overall feedback and the engagement from our owner community since the announcement has been positive.

We continue to advance our ESG efforts. And just yesterday we published our 2021 ESG report, which is now posted on our Corporate and Investor Relations websites. This report highlights our commitment to operating our business in a way that is socially, ethically, and environmentally responsible. The report also includes enhanced disclosures around data privacy, cybersecurity, water conservation and biodiversity and it's based on the Sustainable Accounting Board Standard (sic) [Sustainability Accounting Standards Board] (11:11) for hotels and lodging and the Task Force on Climate-Related Financial Disclosures.

The report also features some of the very important work our teams are doing in response to COVID-19 ensuring the health and safety of our guests and team members and providing continued support to our franchisees while helping them become certified in our Wyndham Green Program. Our quality scores as ranked by ISS are now 2 out of 10 on governance, 2 out of 10 on environment, and a best-in-class 1 out of 10 on social. We've intensified our diversity, equity and inclusion efforts as we cultivate a workplace that supports the open dialogue that makes Wyndham Hotels & Resorts such a great place to work. We've earned a perfect 100% score on the Human Rights Campaign's LGBTQ Equality Index for three consecutive years. And we've achieved an A minus rating on the Carbon Disclosure CDP report for the second year in a row. We are thrilled with the recent upturn demand, with what our teams around the world have achieved and with how we currently see the busy summer season ahead shaping up.

And with that, I'll turn the call over to Michele. Michele?

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## Michele Allen

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

Thanks, Geoff. Good morning, everyone. I begin my remarks today with a detailed review of our first quarter results followed by an update on our capital allocation strategy and a brief note on outlook. Throughout my discussion today, I'll provide comparisons not only to prior year but also to 2019, which we believe are more meaningful as prior year results were already impacted by COVID-related travel restrictions and therefore are of little help in analyzing recent trends and recovery prospects.

Our first quarter results continue to demonstrate the resiliency of our business model and the strength of our brands. We generated \$303 million of revenue, a year-over-year decrease of 18% when excluding cost reimbursement revenues, or 26% versus 2019. The majority of this decrease was driven by a global RevPAR decline as well as outsized RevPAR effects from our two owned hotels and lower license fees from Travel + Leisure. First, 2019 RevPAR was down 31% globally, 25% domestically, and 45% internationally on a constant currency basis. The domestic RevPAR declined at 25% represents an improvement from down 31% in the fourth quarter which was driven by both stronger occupancy and stronger ADR. This is exactly what we want to see, our owner successfully pushing rate when occupancy provides the opportunity.

As Geoff mentioned, our economy brands are leading the recovery with 2021 RevPAR now surpassing 2019 levels and our midscale brands are fast followers with 2021 RevPAR now within about 10% of 2019 levels. The 45% decline internationally was in line with fourth quarter performance despite China occupancy softening to 40% as a result of regional lockdowns. This was more than offset by favorable occupancy trends in other international regions due to the relaxation of some local restrictions. We are encouraged by the recent trends in China where April month-to-date occupancy levels are now averaging about 10% below 2019 levels.

Adjusted EBITDA was \$97 million in the first quarter, down only 11% versus a year ago and 14% versus 2019 as the revenue declines were substantially offset by reduced costs due to our COVID mitigation plan implemented last April and lower volume-related expenses. Importantly, our adjusted EBITDA margin and our franchising margin each improved approximately 600 basis points compared with 2019. Our adjusted EBITDA margin increased to 42%, reflecting not only the COVID-19 cost savings, but also less excess marketing fund spend in the quarter this year. Our franchising margin calculated on the same basis as our peers which excludes the effects of our marketing funds, increased to 81%, benefiting predominantly from our COVID-19 cost mitigation plan.

