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Wyndham Hotels & Resorts, Inc. (WH)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Wyndham Hotels & Resorts First 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'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. As expected, our brands delivered record levels of domestic RevPAR for our owners in the first quarter with 4% growth versus prior year, and our international regions continued their recovery, growing RevPAR by 37%. Globally, net rooms increased 4% and we grew our development pipeline by 11% and by another 3% sequentially. Adjusted EBITDA, which increased 10% on a comparable basis, was ahead of our expectations. This over-performance is reflected in our new outlook that Michele will walk you through in a moment. We generated \$84 million of free cash flow and we returned another \$87 million to our shareholders.

By all accounts it was a great start to 2023. With US unemployment at its lowest level since the 1960s and consumer savings of \$1.6 trillion, our guests who are primarily middle class with household incomes of over \$90,000, nearly 30% above the US median, are allocating a higher share of their wallets to travel this year. This surge in travel spending has been unabated by the economic headlines throughout the year and reflects their strong desire to reconnect with family and friends, explore new destinations and create lasting memories. US RevPAR growth for our economy brands was in line with fourth quarter performance, a reflection of the cadence of growth for this segment which had fully recovered by the second quarter of 2021.

Meanwhile, our midscale and upscale portfolios benefited from continued recovery and occupancy while still driving rate gains. We grew our overall system sequentially for the ninth consecutive quarter. We opened over 10,000 rooms globally and we maintained a retention rate of 95.3% over the last 12 months, a continued indication of our brands' improving market share and value proposition. These results 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 seventh sequential quarter, including another 110 basis points of sequential growth in the more revenue intensive mid-scale and above chain scales this quarter. We added over 6,000 rooms with more than 40 new hotel conversions, along with five new construction additions like the La Quinta-Hawthorn Suites dual brand hotel in Sulphur, Louisiana, across from the West-Cal Arena.

Internationally, we opened over 4,000 rooms and grew net rooms by 7% organically. Our Latin America team added some fantastic conversions from competitive brands like our new Wyndham Garden Torreon in this booming Mexican city, along with the new La Quinta Quito, steps from the upscale stores and entertainment in Ecuador's capital city. Our EMEA region drove 75 basis points of sequential net room growth with quality first quarter conversions like the new Dolce Milan Malpensa near Italy's number one international inbound airport and within easy reach of Lake Como. And in China, which experienced 125 basis points of sequential net room growth in our direct franchising system, we opened our [ph] 20th (00:05:38) Days Inn since reacquiring the Days Inn master license agreement with the Days Hotel c adjacent to the campus of Changsha University. We grew our development pipeline 3% sequentially and by 11% versus prior year to a record 226,000 rooms and 1,800 hotels,

over 70% of which are in the higher revenue mid-scale, upper midscale, upscale, upper upscale and luxury chain scale segments.

Our teams awarded nearly 160 contracts globally for approximately 20,000 room additions, marking Wyndham's 11th consecutive quarter of sequential pipeline growth. Behind the strength and the momentum of the demand in the extended stay sector, we awarded another 35 ECHO Suites by Wyndham contracts to institutional developers and experienced extended stay operators, bringing the total number of contracts awarded to 205 hotels since launching the brand last March. We expect to break ground on another two dozen ECHO hotels throughout 2023, with the brand beginning to contribute meaningfully to our room count in 2024 and beyond. Excluding ECHO, the number of domestic contracts signed in the first quarter was 13% higher than what we awarded last year, reflecting continued developer interest in our new construction prototype and conversion brands.

If there's one thing that our franchise sales and development teams experienced at the HUNTER Investment Conference last month and at the Asian American Hotel Owners Association Convention a few weeks ago, it's that our owners believe that there has never been a better time to build or own another hotel than now, especially in the Select Service segment. This unbridled enthusiasm is a reflection of a strong and vibrant hotel industry. Demand from our infrastructure-related business accounts, which makes up approximately 20% of our annual domestic royalties, is expected to remain a tailwind for Wyndham in the coming months and years ahead as we capitalize on the US government's \$1.5 trillion in Infrastructure and CHIPS Act spending.

