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Wyndham Hotels & Resorts, Inc. (WH)

Q4 2019 Earnings Call
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MANAGEMENT DISCUSSION SECTION

Operator: At this time all participants have been placed in a listen-only mode and the floor will be opened for your questions following the presentation. [Operator Instructions]

I would now like to turn the call over to Matt Capuzzi, Senior Vice President of Investor Relations.

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

Good morning and thank you for joining us. With me today, are Geoff Ballotti, our CEO and Michele Allen, our CFO.

Before we get started, I want to remind you that our remarks today will contain forward-looking statements. These statements are subject to risk factors that may cause our actual results to differ materially from those expressed or implied. These risk factors are discussed in detail in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission and any subsequent reports filed with the SEC.

We will also be referring to a number of non-GAAP measures. Corresponding GAAP measures and a reconciliation of non-GAAP measures to GAAP metrics, are provided in our earnings release, which is available on our Investor Relations website at investor.wyndhamhotels.com. In addition, we will provide supplemental information on our website after the call. We may also use our website as a means of disclosing material non-public information from time-to-time. Such disclosures will be included on our website in the Investor section.
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 are thrilled to report a strong finish to 2019. We delivered rooms growth, revenue, adjusted EBITDA, and adjusted EPS all in line with our expectations.

We grew adjusted EBITDA by 22% for the fourth quarter and 21% for the year. And we grew adjusted EPS by 40% in the quarter and 21% for the full year. We returned over $350 million to our shareholders in 2019, through the payment of dividends and share repurchases, representing over 6% of our current market cap. And reflecting their continued confidence in our business, our board of directors has approved a 10% increase in our annual dividend from $0.29 per share to $0.32 per share, beginning with a dividend that is expected to be declared in the first quarter of 2020.

Our strong financial results reflect great operating performance. In our comments today, we'll focus on those efforts across the company, but we'd like to begin by addressing the coronavirus outbreak which is presenting a challenging start to 2020 for our committed and dedicated team in China. While China represents only 2% of our adjusted EBITDA, given our lower RevPAR, lower royalty Super 8, master licensee arrangement, it is becoming a more important factor to our international direct franchising business.

The 60 government mandated hotel closures we saw in the first week of the outbreak, peaked last weekend at 1,000 of our [ph] 1,000 (00:03:20) China. Approximately 900 of the 1,000 closures are Super 8, master licensee franchisees. Hotel closures appear to be stabilizing and we've also seen approximately 50 hotels re-open over the past several days. Importantly, the majority of the closures resulted from our owners and franchisees doing everything they could to protect their team members and prevent the spread of the virus.

Michele in a moment will provide detail on the impact that the outbreak is having on our first quarter and may continue to have, moving forward.

Turning to our franchise sales and development efforts, we finished the year with nearly 9,300 properties and 831,000 rooms, a 3% net room increase since the end of 2018, including a 6% net room increase in our international portfolio.

We were especially pleased with our continued domestic growth, opening 27,000 rooms in 2019, a 13% increase over the prior year. We saw the strongest openings activity for our La Quinta, Ramada, Wingate, Trademark and Travelodge brands, and our teams also made tremendous progress on the new construction front, with openings up over 30% led again by our La Quinta and Wingate new construction prototypes.

Our domestic retention rate improved a full 110 basis points to 95.5%. We were most pleased with the progress we made on the total retention rate for our economy brands, which also surpassed 95%, running 220 basis points higher than STR's industry average for the economy segment of 93%. We expect to continue to build on this momentum for both openings growth and retention rate improvements in the year ahead.

Turning to international, where we grew net rooms by 6% this year, we opened over 36,000 rooms, 10% more than we did last year. In addition, we introduced 11 of our 20 brands into 24 new countries and territories, strengthening our foundation for future growth in those regions.
Our international retention rate was essentially unchanged at 94% as we took the opportunity with the acquisition of our Days Inn Master, to strictly enforce all of our China master license contracts by removing substandard and/or non-paying hotels from our system. We were also very pleased with a 7% increase in our direct international franchising business, which moved the percentage of direct franchise room openings from 63% of total international room openings in 2018 to 73% in 2019.

