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Wyndham Hotels & Resorts, Inc. (WH)

Q2 2021 Earnings Call

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Matt Capuzzi

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Wyndham Hotels & Resorts Second Quarter 2021 Earnings Conference Call. At this time, all participants have been placed in a listen-only mode and the floor will be open for your questions following the presentation. [Operator Instructions] I would now like to turn the call over to Matt Capuzzi, Senior Vice President of Investor Relations.

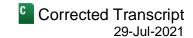
Matt Capuzzi

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

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

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

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

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

Geoffrey A. Ballotti

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

Thanks, Matt, and thanks everyone for joining us this morning. We were very pleased with our second quarter performance, where our global RevPAR increased 110% versus last year and where our domestic economy RevPAR exceeded 2019 by nearly 4% increasing every month versus both last year and the year prior. For the month of June, not only did domestic economy RevPAR increase 680 basis points compared to June of 2019, but overall domestic system, including our many upscale and upper upscale brands exceeded June of 2019 by 70 basis points. This was the first month that this has occurred since back in February of 2020.

With improving leisure demand, combined with the continued market share outperformance of our brands and the structural cost savings from our 2020 organizational restructuring, we generated \$168 million of adjusted EBITDA, which was more than we generated in the second quarter of 2019. We delivered another clean quarter on both the P&L and cash flow fronts with free cash flow this quarter of \$104 million, increasing \$264 million from the second quarter of 2019. We opened 9,800 rooms, which was nearly 30% more rooms than we opened in the first quarter and over 70% more rooms than we opened last year.

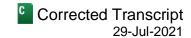
With strategic removals of non-profitable licensees now behind us, terminations were 57% lower than last year. We awarded 154 new hotel agreements, which was over 30% more than last year and only 10% below the number of contracts we awarded in the second quarter of 2019. The continued pick-up in our development team successes around the world resulted in a 170 basis points of sequential pipeline growth and 580 basis points of year-over-year growth in our development pipeline, which climbed to over 190,000 rooms at the end of June.

Leisure demand for our brands across the United States is robust with 9 out of 10 of our guests driving to our hotels this quarter. Booking windows continued to expand and average length of stay once again grew, fueled by several important factors that we believe will propel us not only through 2021 but also for the foreseeable future.

First, household savings have hit a 10-year high with most consumers improving their financial situation during the pandemic. They are also ranking travel as a top priority of discretionary spending. Second, we're also seeing consumers vacation more often. Survey tracking post-stay data reveal that approximately 60% of our customers have already stayed in a hotel in 2021, with nearly 70% planning a trip over the next 90 days. This intent to travel among our leisure customers is higher than it was a year ago. Weekend and short four-night breaks generated the largest percentage of our guest leisure stays followed by travel to visit family and friends.

We also saw sequential growth throughout the second quarter in our over five-night vacation stays, along with stays associated with sporting events and competitions. The 800 million vacation days that the U.S. Travel Association has long reported go unused every year may now actually be consumed. And with hybrid work-from-anywhere flexibility, we believe new consumer travel patterns could disrupt the traditional revenue management models that have historically seen Sunday and Monday as the lowest demand nights. In fact, this is exactly what we're experiencing right now with Sunday and Monday occupancy having picked up 10 points of growth in Q2 versus Q1 as compared to 2019.

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The strong demand we saw during spring break and Memorial Day weekend did not fall off or slow down for our brands. Occupancy in the US improved nearly 600 basis points in June compared to May, while June domestic RevPAR grew nearly 80% to 2020 and was up 1% to 2019. June was also the third consecutive month that our economy brands exceeded 2019 levels, with a 7% RevPAR increase versus 2019. The week leading into July 4 was our busiest independent holiday week on record. And for the past three weeks, domestic RevPAR is up 75% month-to-date versus last year and up a remarkable 7% versus 2019.

Our franchisees are naturally feeling considerably more confident than they were at the end of last year. For the first time since 2019, we had no [ph] STR (00:06:44) markets this quarter with occupancies lower than 30%. And with Sunday and Thursday nights now rivaling Friday and Saturday nights from an occupancy improvement standpoint and overall occupancy at or approaching 2019 levels, our franchisees have been driving average daily rate. In June, domestic ADR exceeded 2019 by 9%, and this has only accelerated in July with month-to-date ADR surpassing 2019's ADR by 10%.

Our teams have provided more training than ever on the importance of driving average rate over occupancy, particularly in this challenging labor environment and ensuring that our franchisees are taking advantage of the suite of a la carte revenue management and technology tools and services that we provide to them. All of this has helped lead to continued outsized rate gain index that have fueled the market share premiums our brands have continued to deliver.

