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Wyndham Hotels & Resorts, Inc. (WH)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

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

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 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'll turn the call over to Geoff.

Geoffrey A. Ballotti

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

Thanks, Matt. And thanks everyone for joining us this morning. We're pleased to report another very strong quarter where global RevPAR grew 23% to last year and 3% to 2019. Here in the United States, RevPAR grew 15% year-over-year, and internationally RevPAR grew nearly 60%. July month-to-date domestic RevPAR is running 6%, ahead of where it was back in 2019. And internationally our EMEA, Canada and LatAm regions are all running ahead.

Our guests are staying longer and spending more at our hotels than they did in 2019. And importantly, our booking windows continued to increase. Consumer intent to travel and their willingness and ability to spend remains healthy despite the broader economic concerns. We grew net rooms by 3% and our development pipeline by 9% to a record 208,000 rooms. We delivered \$175 million of adjusted EBITDA, more than we delivered in the second quarters of both last year and 2019, generating nearly \$100 million of free cash flow. And we returned \$170 million to our shareholders, bringing our year-to-date capital return to approximately \$240 million or 3% of our market cap.

We grew our development pipeline this quarter by 2% sequentially and by 9% versus prior year. This marks the eighth consecutive quarter of sequential pipeline growth as we awarded approximately 125 new contracts domestically and over 60 contracts internationally, which in total account for more than 22,000 new rooms. The number of domestic contracts signed was approximately 75% higher than what we awarded both last year and back in the second quarter of 2019. Importantly, we awarded contracts to develop another 22 hotels for our recently launched new construction extended-stay brand, which brings the total number of Project ECHO contracts awarded to 72 since its launch four short months ago.

We grew our overall system by 1% sequentially and by 3% versus prior year. We opened more rooms than last year, and once again improved our retention rate as terminations were 200 basis points lower than last year. These results were in line with our expectation and 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 size by 2% year-over-year and by 10 basis points sequentially, opening another 6,300 rooms in the quarter, including our first dual branded La Quinta, Hawthorn Suites Hotel in Pflugerville, Texas, the Wyndham Moline on John Deere Commons in Illinois, and the Origin Hotel in Austin, Texas which joined our full service upscale Wyndham brand this past June.

Internationally, net rooms grew 2% sequentially and by more than 4% versus prior year. Notably, our Latin America region grew its system size by 12% compared to prior year, which included the addition of four luxury Registry Collection resorts with over 1,500 rooms in Mexico under long-term franchise agreements with the Palladium Hotel Group.

As part of this strategic alliance signed just this month, another 5,000 franchised rooms will be added to our portfolio throughout the remainder of 2022, bringing the total to 15 upper upscale and luxury Palladium Hotels and Resorts in Mexico, Brazil, Jamaica, and the Dominican Republic joining our Registry Collection and Trademark Hotel Collection by Wyndham.

Our China direct franchising business grew its system size by 12%, including the opening of the beautiful new construction Wyndham Garden, Kunming, our first Wyndham Garden in Yunnan Province. Our Southeast Asian and Pacific Rim region grew net rooms by 3%, which included the introduction of our Microtel brand in New Zealand with the opening of the Microtel Wellington and our first Trademark by Wyndham in Vietnam. Trademark is a brand that has grown to more than 150 hotels globally in the past five years, and it's a brand that now has another 80 hotels currently in its pipeline. And finally, our EMEA region grew net rooms by 2%, including the addition of our first TRYP by Wyndham in Greece.

Our award-winning Wyndham Rewards loyalty program continues to be recognized as the number one hotel rewards program by both US News and World Report and USA Today. The program grew domestic enrollments by 8% versus prior year and by 25% versus where it stood pre-pandemic. Total membership now stands at over 95 million members, and awareness of the program increased by another 100 basis points compared to 2021, placing it among the top three most recognized of the industry's 13 major loyalty programs tracked by [ph] market test (00:07:39).

Domestically, nearly one out of every two check-ins are asking for their Wyndham Rewards points at check-ins with brands like La Quinta now approaching a 55% Wyndham Rewards share of occupancy. Revenue generated from direct bookings on our brand.com sites grew nearly 30% in the quarter compared to 2021, outpacing the rate of growth across all third-party channels, driven in large part by the Wyndham Rewards loyalty program. And we're making it easier and more convenient than ever for guests to book their vacations through the five star rated Wyndham app, which has seen a 30% growth in downloads since last year.

