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Wyndham Hotels & Resorts, Inc. (WH)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Wyndham Hotels & Resorts Second Quarter 2023 Earnings Conference Call. At this time, all participants have been placed on a listen-only mode and the floor will be open for your questions following the presentation. [Operator Instructions]

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

Matt Capuzzi

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

Thank you, operator. Good morning and thank you for joining us. With me today are 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'll also be referring to a number of non-GAAP measures. Corresponding GAAP measures and a reconciliation of non-GAAP measures to GAAP metrics are provided in our earnings release, which is available on our Investor Relations website at investor.wyndhamhotels.com. We are providing certain measures discussing future impact on a non-GAAP basis only, because without unreasonable efforts, we are unable to provide the comparable GAAP metric.

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

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

Geoffrey A. Ballotti

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

Thanks, Matt, and thanks, everyone, for joining us this morning for our second quarter earnings call. This quarter marked our fifth year as a public company since our spin-off from Wyndham Worldwide in 2018. Five years later, we're a significantly stronger company with a much more simplified business model. We've moved from a franchise and managed hotel company to a pure play franchise business, having sold our own hotels and exited the US Hotel Management business along with all of our management guarantees and performance commitments.

As the world's largest hotel franchise company whose growth continues to accelerate, our teams have so much to be proud of. Over the past five years, we've launched, acquired, and integrated five new brands, bringing our portfolio to 24 brands globally in every segment of the industry from economy to luxury. With the industry's number one loyalty program, as named by U.S. News and World Report just this week, Wyndham Rewards is now driving nearly one out of every two check-ins domestically for our franchisees.

Our brands are marketed under the by Wyndham umbrella marketing banner that is searched roughly 2 million times each and every day. We've expanded into over 55 new countries, debuting our brands more than 100 times in countries where they've never been before, while expanding our global development pipeline by over 50% to 228,000 rooms and nearly 1,850 hotels.

Despite the impact from COVID, we had driven gross unit additions at an average annual growth rate of over 7% over these past five years, and we've improved our franchisee retention rate from 93% to over 95%, with the industry's leading retention rates in the economy segment.

From an earnings standpoint, we've grown our adjusted EBITDA by over 70% and we've improved our franchise margin from 65% to over 80%. We've proven ourselves as a company dedicated to the long-term success of our franchisees, team members and shareholders, the latter of whom we've returned over \$1.6 billion of capital to since listing on the NYSE or approximately 27% of our market cap at spin.

After eight strong quarters of consistent earnings growth coming out of COVID and a very strong first quarter of 2023, our second quarter was no exception. Globally, RevPAR grew 7% in constant currency. Net rooms increased 4%. Our development pipeline grew by 1% sequentially and by 10% to prior year. And adjusted EBITDA increased 8% on a comparable basis. We generated \$74 million of free cash flow and we returned another \$139 million of capital to our shareholders.

Demand growth and recovery overseas was especially strong. Occupancy improved 16% year-over-year and RevPAR grew 34%. China is now at 99% of 2019 RevPAR levels, driven by strong leisure bookings over the May Labor Day and Dragon Boat Festival holidays. US RevPAR is now normalizing against the record comps we saw last year, yet growth versus pre-COVID levels has remained strong.

We saw growth of 9% in April, moderate to 6% in May and then rebound to 10% in June, and July month-to-date stands at 12%, a 200-basis-point acceleration from June. Fundamentals remain strong and our select-service brands continue to outpace their full-service counterparts across the industry by 300 basis points in the second quarter.

Recent economic data continues to build our confidence for future demand and booking trends. June's Consumer Confidence Index increased 7 points, showing positive movements in both the present and future expectation components while, at the same time, US unemployment remains at its lowest levels since the 1960s. Our middle class guests with average household incomes of over \$90,000, nearly 30% above the US median, have seen wage and savings growth of approximately 20% and nearly 30%, respectively since 2019. And with their wage growth outpacing the rate of inflation since the start of 2019, they continue to allocate a higher share of their wallets to travel.

July month-to-date Google search volume for affordable travel is running 8% ahead of last year. When combining the strong leisure travel trends with a double-digit increases versus 2019 that we continue to generate from the infrastructure accounts who drive over 20% of our franchisees revenues, we remain bullish about our growth prospects in the quarters and years ahead.