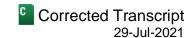
Market share for the quarter versus 2019 grew by nearly 300 basis points. We continue to see our hotels benefiting from a greater share of direct bookings from Wyndham channels compared to 2019. Contribution from direct bookings increased from 500 basis points of growth in Q1 to 600 basis points in Q2, once again outpacing the growth of OTA and third party channels. Our award-winning Wyndham Hotels & Resorts mobile app continues to be our fastest growing direct booking channel with second quarter reservations up approximately 60% versus 2019.

Wyndham Rewards is also contributing to the significant growth in direct bookings. Last month, Forbes magazine called it "one of the simplest rewards programs worth [ph] studying (00:08:29), given its simplicity and sheer number of redemption opportunities." Wyndham Rewards share of occupancy grew 500 basis points domestically and over 550 basis points globally from where it was at the end of the second quarter 2019, proving the increasing preference for both the program and for our brands with nearly one out of every two domestic guests asking for their Wyndham Rewards points at check in.

We will continue to build on this affinity throughout the remainder of the busy summer season, targeting longer weekend getaways and midweek leisure vacations, with incentives to nonmembers to book direct to stay longer and to enroll in Wyndham Rewards. We have seen measurable success and tremendous opportunity ahead in attracting more nonmembers with our nation's 150 million Gen Z, millennial, and Gen X travelers, who collectively have \$350 billion of disposable income to spend. These next generation consumers are the most eager to vacation with nearly 40% identifying budget-friendly as a key consideration. This younger demographic now represents our number one segment from a demand standpoint and has grown from 62% of arrivals in 2019 to 65% of arrivals year-to-date.

We believe that continuing to expand our marketing funnels to cast a wider net to target these younger consumers with data-led engagement strategies and closed user group loyalty incentives will allow us to continue to grow member enrollments as we aim to drive more than 50% of the nightly check-ins through non-OTA commissionable channels.

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Consistent with the boom of leisure travel, demand from our infrastructure, construction and logistics accounts continued to outperform the broader white collar business transient and group segments. We're seeing increasing demand from our general infrastructure segment, which increased 23% from 2019. Our logistics and trucking segment up 11% from 2019, and we continue to believe that business provided to our hotels from small and medium-sized companies in these industries will grow at a faster rate in the coming years than business from corporate group and convention travel, which our small business owners largely do not rely on and which have historically accounted for less than 5% of our room nights domestically.

Net room growth continue to be strong, especially in China where our direct franchising business has now grown 7% on a year-to-date basis. This growth included two new additions to our Wyndham Garden brand, an outstanding conversion from a competitor of a newly constructed Wyndham Garden Changbaishan Hot Spring Resort, and this stunning new construction Wyndham Garden Nanjing Airport close to the Ming Tomb and Confucius Temple.

Southeast Asia and the Pacific Rim and Latin America have each now grown their respective room counts by 2% year-to-date including the launch of our first Ramada Encore in Malaysia; the opening of two new Ramadas in New Zealand, including our first in its capital city of Wellington; and the introduction of our first Registry Collection Hotel, the Grand Residences in Puerto Morelos, Mexico, which converted from a luxury competitor. And despite the persistent travel restrictions for our developers across many European countries, our team there has still achieved a positive 1% net room growth in this region year-to-date, including the opening of our first La Quinta in the heart of the United Emirates in Dubai and our first Days Inn in Istanbul.

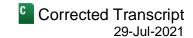
Here in the United States, our franchise operations and support teams continue to build on the first quarter momentum adding over 30% more rooms in the second quarter than in the first and nearly 85% more rooms than last year, including the Bay Hotel San Francisco, another conversion for the Trademark Collection located in the heart of the city by the Financial District in Union Square, and the new construction La Quinta Nashville downtown directly across the street from Nissan Stadium, home to the Tennessee Titans. Year-to-date, additions as expected are now trending at 63% of 2019 levels and 46% higher than last year. While year-to-date terminations are trending 49% better than last year and 27% better than 2019.

With continued momentum on both the room openings and retention fronts, we are seasonally on pace with our full year net rooms growth guidance. Our domestic pipeline increased 70 basis points sequentially and 590 basis points year-over-year. Internationally, our pipeline grew 230 basis points sequentially and 580 basis points versus the same time last year with double-digit year-over-year growth in our China, in our Latin America and in our Europe, Middle East, Eurasia and Africa pipelines.

As expected, conversion activity continued to accelerate. We awarded approximately 25% more conversion contracts than we awarded both in the second quarter of 2020 and in the first quarter this year. And despite a more muted new construction environment, our team successfully executed over 90 new construction contracts in the quarter, 20% more than we awarded in 2019, bringing the total of new construction contracts signed to over 390 since the onset of the global pandemic.

Before handing the call over to Michele, I'd like to acknowledge our team members for what they've been able to achieve on the ESG front. ISS has recognized our team's best-in-class level of disclosure and mitigated risk on both our social and environmental standings with their highest 1 out of 10 quality score rating. And for the second year in a row, DiversityInc has again recognized Wyndham Hotels & Resorts as a 2021 noteworthy company.

