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Wyndham Hotels & Resorts, Inc. (WH)
Q1 2019 Earnings Call
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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Wyndham Hotels & Resorts First Quarter 2019 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.

Thanks, Keith. Good morning and thank you for joining us. With me today are Geoff Ballotti, our CEO; and David Wyshner, our CFO. Before we get started, I want to remind you that our remarks today will contain forward-looking statements. These statements are subject to risk factors that may cause our actual results to differ materially from those expressed or implied. These risk factors are discussed in detail in our Form 10-K filed with the SEC on February 14, 2019. 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.

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’re pleased to report a strong start to the year with first-quarter growth in all of our key metrics. Despite tough comps we grew RevPAR in the U.S. and globally. We grew our international footprint 7% year-over-year. We had our fourth consecutive quarter of positive net rooms growth domestically and our adjusted EBITDA grew 21%. Today David and I would like to cover the progress our teams have been making on our strategic objectives of driving net rooms growth, improving the quality and market share for our brands and fostering a values driven culture.

But first a key deliverable for us in the first quarter was finalizing the integration of La Quinta and being able to again raise our estimate on synergy savings. Our entire organization became immediately focused on integrating La Quinta the moment we acquired it less than a year ago. And we’re thrilled to report that on April 3, we successfully completed the last major milestone of this integration by moving La Quinta of its legacy property management and central reservation systems and onto our state-of-the-art distribution platform. The migration proceeded exactly as planned and in what may be one of the largest same day migrations in the history of the hospitality industry, La Quinta is now operating entirely on our cloud-based central reservation, property management, digital, loyalty, reporting and call center platforms. The benefits of this move are substantial. La Quinta owners now have a more stable property management system that provides a fully integrated credit card interface with more secure tokenization. They have a fully integrated central reservation system that now provides real-time single image ARI, availability rate in inventory with remote access control and remote management capabilities.

And most importantly, our Sabre's SynXis Central Reservation system expands La Quinta's connectivity to incremental travel partners providing significantly increased global distribution at a lower cost. Migrating La Quinta onto our platforms was a herculean effort and we’re proud of what our teams and our franchisees have accomplished. We believe the technology solutions we now offer will help us to continue to attract new La Quinta owners while continuing to retain existing franchisees.

One of our principal strategic objectives is driving quality net rooms' growth while improving retention. At the end of the first quarter, we had 812,000 rooms in our system, an increase of 12% since last March or 3% organically and we grew our system in the United States for the fourth consecutive quarter. We opened approximately 5,600 domestic rooms, an organic increase of over 50% versus last year’s first quarter.

Our retention rate in the United States increased by 40 basis points as first quarter terminations declined 12% year-over-year. Our retention rate for the last 12 months now stands at 95% in the United States. Internationally, we grew our system by 7% organically. Our fastest growing region was again Southeast Asia, which grew by 25% followed by a 12% net room increase in our direct franchise system in China and a 7% net room growth in Latin America. Our international retention rate for the last 12 months also now stands at 95%.

Our global pipeline increased 23% to approximately 181,000 rooms and excluding La Quinta, our global pipeline grew 7% principally reflecting a 13% increase in international new construction and a 7% increase in domestic new construction. Importantly, based on current trends, we expect to open more than 2,000 hotels over the next three years with about half of that being in the United States and the remainder split between China and other international markets.

In addition, we were incredibly pleased with the interest we’ve been seeing for the La Quinta brand notably in the Latin America and Caribbean regions where we signed four new La Quinta's since December 31. Our ability to offer attractive and cost effective hotel designs is a meaningful component of our growth strategy and we’re excited about the launch of Microtel's new and innovative design prototype Moda. Microtel has been J.D. Power's
number one ranked economy brand for 15 of the last 17 years and it's a brand that produces a segment leading RevPAR index of 126%.

Our new Microtel Moda prototype represents the continued evolution of the brand with a reimagined interior and a reimagined exterior concept that reduces land requirements by 11% and total footprint requirements by 28% to lower construction costs, provide operating efficiencies and ultimately drive greater returns for developers. Since launching the prototype at the Hunter Hotel Investment Conference last month our team has seen strong interest and has already executed franchise agreements for new construction Moda developments in Texas, in Indiana and in Michigan.

