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Wyndham Hotels & Resorts, Inc. (WH)
Q4 2018 Earnings Call
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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Wyndham Hotels & Resorts Fourth Quarter and Full-Year 2018 Earnings Conference Call. At this time, all participants have been placed in a listen-only mode, and the floor will be open for your questions following the presentation. [Operator Instructions] I would now like to turn the call over to Matt Capuzzi, Vice President of Investor Relations. Please go ahead.

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

Good morning. Thank you for joining us. With me today are Geoff Ballotti, our CEO; and David Wyshner, our CFO. Before we get started, I want to remind you that our remarks today 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 Form 10 and other filings with the SEC.

We will also be referring to a number of non-GAAP measures, corresponding GAAP measures, and a reconciliation of non-GAAP measures to GAAP metrics are provided in our earnings release, which is available on our Investor Relations website at www.investor.wyndhamhotels.com. Consistent with the information that we shared with you in October, our further adjusted metrics reflect what our results would have looked like if we had completed our spin-off and the acquisition and integration of La Quinta on January 1 of 2018.

With that, I will turn the call over to Geoff.
Geoffrey A. Ballotti  
President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.

Thanks, Matt. Good morning, and thanks everyone for joining us today. We capped off our first year as an independent public company by delivering solid full-year growth in rooms, RevPAR, adjusted EBITDA and adjusted diluted EPS. Just as importantly, we finished 2018 with another strong quarter, where adjusted EBITDA increased 64% to $125 million, and grew 16% in constant currency, excluding our 2018 acquisitions and dispositions. Moreover, we continue to deliver organic room growth and organic RevPAR growth and system size and grew our development pipeline to a record 180,000 rooms.

We accomplished a tremendous amount in 2018 and we could not be prouder of all of our team members who seamlessly kept things running through our spin, yet remained very focused on both growing earnings and growing our business. The La Quinta transaction is proceeding very well. La Quinta's results post-acquisition and in the fourth quarter have been solid with RevPAR up 3.2% in Q4, and our integration efforts progressing as planned. We remain impressed by La Quinta's amazing sales, marketing, operations support, revenue management and franchise development teams, who have smoothly transitioned to Wyndham. In the fourth quarter, we signed 13 new franchise agreements, bringing our post-acquisition La Quinta pipeline growth to 6% on an annualized basis.

27 new La Quinta’s were opened in 2018 and 16 of these were new construction Del Sol prototypes. Retention for the brand ran over 98% in 2018 and in the seven months since our acquisition, the La Quinta brand has seen a 140 basis points of average monthly RevPAR index growth. Because of its RevPAR growth, La Quinta has been for the first time in its over 50-year history moved from the midscale to the upper midscale segment of the industry by Smith Travel Research, something that our development team believes will help drive our franchise sales efforts. For the portfolio of La Quinta properties that we manage for CorePoint Lodging we’re making solid progress to lower payroll and benefit expenses, lower insurance costs and sourcing expenses and lower third-party travel agency commissions as we work to improve both their hotels’ operating margins and RevPar indices.

During the third quarter, RevPAR for the CorePoint portfolio grew 4%. Most importantly, we're raising our estimated range of full run rate La Quinta synergies from $55 million to $70 million to $60 million to $70 million. We also continue to expect that the last two major integration milestones, the migration of La Quinta off of legacy central system technology on to our state-of-the-art cloud-based distribution systems as well as the merging of their loyalty program will be substantially completed in the first half of this year. This will allow us to deliver virtually all of our synergies by the second half of 2019. As we begin 2019, we remain focused on continuing to grow as the world's largest and most international hotel franchise company by concentrating on our four strategic objectives to maximize return for our shareholders namely driving system growth, brand quality, property level market share, and employee engagement.

This morning we’d like to review some of our accomplishments and goals related to each of these objectives. David will then dive deeper into the numbers for the quarter and the year as well as provide our outlook for 2019. Our number one priority continues to be increasing our system size with quality room growth. As of December 31 our total system had grown to approximately 810,000 rooms, which represents an 11% increase compared with the fourth quarter of 2017, and a 2% increase excluding our 2018 acquisitions and dispositions. In the United States, we added over 1,600 net rooms sequentially from Q3 to Q4. And importantly we have now seen three straight quarters of net room growth in the United States.

We opened more than 21,000 domestic rooms in 2018, which increased 6% organically from 2017, and 45% organically from 2016. In addition, we increased our new construction signings by 28% in the United States, which
was the highest level on the development front in five years. This growth reflects meaningful progress on our path to positive long-term domestic room growth and great work by our North America franchise sales team.

Internationally, we grew our direct franchise system by 8% organically while cleaning up and taking back control of the master license agreement for Days Inn in China. This strong direct franchising growth allowed us to deliver an overall 5% increase in international net room count and we had double-digit net room growth in our Latin America region, Southeast Asia region, and China direct franchising system.

