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Wyndham Hotels & Resorts, Inc. (WH)
Q4 2022 Earnings Call
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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Wyndham Hotels & Resorts Fourth Quarter and Full Year 2022 Earnings Conference Call. At this time, all participants have been placed on a listen-only mode and the floor will be open for your questions following the presentation. [Operator Instructions]

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

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

Thank you, operator. Good morning and thank you for joining us. With me today are: Geoff Ballotti, our CEO; and Michele Allen, our CFO. Before we get started, I want to remind you that our remarks today will contain forward-looking statements. These statements are subject to risk factors that may cause our actual results to differ materially from those expressed or implied. These risk factors are discussed in detail in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission, and any subsequent reports filed with the SEC.

We will also be referring to a number of non-GAAP measures. Corresponding GAAP measures and a reconciliation of non-GAAP measures to GAAP metrics are provided in our earnings release, which is available on our Investor Relations website at investor.WyndhamHotels.com. We are providing certain measures discussing future impact on a non-GAAP basis only, because, without unreasonable efforts, we are unable to provide the comparable GAAP metric.

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

With that, I will turn the call over to Geoff.

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

Thanks, Matt, and thanks, everyone, for joining us this morning. We’re thrilled to report that our Q4 results finished stronger than our expectations, with full year reported global RevPAR growth of over 16%, net room growth of 4% and adjusted EBITDA of $650 million. We generated $360 million of free cash flow in 2022 and returned over $560 million to our shareholders, which represented 7% of our market cap. By all accounts, it was an outstanding year for Wyndham Hotels & Resorts.

We grew net rooms by 4%, including 80 basis points of growth from the acquisition of our 23rd brand, Vienna House by Wyndham. Excluding Vienna House, we opened 64,000 rooms for the year, more than one hotel each and every day. This represents 20% more rooms than we added last year.

Here in the United States, we added 27,000 rooms, with some great new hotels like: the StoneHill Lawrence, a AAA three Diamond Hotel outside of Kansas City, who converted to our Trademark Collection brand; and the
opening of our first two dual brand new construction, La Quinta Hawthorn Suite Hotels in Texas, a combined extended stay and select-service hotel in the midscale space designed to streamline development and operational costs by utilizing a shared lobby, fitness center, meeting rooms, bar and other amenities.

Internationally, we opened 37% more rooms organically in 2022 than we did last year and 2% more than we did back in 2019. Latin America led the way with 14 luxury resort additions to our Registry Collection brand across the Caribbean and Mexico. And in the fourth quarter, our Latin America team welcomed our first Wyndham Grand to Mexico with the opening of the beachfront Wyndham Grand Cancun Resort, centrally located in Cancun’s Hotel Zone.

Our EMEA region also had a tremendous year, opening 57% more rooms organically than they did last year, or 6% higher than 2019, with impressive fourth quarter additions like: The Balkan Jewel Resort, a Trademark Collection conversion in the resort town of Razlog near Sofia, Bulgaria; and the Ramada Riyadh King Fahd, the first new Ramada addition since buying back our master license agreement in Saudi Arabia.

In Southeast Asia, we grew net rooms by 5%, opening 40% more rooms in 2022 than we did in 2021. And after many years of development, we welcomed the beautiful new 949 room Wyndham Danang Golden Bay Resort directly on the beach in this former French colonial port, marking the 14th hotel opening for our Asia Pacific development team in Vietnam.

And finally, our China direct development team grew net rooms by another impressive 10%. And despite the sporadic lockdowns and travel restraints many of our team members continued to face throughout the fourth quarter, which have now thankfully dissipated, the team added more direct franchise rooms now than they did in the fourth quarter of 2019 and nearly twice as many rooms than they did in the fourth quarter of last year. With the opening of hotels like the Wyndham, the Wyndham Grand and the La Quinta Shanxi, three beautiful new hotels located in the business district in the heart of Shanxi Province featuring corridor direct access to Shanxi’s International Convention and Expo Center. And this new La Quinta Shanxi represents our second new construction La Quinta to open in China in 2022.

On the retention front, we improve for the second consecutive year to a record high global rate of 95.3%, including the first time that our international retention rate has exceeded 95%, an indication of our ever-improving owner first value proposition. We grew our development pipeline sequentially by 3% and by 12% versus prior year to a record 219,000 rooms in 1,700 hotels. This marks Wyndham’s 10th consecutive quarter of sequential pipeline growth.

Our teams awarded 882 contracts globally for over 113,000 room additions, which is over three new contracts awarded each and every business day. The number of domestic contracts signed in the fourth quarter was 40% higher than what we awarded last year, and nearly 90% higher than what we awarded in the fourth quarter of 2019, reflecting record developer interest in our brands. For the full year, we signed 563 contracts in the US for 62,000 room additions, which is nearly double the amount signed in 2019 and 65% more than last year.

