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# Wyndham Hotels & Resorts, Inc. (WH)

Q4 2021 Earnings Call

## CORPORATE PARTICIPANTS

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### 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

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### Patrick Scholes

*Analyst, Truist Securities, Inc.*

### David Katz

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### Ian Zaffino

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Welcome to the Wyndham Hotels & Resorts Fourth Quarter and Full-Year 2021 Earnings Conference Call. At this time, all participants have been placed on a listen-only mode, and the floor will be opened 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.

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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'll 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 webcast.

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 this morning. 2021, once again, demonstrated the strength of our brands, the resiliency of the leisure traveler and the benefits of the select service economy and midscale segments. Many of our franchisees reported the best year they've ever experienced since owning their hotel. Our team's significant progress and accomplishments throughout the year contributed to these outstanding results, positioning our owners and our business for future success.

We delivered \$590 million of adjusted EBITDA for the full year, over \$250 million more than last year, and only 5% below 2019. We generated \$389 million of free cash flow, over 10 times more than last year, and \$330 million more than we did back in 2019. We closed the year with net room growth in line with our expectations at 1.8%.

In the United States, openings for the full year were 96% of 2019 levels, and importantly, we saw a significant improvement in domestic demand as we progressed throughout the year. In the fourth quarter, we opened 9,900 rooms, which was 20% higher than 2019's openings. And with the transaction markets and single asset sales picking up, conversion room openings increased over 35% in the fourth quarter versus 2019.

Room openings internationally ran 75% of 2019 levels, also accelerating throughout the year as they did domestically. In the fourth quarter, we opened 82% of the rooms opened in 2019 as travel restrictions were lifted and owners felt more confident about rising demand.

International net room growth was 4%. Our China direct franchising business led the way with double-digit net room growth, followed by Latin America at 7% net room growth.

We introduced 11 of our 22 brands into 18 new countries and territories, strengthening our foundation for future franchise growth in those regions, including our first Registry Collection Hotels in Mexico and Panama, our first Trademark Hotels in New Zealand and Fiji, and our first La Quinta Hotel in the United Arab Emirates.

On the retention front, we saw improvements both domestically and internationally. In the United States, we achieved our 95% retention target, up from 93% last year and back in line with 2019. Internationally, our retention rate also improved to 95%, up from 89% last year and up from 94% back in 2019.

As our room openings and retention rates improved throughout the year, so too did our development signings. We awarded 20% more contracts globally in the fourth quarter compared to last year and 6% more than we signed in the fourth quarter of 2019. In the United States, we awarded 33% more contracts in the fourth quarter versus 2019, bringing our full-year domestic executions to 331 deals, or 11% more than what the team signed in 2019.

With solid select service fundamentals and increasingly improving developer confidence, new construction signings showed continued strength in the fourth quarter. Our US franchise sales team signed 133 new construction contracts in 2021, which was 23% more than last year and 32% more than 2019.

We saw a strong demand for our new construction La Quinta Del Sol, our Hawthorn Suites, and our Microtel Moda prototypes, given the efficiency of their construction and the market share outperformance of the brands.

Acknowledging our strength in the economy space and recognizing increased consumer demand for affordable extended stay product, we will be launching later this spring our first extended stay brand for the economy segment, a brand we have been designing over the past year in consultation with several of the industry's most experienced extended state developers. We are very excited about the prospects for this new brand, and we look forward to sharing more about it in the months ahead.

On a global basis, for the full year, we signed 655 agreements throughout 2021, representing over 82,000 rooms, including nearly 590 direct franchise and management agreements, 12% more than 2019. And our development pipeline grew by more than 5% to over 1,500 hotels for a record 194,000 rooms or 24% of our current system size.

Our brands led to travel sector recovery, outperforming their competitive sets by 350 basis points versus 2019 and outpacing overall industry RevPAR growth by 1,400 basis points compared to pre-pandemic levels. In the fourth quarter, US RevPAR grew by 9%, and each month of the quarter saw a stronger growth in the month prior. Our December RevPAR in the midst of the Omicron surge was the strongest demand month of the quarter, growing 15% domestically.