Adjusted diluted earnings per share declined to \$0.36, down 28% year-over-year or 31% compared to 2019 due to elevated interest expense associated with a higher overall debt balance as well as a higher tax rate primarily due to the non-cash re-measurement of net deferred tax liabilities caused by state tax rate changes. Free cash flow for the quarter was \$59 million compared to \$10 million in the first quarter of 2020, an increase of almost six-fold and compared to a cash use of \$2 million in the first quarter of 2019. You'll recall that both of the prior year periods included special item cash outlays. Even after normalizing for those amounts, we doubled free cash flow over both periods due to strong collections and working capital management. We ended the quarter with nearly \$1.3 billion of liquidity and our first lien net leverage ratio was 3.4 times, well below the 5 times limit.

On April 15th we redeemed \$500 million of unsecured notes, reducing our annual cash interest expense by approximately \$27 million. This impact will be somewhat muted in 2021 by the \$13 million call premium we paid as well as the partial year the debt was outstanding. There was little impact on our net debt position as we primarily used available cash to redeem the notes. Coupled with the issuance of our four and three-eighths notes back in August of 2020, this redemption effectively returns our liquidity profile and debt structure to pre-pandemic levels while extending \$500 million of maturity by approximately two-and-a-half years at a 100 basis point lower interest rate. Post-redemption, our liquidity stands at approximately \$750 million.

Our capital allocation philosophy today remains consistent with what it was pre-COVID. Our first preference is to always invest in the business for future growth. M&A activity has been limited due to bid-ask disparities. But with increasing optimism around recovery, we expect there could be a more active market on the horizon. We will be strategic and methodical in sourcing and evaluating deals and continue to look for valuation-creation opportunities. We came into this pandemic with a target leverage range of 3 times to 4 times and a preference to be in the lower half of that range. After thorough analysis, we continue to believe this is the right goal for our business. This range affords us tremendous optionality while providing plentiful access to affordable debt. We expect to get back within this range primarily through EBITDA generation as we approach 2022.

We continue to be a regular dividend payer. Not only were we the only lodging C-corp to maintain a meaningful dividend throughout the pandemic, we were also able to double last year's dividend in the first quarter of this year, further demonstrating management's and our board's commitment to shareholder return. We target a dividend payout ratio in the low to mid-thirties, which would put the dividend growth rate generally in line with our annual earnings growth rate. Any excess cash will then be allocated to share repurchases.

Moving now to outlook. While we grow ever more confident each passing day with increasing vaccination percentages and recent occupancy trends, there are still uncertainties ahead and we are therefore not yet providing a full outlook for 2021. However, I do want to provide a few updates to the projections we provided on February's call. Our full year net room growth target remains consistent with our previous projection of 1% to 2%. We are updating our RevPAR sensitivity from \$2.5 million per point of RevPAR to \$2.8 million per point to reflect better-than-expected results at our two owned hotels and to remove the conservatism embedded in February's



estimate given Q1 and April-to-date performance. At this time, we continue to project license fees of \$70 million. We know Travel + Leisure growth VOI sales would need to reach \$1.6 billion before exceeding the contractual minimum fees. We continue to expect our marketing funds to breakeven in 2021, and interest expense is now expected to be \$94 million to \$96 million, reflecting the savings achieved in connection with our recent redemption of the 2026 notes. There are no other changes to the projections previously provided in February.

In closing, our first quarter results were better than we expected with RevPAR in the US leading the way. 2020 is in the rearview. If there was a silver lining, it was the unique opportunity it provided us to showcase the advantages of a select-service space, the strength of our brands, and that Wyndham is resilient and built to perform well in both up cycles and down cycles. Our focus today is on the future, on driving profitability for our franchisees, and on creating even greater value for our shareholders.

With that, Geoff and I would be happy to take your questions. Operator?

## QUESTION AND ANSWER SECTION

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

**Joseph Greff**

*Analyst, JPMorgan Securities LLC*

Hi, good morning guys.

Q

**Geoffrey A. Ballotti**

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

Good morning, Joe.