Fourth quarter new construction domestic executions increased 95%. Notably, we awarded another 50 ECHO Suites by Wyndham contracts this quarter to established developers and experienced extended stay operators, bringing the total number of contracts awarded to 170 hotels in just nine short months since launching the brand last March, and making ECHO the hotel industry’s fastest growing new brand launch of 2022.

We broke ground on our first three ECHO hotels in the last few months of 2022, and we expect to open our first ECHO Suites by Wyndham Hotels later this year as we break ground on another two dozen ECHO hotels in 2023.
On a full year basis, new construction domestic executions increased 130% year-over-year, while domestic conversion executions increased 30% compared to 2021. Developers are selecting by Wyndham new construction offerings now more than they ever have. Our economy new construction brand Microtel added 2,200 rooms to its domestic pipeline in 2022, driven by developer interest in its cost efficient Moda prototype, while upper midscale brands like Wyndham Garden added 1,300 rooms to its domestic new construction pipeline. In the upscale segment, we saw continued strong new construction demand for brands like Wyndham, which grew its US pipeline by 1,700 rooms this year.

Consumer demand remains strong. Our middle class customers continue to spend more on travel than they ever have, and they're staying longer than they were back in 2019, given hybrid work environments. We saw booking windows increase 18% versus prior year to over 14 days, with guests planning further ahead, given space constraints and the fear of being blocked out, as so many were last spring and summer.

Thursday and Sunday night occupancies in our guests' average length of stays have both continued to climb in the fourth quarter versus where they were back in 2019. All of these trends are giving our franchisees the confidence to continue to yield up in their pricing, with the new revenue management tools we're providing to them, combined with the constant messaging that real ADR for the select-service space remains essentially flat to where it was four years ago. We believe that leisure travel remains the number one priority for discretionary consumer spend among middle income Americans in 2023, as so many recent consumer surveys from organizations, such as MMGY and the American Society of Travel Advisors, have indicated.

At the same time, we've seen strong growth in our infrastructure-related revenues, which makes up about 20% of our US royalties. This area has always been a strength for Wyndham. And with the size of the pie set to grow substantially as the government begins to deploy the $1.5 trillion in Infrastructure and CHIPS Act spending, we've been making further investments here to grow our share. Those investments have already begun paying off, with domestic weekday occupancy in our economy hotels at their highest absolute levels on record.

Our general infrastructure-related revenues increased double digits in the fourth quarter versus 2019, a trend that began back in the second quarter of 2021. And we're confident that it will continue to strengthen throughout 2023, as projects for new roads, bridges, rail, water systems, airports, broadband and public transit begin. Funneling the hundreds of billions of dollars to the states is a heavy lift that will take time and require coordination from agencies on both the federal and the state levels. As these projects commence over the next several years in the markets where our economy and midscale small business owners will benefit.

We estimate that this new level of spend represents an opportunity for us to generate over $3.3 billion of incremental revenue for our franchisees and over $150 million of incremental royalties for Wyndham over the spend period. Our award winning Wyndham Rewards Loyalty Program, recognized as the best hotel loyalty program for the fifth consecutive year by the readers of USA TODAY, grew its enrollments by 8% over the past 12 months and now stands at 99 million members. Wyndham Rewards helped drive a 23% increase in direct bookings to our brand dot-com sites, outpacing the rate of growth across all third-party channels and, once again, representing a record high level of contribution for our brand dot-com sites.

Our core values and our Count on Me service culture are at the heart of what drives our growth and what makes Wyndham such a great place to work. There's no better measure of why we are such a great place to work than our most recent team member engagement survey, which generated record high results. And it was no surprise to see Wyndham Hotels & Resorts qualify as a constituent of the 2022 Dow Jones Sustainability Index, a global
index consisting of the top 10% of the largest 2,500 companies in the S&P Global Broad Market Index based on sustainability and environmental practices.

We sincerely thank our valued team members, without whose support, none of this would be possible. And with that, I'll turn the call over to our CFO, Michele Allen. Michele?

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

Thanks, Geoff, and good morning, everyone. I'll begin my remarks today with a detailed review of our fourth quarter and full year results. I'll then review our cash flows and balance sheet, followed by our 2023 outlook.