We grew our overall system for the 10th consecutive quarter by 1% sequentially and by 4% versus prior year. With strong conversion and solid new construction activity, we opened nearly 18,000 rooms in the quarter, which was 23% higher than last year and 10% higher than 2019. Year-to-date through June 30, we've opened 198 hotels, opening more than one hotel each and every day. We improved our franchisee retention rate by another 20 basis points from where it stood at the same time last year which, when combined with the consistency of our strong openings performance, position us solidly on track to achieve our full-year net room growth outlook of 2% to 4%.

Here in the United States, we grew our system for the eighth sequential quarter, including another 100 basis points of sequential growth in a more revenue-intense midscale and above segments this quarter. We added over 6,400 rooms, including the Hawthorn Suites, Houston and Kingwood near George Bush Intercontinental Airport and La Quinta, Manchester, Tennessee, near the Jack Daniel's Distillery, both new construction openings. Internationally, we opened 66 hotels, 14% more than last year, and we grew net rooms by over 9%.

Our Latin America team grew net rooms by 2% sequentially and by 17% versus prior year, adding some fantastic new leisure and new business destinations, like the new construction, TRYP by Wyndham in the heart of Brazil's capital city, Brasília. Our EMEA region drove over 1% of sequential and over 9% of year-over-year organic net room growth with quality second quarter conversions, like our first Ramada resort in Cyprus, our first Trademark Collection in Turkey at Istanbul Airport, and our first Registry Collection resort on the Aegean Sea in Greece.

In Southeast Asia and the Pacific Rim, which increased their system by 7% sequentially and by 12% year-over-year, we opened six new hotels this quarter, including the Wyndham Grand Phu Quoc, a luxurious 1,400 room newly-built conversion hotel on Vietnam's largest island in the Gulf of Thailand, which has seen exponential tourism growth in recent years. And in China, which experienced a 4% sequential and a 13% net room growth in our direct franchising system, we opened 10 new construction hotels along with 30 conversion hotels, which was 19 more than last year, including the beautiful new Wyndham Garden Shenzhen located in the central business district next to Huawei's world headquarters.

We grew our development pipeline 1% sequentially and by 10% versus prior year to a record 228,000 rooms and nearly 1,850 hotels, marking Wyndham's 12th consecutive quarter of sequential pipeline growth. Our teams

awarded over 175 contracts for approximately 24,000 room additions, 6% ahead of last year and 7% higher than 2019. Over 70% of our pipeline is in the higher revenue-generating midscale, upper midscale, upscale, upper upscale and luxury chain segments.

Finally, on the ECHO Suites Extended Stay front, over the past few weeks, we awarded another 60 new contracts to established and experienced developers, including what will be the brand's first hotels in Canada. Our ECHO Suites by Wyndham brand has now a global pipeline of 265 hotels and approximately 33,000 rooms. Internationally, our teams executed 21% more rooms in the second quarter than they did in 2019, with similar growth in both conversion and new construction hotel deals, led by our Latin America region and our China direct franchising business.

For the ninth consecutive quarter, revenue from our general infrastructure related business accounts increased double digits versus 2019, reflecting both higher ADRs, as well as an increase in our capture rate, as the earmark spend from the infrastructure and CHIPS Act is yet to be deployed into market in a meaningful way. As we prepare for the acceleration of infrastructure spending in the months and years ahead, we've expanded our sales teams by 25%.

We've enhanced our digital capabilities to drive more leads and we've invested in new technology to enable seamless bookings for these infrastructure workers. As a result, we're seeing a promising leads generated for our hotels are up 15% year-over-year and the number of new accounts acquired are up nearly 20%. These investments are paving the way for significant revenue growth from this category over the next handful of years.

In closing, Q2 was another strong quarter that saw continued improvement in global RevPAR, executions, openings, retention and net room growth, both domestically and internationally. Of all the accomplishments that our team members have achieved this quarter and throughout each of the last 20 quarters since becoming a public company, there is no greater accomplishment than fostering a more diverse global community, while living our core values of integrity, accountability, inclusivity, caring and fun.

We can now say that at midyear, we have been named for 2023 as one of Newsweek Magazine's Global Most Loved Workplaces, one of the Ethisphere's World's Most Ethical Companies, and one of DiversityInc's 50 Companies for Diversity. And none of this, none of this would be possible without the constant support and engagement of our franchisees and team members and engagement level, which has never been stronger, and Wyndham Hotels & Resorts last five years as a public company.