A

**Joseph Greff**

*Analyst, JPMorgan Securities LLC*

My first question is on removal/retention. The churn was better in the first quarter and so specific to the first quarter, but is that – that lower removals are a function of progress in your March to get to 96% retention or is it really a function on how the timing is between quarters in 2021? And as you think about your views on retention and churn relative to three months ago, are you more favorable?

Q

**Geoffrey A. Ballotti**

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

I think it's both, Joe. Terminations certainly have some seasonality to them and Q1 is normally our lowest termination period. So, yes, we do believe that annualizing our Q1 rate is – we would be at 97%. I think it is getting a bit ahead of ourselves for the full year. But that said, we're very happy with the progress we've been making in retaining our most valuable franchisees. And I think it gives us great confidence in getting back to that 95% level. We're not seeing anything out of the ordinary right now. Foreclosures are still, as you and I have talked about, less than half of 1% of our system and we were really pleased to see the terms improve, not just to prior year but to 2019 levels. In fact they were down more to 2019 than they were to prior year.

A

And to the back part of your question, we've been making significant progress obviously with everything that we've been talking about over the last few quarters in terms of moving our termination rates from 92% to 93% and 94% and 95% in 2019. And look, of course our teams out there still believe we could do better. We achieved a 96% retention for our big days in and Super 8 brands back in 2019. And we've got plenty of brands like Microtel that run higher retention rates at 97%, and La Quinta which has been running at 98%. So we're focused on getting back to that 95% this year and then moving up to 96% over time.

**Joseph Greff***Analyst, JPMorgan Securities LLC*

Q

Great. Thank you. Then a follow-up question probably for Michele or for anybody. With regard to RevPAR sensitivity, the 1 percentage point is \$2.8 million per annum or \$700,000 per quarter on average. How does that – how do you think about that RevPAR sensitivity across the 2Q and through the 4Q?

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

A

I think – good morning, Joe. I think [ph] is that (23:04) – I wouldn't – I wouldn't think it would be too far different across the quarters. I think you could pretty much straight-line it without significant variance there. The third quarter is obviously our largest earnings quarter. But it's not going to be very meaningful to your overall model.

**Joseph Greff***Analyst, JPMorgan Securities LLC*

Q

Got it. And then just one final [indiscernible] (23:28) question, the \$49 million related to the absence of marketing fund spend, how does that – how do you see that allocate through the balance of the year? How much of that was realized in the first quarter?

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

A

The marketing fund was – I believe it overspent about \$5 million. It was favorable \$5 million year-over-year in the first quarter. So \$5 million of the \$49 million was realized in Q1.

**Joseph Greff***Analyst, JPMorgan Securities LLC*

Q

Got it. And then for the balance of the year, is it relatively even or is it more heavily weighted to the summer months?

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

A

Oh! Yeah, it would not be even at all. It would be definitely more heavily weighted I believe in the second and Q4 for sure.

**Joseph Greff***Analyst, JPMorgan Securities LLC*

Q

Got it. And guys, good job.

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

A



Thank you.

**Geoffrey A. Ballotti**

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

A

Thank you, Joe.

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

**David Katz**

*Analyst, Jefferies LLC*

Q

Hi, good morning everyone. The – among the more prevalent topics for us and across the industry is really conversions and conversion sales. I'd love just a little more color on just how competitive that is, how optimistic you are for it and its ability to drive an accelerating nug as we go forward?

**Geoffrey A. Ballotti**

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

A

Sure, it's absolutely competitive. You hear all of our peers talking about it on each of their calls, David. We're thrilled at seeing our conversion activity continue to pick up and it picked up as we expected it to be. And we talked about on the last call, it moved from the mid-70s to over 90% of our room-opens domestically and we were really pleased to open more rooms domestically this year than last year. And it moved from the mid-30s internationally to over 50% of our opens internationally. So our international teams are actually seeing it too in terms of just how strong our value proposition is right now at independent hotels in terms of where our teams are focused on. In Asia Pacific, they're seeing it; in Europe, they're seeing it. Our conversion rooms doubled, for example, in China and they were higher across the board internationally.