This quarter we launched Road Trip Planner on the app, the first ever of its kind. With its real-time functionality, guests can tell us where they want their trip to begin and where they want their trip to end. The app then provides recommendations for overnight stays along the way based on how long or how far they want to drive each day, but lets the guests choose their desired stops. They can set hotel preferences by price or by brand, and they could filter their by Wyndham Hotels selections based on multiple criteria alike, whether or not the hotel accepts pets or has, for example, truck parking. And within minutes they could book multiple stays in the same booking flow and even pay for their rooms with their Wyndham reward points, with cash or with a combination of both cash and points.

We're seeing tremendous adoption since its launch in May with guests having spent thousands of hours planning their trips. The longest trip planned so far being over 4,700 miles with multiple stays at Wyndham Hotels along the way.

From an ESG and a development standpoint, we are building on our commitment to encouraging diverse hotel ownership. We were the first major hotel company to launch a program focusing on women's advancement via our Women Own The Room program. Well now, Wyndham has become the first major hotel company to launch a similar program focused specifically on the advancement of black entrepreneurs. Two weeks ago, we announced our newest development program, BOLD by Wyndham at NABHOOD, the National Black Hotel Owners, Operators & Developers Annual Association Summit Meeting in Miami.

While black employment in the US hotel industry is nearly 20%, less than 2% of the nation's hotel owners are black. BOLD, which stands for Black Owners and Lodging Developers, aims to engage in advance more black entrepreneurs on their journey to a hotel ownership. And interest in the program to-date has exceeded our expectations.

Diversity and inclusion have always been a cornerstone of the Wyndham culture and these initiatives prove they are also advantageous from a business standpoint. All of the development efforts and awards are supported by Wyndham's dedicated ABGs or Affinity Business Groups, who along with our DE&I team continue to drive awareness and allyship throughout our organization.

Over the past few years, our teams around the world have made tremendous progress in simplifying our operating model. We negotiated an exit for our select-service management business and sold our two owned hotels. And importantly, we were able to lock in long-term franchise agreements at full fees on all of these hotels. In a moment, Michele will discuss our intended use of the related proceeds from these transactions.

At a time when our brands are performing at record levels and continuing to gain market share versus how they performed pre-COVID, our business model has never been more straightforward. 99% of our 9,000 hotels are now franchised, limiting our exposure to operating costs and capital requirements, and allowing our teams to focus on the higher margin cash-generating franchise business that we've been so successful at over the past 30 years.

And with that, I'll turn the call over now 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 an update to our 2022 outlook.

During the second quarter, our fee-related and other revenue grew to \$354 million and our adjusted EBITDA grew to \$175 million. Our overall year-over-year results are not comparable due to the sale of our two owned hotels and the exit of our select-service management business which we previously communicated. In an effort to simplify our results, I will provide commentary today around our segment performance.

Our Franchising segment grew revenue by 18% year-over-year, primarily reflecting global RevPAR growth of 23% and higher license fees. Adjusted EBITDA grew 11% as these revenue increases were partially offset by an adverse timing impact from our marketing funds.

Our Franchising margin which excludes the effects of the marketing funds, and is calculated on the same basis as our peers, remained consistent year-over-year at 85%. Fee-related and other revenue within our Hotel Management segment declined \$19 million in second quarter 2022, while adjusted EBITDA declined \$10 million, principally reflecting the select-service management, and owned hotel sale transactions which collectively contributed approximately \$20 million less in revenue, and approximately \$8 million less in EBITDA year-over-year.

Within our Corporate and Other segment, we saw \$2 million of higher expenses due to inflationary cost pressures, a reflection of the current environment. Adjusted diluted EPS improved 13% to \$1.07, reflecting the increase in adjusted EBITDA and a benefit from our share repurchase activity which was partially offset by the

impact of the sale transactions which collectively reduced EPS by \$0.04 or 5 percentage points. Excluding the impact of these transactions, adjusted diluted EPS growth was 18%.

Before moving on to free cash flow, let me take a moment to discuss current regional RevPAR trends. Global RevPAR surpassed 2019 levels for the first time during the quarter as international recovery accelerated. Pricing power has continued to improve with ADR in all regions exceeding 2019 levels and second quarter global ADR up 117% year-over-year. In the US, occupancy reached 96% of 2019 levels; in Canada 98%; in EMEA 88%; and in China 67%. Overall, global occupancy improved to 88% of 2019 levels, illustrating room for continued demand recovery.