For the past eight consecutive quarters Wyndham's general infrastructure-related revenues have increased double digits versus 2019, a trend that began in the second quarter of 2021. Our domestic footprint of hotels overlaps very well with the states expected to receive the highest levels of future infrastructure spend. And these top six states of ours by system size have received over one-third of the allocated federal spend to date. We've estimated that this new level of infrastructure spending represents an opportunity to generate over \$3.3 billion of incremental revenue for our franchisees and over \$150 million of incremental royalties for Wyndham over the spend period as we continue to invest in the people, the processes and the technology to support our growing global sales teams to capture more share from these infrastructure accounts.

Our award-winning Wyndham Rewards loyalty program was recognized as the best hotel loyalty program for the fifth consecutive year by readers of USA Today because of its simplicity, its generosity and the experiences it offers through partnerships like the one we recently announced with Minor League Baseball, where we averaged nearly 20 hotels within a 25-mile radius of their 120 ballparks and where our members will be able to redeem points for unprecedented access to all that minor league baseball has to offer, including tickets and one of a kind experiences during the season's 8,000 scheduled games.

During the quarter we grew enrollments by 7% and we recently celebrated our 100 millionth enrolled member. And most importantly, Wyndham Rewards helped drive a 15% increase in direct bookings, representing a record high level of contribution for our brand dot-com sites, which once again outpaced the rate of growth across all third party channels. Our core values and our count on me service culture are at the very heart of what drives our growth and what makes Wyndham such a great place to work. And it was no surprise to see that Wyndham Hotels and Resorts were selected by Forbes as a 2023 Americas Best Large Employer for the second year in a row; by Newsweek as one of America's Greatest Places to Work for Diversity in 2023; and by Ethisphere as one of the 2023 World's Most Ethical Companies. As always we sincerely thank our value team members around the world without whom none of this would be possible.

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

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

Thanks, Geoff, and good morning, everyone. I'll begin my remarks today with a detailed review of our first quarter results. I'll then review our cash flows and balance sheet, followed by our revised outlook. Before we get started, let me briefly address some housekeeping items. One of our key priorities has been to simplify our business and create a greater focus on our high margin franchising business. With the exit of Select Service Management and the sale of our owned assets in 2022, we quickly turned our attention to transitioning our full service management business in the US to franchise-only contracts. And now with that effort substantially complete we're changing the composition of our reportable segments to eliminate the hotel management segment. The results of the remaining full service management contracts, approximately 65 internationally and only two in the US, are immaterial and have been aggregated on a prospective basis within our hotel franchising segment beginning with this quarter's results.

Additionally, the year-over-year comparison of our financial results for both this quarter and next is impacted by the sale of our owned hotels and the exit of the Select Service Management business. The comparability of all four quarters this year is also impacted by the timing of our marketing funds spend. This year our marketing fund spend has returned to a more normalized pace. In contrast, last year's spending pattern was heavily influenced by concerns regarding the potential impact of the Omicron variant on demand. To enhance transparency and provide a better understanding of the results of our ongoing operations, I will be highlighting our results on a comparable basis which neutralizes these impacts. We generated \$308 million of fee-related and other revenues compared to \$316 million last year, which included \$38 million from the Select Service Management business and owned hotels. On a comparable basis, fee-related and other revenues increased 11%, primarily reflecting RevPAR growth of 9%, higher franchise fees and incremental license fees. Adjusted EBITDA was \$147 million in the first quarter, compared to \$159 million last year, which included a \$15 million contribution from the Select Service Management business and owned hotels and an \$11 million timing impact from the marketing funds.

With the marketing spend returning to a more normalized cadence this year, marketing expenses in the first quarter of 2023 exceeded revenues by \$4 million, while marketing revenues exceeded expenses by \$7 million in the first quarter last year. On a comparable basis adjusted EBITDA increased 10% year over year, primarily reflecting our revenue growth. First quarter adjusted diluted EPS was \$0.86, up 15% on a comparable basis, reflecting our adjusted EBITDA growth and benefits from our share repurchase activity, partially offset by higher interest expense. In the first quarter, global RevPAR grew 12% on a constant currency basis, driven by both stronger pricing and higher occupancy. US RevPAR grew 4% year over year and 8% compared to 2019. We saw strength in many of our larger represented states like Texas, Florida, Georgia and North Carolina. More recently, RevPAR growth in April has accelerated with the past four weeks now running a point ahead of the prior four weeks and tracking 10% ahead of 2019 as leisure travel picks up and ADR [ph] holds (00:13:45) to the fourth quarter levels of 2022.

