

11-Feb-2021

Wyndham Hotels & Resorts, Inc. (WH)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Wyndham Hotels & Resorts Fourth Quarter and Full Year 2020 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'd 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 10K 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're 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 webcast.

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, again, everyone for joining us today. Before I talk about the fourth quarter, I'd like to thank our 9,000 global team members who helped us successfully navigate the tremendous challenges of 2020, along with all of our owners who continue to support and work with our teams in the field as we collectively look to a brighter 2021.

The power of Wyndham's economy culture was never more on display than it was last year. And we are tremendously proud of how our teams and franchisees performed. Approximately 97% of our nearly 9,000 hotels remain open today.

Our fourth quarter continued to demonstrate that our drive-to, non-urban, franchise business model can deliver in any environment. And we made sequential progress on multiple fronts. Our adjusted EBITDA and cash flows were both ahead of our expectations. Our brands in the US continued to gain market share, and our room openings and new hotel contract signings continued to accelerate.

We also completed the strategic termination plan we previewed with you on our second quarter call, removing over 20,000 non-compliant brand attracting rooms from our system, along with removing an unprofitable management guarantee deal signed back in 2012.

Removing these rooms from our system will not only strengthen our long-term royalty rate and the quality and performance of our brands, it will open up development tracks in important markets where we now have teams in place to sell direct franchise agreements for full royalty fee deals. RevPAR in Q4 finished down 31% domestically, down 44% internationally, and down 35% globally on a constant currency basis.

In China, fourth quarter RevPAR was down only 10% year-over-year, an improvement of 20 points from the third quarter. At down 31%, Q4's domestic RevPAR improved sequentially from Q3's down 32%, driven by occupancy as average daily rate continued to hold steady. This trend continued in January with RevPAR improving 7 points sequentially from down 31% in Q4 to down 24% for the first month of 2021.

Cancellation rates have returned to prior-year levels as overall confidence in the safety of drive-to leisure destinations has continued to improve, while work-from-hotel bookings continued to increase, and our average length of stay system-wide continues to grow. Demand from our essential everyday business travelers who travel for a living and who are not working-from-home has also continued to improve, driving weekday bookings and weekday ADR, especially in our economy hotels [ph] who train (00:04:53) average daily weekday rates which were over 500 basis points higher year-over-year than their weekend rates, which are typically our higher ADR nights.

Demand from construction crews and utility workers who comprise so much of our infrastructure segment improved 300 basis points from Q3, while demand from the trucking, rail, and manufacturing workers in our logistics segment remained stable. These travelling everyday workers, combined with the strength of leisure travel and our sales and marketing efforts, boosted market share for our economy and midscale brands by 210 basis points and 520 basis points, respectively, in the fourth quarter.

This performance was aided by targeted digital marketing through our new Wyndham Hotels & Resorts app that drove an 18% year-on-year increase in bookings for the quarter. In fact, all of our brands in the US gained market share this year with La Quinta, again one of our strongest performing brands, gaining 570 basis points of RevPAR index for Q4 and 490 basis points of RevPAR index for the full year against its STR comp sets.

You'll recall, in the third quarter, we opened 20% more rooms domestically than we opened in the second. That momentum continued into our seasonally busiest fourth quarter as we opened over 70% more domestic rooms and over 30% more international rooms than we did in the third quarter. Conversion activity continued to accelerate and drove the majority of our over 14,000 room openings in the quarter.

Second-half conversion openings increased over 60% versus the first-half of the year. Our most demanded conversion brands this year domestically have been Days Inn, Super 8, and Travelodge in the economy segment and Baymont, Ramada and Trademark in the midscale segment.

Geographically in the United States new openings were strongest in Texas and Florida and in North Carolina, and internationally, our openings were strongest in our direct franchising business across Mainland China and Southeast Asia. Our teams were also very successful and, again, debuting multiple brands in multiple new overseas markets during Q4, including our first La Quinta in New Zealand, our first Trademark in Sint Maarten, our first Super 8 in the United Arab Emirates, our first Ramada in Nepal, and our first Howard Johnson in Cambodia.

Our overall domestic pipeline increased 120 basis points sequentially to 67,000 rooms and 20 basis points globally to 185,000 rooms. Notably our conversion pipeline increased over 600 basis points globally, growing faster domestically than it did internationally. Here in the US, we signed 108 new hotel agreements in the quarter, nearly 75% higher than in Q3 and remarkably our teams executed only one less deal in the fourth quarter of 2020 than they did in the fourth quarter of 2019.