Now turning to free cash flow, which was \$99 million for the quarter compared to \$104 million last year, reflecting the timing of tax payments. On a year-to-date basis, with this timing impact neutralized, free cash flow was \$224 million compared to \$163 million last year, up 37%. Our year-to-date free cash flow conversion rate now stands at 67%, and we remain on track to achieve our targeted 55% conversion rate.

In May, we completed the sale of our remaining owned hotel, the Wyndham Grand Rio Mar Resort in Puerto Rico for \$62 million. Based on the resort's 2019 adjusted EBITDA, the sales price represents a 19 times multiple inclusive of planned capital expenditures. There was no gain or loss on the sale as the proceeds approximated adjusted net book value. With the completion of this sale, combined with the sale of the Wyndham Grand Bonnet Creek and the exit of our select-service management business in the first quarter, we have substantially simplified our business model and generated \$263 million of capital. As a reminder, together with the free cash flow we will generate this year, we expect to have just over \$600 million of cash to deploy.

Our first priority, as always, is to invest in the business. We are actively exploring both external and organic growth opportunities. The core tenets of our M&A strategy are for deals to be accretive from an earnings and a net room growth perspective, and to be complementary to our existing brand portfolio and geographic footprint. We will remain disciplined in this approach. We expect to maintain our industry leading dividend payout ratio, of course, subject to board approval and share repurchases, which have been a particularly compelling opportunity given recent pricing, will continue to be an integral element of our capital allocation strategy.

We returned \$171 million to our shareholders during the second quarter of 2022 through \$142 million of share repurchases and \$29 million of common stock dividends. In the second quarter, we opportunistically repurchased 3.5 times the first quarter amount. We have returned approximately \$240 million of capital share – to shareholders in the first half of this year, which as Geoff mentioned, represents approximately 3% of our market cap.

We ended the quarter with approximately \$1.1 billion in total liquidity, and our net leverage ratio was 2.5 times, well below our 3 times to 4 times stated target range. Our ending cash balance of \$400 million is above our normal levels due to the proceeds we received from the select-service management and owned hotel sale transactions, all of which have yet to be deployed.

Excluding the excess cash on our balance sheet, our net leverage ratio was 2.9 times, just below the low end of our target range. With this low leverage, our \$750 million revolving credit facility recently extended to April 2027 and no maturities until mid-2025. The strength of our balance sheet provides us with tremendous flexibility, along with the means to fund strategic growth initiatives over the coming years.

Now turning to outlook. We're updating our full-year 2022 outlook to reflect future projections related to the license fees received from Travel & Leisure based on their full-year 2022 Gross VOI Sales outlook provided in April, as well as a lower share count due to our second quarter repurchase activity.

We now expect fee-related and other revenues of \$1.29 billion to \$1.32 billion, an increase of \$6 million from April's outlook, reflecting the incremental license fees from T&L. Adjusted EBITDA increased to \$6 million as well, and is now projected to be \$611 million to \$631 million. We expect adjusted net income of \$323 million to \$334 million, \$5 million higher than our prior outlook.

And adjusted diluted EPS increased \$0.12 per share and is now projected to be \$3.51 per share to \$3.63 per share based on a diluted share count of 91.9 million, which as usual, excludes any future potential share repurchases. There are no changes to our prior outlook for global net room growth, global RevPAR or for our free cash flow conversion rate.

Looking toward 2023, we have provided two new slides in our investor presentation to help with your modeling. Slide 33 provides a historical financial impact of our select-service management business and owned hotels, which will need to be adjusted from your base, and slide 35 provides revenue sensitivities.

In closing, our business is operating above 2019 levels with continued room for recovery given occupancy levels here in the US and internationally. We produced another quarter of strong adjusted EBITDA and cash flow, and we completed our goal of simplifying our business, all while strengthening our balance sheet and significantly increasing capital returns. As we enter the second half of the year, we believe our resilient business model and strong balance sheet position us well to deliver on shareholder commitments even in changing and challenging times.

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

QUESTION AND ANSWER SECTION

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

Joseph Greff

Analyst, JPMorgan Securities LLC

Q

Good morning, everybody. Geoff, I'd love to hear what the mood is among your developers, particularly in the US as well as in China, given a more challenging financing market and certainly uncertain macro. How much has changed, say here in July, in June versus earlier in the year? And then sort of the net of all this is, can the pipeline continue to grow sequentially? And if the answer is yes, what gives you that confidence?