And with that, I'll turn the call over to our CFO, Michele Allen. Michele?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

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

Before we get started, let me briefly remind you that the year-over-year comparison of our financial results is impacted by the sale of our owned hotels and the exit of the select-service management business, as well as the timing of our marketing fund spend. This year, our marketing spend has returned to a more normalized pace. In contrast, last year's spending pattern was significantly dampened by concerns regarding the potential impact of the Omicron variant on demand.

Though we have now lapped the owned hotel sales and select-service management business exit, the marketing fund variability will impact the quarterly year-over-year comparisons for the remainder of 2023. To enhance transparency and provide a better understanding of the results of our ongoing operations, consistent with last quarter, I will be highlighting our results on a comparable basis, which neutralizes these impacts.

We generated \$358 million of fee-related and other revenues, compared to \$354 million last year, which included \$12 million from the select-service management business and owned hotels. On a comparable basis, fee-related and other revenues increased 5% year-over-year which, as expected, included an adverse timing impact of 300 basis points relating to revenue recognition in our loyalty program. Royalties and franchise fees grew 7%, while license and ancillary fees grew 10%. Adjusted EBITDA was \$158 million in the second quarter, compared to \$175 million last year, which included a \$3 million contribution for risk management business and owned hotels.

The year-over-year change was also impacted by \$27 million of marketing fund timing. As I mentioned, with marketing spend returning to a more normalized cadence this year, marketing expenses in the second quarter of 2023 exceeded revenues by \$15 million, while marketing revenues exceeded expenses by \$12 million in the second quarter last year. On a comparable basis, adjusted EBITDA increased 8% year-over-year, primarily reflecting our revenue growth, and our adjusted EBITDA margin improved 40 basis points.

Second quarter adjusted diluted EPS was \$0.93, up 10% on a comparable basis, reflecting our adjusted EBITDA growth, as well as benefits from our share repurchase activity, which were partially offset by higher interest expense. In the second quarter, our global RevPAR grew 7% on a constant currency basis, driven by continued ADR growth and strong demand recovery overseas, especially in Asia Pacific and EMEA.

US RevPAR was down 1% year-over-year and up 8% versus 2019, which is a 30-basis-point acceleration from first quarter performance. Second quarter trends in the US represented a moderation of the robust leisure travel growth we saw last year, which largely favored the select-service chain scale. Now, as travel habits are normalizing, we're seeing a revival in cruise, center city and international vacations, partially counterbalancing the robust summer demand our hotels experienced last year, particularly in Florida and across the South Atlantic region.

Our select-service brands continue to be the strongest performing segment in the industry, as Geoff mentioned outpacing the full-service segment by 300 basis points in the second quarter. Internationally, RevPAR came in stronger than expected, accelerating from a constant currency growth rate of 20% versus 2019 in the first quarter to 33% in the second quarter with over 10 full points of occupancy opportunity ahead for demand to return to pre-COVID levels.

In China, RevPAR was at 99% of 2019 levels during the second quarter, Southeast Asia and the Pacific Rim was at 97% and EMEA, LatAm and Canada were all meaningfully above 2019 levels. Sequentially, international occupancy improved to 89% of 2019 levels from 84% in the first quarter. This improvement was driven by an acceleration of demand in China, which improved to 83% of 2019 levels from 76% in the first quarter.

Before I move on to cash flow, let me quickly discuss the current financing environment for our franchisees. Financing for well-established borrowers remains generally available, particularly at the community bank level, where approximately 70% of our new project starts are financed. And despite more than a 50% decline year-over-year in industrywide buy-sell transaction volumes, our teams not only opened 23% more rooms this quarter than they did last year, they also executed 6% more rooms year-over-year and 7% more than 2019. We continue to monitor this situation, and although it has not had a meaningful impact on our business, we have a variety of programs ready to assist owners if necessary.

On to free cash flow. We generated \$74 million in the second quarter and \$158 million year-to-date with a free cash flow conversion rate from adjusted EBITDA at 52%. We are solidly on track to achieve our goal of converting 50% to 55% of full-year adjusted EBITDA to free cash flow which, at the adjusted net income line item, translates to approximately 100%. We returned \$139 million to our shareholders during the second quarter of 2023 through \$109 million of share repurchases and \$30 million of common stock dividends.