We generated $310 million of fee-related and other revenues and $126 million of adjusted EBITDA in the fourth quarter, bringing our full year fee-related and other revenues to $1.35 billion and adjusted EBITDA to $650 million, both above our expectation. Our Franchising segment grew fourth quarter revenue by 12% year-over-year, primarily reflecting global RevPAR growth and higher license fees. Adjusted EBITDA increased 8% to $138 million, as the revenue increases were partially offset, as expected, by the timing of higher marketing spend in the quarter, which unfavorably impacted margin by 200 basis points. Excluding this timing impact, our adjusted EBITDA grew 13% in the fourth quarter and our adjusted EBITDA margin remained consistent with prior year.

In our Hotel Management segment, fourth quarter revenue and adjusted EBITDA declined, reflected the sale of our select-service management and owned hotel businesses, which contributed approximately $38 million in fee-related and other revenue and $12 million in adjusted EBITDA in 2021.

Within our Corporate and Other segment, our fourth quarter expenses were in line with expectations, or relatively flat compared to 2021. Fourth quarter adjusted diluted EPS was $0.72, a 4% increase year-over-year, or approximately 16% on a comparable basis. This increase reflects adjusted EBITDA growth in our Hotel Franchising segment, as well as a benefit from our share repurchase activity.

Now turning to full year results. Our Franchising segment grew revenue by 16% year-over-year, primarily reflecting global RevPAR growth and higher license fees. Adjusted EBITDA increased 15% to $679 million, and our adjusted EBITDA margin was consistent with 2021, despite ongoing inflationary pressures. In our Hotel Management segment, full year revenue and adjusted EBITDA declines reflected the first half of 2022 exit of our select-service management and owned hotel businesses, which contributed fee-related and other revenue of $50 million during 2022 and $125 million in 2021, and adjusted EBITDA of $18 million during 2022 and $37 million in 2021.

Within our Corporate and Other segment, we saw $7 million of higher expenses, due to inflationary cost pressures, in line with expectations. Full year adjusted diluted EPS was $3.96, a 25% increase or approximately 29% on a comparable basis. This increase reflects adjusted EBITDA growth in our Hotel Franchising segment, lower net interest expense and a benefit from our share repurchase activity.

Before moving on to free cash flow, let me take a moment to discuss current regional RevPAR performance. Global RevPAR in constant currency grew 15% year-over-year in the fourth quarter, up from 12% in the third quarter. Domestically, RevPAR finished 12% ahead of 2021 and 9% ahead of 2019. US RevPAR growth accelerated to 480 basis points in the fourth quarter from 250 basis points in the third quarter. And for the first six weeks of 2023, RevPAR for our brands has continued to accelerate, with the US up approximately 600 basis points year-over-year.
Internationally, fourth quarter constant currency RevPAR ran 46% ahead of last year and 23% above 2019. All regions, with the exception of Asia Pacific, generated RevPAR well in excess of both 2019 and 2021 levels. Full year international occupancy finished down 21% to 2019 and will continue to provide a meaningful tailwind for us in the coming quarters as demand continues to grow overseas, especially in our Asia Pacific and EMEA regions, which for the whole of 2022 were only 68% and 88%, respectively, of 2019 levels.

Now turning to free cash flow, we generated $360 million in 2022 compared to $389 million in 2021, reflecting, as expected, lower cash collected from 2020 COVID-related fee deferrals as well as higher development advances. Importantly, we converted 55% of our adjusted EBITDA to free cash flow, right in line with our target. We successfully executed on our stated capital allocation strategy by investing over $120 million to grow the business, while returning a record high $561 million to our shareholders, representing 7% of our market cap through $445 million of share repurchases and $116 million of common stock dividends.

As we move into 2023, our capital allocation strategy remains unchanged. We will remain disciplined on the core tenets of our M&A strategy and pursue transactions that are accretive from an earnings and net room growth perspective and complementary to our existing brand portfolio. We will also continue to incentivize franchisees to invest in new brand prototype designs to improve overall brand equity. And based on the success of our new ECHO Suites Extended Stay brand to-date, we expect to begin to deploy a portion of the $100 million of development capital we earmarked as the first ECHO Suites hotels near opening in late 2023.

Finally, we expect to maintain our industry leading dividend payout ratio, subject to board approval. And share repurchases will continue to be an integral element of our capital allocation strategy, albeit lower than 2022, given the absence of the one-time proceeds from last year’s transaction. We ended the quarter with approximately $900 million of total liquidity and our net leverage ratio was 2.9 times, just below the low end of our stated range.

Moving on to outlook. For full year 2023, we expect global net room growth of 2% to 4% and global RevPAR growth of 4% to 6%, which translates to 6% to 8% above 2019 levels, a data point that we still consider to be relevant since the select-service space, which represents over 90% of our US portfolio, recovered to pre-COVID levels much faster than the industry’s full-service space. Fee-related and other revenues are expected to be $1.38 billion to $1.41 billion. We are projecting adjusted EBITDA of $650 million to $660 million, which reflects comparable basis growth of approximately 5% when neutralizing for the variability in the marketing funds year-over-year, which will contribute approximately $10 million less of adjusted EBITDA in 2023 as we expect to completely recapture our 2020 investment.