Geoffrey A. Ballotti

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

A

Well, the answer is yes, Joe. Thanks for the question. And there's a lot of things that give us confidence. I think, look, I don't think back to the beginning of your question, developers are any less confident than they were at the beginning of the year either here in the US or in China. Our new construction signings very, very strong. We had 100 signings in the quarter. It was up 10% to 21% and it was up 32% to 2019.

And I think what gives us confidence is our economy and midscale select-service brands are selling right now here in the States at just record levels, and it's reflecting developer confidence that now is a good time to be building. And the belief is that from all of these developers that had a record year last year, they still believe

they're going to have a very good year this year, is that whatever happens in the future, I think the belief is that if you could build, now is a good time to build because we're at the very early stages of what they will – what they believe in their heart and their core will be a sustained multiyear recovery.

And we're seeing that in China as well. I mean, we opened 2,800 rooms in the second quarter, and we awarded 25% more contracts in China despite so many of our team members being locked down, I mean and doing this remotely than they did in the second quarter of 2019. I mean, this was the second quarter I believe, Michele, that they delivered over a 12% net room growth in our direct franchising business. But the demand for development contracts over there is really, really strong.

And we all know that they've got a real good ability to recover quickly coming out of this. Our team has consistently delivered over in China over the last few years, including in the first quarter where, excuse me, where it wasn't easy, but with over 60,000 direct franchise rooms in our pipeline right now, we're very bullish as well over in China.

Joseph Greff*Analyst, JPMorgan Securities LLC*

Q

Great. Thanks. And then Michele, I think it was a quarter ago, you mentioned the M&A is in the company's DNA. Can you talk about if there's anything warm, and I know you reminded us of your criteria, but I think a lot of investors were surprised to see that Choice bought Radisson, not that I would expect you and Geoff to talk about why you didn't buy a specific company that a competitor purchased. But if you can talk about the M&A landscape.

And on our numbers and our numbers even with RevPAR declining next year, we still can get to a point where the current quarterly buyback amount is sustainable going forward, is that something that you would agree with absent the M&A? And that's all for me.

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

A

Yeah. I will comment, Joe, because we get the question a lot on Radisson and I think it is important. I mean, our teams stay very close to everything that's out there, both domestically and internationally including Radisson, which we've looked at multiple times over the years. It's just never been for us over those years a strategic fit. I mean, if you – I think if you think about Radisson in terms of their portfolio, three quarters of it is here in the Americas and it's their of course Country Inn & Suites brand, which competes directly with La Quinta, which has 2 times the footprint. And of course, the other fourth of that portfolio here domestically is their full-service Radisson and their upper upscale full-service Radisson Blu product, which competes with our upscale Wyndham and upper upscale Wyndham Grand hotels.

So both Wyndham and Wyndham Grand are two very strong brands for us that are also performing very well, also with larger footprints. And I think finally, we've been successful in exiting our own real estate and our management guarantees, which would have come back with an acquisition of Radisson.

So again, having looked at it before in the past, it's never been for us strategically and it's not brands that we've ever felt we could grow more quickly than our brands, which compete with Radisson in those segments. So I'll let Michele touch on our M&A strategy, but it's really to focus on our brands that are accretive to both earnings and net room growth going forward.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Joe, so from an M&A landscape perspective, we're looking for opportunities both domestically and internationally, particularly in what we consider to be high growth markets with high demand generators out to – out into the future. And that probably looks more like smaller regional [indiscernible] (00:25:39) in the mid-scale select-service or even upscale space. But I'd also say that [indiscernible] (00:25:46) off the table if it meets our criteria. We believe that consolidation in the industry is inevitable, and size and scale matter. They matter now more than they ever have and we expect that to continue.

And then I think the last part of your question [indiscernible] (00:26:04) respect to the cadence and pace [indiscernible] (00:26:08) share repurchase volume. So [indiscernible] (00:26:11) our Q2 volume was about 3.5 times – higher than 3.5 times the volume purchased in Q1, so there was a significant uptick this quarter compared to prior. And as you know [indiscernible] (00:26:25) preference is going to be [indiscernible] (00:26:27) deploy our capital to grow the [indiscernible] (00:26:30) and we want to give our teams ample time to find those opportunities. But absent those opportunities, I think the Q2 run rate would be a reasonable assumption for the back half of the year. And of course, we would look to take advantage of any stock price volatility, which could mean we might see higher volumes in one of the quarters versus the other.