On the loyalty front, our reimagined Wyndham Rewards Program continues to make significant strides and we've made Wyndham Rewards even more rewarding for our now over 75 million members. Building upon the program's award winning foundation, we've recently rolled out a host of new program features and benefits, all designed to drive member engagement and program share of occupancy while continuing to be the most generous loyalty program in our industry.

These enhancements include the integration of La Quinta into Wyndham Rewards giving La Quinta guest access to USA Today's number one ranked loyalty program with over 30,000 redemption opportunities. Second, we launched a simple three tiered redemption structure that includes free nights at thousands of hotels for just 7,500 which is half of their previous redemption cost. And third, we introduced more ways to earn and redeem outside of hotel and destination partner states including filling up at the gas station, shopping online, booking tours and experiences around the globe and earning points when placing food deliveries on orders with our newest partner DoorDash. We're already seeing signs of increased member engagement and we'll be tracking this closely over the coming months.

In the first quarter, occupancy generated by our Wyndham Reward members grew another 160 basis points to record highs. Our base membership grew 11% year-over-year from 56 million to 62 million members, La Quinta Returns has added another 13 million new members growing the program another 20% to over 75 million members strong and with the addition of La Quinta, we are now adding over 0.5 million new members to the program each and every month. Growing the revenue that we deliver to hotel owners in our system at a lower cost of distribution is especially important to our value proposition. Our overall central reservation system contribution grew 320 basis points to 65% domestically.

To further increase brand awareness and drive this contribution higher, we recently launched a multimillion dollar omni-channel by Wyndham marketing campaign bringing to life our very far reaching U.S. scale and our diverse array of iconic brands. We're educating the everyday traveler that no matter where you are in the United States, chances are you're about 10 minutes from a hotel by Wyndham. We've also launched a new La Quinta by Wyndham advertising campaign that includes TV, radio and digital marketing throughout the remainder of 2019 with a focus on the business travel segment.

Driving business to our hotels through our direct channels which are featured prominently in our new ad campaigns is something we enable by our continued investment in our brand websites and our mobile apps, which allow guests to shop and books seamlessly under our wyndhamhotels.com umbrella. Revenue is growing faster through this channel than through any other distribution channel. Mobile bookings are up 35% as we continue to partner with Amazon Web Services, Google, Adobe and Akamai to innovate the booking experience in a way that engages our guests and better helps them earn, track and redeem through Wyndham Rewards. Our connection with Wyndham Destinations also continues to strengthen as Blue Thread vacation ownership sales which were financially incentivized to drive, grew 50% year-over-year in 2018.
Our channels generate more than 25% higher sales per guest than non-affinity new owner tours. We are actively working with the Wyndham Destination team to drive the sales higher by leveraging Wyndham Rewards both to database market from and to sell more Wyndham Rewards points through. The Wyndham Rewards points used at Wyndham Destination sales tables as a closing tool are most often redeemed at our franchised hotel properties which is a win for us and a win for our franchisees.

Because we’ve received a few questions on this topic from some of you, we’d like to briefly comment on the recently reported fourth quarter results for our largest franchisee CorePoint Lodging. CPLG owns about 3% of the rooms in our system while no other franchisee represents more than 1%. RevPAR for the CPLG portfolio grew 9.9% during the fourth quarter and 4.7% during the full year of 2018 with significant increases in RevPAR index in both the quarter and the full year. And as the manager of CorePoint hotels, we were also able to deliver cost savings of $3 million to their portfolio in 2018.

As we move forward post integration, we expect to generate incremental savings throughout 2019 in the form of more efficient labor management, lower insurance premiums and lower employee benefit costs among other cost savings opportunities.

Finally, turning to our Count On Me! service culture, a key element of our strategy is to continue to attract and retain and engage the very best and brightest people in our industry, while strengthening our values driven culture. Earlier this month, the Human Rights Campaign recognized this culture by awarding us a perfect score of 100 for LGBTQ Equality. We’re also extremely proud to note that we were recently named one of the World's Most Ethical Companies by Ethisphere Institute an honor that recognizes those companies who align principle with action, who work tirelessly to make trust a part of their corporate DNA and who in doing so shape the future of their industry by caring about the issues that matter.