Adjusted net income is projected to be $337 million to $349 million. And adjusted diluted EPS is projected at $3.84 to $3.98, based on a diluted share count of 87.7 million, which excludes any potential share repurchases. Finally, we are expecting free cash flow conversion from adjusted EBITDA of 50% to 55%, which reflects the impact from our expected increase in development advanced spend from $48 million in 2022 to approximately $60 million in 2023, as well as higher interest expense.

As a reminder, we have provided two slides in our investor presentation to help with your modeling. Slide 40 provides the historical financial impact of our select-service management business and owned hotels, which will need to be adjusted from your base. And slide 41 provides revenue sensitivities.

In closing, we are very pleased with our 2022 performance. We successfully executed on our key business objectives, growing our system, increasing our owners’ profitability, and simplifying our business model, while generating significant adjusted EBITDA and free cash flow and returning a record amount of capital to our shareholders.
We enter 2023 with a strong balance sheet, a record pipeline, tremendous momentum behind our new extended stay brand, ECHO Suites by Wyndham, and a great deal of optimism surrounding the largest infrastructure bill in our nation's history.

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

**QUESTION AND ANSWER SECTION**

**Operator:** The floor is now open for questions. [Operator Instructions] Thank you. Our first question comes from Joe Greff with JPMorgan.

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

Good morning, everybody. Geoff, can you talk about the environment for, I guess, what we'd characterize as tuck-in acquisitions? How much is out there? Is there anything warm that you're working on? How competitive is the environment today for tuck-in acquisitions versus, say, a year or two years ago? And I have a follow-up.

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

I think the environment will continue to improve, Joe. You know, Vienna House is a good example of that, our latest tuck-in acquisition. And I think, you know when you look at it domestically and internationally, it will continue to pick up. And deals will continue to present themselves. And we'll be strategic. We'll be methodical in evaluating the deals as they come along. We're going to be looking for brands that are both EPS and NRG accretive, as Vienna House was, brands that are of high quality and brands with high ROI potential.

Four of the last five brand launches, though, for us, Trademark, Alltra, Registry and ECHO, have all been launched organically. And there's no reason we can't continue to do that. But we now have great brands in every segment of the industry. But you know, better than anyone, that M&A is always in our DNA, having covered us for as long as you have; 19 of the 24 brands we have, have been acquired. And we do believe that size matters, scales matters, and we'll continue to look for deals. But we're not going to do a deal just to do a deal. We'll remain disciplined and ensure that any deal that we do do in the next year or two have compelling returns for our shareholders, as Vienna House had.

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

Thank you for that. And then, switching over to ECHO and nice to see the sequential growth continue here. And I heard both, Geoff, your comments, and, Michele, your comments. It doesn't sound to us that your 2% to 4% system-wide rooms growth incorporates much from ECHO. Is that more of a 2024 contributor? And then, is there any pivot, Geoff, on multi-development ECHO deals as yet to singles?

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

Questions you've asked before offline. Yes, there is a pivot. We have not yet offered ECHO to the thousands of individual franchisees, which we expect to do later this year.
Geoffrey A. Ballotti  
*President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.*

And to your direct question, there is no impact, really much impact to 2023 net room growth. We will have our first ECHO openings later this year. We have broken ground in just some phenomenal RevPAR markets: Plano, Texas; Sterling, Virginia; Richmond, Virginia. And the team's unbelievably excited. I mean, we said on the Q2 call, that we'd have 100 in the pipeline. We're at 170. And those are, as you say, all with multi-unit development agreements with some of the nation's most successful extended stay developers.

Because we want to really open these – develop these, build these and open these to have as big an impact as we can.

Joseph Greff  
*Analyst, JPMorgan Securities LLC*

Thank you.

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

Yeah.

Stephen Grambling  
*Analyst, Morgan Stanley & Co. LLC*

Hey, thanks. And this first one, maybe a follow up to those comments on ECHO and just development more broadly, was just hoping to dig into the components of your room growth guidance in the context of gross additions and attrition, especially in the context of a pipeline, I guess, that's now up 13% year-over-year and attrition rate that continue to improve. So I guess any color you can provide kind of splitting out as we think about the guidance, gross adds, attrition and any nuances by geography.