Internationally, we signed 91 new contracts, which was down from the 116 we executed in the fourth quarter of 2019, as restrictions continue to hamper many of our teams' ability to travel across border and Europe, Latin America and parts of Southeast Asia. We opened 52 new construction hotels in Q4, including seven new La Quinta, and we signed 94 new construction deals in the fourth quarter, which compares to 97 new construction deals signed in the fourth quarter of last year.

In the US, our new construction signings increased over 15% versus prior year, driven by our highly-efficient Microtel Moda and La Quinta Del Sol prototypes, combined with growing demand for our new Hawthorn Suites extended stay prototype, which is often dual branded with La Quinta. With 256 hotels currently under construction and expected to open over the next two years, we've been encouraged to see continued demand for our select-service new construction prototypes, which continue to be added to our pipeline.

Despite the continued global travel restrictions, coupled with the continued lack of transaction volume and deal flow, we were very pleased with the sequential progress made throughout the year and our development team's ability to sign over 500 new direct hotel agreements, achieving over 90% of its full-year 2019 executions.

Deletions in Q4 reflect the completion of a strategic termination plan we announced in May, coupled with an unforeseen deletion of 5,300 rooms triggered by the sale of certain hotels by Caesars Entertainment, with whom we have an important and longstanding Wyndham Rewards marketing relationship. The removal of these hotels from our distribution platforms, which were co-branded under our Trademark Collection, will have an immaterial impact on our royalty rate and adjusted EBITDA going forward, given the exclusive agreement reserved for certain strategic marketing partners of Wyndham Rewards. When excluding these unusual termination events in 2020, our global retention rate was 95%.

Moving forward, we expect our retention rates to normalize and we continue to target the 95% global retention rate achieved in 2019, with the long-term goal of moving our domestic retention rate from 95% to 96%. With 2020, now in the rear-view mirror, our focus for 2021 is threefold. First, to return to positive net rooms growth. We've been investing in multiple strategies, tools, and technologies to increase not only our franchise sales footprint and capabilities but also our win rates.

Second, to carry on with the meaningful sales, operations, marketing, and digital investments we talked to you about on last quarter's call that are contributing so importantly to our guests' evolving travel habits, and our franchisees market share premiums and profitability. And third, to remain intensely focused on the guest experience while continuing to elevate the reputation and the quality of our brands, which globally experienced a 10% improvement in Net Promoter Scores in 2020.

All three of these areas of focus contribute to our goal of strengthening Wyndham's franchisee value proposition, which ultimately drives net room growth, both domestically and internationally. With 19 million hotel rooms tracked globally by STR, 5 million of those rooms are here in the US and 14 million are overseas, where there are more unbranded hotels than there are branded hotels. And where we now have franchise sales teams in place to sell directly to owners instead of through master licensees, which was historically how we would enter a new international market.

With these teams now in place around the world, our opportunities are significant as is our ability to continue to add our brands to new markets overseas, as we sell the extraordinary value proposition of by Wyndham Brand presents to hotel owners working their way back to pre-COVID profitability levels.

According to STR Research, brands drive a higher occupancy compared to non-branded hotels. Brands deliver more direct bookings through loyalty members, who stay longer and spend more. And brands generate significant distribution and operating cost savings through lower procurement, technology and labor costs.

In 2019 occupancies for branded hotels in our core segments were 300 basis points higher than non-branded hotels, and costs were 500 basis points lower. And perhaps most importantly branded hotels have experienced and will continue to experience lower failure rates and higher net asset values for their owners.

Our teams are out in their markets around the world selling this powerful by Wyndham Brand proposition every day to every owner we can talk to. It's a value proposition of the market share premiums at the most recognized economy and midscale brands in the industry can drive, a value proposition of how Wyndham Rewards, the industry's number one loyalty program, when combined with our sales, marketing, and state-of-the-art distribution platform can normally deliver 70% of an owner's room nights here in the US at the lowest cost of distribution, combined with the significant cash savings our pricing power can deliver to their bottom lines.

As our owners often tell our sales and operation support teams, they do business with us because they know us, they like us, and they trust us. While all of the brand benefits just mentioned are a critical part of our value proposition, so too is the messaging of the care, the support, and the guidance our teams can provide our small business owners on their road to recovery.

As we look ahead, we have a lot to be proud of in terms of how is supported and will continue to support our franchisees. Along with what we've achieved corporately as a relatively new team, our inclusive economy culture built on personal accountability on caring and social responsibility has continued to shine. For the third consecutive year, we've received a perfect score on the Human Rights Campaigns 2021 Corporate Equality Index measuring LGBTQ workplace equality.