So, look, all our – all of our teams are very focused on driving the number. We did not cut back on any of our franchise sales teams throughout this pandemic. Our leaders did a great job, not only keeping them in place but giving them more resources and more support. We're deploying existing sellers to our conversion brands. And we saw that in our conversion pipeline. Our conversion pipeline grew both domestically and internationally sequentially. We're seeing great interest domestically in our Travelodge, in our Days Inn brands. And overseas, we're seeing good interest in our Ramada and especially our Wyndham brands. And I think the opportunity, last part of your question is, it's – you need franchise sales teams in place. And we have those teams in place. And when you look at the size of the independent market with a 100,000 independent hotels out there that report to Smith Travel, we've – we're looking at most of those independent hotels in the segments we play in. 45,000 of those 100,000 independents are in the economy for example, and 25,000 are in the midscale. So, we're really optimistic and really pleased with the progress.

**David Katz**

*Analyst, Jefferies LLC*

Q

Right. Thank you. And just as a follow up, Michele, I – look, I think one of the concerns we have as we sit down to focus on models, just given how strong things have – strongly things have accelerated, help us not get too carried away with the remainder of the year. And maybe just give us a couple of balanced thoughts on how we should look at our models for the back half.

**Michele Allen**

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

A

Okay. I'm happy to do that David. I think when we think about – when we think about the back half of the year, we feel really confident in our ability to predict the select-service segment and in the trends that we're seeing for select-service. We still feel as if there is – there is a great degree of variability in the full-service and in the international markets and they are quite temperamental. So, while we're really encouraged by what we're seeing in China, what we want to be – what we want to be I would say more confident in is the ability to see a sustained recovery without further interruption. And so that's something that we're certainly looking forward to. I think there's plenty of upside to the back half of the year, but nothing that we would be willing to commit to until we start seeing a little bit more consistency in the full-service and international performance.

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**David Katz***Analyst, Jefferies LLC*

Q

Great. Perfect. Thanks. Congrats.

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

A

Thanks, David.

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

A

Thank you.

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**Operator:** Next question is from Patrick Scholes with Truist Securities. Please go ahead.

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**Patrick Scholes***Analyst, Truist Securities, Inc.*

Q

Hey. Good morning everyone. Thank you. Can you give us a little bit of color on your expectations how that net 1% to 2% unit growth will ramp as the year progresses? Thank you.

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

A

Sure. You know again with Q1 openings and terms and executions openings were 30% higher, terms were down, we – we're looking for – I think the easiest way to look at it is that we're assuming we could open – and we said this on the last call, 80% of what we opened in 2019, which would be 80% of 65,000 rooms, approximately 50,000 rooms. And that – as we've said, our rooms ramp. We opened roughly 15% of those in the first quarter which was 5 points more than we did percentage wise back in the first quarter of 2019 when we were growing net rooms at 3%. You know openings are always back half loaded and we'll continue to ramp. And retention is tracking right now on or slightly above that 95% we're looking for. So I think for Q1, Q2 we're going to see that growth coming as we saw in the first quarter from international. And then we're expecting domestic net rooms to begin to contribute in the back half of the year, Q3 and especially Q4.

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**Patrick Scholes***Analyst, Truist Securities, Inc.*

Q

Okay, great. Thank you.

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

A

Thanks, [ph] Patrick (30:33).

**Operator:** Next question is from Stephen Grambling with Goldman Sachs. Please go ahead.

**Stephen Grambling**

*Analyst, Goldman Sachs & Co. LLC*

Q

Hey, good morning.

**Geoffrey A. Ballotti**

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

A

Good morning.

**Michele Allen**

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

A

Good morning, Stephen.