Our fastest-growing region was, once again, Southeast Asia, which grew net rooms by 20%, including over a dozen new upscale Ramada hotels, with five entering new markets like the 568-room new construction, Ramada by Wyndham, Ha Long Bay in Vietnam. All of our room additions in Southeast Asia were direct franchise or management agreements.

Our global development pipeline grew 7% year-over-year to 193,000 rooms at the end of 2019, reflecting continued interests from our Microtel, Ramada and Trademark brands domestically, along with double-digit growth in our Latin America, China and Southeast Asia, Pacific-Rim pipelines, we grew the La Quinta franchise system 4% this year globally, including 30 new del Sol prototypes opening across the US. And we were thrilled to open our first La Quinta by Wyndham in Europe, the 404-room La Quinta by Wyndham, Istanbul, in Turkey.

We're pleased with the numbers achieved by our franchise sales and development teams and we're especially proud of their continued success at bringing in higher quality conversion and more new construction deals. Their success both results from and contributes to our commitment to elevating the experience, the quality in the market share of our brands. This remains a top priority, which we measure by our improving retention rates, RevPAR indices, online review scores and brand recognition.

Medallia, a third-party customer feedback platform, ranked our brands in four of the Top 5 online review results among national chains in the US economy segment for 2019, with Microtel by Wyndham leading all the other brands as evidenced by its RevPAR index of 126%. Microtel also retained its Number 1 spot on J.D. Power's economy ranking, a position it has held for 16 of the previous 18 years, while Wingate by Wyndham retained a number one spot on J.D. Power's mid-scale ranking of all US brands for its fifth consecutive year.

Improving service and quality ratings will continue to be a key initiative for our teams in 2020, which help us continue to drive increased market share and a stronger value proposition for our owners. To further elevate both the guest experience and the value proposition that we provide hotel developers in each of our core chains scales, we continue to invest in and design new enhancements for our brands, generating some great excitement and significant interest.

We launched the Microtel Moda prototype, value engineered to reduce both building costs and operating costs and added nearly two dozen new construction Moda prototypes to our pipeline in 2019. And in the extended stay segment, our Hawthorn Suites' new dual-branded prototype combined with La Quinta, has attracted significant attention with over a dozen new La Quinta Hawthorn Suite hotels added to our pipeline in 2019.

Contribution to our brand through our central reservation channels grew another 360 basis points globally to over 56% and another 433 basis points domestically to over 70%. In 2019, we improved the speed, effectiveness and responsiveness of our brand websites, including increased use of loyalty member rates. In the United States, our brand websites and mobile app, continue to be our fastest growing channels, delivering valuable direct bookings and a seamless guest experience and have once again outpaced growth from the OTAs.

Central contribution was also driven by Wyndham’s Signature Reservation Service, or SRS program, where we handle property direct reservation calls on a centralized basis. Voice continues to represent an important channel
for our franchisees and our goal is to turn every incoming call to their hotels into a future reservation. We now have almost 4,000 properties opting in to our SRS functionality, with transition hotel seeing an average lift in ADR of 13% and Wyndham Rewards realizing a 98% increase in the enrollments from these participating properties.

While we grew this channel by 31% in 2019, there remains opportunity in 2020 to handle more calls on behalf of even more of our hotels as we look to expand the program internationally this year. An important driver of central contribution in the value we deliver to our franchisees, is of course our award winning loyalty program and Wyndham Rewards represented a record 44% of our US occupancy and an organic increase of 540 basis points from the prior year.

Total Wyndham Rewards enrolled members increased 2 million in the fourth quarter of 2019, bringing the program to over 81 million enrolled members. Wyndham Rewards has consistently ranked among the top Hotel Loyalty Programs in the industry by new US News & World Report and the readers of USA TODAY and in December for the fifth consecutive year, it was named the Best Hotel Loyalty Program for travelers of all spending levels by WalletHub.

We are tremendously proud of our team and of these achievements and accomplishments and we look forward to further enhancing our members’ acquisition efforts, our personalized customer relationship management engagement strategies and our direct booking initiatives in 2020, to ensure Wyndham Rewards remains the simplest and most rewarding program in the industry.