Given the depressed share price in the second quarter, we opportunistically repurchased twice the amount we bought back in the first quarter. Year-to-date, we have repurchased 2.4 million shares of our stock for \$165 million. We ended the quarter with approximately \$800 million in total liquidity and our net leverage ratio of 3.2 times was at the lower end of our target range.

In the second quarter, we took advantage of a narrow window to refinance our \$1.1 billion Term Loan B Facility that was set to mature in May 2025. This debt was replaced with a new Term Loan B Facility of the same amount which will now mature in May 2030 and carries an interest rate of SOFR plus 225 basis points. As a result of this transaction, we moved our next material debt maturity to 2027, increased our weighted average maturity from 3.2 to 6 years, and reduced our debt payments to only \$125 million over the next three years.

Our capital allocation strategy is unchanged. We remain disciplined on the core tenet of our M&A strategy and will pursue transactions that are complementary to our existing brand portfolio and accretive from an earnings and net room growth perspective. We will also continue to incentivize franchisees to invest in new brand prototype designs to improve our overall brand equity which, in turn, helps increase our retention rate. And as usual, any excess cash will be returned to shareholders.

Now, turning to outlook. We're refining our full-year 2023 outlook to reflect the impact of second quarter share repurchases, as well as higher interest expense, resulting primarily from the Term Loan B refinancing. First, our outlook for RevPAR, net room growth, revenue and adjusted EBITDA all remain unchanged. We now expect interest expense to be in the range of \$100 million to \$102 million, \$6 million higher than our prior outlook and, as a result, have reduced our adjusted net income outlook to a range of \$336 million to \$348 million.

Adjusted diluted EPS is projected to be \$3.92 to \$4.06, unchanged versus our prior outlook as a result of our second quarter share repurchase activity. This outlook is based on a lower diluted share count of 85.8 million shares and, as usual, excludes any future potential share repurchase activity. Our outlook for free cash flow conversion rate also remains unchanged, as do our expectations for the marketing fund's contribution of \$10 million on a full-year basis, however, I do want to provide some color on the projected quarterly impacts.

We expect fund revenues will outpace fund expenses by approximately \$29 million in the back half of the year at approximately \$10 million to \$15 million per quarter to arrive at our estimated full-year underspend of \$10 million, which will complete our recovery of the \$49 million investment that we made back in 2020.

In closing, our business continues to operate above 2019 levels with additional room for improvement, given occupancy levels here in the US and internationally. We produced another quarter of solid adjusted EBITDA and free cash flow, significantly increased capital returns, and strengthened our balance sheet and financial flexibility through the refinancing of our Term Loan B Facility. As we enter the second half of the year, we are confident that our resilient and simplified business model positions us well to deliver on shareholder commitments in any environment.

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

QUESTION AND ANSWER SECTION

Operator: The floor is now open for questions. [Operator Instructions] Thank you. Our first question comes from Patrick Scholes with Truist Securities. Please go ahead.

Patrick Scholes

Analyst, Truist Securities, Inc.

Hi. Good morning, Geoff and Michele.

Geoffrey A. Ballotti

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

Good morning.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Good morning, Patrick.

Patrick Scholes

Analyst, Truist Securities, Inc.

Good morning. A couple of questions here. First one, you've certainly, over the years, made strong progress with the retention rate, stands at about 95% right now. Do you see further opportunity to improve that or would you think of that as a steady-state equilibrium?

Geoffrey A. Ballotti

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

No. We certainly see opportunity to improve that rate, Patrick. As you point out, it has moved both domestically and internationally in the right direction, and globally, we've moved it from 93% to 94% to over 95%. And just over the last 12 months, we've seen 20 basis points of retention improvement. Our longer-term stated goal is to move that to 96%.

Patrick Scholes

Analyst, Truist Securities, Inc.

Okay. Great. And then just two other quick questions here. Michele, you had mentioned about programs to assist potential franchisees. Without giving away the secret sauce, if I were a franchisee needing such assistance, what would, at a high level, some of those programs be?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Yeah. Well, Patrick, as you know, our business is highly cash generative and we're always looking for ways to reinvest that cash back into the business. So, we're happy to put more money to work when the ROI makes sense for both us and the owner. And typically, that has come in the form of [indiscernible] (00:24:11), but we could easily adapt that in the current economic environment.