Internationally, first quarter constant currency RevPAR grew 37% compared to last year, reflecting strong growth in all regions, and 20% compared to 2019. Sequentially, international occupancy improved to 84% of 2019 levels, from 81% in the fourth quarter last year. This improvement was driven by the acceleration of demand in China which improved to 76% of 2019 levels, from 63% in the fourth quarter of 2022. As mentioned on our last call, we expect international occupancy to provide a meaningful challenge for us throughout this year.

Now turning to free cash flow, we generated \$84 million in the first quarter. As projected our free cash flow was down year-over-year as last year included the Select Service Management business and owned hotels as well as the reduced level of marketing spend. Importantly, our free cash flow conversion from adjusted EBITDA was approximately 57%. 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 translates to approximately 100%. We ended the quarter with approximately \$900 million of total liquidity and our net leverage ratio remained at the very low end of our stated range at 3.0 times. Our capital allocation strategy remains unchanged.

We will remain disciplined on the core tenets of our M&A strategy and 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.

Regarding the recent banking headlines, our owners source financing from multiple lender types including community banks, credit unions, regional lenders and non-bank lenders, as well as SBA financing, which is government backed and limits exposure for the lender. Many of our new development opportunities are with existing owners who have a track record developing our brand and have established strong lender relationships. Owners with whom we have discussed this situation have been reassured by their lenders that financing for creditworthy, well-established borrowers will remain available. To that point, new construction projects continue to progress with almost a dozen deals beginning site work in the first quarter subsequent to the March 10 SVB headline. Conversion volumes also remain strong and ahead of last year, with 35 new buy-sell transactions across our portfolio and 41 new deals executed post-March 10. As always, we're closely monitoring the development pipeline and hotel trading volumes to ensure we can proactively address any potential concerns that may arise. And as Geoff mentioned, our owners' desire to do their next deal, be it conversion or new construction, remains quite strong and provides us confidence in our growth strategy and the resilience of our franchise model.

Now turning to outlook, we're updating our full year 2023 outlook to reflect first quarter favorability as well as a lower share count due to our first quarter repurchase activity. Fee related and other revenue increases by \$4 million from February's outlook and still rounds to \$1.38 billion to \$1.41 billion. Adjusted EBITDA increased \$4 million as well and is now projected to be \$654 million to \$664 million. We expect adjusted net income of \$340 million to \$352 million, \$3 million higher than our prior outlook. And adjusted diluted EPS increased \$0.08 per share and is now projected to be \$3.92 to \$4.06 based on a diluted share count of 86.8 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 growth, or for our free cash flow conversion rate.

Also while our full year expectations for the marketing fund's contribution remains unchanged, I want to provide some color on the projected quarterly impacts as we expect a more normalized cadence of marketing spend this year. Fund expenses will again outpace fund revenues during the second quarter by \$10 million to \$15 million. As we move into the back half of the year fund revenues will outpace fund expenses 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. Finally, given the managed transition, cost reimbursable revenues are expected to trend towards zero as we approach the end of the year.

In closing, our first quarter results underscore the attractiveness of our brands to guests, developers and owners highlighted by continued growth in RevPAR, system size and pipeline, while maintaining a disciplined approach to capital allocation. We remain confident that our resilient business model and strong balance sheet position us to deliver another successful year 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] Again we do ask that you limit yourself to one question and one follow-up. Thank you. Our first question comes from Joe Greff with JPMorgan.

