26-Oct-2023

Wyndham Hotels & Resorts, Inc. (WH)

Q3 2023 Earnings Call
CORPORATE PARTICIPANTS

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

Stephen P. Holmes  
Non-Executive Chairman, Wyndham Hotels & Resorts, Inc.

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

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

OTHER PARTICIPANTS

Joseph Greff  
Analyst, JPMorgan Securities LLC

David Katz  
Analyst, Jefferies LLC

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

Dan Wasiolek  
Analyst, Morningstar, Inc. (Research)

Patrick Scholes  
Analyst, Truist Securities, Inc.

Brandt Montour  
Analyst, Barclays Capital, Inc.

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

Dany Asad  
Analyst, BofA Securities, Inc.

Meredith Prichard Jensen  
Analyst, HSBC
MANAGEMENT DISCUSSION SECTION

Operator: Please stand by. Your program is about to begin. [Operator Instructions] Welcome to the Wyndham Hotels & Resorts Third Quarter 2023 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.

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 Steve Holmes, our Chairman; 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 and investor presentation, which will be 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, this morning we posted an investor presentation containing information with respect to our board's rejection of Choice's unsolicited offer. 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 Steve.

Stephen P. Holmes  
Non-Executive Chairman, Wyndham Hotels & Resorts, Inc.

Thanks, Matt. As all of you are aware, last week Choice Hotels announced that they made unsolicited overtures to acquire our business. With no organic growth, a less vibrant loyalty program, and virtually no international capabilities in Choice's platform, we are frankly not surprised. Our business offers a medicine cabinet full of remedies. Our board has taken its fiduciary duties very seriously with respect to shareholders and other stakeholders, including franchisees, employees, and guests. We strongly believe that Wyndham's standalone plan and multiple levers of growth provide a more compelling proposition compared to Choice's offer.

Our board is also highly confident in our management team's capability to execute on the plan and create significant value for our stakeholders. We have received multiple input from key constituents over the past week, providing us with further confidence in our decision to reject the offer. The team will be providing further insight into our decision-making rationale after we review our strong third quarter performance.
I'll now hand the call over to Geoff.

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

Thanks, Steve, and thanks, everyone, for joining us today. We're very pleased to report another strong quarter of operating performance. Globally, RevPAR grew 3% in constant currency, led by international growth of 16%. While US RevPAR declined by 1%, our economy brands continued to gain market share, outperforming their competitors by another 100 basis points this quarter, driven in part by revenue growth from our general infrastructure-related business accounts. We grew our system for the 11th consecutive quarter, up 1% sequentially and 3% year-over-year on an organic basis.

Our teams opened over 14,500 new rooms in the third quarter, with 5,900 of those rooms opening in the US. Year-to-date through September 30, we've opened over 42,600 rooms across 326 hotels, opening more than one hotel each and every day. We improved our retention rate by another 20 basis points from where it stood at the same time last year as our industry-leading brands maintained the highest overall franchisee retention rates in the US economy segment. Our pipeline grew through the 13th consecutive quarter, up 4% sequentially and 12% versus prior year, including 2% sequential growth in the US and 16% year-over-year.

Our teams awarded more than 230 contracts for over 26,000 rooms, with 15% of our pipeline now representing our ECHO Suites Extended Stay by Wyndham brand and an additional 70% of our pipeline now in the higher RevPAR midscale, upscale, upper upscale, and luxury segments. Our owner-first philosophy was on full display last month in Anaheim, where we held the largest global conference we've ever assembled, with over 6,000 registered attendees and more than 150 sponsors. The conference provided our franchisees an opportunity to connect with their colleagues and learn firsthand how to unlock the power of recent investments we've made in next-generation technologies, sales and marketing initiatives, and hotel-level operating efficiencies. Our owners have never been more engaged with our teams and the superior value proposition that our brands today deliver.

Before Michele takes us through the financials, I would like to take a moment to acknowledge our team members. The incredible success of our owner-first operating philosophy would not be possible without their unwavering commitment and support. And we're thrilled about our most recent ranking at number 8, up from number 11 last year on Newsweek's top 100 Most Loved Workplaces for 2023. We thank all of our team members around the world who put our owners at the very center of everything it is that we do and who remain enthusiastic about the opportunities ahead for us and confident in our ability to deliver the outstanding value day in and day out to our shareholders, our guests, and our franchisees.

I'll now turn the call over to Michele. Michele?