We have a newly implemented program with a reputable lender to source construction financing, for example. We won't disclose too many details, obviously, as you mentioned for competitive reasons as you can understand. But

the program provides a more programmatic approach to financing with Wyndham, and obviously provides our franchisees very competitive terms.

Patrick Scholes*Analyst, Truist Securities, Inc.*

Q

Okay. Fair enough. And then just last quick question. Geoff, you certainly have talked about a positive tailwind from federal infrastructure spending. Is there any way to quantify for your business, what that – how much that may have helped you so far or possibly helps you for the rest of year? Maybe not quantifiable, but just curious if you have something.

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

A

It, absolutely, we believe helped us in the quarter, Patrick. Our economy brand saw 200 basis points of weekday RevPAR index outperformance and it was a mix of both rate and occupancy. We're in, as we've talked about before, the really early innings of what will play out over the next eight years. And as we've said in our script, we've seen an uptick in inquiries, in leads and bookings. But again, it's really early days. The advance appropriation, I think for the first \$68 billion becomes available to fund starting later this year. So, as we've said, we size this over the next five to eight years is a \$3 billion revenue opportunity for our franchisees and our owners, and we begin to see it play out as early as this quarter in terms of that mid-week RPI outperformance.

Patrick Scholes*Analyst, Truist Securities, Inc.*

Q

Okay. Thank you. So, certainly sounds like a multiyear tailwind for you folks.

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

A

Absolutely.

Patrick Scholes*Analyst, Truist Securities, Inc.*

Q

I'm all set. Thank you.

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

A

Thanks, Patrick.

Operator: Thank you. Our next question comes from Joe Greff with JPMorgan.

Joseph Greff*Analyst, JPMorgan Securities LLC*

Q

Good morning, everybody. My first question is a two-parter on development. Nice to see ECHO with a chunky hotel signing this month. We look at that as a distinct positive, and obviously speaks to developer demands amid increasing limited-service brand competition. What is the value proposition of ECHO today versus these competing brands? And are you marketing, positioning, supporting it differently than, say, at the initial launch?

Then my second part, Geoff, Michele is, can you talk about China new development and new hotel signing activity? Is it backed fully? Is it still in recovery mode from a development perspective, not from a RevPAR perspective and not backed fully? And how much of second half gross room additions is coming out of China?

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

A

Okay. I'll start with ECHO and the question on competitive extended stay launches, and are we marketing it any differently? Joe, we're not and we're not seeing any impact. These competitive launches are not economy extended stay competitors. They're much bigger midscale boxes. They're over 20% larger with, oh, additional elevator banks, more larger public spaces, higher amenity requirements and operating costs. Our ECHO developers continue to believe that ECHO will drive a higher ROI due to a much lower cost per key, and that's the way we're marketing it, lower ongoing operating costs, higher gross operating profits.

And they believe, we believe that the 1.8 million companies out there contracting for accommodations for their infrastructure workers are going to be seeking economy average daily rates with average length of stays approaching over 30 nights versus that midscale and above average daily rate. It is a very large and underpenetrated segment, as you know with 15 times fewer hotels in the extended stay space than transient hotels, and we think there's plenty of space for continued room growth there.

Second part on China and China development. We're really pleased with the openings, the executions. On the development front, we opened another 3,000 direct China rooms this quarter, and those came in at three times, as you know, the license fees of our master license agreement, and that drove a 4% sequential and a 13% China direct net room growth. We opened 10 new construction hotels and 30 conversion properties.

And the 65 new China deals that we signed in the second quarter was 50% more than our record 41 deals signed back in the fourth quarter of last year and 40 were direct franchise contracts, split pretty evenly between new construction and conversion. So, we're really pleased with what our teams are seeing there in terms of the pick of development opportunities in China.

Did I miss anything, Michele on Joe's second half?

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

A

Yeah. No, Geoff. I would just say that direct franchising stat you quoted, the 40 new deals in the second quarter is 90% growth year-over-year.

Joseph Greff*Analyst, JPMorgan Securities LLC*

Q

Yes. You sufficiently answered it, Geoff. And then my second question and this one might be a little bit more difficult to answer. Someone's just going to ask it, so might as well be me. Just over a couple of months ago, The Wall Street Journal reported at that time that Choice had an interest in you guys. Geoff, have they spoken to you and the board about a combination? Has this potentially generated any other interest from other entities? Have they reached out to you and the board? We saw buyback activity accelerate in the quarter and some insider selling, and maybe that gives us, as outsiders, some indication of how legit this reporting might be. But then we also had this unusual semi-preannouncement from Choice this month. So any thoughts there would be helpful. I know it might be tough to answer. Thanks.