And for the second consecutive year, we were recognized with an A-minus rating by the Carbon Disclosure Project for our team's actions to mitigate climate risks and manage our environment something that we, along with our global franchises and ownership base, will continue to remain focused on in 2021.

We are highly optimistic about what lies ahead. We're encouraged that the vaccines are working, and we believe that they will help to deliver a multi-year resurgence in leisure travel unlike any other in our industry's history, providing an opportunity to grow our brands globally, like, never before. And we believe Wyndham Hotels & Resorts is uniquely positioned to continue to drive superior results for our owners and significant value for our shareholders.

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

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Thanks, Geoff. 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 balance sheet and cash flows and provide our best view of certain 2021 projections.

We generated \$296 million of revenue and \$56 million of adjusted EBITDA in the fourth quarter, which brings our full-year revenues to \$1.3 billion and full-year adjusted EBITDA to \$327 million. Fourth quarter revenues excluding cost reimbursement revenues, decreased \$126 million, primarily reflecting a 35% decline in global RevPAR as well as a \$15 million decline in license fees.

Adjusted EBITDA declined \$97 million to \$56 million in the fourth quarter, reflecting the revenue changes, partially offset by a 15% reduction in cost. As expected, marketing fund expenses exceeded marketing fund revenues by \$26 million, adjusted diluted earnings per share was \$0.07.

As Geoff mentioned, RevPAR in Q4 finished down 31% domestically and 35% globally in constant currency. Our select-service portfolio of economy and midscale hotels in the US, which comprise nearly 80% of our pre-COVID global royalties in 2019, continue to outperform the higher-end chain scales. This core portfolio of economy and midscale brands saw RevPAR declines of 28% with nearly two-thirds coming from occupancy.

Occupancy increased to 48% in the month of October before seasonally adjusting to the lower occupancy months of November and December. The fourth quarter was a continuation of the improving sequential trends that we've experienced since our April lows with occupancy down only 9 points year-over-year compared to down 13 points in Q3 and down 26 points back in Q2. In addition, that trend has continued into 2021 with January occupancy down only five points year-over-year.

ADR has also been performing well in the select-service-space. Since the low point we experienced in mid-April, ADR for our domestic, economy, and midscale brands has steadily climbed from down 21% to down only 10% in January. Importantly, we continue to see significant enough price differentials between the chain scale segments to impact decision making for our value-conscious everyday travelers.

Our fourth quarter international constant currency RevPAR declined 44%, an improvement from down 50% in the third quarter, driven by China where we have our largest presence. China RevPAR was down only 10% in the fourth quarter as occupancy levels improved to 50%. While January results do show a slight pullback in occupancy to 46% as a result of the localized virus outbreaks and travel restrictions, China is now beginning to lap the virus from last year and is showing RevPAR growth of 80% in January despite this impact.

On a two-year stack basis, China RevPAR for January is down 14%, which is more comparable to the fourth quarter 2020 performance of down 10% and more reflective of the sequential occupancy change.

Turning now to full-year results. Revenues excluding cost reimbursement revenues, decreased \$480 million, primarily due to a 40% decline in global RevPAR, as well as a \$42 million decline in license fees. Adjusted EBITDA declined to \$327 million in 2020 from \$613 million in 2019, reflecting a \$286 million decline, or \$7.2 million per point of RevPAR, slightly better than the \$7.3 million RevPAR sensitivity we last published in October.

Our adjusted EBITDA margin, which excludes cost reimbursement revenues, declined from 43% to 34%, predominantly reflecting the excess marketing funds spent and lower license fees. Our franchising margin calculated on the same basis as our peers, which excludes the effects of our marketing funds, was 80% in line with 2019, providing another example of the resiliency of our business model. Full-year adjusted diluted earnings per share was a \$1.03.

On the cash front, we ended the year with \$493 million of cash on hand, a \$242 million decline from September 30, reflecting repayment of all remaining outstanding revolver borrowings. Free cash flow for the full-year was \$34 million, or \$100 million excluding special item cash outlays. We've achieved the entire \$255 million cash savings we targeted back in April.

This cost containment plan, combined with our strong balance sheet entering the crisis, positioned us well to support our franchisees with a number of industry-leading financial initiatives. Not only were we able to provide all of our franchisees with fee waivers and interest-free fee deferrals for the lowest occupancy months of the pandemic, we were also able to subsidize our marketing funds to drive room revenue for our hotel owners throughout the year.