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

Thanks, Geoff, and good morning, everyone. During the third quarter, fee-related and other revenues grew 7%, reflecting global RevPAR and net room growth, as well as higher license and ancillary fees, and pass-through revenues in our marketing, reservation, and loyalty funds due to our global franchisee conference in September, which was held for the first time since 2019. Adjusted EBITDA grew 5%, primarily reflecting higher fee-related and other revenues as well as marketing fund variability. Marketing fund revenues exceeded expenses by $17 million this quarter versus $12 million a year ago. Our adjusted EBITDA margin remained consistent at 83%. Third quarter adjusted diluted EPS improved 8%, reflecting our adjusted EBITDA growth, as well as benefits from our share repurchase activity and a lower effective tax rate, which were partially offset by higher interest expense.
We generated $67 million of free cash flow in the third quarter and $225 million year-to-date. We remain on track to achieve our goal of converting 50% to 55% of full-year adjusted EBITDA to free cash flow, which at the adjusted net income line, translates to approximately 100%. We returned $134 million to our shareholders during the third quarter through $105 million of share repurchases and $29 million of common stock dividends. Year-to-date, we have repurchased 3.8 million shares of our stock for $270 million. We ended the quarter with approximately $710 million in total liquidity, and our net leverage ratio of 3.3 times was in the lower half of our target range.

We are reaffirming our adjusted EBITDA guidance of $654 million to $664 million and raising our adjusted diluted EPS outlook to $3.94 to $4.08 to reflect our continued strong performance as well as our third quarter share repurchase activity.

That concludes our prepared remarks on our third quarter results. Geoff will now walk you through the rationale behind our board's rejection of Choice's unsolicited offer.

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

Thanks, Michele. As Steve referenced in his opening remarks and consistent with its fiduciary responsibility, our board, along with its third-party advisors, evaluated Choice's proposals. Our board begins from the premise that as a public company with a well-distributed shareholder base, we're open to any and to all avenues to create value for our shareholders. Many of these value creation opportunities are driven from organic growth initiatives, some are from inorganic growth initiatives, and some are initiated by third parties. Our board has deep experience and has always provided oversight on our major strategic initiatives and opportunities.

With respect to the offer made by Choice in August, our board determined for several specific and well-substantiated reasons, focusing on both transaction risk allocation and valuation that the proposal was not in the best interest of Wyndham shareholders and rejected the offer. We've been consistent with Choice from their initial inbound that our concerns would need to be satisfactorily addressed, something they have not done to date. In our press release last Tuesday, we provided initial rationale and insight into our board's decision to reject the offer. Today, we'll go through greater detail around that decision and walk you through our significant standalone growth prospects. This morning, we posted an investor presentation to our website and we'll be referencing that throughout this discussion.

We start by level setting who Wyndham is today on slide 2. Not only are we the largest hotel franchisor in the world, but we're also the only public hotel company of scale that is truly asset-light, generating significant free cash flow, which allows us flexibility on how we choose to allocate our capital, whether it be for investment in growth initiatives with attractive ROIs or whether it be returning capital directly to our shareholders.

Since our spin-off from Wyndham Worldwide, we've undertaken a series of initiatives as outlined on slide 3 that lay a strong foundation and provide a runway for sustainable organic growth going forward. Initiatives like our ECHO Suites by Wyndham brand, the fastest-growing brand in the underserved economy extended stay space, and we're expecting outsized economic benefits from in the coming years; investments we've made in hotel-level sales and marketing to grow our share of existing infrastructure bookings and to capture the opportunities just now emerging from the recent infrastructure bill; and investments we've made in our Wyndham Rewards loyalty program with over 105 million members, a program that's been voted the Best Hotel Loyalty Program by USA TODAY for six consecutive years.
We've also capitalized on the significant growth potential outside of the US with our direct franchising capabilities now in 95 countries. These growth initiatives and so many others support Wyndham’s owner-first reputation as the franchisor preference for hotel owners in the segments we operate in and our franchisee retention rates have correspondingly improved. While some of the benefits of these actions are already reflected in our financial performance, we believe that there will be an even greater benefit from them in the coming years, given the long tail for development, retention, and new product innovations. We're confident that these initiatives provide a significant runway for outsized growth and enhanced shareholder value.