Geoffrey A. Ballotti

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

A

Yeah. Thanks, Joe. We never comment on speculative news articles. And look, we're focused on our business as usual and growing our business. And that's all about what we've been talking about in the script, driving value for our guests, our franchisees, and our stakeholders.

Joseph Greff

Analyst, JPMorgan Securities LLC

Q

Thank you.

Geoffrey A. Ballotti

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

A

Thanks, Joe.

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

David Katz

Analyst, Jefferies LLC

Q

Hi. Morning, everyone.

Geoffrey A. Ballotti

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

A

Morning, David.

David Katz

Analyst, Jefferies LLC

Q

Morning. So, I wanted to just double back on the pipeline, because it's a point of focus for all of us. And just making sure that deals notwithstanding the one larger one that you announced that deals are entering the pipeline at the same rate that they're passing through the pipeline, at the same rate that they're getting financing, et cetera. So, any color you can give us on how that backfill is starting progressing for the future would be helpful.

Geoffrey A. Ballotti

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

A

Sure. Thanks, David. They're entering and exiting the pipeline as they always have. As we've talked before, two-thirds of our openings come out of the pipeline each and every year. We're not seeing any issues there or any changes there. So, a larger pipeline, of course, gives us confidence into the future on accelerating our net room growth, as does the improvement as we were just talking about that we continue to make with retention.

80% of the pipeline is now new construction. And from signing to opening, it usually exits after it enters on average four years. And the other third, the conversion rooms are averaging less than a year to come out of the pipeline. But this was the 12th consecutive quarter of sequential growth. We were up 10% to last year to a record 230,000 rooms.

International signings were up very strongly, up 70% and 5% higher than 2019. And not including some multi-unit contract ECHO deals that you referenced, we still increased the pipeline 8% globally. 70% of that pipeline is in the

midscale and above. 80% of that pipeline is midscale and above, if you take out the new ECHO product. And we're not seeing any changes or any slowdown.

The new construction pipeline increased to prior year and no slowdown in new construction project starts or any drop-off in the percentage of the pipeline rooms now under construction. Actually, we have more rooms now under construction as the pipeline continues to grow sequentially. So good growth in conversion pipeline and just really consistent growth across our international regions with the highest growth coming out, if you look back to pre-COVID levels, Europe, Middle East has grown its pipeline by 60% and continues to strengthen, and Latin America has grown 70% since before 2019, especially in Mexico and the DR.

David Katz

Analyst, Jefferies LLC

Q

Understood. Thank you. And so, for my follow-up, we've all seen the RevPAR numbers in limited-service, so the lower end chain scales have shown some RevPAR weakness relative to the total. I just wonder where you fit into that and are you – you feel like you're performing in line, you're able to outperform and if you are, how are you doing it, as much as you can tell us?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Yeah. I would say, I don't think the lower end chain sales are showing weakness. I know the year-over-year comp might be a little bit more difficult, because they have recovered much faster than their counterparts. If you look – actually, if you look at it versus 2019 neutralizing for all that recovery noise, I think they're still the best-performing segment in the industry. And I would say, in the US specifically, we saw growth versus 2019 in the second quarter consistent with what we saw in the first quarter.

And then, Geoff mentioned in his prepared remarks that we're seeing July accelerate from those second quarter growth rate. So, we feel really confident about travel demand throughout the summer season. All of the leading indicators we look at remain positive. We're seeing a double-digit increase in TSA figures. We're seeing booking windows continue to advance...

David Katz

Analyst, Jefferies LLC

Q

Do you think that there's some change in how that industry data is being calculated, reported that may be part of what we're seeing?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

No, not at all.

David Katz

Analyst, Jefferies LLC

Q

Okay. Okay. All right. Thank you very much.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Thank you.

Geoffrey A. Ballotti

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

Thanks, David.

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

Brandt Montour

Analyst, Barclays Capital, Inc.

Hey, everybody. Thanks for taking my questions. So great to hear those May, June, July stats for the US. Curious when you, Michele, call out the reacceleration in July, just if you could maybe unpack that a little bit, is it more weekends versus weekdays? Is there particular strength more on the economy versus midscale and above, any extra color there?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

I think we're seeing strength across the board, certainly more weekdays strength continuing in from the second quarter, but weekends remain very strong. We're seeing pick-up in occupancy as well and then continued ADR increases consistent with what we have seen in the second quarter.