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All of us would also like to thank our franchisees of over 850 hotels, who despite the pandemic have increased enrollments by over 75% since last quarter in our proprietary online environmental management system the Wyndham Green Toolbox to track, to measure and to report the progress they've been making on their energy, emissions, water and waste diversion efforts.

And with that, 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. I'll begin my remarks today with a detailed review of our second quarter results. I'll then review our cash flows and balance sheet followed by our 2021 outlook. During the second quarter, we generated \$321 million of fee-related and other revenues and \$168 million of adjusted EBITDA. Second quarter RevPAR has now recovered to 83% of 2019 levels, down only 5% domestically and down 44% internationally on a constant currency basis.

My remarks today on RevPAR will be focused on performance as compared to 2019. Our economy brands continue to lead the recovery in the US with second quarter occupancy levels consistent with 2019 and ADR up 4%. Our midscale brands are right behind with second quarter occupancy down only 9% and ADR up 1%.

As Geoff noted, domestic RevPAR for June exceeded 2019 levels and July month-to-date results have been even stronger with RevPAR for our economy brands now up 12% over 2019 and RevPAR for our midscale brands now surpassing 2019 levels by 4%. We saw particular strength in beach and national park destinations. The South Atlantic region, where 23% of our US system is concentrated, grew RevPAR by 6%. And national park destinations, where 4% of our US system is located, grew 10%.

In China, our largest international footprint, RevPAR continued its recovery down only 7%, an improvement from down 25% in the first quarter and near their strongest levels since the start of the pandemic. Occupancy was within 10% of 2019, while rate was higher by 4%. In our EMEA region, RevPAR was down 68%, reflecting travel restrictions in Germany, Turkey and India.

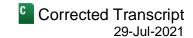
In Canada, travel restrictions continued throughout much of the quarter leading to a 49% RevPAR decline. Despite the slower recovery in these regions, we are encouraged by recent trends. As travel restrictions relaxed in July, the month-to-date RevPAR declined for EMEA improved 30 points compared to June performance, while Canada improved 20 points.

Our global royalty rate increased 30 basis points on a year-to-date basis versus 2019, reflecting the strength of our brands and the continued growth in our direct franchising business internationally. Versus 2019, adjusted EBITDA was up 4%. These results reflect not only RevPAR performance during the quarter, but also margin expansion due to the structural changes we made last year, as well as a \$23 million favorable impact from the timing of marketing spend.

Marketing revenues exceeded expenses by \$14 million in second quarter 2021, reflecting better-than-expected RevPAR performance, while marketing expenses were higher than revenues in 2019 by \$9 million. Excluding the effects of the marketing funds, adjusted EBITDA declined 9% versus 2019, recovering to 91% of its pre-pandemic level.

Both our adjusted EBITDA margin and our franchising margin each improved compared to 2019. Our adjusted EBITDA margin increased approximately 900 basis points, including approximately 600 basis points related to the

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marketing funds. While our franchising margin calculated on the same basis as our peers, which excludes the effects of our marketing funds increased approximately 100 basis points to 85%. Adjusted diluted earnings per share was \$0.95 improving 13% from 2019, primarily due to the impact from share repurchase activity in 2019 and the first quarter of 2020, as well as lower interest expense as a result of the redemption of our \$500 million senior notes in April this year.

Free cash flow for the quarter was \$104 million compared to a cash use of \$68 million in the second quarter of 2020 and a cash use of \$160 million in the second quarter of 2019. You'll recall that both of the prior years included special item cash outlays. Even after normalizing for those amounts, we generated nearly 3 times more free cash flow over both periods, due to strong collections and working capital management.

In addition, we've been successfully executing on our strategy to increase capital deployment to support future growth. To date, we've spent \$17 million of the \$40 million in development advances we targeted this year and we remain on track to reach our full year projection. We ended the quarter with approximately \$840 million of liquidity and our annualized [indiscernible] (00:19:12) net leverage ratio was 2.2 times well below the 5 times limit.

After doubling last year's dividend in the first quarter of this year and with half the year now behind us and exceeding our initial expectations, management recommended and our board approved another increase to our quarterly cash dividend, bringing the quarterly per share payout to \$0.24 from \$0.16 beginning with the dividend that is expected to be declared in the third quarter. With this increase, we have restored our quarterly dividend payout to 75% of pre-pandemic levels.

Moving now to outlook, with recovery well under way in the US and China, we are now able to confidently provide a full outlook for 2021. On a full-year basis, we expect fee-related and other revenues of \$1.16 billion to \$1.19 billion. We've excluded cost reimbursements from our revenue outlook as these revenues have no impact on adjusted EBITDA. We're projecting adjusted EBITDA of \$525 million to \$535 million, which represents approximately 85% of 2019 levels. Adjusted net income is expected to be \$244 million to \$254 million, and adjusted diluted EPS is projected at \$2.60 to \$2.70 based on a diluted share count of 94 million that excludes any potential future share repurchases.