And we continue to invest in technology to optimize rate, drive direct bookings, and capture cost efficiencies at the hotel level, positioning our brands to gain market share throughout 2020. To date, we've collected nearly 80% of the fees we've deferred in support of our franchisees and expect the remainder to be generally repaid over the next 12 months. Franchisee collection rates continue to trend within 10% of prior-year rates.

We ended the year with over \$1.2 billion of liquidity, including our undrawn \$750 million revolving credit facility. Our first-lien net debt balance at December 31 was approximately \$1.1 billion and our first-lien net leverage ratio was 3.4 times, well below the five times limit had we not obtained a waiver for quarterly testing.

We remind you that in 2021, during the second quarter when the waiver expires, as well as in the third and fourth quarters, the ratio calculation will be subject to the annualization of EBITDA in each quarter. Yet even at the

second quarter 2020 trough RevPAR and EBITDA levels, our first-lien net leverage ratio would not have exceeded this five times limitation. Therefore, we believe we will not need to request an extension or second waiver. We continue to target a net leverage ratio of three to four times and expect to gradually return to this range, primarily through adjusted EBITDA growth over the next few years.

From a capital allocation perspective, we paid \$53 million in dividends during 2020 and used another \$50 million of cash for share repurchases before suspending our plan in March. Our board of directors continues to demonstrate its confidence in our business model and our ability to generate significant cash flow through its decision earlier this month to authorize a 100% increase in the quarterly cash dividend to \$0.16 per share.

Turning now to 2021. While we are optimistic about the decreasing reported weekly COVID cases, the increasing vaccination percentages, and the return of leisure travel demand, there are still many near-term uncertainties ahead. As such, we are not providing a full outlook for 2021 at this time. However, we would like to provide our current view on certain operating statistics and financial metrics.

For the full year, we expect net room growth of 1% to 2%. As Geoff discussed, we've seen openings momentum in the second-half, particularly on the conversion side of the business. We're also expecting to see our retention rates begin to normalize back to the 95% range. We're expecting openings volume will be more back-half loaded as transaction volumes return.

For RevPAR, we expect every point of change versus 2020 will drive a \$2.5 million change in adjusted EBITDA. While this concept is similar to last year's sensitivity, the calculation is a bit different. The sensitivity now excludes license fees as well as the marketing funds, both of which should be modeled separately as incremental impacts as their year-over-year change will not move linear with RevPAR. You can find more information in the investor deck we posted to our website last night, including illustrative examples. Matt and I are also available to walk you through it in detail.

We expect license fees to be \$70 million, reflecting the minimum levels outlined in the underlying agreements and consistent with our 2020 performance. We are expecting our marketing funds to break even in 2021. This means that marketing expenses are not expected to exceed marketing revenues, and there will be no impact to adjusted EBITDA.

Consistent with 2019, we expect the timing of our marketing spend to work against this in the first quarter and then largely reversed in our favor during the remainder of the year due to the seasonality of our business. As a reminder, our accounting for the marketing funds is not comparable to our peers and that we do not remove their negative effects from our results of operations or cash flows.

Below adjusted EBITDA, we expect stock-based compensation expense of \$27 million to \$29 million, depreciation and amortization expense excluding acquisition-related amortization expense of \$60 million to \$62 million, interest expense of \$113 million to \$115 million, and an adjusted tax rate of approximately 28%. We expect the diluted share count to average approximately 94.1 million shares for the year.

From a cash flow perspective, we are expecting CapEx spend to be approximately \$40 million and development advance spend, which is a component of free cash flow to be approximately \$40 million. We do not expect any meaningful special item cash outlays in 2021. Therefore, we expect 2021 free cash flow conversion rates to begin to approach 50% as we head back toward our normalized range of 55% to 60%.

In closing, we are pleased with our 2020 performance given the challenges the industry faced. We took difficult but prudent steps to manage our costs and strengthen our liquidity while providing our franchisees with the support and relief needed during their most challenging times. Our business continues to be exceptionally well positioned for the recovery that we believe lies ahead.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Thank you. We'll take today's first question from David Katz with Jefferies. Please go ahead.

David Katz

Analyst, Jefferies LLC

Q

Hi. Good morning, everyone and thanks for the detail. Just if we could step back from, any sort of near-term as we – look we're all trying to get our models dialed in in the near-term and sort of get the quarters right. But taking a step back and looking at the business from 30,000 feet how do we think about the unit growth, the room deletions? And how that comes out the other end with a more refined and a faster growing or better growing engine of fees? And how would you help us sort of think about that, particularly as it relates to free cash flow?