And with that background on our company, I would now like to detail some facts surrounding the Choice offer. While the offer may have had an initial headline of $90 per share, the proposal is currently worth less and may continue to fluctuate in value over time, as it includes a significant amount of stock consideration. Just last week, within a few days of Choice's public announcement, Choice's stock had decreased by over 9% and the implied value of the offer was already $4 lower at $86 per share. And it's important to note that Choice has not offered our shareholders any protection against potential continued downward volatility. Furthermore, the fixed value of the cash portion offered to our shareholders would not be realized until the conclusion of an extended regulatory process, which our advisors estimate could take 12 months to 18 months. When we consider all of this, one point is clear. The actual offer is worth materially less to our shareholders if and when they receive it.

At its core, there are three primary reasons why our board has rejected Choice's offer, which you could find on slide 4. First, there is asymmetrical risk to Wyndham shareholders associated with an uncertain regulatory timeline and outcome without commensurate protections and compensation provided to our shareholders for taking on these risks. Second, Choice's proposal does not provide appropriate value for Wyndham standalone growth prospects and exploits short-term volatility in Wyndham stock price without a consideration of a broader view of Wyndham's trading levels. And third, the consideration mix includes a heavy portion of Choice stock. Our board has concerns over Choice's organic growth prospects, and those concerns are exacerbated if the pro forma company will be left with an overlevered balance sheet that constrains its capital allocation strategy in a material way, further limiting its growth opportunities.

We'll delve into each of these points in more detail, and we'll start on slide 6. Upon Choice's initial approach, our board immediately engaged subject matter experts to assess the proposed combination. Our extensive diligence confirmed that the transaction would be subject to an uncertain, prolonged approval process of 12 months to 18 months. Of particular concern is that US antitrust investigations are at historic highs. There have been more second request issues by the Biden administration in their first fiscal year than in the preceding 20 years combined. The party's advisors met on multiple occasions and Choice eventually acknowledged the probability of an extended regulatory review period of at least 12 months.

Our business would be uniquely exposed to deterioration risks during a long regulatory review period, as our business is built on relationships. Our franchisees typically sign 10-to 20-year contracts with us. They care very much about who they are doing business with, and we believe we offer a differentiated service through the relationships we had fostered over not years, but over decades, relationships that underpin our new business development activity and our improving franchisee retention rates.

As depicted on slide 9, we open more than 450 hotels annually. If this uncertainty were to persist for an extended period of time, some portion of our development and openings may not materialize, which compounds over time. Additionally, developers of our ECHO Suites brand have expressed significant reservations about deploying such large sums of capital with a brand steward other than Wyndham jeopardizing the brand's future. Moreover, our considerable momentum in improving franchisee retention rates could also be impacted the longer this drags on as competitors capitalize on franchisee concerns around a potential combination.
There are significant business disruption risks that our board believes have potential for irreparable damage to our business and erosion to Wyndham shareholder value. We’ve made it clear to Choice from the very outset that we would need creative and appropriately scoped protections to address these asymmetrical risks to Wyndham’s shareholders. Choice, however, dismissed our concerns as unfounded. As our advisors reviewed high regulatory risk transaction precedence more broadly, there was a clear theme of buyers compensating sellers with materially higher offer premiums and significant protections in compensation. We have been offered neither.

Moving on to our second concern. Our board's strong belief that Choice's offer undervalues Wyndham's standalone growth prospects and the opportunistic nature of the offer, which does not at all stand up well when looking at our share price more holistically. As you'll see on slide 11, their initial offer came at a time when the exchange ratio was the most in their favor over the past 24 months. The premium offer is unacceptable for a change of control transaction with the level of asymmetrical risks that we just discussed. Industry research analysts recognize our strong, sustained momentum and overwhelmingly believe Wyndham is undervalued and has significant upside, as evidenced by their price targets and buy ratings on our stock. Our management team has consistently been able to execute on our near-term goals, while also reinforcing the foundation for long-term value creation.

As shown on slide 13, we've delivered organic room growth and beat consensus EPS estimates for 11 consecutive quarters. And as we've outlined on slide 14, we have multiple levers to accelerate net room growth from the current 2% to 4% to 3% to 5%, including building on the success of our new ECHO Suites brand, leveraging our best-in-class international direct franchising capabilities, and continuing to enhance our franchisee retention rates, which have already improved 200 basis points since our spin-off.

Beyond system growth and market-driven RevPAR gains, we're pursuing several initiatives that will significantly enhance shareholder value, including those that we've previously discussed with you and others that are taking shape out of the spotlight. Combined, these opportunities set up an achievable path to accelerate organic EBITDA growth to a 7% to 10% compounded annual growth rate through 2026. In addition, the ability to deploy significant incremental capital through excess free cash flow and leverage capacity will amplify earnings growth for our shareholders. And you could see this roadmap on slides 15 and slide 16.