Brandt Montour

Analyst, Barclays Capital, Inc.

Okay. That's helpful. And then I want to talk about – I want to unpack the financing commentary as well on slide number 9, which is new. You guys called out not seeing a meaningful impact in terms of availability of capital for new construction financing. Your larger peers have publicly called out a change there, a lack of availability of capital. Your slide, looks like you did some extra work here over the last three months in terms of the mix of community banks [indiscernible] (00:36:32) lending practices.

I guess, if you could just put a finer point on that for us. Is the smaller footprint, is the lower chain scale, I guess, do you feel like your brands and your business is essentially a competitive advantage right now versus your broader industry set in terms of acquiring capital for construction?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Yeah. I think that's an interesting perspective for sure. I think what really drives the difference between us and some of the peers is the smaller loan size. Those have always been more akin to smaller community banks and in those banks, it's all about relationships. Our franchisees know their bank presidents by name. These banks have a deep understanding of the local economies and of the specific businesses within their communities.

At community banks, you see loan decisions typically made locally and they're typically made based on a holistic view of the borrower situation, not just one specific project and not just based on standardized criteria, which is more prevalent in larger banks that are servicing larger loan size. I'll give you a quick example. A few weeks ago, one of our ECHO developers secured a loan from a community bank, I think down in Kansas, a bank that has lend to him multiple times in the past for different business ventures within and outside of a hotel space, and he was able to get five-year paper at a 75% loan to cost and a fixed rate of 6.75%. So if you're just reading the headlines, you wouldn't think that that type of financing exists, but it's very much available at the community bank level.

Brandt Montour*Analyst, Barclays Capital, Inc.*

Excellent. Thank you.

Q

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

Thank you.

A

Operator: Thank you. We'll take our next question from Michael Bellisario with Baird.**Michael J. Bellisario***Analyst, Robert W. Baird & Co., Inc.*

Thanks. Good morning, everyone.

Q

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

Hey, Mike.

A

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

Just one more on the slide deck, a new slide. You didn't talk about it, but I think it's important that you added back the longer-term growth algorithm, the 8% to 14% range that's unchanged. So maybe just a couple part question here. How do you think about the drivers today? Why is the range maybe not higher today than it was versus what you last gave in 2019, given all the changes you've made to the business model? And then lastly, the 3% to 5% cash flow deployment, that's a big input there. Maybe how do you handicap and think about the levers within this bucket? Thanks.

Q

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

So, we've done a lot to simplify the business and we did put the slide back in, because we wanted to make sure that everyone understood, we're still looking at high-single digit, low-double digit growth on the EPS line, even though we sold our management – we've exited our management business and sold our owned hotels. So it's a more simple story, same EPS potential. And then we also wanted to show our longer-term growth prospects for net room growth at the accelerated 3% to 5% versus the old 2% to 4% pre-COVID, pre-simplification.

A

When you think about the 3% to 5% capital deployment, risks there, I think are really low. This business is highly cash generative. Even in the darkest days of 2020, we were still free cash flow positive and we were free cash flow positive without having to do any forward point sales or anything that was taking from our future cash flow generation capability. So, we feel very confident in our ability to generate cash and redeploy that capital to generate sizable EPS growth.

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

Q

Got it. And then just one follow-up on buybacks. Leverage went from 3 times to 3.2 times. If the stock plus or minus remains in the same range, how comfortable are you – where would you lever up to, to continue buying back stock if it's still at a, I think you used significant unwarranted discount level?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

We did. I think year-to-date, we've repurchased \$165 million and the second quarter repurchases were two times the amount we repurchased in the first quarter, and that was because we were leaning in as the stock was trading at a significant unwarranted discount. And if we continue to see it trade at a significant unwarranted discount like it did in the second quarter, I think it's fair to expect us to lean in on share repurchases, and we certainly have a tremendous amount of flexibility in the leverage ratio.

Where we ended the quarter, I think implies over \$300 million of additional capacity before we even move into the upper half of the stated target range. So, not going to make any hard commitments today, but you can be assured that we are willing to lean in further if we continue to see a significant unwarranted discount. And you'll note in our earnings release that our board just approved another \$400 million in authorization.