On top of the overall pricing power that leisure-oriented hotels have been experiencing, our brands have gained nearly 300 basis points of ADR index since the start of the pandemic. As we've introduced new pricing tools and increased franchisee education on how to forecast more accurately, how to price more confidently, and how to achieve greater profitability, we're driving rate index gains across every chain scale in our portfolio. And in the year ahead, we will upgrade our automated revenue management system with new competitive rate shopping intelligence, new mobile enhancements, and the latest in revenue management technology, software and algorithms.

Our direct digital channels continue to outpace higher-cost, third-party OTA channels. Revenue from brand Web bookings increased 35% compared to fourth quarter 2019, benefiting from the success of our highly-rated Wyndham app, which saw fourth quarter mobile app bookings increase over 40% versus 2019.

Our award-winning loyalty program is another significant driver of direct business demand and market share growth. From partnerships to promotions, we're making investments that make Wyndham Rewards even more generous. Wyndham Rewards now stands at over 92 million members and the program's overall domestic share of occupancy grew 350 basis points versus 2019 to nearly one out of every two guests.

Our largest growth segment from a demand standpoint, Generation Z, Millennial, and Generation X travelers now make up 65% of all arrivals. We continue to nurture our relationship with these younger guests via our new customer database platform powered by Amperity, using the recency, the frequency, the channel and the communication preferences that they're accustomed to, ensuring that we're reaching them at the right time, in the right way and with the right message to keep them booking with us for their next trip and for the trip after that.

Just as 2021 domestic leisure demand outpaced last year, so too the demand from our everyday business travel segments. Infrastructure accounts, which represent the majority of our domestic business segment, contributed over 10% more revenue to our hotels in the fourth quarter than in 2019 and made up half of the newly-negotiated business accounts that our sales team signed this year. It's a trend that we expect to continue given the recent passage of our nation's \$1.2 trillion Infrastructure Bill.

Our franchisees are slowly seeing staffing levels for their hotels recover to their acquired needs, with housekeepers remaining the position in most demand. While labor as a percentage of revenue runs nearly 35% for the overall US industry, it runs significantly lower in the select service hotel space at around 12% for economy and midscale hotels.

With our continued move to digital check-in and checkout, combined with services like our auto call routing, moving labor out of our franchisees' front offices to professionally run call centers, our franchisees can drive efficiencies in their operations and flow more revenue into their bottom lines. In the year ahead, we will introduce new tools and services to help our owners further reduce operating costs at their hotels.

Consumer intent to travel continues to strengthen and average length of stay continue to surpass 2019 levels. Thursday and Sunday nights hit historic Q4 levels of occupancy as guests extend their weekend leisure travel plans and increase their work trips for personal travel. Weekend and short four-night breaks continue to generate the largest percentage of leisure stays, followed by travel to visit family and friends with our customers driving longer distances from home.

In consumer survey after survey, people are indicating their desire to begin traveling again. MMGY's Q4 Leisure Travel Intent Survey reveals an increasingly bullish consumer, where over 70% of leisure travelers intend to book in the next three months, portending a very busy spring break for our franchisees.

And with nearly 90% of Wyndham's domestic room nights generated by drive-through demand and travel by car remaining the number one travel preference among leisure travelers surveyed, we remain best positioned to continue to capture an outsized share of travel demand in the year ahead.

As we look ahead, we will continue to further simplify our business model. We were very pleased in the fourth quarter to negotiate our exit from the resource-intensive, lower-margin select service management business. And at the same time, with significant interest from buyers of leisure real estate, we began exploring the strategic sale of our two owned hotels, the Wyndham Grand Bonnet Creek Resort in Orlando and the Wyndham Grand Rio Mar Resort in Puerto Rico. We'll be updating you in the coming months on the progress of those deals.

Before handing the call over to Michele, I'd like to take a moment to thank our team members who have been more productive than ever over the past two years. This past October, we were incredibly proud to be ranked number four among Newsweek Magazine's Most 100 loved Workplaces, followed by being named among Newsweek's Most Responsible Companies, which honor those with superior environmental and social responsibility practices. And just last week, Forbes Magazine recognized Wyndham on its 2022 List of America's Best Employers.

Furthering our commitment to diversity and advancing women entrepreneurs and hotel ownership, we were also very proud to welcome our first franchise member of our Women Own the Room initiative earlier this month, who will be breaking ground on two dual-branded La Quinta Hawthorn Suites prototypes in Austin and Georgetown, Texas.