Geoffrey A. Ballotti

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

A

Thanks, David, for the question. It absolutely helps us longer term in terms of what our teams succeeded at with some really strong master license partners overseas. But in agreement with them, our ability to remove 20,000 non-compliant brand attracting rooms both in 2019 and 2020, many of these rooms dating back 15 years, 20 years and no longer current on their payment terms, I think, does several things for us from a cash generation and a fee generation standpoint.

Whether these master license rooms were in China or whether they were in the Middle East as we said in the script, it is opening up right now for us new development tracks for our franchise sales and development teams to sell direct. I mean, I'll take a city like Riyadh in Saudi Arabia where we no longer have that master license agreement. Our teams are right now in that city trying to sell a Ramada, which we have the ability to do directly and a Wyndham, and a Wyndham Grand.

We have grown our international direct net room growth in 2018 and 2019 in the high-single digits. We want to get back to that. We had net room growth internationally on a direct basis in 2020 and in every market but China. And now, with direct representing over 60% of our international rooms at a 3 times to 4 times higher royalty fee rate than what our master license agreements were at. And that 60% was less than 50% a while ago. It is going to be what continues to move our royalty rate internationally and globally, which you're beginning to see over time and with higher-quality product and newer product.

David Katz

Analyst, Jefferies LLC

Q

Got it. And as my follow-up, I know it's an important concept to just keep track of conversion activity, which is expected to be an important part of unit growth. What are you seeing out there?

Geoffrey A. Ballotti

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

A

We're seeing just as we saw in the third quarter a continued pick-up sequentially. We picked up from Q3 to Q4 conversion rooms both on the opens and executions in terms of what we added to our pipeline. Conversion openings in the second-half of this year grew 60% to the first-half, and conversion signings grew 70% from the first-half to the second-half. And we expect this conversion percentage to grow.

You think about 2019, 70% of our gross adds were conversions. If we look back in 2008 and 2009 after the great financial crisis, that conversion percentage grew to 90% of openings. And we could see that happening, we're out hiring more conversion sellers, both domestically and internationally. We're deploying more of our new construction sellers both in the US and internationally to our conversion brands. And we're seeing conversion opportunities internationally in the years ahead.

You know, again, there's 100,000 non-branded economy and midscale rooms out there globally. We have strong conversion franchise sales and development teams in place, and I would expect that to continue to pick up

David Katz

Analyst, Jefferies LLC

Q

Thank you very much. Good luck.

Geoffrey A. Ballotti

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

A

Thanks, David.

Operator: And our next question is from Joe Greff with JPMorgan. Please go ahead.

Joseph Greff

Analyst, JPMorgan Securities LLC

Q

Good morning, everybody. Geoff and Michele, regarding the 1% to 2% net rooms growth for this year that assuming that you retain or approach that 95% retention rate that implies somewhere in the low 50,000 of gross room adds. So I just want to make sure my math is right on that. But of that 50-ish-thousand plus of gross room adds, what's the breakout there between conversions and new construction, and of the stuff that's in the new construction bucket how much of that relates to construction that was pre-COVID verses before the onset of COVID?

Geoffrey A. Ballotti

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

A

Sure. I think your math is right. Joe, we opened 65,000 rooms in 2019. We opened 70% of it in the second half of 2020 what we did in 2019. So if we could get to 80% of what we did in 2019 that's exactly on your math, that's 50,000 opens. And assuming our teams get back to a 95% normalized retention rate that gets us right to the midpoint. Obviously, we're committed to getting back to that 2% to 4% growth.

In terms of what opens out of our pipeline and what percentages is new construction, as I just said, I think you're going to continue to see that tick up, it was about 60%, 65% in 2020 being conversions, that number could go, obviously, higher as we were just talking about it did in 2008 and 2009. But we're also seeing in our pipeline an

interest or renewed interest in our new construction rooms and signing, so it's early to break it out exactly, but I think you'll see conversions continue to pick up.

Joseph Greff*Analyst, JPMorgan Securities LLC*

Q

Great. And then, longer term, you're targeting this 2% to 4% at rooms growth, how much of that accelerated growth relates to further retention globally versus gross room at acceleration? And I'm presuming some of it is gross room acceleration. And for you to accelerate the gross rooms at some point in the future, how much of an increase in advances and support from Wyndham's do you need to support that 2% to 4%? I know you talked about \$40 million advances for this year, how much higher would that go to be part of that 2% to 4% [ph] pass. (00:32:15)

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

A

Hi, Joe. It's Michele. I think that 2% to 4% is really just getting back to our 2019 opening levels. And then, any additional retention favorability we would see would be able to drive us up from the 2% to 4%, which is consistent with our pre-COVID plan.