Finally, we want to take a moment to talk about our commitment to fostering a values-driven culture and to being a socially responsible partner in the communities where we live, work and serve. From launching our first ever Green Certification Program for our franchisees to being named by Ethisphere as one of the world's most ethical companies to earning our second perfect score of 100% as a best place to work for LGBTQ, a quality by the Human Rights Campaign Foundation, our achievements, be they operational, financial or cultural, reflect the drive, support and dedication of our over 14,000 team members and our over 6,000 franchisees.

We're pleased with the progress we made in 2019 on our strategic goals as the world's largest and best hotel franchisor in the 90 countries and territories in which we now serve. We look ahead to build on our track record of delivering consistent earnings and cash flow growth.

And now, I'd like to formally introduce, Michele Allen, a 20-year veteran of our company, whom I've had the pleasure of working with for over a decade. Her extensive experience with our business, the lodging industry and our leadership teams around the world, made her the ideal candidate to take over as Chief Financial Officer and she will now walk us through our financial highlights. Michele?
regions, about a 0.5 decline in China and softness in Canada that mirror the US. Full year organic global RevPAR finished down 80 basis points on a constant currency basis, in line with our October guidance.

Fourth quarter revenues were in line with expectations at $492 million, down 7% from $527 million for the same period in 2018. This decrease reflects lower pass-through cost reimbursement revenues in our hotel management business, which have no impact on adjusted EBITDA. Excluding cost reimbursements, revenue grew 2%, reflecting higher royalties and franchise fees and higher license fees.

Marketing, reservation and loyalty revenues also increased, but predominantly reflected a reclassification from other revenues. Our adjusted EBITDA increased 22% to $153 million, further reflecting our shift in marketing spend to earlier in the year and increased synergies from the integration of La Quinta.

Adjusted EPS in the fourth quarter increased 40% to $0.81, driven by our adjusted EBITDA growth as well as a lower tax rate and the impact of our share repurchases.

For the full year our revenues were in line with our expectations and grew 10% to approximately $2.1 billion, with results reflecting $267 million of incremental revenues from La Quinta and $150 million of lower cost reimbursement revenues. Excluding the impact of these items, revenues increased 3%, primarily fueled by 3% growth in system-wide rooms, higher license fees and higher other revenues, which are a catch-all for smaller lower margin ancillary fee streams. These increases were partially offset by a $20 million reduction to revenues related to the agreement with CorePoint Lodging Inc.

Adjusted EBITDA was $630 million in 2019, up 21% year-over-year, consistent with our October projection of $610 million to $615 million, and within our original outlook for the year. Excluding $80 million of incremental adjusted EBITDA and synergies from the La Quinta acquisition, adjusted EBITDA increased 6%, primarily reflecting the growth in revenues.

Adjusted EPS for the full year increased 21% to $3.28, primarily due to our adjusted EBITDA growth, a lower tax rate, and the favorable impact of our share repurchases. These increases were partially offset by higher interest expense due to our debt structure being in place for a full 12 months in 2019.

Moving to our balance sheet, we had $94 million of cash-on-hand at December 31 and our debt balance was approximately $2.1 billion, carrying a weighted average interest rate of 4.3%. There were no borrowings outstanding under our $750 million revolving credit facility and our net leverage was 3.3 times our 2019 adjusted EBITDA, in the lower half of our target range of 3 times to 4 times.

Our business naturally generated $360 million of free cash flow in 2019, which after special item cash outlays, was reduced to $50 million. Special item outlays in 2019 were, a one-time tax payment of $195 million related to the La Quinta acquisition. The $35 million one-time payment related to the previously announced exit of the RLJ hotel management guarantee and $80 million of La Quinta transaction and Wyndham Worldwide separation related payments.

We returned $356 million to our shareholders through the payment of $112 million in dividends and $244 million of share repurchases, including $75 million of share buybacks in the fourth quarter.