**Stephen Grambling**

*Analyst, Goldman Sachs & Co. LLC*

Q

Just as a – good morning. As a follow up on the 2021 projections and sensitivities, last quarter in the deck I think you had some potential areas of upside that were unrelated to RevPAR such as license fees, owned hotels, ancillary fees, and bad debt expense. So any color you could provide in thinking about what will drive the sensitivity of these other areas of upside that aren't RevPAR-related?

**Michele Allen**

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

A

Yes, so we have the same slide in the deck this quarter, slide 34. And I would say, as far as the license fees go, I don't see that as being likely upside. The – right now, based upon the guidance that Travel + Leisure gave for Q2 and their Q1 performance, we think they would have to see a significant increase in the second half to reach the \$1.6 billion that would be necessary for them to exceed the contractual minimum fees that we are projecting for the full year. So we don't see that as being material upside for the year for us.

We do see upside though, potentially to the owned hotels. And we did embed that in our \$2.8 million RevPAR sensitivity, which is how we increased – part of the reason why we increased from \$2.5 million from February to \$2.8 million now. And I would say we were quite pleased with the owned hotel performance. It was a bright spot in first quarter. And then even through April, we saw both our Puerto Rico hotel and our Orlando hotel perform better than expected. And so we took up our expectations for both those hotels. And we think that there could be even some more upside beyond what is currently in our expectations depending upon how recovery progresses. And so that's potential upside.

The other two areas are ancillary fees and bad debt. And so while we believe we have a reasonable forecast for both of those right now, they are both a little outside of our control and dependent on our franchisee behavior. And so there could be upside to those, we're not banking on it, but certainly something that we're watching and continue to adjust in our forecast when and if we see trends that would indicate favorability.

**Stephen Grambling**

*Analyst, Goldman Sachs & Co. LLC*

Q

And then an unrelated follow-up. Everyone's been focused obviously on the – this path to recovery. But even before the pandemic – I know you'd implemented a number of company-specific initiatives, including leveraging a relationship with Amperity and your loyalty program. Can you just remind us of what was implemented? Where we are in that – in leveraging those initiatives? And how that might position the business for growth beyond just a recovery?

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**Geoffrey A. Ballotti**

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

A

Sure. Yeah. I mean we think it's been a big piece, Stephen, of our share gain this year. I mean, it positions us very well for recovery. We talked about four big initiatives. Our new customer data platform which, as you referenced, was the Amperity partnership we had. What we did with sales force in terms of automating all of our franchisees' workflow and improving our franchise sales teams' tools, which was really important. What we've done on the mobile booking app, which again we think is the fastest three-step mobile booking app which will tell the Grambling's when they're driving down the road where our nearest hotel is to pull over to and check into. And it is – it's been just huge for us; its bookings year-to-date versus 2019 are up 50%. We're really pleased to see that.

And then I think the biggest thing for us longer term is what we've been doing on the business side. And our business travelers is, as we've talked about a lot, is a segment that has been giving our franchisees and owners a lot more share. And that's everything that we've been working on from a direct billing solution. It is now benefiting all of our negotiated accounts and franchisees. And our ability to track new accounts and gain more traction from each accounts is that – that percentage of our business that really allowed our hotels to stay open and never close continues to pick up. I mean, there is no better proxy for us then what happened in January and February in the quarter with our mid-week rates and our mid-week occupancies which outperformed the weekends when there wasn't a lot of leisure demand out there. And what was down 20% to prior year in Q4, that business segment for us which again is 30% of our occupancy for our hotels improved on less than 10% in the first quarter. Our infrastructure and construction business is now nearly flat to last year. And the second largest segment in that business mix for us is what we talked about in the IP that we put out last night; that's our logistics business, that's our trucking and our transportation business which is actually running ahead. It's 6% ahead of last year. So all of those initiatives we think are allowing our global sales teams, our field sellers to go out and find new accounts to sign with us which again gets back to what has been outsized share gains we feel for our brands throughout the pandemic.