Our inclusive economic culture built on personal accountability, built on caring and built on social responsibility has continued to resonate among our team and our ownership community. And for the fourth consecutive year, we were delighted to receive another perfect score on the Human Rights Campaign's 2022 Corporate Equality Index measuring LGBTQ workplace equality. We know that none of this recognition will be possible without our valuable team members who pride themselves on making a meaningful impact on our industry, on the lives of our franchisees and on all of those around them.

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, and good morning, everyone. I'll begin my remarks today with a detailed review of our fourth quarter and full year results. I'll then review our cash flows and balance sheet, followed by our 2022 outlook.

We generated \$314 million of fee-related and other revenues and \$131 million of adjusted EBITDA in the fourth quarter, bringing our full year fee-related and other revenues to \$1.25 billion and adjusted EBITDA to \$590 million, both well above our expectations. Fourth quarter global RevPAR grew 52% year-over-year on a constant currency basis, 58% in the US and 40% internationally. Versus 2019, RevPAR was up 9% led by our economy brands, which were 19% above 2019, followed by our midscale brands, which also continued their sequential climb surpassing 2019 levels by 5%.

ADR exceeded 2019 by 8%, while occupancy exceeded by 2%. Notably, 72% of our markets in the US outpaced 2019 occupancy levels in the fourth quarter. National Park and beach destinations led the way. The South Atlantic region, where nearly a quarter of our system is concentrated, grew RevPAR 12%, and National Park destinations, where about 4% of our system is located, grew by 17%. January trends continue to bode well as US RevPAR was 3% above 2019, including economy RevPAR up 15%.

Internationally, RevPAR continued to improve to 81% of 2019 levels, up from 75% in the third quarter. Outside of China, all international regions experienced significant sequential improvement from the third quarter despite COVID spikes and new variants. Canada improved to 91% of 2019 levels, up from 83% in the third quarter, and EMEA improved to 84%, up from 75% in the third quarter. Recovery in China continued to moderate during the fourth quarter at 77% of 2019 levels as a result of sustained lockdowns, and we anticipate that this trend will continue until restrictions are once again lifted following the Beijing Olympics.

Full year fee-related and other revenues grew to \$1.25 billion, up 31% versus prior year, and adjusted EBITDA increased 76% to \$590 million. Versus 2019, fee-related and other revenues recovered to 87% and adjusted EBITDA recovered to 95%, which included a three-point benefit from a marketing fund surplus generated this year. The marketing fund surplus was \$18 million, better than what we expected, as RevPAR continued to outperform our expectations throughout the year. This surplus reflects a partial recovery of last year's \$49 million investment, which puts us ahead of schedule on recovery.

Full-year global RevPAR recovered to 88% of 2019 levels, with domestic RevPAR at 97%. Global openings were at 84% of 2019, and our retention rate of 95% was in line with 2019 and our stated goal.

Our adjusted EBITDA and franchising margins both improved versus 2019. Our adjusted EBITDA margin increased 450 basis points, which primarily reflects 300 basis points from the changes we made to our cost structure last year and a 150-basis-point benefit from the marketing fund surplus. Our franchising margin

calculated on the same basis as our peers, which excludes the effects of the marketing funds, increased 250 basis points to 83%, again reflecting our long-term cost savings initiatives.

Adjusted diluted EPS improved to 96% of 2019 levels, further reflecting lower interest expense as a result of the August 2020 note issuance and the subsequent call of the 2026 higher interest notes as well as the impact of our share repurchases. We generated \$389 million of free cash flow in 2021 compared to \$34 million last year and \$50 million in 2019.

With the acquisition and integration of La Quinta now fully behind us, the significant cash flow generation capabilities of our business model have, as promised, materialized. We were able to convert over 60% of our adjusted EBITDA into free cash flow this year. We returned over \$190 million to our shareholders in 2021 through the payment of \$82 million in dividends and the repurchase of \$110 million of our common stock. We ended the year with over \$900 million in total liquidity, and our net leverage ratio was 3.2 times, well within our stated target range of 3 times to 4 times.