With our continued focus on brand quality, our 2018 full-year global franchise retention rate of 94% remain consistent with 2017 and improved as the year progressed. International terminations in Q4 were 35% below the average of the prior four quarters due to significantly lower terminations by our Super 8 China master licensee. One of the keys to driving room growth and room openings around the world has been introducing our brands to continents and to countries where they've never been sold before. We introduced nine Wyndham brands to 15 new markets during 2018 including China where we leveraged our existing development and franchise sales teams to launch Microtel by Wyndham and open our first Wingate by Wyndham.

In 2018, we grew our direct franchise system in China by over 20% from 28,000 to over 33,000 rooms at a higher royalty rate than our traditional master licensee rates in that market. Another significant objective of ours is to continue elevating the economy and midscale experience including new prototypes for many of our brands. For our largest U.S. economy brand, we are working with our franchise advisory council to initiate a refresh of Days Inn by Wyndham requiring our franchisees to invest in the quality of the sleep experience and the overall standards of the economy brand, which focuses on the little things that surprise and delight and a brand that has moved up to third place from sixth place in the J.D. Power Economy Guest Satisfaction rankings over the past three years.

We know from our experience with Super 8’s new Innov8te brand standard that a thoughtful cost-effective refresh program could have a very meaningful impact on guest experience while driving favorable market share and operating margin improvements. Our high quality, high value brands like J.D. Power's number one ranked economy brand Microtel by Wyndham and J.D. Power's number one ranked midscale brand Wingate by Wyndham both outperformed their economy in midscale competitors in 2018 with RevPAR index premiums of 115% and 105% respectively. A disciplined focus on developing new and refresh design prototypes and standards is what we’re focused on in the years ahead for all of our brands.

Our third strategic initiative continues to be growing system-wide revenue contribution and property level market share through our best-in-class sales, marketing, distribution, loyalty and technology. We have continued to invest in the speed, effectiveness and responsiveness of our mobile and our brand sites which have remained our fastest growing distribution channels, growing nearly 20% in the quarter. Overall contribution reached a record 52% of all room nights delivered to our franchisees globally, and over 65% of all room nights domestically, an increase of 490 basis points in 2018. Total direct contribution growth was driven not only by strong digital performance but also by our Signature Reservation Services program or our experienced global contact centers handle front desk calls on behalf of both managed and franchise owners.

Voice still represents an important channel for us and our goal is to turn every incoming call into a future reservation. During the fourth quarter, we grew this program to over 3,200 hotels participating in North America. And hotels transitioning experienced a 16.5% increase in average daily rate on average along with a 25% average increase in Wyndham Rewards enrollments. Given the tremendous success of this program here in the United States and in Canada, we will begin rolling it out to Europe later this month. Our Wyndham Rewards loyalty program added over 6 million new members in 2018 and continued to strengthen the power of our brands by delivering double-digit growth in direct revenue.
For the first time in the program's history, over 35% of our domestic check-ins asked for their loyalty points and the program drove another 140 basis point increase in Wyndham Rewards global share of occupancy and nothing makes us prouder than to see Wyndham Rewards build upon its award-winning history. Since its re-launch only three short years ago Wyndham Rewards has garnered over 60 industry awards, most recently Best Hotel Loyalty Program as voted by the readers of USA TODAY and the number one ranking on WalletHub's list of Best Hotel Rewards Program for the fourth consecutive year. In the last three years, the program has evolved dramatically to include redemption opportunities at four new brands, tens of thousands of club resorts and vacation destination partners and soon more than 900 La Quinta hotels.

This rapid expansion combined with an increasingly competitive loyalty landscape means it's absolutely vital that we continue to enhance and build upon our award winning foundation and that's exactly what we intend to do. Finally, I'd like to spend a few minutes talking about our continued commitment to fostering a values driven culture to attract, retain and engage the best and brightest in our industry. Our core values, integrity, accountability, inclusiveness, caring and fun underpin our culture, nurture our innovation, drive our growth and enhance our overall shareholder value proposition. We believe our values not only inform how our team members go about their work each day but also have broader impacts.

Examples of our team members' devotion to charitable causes across the globe abound from our very important work with ECPAT and Polaris to combat and end human trafficking in our industry to our commitment to veterans military personnel and their families in the communities in which we serve. And at every Super 8 in the United States for example, we provide a preferred parking space for veterans as a small thank you, a very small thank you for their service. Our support of the Fisher House Foundation helping families of patients receiving care at military in VA Medical Centers has resulted in the donation of over 5,500 room nights from La Quinta team members and loyalty members to this very noble cause.

And lastly, at each and every one of our 20 brands, we proudly offer discounts on room rates to active and retired military and their families bringing our signature "Count on me" service culture to life. We look back on 2018 as a transformative year for Wyndham Hotels. We completed the largest acquisition in our history. We became an independent public company and we didn't miss a beat in terms of delivering strong operational and financial results. Our team's enthusiasm for the future is palpable and it's contagious. We expect our business to grow and to prosper in 2019 and beyond.