Consistent with our prior guidance, we expect rooms growth of 1% to 2%. For RevPAR, our outlook reflects an increase of approximately 40% year-over-year or a decline of approximately 16% compared to 2019. This assumes continued strong trends in the US with the typical seasonal pullback following the peak summer season and, importantly, continued improving results overseas. At 16% down for the full year, RevPAR for the back half is implied at approximately [ph] 90% (00:21:00) of 2019 levels.

Finally, we're expecting free cash flow conversion from adjusted EBITDA of approximately 55% on a full-year basis for 2021. Note that our 2021 outlook still assumes the minimum levels of license fees from travel and leisure as well as other large variances versus 2019, which can be found in more detail in the investor presentation posted on our website.

Our brands continue to demonstrate their strength capturing market share premiums to pre-pandemic levels. Our development teams are experiencing increased developer interest on both the conversion and new construction fronts. And our business model is now showcasing its significant cash generation capabilities with free cash flow conversion from adjusted EBITDA well in excess of 50% year-to-date. With six quarters behind us since the pandemic first impacted our China operations, we are very optimistic about what lies ahead.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question will come from David Katz with Jefferies. Please go ahead. Your line is open.

David Katz

Analyst, Jefferies LLC

Hi. Good morning, everyone. Congrats on the quarter. I wanted to start off, if I may, with capital returns and the dividend increase. When I look at our model and sort of where we think we should be this year, next year and beyond, I'm getting to sort of a mid-20s payout against the free cash flow that we're modeling. Michele, if you could just help us think through what might be a reasonable path for that dividend and maybe we've had a little discussion about how you all are thinking about share repurchases over time.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Sure, David. Good morning. So from our perspective, the \$0.24 per share dividend payment would round out to just above the mid-30s, I believe, when we look at a net income payout ratio. That's the way we're thinking about the dividend. And with these two increases, we should now be at about 75% of our pre-pandemic level, and that is right in line with how our earnings have been recovering.

From a capital allocation perspective, I would say, as always, our first preference is to invest in the business for future growth. From leverage, we target 3 times to 4 times. We expect to be back within that range at the end of this year, and so we don't see any need to allocate capital to debt repayment, and then it comes down to dividend whether or not there are any other M&A opportunities out there and then, of course, share repurchase. We feel comfortable with where the dividend is right now and so that really leaves us with M&A and share repurchase. There are no restrictions on share repurchase today. We have \$191 million available under our current authorization, and we hope to be in the market this quarter.

David Katz

Analyst, Jefferies LLC

Perfect. And if I may follow up one for Geoff, I think it's still your largest franchisee has been, I believe, exploring alternatives as they've announced it. Is there anything that you were able to say about what that could potentially mean for you?

Geoffrey A. Ballotti

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

David, it wouldn't be appropriate for us to comment certainly on their process. Their press release last week or the week before noted that they're reporting sequentially improving performance, and they're on track to sell down to 105 hotels. And in terms of what it means for us going forward, we anticipate that those core hotels they talk about will remain a part of the Wyndham family as is managed hotels and franchise agreements as have all but one of the – I think it's 135 or 136 hotels that they have sold to date.

The hotel management agreements do not have any change of control provisions, and there are no automatic cross-term rights between our [ph] HMAs and F (00:25:26) franchise agreements. And look, there – some of their best hotels in solid locations, and we anticipate that they'll remain as part of the Wyndham family going forward.

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David Katz

Analyst, Jefferies LLC

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Okay. Perfect. Thank you very much.

Geoffrey A. Ballotti

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

Thanks, David.

Operator: Your next question comes from Joe Greff with JPMorgan. Please go ahead. Your line is open.

Joseph Greff

Analyst, JPMorgan Securities LLC

Good morning, Geoff, Michele and Matt. I want to talk about net rooms growth, the long-term targets in the slide deck, going from 1% to 2% to 2% to 4% and then over time 3% to 5%, but I have a more specific question. Yeah, looking at your current pipeline of 190,000 rooms and maybe given what you're seeing on conversions, which is probably not completely reflecting the development pipeline given the short-term nature of conversion, is there a reason why you couldn't open the same number of gross rooms in 2022 that you opened in 2019?

Geoffrey A. Ballotti

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

There is no reason in 2022. I mean in terms of where we are right now on our 1% to 2%, we're feeling very good. As we previewed last call, Joe, our rooms would be back-end loaded. Our 10,000 rooms that we opened in the quarter were 30% more than we opened last quarter, and we're still expecting to open over 50,000 rooms this year, which would be over 80% of what we opened back in full year 2019 when we ran 3% net room growth. And with over a third of that 50,000 rooms now achieved, we feel, as we said in the script, seasonally on pace with our historical trends.