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

Yeah, sure. Good morning. So I would say from a net room growth perspective, we don't see a significant impact in 2023 from the growth in the pipeline. 80% of the pipeline today is new construction and in the US, construction starts within about a year or two with the deal being signed. So on average, there is a 18 to 24 month build from there. So it's typically in the pipeline four years. And internationally, it's a little longer. So overall, we would expect the pipeline to be realized over a four to five year period.

And a big part of our pipeline growth is the ECHO brand, and that's not going to have a material impact to 2023, as Geoff just mentioned. Moving our net room growth up will also then require, as we've always talked about, improvement in the retention rate. And I think you know if you look back to pre-2019, we were in a 93%, 94% range. And we've been steadily improving it 20 to 30 basis points every year since then. And we are marching
towards that 96% target. But when you see us get there, that's when you could expect to see our overall net room growth expectations lift.

**Stephen Grambling**  
*Analyst, Morgan Stanley & Co. LLC*

Sounds good for 2024 and 2025, then. Maybe changing gears, you had some good details on China and the direct component there. Can you provide a bit more color on how the reopening may not only impact domestic RevPAR in the country, but also the broader region as outbound potentially resumes?

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

Yeah, we see, as outbound resumes, a big beneficiary certainly for our hotels where the Chinese are going to be looking to travel. I mean, we're already seeing and hearing from our teams in South Korea, where we have over 10,000 rooms, that they're seeing more Chinese arrivals. Thailand, Indonesia, Australia, Singapore, those are all big, big beneficiaries. China represented over 150 million international travelers in 2019, Stephen. And you know that number, as we know, dropped to under 20 million for the last two years. So we're excited to see that.

On the ground, we're just encouraged as all get out to see the strong rebound during the Chinese New Year. Our last three weeks of RevPAR were up 60% in China to last year and 8% to 2019, given that pent-up family holiday travel demand. And our resorts in the vacation destinations, we've got big resorts in Hainan and Sanya came back really, really strong. I mean, through the last 14 days after Chinese New Year, our Wyndham Sanya was up 30% to last year. Our hotel in Hainan, our big Wingate, was up 60% to last year, but importantly, they were up over 10% and 30%, respectively, to 2019. And while that was Chinese New Year-driven, it was great to see the results that came out last night from Smith Travel, where overall China, you know last week RevPAR was up 1%, and what was almost a clean comp week versus 2019 with occupancy running around 90% of 2019 levels.

So we're really, really excited at what we're hearing from our teams over there and just thrilled with everything our team accomplished, despite the challenges with that 10% Q4 net room growth in our direct franchising business and how many more hotels they were able to open in a tough quarter, than they were last year.

**Stephen Grambling**  
*Analyst, Morgan Stanley & Co. LLC*

Thanks so much.

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

Thanks, Stephen.

**Operator:** Thank you. Our next question comes from Dany Asad with Bank of America.

**Dany Asad**  
*Analyst, Bank of America Merrill Lynch*

Hi. Good morning, Geoff and Michele. When we look at your 2023 guidance, so if we just look at your unit growth expectations, your RevPAR growth expectations, kind of if you combine them, you're looking at like a 6% to 10% fee growth as a whole. But your EBITDA guidance, if we strip out marketing and reservation is more like 5% to
6%. So can you maybe just help us understand what's causing a drag on the algorithm for 2023? And how should we think about that dynamic longer term?

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

Yeah. Yeah, Dany, your math there is correct. And I think there's two contributing factors. The first one is higher expenses, mostly due to inflation. Some of that we saw roll on in 2022, but we didn't have the full 12 months of it and we will have a full 12 months in 2023. And then the second impact really is the mix effect of higher RevPAR growth internationally versus RevPAR growth in the US. And that is really is because the international regions are still in recovery mode in 2023, while the US business had been fully recovered as of the second half of 2021.

And how that plays into the long-term growth algorithm, I would say typically if all regions are growing at similar rates of growth, the algorithm works. But we knew over these last two to three years, with the COVID impact playing out, we knew that there was going to be some differences in the algorithm, which is why when we provide the sensitivities, we provide sensitivity per point of RevPAR for the US business, separate and apart from the international business.

Dany Asad  
*Analyst, Bank of America Merrill Lynch*

Perfect. Thank you very much.

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

Thank you.

**Operator:** Our next question comes from David Katz with Jefferies.

David Katz  
*Analyst, Jefferies LLC*

Hi. Morning, everyone. Thanks for taking my question. So following through on some of that, one of the themes we've started to focus on, you know, largely one of your peers, is revenue intensity. And as you build out internationally, I wonder if you can shed some light on the deals that you're making or the signings that you're making in China, where I think the intensity has historically been a bit lower. But, you know, in the other areas of the world, how those compare with the US.

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

Thanks for the question, David. And it's good to hear your mom is doing better. God bless her.