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**Stephen Grambling**

*Analyst, Goldman Sachs & Co. LLC*

Q

That's great color. Thanks so much.

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**Geoffrey A. Ballotti**

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

A

Thanks.

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**Operator:** Our next question is from Dany Asad with Bank of America. Please go ahead.

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**Dany Asad**

*Analyst, BofA Securities, Inc.*

Q

Hi. Good morning everybody. My question is more – my first one is more on like the more recent trends. So just the sequential acceleration from March to April, it's pretty significant here. So do you just have a sense for how

much of that is due to calendar shifts, spring breaks and so on and how sustainable that – that RevPAR acceleration is as we progress further into the year?

**Geoffrey A. Ballotti**

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

A

Sure, I – thanks for the question, Dany. It certainly had a lot to do obviously with spring break being sooner and we were seeing above peak level occupancies and rates in states like Florida and in resorts and hotels like the Wyndham Grand Clearwater Beach which was selling out at higher average daily rates than it did back in – during that period in 2019. But in terms of the demand that's out there, in terms of the recent optimism, in terms of the global anxiety just continuing to fall and our booking windows lengthening and our average length of stays lengthening, I mean it would suggest to us continued pick up through the spring and summer months. And then we'll be looking for that continued business travel segment that we continue to see pick up continue to help our hotels gain share.

**Dany Asad**

*Analyst, BofA Securities, Inc.*

Q

Got it. And then my follow-up is a little bit more on the development side. Give a sense of how much inflation is changing new construction unit economics? And what are you hearing from your developers in terms of timelines and deliveries and so on?

**Geoffrey A. Ballotti**

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

A

Michele and I have been traveling quite a bit the last few weeks. And we're actually leaving this afternoon. We're heading down to Florida. And what we're hearing from our developers and I think we'll continue to hear today is that they are beginning to experience some delays when it comes to deliveries, especially in the sourcing side on the FF&E side. I mean we've all been following what's going on with lumber. And what we're hearing is how that relates to lathe beds because box springs aren't arriving on time or lathe fixtures and furniture and equipment that have to do with lumber, which if anyone's tried to buy a 2x4 of late knows that, that's tough to do and it's twice as expensive. But in terms of the overall 12 to 18 months that we've talked about from a development standpoint, it's probably more after permitting. It's probably more towards the 18 months now than it was towards the 12 months. But I think our franchisees are hopeful.

And most economics – every economist I read is of the belief that with the easing of quantitative measures, mills are going to return to normal capacity and the production will soon return to normal and delivery will pick back up. But in terms of development, those with – those franchisees of ours with cash are looking for new sites and are looking for new construction. And that's what we've been seeing in the pipeline of our new construction Microtel Modas and La Quintas which we continue to open.

**Dany Asad**

*Analyst, BofA Securities, Inc.*

Q

Thank you very much.

**Geoffrey A. Ballotti**

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

A

Thanks, Dany.

**Operator:** Our next question is from Ian Zaffino with Oppenheimer. Please go ahead.

**Ian Zaffino**

*Analyst, Oppenheimer & Co., Inc.*

Q

Hi. Great. Thank you. Can you guys maybe talk about some of your discussions with your franchisees? What they are thinking on the labor side as far as availability of housekeepers et cetera? Has that been a headwind so far to kind of increase occupancy? Is that something we should expect going forward? And any kind of color on that or – and also sort of the franchisees, what are the steps you're going to do to mitigate that? Is that taking the higher ADR et cetera? Just some color there. Thanks.