Our new journey safe campaign that Super 8 recently launched is just one example of this, an awareness campaign from our brand marketing team that highlights the dangers of drowsy driving while further positioning Super 8 as a trusted resource and companion while on the road. Earning the world’s most ethical company designation or a perfect 100 LGBTQ score are both great accomplishments, but as a newly independent company that has been completing the spinoff from its parent, while finalizing the integration of our largest acquisition to date. We were delighted to see that our dedication to a values driven culture is apparent not only to our team members, but also to the global leadership organizations who define ethical business practices and who recognize inclusive work environments that allow our team members to thrive.

And on that note, we'll now hand the call over to David, who will walk us through our financial highlights. David?
Adjusted EBITDA increased 21% to a $111 million in the first quarter including approximately $33 million from La Quinta. As we discussed on our last call, we elected to incur a higher proportion of our marketing spend in the first quarter this year to support our new by Wyndham marketing campaign and our Wyndham Rewards loyalty program. This timing difference suppressed first quarter organic growth by 16 points, further the absence of net hurricane related insurance proceeds that we received in the first quarter of 2018 suppressed EBITDA growth by an additional 4 points. As a result, our adjusted EBITDA excluding our 2018 acquisitions and divestitures declined 13% in constant currency but would have increased 8% if not for those two items.

Royalty and franchise fee revenues increased $19 million or 23% largely due to the inclusion of La Quinta. License fees primarily from Wyndham Destinations were $29 million compared to $17 million during the first quarter of 2018. Our global RevPAR grew 9% in constant currency in the first quarter, including 7 percentage points from La Quinta, 1 point from the divestiture of Knights Inn and 1 point of organic growth. U.S. RevPAR grew 13% in the quarter, reflecting 10 points from La Quinta, 2 points from the divestiture of Knights Inn and 1 point of organic growth.

We continue to see solid demand in the first quarter. As expected, our first quarter RevPAR growth was dampened by nearly 2 points globally and nearly 3 points domestically due to lapping the incremental hurricane related demand that we had in the first quarter of 2018. Our two-year stacked RevPAR growth, which compares first quarter 2019 to first quarter 2017 was 5%, excluding our acquisitions and divestitures.

We expect to see the last hurricane related headwinds of about 1 point globally, and 0.5 domestically in the second quarter and we will put that issue behind us when we move into the third quarter. International RevPAR increased 2% in constant currency in the first quarter, reflecting strong performance in a range of geographies, including our Latin America and EMEA regions. Quality rooms growth continues to be a top priority for us. As Geoff mentioned, our system size is up 12% year-over-year in the first quarter and grew 3% excluding the impact of 2018 acquisitions and divestitures. U.S. room openings increased significantly driven by our economy and mid-scale segments with particular strength in the Midwest and Southeast and in our Travelodge, Baymont and Days Inn by Wyndham brands.

We also benefited from lower international terminations, largely as a result of lapping the heightened termination activity by our Super 8 master licensee in China that occurred last year. Our franchisee retention rate was up both internationally and in the United States and we saw increased retention in our Days Inn, Travelodge, Ramada and AmericInn by Wyndham brands.

In our hotel franchising segment revenues increased 33% year-over-year in the first quarter including $61 million of incremental revenues from La Quinta. Excluding the impact from 2018 acquisitions and divestitures, revenues increased 4% in constant currency. Our hotel franchising segment adjusted EBITDA grew 31% to $113 million including approximately $26 million from La Quinta. In constant currency and excluding the impact from 2018 acquisitions and divestitures, adjusted EBITDA for the segment grew 4% even after the effect of higher marketing expenses.

In our hotel management segment, revenues increased $98 million compared to the prior year period, reflecting $108 million of incremental revenues from La Quinta including $97 million of cost reimbursement revenues. Excluding the impact from the acquisition of La Quinta, revenues declined $10 million primarily due to lower cost reimbursement revenues which have no impact on adjusted EBITDA.
Our hotel management segment adjusted EBITDA was unchanged year-over-year, reflecting approximately $7 million of adjusted EBITDA from La Quinta largely offset by the absence of the hurricane related insurance proceeds we received in first quarter 2018.