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

David B. Wyshner

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Thanks, Geoff and good morning everyone. Today, I'll discuss our strong fourth quarter and full-year results as well as our balance sheet, capital allocation and our 2019 outlook. My comments will be primarily focused on our adjusted metrics. You can find our complete results in our earnings release including reconciliations of adjusted and further adjusted amounts to GAAP numbers. We believe that the adjusted figures we're providing are helpful in understanding how our business performed and how it will look on a go-forward basis. Our topline grew 69% in the fourth quarter to $527 million including a $198 million of incremental revenues from La Quinta.

Adjusted EBITDA increased 64% in the fourth quarter and was up 16% in constant currency and excluding our 2018 acquisitions and divestitures. Royalty and franchise fee revenues increased $23 million or 26% largely due to the inclusion of La Quinta. License fees primarily from Wyndham Destinations were $32 million, compared to $19 million during the fourth quarter of 2017. Our global RevPAR grew 10% in constant currency in the fourth
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quarter including almost 7 points from La Quinta and 2 points of organic growth. U.S. RevPAR grew 13% in the quarter reflecting 9 points from La Quinta and 2 points of organic growth. We saw good demand throughout the quarter with RevPAR up in the U.S. and internationally, up for economy and midscale brands, up on the coast, and in the middle of the country and excluding hurricane effects, up in energy-related and non-energy related markets.

At the same time, our fourth quarter RevPAR growth was dampened by nearly 2 points due to lapping the hurricane related benefit that we had in the fourth quarter of 2017. You'll recall that hurricane impacts were a benefit in the first half of 2018 and became a headwind in the third and fourth quarters as we anniversaried them. When we back out hurricane effects and our 2018 acquisitions and divestitures, we estimate that our U.S. RevPAR growth was 2.5% in the first quarter, 2.6% in the second quarter, 3.1% in the third quarter, and 3.0% during the fourth quarter. The takeaway from this is that excluding hurricane effects our domestic RevPAR growth was remarkably consistent over the course of the year. International RevPAR increased 3% in constant currency in the fourth quarter all of which was organic reflecting strong performance in a range of geographies including EMEA and Canada.

As Geoff noted, our system size was up 11% year-over-year and 2% excluding the impact of acquisitions and divestitures. Importantly, we saw a 13% increase in directly franchised new construction openings during 2018. We've also seen good growth in our Trademark Collection brand, which has grown to roughly 100 hotels since we launched it in 2017, making it one of the fastest [ph] to scale (00:18:17) brands in the history of the lodging industry. Our development pipeline increased to nearly 180,000 rooms at year-end of which 73% are new construction and 54% are international. Sequentially, compared to the third quarter, our global pipeline increased 2%.

Excluding our 2018 acquisitions and divestitures, our global pipeline is up 6% year-over-year. In the La Quinta pipeline alone is approximately 25,000 rooms which is 3% more than when we acquired the brand in May. For the full year, our total revenues grew 46% to $1.9 billion including $513 million of incremental revenues from La Quinta. Excluding our 2018 acquisitions and divestitures, revenues increased 6% primarily due to higher license, royalty, and other franchise fees. Royalty and franchise fees increased $77 million or 21% including a 16 point contribution from La Quinta. License fees, primarily from Wyndham Destinations were $111 million compared to $75 million during 2017. Our 2018 adjusted EBITDA was $507 million, a year-over-year increase of 32%.

Excluding currency effects and our 2018 acquisitions and divestitures, we turned our 6% revenue growth into 11% growth in adjusted EBITDA. And our full-year adjusted EBITDA was towards the higher end of our October projections. Our global RevPAR grew 9% in constant currency in the full year, including 4.5 points from La Quinta and 3 points of organic growth. Our U.S. RevPAR grew 10%, reflecting 6 points from La Quinta and 3 points of organic growth. Our international RevPAR increased 4% in constant currency in the full year, all of which was organic, reflecting strong performance in EMEA, Canada and Latin America. We believe our strong fourth quarter and full year RevPAR trends reflect both general market conditions and factors specific to us.

STR data for the U.S. indicate that demand growth continues to outpace supply growth in our core, economy, and midscale segments. And in addition to this positive macro dynamic, we think the growing strength of our brands, the benefits from our Signature Reservation Services program, and our addition of By Wyndham cross-branding are also boosting our and our franchisee's RevPAR performance. As Geoff mentioned, we are on target to achieve the synergies we expected from the La Quinta acquisition, both in terms of timing and amount. As a reminder, virtually all of the synergies we've projected are cost savings. We realized $9 million of synergies during the fourth quarter, which put our run rate of annual synergies at $36 million.
As planned, our goal is to complete substantially all of our integration work during the first half of 2019 as we add La Quinta onto our technology platforms and loyalty program. As a result, we're well-positioned to be close to full run rate synergies of $60 million to $70 million a year sometime in the third quarter of 2019. Turning to our balance sheet, at December 31, our debt balance remained at approximately $2.1 billion carrying a weighted average interest rate of 4.7%. We had $366 million of cash, which includes the $205 million of temporary cash that is earmarked to be paid to tax authorities and CorePoint Lodging in 2019 in conjunction with our acquisition of La Quinta. Excluding this temporary cash, our net leverage was 3.3 times our 2018 further adjusted EBITDA in the lower half of our three to four times net leverage target.