Joseph Greff

Analyst, JPMorgan Securities LLC

Q

Great. Thank you both.

Geoffrey A. Ballotti

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

A

Thanks, Joe.

Operator: We'll take our next question from Patrick Scholes of Truist Securities.

Patrick Scholes

Analyst, Truist Securities, Inc.

Q

Thank you, operator. Good morning, Geoff and Michele.

Geoffrey A. Ballotti

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

A

Hey, Patrick. Morning.

Patrick Scholes

Analyst, Truist Securities, Inc.

Q

A couple of days ago, Walmart called out some pressures on consumer spending. I'm wondering specifically with your economy brands such as Travelodge or Microtel, if you're seeing any similar pressures for those brands as well or just across your system?

Geoffrey A. Ballotti

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

A

Yeah. We're really not. I think the important differentiation, Patrick, in terms of our customers, they're not lower end consumers. They're squarely in the middle class. They represent the vast demographic of America. And what we're seeing is they're earning more and they're spending more. And certainly with unemployment near historic lows, and their wage is up from where it was back in 2019. We believe they have ample savings and resources and they are – they're wanting to travel more than ever this year. I mean, they're booking earlier. We know that they're driving further this year than last year.

And we're hearing from them. Anecdotally, we're seeing in our research that they're moving travel and experience up into their hierarchy of needs versus doing anything else with their money. And all the survey research out there, over 70% of them are saying they want to travel the same or more than they did this time last year. And look, last summer was the best summer our franchisees and those two brands or any of our domestic brands ever experienced. And if you talk to our franchisees, most are feeling that this year will be even better than last year.

Certainly we're pleased with how the summer is shaping up. July month-to-date RevPAR is up 6% to last July up until this past Saturday. We know we do have some tough comps that are coming up and those comps are going to get tougher. But we continue to see consumer demand out there and very strong. Our Web traffic is running 15% ahead of where it was back in 2019, and is still on pace with last year's record summer.

Patrick Scholes

Analyst, Truist Securities, Inc.

Okay. Great. That's it for me. Thank you.

Geoffrey A. Ballotti

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

Thanks, Patrick.

Operator: We'll take our next question from David Katz of Jefferies.

David Katz

Analyst, Jefferies LLC

Hi. Good morning everyone. Thanks for taking my questions which I think are a little different versions of ones we've had so far. The first is that you put out some guidance, and I'm wondering what macroeconomic context are you baking in or factoring into that guidance as we move through the rest of this year? What is your assumption set basically?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Sure, David. Versus our internal estimates, we did have about a \$10 million [ph] beat (00:30:12) in the second quarter part of that license fees. The other part related to our marketing funds, and we raised for license fees but did not raise for the fund to be given. We have not changed our full year expectations for the marketing funds, and still expect that [ph] beat (00:30:28) to reverse in the fourth quarter.

With respect to what we're building into our back half assumptions, I'd say last year with respect to RevPAR, we saw significant increases [indiscernible] (00:30:41) beginning in July. So, comps get really difficult in the back half of this year. Our outlook has always reflected this dynamic. And as Geoff mentioned, RevPAR thus far even in July has been performing [indiscernible] (00:30:54) with our expectations.

So, our back half expectations right now assumed some flattening out of RevPAR on the domestic side, and then continued recovery internationally, and this was always the expectation given the tough comp and [indiscernible] (00:31:09) 12% to 16% to reflect this [indiscernible] (00:31:12).

David Katz

Analyst, Jefferies LLC

Perfect. Thank you. And second, I just wanted to ask about the deal environment and whether there is any macro impact that you can identify or register with respect to deal opportunities. And I ask it in the context that you repurchased meaningfully above what we had and above 2019 levels, and whether there's a message in that the environment is perhaps less fertile or whether [indiscernible] (00:31:48) with that.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

I think it's a fair assumption to say there's not an abundance of deals coming our way [indiscernible] (00:32:01) environment. And so, if we thought we had a better use of the [indiscernible] (00:32:07) in the business, we would likely be looking to hold on to that cash to complete a sizable M&A. That doesn't mean there's nothing out there. It just means that the chance of getting something done at any significant level of capital deployment over the next 9 to 12 months is probably less likely in today's environment.

David Katz

Analyst, Jefferies LLC

Understood. It's perfect. Thanks.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Thank you.

Geoffrey A. Ballotti

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

Thanks, David.

Operator: We'll take our next question from Michael Bellisario of Baird.