Joseph Greff

Analyst, JPMorgan Securities LLC

Q

Good morning, everybody. Geoff, Michele, thanks for the comments on developer and the financing topic that probably is front and center for most of us on this call here. Maybe you can give us a little bit more detail in terms of what percentage of your new construction typically has financing associated. I know not all of it does, particularly as maybe you go down the chain scale orientation and what percentage of conversions typically need or has financing? And then when you think about stuff in China and/or internationally overall, can you talk about that a little bit as well?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Sure. Good morning, Joe. If you think about our 2023 new construction additions, all that financing is already in the house. From a conversion standpoint, I would say in our pipeline the majority of what's in our pipeline already has financing in place. So we feel really strong about the 2023 financing situation. And if we look at new construction starts that could impact our future year additions, developer interest remains strong, Geoff mentioned that in his prepared remarks. And new construction projects continue to progress with almost a dozen deals beginning site work in the first quarter and as you know after that kind of March 10 headline.

So for seasoned developers those relationships are really long and really deep and financing is very much available. In fact, we saw a term sheet that came through after that March 10th date for an \$8 million loan on a \$10 million new build La Quinta property with a small regional bank in the South with some of the best lending terms we've seen in a while. So we're not concerned about financing largely for new construction projects that don't currently have financing in place. There certainly seems to be a good amount of capital still available there.

And then on the conversion side the only other point I would make is that we've got 40 new deals that have executed since that March 10 date that's actually up versus the same time last year. And then we're also seeing buy-sell volumes across our portfolio increase year-over-year. So we continue to believe that the current environment is healthy and supportive of conversion activity.

Joseph Greff

Analyst, JPMorgan Securities LLC

Q

Great. Helpful. And then getting a lot of questions last night, this morning on the buyback, in the 1Q that level was down sequentially and down versus the average of the last three quarters. Is this how you're thinking about, I guess, returning capital in the form of buyback absent any I guess the asset-producing income in cash, is the excess cash after – if this free cash flow after the dividend is kind of the maximum buyback activity? And if that's sort of how you're thinking about buybacks at now, that would imply something just above 3 times net leverage. And why is that the right leverage ratio, particularly when your peers are at least half a turn above that?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Sure. So if you look at quarter-over-quarter, year-over-year, I think our buyback was up about 40%. But as we mentioned on our February call, the 2023 buyback volume will certainly be lower than 2022 due to the absence of those one-time proceeds received in 2022 from the owned asset sales and CPLG exit, which was about \$260 million. So we always say our first preference is to invest in the business. But absent any compelling investment opportunities just from a free cash flow generation perspective after we pay our dividend and then [ph] require (00:23:25) debt payments, we'll have over \$200 million to deploy this year. And so I think that's the minimum amount you can see go into the share buyback program. There is potential to relevel and I'd say our stock is trading at a significant unwarranted discount relative to the peer set today and of course compared to our own estimates of intrinsic value. So that does present a compelling opportunity. You can expect us to lean in more heavily when the stock is trading like this, but we do generate a significant amount of cash flow so we don't necessarily need to lever up to do that.

It's predominantly I'd say a math exercise especially in today's interest rate environment, the value gap versus the interest that that we would be paying. And I think it's fair to say we could potentially use leverage to borrow free cash flow capacity, pulling forward future share repurchase volume when a stock is trading like this. But that leverage increase would likely be more temporary in nature rather than a permanent increase. Our stated target range is 3 to 4 times. We are at the very low end of that at 3.0 times. We do not expect to be lower than 3.0 times. And that also means obviously that there is some room there as well. So I think we have ultimate flexibility when it comes to share buybacks this year.

Joseph Greff

Analyst, JPMorgan Securities LLC

Great. Thank you very much.

Q

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Thank you.

A

Operator: Thank you. Our next question comes from Stephen Grambling with Morgan Stanley.

Stephen Grambling

Analyst, Morgan Stanley & Co. LLC

Hi. Thanks. There's lots of talk I think from some competitors moving into various areas that at least on the surface may have overlap with some of your brands either in the extended stay or economy midscale segments. How would you characterize the competitive environment when you are looking at potential development opportunities and are you seeing any change in either requests or even your willingness to put in additional key money to make these deals get over the line?

Q

Geoffrey A. Ballotti

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

No changes, Stephen, really in terms of – we've been out on the road quite a bit over the last few weeks and we're not seeing any impact to our economy or our midscale brands. Given that our proposed PIP requirements far exceed in terms of value to our owners what's being put on the table, the competitive PIP requirements far exceed our average PIP conversion costs, which don't necessarily get measured in millions of dollars. Our rent renovation and PIP costs generally run 3 to 5 times less than many of our larger brand peers. And when you look at the Across the Economy segment, we have the most recognized brands in the economy space that are performing right now at historic RevPAR index.