David Katz  
*Analyst, Jefferies LLC*

Appreciate that.
In China, certainly, yes, I mean, where we're growing our rooms, the growth is coming in our direct franchising business, which, as you know, is three times more revenue intensive than our master license agreements, which have nowhere near the growth that we're seeing with our direct franchising right now at double-digit. And you're correct. And on slide 9 in the IP that Matt put out last night, you see that over 70%, 73% of our pipeline are in that higher revenue generating segments in the midscale and above brands that are driving that. Over 60% of our domestic pipeline are in the midscale and above and over 85% or about 85% of our international pipeline. So what that means for us is that our average deal values per room in the pipeline are increasing. They're up 800 basis points domestically, which is important, and up 240 basis points internationally. And that represents over $100 million of royalty fees for us over the next four years: domestically, as they're more weighted to higher RevPAR, higher segments, upscale brands; and internationally, as they're weighted in higher RevPAR markets, especially notably in Latin America and in Europe with some of our more upper midscale brands, our upscale brands, our Wyndham Hotels & Resorts full service brand, our Registry Collection, luxury brand. So yeah, we're very excited about that.

David Katz  
Analyst, Jefferies LLC

Understood. And if you could just talk a bit more, I think, one of the issues we're all trying to process is how people are – what people, people being you, are factoring into your guidance with respect to the macro environment as the year progresses?

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

Sure. I would say what we really are factoring in to our guidance is that, well, first, our US business has been fully recovered to pre-COVID levels since the second half of 2021, I mentioned, and finished 2022 9% above 2019. So, we're looking to add another 4% to 6% on top of that growth this year.

And I would say from a macro perspective, in the US, we began to lap more normalized comps in the second half of 2022. We were seeing about 3% year-over-year growth, so we're expecting a continuation of that trend into 2023. And internationally, where not all markets are yet recovered to the pre-pandemic levels, there's a bigger year-over-year growth opportunity. So we're expecting all of our international regions, with the exception of Asia-Pac, to get pretty close back to 2019 occupancy levels. So overall, we're looking for about half of our growth to come from occupancy recovery and the other half to come from some modest ADR growth.

David Katz  
Analyst, Jefferies LLC

Okay. Thank you very much.

Operator: Thank you. Our next question comes from Michael Bellisario with Baird.

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

Thanks. Good morning, everyone. Just, Michele, just one follow up there. Just the 4% to 6% sort of system-wide globally. Can you give any more specifics on just what the US expectation is versus international, just the spread in the components of the 4% to 6%? I know you sort of touched on it a little bit, but any more specifics would be helpful.
The US is certainly going to be lower growth overall compared to international, since they’re still – be in recovery mode for sure. So like I said, there’s probably in the US, there’s going to be a few points of occupancy growth and a few points of ADR growth, whereas internationally, we’re expecting to see again some modest ADR growth but a much bigger lift coming out of occupancy.

Okay. Thank you. And then, Geoffrey, you have a big competitor now getting into the economy space. Maybe big picture, what are the risks to you on the conversion front? And what are you hearing so far from your franchisees?

Yeah. Thanks, Mike. And, hey, congrats to you and [ph] Mary on the birth of Lucy (37:33) last Tuesday.

Thank you.

[ph] Annie (37:38) needs a playmate. As a father of four girls, I wish you two more. We can talk about that offline. Yeah. We’re not seeing any impact, to your question, on our economy brands. We have the most recognized economy brands in the space. And we’ve been in the space for over 30 years. We know these customers. We know these owners. And we know what's important to both.

The one thing that COVID has demonstrated to our economy owner base is that they wish they owned more Wyndham product, given just how well our brands performed throughout COVID and how well they performed after September 11, 2001 and the great financial crisis. These everyday essential construction and infrastructure workers never stopped traveling and they were staying in our economy brands in record numbers, which was what allowed our franchisees to never have to close down.

So we'll continue to provide the most flexible and the most competitively priced economy brands, with a focus on what we know is important to our guests and what we also know is important to our owners. And our renovation and our [ph] pick costs (38:42) run three to five times less than many of our larger brand peers. And our technology stack installation and our technology stack operating costs remain the lowest at four to six times less, with just a continued focus on generating the best cash on cash returns in the economy segment.
Patrick Scholes  
**Analyst, Truist Securities, Inc.**  

Hi. Good morning, everyone.

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

Good morning, Patrick.

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

One question. You talked in your press release about achieving your goal of retention rate of 95%. You know, going forward, do you see that as sort of the equilibrium level at this point or do you see there's continued opportunity to improve that? Thank you.