Michael J. Bellisario

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

Thanks. Good morning, everyone. Just one question on the development front and net unit growth. Can you maybe provide the puts and takes in your 2% to 4% net unit growth range? What would need to happen in the back half of the year for you to end up at the low-end maybe versus the high-end today?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Sure. I think we would need to see one of two items; our openings fall significantly below our prior year numbers. So we're expecting to trend in line with [indiscernible] (00:33:19) or we would need to see retention fall significantly below our target 95% retention rate. None of which we see any indications of that happening.

Geoffrey A. Ballotti

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

A

Yeah. In fact, we were really, really pleased with the job. All of our [ph] attention teams (00:33:39) around the world this quarter did Mike, and continue to do. I mean it can – our attention continues to improve and our terminations continue to come down. Our key terminations were 2% lower than last year, with 24% lower than they were back in the second quarter of 2019. Our teams retained almost 3,000 more rooms than they did back in the second quarter of 2019 to Michele's point.

Michael J. Bellisario

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

Q

Got it. And with those terminations coming down, are you providing any more leniency to owners given the macro environment, maybe particularly internationally? Or is your view still the same on the termination side as you think about brand quality and cleanup going forward?

Geoffrey A. Ballotti

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

A

Yeah. I would say from a brand standards standpoint, it's the same. We're doing everything we can of course to support owners, but brand standards are coming back.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

And important to note, though there is some concern about the environment, we have not yet seen that play out in our business and our franchisees are still performing very strongly.

Operator: We'll take our next question from Dany Asad of Bank of America.

Dany Asad

Analyst, BofA Securities, Inc.

Q

Hey. Good morning, everybody. So, I wanted to ask a little bit more questions on the consumer. So for – you guys are talking about how far along the recovery we are and how we're kind of basically tracking that ahead of 2019. Are we also returning to a more traditional kind of seasonality and booking behavior? So kind of can you maybe tell us what you saw around the couple of holidays that we saw on the quarter, and then what does that mean for your booking patterns in August and Labor Day if you can see that far out?

Geoffrey A. Ballotti

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

A

Yeah. Sure, Dany. Look, Memorial Day weekend, which was a kickoff to the summer, was our busiest Memorial weekend ever and July 4th. We're still running ahead of 2019. July month-to-date, as we said, is up 6% to 2019. And when it comes to seasonality in the comps to your question and how it compares to last summer's record demand, we continue to see consumer demand running well ahead of 2019, and we believe that'll continue throughout Q3 and Q4.

But yes, the comps do get tougher. I don't think there's any better example of that, Dany, than in Florida. July month-to-date, this is through Saturday of last week, our Florida RevPAR is actually down by 12% to 2021, but it's running ahead of 2019 by 34%. And Florida is one of our biggest states. And we just continue to see that demand to 2019, and Florida was our best year ever until last summer.

So as I said, our Web traffic demand is up. We continue to see really strong RevPAR performance in so many of our largest markets, and think we'll continue throughout the summer in states like Florida and Georgia and Alabama, which all saw, again big states for us, double-digit July month-to-date RevPAR growth up through last weekend versus 2019.

And if you look out into the national park states like, oh, gosh, Montana, Idaho, Utah, I mean they're all running near-to-above double-digit RevPAR, ahead of where they were back in 2019. In fact, I saw a stat yesterday that 47 of our 52 states are running above 2019 levels, which is again all keeping our domestic RevPAR growth growing over 2019 as we expected to run for the rest of the year. And as are, to Michele's point, international regions start to recover or continue to recover. I mean, some of them are actually back to where they were in 2019.

Dany Asad

Analyst, BofA Securities, Inc.

Got it. And July – so month-to-date is down 12% for...

Q

Geoffrey A. Ballotti

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

Florida.

A

Dany Asad

Analyst, BofA Securities, Inc.

...a big state like Florida.

Q

Geoffrey A. Ballotti

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

Yeah.

A

Dany Asad

Analyst, BofA Securities, Inc.

What's offsetting that on the other end that's kind of driving your month-to-date number then?

Q

Geoffrey A. Ballotti

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

So many of the states that I just talked about. I mean we have big states that are doing that. Just I'd say July month-to-date RevPAR is probably 1 to 2 points down right now to last year with AOC down a little bit and ADR is still really strong to last year.

A

Dany Asad

Analyst, BofA Securities, Inc.

Got it. I do have one follow-up question on...

Q

Geoffrey A. Ballotti

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

Sure.