Today, we're introducing the first step on this path with our 2024 adjusted EBITDA outlook of $690 million to $700 million, reflecting year-over-year organic growth of 7% to 8%. This outlook includes only a partial earnings benefit from our initiatives, with full realization over a longer time horizon and represents our growth potential before capital deployment. In 2024 alone, we estimate our capital allocation capacity at the midpoint of our target leverage range to be between $700 million and $750 million, which translates to approximately $8.50 per share. This is a material amount of capital that can be deployed to accelerate growth above our current outlook. Our proven track record, capabilities, and embedded value drivers give our board confidence that our standalone plan will deliver superior risk-adjusted returns compared to Choice's proposal.

Finally, the third concern our board has is the substantial equity consideration. We've consistently made it clear to Choice the stock portion of their offer poses significant risk to our shareholders. Our concerns are focused on several areas and are presented on slides 18 through 22. We'll first address the recent performance of the core business and financials of Wyndham versus Choice. We highlight these metrics as investors take them into account for helping to understand the appropriate valuations ascribed by the public markets. In the first half of 2023, Wyndham grew net rooms 3% organically, whereas Choice's system declined 2% organically. Wyndham grew first half 2023 EBITDA 9% organically, while Choice's organic EBITDA growth was 1%.
Choice's future growth prospects are equally challenged given their declining pipeline, as shown on slide 19. In particular, their revenue intense pipeline has declined 38% between year-end 2019 and year-end 2022. And while that level of detail is not available on an interim basis, we can see that their total pipeline has contracted by 12% year-to-date through June. These adverse movements raise serious concerns for our board around Choice's ability to organically grow their system, along with their ability to execute their stated revenue intent strategy.

Choice's multiple premium historically benefited from organic growth. However, its more recent performance, including seven consecutive quarters of negative organic growth combined with its declining pipeline, have reduced that premium as depicted on slide 20 and make it susceptible to further valuation multiple contraction in the future. This challenging growth profile will only be exacerbated should Choice be required to operate within the proposed excessive leverage profile that this transaction would require.

Prudent leverage and balance sheet flexibility are core tenets of how Wyndham operates and is a position shared by many hospitality peers, as shown on slide 21. We estimate Choice would need to secure approximately $6 billion of debt to fund this transaction, including over $4 billion of incremental debt and the remainder to replace Wyndham's existing debt. Our financial advisors estimate this leverage level would take three years to four years to delever from, even if the company were to allocate nearly all of its excess cash flow towards paying down the debt and potentially longer depending on the macro environment.

Choice's historically been heavily reliant on its balance sheet to grow its system. From 2017 through 2019, Choice deployed $0.5 billion to grow their system organically at a 3% CAGR. Conversely, from 2020 through the second quarter of this year, Choice has deployed less than $150 million and their system has declined organically at a 1% CAGR. Choice has used M&A to mask its lack of organic growth through the $675 million acquisition of the right to use the Radisson brand in the Americas, which has accounted for the entirety of the reported system growth since the transaction closed of August of 2022. And Choice's declining organic growth will only be exacerbated when it cannot use its balance sheet to generate net room growth, as it's done in the past.

The higher leverage contemplated for the transaction would drastically shift the pro forma company's focus to deleveraging from any meaningful investment in growth for multiple years, which could significantly impact the pro forma company's trading multiple. In addition, the cost of debt required to fund this transaction is materially higher than historical levels. Servicing the debt stack for the proposed transaction would require over $200 million of incremental interest cash outflows compared to just two years ago. This higher cost of financing would further diminish the cash available to invest in the business. And while synergies could help delever, we note they take multiple years to achieve and have an initial upfront cost to secure them. The lack of availability of growth capital is a concern for our board, given how reliant Choice has been on their balance sheet historically to grow their system and given the significant momentum and success Wyndham has joined today, which may be impaired in a constrained capital environment.