As Geoff mentioned with the migration of La Quinta's technology platform and loyalty program now behind us, we've completed the last major steps of the La Quinta integration. As a result of the progress we've made and efficiencies we've captured, we are raising our estimated range of full run rate La Quinta synergies from $60 million to $70 million to $64 million to $70 million. As a reminder, virtually all of the synergies we projected are cost savings and we expect to reach our full run rate synergy target in the third quarter.

Turning to our balance sheet. At March 31, our debt balance remained at approximately $2.1 billion carrying a weighted average interest rate of 4.8%. We recently took advantage of the yield curve to lock in lower rates on more of our debt for a longer period of time. We had $284 million of cash at quarter end, which includes $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 3.4 times, the midpoint of our projected 2019 adjusted EBITDA which is in the lower half of our 3 times to 4 times net leverage target.

The first quarter is typically our seasonally lightest quarter for free cash flow. Nonetheless excluding $38 million of transaction and separation related outflows, free cash flow increased to $36 million in first quarter 2019. For the full year, we expect our normalized free cash flow will approximate our adjusted net income as our business is inherently a cash business. We continue to expect our capital expenditures to be $60 million to $65 million this year, including $10 million to $15 million tied to the La Quinta acquisition.

We returned $72 million to shareholders during the first three months of 2019 through $44 million of share repurchases and $28 million of common stock dividends. In our first three quarters as an independent company, we've repurchased 3% of our outstanding shares. Our capital allocation framework remains unchanged. We are focused on the organic growth of our business and we will deploy a portion of our free cash flow to support that growth through development advances and similar opportunities. We will also maintain a dividend that we intend to grow over time. Beyond that we will allocate cash flow to execute opportunistic tuck-in acquisitions that are both strategic and accretive, as well as repurchase shares.

Looking ahead, we're reaffirming the 2019 full year outlook we provided last quarter with the favorable exception of our forecast for adjusted EPS, which we have increased by $0.02 to reflect our share repurchase activity in the first quarter. As a reminder, our adjusted EPS guidance excludes the impact of future share repurchases. From a seasonality perspective, after generating approximately 18% of our projected full year 2019 EBITDA during the first quarter as we had anticipated, we expect to generate roughly 25% to 26% in the second quarter, 30% in the third quarter and the remainder in the fourth.

We expect the timing of our marketing spend to work against us again in the second quarter as we continue to invest earlier this year than last with the comparisons from marketing expenses largely reversing to work in our favor in the back half of the year. More strategically, we believe that select-service lodging represents a significant long-term global growth opportunity. Select-service hotels are what the majority of travelers want the majority of the time. This has long been true in the United States and no one franchise as more select-service hotels in the U.S. than we do. And internationally from Eastern Europe to China and from Argentina to Southern Asia, the expansion of traveling middle class populations around the world represents virtually inevitable demand growth. In these markets, our focus will generally be on domestic travelers who account for the vast majority of all hotels stays.
In our view being the established global leader in the attractive economy and mid-scale lodging space is just one of the attributes that make Wyndham Hotels and Resorts a compelling investment opportunity. In addition, we are the largest hotel franchisor in the world with 9,200 affiliated properties in more than 80 countries. Our brands are known for offering value and quality as evidenced by our having three of the top four brands in the J.D. Power rankings of economy hotels and three of the top four mid-scale brands.

We have an industry leading loyalty program that has over 75 million members and has won numerous awards for being simple and generous. Our technology platform is state of the art, cloud based, fully scalable economical and well-suited to meeting our franchisees needs. We generate our earnings from percentage of revenue fees from thousands of hotel owners and our income is not dependent on incentive fees or hotel level profits. We generate substantially all of our EBITDA from hotel franchising activities where our margin on non-pass through revenues is in excess of 75%.

We have limited capital expenditure needs, are remarkably asset light and have strong conversion of our adjusted net income into free cash flow. And we have grown our system size, our domestic RevPAR and our adjusted EBITDA organically and consistently over the last one, three and five years. We think the combination of our leading market position, strong international presence, enviable business model, well-established ability to serve hotel owners and growth potential differentiates us in our industry. They make Wyndham Hotels a uniquely exciting place to work and to invest.

In conclusion, we started off 2019 with a solid quarter in line with our expectations. We've now completed the most challenging parts of the La Quinta integration and we are on track to deliver our full run rate synergy target beginning sometime in the third quarter. We are adhering to a disciplined capital allocation framework to drive shareholder value and we remain confident and passionate about our business, about delivering a strong 2019 and about our long-term growth potential.