**Geoffrey A. Ballotti**

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

A

Sure. It's – Ian, it is a great question and it's – I think if you were to ask Chip Rogers, our CEO at the American Hotel & Lodging Association who's had all of us – all the leadership on a call – several calls last weekend and this week, it is the number one issue right now that's out there. Labor has always been an issue long before this pandemic began. I mean, we've always known that the hotel industry employs 10 million people and that before we went into COVID that we were struggling to fill a million jobs. And certainly with the pandemic and unemployment insurance, it's an issue our industry is very, very focused on. It's especially concerning in urban, in group, and in meeting and full-service destination hotels. I mean, we need more housekeepers. That's what we're hearing and that's – that's what Michele and I see when we travel. We need more front desk workers. We need more culinary workers. And what the hotel industry is doing, to your question is, is advocating on so many different fronts.

Last Tuesday the administration approved an additional 22,000 H2B visa applicants. And that's allowing our 66,000 normal temporary foreign workers to grow to 88,000. But it's a drop in the bucket and we need more. We're asking the administration for the travel ban to be lifted for all J1 foreign students. That's another 300,000. Let's see, the [ph] H&LA (42:18) is launching I know a custom portal to attract the young opportunity youth from across the United States of America, especially in the downtown areas and getting the word out in terms of what a great industry we have.

It is much less of an issue in the select-service space for a company like ours. We don't have the outlets. We don't have the restaurants. We don't have the banquet and catering facilities. But it's certainly top of mind for our ownership. And it was a large part of what – in terms of what we're doing, what led to our new breakfast standards that we put out – you may have seen this week – for our economy hotels to really reduce the labor and the [ph] EFTE (42:59) requirements for our owners. Everybody's focused right now on getting our franchisees and our owners back to – now that they're getting back to the occupancy levels, back to the profitability levels that they had in 2019.

**Ian Zaffino**

*Analyst, Oppenheimer & Co., Inc.*

Q

Okay, great. And maybe a little bit far out here, but if we get an infrastructure bill, how do we think about how that flows through to each year's segments? I mean, I'd imagine select-service do the best. And as you kind of go up, that they wouldn't benefit as much. But what are kind of your thoughts there and how will we expect the brands to sort of operate and benefit from something like that? Thanks.

**Geoffrey A. Ballotti**

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

A



Sure. I mean it's – we're really excited. Whatever shape the country's infrastructure plans might take, our teams are working at trying to find new infrastructure accounts. I mean, so many of the targeted – we call them pick and shovel – infrastructure companies that are out there that we'd expect to benefit are already customers of ours. We're certainly talking to them about what Stephen asked, about all of our new Wyndham business products and our direct billing capabilities and – I mean, these are the folks that stay in our hotels. We're seeing great success at winning more bids and gaining more shares. As I said a minute ago, our Wyndham Direct which was launched in the middle of last year has produced 50% more business in the first quarter sequentially than it did in the fourth. And so, look, we're looking at who's building roads and bridges and the power companies and the computer companies and the broadband companies and we're going after them. And we think that – that combined infrastructure and construction, to your question, is about 60% of that 30% mix. And again, it's nearly flat to where it was last year at down 2%. We're looking at that and we're also looking at that logistics business which we also think with – the US manufacturing segment index at a 37-year high, we think that's a – that's a big opportunity for us as well and we're really focused on winning that business.

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**Ian Zaffino**

*Analyst, Oppenheimer & Co., Inc.*

Q

Okay. Thank you very much.

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**Geoffrey A. Ballotti**

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

A

Thank you.

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**Operator:** And our next question from Michael Bellisario with Baird. Please go ahead.

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**Michael J. Bellisario**

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

Q

Good morning, everyone.

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**Geoffrey A. Ballotti**

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

A

Morning, Mike.

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**Michael J. Bellisario**

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

Q

Just bigger picture topic here for me. Wanted to circle back to the T&L transaction. I'm interested to hear your view on maybe how you think this deal improves your overall brand platform, what it means from a growth perspective and then if there's any longer term financial benefit that you guys might receive as a result of the deal. Any comments there would be helpful.