A

Dany Asad*Analyst, BofA Securities, Inc.*

Q

...your market. When we think about kind of this where we are today with gas prices, but you also have a decent amount of exposure to the oil – like the oil patch in general in terms of hotels. And so, are gas prices where they are today, is that a net headwind or a net tailwind for Wyndham's portfolio?

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

A

Well, compared to where they were earlier in the summer, I'd say it's a bit of a tailwind. I mean, historically changes in gas prices have had, as we've talked about. And [ph] one-on-one (00:39:04) is a very weak correlation to our RevPAR. And the last time oil averaged \$90 a barrel, our RevPAR back in 2011, 2012, 2013, 2014 was growing at a 6% CAGR. What does it mean for gas to go from \$4 to \$5? For us, it adds about \$20 in total direct fuel cost for a consumer's trip of about 350 miles. But we're not seeing – we do not believe that factor is materially impacting customers' travel decisions right now.

Dany Asad*Analyst, BofA Securities, Inc.*

Q

Perfect. Thank you.

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

A

Thanks, Dany.

Operator: We'll take our next question from Ian Zaffino of Oppenheimer.

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

Q

Great. Thank you. Hey, Geoff, I just wanted to go back to some of your prepared comments. I know you commented on that whole booking window getting longer, and also longer stays. It sort of kind of stuck out to me because I know you've always talked about booking windows for your business being very short. Now I guess you're seeing them expanded. What necessarily is driving that or what do you think is driving that? And then also maybe, why are stays longer? Is it just the customer is better-heeled and they're staying longer? What is actually driving that...

[indiscernible] (00:40:26)

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

A

That's a great question, Ian. What's driving it specifically are multi-night bookings, those seven and eight night plus bookings. Those are significantly up. Obviously, we still have a lot of same day bookings, but those are really the bookings that have pushed that 12-day advanced booking window to 15 days.

And people are willing to drive further. I mean with the chaos at the airports this year, they're in their cars. They're looking to vacation. They're willing to drive further. They have the flexibility that they've never had before in the past in terms of checking in on a Thursday and checking out on a Sunday or using all of the unused vacation days that groups like US Travel say are at record levels. I think those are the big things.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Okay. Perfect. And then maybe for Michele, we talked about some of the comps getting tougher. But if we look into 2023, can you maybe talk about some of the tailwinds you're expecting into 2023 just as a reminder? Thanks.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Sure. And Geoff, I'm sure you're going to want to add on here, but I'll get us started. And I think from [indiscernible] (00:41:46) into the year, we're going to be looking at continued recovery internationally. We still have occupancy yet to fully recover [indiscernible] (00:41:55) something we're really excited about is the growth we've been seeing on the infrastructure side of our business bookings, which I believe are up 10% year-to-date. And that's a number we expect to continue to grow with the new Infrastructure Bill out of the Biden Administration [indiscernible] (00:42:15) get allocated down to the state levels.

Geoff, anything else you – that I missed...

Geoffrey A. Ballotti

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

No. I think...

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

...you want to add to that?

Geoffrey A. Ballotti

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

Yeah, I think that's a huge upside and tailwind, as you point out Michele, I mean there is just so much significant opportunity for us on the weekdays Ian. I can give you – if you look at the industry data, over the last eight weeks, the weekends are still 20% running ahead of 2019. Weekday, there's such an opportunity there at plus 5% versus 2019 through the last eight weeks of Smith data.

Our brands are gaining share on the weekends versus 2019, but they're gaining more index during the weekday for exactly the reason that Michele pointed out. I mean, we are attracting more of our fair share of that everyday business traveler and we're adding more sellers, and we're signing more infrastructure-related accounts. There is so much good news out there coming in daily from our global sales offices, who are focused first and foremost on all of those companies contracting for the public work projects first. I mean, that \$600 billion of public work project is meaningful, and where our GSOs are finding and identifying the general contractors for airport expansions across the Midwest and their securing the room nights. So, that's going to be a tailwind for us as we head into the fall.

And we're also picking up a lot of significant private work on the infrastructure side that we continue to pick up. You mentioned the oil fields, and refineries are undergoing maintenance right now, and we're winning bids for that. But look, I think the big tailwind for us is going to be on the net room growth side. I mean, our growing pipeline is I think where our biggest opportunity lies. Our pipeline composition, as you see in our investor deck that Matt put out on page 7, has never been stronger. And we think that the reason for that is our franchisee engagement given all the support that we've shown our franchisees and small business owners throughout this pandemic has never been higher.