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. Thanks again for joining us today with a strong start to the year, our teams feel good about our momentum. We're successfully executing on our business objectives. We're expanding our strong market position and we're strengthening our industry leading loyalty program. We remain focused on driving shareholder value and we're very excited about the future ahead of us.

And with that, David and I would be pleased to take your questions and I'll turn it over to you Keith.
QUESTION AND ANSWER SECTION

Operator: And the floor is now open for questions. [Operator Instructions] We do ask that you limit yourself to one question and one follow-up. Thank you. We’ll take our first question from Joe Greff with JPMorgan. Please go ahead.

Joseph Greff
Analyst, JPMorgan Securities LLC

Good morning, everybody. With respect to you are upping your LQ synergies target, I know went up $4 million at the lower end and your EBITDA guidance for this year remains unchanged versus three quarters ago. Are you being conservative there, are you giving yourselves a cushion, is there a corresponding offset or are these synergies that you don’t realize in 2019 and really hit in 2020. And just a clarification on La Quinta, I think Geoff, when you’re going through La Quinta commentary about the RevPAR performance, you mentioned quarterly RevPAR growth is 9.9%. Were you talking about the 4Q or the 1Q and then I have a follow-up on...

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

Yeah. Good morning, Joe. Those – okay. I’ll let David talk about the synergies. The reference was to the 2018 quarter and full year in my remarks. La Quinta overall did have a RevPAR growth in the quarter and grew share in the quarter, but I’ll let David talk about the synergies.

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

Yeah. With respect to the synergies, we are really excited about how the integration has proceeded and the progress we’ve made so far. By moving the range up by $4 million at the low end, $2 million at the midpoint, I think that's an indication. We’re probably going to do $1 million or $2 million better than we had anticipated at the beginning of the year. But it’s not enough of a change in our estimate to move our overall EBITDA projection for the year.

Joseph Greff
Analyst, JPMorgan Securities LLC

Great. And did I hear though I think David in your comments that La Quinta grew 10% or [ph] counted (00:29:29) 10% of the 13% growth in the 1Q implying that La Quinta same-store grew 10%, is that how I heard comments or can you clarify?

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

Got it. The point we made was that the RevPAR was up 13% overall, 10 points to that comes from the inclusion of La Quinta this year compared to last year in the first quarter, where – we didn’t own like La Quinta yet.

Joseph Greff
Analyst, JPMorgan Securities LLC

So it’s a way to value year-over-year growth rate? Okay.
David B. Wyshner  
Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Yeah, right. So with La Quinta having a higher RevPAR than our pre-existing business, that's what brings rate up. So it's more of the inclusion of La Quinta year-over-year that's driving that [indiscernible] (00:30:16) any change in La Quinta's RevPAR.

Joseph Greff  
Analyst, JPMorgan Securities LLC

Great. And then switching over to my follow-up question, nice job on the U.S. room deletions or overall deletions improving versus the year ago and you talked about your retention rate approximating 95% on both domestic and the non-domestic side of things? How much more room is there to go, what inning are you in and maybe you could share with us any updated targets on deletions, churn, retention as you see it? And that's all from me. Thank you.

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

Okay. Thanks, Joe. I'd say we're midway through the innings and we were ecstatic with what we saw with 53% more openings domestically and our attrition to continue to tick down. As we've talked about before, to the extent that we could begin to grow our domestic system size and I think we're up about 50 bps in the quarter and get that growth moving, that comes on the heels of pushing our retention from 93 to 94 to 95 bps as we've done moving retention up another 100 bps should begin to see domestic churn continue to stabilize and domestic room growth move to that 1% to 2% range over time.

Joseph Greff  
Analyst, JPMorgan Securities LLC

Thank you very much.

Operator: We'll take our next question from the Stephen Grambling with Goldman Sachs. Please go ahead.

Stephen Grambling  
Analyst, Goldman Sachs & Co. LLC

Hey. Thanks. Can you just talk a bit more about the elevated marketing expenses and whether that is driven simply by calendar/timing as you said or is that maybe even response to trends you're seeing in the market or maybe strategically investing behind the combined business amidst the integration?