With over \$300 million of free cash flow expected to be generated in 2022, combined with the \$84 million termination payment from CorePoint Lodging, we will have over \$400 million of cash to deploy. Our first priority is always to invest in the business. We will continue to increase development advances and key money in support of net room growth.

We expect to see the launch of our new economy extended stay brand, Geoff referenced earlier. And we will continue to incentivize franchisees to invest in certain new brand prototype designs to improve overall brand equity. We also expect to continue to be a regular dividend payer, subject naturally to board approval.

Beyond these priorities, we will look to allocate cash flow to acquisitions that are strategic and accretive to both earnings and net room growth and to share repurchases, with the amount going to each depending largely on the opportunities that are available. Our board last week increased our share repurchase authorization by \$400 million, reflecting its continued commitment to shareholder return and the ongoing strength of our business.

Now, turning to outlook, in 2022, we expect global net rooms growth of 2% to 4%. For RevPAR, we are projecting an increase of 12% to 16% year-over-year, which is relatively flat to 2019. This assumes continued strong trends in the US, and importantly, continued improving results internationally. We expect fee-related and other revenues of \$1.34 billion to \$1.37 billion. We are projecting adjusted EBITDA of \$605 million to \$625 million, in line with 2019 levels.

Adjusted net income is expected to be \$308 million to \$320 million, and adjusted diluted EPS is projected at \$3.28 to \$3.40 based on a diluted share count of 93.9 million, which excludes any potential share repurchases.

Finally, we're expecting free cash flow conversion from adjusted EBITDA of approximately 55%, about 10 points less than 2021, which reflected a benefit from the collection of COVID fee deferrals and a onetime true-up payment from TNL related to the annual license fee minimum.

As we bridge this outlook back to 2019, we remind you of the following and encourage you to review slide 14 in the Investor Presentation we posted to our website last night. In 2022, our outlook includes \$5 million of adjusted EBITDA from CorePoint as this business is included only through its expected sales date in March. License fees are projected at 71% of their 2019 levels, or \$80 million. This projection includes license fees from both TNL and Platinum Equity and is based on internal estimates. The recovery of this fee stream to 2019 levels is largely

correlated to the recovery of Vacation Ownership sales at TNL. We will update as appropriate when and if TNL provides an estimate for vacation ownership interest sales.

Outlook for the core business implies adjusted EBITDA growth of 7% to 11% versus 2021 and 6% to 10% versus 2019. Keep in mind, while we are in the process of marketing the sale of our two owned assets, as Geoff mentioned, our outlook assumes no change in ownership. We will update you further as that process continues to evolve.

In closing, we are very pleased with our 2021 performance. Our adjusted EBITDA, dividend, and leverage profile have substantially recovered to pre-pandemic levels. Our brands continue to demonstrate superior value and outperform their competitive sets. And our investments in digital innovation and technology are providing our franchisees with the support they need to drive improved operating margins. Our business, which we continue to simplify is generating significant free cash flow that we are putting to work for our shareholders. We are enthusiastic about building on our successes and capturing the opportunities that lie ahead in 2022.

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

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] We'll take a question from Joe Greff of JPMorgan.

**Joseph Greff**

*Analyst, JPMorgan Securities LLC*

Q

Good morning, everybody. Geoff, I was hoping you can give us a little bit more detail on this extended stay brand launch, how will that be positioned versus what Choice? And I guess with Blackstone and Barry now own with the Extended Stay America brand, price point, the value proposition to hotel owners. Can you just talk a little bit more about that, please?

**Geoffrey A. Ballotti**

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

A

Sure. Thanks, Joe. I think it will be positioned right alongside. I mean the extended stay demand has proven to be just absolutely recession and pandemic-proof. And we know that the demand is growing. I mean we've seen in our upper-midscale extended stay brand with Hawthorn Suites, a 50% increase in our pipeline over the last year. And we know that demand is out there for an extended stay economy brand. You referenced brands that are doing very well in that space.

So, our developers are asking for an economy extended stay brand, our franchisees are asking for it. And most importantly, our corporate accounts are asking for it. I mean we know that there are over 10 million construction workers out there that travel every week. And we also know that relocation and long-term assignments are going to continue to pick up. We're going to see, we feel, millions of more essential workers hitting the road with the coming Infrastructure Bill and keeping that industry-wide extended stay average daily rate occupancy up in the high 70s% and 80% range. And these are our customers. These are our business accounts.