Going forward, our capital allocation framework remains unchanged. We continue to be focused on growing our business organically and deploying a portion of our cash flow for development advances and similar growth opportunities. We will also continue to use our free cash flow to pay dividends. Beyond that we will look to allocate
cash flow to acquisitions that are both strategic and accretive, and also to share repurchases with the amount going to each depending largely on the opportunities that are available.

Now, turning to our 2020 outlook, the details of which are in our earnings release. This outlook does not reflect any impact from the coronavirus, which I'll discuss in a moment. For 2020, we expect net room growth of 2% to 4%, which includes a 70-basis point headwind from the expected loss of rooms that were previously covered by unprofitable hotel management guarantees.

RevPAR is expected to be flat to down 2% in the constant currency, which also include a 70-basis point headwind from the expected loss of rooms previously covered by the hotel management guarantees.

We are projecting revenues of $1.89 billion to $1.93 billion, reflecting approximately $190 million of lower cost reimbursement revenues, which have no impact on adjusted EBITDA. Excluding costs reimbursables, this represents a year-over-year increase of 2% to 4%.

We are projecting adjusted EBITDA in the range of $635 million to $645 million, a year-over-year increase of 4% to 5%.

And adjusted diluted EPS is expected to be in the range of $3.48 to $3.58, a year-over-year increase of 6% to 9%. As a reminder, we don't factor future share repurchases into our EPS forecast. As we laid out in our press release, we build our $635 million to $645 million adjusted EBITDA projection, based on our 2019 adjusted EBITDA of $613 million, adding in $10 million for a full year of La Quinta synergies and then subtracting $3 million for the net effect of hotel management changes. From there, we are projecting 3% to 4% organic growth and adjusted EBITDA, driven largely by rooms growth and cost containment effort, to mitigate the softer RevPAR environment. Our expectations for quarterly adjusted EBITDA are detailed in Table 6 of our press release.

The situation in China continues to unfold. To further expand on the geographical concentration we posted on our investor website, we are providing the following regional sensitivities. In China a 100-basis point change in net rooms or RevPAR growth, equates to approximately $250,000 in adjusted EBITDA on a full year basis. In Southeast Asia, a 100-basis point change in net rooms or RevPAR growth, equates to approximately $125,000. And in the US, for comparison purposes, a 100-basis point change in net rooms or RevPAR growth, equates to approximately $4 million.

We're providing these full year sensitivities as a point of reference and to illustrate the relative and manageable magnitude of this issue in the context of our overall financial results. What we know today and can currently quantify an estimate, is that approximately 70% of our hotels in China remain closed, with the balance experiencing occupancy declines of approximately 75%. We expect this to continue through at least the end of March.

We also know that our hotels in Southeast Asia, particularly in Korea, Singapore and Thailand, are seeing varying degrees of occupancy declines. We are assuming that as hotels in China reopen, the market will remain soft for the vast majority of the year as occupancy recovers over a three- to six-month period. Given what we know today, we would estimate a headwind of 200 to 400 basis points on our full year global RevPAR, a potential adverse impact of approximately $5 million to our first quarter adjusted EBITDA, and a potential adverse impact of approximately $8 million to $12 million to our full year adjusted EBITDA.

From a net rooms growth perspective, we are expecting the vast majority of our China room openings initially scheduled for the first quarter to slip to later into the year. As a result, we expect flat to negative room growth in
China during the first quarter and for our first quarter global net rooms growth to pace behind our full year outlook. Should opening slip out of the year, we view the risk to net room growth as approximately 0.5 a point.

Turning now to 2020 cash flow. We continue to expect capital expenditures in the range of $45 million to $50 million and development of that spend in the range of $25 million to $30 million. With most of the outlays relating to the La Quinta acquisition and our separation behind us, our free cash flow generation should return to a more normalized level this year.

In 2020, we anticipate spending less than $50 million to fund a previously incurred separation transaction and contract terminations cash outlays, as compared to $310 million spent in 2019. Our cash generation is typically stronger in the third and fourth quarters of the year, therefore, we expect roughly 20% to 25% of our free cash flow to be generated in the first half of the year with the remainder in the back half.

And the pace of our share repurchases will likely be slower in the first half of the year versus the second half based on the seasonality. However, we do expect first half spend to be meaningfully higher than the prior year.