And with the launch of four new by Wyndham brands organically, if you think back to Trademark, which I talked about in my prepared remarks, Alltra who has a – we're working very well with Playa who has a pipeline that's now up 10%, Registry Collection, which just continues to power on with what we announced just last week, and ECHO. These brands are organically growing, and they're under the by Wyndham distribution platform, and they're doing really, really well.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

This is great. Thank you very much for the color.

Geoffrey A. Ballotti

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

Thanks a lot, Ian.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Okay.

Operator: We'll take our final question from Brandt Montour of Barclays.

Brandt Montour

Analyst, Barclays Capital, Inc.

Hey. Thanks, everyone. Thanks for squeezing me in here. I have two questions, and they're both recession-related. I apologize if they seem pessimistic, but I'm just curious on a couple of different views of yours Geoff or Michele. If we did go into a garden variety recession, I'm curious what you think or how you think your retention metric would trend? And what I mean by that is, in a slowdown or a slowdown of fundamentals, brands become dearer, right, to the owners of your hotels, but at the same time they might have less cash just to keep up with brand standards. I'm just curious how those two factors could offset each other...

[indiscernible] (00:45:57).

Geoffrey A. Ballotti

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

...they're great and fair questions, Brandt. And welcome back to the call.

Brandt Montour

Analyst, Barclays Capital, Inc.

...thank you.

Geoffrey A. Ballotti

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

Matt threw in a slide on, I think its slide 26, which talks to how our select-service brands have performed in past downturns. I mean, our brands are significantly, to your question, less volatile during the recession. And we've been more resilient and we've outperformed during the past two downturns. The RevPAR for our brands declined I think 14% in 2009, but it outperformed the higher segments by 500 basis points. And we were also, to your

question on both the open and retention side, we were able to grow our system through that downturn by 2% organically, which offset some of the RevPAR growth.

So look, we think that we're there to beat a downturn, 80% of our system additions would come from conversions as independents seek distribution support from our brands as we've been doing throughout this pandemic. And we believe we'd still be very well-positioned to grow both our revenue and our EBITDA if there were to be any downturn.

Brandt Montour

Analyst, Barclays Capital, Inc.

Q

Great. Thanks for that. And then my follow-up is regarding rate, which has by all accounts been very strong and robust across all segments especially yours versus 2019. Curious what you think how the industry would react to a slowdown in leisure demand if you think talking to your franchisees that they'd be – that they would try and hold rate at the expense of demand or if you think that it would be the other way around, or if you think that they would probably soften together? How do you think the industry would sort of react to that?

Geoffrey A. Ballotti

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

A

Yeah. It's again a great question that we talk with our franchisees and small business owners all the time. I think they'll hold rate. I mean, we are – we've been doing such a great job with them driving rate index and that continues to be our team's focus. Just equipping those franchisees with the knowledge and the tools to pivot and if demand falls, to hold onto the rate, to create much more optionality for them around pricing power.

I mean what we're trying to do with all of our state-of-the-art and new inventory revenue management pricing tools is to allow them to just create more optionality around pricing power and to train them to reduce their reliance obviously on more highly discounted opaque rates that might be out there. And to realize that what they really should be doing right now, especially as they come into the winter and fall, is responding to those RFPs for contracted business where it makes sense.

And again, just a significant opportunity for us with those everyday business travelers on – during the weekday and giving them the pricing, the tools to do that. But we believe we're much better positioned than we've ever been. And that the travel landscape will be much more resilient than in prior downturns, because pricing is just shown to be so considerably more resilient.

Brandt Montour

Analyst, Barclays Capital, Inc.

Q

Great. Thanks for the thoughts. Congrats on the results.

Geoffrey A. Ballotti

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

A

Thanks, Brandt.

Operator: This concludes our question-and-answer session for today. I'd be happy to return the call to Geoff Ballotti for closing remarks.

Geoffrey A. Ballotti

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

Thanks, Leo. And thanks everyone for your time this morning. Michele, Matt, and I very much appreciate your continued interest in Wyndham Hotels & Resorts. We look forward to talking with you and seeing you soon. But before we go, we'd like to remind everybody to please tune into the 83rd Annual Wyndham Championship from August 4 through August 7, which will be airing on CBS in the Golf Channel with live coverage beginning on Thursday of next week. Enjoy your summer, everyone.

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

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