Our free cash flow was only a $158 million in 2018 because of a $150 million of specific cash outflow items namely $98 million of transaction and separation related expenses, $17 million of insurance reimbursed hurricane-related capital expenditures, and a $35 million tax payment tied to the La Quinta acquisition. Nonetheless, in the seven months following our spin-off, we were able to return a $194 million to shareholders through share repurchases and common stock dividends. Going forward, we expect our free cash flow excluding the one-time payout of our temporary cash will approximate our adjusted net income over time as our business is inherently a cash business. Our capital allocation framework is unchanged.

We remain focused on growing our business organically and we will deploy a modest portion of our free cash flow for development advances and similar opportunities. We will also keep using free cash to pay dividends. Beyond that we will allocate cash flow to bolt-on acquisitions that are both strategic and accretive and to share repurchases with the amount going to each depending largely on the acquisition opportunities that are available. In the fourth quarter, we've repurchased 1.2 million shares of common stock for $60 million which was 36% more than in the third quarter. In the seven months after our spin-off we repurchased a total of 2.3 million shares of stock or 2% of shares outstanding at a cost of $119 million.

Our board of directors recently authorized a 16% increase in our quarterly cash dividend from $0.25 to $0.29 per share beginning with the dividend that is expected to be declared in the first quarter of 2019. Now, let me turn to our outlook for full year 2019 the details of which are in our earnings release. We expect revenue of $2.11 billion to $2.16 billion, adjusted net income of $301 million to $313 million, adjusted EBITDA of $605 million to $620 million, and adjusted diluted EPS of $3.05 to $3.17 based on an adjusted diluted share count of 98.7 million which excludes future share repurchases. We also expect rooms growth of 2% to 4% and organic RevPAR growth of 1% to 3% in constant currency. There's an adjusted P&L walk down on Table 6 of our earnings release.

As you think about our outlook for RevPAR growth, please remember that the late 2017 hurricanes helped U.S. RevPAR by almost 3 points in last year's first quarter and a 1.5 point in the second quarter. As a result we have tough RevPAR comps in the first half of this year and close to a 1 point headwind for the year as a whole. Importantly, as we laid out in our release, we build our $605 million to $620 million adjusted EBITDA projection based on our fully synergized 2018 EBITDA figure of $600 million. From that, we adjust for the La Quinta synergies that as planned were still in the process of delivery. And we adjust for the fact that our owned hotel in Puerto Rico, which benefited from insurance recoveries in 2018, won't be back to normalized earnings levels in 2019.

From there we are projecting 5% to 7% growth in adjusted EBITDA driven largely by rooms and RevPAR growth and consistent with the longer term targets we've previously laid out. So, while we expect our adjusted EBITDA to grow 19% to 22% from the $507 million that we reported in 2018, our growth rate versus our 2018 further adjusted EBITDA is more modest. The reason that we provided the EBITDA walk down in our earnings release is to highlight that the two items that are negatively impacting our growth compared to our further adjusted 2018 EBITDA are both temporary. In particular, we will have a full-year of full synergies from the La Quinta acquisition
in 2020, and we estimate that the results at our owned hotel in Puerto Rico will move back toward normalized levels in 2020 and should be all the way back in 2021.

Separately while we don't factor share repurchases into our EPS forecast, we do anticipate buying back stock this year. From a seasonality perspective, we expect to generate roughly 17% to 18% of our adjusted EBITDA in the first quarter, 26% in the second quarter, 30% in the third quarter, and the remainder in the fourth quarter. The timing of our marketing expenses will work against us in the first quarter this year compared to last. From a segment perspective, we expect more than 103% of our total adjusted EBITDA to come from hotel franchising; 8% to 10% to come from hotel management, and to have approximately $75 million of unallocated corporate and other expenses. The corporate and other figure reflects spending consistent with the pro forma projections we published last year plus about $10 million of cost reallocations that we needed to make following the La Quinta acquisition.

We're projecting our capital expenditures to be $60 million to $65 million in 2019, which is about $10 million to $15 million more than what we would consider typical because of incremental CapEx associated primarily with the integration of La Quinta. The substantial majority of our capital expenditures are for information technology. In conclusion, our fourth quarter and full year results were strong and consistent with the upper half of our earlier projections. The La Quinta integration remains on track to deliver the amount and timing of synergies we had planned. We remain highly enthusiastic about the opportunities in front of us in 2019 and beyond and we will maintain a disciplined capital allocation framework to drive shareholder value.