A

And we know these owners and we know what's important to them. And what's most important to them is their cash outlay. And what's also important is a very flexible relationship with their brand and their cash on cash return. We have plenty of owners that are building new construction, Microtel, for example right now with us along with competitive economy and competitive midscale and upper midscale brands. And they'd tell you that their Microtel has delivered best in class cash on cash returns right now. And certainly we have thousands of owners who'll tell you that there's no better cash on cash return right now than their Super 8s and their Days Inns.

So we will continue to provide the most flexible and the most competitively priced brands in the space, not only on our PIPs but also on our operating and technology stack costs, which are running significantly less than I think what they're being offered. And I think most importantly, in terms of not seeing any impact, we executed more economy rooms in Q1 than we did last year. So again not seeing any impact.

Stephen Grambling

Analyst, Morgan Stanley & Co. LLC

Q

That's all super helpful. Maybe one unrelated follow-up, and I recognize that you referenced accelerating trends into April, but I think there's always this broader concern about the macro. When you look back at your portfolio of assets and how they performed through various downturns, I guess what does the so-called recession playbook look like for the business? Do you typically see trade down, are there things that you would do different, are there things that you're even looking out for to try to assess that kind of environment? Thank you.

Geoffrey A. Ballotti

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

A

We're always looking out and trying to assess the environment. I think Matt did a good job on slide 30 putting out in our investor presentation last night how our brands would continue to perform in the event of any macro slowdown, which we're certainly not seeing. We would continue to grow net rooms within our guidance range and we would continue to provide the best value proposition out there in the economy in the mid-scale segments to our guests, and outperform the broader lodging market as our brands did in really all of the last three downturns. Our brands outperformed, I think it was by 300 basis points, post-9/11, by more than that after the GFC. And if you look at how our brands performed throughout COVID, 25% better than the overall industry from a RevPAR standpoint, the value proposition in terms of to your suggestion trade down is compelling that. That \$50 gap right now between the economy and the upper midscale segment continues to widen. It's now over \$55. And if you look at the gap between the upper midscale and the upper upscale, that gap which was \$80 a couple of quarters ago I think is pushing \$100. So we remain a very compelling trade down opportunity should things slow. But again in terms of what we're seeing out there, as we said in our prepared remarks, we're not seeing any signs of any slowdown.

Stephen Grambling

Analyst, Morgan Stanley & Co. LLC

Q

That's great. Thanks so much.

Operator: Thank you. Our next question comes from Michael Bellisario with Baird.

Michael J. Bellisario

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

Q

Thanks. Good morning, everyone. I just wanted to go back to the development topic and dig into a little bit more those 41 new deals you mentioned. Any particular brands or locations where you saw strength? And then maybe

also on the flip side where, if any, have conversations stalled or deals that you expected to get signed didn't get signed?

Geoffrey A. Ballotti

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

A

Yeah. From an opening standpoint and an execution standpoint, we're not seeing any signs of slowdown either pre or post, as Michele said in her in her remarks. Our conversion signings increased over the first quarter of 2019, which we always look back to and think that that was a high water year. Our new construction signings picked up and we're seeing great interest. And certainly, as I mentioned our economy brands, we signed more Microtels, more Wingates, more Hawthorns and we continue to see that pick up really across the country.

Michael J. Bellisario

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

Q

Got it. And then just one follow-up on the RevPAR performance you mentioned I think plus 8% in the US in the first quarter, plus 10% in April. Can you provide any color on international trends, what you saw throughout the first quarter and then into April as well?

Geoffrey A. Ballotti

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

A

Sure. As Michele noted, the first quarter international RevPAR improved sequentially and will continue to present a significant tailwind for us for 2023. Overall, it was up 20% versus 2019 and up 37% to prior year really with strong growth, Mike, across all the regions in constant currency, which was in line with our expectations. Canada was up 30%, which was good to see. Southeast Asia, which is now back to 2019 levels, was up 40% and Europe has come back strong. Germany has been very strong with us with RevPAR now running over 20 points ahead of where it was back in 2019. And I think the standout for us internationally was Latin America which was up 60% in the quarter with Mexico continuing to lead the way into their high season. I was down there with the team last week and they're having a very strong April. And then of course China, we're very happy to see what we expected come in up 15% year over year as both inbound and outbound travel in China ramps back up.