And 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, Michele. Our teams have been successfully executing on our business objectives, expanding our strong market position, strengthening our industry leading loyalty program and continuing to enhance the value we bring to our franchisees. We're enthusiastic about our progress and momentum, and very excited about the opportunities that it lie ahead in 2020.

And with that Michele and I, would now be pleased to take your questions. Operator?
QUESTION AND ANSWER SECTION


Stephen Grambling  
Analyst, Goldman Sachs & Co. LLC

Hey. Good morning. Thanks for taking the questions.

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

Good morning, Stephen.

Stephen Grambling  
Analyst, Goldman Sachs & Co. LLC

Just a follow-up on the free cash flow, I guess how should we think about the cash from operations, relative to your EBITDA growth? You mentioned the $50 million in ongoing costs, so I guess, if we think about that off of the $360 million that you talked about in 2019, but are there any other kind of moving parts or mix things to think about as we look at the, kind of underlying cash flow growth? Thanks.

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

Good morning, Stephen. I think, for 2020 when we think about cash flow we are expecting our free cash flow to approximate our adjusted net income outlook with the exception of probably a little less than $50 million of special item outlays in 2020. Outside of that, we don't see anything materially different in how our business is generating cash flow.

Stephen Grambling  
Analyst, Goldman Sachs & Co. LLC

Great. And then, maybe turning to the drivers of the net unit growth, it seems like you're making good progress on the ramping that at the same time that RevPAR has been weaker. Can you help us put us in the mindset of owners and developers as they think about opening up new hotels with you and maybe, just talking through the puts and takes the returns on investment and/or access to the capital?

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

Sure, Stephen, from a developer sentiment, our teams out there are seeing no slowdown and financing remains intact. Our developers as we've talked about are very bullish right now about the year ahead. Our brands are gaining share of the development pipeline, the big brands are gaining share and I think our job is to put in front of these developers with new construction prototypes as we've been doing with our Microtel prototype, with our La Quinta prototype. In terms of what's in their head, how these brands are performing from return on investment standpoint, we've seen a great pickup in our domestic pipeline, especially our new construction pipeline. We've always been a strong story from a conversion standpoint, but what our franchise sales teams are out there doing right now, is something that they haven't done in a long, long time in terms of having great new prototypes to sell.
Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Hi, good morning. Just a couple of questions here. Geoff and Michele, can you just remind us again what percentage of your pipeline is in Mainland China?

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

57% of our pipeline is outside of the US, Patrick, and that's what we've disclosed and that spread across obviously China, Southeast Asia, Pacific Rim, Latin America and Europe and Middle East. We don't track a pipeline for our master license. Our two large master license there are Super 8 and our Howard Johnson's master license franchisees, and so that never makes it into our pipeline. What's encouraging about our pipeline in China right now is just how all of it is direct and that's the business we have the most insight into right now. All of our direct pipeline has been identified, it's been executed, it is in our team's opinion over there, all [indiscernible] (00:27:23) open question is just when is it going to open.

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

And on a global basis that translates to about 25% of our pipeline in China.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Okay. I was just a little surprised that with a large percentage of your pipeline that the potential EBITDA is only 2% of your company. That's correct, [ph] to assume (00:27:44)?

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

That is correct. And the way, I think, Michele has put out from a sensitivity standpoint, I mean, this is a very fluid environment for us. And the sensitivities, I think, will help you sort of get there.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Okay. Thank you. I'm all set.

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

Thanks, Patrick.
Hi. Good morning, everyone.

I don't know what if – if you can be as exacting with us as possible, but one of the areas that we're just trying to keep tabs on is, you've acquired La Quinta, there's been some noise with it, but there's also been some very clear positives in the unit growth. Do you track how much EBITDA or cash flow you are generating in return on that acquisition and kind of where you are in that payback period?

We do track. We do track the amount of EBITDA and cash we're generating from the business. It's probably too early. We do look back on all of our investments. It's too early right now to do a look back for the La Quinta acquisition. But we are tracking – it's tracking – it's just slightly below our expectations due to the slower RevPAR environment, but our long-term model is still predicting us back in line with where we need to be.