And in terms of what we're seeing on the conversion front, it just continues to pick up. Conversion rooms as a percentage of our total continue to increase from 50% of our global room openings last year to 70% this year and increased to what we opened – 500 basis points over what we opened in the second quarter of 2019 in conversion activity. So, no, there's no reason in terms of 2022 that we couldn't be back.

Joseph Greff

Analyst, JPMorgan Securities LLC

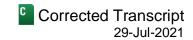
Great. And then my final question here, Michele, you mentioned that the back half of 2021 RevPAR guidance implies getting back to [ph] 90% (00:27:57) of 2019 second half RevPAR levels. Does the 3Q – is that much higher as a percentage? And kind of where I'm going with this is trying to understand sort of the mix between leisure and your business in 3Q as it transitions to the 4Q mix. But is that how you're looking at it? Is that as a percentage of 2019 3Q will be stronger than 4Q because of the mix or is there something else that you need to be mindful of when thinking about it as a percentage of 2019 between those two quarters?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

No, Joe. I think you have it. In the third quarter, we certainly have our greatest pricing power and so that will definitely be a higher overall RevPAR than the fourth quarter. I do not think our – actually, I know our business and leisure mix does not change dramatically between the third quarter and the fourth quarter. So it really just

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comes down to overall demand levels and then the ability to push the price based upon those demand levels. If you think about it from a seasonality perspective though at the EBITDA line, the 2019 we generated about 30% of our full year EBITDA in the third quarter and about 22% in the fourth quarter. I would expect that 2021 would follow a similar pattern.

Joseph Greff Analyst, JPMorgan Securities LLC	Q
Thank you.	
Michele Allen Chief Financial Officer, Wyndham Hotels & Resorts, Inc.	A
You're welcome.	
Operator : And we'll take our next question from Stephen Grambling vour line is open.	vith Goldman Sachs. Please go ahead.
Stephen Grambling Analyst, Goldman Sachs & Co. LLC	Q
Hey. Good morning. Thanks for taking the question.	
Michele Allen Chief Financial Officer, Wyndham Hotels & Resorts, Inc.	A
Good morning.	
Stephen Grambling Analyst, Goldman Sachs & Co. LLC	Q
Analyst, Goldman Sachs & Co. LLC	and and store of the levels in a single

I guess as you think about the strength of your RevPAR index across brands and strength of the loyalty bookings, I guess where are you thinking about reinvesting back into the system and other opportunities to either change, improve or monetize the loyalty program in a recovery?

Geoffrey A. Ballotti

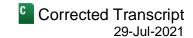
President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.

Sure. Thanks for the question, Stephen. There is absolutely opportunity to both continue to invest in driving our RevPAR index. We think that what we've talked about before in terms of the investments we've made on the technology and the marketing front, we've talked on the last call – I won't go through them again – the four big investments we made on the customer data platform on our Salesforce Lightning rollout on our mobile booking app, on our Wyndham Direct billing solution, which is going to be so important moving forward, we think, for gaining more share from infrastructure accounts and the continued investments we're making on technology.

I mean this quarter we rolled out new property management cloud options through OPERA Cloud, and we believe Sabre Property Hub will have the fastest check in and check out and will be the first for economy midscale hotels with single image inventory not requiring any two-way interfaces. So those are all, we believe, investments that have been driving that outsized share gain that we've seen up another 300 basis points this quarter.

In terms of what we're doing on the Wyndham Rewards side, we've talked a lot about how we are attracting younger travelers. We are seeing our marketing teams cast a much wider net, as we talked about in our script, to

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target millennials to really move them up the marketing funnel. I mean video play is massive right now in terms of the role it's playing and attracting those travelers. And we're really leaning into insights on automation with Google, for example, across all of their search and display and YouTube channels to get a much clearer picture of where demand is coming from.

And on Alphabet's call yesterday that they – or two days ago, two nights ago, they talked about Wyndham driving 2 times the number of direct bookings at a lower cost of acquisition, which is generating incremental impressions that millennials are seeing on their devices. So to the extent that we could roll those millennials into Wyndham Rewards, we believe that we could continue to grow. And we added another 2 million members this quarter to Wyndham Rewards. We could continue to grow that program and grow that all-important share of occupancy, which is now contributing roughly one out of every two check-ins.

Stephen Grambling Analyst, Goldman Sachs & Co. LLC	Q
That's helpful.	
Michele Allen Chief Financial Officer, Wyndham Hotels & Resorts, Inc.	A
Yeah. And I	
Stephen Grambling Analyst, Goldman Sachs & Co. LLC	Q
And just a follow-up to Joe's. Well, go ahead.	
Michele Allen Chief Financial Officer, Wyndham Hotels & Resorts, Inc.	A

No, I would just add to that, where we continuously evaluate the loyalty program to determine the relevance of it, given current market dynamics. And from an investment perspective, Geoff hit on all the key points for how we're investing and capturing greater market share. And I would also say we are making investments on the development side. You know that we had already increased the amount of money we allocate to development advances. And so we're now earmarking \$40 million a year for that. And we are looking at deploying that capital, not only to attract new developers but also to attract developers that previously had not done business with us before as well as to continue to improve the overall quality of our brands.