So last year, we assembled a developer's council with many of the nation's top extended stay developers to really help us think through the design, the room counts, the operational processes and to help us design a prototype that they know will work and that they will want to build themselves.



I mean many of these developers have already built other new construction prototypes before of ours. They've worked with our award-winning architectural design and construction team who we couldn't be happier with it that we inherited from La Quinta. I mean, this is a team that's designed and opened over 150 La Quinta Del Sol prototypes over the past few years and designed our new Hawthorn Suites Extended Stay prototype, and our new economy Microtel Moda prototype with the same approach.

So we know that there's demand out there. We think this will be more popular than our other new construction prototypes, I mean, our economy Microtel Moda. We signed over a dozen new construction executions in the fourth quarter alone. And we now have 13,000 rooms out there in the pipeline, and that economy brand grew in our pipeline 40% year-over-year. So we think it is going to be more popular. We're seeing very strong developer interest right now. We're already being asked by those developers for sites. And we'll have a lot more to talk about in the coming weeks about it.

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**Joseph Greff**

*Analyst, JPMorgan Securities LLC*

Q

Great. And then my follow-up, maybe this is for Michele or Matt. Can you talk about the cadence of net rooms growth throughout 2022? Is it similar to past normal years? Or how, I guess, back-end loaded it might be or not be? If you can give us some commentary there, that would help us.

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**Michele Allen**

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

A

Sure, Joe. Good morning. As you know, the net room growth is typically back-end weighted, and I wouldn't expect to see any changes to that as we move throughout 2022. I think what we're really focused on is making sure we're posted – we're posting sequential net room growth every quarter, but I think you'd expect to see the largest of that coming in the fourth quarter as is typical for our business.

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**Joseph Greff**

*Analyst, JPMorgan Securities LLC*

Q

Great. And just one other one if I could squeeze in there, Geoff. I thought what was interesting was in the fourth quarter, December is stronger than November, November is stronger than October and December stronger despite the impact from Omicron. Can you talk about what you've seen so far year-to-date, quarter-to-date? And that's all from me. Thanks.

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**Geoffrey A. Ballotti**

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

A

Yeah. No, it's – the demand is really impressive, Joe. Michele and I are heading down on Monday to our resort in Orlando and meeting with 300 or 400 franchisees next week at one of our executive summits, and we were told that Friday and Saturday night are sold out at average daily rates at 20%, 30% above what it was in 2019. And the team told us that, that was the same for really every weekend through Easter for not only that hotel, but our other hotels like the Wyndham Grand in Clearwater.

We've been looking at the business on the books for our top 20 spring break markets, and it's running 2 times what it was versus the same time last year, led by California. We're seeing good demand in Florida. We're seeing off-the-chart demand in Texas.

What we've seen, I could say over, through the 5th, it will be interesting to see what comes out in Smith. I think you'll see a little bit of softness last week because President's Week was a week earlier last year, and I think you'll see really strong demand this weekend.

But what we've seen through the 2nd of February was just, again, continued strong demand. January was up 15% in our economy space RevPAR, the week ending February 5 was also up double digits. But the last two months, the last eight weeks through the week ending, February 15, our economy RevPAR is running 19% ahead of where it was in 2019, and our midscale RevPAR is running 6% ahead of where it was in 2019.

And so look, we had expected seasonal lower occupancy this quarter, but we've been seeing increasing occupancy and increasingly occupancy growth in the midweek, which is where we think there is going to be the real opportunity for us in the weeks and the months ahead.

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**Joseph Greff**

*Analyst, JPMorgan Securities LLC*



Thank you.

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**Operator:** Thanks, Joe. Our next question is from David Katz of Jefferies.

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**David Katz**

*Analyst, Jefferies LLC*



Hi. Good morning, everyone, and thanks for taking my questions. I wanted to ask about the kind of long-term trend line for net unit growth, right? As we sort of progressed through all of these, there's a lot of noise in the numbers. Where do you think the domestic and international net unit growth numbers kind of settle in for Wyndham as we think about how to value your stock, right, on a long-term recurring basis?