Got it. And if I'm sort of listening to your commentary and trying to be – frankly, we sit here and scrutinize every bit of it, what would be the probabilities or how can you help us think about the possibility that you might add another acquisition to the company, say, in the next four to six quarters of some size, that would be meaningful?

David, we're always looking for opportunities that are accretive and strategic. But right now, with where our stock is currently valued, we see that as a very attractive investment opportunity.

Okay. Thank you very much.

Thanks, David.

Operator: We'll go next to Joe Greff with JPMorgan. Please go ahead.

Excellent. Thank you very much.
Good morning, everybody.

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

Good morning, Joe.

Joseph Greff  
Analyst, JPMorgan Securities LLC

Yeah, so it just looks like US deletions increased more meaningfully in the 4Q. [ph] on our math it's about 7,200 (00:30:10) rooms, which is the highest it's been, I don't know, I guess it's before 2018, but can you talk about what's driving that? And is there anything one-time in there and obviously, you talked earlier about the 95.5% retention rate. Can you talk about should we be concerned that deletions have plateaued and how are you thinking about retention rates going forward?

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

No, absolutely not, Joe, and you're spot on. We look at deletions on an annual basis, on a full year basis, we're up 110 basis points and we were thrilled with that. Deletions are somewhat seasonal in nature, but we saw a strong growth throughout the year. They really started in the third and fourth quarter of last year improving, our retention rates began to move up. I guess, the only one time, I think, I could think about off the top of my head, we've talked a lot about the Ramada brand, how strong that brand is for us internationally. It's one of our fastest growing – strongest performing brands internationally, and we are working with the Ramada brand team and the Ramada [ph] FAC (00:31:13). And I believe and Matt could get back to you on this, but we probably took out a dozen Ramadas in the fourth quarter that we've been very focused on removing from the domestic system as we've been probably growing more quickly internationally than any other brand.

Joseph Greff  
Analyst, JPMorgan Securities LLC

Great. Thank you. And then, the average domestic US royalty rate was down year-over-year, I'm presuming the answer to why it was down year-over-year is mix. But can you just discuss what happened there and if you exclude mix, would you have seen a more normalized increase in the royalty rate there? And that's all from me.

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

Sure, Joe. Yes, the domestic royalty rate does reflect mix. We've had tremendous success growing our Trademark brand, which is a soft brand and carries a lower overall royalty rate than our other brands.

Joseph Greff  
Analyst, JPMorgan Securities LLC

Thank you.

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

Thanks Joe.

Operator: Our next question comes from Dany Asad with Bank of America. Please go ahead.
Hi good morning, everybody. My first question is just a clarification point on your assumptions for the coronavirus impact. So, in your prepared remarks, you mentioned a 200 to 400-basis point drag to the global RevPAR. And so, can you maybe help just parse that out, quarterly is it kind of proportional to how you guys laid out your recovery assumptions, is it kind of like first half loaded and then kind of, it tails-off towards the end of the year?

Yes. Dany, it would absolutely be first-half loaded and then tailing off through the remainder of the year. The 200 to 400 basis points of global RevPAR decline translates to roughly 30% to 40% full year China decline in RevPAR and about 10% to 15% decline in the Southeast Asia region.

Awesome. Thank you, Michele. And then, my second question is, maybe just taking a step back, so in the US, it seems like lower end chain scales, really seem to be struggling to drive rate, I guess in the last six months to eight months and it hasn’t really shown any signs of getting better lately. So, maybe Geoff, this question is for you. But in your conversations with franchisees, what are some of the bigger pain points that they call out, when – that are causing them to give in on rate like this, when occupancies are pretty healthy at the stated cycle?