Michael J. Bellisario

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

Q

Thank you.

Geoffrey A. Ballotti

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

A

Thanks, Mike.

Operator: Thank you. Our next question comes from Dany Asad with Bank of America.

Dany Asad

Analyst, BofA Securities, Inc.

Q

Hi. Good morning, Geoff, Michele. I just want to touch back on development one more time, sorry. But yesterday a competitor said that they expected the development environment to slow. And that was sort of their experience as conditions tightened around the global financial crisis. So, like what is your expectation as this plays out from here? I know you're not seeing any cracks yet, but – from here and then how do you get projects to still pencil with

higher prevailing rates, lower credit availability and then maybe what are some of the offsets to those higher project costs for developers?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Hi, Dany. I'll start. And Geoff, if you want to add anything, please feel free. So I would say from an owner ROI perspective, you can see we actually presented in the investor presentation we post through the website that even at a 7% cost of debt the ROIs are still in the high teens. So really strong returns. And as you know interest rates are impacting all asset classes, not just hotels, but hotels are unique in that they have the ability to continuously change room rates and then offset some of the costs out of that equation whether it be inflation or interest with that higher pricing. And so sophisticated investors perceive lodging to be a highly desirable real estate class during an inflationary environment for sure and developers are underwriting these increases into their base cases. So we and well-capitalized developers believe this is still a great time to build. Although the interest rates are higher than the historic lows everyone is expecting they will decrease a bit once the Fed is done. And so select service hotels specifically with minimal staffing requirements are delivering very high ROIs for owners even in this environment. And so that's why they're still very much in demand.

A

Yeah. And I would say that as we mentioned we're seeing – we saw last year a record number of opens and signs. We're not seeing any slowdown, Dany, in the first quarter. And it's really spread across the world. I mean, our pipeline has 63 countries in it. I mentioned last week I was down at the Latin American Conference and demand for our new construction prototypes across Mexico and Latin America for example just continues to grow. There's no better example of that than the eight La Quintas that are now under development in the Dominican Republic along with new Super 8s, the new Super 8 Manzanillo in Mexico with 19 more to come. So we're confident that what we needed to do in the first quarter were done, we're on track. And we opened what we expected to. And again we're not seeing any signs of anything slowing down.

Dany Asad

Analyst, BofA Securities, Inc.

Q

Great. Thank you so much for that. And you did give a lot of color on – can you maybe give us a little bit of insight into, with the data that you have in front of you, kind of what is your expectation or underwriting for how April plays out and then especially as we head into the summer travel period coming up, kind of what is your expectation for domestic travel?

Geoffrey A. Ballotti

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

A

We...

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Sure.

Geoffrey A. Ballotti

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

A

You want to go, Michele?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Yeah, sure.

A

Geoffrey A. Ballotti

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

I'll start off and Michele can jump in. I mean, we're both excited as Michele noted with what we're seeing. Our April domestic RevPAR, as she noted, was a point ahead of our prior four weeks. But for the last four weeks, Dany, through April 22, our RevPAR is up 2% to last year and up 10% to 2019 versus, like, as you mentioned it being up, or I think Mike mentioned, up 8% for the first quarter. And we're seeing economy RevPAR also accelerate. It's up now 12% last four weeks to 2019 and certainly midscale which has a further opportunity to drive our RevPAR has accelerated 4% versus last year and up 8% to 2019 versus the last four weeks of 2019.

A

So we've got to remember that our segment is – when you look at our segmentation, it's different. And again what Matt put out on the IP on slide 25 I think demonstrates why we're so bullish. I mean, 70% of our business is leisure and then 20% of it is that blue collar infrastructure worker that is really picking up right now. We have less than 2% of our business being white collar business travel and less than 1% of our business being group.