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

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

Thanks David and thank you [indiscernible] (00:29:07-00:29:13). As David said our results for the fourth quarter and the year were strong and demonstrates sustained progress against our strategic objectives. Our business model, our culture, the strength of our brand and our recent results all continue to make us very excited about our future and our ability to capitalize on the opportunities ahead of us. And with that Keith, David and I would be pleased to take questions.
QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Thank you. We'll take today's first question from Stephen Grambling with Goldman Sachs. Please go ahead.

Stephen Grambling
Analyst, Goldman Sachs & Co. LLC

Hey, good morning, thanks for taking the questions. I guess first on free cash flow, I guess maybe can you – you talked to the net income flowing through over time at about a 100% to free cash flow. What are some of the puts and takes you should think about that relationship in 2019? And is there any chance you can quantify any outstanding integration spend in the year and any outstanding maybe tax payments that you have coming?

David B. Wyshner
Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Sure. I think the – clearly the big item we have is the $205 million cash outflow, the payment of the temporary cash that will be part of it. As we think about other items, we are expecting a tax payment to us, a tax rebate in the $30 million range to come in this quarter or early next will have a little bit of a tail but I describe it's fairly small related to transaction and separation related costs. So, those two should relatively offset with each other. And I think we're going to look to move – to have development advances in the $20 million, $25 million, $30 million maybe even $35 million range.

You may have noted that our development advances were below our longer term average last year. I think we had a few timing issues there that may make them a little bit larger this year and I think the opportunities to deploy some cash into various projects are relatively attractive for us. So, I think we may see that sort of normalize over that two-year period to the $25 million, $20 million to $25 million average that we expect over time. So, generally speaking, I would look for our free cash flow to be at or modestly above our adjusted net income in 2019.

Stephen Grambling
Analyst, Goldman Sachs & Co. LLC

Super helpful. And then maybe changing gears, the net unit growth, there was a bunch of puts and takes there when you kind of include or exclude La Quinta in the U.S. specifically. I guess how should we be thinking about the growth in the year ahead? Should we expect kind of growth in net units to be up excluding La Quinta? And what are some of the building blocks between kind of gross add versus attrition?

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

Sure, thanks. Well on attrition, Stephen, we've always been targeting that 95% retention rate and we've been moving towards that. We had improvement in 2018. But the building blocks domestically as we've seen in the last three years as we've been focused on our North American system quality, we've been moving from down to flat which we've now achieved for three consecutive quarters to 0% to 1% this year. And I think as we've said, our long-term growth has always been domestically 1% to 2%.

Stephen Grambling
Analyst, Goldman Sachs & Co. LLC

Thanks. I'll jump back in the queue. Good luck this year.
Operator: We'll take our next question from David Katz with Jefferies. Please go ahead.

David Katz
Analyst, Jefferies LLC

Hi. Good morning, everyone.

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

Good morning, David.

David Katz
Analyst, Jefferies LLC

I just wanted to follow-up that very last question and answer and comment, which is – the long-term domestic unit growth of 1% to 2%. Is that something without giving any formal guidance is that something that's reasonably achievable in 2020? Or is it something that you think might be longer term?

David B. Wyshner
Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

We think longer term. We think 2020 we're looking – continuing to look at 0% to 1%. We still have some work to do from a system standpoint and the economy size of our and the economy segment of our business with certain brands. But to the extent that we've now had three consecutive quarters of positive net room growth domestically, we feel that moving from 0% to 1% to 1% to 2%, excluding La Quinta and AmericInn, which were both performing very nicely for us is achievable.

David Katz
Analyst, Jefferies LLC

All right. And if I could just delve into the La Quinta pipeline a bit. Is that made up of what we would consider to be the individual franchisee population? Is there any institutional money involved there? Is that a potential focus that could accelerate La Quinta over time? And I ask the question in the context that we always check La Quinta out in our travels when we talk to institutional grade folks. Where's that coming from and where's it going to go?

David B. Wyshner
Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

It's a mix of both, and it could go more towards the institutional. When we look at the 13 opens that we had in the fourth quarter or the 27 La Quinta openings that we had throughout 2018, it was more individual than institutional, but as our sales teams expand, there's no reason it could not go more institutional.

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

That's right. To your point, we view that as a significant opportunity for the La Quinta brand and for some of our other brands as well particularly on the new construction [ph] site (00:35:36).
David Katz  
Analyst, Jefferies LLC

Okay. If I can just follow that up with one quickly, which is sometimes we've experienced the need for key money and upfront investment when approaching institutional grade franchisees. Is that something that's on your consciousness as a possibility?

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

Absolutely. We haven't had and La Quinta in its history David has not had to use key money but we would absolutely be willing to use it and we do use it for the right developer, for the right market. Historically we've been under 5% – of our system growth has been generated with the use of key money. And I think it's something we would absolutely look at for the right hotel and the right market.