In conclusion, our board remains open to risk-adjusted valuation creation alternatives, whether those are driven from internal initiatives, from external capital deployment, or from third-party opportunities. And whenever reviewing any of these alternatives, our board believes that it is imperative to consider the impacts to our shareholders, our franchisees, and our team members. And so, after considerable review with our financial and legal advisors, our board believes that the Choice proposal is inadequate on multiple fronts, including its unmitigated asymmetrical risk allocation, the confidence our board has in our standalone growth strategy that is not being considered by Choice in its opportunistically timed offer, and the heavy portion of Choice stock in the consideration mix that we believe has potential for additional downside risk. We will continue to execute our business model, drive growth, allocate excess capital appropriately, and maintain strong partnerships with our franchisees to drive shareholder value.
And with that, we'd be happy to take your questions. Operator, if you could please open up the line.

QUESTION AND ANSWER SECTION

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

**Joseph Greff**
Analyst, JPMorgan Securities LLC

Hi. Good morning, everybody. Surprisingly, my question is probably best directed to Steve. Interpreting the totality of your comments since last week, I'm interpreting them as Choice's offer and maybe any modest tweaks to what the most recent offer is dead on arrival. That's not my question, that's the correct interpretation or not. My question is this to Steve, have you talked to Stewart or Pat since last week and have there been any more current discussions? And I'll leave it broadly open to any kind of risk mitigants that you've eloquently referred to today, whether that is a sort of a creative breakup fee or collar or tipping fees or more cash, suggesting to them maybe how they can raise cash through equity issuance that would then wouldn't be given to you guys or equity transfer to you guys to take on all the risks that you referred to today. And those are my questions, thanks.

**Stephen P. Holmes**
Non-Executive Chairman, Wyndham Hotels & Resorts, Inc.

Well, thanks, Joe. There was a lot packed in there and I haven't done these calls for six years. So, it's good to hear your voice. I used to always say, Joe, that I don't comment on M&A rumors because that used to be what always came up. But this one is not a rumor and it also is not really M&A. It seems like a desperate grab to try to solve problems that the company has. We have been responsive every step of the way. I have not heard from Choice since we sent them – since we told them. I called and spoke to Stewart and told him that we're disengaging. This is an amazing distraction for the businesses, not only ours for theirs, a bigger distraction for ours probably than theirs.

And just to give you a little bit of history, 25 years ago, 20 years ago, I negotiated a deal to buy Choice. And I never talked about it because it's not appropriate, but we negotiated a deal. The capital markets turned on us, and the credit was not available to make an all-cash offer, which is what was desired from the other side. We disengaged as soon as I called and said I've never turned – I've never walked away from the deal before. I've done 40 plus deals, but this one just isn't going to work is the capital markets aren't attractive. Never said anything about it, just kind of went our merry way. Choice has contacted us multiple times over the years and we've told them we've looked at it, we've decided what's in the best interests of our shareholders, and nothing has been done about it. This time is different. Now, I'm not sure what is different other than the fact that they're not growing, they have some serious issues within their organization, they're trying to address that by making us the elixir for their problems.

And so, to answer your question directly, Joe, I'm going a little bit off the topic here, but I have not heard from them. And we put up multiple ideas of what they could do, none of which were available to them. So, I don't – we weren't looking to sell the company. They called us, but they called us and they don't have a plan. So, their plan seems to be to put out repetitive press releases and see if they can churn the water enough to make it interesting for us. I just don't see that as a plan. That's a bit of a desperate plan.
Did I answer the question, Joe?

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

He dropped.

Operator: Our next question comes from David Katz of Jefferies.

David Katz  
Analyst, Jefferies LLC

Hi. Morning, everyone. Steve, good to have you back. I wanted to just talk about some commentary that has come up this week about taking share and market share within the limited service and economy segments. It came up yesterday with a peer and was discussed. And in that context, you make some points in your deck this morning about the suspension of development activities for an extended period and what the potential impact of that is. If you could talk about broadly speaking, Geoff, that the notion of where you think you are in terms of the share of opportunities out there? And more importantly, within the context of this deal, it's come up with investors about whether there are change of control provisions within any of the contracts, particularly the one with ECHO that's top of mind and current and whether there could be any impacts to the existing franchisee base if this were to get to a place where it went somewhere. And I realize...

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

Yeah.

David Katz  
Analyst, Jefferies LLC

...there's about eight questions in there, too. Thanks.

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

Well, thank you – thank you, David and I loved your chorus of upside arguments today, headline in terms of continuing net room growth and pipeline growth implying acceleration in long term [indiscernible] (00:32:55) we couldn't agree with you more and we're certainly seeing that. I mean, certainly there is no slowdown in the third quarter. Q3 was a huge quarter for us with some really, really great, great momentum to your point in your note today.