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**Geoffrey A. Ballotti**

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



That's a great question, David. Thanks for that. Domestically, we were really impressed with how domestic opens accelerated. We opened 10,000 rooms, which was 5,000 over last year and 20% more than 2019 in 2021. And domestically, our system grew 70 basis points in 2021, and it was back to the same level that it was in 2019. So we would expect growth to increase further domestically in 2022 and we'd expect to start the year or expecting to start the year with positive domestic Q1 growth.

And we'll continue to target and see growth in the midscale and above segments as strong as it's been. We were thrilled with the 5% net room growth domestic increase in those segments in 2021.

I think your question, over the long term, we have right now best in segment retention rates at 95%, as we've talked about. We're looking to move those to 96%. That, of course, would add another point to our domestic net room growth. We were able to achieve that in 2021. And with new launches like our new economy extended stay brand, we're expecting strong growth from hotel brands like in that segment, and we're very optimistic about that.

And then internationally, we've seen really strong growth. We had a 5% increase in our direct franchising business of 4% international net room growth overall in the fourth quarter. And we'll be looking to continue to move that up as we were able to do in 2019.

**David Katz**

*Analyst, Jefferies LLC*

Q

Perfect. And as my follow-up, I'm going to sort of wrap two things in there, if it's okay, because I think they're interesting. Just in terms of capital allocation, with the launch of the economy extended stay brand, is it potentially going to consume some capital in terms of key money or other inducements with it?

And as I go back to Michele's commentary around prospective accretive acquisitions, which is normally part of the range of potential allocation options, if you could classify that just a little bit or help us with the boundaries of that. Would they be immediately accretive? And are there any boundaries of size or scale or type that you would or wouldn't consider seriously?

**Michele Allen**

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

A

Sure, David. On the first part of your question related to the economy extended stay brand, we will look to put a good amount of capital to work there. We are very interested in committing to the brand for long-term success. And you'll hear more from us about what that commitment will look like in the coming weeks. I would say we will absolutely expect some of those outflows this year, though, but those outflows would pick up much more meaningfully in 2023 and beyond.

With respect to your M&A question, yes, immediately accretive to both earnings and net room growth. We look for opportunities globally, particularly in high-growth markets or in regions where we have gaps in our portfolio. You'll likely see bolt-ons of smaller brands, but nothing is off the table if it's a strategic fit and, again, value accretive.

**David Katz**

*Analyst, Jefferies LLC*

Q

Super helpful. Thank you.

**Michele Allen**

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

A

Thank you.

**Operator:** Our next question is from Dany Asad of Bank of America.

**Dany Asad**

*Analyst, BofA Securities, Inc.*

Q

Hey. Good morning, Geoff, Michele and Matt. Geoff, can you maybe help us unpack your kind of that global RevPAR expectation for 2022 as we kind of think about it versus 2019? Can you kind of help us through either the progression through the year and also kind of if we were to kind of break out your US expectations versus how you expect the international kind of stay to recover through the year? Can you help us walk through that a little bit?

**Michele Allen**

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

A

Hi, Dany. Sure. What you'll see, we finished the year 12% globally down and our US business was down only 3%, with international still down 30%. And we're projecting at the midpoint of our guidance flat for 2022 for RevPAR

growth. It's not evenly distributed across the regions, though. So we do expect the US is going to lead the way, particularly in the economy segment, and they'll finish up year-over-year or even up versus 2019, clearly.

Internationally, though, we're not expecting to get all the way back to 2019 levels. As we get through the first quarter with the Olympics and Omicron behind us and cross-border travel opening up, we expect a meaningful improvement as we move throughout the year. I would think – I wouldn't be surprised to see China surpassing 2019 RevPARs in the back half of the year. And I think we could easily end the year with US, China and a couple of the other regions at or above 2019 levels, though, some regions still below 2019, particularly in Southeast Asia and some parts of the European Continent.

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**Dany Asad**

*Analyst, BofA Securities, Inc.*

Q

Got it. That makes sense. My follow-up was a little bit unrelated, but we've had several quarters now of like healthy royalty rate growth globally in the US also. But if we look at kind of your contribution to unit growth has been a lot more coming through the – at the higher end chain scales, you're kind of what you categorize as upscale and above. If that pattern continues for some time, how would that affect that dynamic? Like how – if that dynamic kind of goes on, how would that affect the royalty rate kind of in the coming quarters and years?