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

Hey. Good morning, Stephen. You may have seen our ads that have been out there, we're very proud of the ads that that launched a few weeks ago in a big way in terms of TV advertising across the United States. Those ads were produced in the first quarter. And it was very strategic for us for both the by Wyndham umbrella advertising and also La Quinta advertising. La Quinta franchisees have been used to seeing their advertising on TV earlier in the year that's driving that [indiscernible] (00:30:16) any change in La Quinta's RevPAR.

Stephen Grambling  
Analyst, Goldman Sachs & Co. LLC

...
And maybe turning to free cash flow, what are some of the puts and takes to think about for the fiscal 2019 free cash flow generation given transaction related and separation related impacts to 1Q as we think about going forward, are those largely behind us?

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

Yeah. We do think that the transaction and separation related costs are majority behind us for the year at this point. We still have a little bit in the second quarter. But again those are majority behind us. And from a free cash flow perspective, we actually have some anticipated proceeds from Wyndham Destinations associated with our sale or their sale of the European vacation rentals business.

So when we look at the year as a whole, we actually expect that the cash inflows that we're going to get tied to that will essentially offset the noise if you will associated with outflows for separation related and transaction related free cash flow, so that when you put aside the piece we get from Wyndham Destinations and what we have going out for separation and transaction related expenses. When you put those two things aside, I'm sort of expecting it to look like a pretty normal free cash flow year where our adjusted net income translates into the generation of free cash flow.

Stephen Grambling  
Analyst, Goldman Sachs & Co. LLC

Great. And just to be clear that Wyndham proceeds or payment will be outside of the traditional free cash flow measure?

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

It will be and that's why I referred to normalize free cash flow in my comments because I sort of view those two items that I mentioned as offsetting each other and or call it normal free cash flow being in line with the adjusted net income.

Stephen Grambling  
Analyst, Goldman Sachs & Co. LLC

Perfect, helpful. Thanks. I'll jump back in the queue.

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

David Katz  
Analyst, Jefferies LLC

Hi, good morning, everyone. I think most of the commentary and detail about the business is pretty clear. What I wanted to ask about is the prospect of acquisitions and some detail around where those boundaries might be in terms of size and whatever thoughts you can share about where you are at the moment and where we might be this year?

Geoffrey A. Ballotti  
President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.
Sure. Good morning, David. We expect to grow the business and focus on growing the business organically by growing our franchisee base as well as through acquisitions over time. I think the good news is that with La Quinta integration largely behind us, we're again positioned to be able to look at brand acquisitions.

We intend to purchase area with real, I'd say, prudence and discretion and we don't want anyone to be disappointed if we don't add a brand this year after having completed our largest acquisition ever in 2018. We believe our own stock represents a particularly attractive way to deploy capital, so we don't need a brand acquisition this year to enhance a shareholder value. And as we look going forward at potential acquisitions, I expect our principal focus will be in the select-service space but we're not completely limited to that. And then geographically, I expect us to look across regions whether it's in the Americas or Europe or other parts of the world for attractive global brands.

David Katz
Analyst, Jefferies LLC
Okay. Thank you very much. Nice quarter.

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

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

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. Couple questions here. Last quarter, you had called out strength in the leisure customer segment. Did you continue to observe that in 1Q and then how is initial indications of summer shaping up for you?

Geoffrey A. Ballotti
President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.
Thanks, Patrick. We still feel that way. We had, as you saw, a really solid Q1 RevPAR for both our economy and our mid-scale brands which outperformed the industry and we're looking at RevPAR growth which was consistent with prior quarters. Recall that, as David mentioned, 1Q last year was 5% with the hurricanes. So we're very pleased with the 1% which showed continued occupancy gains across the board and continued weekend strength, which we feel from a leisure standpoint to your question sets us up very well for the busy summer leisure travel season ahead.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.
Okay. Thank you. And then my second question. When I'm looking at the royalty rates for the [ph] tour (00:37:48) company and just for the U.S., it does imply that international royalty rate was down slightly. How much of that is due to terminations – how is the mix shifting as far as terminations and new builds? Thank you.
Geoffrey A. Ballotti  
President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.