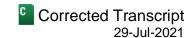
Stephen Grambling Analyst, Goldman Sachs & Co. LLC

That's helpful. And maybe that's a good segue in terms of a follow-up to Joe's question on that unit growth. Are you still seeing or have you seen any changes in the financing market for new construction?

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

Well, we're finding that financing is still out there for franchisees that are looking to develop. We haven't seen any developments in our pipeline fall out yet because anything different than or anything out of the ordinary from the past. And there certainly is we believe still opportunity out there, especially within our community for financing. It's a very, much more localized and regionalized lending environment than it is in the more upper upscale markets.

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Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Super helpful. Thanks so much.

Geoffrey A. Ballotti

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

Thanks, Stephen.

Operator: And we'll take our next question from Gregory Miller with Truist Securities. Please go ahead. Your line is open.

Patrick Scholes

Analyst, Truist Securities, Inc.

Thank you. Good morning, Geoff and Michele. [ph] I'm (00:34:37) Patrick Scholes. I'd like to start off with hotel staffing and labor costs. Well, this is obviously a big industry topic. Could you share how material of an issue this is for your franchisees today? And is it fair to say that the challenge to rehire is less of a headwind for many of your economy and midscale hotels?

Geoffrey A. Ballotti

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

I think it is fair – Greg (sic) [Patrick] (00:35:00), thanks for the question – for our economy and midscale hotels. It's certainly, as we talked about on the last call, much less of an issue in the select service space. Our economy in midscale hotels do not have restaurants. They do not have banqueting halls. They do not have convention facilities. And look, labor has been an issue in this industry long before the pandemic.

Before COVID back in 2019, our industry had 10 million jobs available and only 9 million of them were filled. But it is certainly at what is estimated to be in the economy segments, 12% of gross operating revenue from a cost basis, to your question, versus 35% of gross operating revenue for the overall US industry. It's still very much an issue. And it's been the driver of so much of what our teams have been working on. The elimination of breakfasts for our large economy brands, which have reduced our economy breakfast costs for our franchisees by around 50%.

The stay-over cleaning on request, which has certainly helped and been embraced by our Franchise Advisory Councils, and we'll continue to focus on and trying to eliminate other costs as we move to more digital to drive additional savings for our franchisees. But, yeah, I mean our industry needs more housekeepers. We need more guest service agents. We need more culinary team members, and our operation support teams are working very hard, educating our owners on what they can be doing from a daily labor monitoring basis.

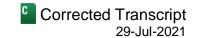
We've got a lot of tools and software out there. What we could be providing to attract employees and associates, better benefits, worker flexibility and how we could leverage staff among neighboring hotels. Our franchisees, our small business owners are working very hard at recruiting and trying to get the word out on just what a great industry this is.

Patrick Scholes

Analyst, Truist Securities, Inc.



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I appreciate all the insights and since you mentioned the housekeeping piece, as my follow-up, do you anticipate following one of your peers in making the overnight housekeeping cleaning permanently optional for your hotels?

Geoffrey A. Ballotti

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

I think that's where the industry is heading – again, working with our Franchise Advisory Councils, we are providing room cleans on a request basis, which has been well received by obviously franchisees but also by guests right now in terms of guests not necessarily wanting folks in. We're certainly as a standard providing a clean on longer stay-overs on every third day. But, yeah, I think your point's well taken. I think that's probably where this industry is headed.

Patrick Scholes

Analyst, Truist Securities, Inc.

Right. I appreciate all the color. Thanks.

Geoffrey A. Ballotti

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

Thanks, [ph] Rick (00:38:01).

Operator: And we'll take our next question from Ian Zaffino with Oppenheimer. Please go ahead. Your line is open.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Hi. Great. Thank you very much. This might be a question maybe for Michele. On the free cash flow generation, I guess, can you just talk about the roll-off of some of the costs and how are we supposed to be looking at free cash flow going forward? I know there's integration hits. There was other onetime items. Just help us think about going forward the puts and takes, potential one-timers, et cetera? And I have some follow-ups. Thanks.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Sorry, Ian. It's actually pretty simple. All of those special item cash outlays, those one-timers are behind us. So at this point, we should just be converting cleanly from EBITDA. Our guidance implies – actually, our guidance is approximately 55% of our adjusted EBITDA will convert to free cash flow. And that's what you should expect for 2021.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Okay. And then, when you talked about net room growth, can you actually disaggregate that maybe between terminations, strategic removals, gross adds I guess, and then also just as one more follow-up [indiscernible] (00:39:29) in there is how you're kind of pacing versus your \$40 million of cost saves target. Thanks.