In terms of brands gaining share to your question, we're gaining on both the conversion side and the new construction side. If you look at our brands on the new construction side, the one you mentioned that was talked about, I guess, in the deck and a bit yesterday has had significant momentum to date with ECHO Suites. We executed another 60 contracts in the quarter with multiunit developers. And to date there is no impact yet on any of the planned 2023 groundbreaks. But to what was in our investor presentation today, certainly questions and concerns come up longer term as developers who have not yet broken ground are wondering are they building an ECHO Suites by Wyndham Extended Stay economy brand for Wyndham, are they building it for Choice and that's certainly what we're concerned about.
But the quarter was tremendous from an opening standpoint. We opened 15,000 rooms, was above our openings level back in the third quarter of 2019, where we hit that 3% net room growth. We saw great growth in our midscale, great growth in our international direct franchising business. And our pipeline is sitting at a record level of 13 consecutive quarters and we want to keep that up. We want to keep that going, and we don't want the distraction that we talked about in our prepared remarks to impact it in any way.

Operator: Our next question is from Stephen Grambling of Morgan Stanley.

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

Hey, thanks. This is a question for either Steve or Geoff. A lot of the comments focus on Choice’s standalone business and Wyndham’s standalone business. But given the prior dialogue you've had, I'm sure you've had time to think about the strategic merits of a combination and potential synergies. So, I'd love to have you just help us understand how you think about the strategic rationale from a combination, particularly as we look longer term through industry dynamics where it seems like competition is ramping for the midscale space and perhaps that ultimately kind of comes down through economy? Thanks.

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

Sure. Yeah. In the economy space, I mean, we are, as we've said, all along. Choice has been very open that they do not want to be in the economy space. We certainly do, Stephen. I mean, it is why we've set all along. We're so excited about what we’re doing with our ECHO Suites by Wyndham product in the economy space. It's just a huge, huge market. There’s 9,500 branded economy hotels, there’s 22,000 non-branded hotels in the economy space. And certainly, there are synergies in scale and size and scope. We’ve always said that M&A is in our DNA. 19 of our 24 brands have been acquired since Steve put this company together back in the HFS days. And we'll continue to look for all of those reasons for immediately accretive tuck-in acquisitions that are both EPS and net room growth accretive brands of high quality, but also brands that don't create displacement issues for any of our other brands.

I mean, this is less about the industrial logic and way more about the risks that we discussed. I mean, certainly there have been things out there on the benefits of a loyalty program combination. And we will not argue that Wyndham Rewards is a better loyalty program than Choice Privileges and it's the best program out there for five years or six years with USA TODAY and U.S. News & World Report. But I don't think our Days Inn or Super 8 owners on any street corner in America would want to share those guests with a Choice Econo Lodge or a Rodeway owner across the street who they compete with. So, we're – we understand the industrial logic, but it's less about that, more about the risk as we said in our prepared remarks.

Operator: Our next question comes from Dan Wasiolek of Morningstar.

Dan Wasiolek
Analyst, Morningstar, Inc. (Research)

Hey, good morning, guys. Thanks for taking the questions. Just wondering if there’s any more context maybe you can give on how your conversations have gone thus far with franchisees. And then this might be, I guess, hard to quantify or maybe you can talk about are there already in your negotiations some third-party owners that are waiting to see what the outcome of this transaction or potential transaction is or what percent, I guess and that might be hard to quantify – what percent might have issues with the change in control that might impact future retention rate or not?
1

frankly, impact it could have on our business? They have no risk. This is this could be a 12
And it took us many, many meetings with our professionals meeting with theirs for them
antitrust issue was even an issue. Then they came back and said, well, maybe it'll take three months to clear it.
to raise it with Choice at one point. They've been in denia
more granular because I don't think that's any
Hello, Patrick. It's good to hear from
Non
Stephen P. Holmes
Executive Chairman, Wyndham Hotels & Resorts, Inc.

Yeah. It's a fair question, Dan, and we can't give you a percentage. As we mentioned in the script, we did see an immediate negative reaction from Choice's press release last Tuesday in terms of what they put out and actually began feeling the impact from the Wall Street Journal leak as far back as May from both existing franchisees and prospective franchisees who've been expressing uncertainty and concern over what a change in ownership would mean. There are not change of control provisions in our contracts. But franchisees are choosing us more so than they're choosing Choice as you've seen over the last few years and they're doing business with us because we say all the time to our teams, they know us, they like us, and they trust us. And they're very concerned about losing that culture that we've built. They value our team's approachability and accessibility and flexibility. I think COVID was a great example of that in terms of how throughout that pandemic and crisis we supported them.