Michael J. Bellisario

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

Q

Thanks for the color.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Thank you.

Operator: [Operator Instructions] Our next question comes from Steve Pizzella with Deutsche Bank.

Steven Pizzella

Analyst, Deutsche Bank Securities, Inc.

Q

Hey. Good morning, everyone and thanks for taking my questions. The international royalty rate was up nicely year-over-year, I believe growing 30 basis points. And even the US, I think was up 10 basis points quarter-over-quarter. Can you talk about some of the drivers there and how we should think about the royalty rate moving forward?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Yeah, sure. Geoff, I'll start. Our strategy continues to focus on growing the royalty rate within each region to ensure that we're always building on the brands regional equity in the US. The growth on the new construction prototype brands, La Quinta, Microtel, and eventually, ECHO will help us move our domestic rate forward, of course, remembering a system the size of ours will always move a little bit more gradually, given how large it is.

Internationally, we see a large opportunity from a royalty rate perspective. We expect the new deals that come into the system will come in at higher royalty rates than the legacy system in that specific region as we continue to build out our footprint in each market. And as you mentioned, we have seen improvement in our international royalty rate year-to-date and that is a trend we would expect to continue to see.

Geoffrey A. Ballotti

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

A

And there are so many places for us to grow, Steve overseas, as our brands become more aware in countries, in markets like Turkey, for example, where our Ramada was first introduced at a lower royalty rate for sale than it is today. Now, with 60, 70 hotels in the country, there's tremendous opportunity overseas. We have the most experienced franchise sales team internationally.

International continues to be a significant opportunity for us. There's, as we know, roughly 17 million rooms globally and over 50% of those are unbranded. We have a great value proposition and we're continuing to add countries to our lineup where we did not have brands before. And as again, a growing awareness, we have an continued ability long term to push that royalty rate. And we're no longer, as we've said before, looking to do master license agreement deals internationally, which were – these direct franchise deals are always coming in at three times the royalty rate than the masters were years ago.

Steven Pizzella

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Thank you. That's helpful. And then you talked about launching and acquiring new brands in your opening remarks. With the success of ECHO, can you talk about how you view that balance moving forward from maybe acquiring versus launching and any white space you still see in the brand lineup?

Geoffrey A. Ballotti

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

A

Sure. Yeah. All of the recent launches we're very pleased with. We had white space in the all-inclusive market, and with Playa, a great partner, launched Alltra by Wyndham. And now have a few thousand rooms in our pipeline there. Registry Collection was a white space for us. And without to go out and acquire brand, we launched the Registry Collection. We now have 17 hotels open and roughly 3,000 rooms in the pipeline in ECHO Suites.

So, we'll continue to look for opportunities like that, but we'll also, where opportunities present themselves, where we have markets that have a tuck-in offer opportunity for us as we saw with Vienna House to acquire, and it's a brand that we've got some really good traction on and are really, really pleased with and is adding some great opportunities for growth for us through Western and Central Europe along with the Middle East. We don't need to acquire, but when a deal comes along that's immediately accretive to where we're trading at today, we'll absolutely look at it.

Steven Pizzella

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Great. Thank you.

Geoffrey A. Ballotti

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

A

Thanks, Steve.

Operator: Thank you. At this time, we have no further questions in queue. I will now turn the floor back to Geoff Ballotti for any additional or closing remarks.

Geoffrey A. Ballotti

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

Well, thanks everybody, for your questions and your interest in Wyndham Hotels & Resorts. We were, as Michele said, very pleased with our second quarter, where we delivered adjusted EBITDA growth that outperformed expectations. Our teams couldn't be more enthusiastic about the opportunities that lie ahead and we're very confident in our ability to deliver outstanding value to our shareholders, our guests, and our franchisees.

Michele, Matt, and I look forward to talking to and seeing many of you in the weeks and the months ahead at many of the upcoming investor conferences that we'll be attending. But before we go, we'd like to remind everybody to please tune into the 84th annual Wyndham Championship from August 3 through August 6 next week, which will be airing on CBS and the Golf Channel with live coverage, beginning on Thursday of next week. Thanks again, everybody and have a great day.

Operator: Thank you. This does conclude today's Wyndham Hotels & Resorts Second Quarter 2023 Earnings Conference Call. Please disconnect your line at this time and have a wonderful day.

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