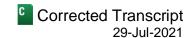
Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

On the \$40 million of cost saves, our outlook assumes full achievement of that \$40 million and we're tracking precisely on target to that achievement. I'll hand the call over to Geoff to talk about net room growth.

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Geoffrey A. Ballotti

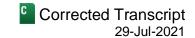
President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.

Yeah. We would expect that the 4Q is always our heaviest quarter for openings, Ian, and we would expect that we're pacing right where we wanted to be on termination, 60% fewer than last year and over 20% fewer than in the second quarter. So we do believe we're on track to get back to that economy and midscale segment leading 95% retention rate that we've always – what we enjoyed in 2018 and 2019. In fact, back in 2019, we were heading domestically to that 96% retention rate. So, again, we're pleased with the progress and we think we're in line with the 2021 net room growth expectations.

lan Zaffino Analyst, Oppenheimer & Co., Inc.	Q
Perfect. Thank you very much.	
Michele Allen Chief Financial Officer, Wyndham Hotels & Resorts, Inc.	A
And there should be no additional strategic terminations.	
lan Zaffino Analyst, Oppenheimer & Co., Inc.	Q
Okay, great. Thanks, guys. Appreciate that.	
Geoffrey A. Ballotti President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.	A
Thanks, Ian.	
Operator: We'll take our next question from Michael Bellisario with Baird. Please go ahea	d. Your line is open.
Michael J. Bellisario Analyst, Robert W. Baird & Co., Inc.	Q
Thanks. Good morning, everyone.	
Geoffrey A. Ballotti President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.	A
Good morning, Mike.	
Michael J. Bellisario Analyst, Robert W. Baird & Co., Inc.	Q
Just wanted to go back to your comments on the development front [ph] and also kind of pa what you're seeing in terms of signings, so maybe could you dig a little deeper into what's go versus internationally, and if maybe you're seeing any relative weakness abroad given the versus the better performance that you're seeing stateside, that'd be helpful.	going on domestically
Geoffrey A. Ballotti	Λ

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

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Yeah. We've been very pleased and surprised actually with, despite what we're seeing in the press in terms of sluggishness, how the pipelines have built across the world. But to begin domestically, our pipeline, as we talked about, was up about 6% domestically and 6% internationally year-on-year. And it was up on a sequential basis more internationally up 230 bps, internationally up 70 bps sequentially.

Domestically, we saw a 6% growth year-on-year, as I said, but a 20% growth in conversion which was great to see. Our China pipeline year-on-year was up 11% and our Latin America pipeline was up 15%. And in Latin America, our conversion pipeline was up 23%. Europe was, from a conversion standpoint, our biggest standout. The pipeline was up 16%, but conversion rooms were up over 75% with Ramada being a real big beneficiary of it. So conversion rooms in the pipeline were up, both sequentially and year-on-year. And I guess what we were somewhat surprised with was still the growth of new construction.

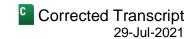
Our new construction pipeline grew 4% from 135,000 rooms to over 140,000 rooms. And we've been focused internationally on certainly as we have opened new offices, we've been adding more franchise sellers. They've been focused on direct franchising, and we've been adding a lot of new brands to countries that they haven't been in before.

Since our spin, we've added brands to 50 countries where we haven't sold direct franchising agreements before, and we're seeing a lot of success overseas as we certainly have on a new construction basis here in the US with our new construction brands La Quinta, Microtel, and our dual La Quinta and Hawthorn Suites brand.

Michael J. Bellisario Analyst, Robert W. Baird & Co., Inc.	Q	
Got it. That's helpful. And then just one more for me just on the master franchise agreements that you have in China, has your view changed at all on that potential investment opportunity? And maybe how do you weigh some of the headline risks that seem to have resurfaced recently there?		
Geoffrey A. Ballotti President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.	А	
Well, on the headline		
Michele Allen Chief Financial Officer, Wyndham Hotels & Resorts, Inc.	А	
Our view hasn't		
Geoffrey A. Ballotti President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.	A	
Yeah. Go ahead, Michele.		
Michele Allen Chief Financial Officer, Wyndham Hotels & Resorts, Inc.	A	
No. Please, Geoff, you first.		
Geoffrey A. Ballotti	Δ	

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

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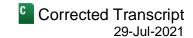


Yeah. I mean we're certainly monitoring the headline risk, but we are certainly not anticipating or seeing anything that is impacting us on the development front. Michele?