I would also think that from a key money perspective, we are putting more capital to work in this particular environment, because we think there's more opportunity to attract deals just because of where financing is, so owners are going to be more attracted to deals where we can participate in capital stack. That's not always the case. But that is certainly the case right now.

And we're hopeful that that will attract the right hotels in the right markets for the brands that we really want to grow, and more importantly, conversion opportunities in the near-term to help fill the gap on the transaction volume side, and then, as well to get us back to the 2019 openings level.

Joseph Greff*Analyst, JPMorgan Securities LLC*

Q

Great. And then one final follow-up, a quick one here. Looking at your slide 30, I mean the investor presentation, the illustrative example, not the guidance scenario, but if you do end up in that \$425 million, \$450 million EBITDA range for this year, does that put you on a path where the second-half of this year we could see some resumption of buyback activity?

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

A

So, I would say, well, so okay, so I will take this opportunity to say that it's definitely not meant to be guidance. It is also a conservative view because we did know by putting a hypothetical EBITDA number out there, there we would run the risk that it would be assumed to be some version of guidance, so it does. The math is not going to work as perfectly as you guys would want it to because it definitely has some conservatism built into that.

I would say the share buyback is going to move more in line with free cash flow generation. But that will obviously be tied to EBITDA generation. So depending upon how much excess cash the business is generating [ph] that will be (00:34:46) when we are ready to resume share repurchases, we continue to place a high-level of emphasis on [ph] capital (00:34:53), you can see that in the actions we've taken on the dividend side and share repurchase will follow at the appropriate time.

Joseph Greff

Analyst, JPMorgan Securities LLC

Thank you.

Q

Operator: And our next question from Patrick Scholes with Truist Securities. Please go ahead.

Patrick Scholes

Analyst, Truist Securities, Inc.

Hi, good morning, everyone.

Q

Geoffrey A. Ballotti

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

Hi, Patrick.

A

Patrick Scholes

Analyst, Truist Securities, Inc.

Good morning, morning. A couple of questions for you. How should we think about the trajectory of G&A growth throughout the year? Related to that do you see yourselves rehiring staff given the rebound in economy hotels or headquarters and corporate staffing reductions, do you see more as permanent?

Q

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

From a cash – oh, I'm sorry.

A

Geoffrey A. Ballotti

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

No. Well, I'll start, and then, from cash standpoint, I think corporately where needed, we've made some slight adjustments. But most of what, as we've said before, we'll stick. When you talk about economy hotels, just to be clear, those aren't – those are all franchise agreements. And they're not our team members. And there are a lot of team members out there in our economy hotels that are out-of-work that our owners, I know, are working very hard at bringing back to work. Go ahead, Michele.

A

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Yes. Thank you. Patrick, I would say, from a G&A perspective, modeling, we can come at it two ways; I think we'll probably be around \$5 million favorable to 2019 levels per quarter. So, that's about half of the \$40 million that we expected to stick will come through the G&A line item on a cash basis. There will be some non-cash items that match that and we can help you guys reconcile that. And then, the other half of the \$40 million will sit on the operating expense line item. So, I think if a G&A is going to be about probably a 15% reduction to the 2019 levels.

A

Patrick Scholes

Analyst, Truist Securities, Inc.

Okay. Thank you for the color on that. That's helpful. And getting into the [ph] weeds (00:36:59), perhaps a little bit more here, I know that historically, you've held an annual conference usually in April timeframe and probably is

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not going to happen this year. Any special earnings or modeling nuances we should be aware of around that, assuming my assumptions are correct on that conference?

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

Yeah, Patrick. We're actually not going to be hosting a large annual in-person event in 2021. It typically would have happened in April, I believe this year or potentially in September and we're just not comfortable committing to that timing for 6,000 plus franchises to come together in a non-virtual setting.

We are going to create some opportunity to bring our franchisees together in some whistle-stop tours and get our brand leaders and DFOs out in a more organized fashion to collect feedback from our franchisees. We do that on a one-on-one basis throughout the year, but we want to do it in a more organized fashion to bring a group together, and so we'll do that on a smaller scale. But no – so no large conferences here from a modeling perspective.