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**Michele Allen**

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

A

Yeah. And so [indiscernible] (36:27) royalty rate, we think about it separately between domestic and international. And you'll see in 2021, our domestic rate improved 2%, and that was on the back of 5% net room growth in the midscale and above category. So that's a trend that we would expect to continue to hold as we grow faster in some of those higher-end categories, we should see some continued improvement in the overall domestic world.

[ph] Internationally (36:55), we saw a 20% improvement in the royalty rate for China this year, and that's reflecting our strategy to focus on direct franchising opportunities there, and as well as some of the benefits from the strategic terminations we completed in 2021. But I would expect that as we grow the direct franchising business in China faster than the masters, we would continue to see improvement in that royalty rate. And our long-term goal really is to steadily improve the royalty rates within each region, and how that impacts the overall global rate will really depend more on the regional weighting of the system growth.

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**Dany Asad**

*Analyst, BofA Securities, Inc.*

Q

Got it. Thank you very much.

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**Michele Allen**

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

A

Thank you.

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**Operator:** Our next question is from Stephen Grambling of Goldman Sachs.

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**Stephen Grambling**

*Analyst, Goldman Sachs & Co. LLC*

Q

Hi, everyone. Thanks for taking the questions. To start I'd like a follow up on – I think this is Joe's questions on extended stay and the launch there. Are there any upfront expenses or investments that you envision to ramp up, whether it's revenue management for the segment or a sales force? Or is this largely leverage existing teams?

**Michele Allen**

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

A

Sure. There are going to be some upfront costs because the majority of these teams will be dedicated to serving a different customer type than a transitory hotel. But those costs right now are already reflected in our guidance.

**Stephen Grambling**

*Analyst, Goldman Sachs & Co. LLC*

Q

Great. And maybe that dovetails into my second question, which was as we think about the 2022 EBITDA guidance, I guess, can you give any sensitivity to maybe every 100 basis point change in RevPAR or how RevPAR performance across geographies might influence that sensitivity? Thanks.

**Michele Allen**

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

A

Sure. About 100 basis point change in RevPAR is around \$3 million of EBITDA impact, and you would definitely see a higher RevPAR sensitivity for faster growth domestic than you would internationally. Clearly, it's more sensitive to changes domestically than it is internationally.

**Stephen Grambling**

*Analyst, Goldman Sachs & Co. LLC*

Q

Great. Thanks. I'll jump back in queue.

**Geoffrey A. Ballotti**

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

A

Thanks, Steve.

**Michele Allen**

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

A

Thank you.

**Operator:** Our next question is from Patrick Scholes of Truist Securities.

**Patrick Scholes**

*Analyst, Truist Securities, Inc.*

Q

Hi. Thank you. Good morning, everyone.

**Geoffrey A. Ballotti**

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

A

Good morning, Patrick.

**Patrick Scholes**

*Analyst, Truist Securities, Inc.*

Q

Geoff, high-level visionary question for you. Where in a couple of years do you envision your all-inclusive brand? How big could that be? And is a large growth strategy, is that in your vision? Thank you.

**Geoffrey A. Ballotti**

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

Well, I think in our vision for the extended stay economy brand, we just talked about, could be large. Alltra, as we've talked about in the all-inclusive space, is going to be more strategic. We're working on several applications right now in the Caribbean, in Mexico and in Central America. We've seen some interest as well in Europe in places like Tenerife and Costa del Sol. And certainly, the consumer interest in that space is growing. We've got a great partner with Playa. But it will be opportunistic where it makes sense for us both domestically and internationally. And again, our focus is in the economy and the midscale select serve for those larger growth brands.

**Patrick Scholes**

*Analyst, Truist Securities, Inc.*

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

**Geoffrey A. Ballotti**

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

Thanks, Patrick.

**Operator:** Our next question is from Ian Zaffino of Oppenheimer.

**Ian Zaffino**

*Analyst, Oppenheimer & Co., Inc.*

[indiscernible] (40:50) Thank you very much. Good quarter. Just wanted to maybe drill down a little bit on the cash flow statement. I'm kind of looking here, you gave us the free cash flow conversion. You gave us other ranges. So if I do this, it looks like there's, I'll call it, \$340 million, \$340 million of cash flow. But then I guess, if I kind of add in other things like CorePoint, I think that's a little bit under \$100 million, and then also some of these asset sales, that's probably, I don't know, over \$100 million, maybe \$150 million, \$200 million. I'm kind of getting up to like a \$600 million number. What do you do with it? And how do we think about that?