They are, Danny. They are at all-time highs and it’s frustrating to see that sort of lack of just initiative to raise price, given how high the occupancies are. And you’re spot on, on our economy and mid-scale began to slip late in the third quarter and Q4 was tough for the industry, gone down, I think, 150 basis points and mid-scale, down 270 basis points. We saw that again in the upper mid-scale as well. I think, it’s been especially tough if you own a hotel in the oil and gas markets where you’ve seen even greater pricing pressure and I think that’s played into the overall numbers. But our job, given the consumer confidence that we know is out there and we continue to see weekends being stronger than weekdays, full employment for our everyday type of traveler, is to convince our franchisees not to give up on rate. To put it in their hands pricing tools that they will allow to function in their automated property revenue management system and accept those recommendations to push rate where there is demand.

And that’s it from me. Thank you.

Thanks, Dan.

Operator: Our next question comes from Anthony Powell with Barclays. Please go ahead.
Hi, good morning. Question on unit growth. So you ended 2019 at 2.6%, your guidance is 2% to 4% and you have a 70 bps headwind from the cancellations. Well, what will it take for you to get to the mid-point of your guidance of up 3%. Would it be more conversions, faster [ph] infrastructure (00:35:21) deliveries, how do you get there?

Good morning, Anthony. It's Michele. I think in 2019, we saw a 13% increase in our domestic gross openings and we expect continued momentum there in 2020. Also, we do expect to see continued improvement in our domestic retention rate. On an international basis, we saw increased openings there and we're expecting continued improvement as well there.

Got it. And I saw an increase in the conversion pipeline in the fourth quarter, what brands kind of led that increase? And how are conversions expected to trend in 2020?

Sure. Michele mentioned, Anthony, our Trademark brand. We could not be more excited about the success of a brand that we launched two years ago to now have 100 units and some much larger units than our typical unit opening. I mean, when we're able to open a 1,000-room hotel last year, the Galt House in Louisville (sic) Louisville (00:36:25), Kentucky or a 700-room hotel in the Wisconsin and Dallas this year, that plays in heavily. But our economy brands are beginning to – while we're still focusing on the quality side of the house, we've had a lot of movement and a lot of success, opening and converting independent hotels into our Days Inn product.

And with our new Moda pipeline, our Trademark product – I'm sorry, our Microtel product. Perhaps one of the biggest successes that our teams are having – our franchise sales seems are having out there on the conversion standpoint, has been with our Howard Johnson's hotels, which are – while we have been removing lower quality, Howard Johnson is adding a lot of independent hotels to the new Howard Johnson's brand, which has a new prototype renewed that is driving a 106% fair market share today and saw 400 basis points of growth in the year.

So, as things out there evolve and our brands get stronger from a RevPAR index and a prototype standpoint, we're looking to continue domestically, push that conversion number up.

Got it. Maybe just one more. [ph] Earlier I missed some (00:37:41) commentary that it's kind of hard to pencil new construction development and kind of mid-scale in an economy [indiscernible] (00:37:48) price points for certain brands. What's your view on the, I guess the return profile of developing in those price points, given kind of higher construction cost and labor costs that we're seeing across the industry?
Our view is that these are very attractive cash-on-cash returns for hotel developers that a typical Microtel, for example, was at a $44 RevPAR, is generating is over 20% cash-on-cash return and even if you were in a declining RevPAR environment, 3% to 4%, the cash returns would still be mid-teens to low 20s. So, we see it as a very attractive opportunity for developers.

Anthony F. Powell  
*Analyst, Barclays Capital, Inc.*

Got it. Thank you.

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

Thank you, Anthony.

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

Jared Shojaian  
*Analyst, Wolfe Research LLC*

Hi. Hi. Good morning, everyone. Thanks for taking my question. So just, in the earnings release you called out the, I think, $8 million for restructuring the organization, efficiency and rationalizing the operations. Can you just elaborate a little bit more on that and maybe how we should think about the EBITDA contribution from that in 2020 and beyond?

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

Hi, Jared. Yes. So what we are doing now is making sure our business is properly structured to deliver against our 2020 and longer term strategic goals. The past two years, we’ve really been focused on the integration of the La Quinta business, which was a transformative acquisition for us, as well as our separation from Wyndham Worldwide. And that takes a lot of staff, and then in a lot of places are – not a lot, but in some places, we had some redundancies that we were able to remove from the business.

Jared Shojaian  
*Analyst, Wolfe Research LLC*

Okay.