So we're very optimistic with our guests more employed than they've ever been with the savings balances that they have. And with both real ADR and occupancy in our midscale and above segments still below 2019 our guests are telling us they'll be allocating more than ever to travel, to your question this summer. 93% of our guests have told us that they're planning a trip in the next six months in our surveys, and that 93% is at an all-time high. So we do believe that leisure travel will defy any economic gravity that might be out there. And the other important point, I think, on slide 26 of our investor presentation highlights that not only are our guests not low income earners, their household incomes at over \$90,000 are growing and they're increasingly significantly younger.

And so all of that plays out in terms of what we're seeing with the metrics that give us confidence. Our booking windows being up 15%, as we mentioned to last year, our web traffic now running 40% ahead of 2019 levels. You just have to look at April month to date Google search volumes to get excited about the summer ahead running 13% ahead of last year. And then we've got from a leisure perspective our average length of stay running significantly ahead of 2019. So we're looking forward to the summer. We know that our guests are driving further than ever and they're staying more often.

Dany Asad

Analyst, BofA Securities, Inc.

Thank you for all that color.

Q

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Yeah. That's perfect stuff. I think the only thing I would add to that is with respect to the rest of the year. We're expecting the US to perform pretty similar to how it performed in the second or in the first quarter. And our outlook is providing a range of outcomes. And then Geoff mentioned he thinks we're pretty well insulated from any economic gravity I think were the words that he used. So within that range, I think we would see any potential impacts muted by again that strong consumer preference for experiences including travel, the continued international recovery and benefits from the incremental infrastructure spend coming into market. And then just remember we have very little exposure to corporate transient business travel, so we really won't feel the impact of

A

any potential T&E reductions in that quarter. And I do want to remind you while we're on this topic, the economy segment is the only segment we can say is running double digits ahead of 2019 at this point in time.

Operator: Thank you.

Dany Asad

Analyst, BofA Securities, Inc.

Very helpful. Thank you so much.

Q

Geoffrey A. Ballotti

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

Thanks, Dany.

A

Operator: Thank you. Our next question is from Steve Pizzella with Deutsche Bank.

Steven Pizzella

Analyst, Deutsche Bank Securities, Inc.

Hey. Good morning, everyone. Thanks for taking my questions. Just wanted to go back to the new construction pipeline. And for the rooms in the construction pipeline that have not broken ground yet, can you talk about what percentage of those you believe have committed financing and those you expect to be completed?

Q

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Sure. Everything entering into the system in 2023 has financing in place. And then beyond that I would say probably a third to a half has current financing in place.

A

Steven Pizzella

Analyst, Deutsche Bank Securities, Inc.

Okay. Thank you. And then just following up on the conversions, can you remind us of where your conversions are typically sourced from, from independent owners, change of control or other brands? And does that profile change any during a downturn?

Q

Geoffrey A. Ballotti

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

During a downturn, Steve, it does change a bit. It skews a bit more independent. And there's certainly, if you look at the United States of America, 1.3 million economy rooms, over half of which are not branded. That in a downturn which we're not seeing, that could skew but it's usually a third, a third, a third. A third from competitors, a third from independents, and then a third from picking up what might be being built up there in terms of additions to supply.

A

Steven Pizzella

Analyst, Deutsche Bank Securities, Inc.

Okay. Thank you. Appreciate it.

Q

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

David Katz*Analyst, Jefferies LLC*

Q

Hi. Morning, everyone. Thanks for taking my questions. Covered quite a bit already in the questions ahead of me, but I wanted to just go back to Asia and drill a bit deeper. I know you indicated it's a bit of a tailwind. I think historically it's been some outsized growth. Can you describe what you're seeing in terms of on the ground what stage we're at and just remind us what the sort of revenue intensity is relative to the whole as that recovers?