And so, it's been very empowering for our teams to hear the stories of why our franchisees want to stay with us and it is really what defines our culture. I mean, our franchisees, two-thirds of our franchisees and two-thirds of Choice's franchisees are [ph] HOLA (00:39:34) members and we have a very long history supporting the [ph] HOLA (00:39:39). We believe in the power of dialogue and we're standing with our franchisees and are, for all the reasons we talked about, not in favor of the deals currently closed.

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

Patrick Scholes
Analyst, Truist Securities, Inc.

Hi. Good morning, everyone.

Good morning.

Patrick Scholes
Analyst, Truist Securities, Inc.

Question for Steve – yeah, and ask if you could be as granular as possible in your answer here. Clearly, you've outlined that Wyndham Hotels & Resorts would be materially harmed if an offer was made and that it would be detected by the Department of Justice for antitrust reasons or whatever. Could you be as granular as possible, what do you think would be a fair compensation or breakup fee to Wyndham if you were to agree to an offer?

Stephen P. Holmes
Non-Executive Chairman, Wyndham Hotels & Resorts, Inc.

Hello, Patrick. It's good to hear from you. I haven't heard your voice in a while, but the answer is no. I cannot be more granular because I don't think that's any – there's no reason for us to discuss that on this call. We have tried to raise it with Choice at one point. They've been in denial for quite some time. Initially, they didn't think the antitrust issue was even an issue. Then they came back and said, well, maybe it'll take three months to clear it. And it took us many, many meetings with our professionals meeting with theirs for them to acknowledge that, no, this could be a 12-to 18-month process. So, what do you think the odds are of us getting them to understand the impact it could have on our business? They have no risk. This is – they're playing with house money here. And frankly, they'd be playing with our money if they could get a deal done because that's how they would finance the
purchase. We don't need them to do that. And so, I think it's just – I think it's inappropriate for me to try to address your question on this call and I haven't heard from them. So, I don't know what their ideas are.

**Operator:** Our next question is from Brandt Montour of Barclays.

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

Hey, good morning, everybody. Thanks for taking the question. Just following up along those lines, the risks that you listed out here of the combination doesn't necessarily address culture risk, right, which is something that somatically seems to be coming up in a lot of these discussions today, which is that in a combination situation, given that your culture with your owners seems to be a primary driver of your organic growth. Do you think that would be at risk in a combination outside of – on top of the leverage and extended balance sheet?

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

Yeah. I think it absolutely is, Brandt, a concern and risk of our team. I mean, we've made tremendous progress over the last several years, improving our retention rate and retention rates, we feel are really the best measure of franchisee engagement. Our economy retention rates are several hundred basis points ahead of Choice's. And again, it gets back to the comment I made in terms of how our franchisees feel about our teams in terms of wanting to do business with us in terms of the way we conduct business with them and that would be at risk.

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

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

Thanks. Good morning, everyone. Just want to revisit your comment on the third-party opportunities, I guess, sort of two-part. One, why haven't you or two, maybe when will you run a more formal process to proactively evaluate potential transactions with either financial or strategic partners that could maybe maximize value in a more attractive risk-adjusted manner?

**Stephen P. Holmes**  
**Non-Executive Chairman, Wyndham Hotels & Resorts, Inc.**

So, thanks for that question. I'll take it and then Geoff or Michele can add in if they think they need to add anything. But we did not run a process. They approached us. There was first a leak, not sure where that came from, but there was a leak. So, this has been out there for a while. And if anybody had a great idea that they wanted to bring to the table, we're all ears. I mean, when I first heard from the other side, their question was, are you prepared to transact? And I said, well, I'm always prepared to transact if it's in the best interest of our shareholders. I'm transactional if that's the right thing for our shareholders. But there hasn't been anything that I consider really close to transactional. So, yeah, I don't know – I don't know what to add to that to answer your question.

Geoff or Michele, if you have anything, feel free to weigh in. They're shaking their head.

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

Stephen P. Holmes  
*Non-Executive Chairman, Wyndham Hotels & Resorts, Inc.*

Okay.

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

Dany Asad  
*Analyst, BofA Securities, Inc.*

Hey. Good morning, everybody. The – I mean, thank you for all the details in the deck. In there you did kind of lay out you like an outlook, an EBITDA outlook of $690 million to $700 million in 2024 and that's about 7% to 8% growth. Can you help us walk through the building blocks of how we get there? And then, translating that into the $700 million to $750 million of capital allocation capacity, what forms could that take of realizing that $8.50 a share value that you kind of laid out? Thank you.