Michele Allen Chief Financial Officer, Wyndham Hotels & Resorts, Inc.	Д
Yeah. And I would say our view hasn't changed. We continue to be the logical buyer of that master franchise agreement. But at this point, we're happy with the production and how they're growing the system.	!
Michael J. Bellisario Analyst, Robert W. Baird & Co., Inc.	Q
Understood. Thank you.	
Geoffrey A. Ballotti President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.	Д
Thanks, Mike.	
Operator : We will take our next question from Dany Asad with Bank of America. Please go ahead. Your line open. And Dany Asad with Bank of America, your line is open.	e is
Dany Asad Analyst, BofA Securities, Inc.	Q
Hey, good morning, Geoff and Michele.	
Geoffrey A. Ballotti President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.	Д
Hey, Dany.	
Dany Asad Analyst, Both Securities, Inc.	Q
I'm just trying to think of the undercurrents below that RevPAR expectation of being 10% below 19% for the ball of the year. Can you just help us understand the cadence of that progression, whether it's domestic version international or leisure versus corporate, through the balance of the year?	
Geoffrey A. Ballotti President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.	А
Sure. Yeah, I'll start.	
Michele Allen Chief Financial Officer, Wyndham Hotels & Resorts, Inc.	Д
Sure.	
Geoffrey A. Ballotti Procident Chief Eventhin Officer & Director, Wordham Hotels & Records, Inc.	Д

I mean it's the question on everybody's mind, and then I'll let Michele give her thoughts on cadence and tie it back to the outlook that she talked about. I mean, look, we believe leisure demand, Dany, is going to stay very strong

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into the fall for all the reasons that we've talked about, the pent-up demand, the working from anywhere, longer multi-night bookings, longer average length of stay. We believe domestic economy RevPAR will continue to outpace all of the other segments as it has for the past four months. And certainly through the COVID case spikes of the last fall, if you look at slide 7 in our IR deck that we sent out last night, you'll see that those spikes have not stalled that demand.

And we also feel that our type of business traveler, who just never stopped traveling throughout the pandemic, will continue to travel and into the fall and could certainly accelerate with the pending infrastructure package that was approved by the Senate [ph] that – or (00:46:20) there's still some work to do there but moving along. But when we look at on an overall basis our domestic RevPAR, we believe that will continue to trend how it's trending now.

And internationally, we're certainly seeing good fundamental pick-up with China leading the way and with US airlift to Europe picking up and certainly inter-European lift picking up from the TUIs and the easyJets and the Ryans. We're seeing Germany improve from down 70% in June to down 50% July month-to-date. UK has been the standout, which was down 30% in June. It's down only 10% July month-to-date. And where we have significant presence in countries like Turkey, we're seeing significant improvement there as well, much of that being fed by leisure demand.

Dany Asad Analyst, BofA Securities, Inc.	C
Thank you very much.	
Operator: And our final question comes from Alton Stump with L	ongbow Research. Please go ahead.
Alton K. Stump Analyst, Longbow Research LLC	C

Great. Thank you. Hey, good morning, everyone. Congrats on the quarter. I guess as a follow-up to that last question or to the discussion, of course, you mentioned although it's only obviously a three-week period but that you were up 7% domestically. [ph] What's your (00:47:47) outlook on what domestic could do in the back half versus 2019? Obviously, of course, you mentioned down 10% overall, but I would presume that we'll probably see positive domestic growth or [indiscernible] (00:48:01) based on that to get you down 10% overall.

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

I think we will absolutely see stronger domestic performance than we see in the back half than international, although our guidance does assume continued strength in the US and improving trends overseas. So, yes, I think the domestic number will be much stronger than the international number.

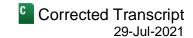
Alton K. Stump

Analyst, Longbow Research LLC

Great. Thank you, Michele. And then just as a quick follow-up on that, I just kind of see occupancy versus ADR [indiscernible] (00:48:33) fourth quarter, is there anything that you would rather see improve faster or is it just a matter of both improving [ph] and see more (00:48:40) pace?

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

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Yeah. We'd love to see them both improve faster. But we are very, very pleased with how our franchisees have been optimizing rate in this growing demand environment. And that is something we expect to continue to see throughout the rest of the year.

Alton K. Stump

Analyst, Longbow Research LLC

Okay. Great. Thanks, Michele.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Thank you.

Operator: There are no further questions. I'll turn the call back over to Geoff Ballotti for any closing remarks.

Geoffrey A. Ballotti

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

Thank you, Ashley, and thanks, everybody, for dialing in. We look forward to speaking with many of you in the weeks ahead and hopefully seeing a few of you at the Asian American Hotel Owners Association conference next week in Dallas, where Michele and I will be in the booth all week with our franchise sales team.

And then the following week, we'll be down in Greensboro, North Carolina with our top customers and developer prospects at historic Sedgefield Country Club for the playing of the 15th Wyndham Championship at the last stop on the PGA TOUR before the playoffs. And you could certainly catch it live on the Golf Channel and CBS from August 12 through the 15th. Enjoy the rest of your summer, everyone, and thanks again for your interest in Wyndham Hotels & Resorts.

Operator: Thank you and this does conclude today's program. Thank you for your participation. You may disconnect at any time.

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