David Katz  
Analyst, Jefferies LLC

Got it. Thank you very much.

Operator: We'll take our next question from Joe Greff with JPMorgan. Please go ahead.

Joseph R. Greff  
Analyst, JPMorgan Securities LLC

Good morning guys. With respect to the $605 million to $620 million of 2009 (sic) [2019] (00:36:45) adjusted EBITDA guidance, what's the absolute dollar amounts in there related to La Quinta?

David B. Wyshner  
Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

The La Quinta, as we said, has been performing well and the amount of EBITDA that's in there is in the $165 million to $170 million range. And what we've seen with La Quinta is growth from a little under $100 million in 2017 to about $127 million contribution in 2018 to somewhere in the $165 million to $170 million range expected for this year both due to organic growth in the business and the delivery of synergies.

Joseph R. Greff  
Analyst, JPMorgan Securities LLC

And of that $150 million to $170 million, the synergy amount is at $60 million to $70 million, less the $12 million?

David B. Wyshner  
Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Correct. That's correct. Yeah.

Joseph R. Greff  
Analyst, JPMorgan Securities LLC

And then David, you mentioned earlier about $75 million of unallocated corporate other expense. Can you just talk about that a little bit? Maybe you said, and I didn't quite grasp exactly what that is, but is that a different presentation of the expenses that you've been reporting, i.e., relative to the $15 million that you have on table one in the 4Q and the $55 million that you have in that same table for the year end number?
David B. Wyshner  
**Chief Financial Officer, Wyndham Hotels & Resorts, Inc.**

Slightly. And as I mentioned in my remarks we had projected corporate and other costs of $60 million to $65 million in our May presentation. And then as we went through our budget process and [indiscernible] (00:38:29) La Quinta we have certain costs that need to be considered corporate costs because they are now serving multiple segments. And so there's about $10 million of costs that were previously down in the segments that in 2019 get reallocated, if you will, back up to corporate. So the $75-ish-million corporate costs that we're projecting for this year are very much the $60 million to $65 million that we had anticipated when we laid out our pro formas in May. And then there's a $10 million reallocation above that.

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

And great. And then my final question is, is with respects to the cash you have to pay the tax authorities related to the La Quinta acquisition. Is there a chance that that tax liability is lower than $205 million or is that just really a timing issue versus the potential for that to be lower?

David B. Wyshner  
**Chief Financial Officer, Wyndham Hotels & Resorts, Inc.**

There is a potential for that to be lower but that does not benefit us. The $205 million was part of our $1.95 billion purchase price. And whatever does not go to tax authorities goes to CorePoint Lodging and we're still in the process of working through that. But from our perspective, no matter what, that $205 million is temporary cash because it's going either to tax authorities either to the IRS or to CorePoint Lodging.

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

Great. Thank you, guys.

**Operator:** We'll take our next question from Patrick Scholes with SunTrust. Please go ahead.

Patrick Scholes  
**Analyst, SunTrust Robinson Humphrey, Inc.**

Hi. Good morning.

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

Good morning, Pat.

Patrick Scholes  
**Analyst, SunTrust Robinson Humphrey, Inc.**

I saw that you fairly recently reacquired the master license for Days Inn in China. Do you anticipate any other similar acquisitions in the next year or two?
Patrick, we'd love to look at any of our master license agreements, which became available for sale or for purchase at the right price. I mean our master license agreements date back to 1992. Our last deal was 10 years ago. Our biggest as we've talked about is our Super 8 master license in China which actually made great progress this year and has begun to grow again. And there are another half-a-dozen that are in Asia and in Canada that would continually look at. But China presented itself and it's something we're excited about on Days.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Okay. Thank you. And then my next question is I noticed that the royalty rate was approximately 6 basis points below the 3Q level. How should we think about the trajectory of the royalty rate for 2019?

David B. Wyshner
Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

[indiscernible] (00:41:31) I think what we've seen – there is a little bit of seasonality that will impact the royalty rates. So we tend to look at it on a full-year basis and what we've seen over time is that our royalty rates I think have been fairly consistent and what we have is the opportunity to grow our royalty rates in the international regions as our brands become more and more impactful there. And I think the offset to that is that the royalty rates there are right now a bit lower. So, as we grow faster internationally even though we're moving – we look to move our international rates up, the overall impact due to mix will probably result in royalty rates being relatively steady over time. And that's what we've seen over the last several years pretty consistently is a stability in average royalty rate as we grow faster in international markets.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Okay. Thank you. That's it.

Operator: And we'll take our next question from Jared Shojaian with Wolfe Research. Please go ahead.

Jared Shojaian
Analyst, Wolfe Research LLC

Hey. Good morning, everyone. Thanks for taking my questions. So I want to ask a question on the 2019 guidance. Can you help me understand the 5% to 7% organic growth that you're calling out because if I look at your rooms growth 3%, RevPAR 2%. I would think the EBITDA could grow faster than the 5% to 7% but maybe the mix of room growth more weighted towards masters versus direct. So maybe can you just help me understand how that algorithm works? And then should we be thinking about 5% to 7% as sort of the right way to think about the longer term EBITDA growth going forward.