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

Absolute opportunity to continue to improve it, Patrick. You know, we, as Michele said, we were in the 94s in 2019. We moved that to 95% in 2021, and we've moved it to 95.3% in 2022. Our teams are incredibly focused on that. And you blend that in with what we're doing on the gross unitization sides, which we've also been moving up and we achieved 7% gross additions in 2021. We moved that organically, take out Vienna House, to an 8% organic gross addition in 2022, an all-time record of organic gross room additions for our system and you blend those two. And it's to Michele's point, how we're confident that we can move over time, that 2% to 4%, to 3% to 5%.

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

Great. Thank you.

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

Thanks, Patrick.

**Operator:** Thank you. Our next question comes from Brandt Montour of Barclays.

Brandt Montour  
**Analyst, Barclays Capital, Inc.**  

Hey, good morning, everybody. Thanks for taking my questions. So, maybe on that same theme, Geoff or Michele, the retention goal of just over 95.3% this year versus 95.3% last year. You know, I'm just curious, because it seems to me that a lot of folks in the industry think that this is the year where the brands will start pushing back on owners that maybe have some deferred CapEx via – during COVID that they held off. And this is the year that the brands sort of – the rubber meets the road on a lot of hotels having to deal with that. And we saw Marriott guide to higher deletion rate this year versus what they had last year. So I'm just curious, what you guys think about your system, about your brands and your owners that you think you'll be able to sort of move in the opposite direction of that?
Geoffrey A. Ballotti  
*President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.*

Well, I think the progress that we've been making. Brandt, from the 93% to 94% to 95% to 95.3%, your point, gives us confidence. I think there's still an opportunity out there with the best brand value proposition in the economy and midscale space to pick up on the conversion front. And we think transaction volumes are going to continue to accelerate. Distressed sales are expected to increase by the second half of this year. So we saw good movement on the adds, as we've said. And we've been really focused over the last few years.

We had significant substandard deletions that we were very targeted and very focused in 2018 and 2019 when our retention rates were lower than where they are today. And our brand quality and all of the efforts that we're doing on the quality front, continue to give us great confidence that we can move that number higher.

Brandt Montour  
*Analyst, Barclays Capital, Inc.*

Okay. Okay, great. And then, if we move to the other side of the equation to gross adds. Because if you say retention might get a little better or stay the same, but if you look at your — sort of the mid-point of your net unit growth guidance, would it — and maybe we're splitting hairs here, but it would imply not — a slight decel versus what you actually did do in 2022. So, is that just conservatism or is there a part regionally or part of the chain scales that you would focus on in terms of your gross adds that, that isn't as strong as last year?

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

Yeah. Brandt, I don't think it's actually a slight decel. I think when you look at the net room growth in 2022, you have to remember there's 80 basis points of growth in there from the tuck-in acquisition of the Vienna House. So I think we delivered a 3% percent on an organic basis and the midpoint of our guide this year would imply 3%. I would say we're looking for 20 to 30 basis points of improvement every year in the retention rate. And then, and that 3% is a rounded number. So it could be the 3.2%. It could be 3.3%. It could be 2.8%. But we're expecting it to be 3% or better at the midpoint. And so I think if you target a retention rate of, let's say, 95.5% and you're looking at 3% net room growth, then that would imply that you're driving somewhere between 8% and 9% in gross opens.

Brandt Montour  
*Analyst, Barclays Capital, Inc.*

Super helpful. Thanks so much, everyone.

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

Thanks, Brandt.

Operator: Thank you. Our next question comes from Ian Zaffino with Oppenheimer.

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

Hi. Great. Thank you very much. Just another question on guidance here. When do we expect the impact of the government spending on the infrastructure bill, other bills to kind of flow through in 2023? And I don't know if you really can do this, but any kind of magnitude you may be able to give us or at least directionally what we should expect. Thanks.
Sure. We would expect in the back half of the year, if you follow everything that's been put out by the Congressional Budget Office, that that next round of the $1 trillion will set to fund in late 2023. There certainly are many preexisting and time-sensitive projects that have moved forward. The $350 billion Highway Reauthorization Act is a good example of that, with $40 billion already being spent on bridges.

In terms of the size, I think we said in our prepared remarks that it's over a $3 billion revenue opportunity for our franchisees over the next five to eight years, which would mean another $150 million-ish of incremental royalties over that period. We're super excited about it. And we have been making investments in people for a while and processes and technologies. We're adding more sellers to win a greater share of these federal and state allocations. And we're creating a dedicated business-to-business sales team to identify the biggest opportunity targets out there.

There are 1.8 million infrastructure company businesses in the United States today. And we're leveraging our relationships with our third-party partners, [ph] or travel management companies like CLC, who have over 1,400 buying centers (46:28-46:33) across the country.