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**Geoffrey A. Ballotti**

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

A

Yeah. Look, we're thrilled with – and thought it was just a brilliant move on Wyndham Destinations' part from a rebranding standpoint. It is a great brand. Our Blue Thread sales, if you were following yesterday, essentially when you look at sales doubled year-on-year from 7% to 14%. We're incentivized on that – on those new owner sales. And we're doing everything we possibly can to – and there's so many new initiatives our two teams are working on to continue to drive new owner sales for Travel + Leisure. We think there's a lot more we could do

together on the call center marketing front on the [ph] CMT (46:49) lobby marketing. There's a lot of our franchisees that would love the opportunity to have T&L take over. They are front desk from a concierge standpoint and provide their guests with services. And the Blue Thread transactions increased, as Mike Brown said yesterday in his call, 200 basis points to 9% of their transactions. There's really no change to the timeshare sales strategy or the timeshare Wyndham branding that we use from our redemption standpoint. It offers us – our Wyndham rewards program just continues to strengthen with all of the great additions that come into the Travel + Leisure world. And so, we're very optimistic about the future, and our teams are working really well together. Michele, did you want to add anything to that?

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

A

No. No structural changes to the contract or to our ability to earn the license fee.

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**Michael J. Bellisario***Analyst, Robert W. Baird & Co., Inc.*

Q

Got it. Understood. Thank you.

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

A

Thank you.

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

A

Thanks, Mike.

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**Operator:** Our final question today comes from Alton Stump with Longbow Research. Please go ahead.

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**Alton K. Stump***Analyst, Longbow Research LLC*

Q

Thank you. Good morning. I just want to ask quickly, back on the company owned hotels doing better than you had expected, Michele, in the first quarter. What were the key drivers of that? And is that sustainable do you think over the rest of the year?

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

A

Yeah. Thank you. So actually at our Puerto Rico hotel, the hotel has benefited from increased air travel and then the island had eased a bunch of the restrictions. So, they saw better leisure performance than we had initially expected. And then once the guests were on property, they were a bit confined and we saw better on-property spend in some of the outlets, the F&B outlets, spa, things like that. And so, they had a really great first quarter. At the Bonnet Creek Hotel in Orlando, it's all about rate. What they were able to do was supplant the higher-rated group business that they typically would get in the first quarter with the same-rated leisure business. And so, really great job by the team there. For both hotels, they typically earn about 75% of their EBITDA in the first half of the year. So there is – there's a little bit of upside potentially in the back half of the year, but I would say more limited than first half.

**Alton K. Stump***Analyst, Longbow Research LLC*

Q

Thank you for the color. And then a quick follow up if I could on the labor front which is certainly a big issue across the hospitality industry. Is it your thought or is franchisees' thought that once you start to see unemployment insurance – as that kind of hopefully dries up or we – as it kind of starts to get back on its footing that will probably dry up as we move into back half of the year. So, should that help the labor front or is your expectation that we're going to continue to see the current tight environment over the rest of the year?

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

A

Yeah, I mean I think franchisees' expectation, Alton, is that it absolutely should help in September when it goes away. But I can't predict what else is out there on the horizon from stimulus.

**Alton K. Stump***Analyst, Longbow Research LLC*

Q

Got it. Makes sense. Thanks so much.

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

A

Thanks.

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

A

Thank you.

**Operator:** It appears we have no further questions. I'll return the floor to Geoff Ballotti for any closing remarks.

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

All right. Well, thank you very much, Keith. And thank you everybody for your continued interest in Wyndham Hotels & Resorts. Michele, Matt, and I look forward to talking to you in the weeks ahead and hopefully being with you in person at one of the many industry events that we'll be attending this spring and summer as our industry returns to normal. In the meantime, enjoy your spring, and we hope you'll all be out on the road this summer. Stay healthy, and we hope to see you soon.

**Operator:** This does conclude today's Wyndham Hotels Resorts first quarter 2021 earnings conference call. Please disconnect your lines at this time, and have a wonderful day.

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