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

Sure. Good morning. Yeah. Thank you. Thank you for the question. Good morning. So, for 2024, the outlook implies 7% to 8% organic growth and our business is already growing at 6%. So, the only change there really is we're expecting 1 point to 2 points from growth initiatives that are currently underway and for which we have significant momentum built. That includes the infrastructure bill benefit as well as the royalty rate improvements we've been discussing, that continued momentum on our retention rate, and then some occupancy recovery as well.

With respect to the $700 million to $750 million number, which is just a 2024 illustrative example of how much cash we would have available to deploy at the midpoint of our target leverage range, and I would note that that goes up to $1 billion at the four time high end of our target leverage range. I think we're just trying to show that is capital we have available to invest to drive future growth at the EBITDA line or obviously to return to shareholders at the EPS line should no growth initiatives present themselves as compelling opportunities.

**Operator:** We'll take a question from Meredith Jensen of HSBC. Your line is open.

Meredith Prichard Jensen  
*Analyst, HSBC*

Yes, good morning. I was just trying to look ahead and explain to people what sort of happens next and what we could look for. And just in terms of the – what we see from you all in reporting, would we look at retention rates to see how some of the franchisees are reacting to this? What can we kind of take a look at to feed into beyond all the great information you've given us today? Thanks.

Stephen P. Holmes  
*Non-Executive Chairman, Wyndham Hotels & Resorts, Inc.*

Well, I guess, I'll – this is Steve. I'll start that one. Right now, it's a confusing time. As you can imagine, the sales forces out there are not just sitting idly by and not trying to take advantage of this disruption. So, we know that the other side is out there saying a lot of things that are not attractive to us and that make it more difficult to transact business. So, I don't know that I would necessarily look at just retention in the short term. In the long term, absolutely. Our owner-first philosophy that Geoff has continued to push hard is all about us delivering more value for our owners.
Do you want to talk about any more, Geoff?

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

Yeah. Meredith, I think it's not, as Steve said, only about retention. It's really about our – how our franchisees feel about us. So, as you follow the threads through all of the whole chatter that's out there in terms of why Wyndham is a great company to do business with, it's also about, as Steve said, what's happening on the execution front. I mean, despite if you look at year-to-date transaction volume still down 50% to prior year and down 30% to 19%, our teams were able in the third quarter to sign 10% more deals year-on-year with this rumor out there and 60% more deals versus 2019. And it's not just ECHO, those signings were up without ECHO, and ECHO still are – everybody in that ECHO campus is calling us and saying, we hope this deal doesn't happen and we're with you folks. But I think it's as importantly what happens to that continued pipeline that has marched on to an historic high right now. Yeah. I guess I'll leave it that.

Stephen P. Holmes  
*Non-Executive Chairman, Wyndham Hotels & Resorts, Inc.*

Yeah. Meredith, it's Steve again. I'm thinking back to your question. You started the question, what are the next steps? And that's actually a very good question because it's hard for us to say no more than we've already said no. And really, they have to decide that they want to lay down their pen and their PR machine and let's all get back to business. We can't force that to happen. It's not attractive what they're doing. It's not – I don't think it's very friendly. So, if you want a friendly deal done, you don't approach it the way they've approached it. God only knows how they can get a deal through the FTC where we are not a willing participant. Yeah, I just – I don't get it. I don't get why they would even release this and they threatened to do it. And I just thought, well, they're smarter than that, they won't do it. But they made a different decision. So, it's very hard for us to say what's next. The ball's really in their court.

Operator: [Operator Instructions] And it appears that we have no further questions at this time. I would now like to turn the call over to Geoff Ballotti for any closing remarks.

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

Okay. Thanks, Leo. And we appreciate everyone's continued interest in Wyndham and we thank you for joining this morning's call. Michele, Matt, and I look forward to talking to many of you today in the weeks and months ahead at many of the upcoming investor conferences that we'll all be attending. Thanks, again, everybody, and have a happy Halloween next week.

Operator: Thank you. This does conclude today's Wyndham Hotels & Resorts Third Quarter 2023 Earnings Conference Call. Please disconnect your line at this time and have a wonderful day.
Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

The information provided to you hereunder is provided "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR punitive DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2023 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.