Our overall royalty in the quarter grew from 3.63% to 3.65% and was up slightly internationally. And in the U.S., it was flat at 4.54%. I think our ability to continue to grow our royalty rate Patrick, internationally as we take back master license agreements as we have in China with Days Inn. And as we continue to drive our direct business internationally stronger than any other piece of it, will allow us to continue to or set us up to continue to grow that international royalty rate as I believe we did in the quarter slightly.

And again, our international direct business in the quarter, we were thrilled with it, it grew 17% and we saw strong growth in our international direct business not only in China, but wherever we had masters in country.

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

That's right, Geoff, and I just direct you to the table one of our earnings release. I think the footnotes there are helpful where our average royalty rate excluding our transactions was up a couple of basis points on a total company basis and unchanged in the in the U.S.

Patrick Scholes  
Analyst, SunTrust Robinson Humphrey, Inc.

Got you. Thank you for the clarification on that. That's it. Thank you.

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

Thanks.

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

Thanks, Pat.

Operator: 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 question. So just going back to your unit growth here for a second, it looks like you added about 2,200 net rooms in the first quarter versus where you were at year end. So if I annualize that, that's about 1% growth in your guidance you're calling for 2% to 4% growth for the year which implies there's going to be a sizable step up in the remaining three quarters. Can you just help me understand where that's coming from, is it more additions, is it less deletion, is it both and why you're confident that you'll capture that growth?

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

Sure. The 2,000 you referred to or the 0.5% growth in the United States is added with a 7% international growth which we saw. So we were 3%, Jared, excluding all of our M&A in the quarter.
Jared Shojaian  
Analyst, Wolfe Research LLC  
Right...

Geoffrey A. Ballotti  
President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.  
...in the middle our guidance.

David B. Wyshner  
Chief Financial Officer, Wyndham Hotels & Resorts, Inc.  
Right. So we're running at 3% year-over-year. And I would say one of the reasons we're particularly happy about the growth we had in the first quarter is that Q1 is typically a seasonally slower quarter for us to be adding rooms and you're seeing that in the — over the past few years. So having net rooms growth — organic net rooms growth in the U.S. in the first quarter is a real positive for us, because we do tend to have more additions in the fourth quarter and historically more terminations in the in the first quarter just due to the is seasonality associated with the primarily the conversion portion of our business.

Jared Shojaian  
Analyst, Wolfe Research LLC  
Got it. Okay. That makes sense. And Geoff, I was referring to the 812,000 rooms versus the 810,000 roughly that you ended last year. So I think what you're referring to year-over-year is talking more sequentially. But I guess the seasonal perspective, I think that makes sense. So just shifting gears here then to the synergies, can you maybe help me understand what La Quinta's run rate G&A was when you close the acquisition and is your expectation that that's going to completely go away to zero?

David B. Wyshner  
Chief Financial Officer, Wyndham Hotels & Resorts, Inc.  
The short answer is yes. So, when we looked at our synergies when we were doing our diligence and building our integration plan, we ended up building up by line item, the various synergies that we anticipated including significant G&A savings having most or substantially all of that go away. And then the check we ended up running on this was looking at the incremental royalties and fee revenues, they come in from La Quinta and seeing what the drop through on that is.

And essentially what we saw was that our integration plan takes us over the course of a year or so to a place where the addition La Quinta as a business ends up having the same impact on our financials as if we had originally added 87,000 rooms to our system and added the royalty fees, so that we have a little bit of incremental or remaining costs associated with La Quinta. But essentially the same amount of cost that we would have had if we had gone out and otherwise added 87,000 rooms. So that's kind of the story around it and the effect of it is exactly what you said that virtually all of the G&A goes away and the marketing expenses, the variable ones stay, but the fixed ones largely go away. And then the operating expenses become more efficient as well.

Jared Shojaian  
Analyst, Wolfe Research LLC  
Thank you, David. And if I may just follow up on that real quick is, what I'm ultimately trying to get at is, my understanding was La Quinta didn't even have G&A of over $60 million when you closed the acquisition. So it sounds like some of those costs or the marketing that you're talking about might be pass-through cost, correct
me, if I'm wrong on that. And I'm just trying to understand exactly how that flows through, like, if they're pass-through costs, do you get to keep that or how does that work exactly?