Patrick Scholes*Analyst, Truist Securities, Inc.*

Okay. Okay. Thank you very much.

Operator: And our next question is from Stephen Grambling with Goldman Sachs. Please go ahead.

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

Hey. Thanks for taking the question. One follow-up just on the cost side. Can you just remind us, I think you had previously talked to some kind of permanent benefits to EBITDA from cost outs. Can you just maybe update us on what your latest thinking is there and the major buckets, and if that's changed at all?

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

Yeah, sure. When we implemented our COVID plan, it was \$255 million of cost savings for the full year 2020. We expected \$40 million of that would flow through EBITDA on a more permanent basis in 2021 and beyond. And we're expecting to see that in the operating expense and G&A line items. Majority of it is salary and wages and facility costs as a results of our restructuring plans, including our international reorganization.

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

Great. And then I may have missed this, but can you talk a little bit more about the guardrails or the way that you were trying to think about the \$40 million in development advances? Why is that the right number? How is developers responded to that? And then how are you thinking about kind of free cash flow conversion longer-term versus the 50% that's guided?

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

Right. The \$40 million is a budget right now, if there are lots of opportunities, we're happy to spend more than \$40 million. From our perspective, it's all about the IRR on the deal. So we'll deploy that domestically, potentially even internationally to the right deals in the right markets. Conversions, new constructions, there will be – it's from an

IRR perspective, it'll hit our hurdle rates, which as you know higher than our WACC and also includes some risk-adjusted premium for the specific deal and the specific market, particularly if we were talking about international deals, some of those would have higher hurdle rates.

And so, if there's potential to spend more than \$40 million, we would. From a free cash flow conversion rate, it'll put a little bit of pressure on the conversion. We don't expect to have an elevated spend into perpetuity, right. We think this is in direct response to what we're seeing in the marketplace today and responding, reacting to today's opportunities. I still [Technical Difficulty] (00:41:09) \$40 million level we would be able to get close to 55% to 60% on free cash flow conversion when demand begins to normalize.

[indiscernible] (00:41:20)

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Got it. That's helpful. Thanks so much. Awesome. Jump back in the queue. Thanks.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Sure.

Geoffrey A. Ballotti

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

Thanks, Stephen.

Operator: And our next question is from Ian Zaffino with Oppenheimer. Please go ahead.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Hi, great. Just kind of like to circle back on 2020. As you look at it, what brands were basically the biggest drivers or did the best from a RevPAR index perspective throughout your portfolio? Which brands are you the happiest with? Which brands need the most work? Maybe just some color there. Thanks.

Geoffrey A. Ballotti

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

Thanks, Ian. Yeah. As we called out in the script, La Quinta is I would say by far and away, the brand that we've been happiest with, I mean just thrilled with how well it's performed through this downturn with nearly 600 basis points of market share. And we saw that market share just grow each quarter. So much of it was rate driven, which was great to see.

I'm thrilled with obviously what's happening in the extended stay space with Hawthorn, which was actually up a lot higher, almost 2x what La Quinta was, but that's just the state of extended stay right now. And that brand is doing very well. As we remove brand attracting Hawthorn Suites, as we open new construction, Hawthorn Suites new construction, Hawthorn Suites and La Quinta hotels I think will continue to see that share grow.

And look, our Days Inn and Super 8 brands against their chain scales are at a 100%, performing really well. They've been big additions to our pipeline and our conversion activity. And on the new construction side, I'd say

our team is thrilled with Microtel, which against its chain scale is about a 115% index and just continues to not only gain in market share but gain an interest from developers that are looking to build and to sign new hotels. We added conversions in the pipeline, continue to pick up and a big part of that were from the Microtel and La Quinta and Hawthorn Suites brand.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Okay, great. Thank you. And then maybe just another question would be on the dividend. I mean, glad to see the dividends going way up, still below 2019 levels. What do we need to see to kind of get back to those levels? Thanks.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

It is below 2019 levels and the \$0.16 is the maximum allowed under the credit agreement now and that doesn't expire until the beginning of the second quarter. I would say 2020 was about 50% of 2019 EBITDA and so restoring the dividend to that same level we thought was appropriate. And so as EBITDA returns and free cash flow returns, we would expect to see the dividend be further restored. We want it to be obviously sustainable.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

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.

Thank you, Ian.

Operator: And our next question comes from Dany Asad with Bank of America. Please go ahead.