**Michele Allen**

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

Sure. Right. Yeah. I think that's the right way to think about it, Ian. And so [indiscernible] (41:43) we are going to be either allocate it to investment in the business to support future growth or for shareholder return. And the amount we allocate to each is going to depend largely on the opportunities that emerged to invest more heavily in the business, while we're eager to reinvest to create recurring earnings and cash flow. At the same time, we do place a high value of importance on shareholder return, there's no reason we can't do both and asset-light business model warrants that.

**Ian Zaffino**

*Analyst, Oppenheimer & Co., Inc.*

Okay. And then if I just had a follow-up to this, the dividend that you authorized, how do you – how are you arriving or how are you now thinking about subsequent maybe dividend increases? Is there sort of a golden rule that you're following? How do we think about that? Thanks.

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

A

Yes. Our dividend policy is to target low to mid-30s% net income payout ratio.

**Ian Zaffino***Analyst, Oppenheimer & Co., Inc.*

Q

All right. Great. Thank you very much. Good quarter, again.

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

A

Thank you.

**Operator:** Our next question is from Daniel Adam of Loop Capital Markets.

**Daniel Adam***Analyst, Loop Capital Markets LLC*

Q

Hi. Thank you and good morning, everyone. Unlike some of your peers, your willingness to sort of stick your neck out there and offer detailed full year guidance is pretty commendable. I guess what gives you confidence in the outlook for the year? And then as a related follow-up, the 12% to 16% RevPAR range for the year, is there any way you could further break that down between occupancy and rate? Thanks.

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

A

Hi, Daniel. Welcome to the call. I would say, from an outlook perspective, our businesses is pretty predictable. It's demonstrated a high level of resilience, and we feel confident in being able to predict what we think the business will produce from an earnings and a cash flow perspective. With respect to occupancy and ADR split, we don't provide guidance for the individual components, but we would expect to see continued improvement in ADR and occupancy also recovering to its – closer to its 2019 levels.

**Daniel Adam***Analyst, Loop Capital Markets LLC*

Q

Okay. Great. Thanks so much.

**Operator:** Our next question is from Michael Bellisario of Baird.

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

Q

Thanks. Good morning, everyone.

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

A

Good morning, Mike.

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

Q

Two sort of follow-up questions from me. First, for this new extended stay brand, what's your initial view of what a typical construction timeline is going to look like? And then do you think this brand introduction will be enough to get you from your 2% to 4% net unit growth target into your longer-term 3% to 5% net unit growth target?

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

A

Sure. Mike, it's certainly going to help. I mean, again, the demand out there that we're seeing from developers that have been side-by-side with us over the last many months developing this are beginning to have conversations with us. We think that every 100 hotels could add a point or two to our net room growth domestically.

In terms of timeline, we typically on all of our extended stay brands, target anywhere between 18 and 24 months from planning to ground break to opening, we think that will be right in the same sort of ballpark in terms of timetable.

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

Q

Got it. So it's more of a 2024 impact to net unit growth at least at this point, right?

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

A

Late 2023, 2024, yeah.

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

Q

Got it. And then just quick second question on asset sales. Is there any like tax impact that we should be aware of in terms of the gross versus net proceeds you might receive if and when you sell those hotels?

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

A

There will be a small tax impact, yes.

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

Q

Great. Thank you.

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

A

Thanks, Mike.

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

A

Thank you.



**Operator:** Thank you. Our final question – actually, we have no further questions at this time. I'd be happy to return the call to Geoff Ballotti for any closing remarks.

## Geoffrey A. Ballotti

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

All right. Well, thank you, Leo. And listen, thanks, everyone, for joining us this morning on what we know is an extremely busy day for many of you. Michele, Matt and I very much appreciate your continued interest, of course, in Wyndham. We look forward to talking to you, Zooming with you, and much more importantly, hopefully seeing you soon in person in throughout 2022. Thanks again, everybody, and have a great day.

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

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