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

Yeah. It's not solely G&A savings as I mentioned. So we do generate savings for us and the operating expense side as well which is a portion of it. And yes, we're able to generate a small amount of benefits for us on the marketing side as well.

Jared Shojaian  
Analyst, Wolfe Research LLC

Okay. Thank you very much.

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

Ian Zaffino  
Analyst, Oppenheimer & Co., Inc.

Hi. Thank you, just honing it on the international side of it. You mentioned that you want to go more direct. I know you have some MLAs still out there. How many do you still have? And what sort of the process for – are you going to keep them out there or what are you going to do with those? Thanks.

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

Thanks, Ian. Yeah, there are six master license agreements that are left out there. The largest of course that we talk about a lot being our Super 8 master licensee in China, which is roughly 1,100 hotels, but after that they fall off dramatically. We have a master license in Canada, master license in Argentina, and then some much smaller ones in Saudi Arabia and the Philippines, which are individual brands. To the extent that, any of those individual brands present themselves as an opportunity to acquire at a multiple lower than what we're trading at. And it makes sense for us to buy them back as it did in the days and example and that's the way we'll look at it.

Ian Zaffino  
Analyst, Oppenheimer & Co., Inc.

Okay. Thank you. And then as far as we discussed some M&A, with La Quinta kind of in the rear view mirror as far as on the M&A front, how are you going to balance out M&A versus buybacks and kind of other uses of cash flow? Thanks.

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

Sure. I think on the M&A front, it really depends on the opportunities that present themselves, as well as our ability to execute transactions in a way that's going to add value relative both to where our stock is currently trading and where we expect it to trade over time. And we tend to look at that primarily on a post synergy basis. So it also ends up being very much dependent on how much in synergies we can generate from a particular transaction. And generally speaking, I would expect our ability to deliver synergies, would be relatively larger in the Americas, in North America, where we already are at huge scale than it may be in some other parts of the world. But I think given our presence virtually everywhere now, we have the potential for some synergies in almost every region out there.
Ian Zaffino  
Analyst, Oppenheimer & Co., Inc.

Okay. Thank you very much.

Operator: And we'll take today's final question from Alton Stump with Longbow Research. Please go ahead.

Alton K. Stump  
Analyst, Longbow Research LLC

Thank you. Just had two quick questions. I guess first one just as far as the pace of independent conversions, is that ticking up at all say versus this time last year given [ph] that plus cost (00:47:47) on labor et cetera, cost to build have all gone up or is that pace pretty much unchanged versus last year?

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

Yeah. It is up. Alton, thanks for the question. We see it as a tremendous opportunity. If you think about Smith Travel and how they track hotels around the world, 63% of those hotels are independent. So to the extent that we have an offering as we do with our Trademark by Wyndham brand, a brand which didn't exist a year ago and that today is now over 100 hotels. We're able to convert independents to our system because of our lower cost of distribution, because of our technology platform and our ability to drive more contribution to these independents at a much lower cost.

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

Sure. We couldn't be happier with the job our marketing team that I'm sure is listening to this has been doing with the whole by Wyndham, whether it's the umbrella by Wyndham campaign that you'll see airing on every major network across the country this quarter, whether it's the by Wyndham signage which we now have. I believe over 1,000 of our hotels displaying and we'll have 500 La Quinta by Wyndham's displaying across this summer.

But more importantly, the by Wyndham branding digitally. Anytime Wyndham is searched any one of our 20 brands are searched, any time at Days Inn or a Super 8 is searched, it is now searched across any channel as by Wyndham and we're seeing search volume up considerably, search volume in the quarter for by Wyndham was up 6%. And hats off to the digital teams that have put that together for us.

Alton K. Stump  
Analyst, Longbow Research LLC

Okay. Thanks, Geoff.

Operator: And it appears we have no further questions. I'll return to floor to Geoff Ballotti for any additional or closing remarks.
Geoffrey A. Ballotti  
President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.

Thanks, Keith. And thanks everyone for your time this morning. We appreciate your attention and your interest in Wyndham Hotels & Resorts and we look forward to seeing you soon. Have a great week and take care.

Operator: And this does conclude today’s Wyndham Hotels & Resorts First Quarter 2019 Earnings Conference Call. Please just connect your lines at this time. Have a wonderful day.