And we're sending our teams to events and conventions and conferences they've never been to before, like the American Society of Concrete Contractors, and calling on companies we haven't called with before. So, look, this has been a competitive strength of ours forever. We're continuing to invest heavily in it. The best is yet to come.

And for the seventh consecutive quarter, we've seen a pickup in terms of what our franchisees are experiencing. We were up 16% in this business in the third quarter and that accelerated to 21% in the fourth. So we're really excited about what's to come.

And I would like to add to that really quick. We're generating about $17 million a year from this part of our business. So if it just continued to increase in the double-digit category, it would be about $3 million of incremental EBITDA. And, of course, we're not looking just for continued share capture. We're looking for an expansion in the size of the pie once the spend actually hits the markets.

That's really good color. Thank you. And then just as a quick follow up on the room growth projections, can you give us maybe the puts and takes or like what you're assuming with rates going higher, maybe a softening in the economy. How does that algorithm change with those two factors? Thanks.

Yeah. So let me start by saying, half the rooms in the current pipeline are either conversions or new construction projects that are already in the ground. So that's going to significantly reduce our exposure to the current market dynamics. And then, we're just dealing with the other half of the pipeline. And that would be, I'd say, the rapid rise
in interest rates have impacted all asset classes, including hotels. But hotels are unique in that they are — they have daily rates and can offset the cost side of that equation, whether it be inflation or interest on higher pricing. And they have the ability to do that daily, which is what we saw all during 2022. And developers are underwriting sustained increases in ADR, which is either partially or, in some cases, fully offsetting the higher interest expense.

So we and the well-capitalized developers that we’re working with, we all believe this is the best time to build, even though interest rates are higher than the historic lows that we’ve seen over the past decade, we are all expecting that they will decrease a bit once inflation is under control and the economic uncertainty that we’re facing passes over. And these select-service hotels have minimal staffing requirements. They’re delivering really high ROI for our owners and offering very attractive rates, even in this environment.

Ian Zaffino  
Analyst, Oppenheimer & Co., Inc.  

Okay. Great. Thank you very much.

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

Thanks, Ian.

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

Thanks, Ian.

Operator: Thank you. Our next question comes from Dan Wasiolek with Morningstar.

Dan Wasiolek  
Analyst, Morningstar  

Hey, good morning, guys. Thanks for taking the questions. So maybe wondering if you give update on your loyalty membership, where that’s at, how that’s grown and the engagement of it, you know, pertaining to the number of room nights or percentage of room nights that's being booked by the loyalty base. And then second question, just I think you mentioned that the direct bookings were up 23%. Was that for 2022? And wondering if you could also give a similar figure for the OTA channel? Thank you.

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

Sure. Our enrollments, to the first part of that question, grew 8%, Dan, year-over-year. We’re at 99 million members globally. And it is what's driving that double-digit year-on-year percentage you quote. Our brand dot-com growth is at the highest level it's ever been. And to the OTA piece, it is outpacing the OTA growth. Our share of occupancy has increased 500 basis points domestically to where it was pre-pandemic, which is pretty remarkable. Nearly one out of every two check-ins to our economy, midscale, upper midscale, upscale brands are coming through the program. We've got nearly that same percentage now in the economy space, and we have certain brands like La Quinta and AmericInn that are pushing 60% share of occupancy blended. It's about a 50% share of occupancy domestically.
Great. Okay. Thank you.

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

Thanks, Dan.

Operator: Thank you. At this time, I show no further questions in queue. I'll turn the call back to Geoff Ballotti for closing remarks.

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

Thanks, Scott, and thanks, everyone, for your questions and your interest in Wyndham Hotels & Resorts. We'd like to once again thank our valued team members for their significant accomplishments around the world and for helping us deliver our eighth sequential quarter of organic net room growth, along with a 12% growth and a development pipeline that's never been stronger than it is today. Domestic and global RevPAR growth accelerated to both prior year and 2019 levels and occupancy continues its recovery, providing a meaningful tailwind for us in the year ahead. With consumer travel demand holding steadfast and our iconic and trusted brands delivering record levels of direct contribution through our brand dot-com channels, we are very enthusiastic about the opportunities that lie ahead and our ability to deliver outstanding value to our shareholders, our guests, our franchisees, and our team members.

Michele, Matt and I look forward to talking to and seeing many of you in the weeks and months ahead and at many of the upcoming investor conferences we'll be attending. We wish everyone a happy Presidents' Day weekend and look forward to seeing you soon.

Operator: Thank you. This does conclude today's Wyndham Hotels & Resorts fourth quarter and full-year 2022 earnings conference call. Please disconnect your line at this time and have a wonderful day.