David B. Wyshner
Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Sure. I think when you look at the strength of our franchising margin, we have significant drop through already from royalty revenues. And as a result the good news is that when royalty revenues increase we get a really good drop through from those. But we don't have a lot of operating leverage that would cause EBITDA growth to be faster than the royalty revenue growth. And as a result that's why we would expect the 2% to 3% – the 2% to 4% rooms growth, call it 3% at the middle and the 1% to 3% RevPAR growth, 2% at the middle to produce roughly the 5% to 7% EBITDA growth that we're talking about on an organic basis.
What's interesting about that EBITDA growth is that it does not include any benefits from capital deployment, which you'll remember from our May Investor Day presentation we estimate it could be another 3% to 5% a year, which will benefit EBITDA, if it comes in the form of investments or acquisitions; it will benefit EPS if it comes in the form of share repurchases. And when you add that 3% to 5% in our 5% to 7% organic revenue growth, looks more like 8% to 12% on the EPS line whether it's in the form of acquisitions or share repurchases and that 8% to 12% we think is consistent with the 8% to 14% long-term earnings growth potential that we laid out in May.

Jared Shojaian
Analyst, Wolfe Research LLC
Okay. Thank you. And just switching gears here just back to the unit growth, couple of questions. I mean, how much of your international growth in 2018 came from masters versus direct and how do you foresee that trending in the future? And then separately, you talked about getting to a target retention rate of 95%. Can you just talk about why that's the right target? I know as you move up the chain scale some of the other brands are closer to 98% plus. I know there's some structural differences in the lower chain scale but maybe you can just talk about as you clean through and prune through the system why 95% is the right number and not something higher than that?

Geoffrey A. Ballotti
President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.
Sure. So, our rooms growth, Jared, was – as we said up 11% in the year. It was 2% up excluding all of our acquisitions and internationally it was up 5%. When we look internationally most of the growth in the direct franchising business was in China where we saw that 20% increase in our ability to grow to the 33,600 rooms I mentioned earlier. And what's so exciting about that is, is where that growth is coming from and the brands it's coming from. I mean, we added for example, 23 Ramadas in China. China team had an incredible year and we opened new brands that have never been sold there before. So master growth in China, the biggest one I just mentioned and touched on Super 8 was – is the brand that we've been focused on. It was not growing in the first few quarters and it began growing in the fourth and grew overall 1% in the year and that's by far and away our largest remaining master license agreement overseas.

David B. Wyshner
Chief Financial Officer, Wyndham Hotels & Resorts, Inc.
And then, with respect to retention as we look at the properties that leave us there – in the economy in the midscale space there is just a – there are some properties that are on land or in locations where it makes sense eventually for that property to be redeveloped for a different use. And as a result I think the highest number we could possibly get to may very well be in the 90s, 98% range. And as a result the key for us is, is the – that remaining two or three points that's in there that can be an opportunity for us to get hotels to do the work that's required and necessary either in terms of capital investment or in investment and operations or both to be able to meet our standards and stay with us. And I think as we look at that potentially two or three points of opportunity there. What we want to do is grab one to two of that and then keep working on it from there. But that's sort of the way we thought about it and we looked very carefully at the properties that have left us and what the reasons are. And that's what gives us I think confidence that over time we can move retention rates from the 94% to 95% where we've been running up north of 95% and ideally north of 96% as well.

Geoffrey A. Ballotti
President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.
And also, Jared, when we add brands in the midscale as we did with AmericInn, which last year in a 97.5% retention rate, 200 or so units and add an upper midscale brand now La Quinta with its Del Sol prototype which ran last year, 98.5% retention on a 1,000 units. It's another building block for us moving forward.

Jared Shojaian  
*Analyst, Wolfe Research LLC*

Great. Thank you very much.

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

Thank you.

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

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

Hi. Great, thank you very much. Just on La Quinta, can you maybe help us understand what the or tell us what the RevPar was or at least the trends you saw in the fourth quarter vis-à-vis the whole portfolio or maybe what you're seeing going forward in 2019? Thanks.

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

Sure. La Quinta's fourth quarter RevPAR, Ian, was up [ph] 3.6% (00:49:30) and it was up 5.2% for the full year. And what excites us the most has been the share growth across the brand, to see continued pickup in its RevPAR index throughout the year has been something that we've been really excited about.

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

So going forward you expect it to outperform the rest of the portfolio.

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

We do.

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

Okay. And then also just touching on some M&A activities, what are you basically seeing out there right now as far as tuck-ins? And how do you think about leverage vis-à-vis the opportunities out there? Thanks.