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

And then with respect to 2020, I think, we’re expecting around $6 million or $7 million savings and that’s embedded into our guidance. You can see that in – as evidenced by the margin expansion.

Jared Shojaian  
*Analyst, Wolfe Research LLC*

Great. Thank you. And then, you also called out some one-time charges, I think, $10 million on La Quinta transaction costs and I guess, I would have expected these transaction costs to have disappeared by now at this stage. So, can you just talk about what that is exactly and I know, you’re talking about $50 million of one-times in 2020, which includes a bunch of [ph] stuff (00:40:17), but when do we start to see the La Quinta one-time charges go to zero?
Michele Allen  
*Chief Financial Officer, Wyndham Hotels & Resorts, Inc.*

The transaction – it has somewhat of a long tail. If you look at the Marriott Starwood acquisition, they're still incurring merger related costs. I think, this year, 2020 will be the last year that we have transaction related cost and right now, most of them are just salary continuation for separated in place.

Jared Shojaian  
*Analyst, Wolfe Research LLC*

Great. Thank you. And then just one more quick one for me, can you just talk about how the La Quinta properties performed in the quarter relative to, I guess, your existing brands and maybe relative to their sample? And maybe if you could drill down a little further and help us understand the progress, the CorePoint owned properties are making relative to prior quarters when there were some headwinds? Thank you.

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

Sure. Thanks, Jared. They finished right in line with where we expected them to finish. They were down 6% for both, the Q4, 6% down, for the full year again against a very tough comp which we've been talking about all year long. They are – recall, heavily concentrated in oil and gas markets. Q4, we knew coming into the quarter was going to be an especially tough comp. Last year, recall, we talked about our managed portfolio being up 10% last year in RevPAR and up about the same in index. So we were lapping against that. They're essentially flat on a two-year stack basis and flat on a RevPAR index.

And into the second part of your question, it really is a tale of two brands, the exterior and non-renovated portfolio which continues to dwindle down, as CorePoint sells assets to many of our engaged franchisees who are looking to renovate them. And then, the much larger and renovated [ph] Del Sol (00:42:09) hotels that continue to outperform and saw great strength in the mountains, in the plains, in the mid-Atlantic, gaining a significant share in the quarter.

I think, going forward, to the last part of your question, the first quarter is going to be another tough comp for us, but the comps will get easier as we move throughout the year. And I think, the most important thing to your question on performance that we look at every day is, not how these hotels comp against their mid-scale chain scale which still runs around 120-ish-percent, but how they perform against their individual direct property concepts, it's something we look at every day through daystar, every week and every month. And with confidence, we could say that more of the La Quinta portfolio are gaining share today on their new platform than they were before the technology transition.

Jared Shojaian  
*Analyst, Wolfe Research LLC*

All right. Thank you very much.

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

Thanks, Jared.

Operator: And we will take our final question from Ian Zaffino with Oppenheimer. Please go ahead.
Ian Zaffino
Analyst, Oppenheimer & Co., Inc.

Hi. Great. Thank you very much. Just looking at the M&A front, as far as the - I guess, the RevPAR environment, have you seen the multiples change at all? Or maybe, if you could talk about what you're seeing there? Thanks.

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

Yeah. We really haven't seen much change. There is a lot of money, Ian, chasing the few deals on the M&A side that are out there. And I think, as Michele said earlier, given where our stock is right now and our multiple is, that has been our priority throughout the last quarter and will remain so for the time being.

Ian Zaffino
Analyst, Oppenheimer & Co., Inc.

Okay. Thank you very much.

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

Thanks, Ian.

Operator: And there are no further questions at this time, so I'll turn it back to Geoff Ballotti for any closing remarks.

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

Thanks, [indiscernible] (00:43:59). And thanks, everyone, for your time this morning. Michele, Matt and I very much appreciate your continued interest in Wyndham Hotels and Resorts. And we look forward to seeing you along the way in the coming months. Just like to say Happy Valentine's Day.

Operator: This does conclude today's Wyndham Hotels and Resorts' fourth quarter and full-year 2019 earnings conference call. Please disconnect your lines at this time and have a wonderful day.