Dany Asad

Analyst, Bank of America Merrill Lynch

Hey, good morning, Geoff and Michele. My question is on the license fees. So I know we have the sensitivity that lays out the minimum of \$70 million for 2021. Can you maybe help us understand what it would take to clear that minimum threshold this year? And maybe clarify anything around the sensitivity for that line item?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Sure I can do that. I think that the license fee right now is tied to the contractual minimum, which is about \$1.6 billion in VOI sales. So in 2020, Wyndham Destinations' VOI declined about 60%. So we would need to see an increase well over 60% in 2021 to exceed that \$1.6 billion. Prudently, we have projected right now the contractual minimum. And should they exceed that \$1.6 billion, we will be happy to adjust our projections.

Dany Asad

Analyst, Bank of America Merrill Lynch

Michele, thank you very much.

Q

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Thank you.

A

Operator: We will take the next question from Michael Bellisario with Baird. Please go ahead.

Michael J. Bellisario

Analyst, Robert W. Baird & Co., Inc.

Good morning, everyone.

Q

Geoffrey A. Ballotti

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

Hey, Mike.

A

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Good morning.

A

Michael J. Bellisario

Analyst, Robert W. Baird & Co., Inc.

Could you update us on your latest thinking on potential M&A opportunities and what you're seeing now that you have a clear path on the balance sheet side of things today?

Q

Geoffrey A. Ballotti

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

Well, there's certainly not a lot of activity that we're looking at right now. There's plenty of people that would like to engage in discussions with us, both domestically and internationally. But I would say for the foreseeable future, Mike, this year and next, we're going to be focused on just driving our organic net room growth.

A

Michael J. Bellisario

Analyst, Robert W. Baird & Co., Inc.

Okay. Thank you very much.

Q

Operator: And we'll go next to Robert Mollins with Gordon Haskett. Please go ahead.

Robert Michael Mollins

Analyst, Gordon Haskett Research Advisors

Good morning. Thank you. Geoff, can you just talk about performance in California? How big of a drag was California on in January RevPAR? And has demand rebounded since the stay-at-home orders were lifted?

Q

Geoffrey A. Ballotti

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

A

Yeah. Actually California is one of our strongest performing markets. I believe California occupancy for us across the state was north of 60%, markets like Sacramento and San Bernardino and San Diego. California, Nevada, Arizona the West in January was surprisingly strong. We did not see any drag. I believe, Michele, on our January occupancy which certainly picked up from our December occupancy and for the first few weeks in February, we're seeing about the same trend.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Yeah. And I would say California is definitely behaving a little differently for us than maybe our peers, because we have been benefiting a little bit from the displacement due to the wildfires. So that had helped our 2020 results.

Robert Michael Mollins

Analyst, Gordon Haskett Research Advisors

Q

Got it. And then, Michele, on the \$70 million license fee guide, are you excluding anything that was included in the \$83 million that was recognized in 2020?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

The \$83 million that was recognized in 2020 included points pack revenue. So we're just bifurcating the two. So we're giving you the projection for the license fee separate then the points pack projections. So we're just kind of – the line item on the P&L has both of them included. And the points pack is...

Robert Michael Mollins

Analyst, Gordon Haskett Research Advisors

Q

Okay, so...

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

...expected to be flat year-over-year.

Robert Michael Mollins

Analyst, Gordon Haskett Research Advisors

Q

So flat year-over-year. So, there could be upside to that \$70 million, am I interpreting that correctly?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

To the \$70 million or to the points pack?

Robert Michael Mollins

Analyst, Gordon Haskett Research Advisors

Q

For the points pack added on to the \$70 million or is it points back included in that \$70 million?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

In the \$70 million guide, the points pack is not in there. The points pack revenue would be included in the \$2.5 million RevPAR sensitivity number we provided, that would include all the other revenue line items.

Robert Michael Mollins

Analyst, Gordon Haskett Research Advisors

Q

Got it. That's helpful. Thank you very much.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Beyond just the license fee. Yep.

Robert Michael Mollins

Analyst, Gordon Haskett Research Advisors

Q

Got it. Thanks.

Operator: It appears we have no further questions. I'll turn the floor back to Geoff Ballotti for closing remarks.

Geoffrey A. Ballotti

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

All right. Well, thank you everybody for your continued interest in Wyndham Hotels & Resorts. Matt and Michele and I look forward to talking to you in the weeks ahead and most importantly, hopefully, seeing you at some point in 2021. Happy Valentine's Day, everybody.

Operator: And this will conclude today's Wyndham Hotels & Resorts fourth quarter and full-year 2020 earnings conference call. You can disconnect at any time and have a wonderful day.

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