David B. Wyshner  
*Chief Financial Officer, Wyndham Hotels & Resorts, Inc.*

Sure. With respect to opportunities that are out there what tends to be highest on our radar screen is any opportunities to acquire brands. We're pretty passionate about being asset-light and that combination is what we look for – a good brand in an asset-light context is what captures our attention the most as we look at opportunities both in North America and around the world. I would say that from a leverage perspective we're...
comfortable with our leverage where it is right now, 3.3 times net leverage on a pro forma basis, and our target is 3 to 4 times. For the right transaction we would be willing to move above 4 but only temporarily I think we'd want to be in a position where we could get that back down into the 3 to 4 times range and I would say our preference is being in the lower half of the 3 to 4 times range.

Ian Zaffino  
Analyst, Oppenheimer & Co., Inc.
All right. Thank you very much.

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

Operator: And we'll take our next question from Alton Stump with Longbow Research. Please go ahead.

Alton K. Stump  
Analyst, Longbow Research LLC
Good morning, and thanks for taking the question. Just wanted to ask with the updated synergy guidance that you gave us for La Quinta, I presume still the lion's share of that is just simply cost synergies. As you kind of think about top line energies now that you've, of course own the concept here for – it was the last couple of quarters. I mean are there any sort of potential areas that you maybe see now that you didn't see when you bought the brand as far as generating top line synergies as you kind of look forward?

Geoffrey A. Ballotti  
President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.
Sure. Yeah. We're very – we're feeling very good about the synergies, which was why we raised the range. Public company synergies, we feel very good about and we've raised from [ph] 17 to 18 (00:52:11). The IT and the sales and marketing synergies are still ahead of us and we're feeling very confident and that was the biggest piece of what drove us to raise the bottom end of that range. We have been conservative on the revenue – consistently conservative on the revenue synergies but looking ahead both on what we're seeing in terms of growing RevPAR, growing index, growing our system size, none of those are yet built-in.

Alton K. Stump  
Analyst, Longbow Research LLC
Okay. That's helpful. And then just on consumer front, obviously, you guys have lot more leisure exposure than most of your peers do. Kind of what are you seeing from the consumer end as you kind of look ahead to the rest on that [indiscernible] (00:52:56)?

Geoffrey A. Ballotti  
President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.
We're seeing – sure, we're seeing great strength, which is why we feel our brands outperformed in 2018 and we're continuing to feel that going into 2019 from – the strength of the leisure transient market we're seeing more strength on the weekends than we ever have. We're seeing really strong weekend occupancies, we continue to see strong pickup in not only rate but also in occupancy and we can continue to experience that. We saw in the fourth quarter 50 basis points of occupancy pickup in both our economy and our midscale brands. Again, I think
pointing back to the strength of the consumer right now in terms of how they're feeling in that segment of the marketplace.

David B. Wyshner  
*Chief Financial Officer, Wyndham Hotels & Resorts, Inc.*

And one of the reasons I walk through the quarterly numbers excluding hurricane effects is really to highlight how consistent that's been over the last year – every quarter being in the 2.5% to 3.1% range without a lot of variability in there, really points to the consumer behavior being both relatively strong and remarkably stable over the last 12 months.

Alton K. Stump  
*Analyst, Longbow Research LLC*

Great. Thanks so much Geoff and David.

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

Thank you.

**Operator:** And next we'll go to a follow-up from Stephen Grambling with Goldman Sachs. Please go ahead.

Stephen Grambling  
*Analyst, Goldman Sachs & Co. LLC*

Hey, thanks for sneaking me in. I guess as you look at the upcoming combination of the La Quinta loyalty program and also the integration with your systems with La Quinta, I guess aside from scale is there anything unique about their systems as you transition them over that could make it more difficult or easier relative to prior tuck-ins?

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

Nothing more difficult or nothing more complex Stephen. We've done this now for 8,000 of our hotels across 19 brands and we are very confident that what we are going to provide for the La Quinta franchisees in terms of a state-of-the-art and easier to train server-less Property Management System is something that is going to fire on all cylinders.

**Operator:** And has any kind of training begun for the folks in there or do you have to wait until things are on the systems?

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

Oh! Gosh, yes. We have been training now and beginning to move. Actually La Quinta franchisees who have joined the system in the fourth quarter over to our SynXis Property Management System which will in the short order be connected to SynXis. But the teams have been training and continue to train and are together today training and our franchise service directors and our directors of franchise operations are all actually together training today.
Stephen Grambling  
Analyst, Goldman Sachs & Co. LLC

Great, thanks so much.

**Operator:** And 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.

Thank you, Keith. And again thanks everybody for your time this morning. David, Matt and I appreciate your attention and your interest in Wyndham Hotels & Resorts and we look forward to talking to you again after our first quarter, if our paths don't cross before then, which we think they may will. Take care and have a great Valentine's Day tomorrow and Presidents Day weekend ahead hopefully traveling with your loved ones.

**Operator:** And this does conclude today's Wyndham Hotels & Resorts fourth quarter and full year 2018 earnings conference call. Please disconnect your lines at this time and have a great day.