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

A

Thanks, David. In terms of the stage we're at, as Michele noted, we're not yet back to where 2019 was nor did we expect to be. I think the gradual improvement in the first quarter came in exactly as we expected. It's certainly been encouraging over the last few weeks to see the continued positive trends that's being reported out there. And it's great to see the significant uptick in occupancy but we improved from 60-ish-percent of 2019 levels in the fourth quarter to about 75% I think it was in the first quarter and year-over-year where we're seeing acceleration. And in terms of what we're hearing from our teams on the ground, it's both domestic travel and inbound travel that so encouragingly bounced back. China has resumed these applications. Flight capacity which isn't yet back to where it was in 2019, is picking up, I think the flight that most of our team takes between Singapore and Shanghai given that we have offices in both cities which was running 3 times a week back in COVID has picked up to 40 flights a week, and we're hearing that that could increase to 50 flights a week by June. So that's encouraging. Our partners, our marketing partners over there, Ctrip, they're reporting April search volume for mainland China up 126% versus 2019 as we come into the busy vacation period and we're hearing from our team of some very aggressive government actions to stimulate tour and travel in cities like Foshan, providing credits to meeting planners, MICE planners, on costs for events. And then on the development side, finally, we're just very pleased with what the team has been doing. We saw 1% sequential growth and a 5% overall net room growth for our entire China system, including our master license agreements. And our team opened more direct rooms in the first quarter than they did last year. I think this was the third consecutive quarter of double-digit net room growth for our domestic China direct franchising business. So we're really pleased. And I think importantly what Michele and I were most pleased about with the team was to see our conversion pipeline in China growing sequentially and year-over-year, moving that China pipeline up [ph] 2% (00:44:46) on an overall basis.

David Katz*Analyst, Jefferies LLC*

Q

Okay. Thank you. Appreciate it.

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

A

Thanks, David.

Operator: [Operator Instructions] Our next question comes from Brandt Montour with Barclays.

Brandt Montour*Analyst, Barclays Capital, Inc.*

Q

Hey. Good morning, everybody. Thanks for taking my questions. I just wanted to circle back on Joe's question and ask it a slightly different way for conversions. I know that some of your brands like for Days Inn you can convert it at very low cash outlay. But maybe you could tell us for the conversion activity overall what the average cash outlay is and then what percentage of deals would need financing?

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

A

Yeah. It's a low percentage of deals, Brandt, that would need financing. Very rarely on Days Inn conversions is there financing involved. And when we look at bringing in a competitive or an independent hotel in terms of the cost of that property improvement plan, we're looking at something 3 to 5 times less what we're seeing in the marketplace that our larger brand competitors are offering.

And we believe that's been a big piece of how our conversion rooms increased in terms of both openings and signings. Our conversion rooms increased 7% domestically and 3% globally in the quarter versus what we did back in pre-COVID. And we opened more domestic economy and we opened more midscale conversion rooms than we did last year. So we're pleased with the progress and we're not seeing any signs of slowdown there.

Brandt Montour*Analyst, Barclays Capital, Inc.*

Q

Okay. Thanks. Oh, sorry.

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

A

Yeah. And for a typical economy – yeah. Brandt, just for a typical economy property in decent condition it's going to be less than a \$1 million outlay on the owner side.

Brandt Montour*Analyst, Barclays Capital, Inc.*

Q

Perfect. Thanks for that. And then it's great to hear that April trends bounced back. I think you guys were specifically talking about economy, but maybe not. I don't know Geoff if you wanted to take this, or Michele, if you want to take a stab at what we saw in March, it looked like in STR you showed a little bit of a dip in occupancy, if you think it was tax return timing or it was weather or if you want to take a shot at what you think might have happened in March?

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

A

Yeah. As we said, our quarter came in just as we expected, but March as well came in as expected, Brandt. If you think about our domestic business, it was fully recovered in 2021. Unlike many of our peers we did not feel the impact from Omicron last year that the higher chain scales felt. And if you look back at March of 2022, its growth was 30% over March of 2021. So again it came in as expected. And to your point I did mention the economy RevPAR accelerating but overall for the last four weeks of April through the 22nd, our RevPAR is up 2% to last year and up 10% to where it was in 2019, which is ahead of where it was for the quarter.

Brandt Montour*Analyst, Barclays Capital, Inc.*

Q

Okay. Thanks a lot.

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

A

Thanks, Brandt.

Operator: Thank you. Our final question will come from Dan Wasiolek with Morningstar.

Dan Wasiolek

Analyst, Morningstar

Q

Hey. Good morning, guys. Thanks for squeezing in my question. So maybe just one on ECHO. Kind of interested in the potential of the contribution that brand might have to NUG over the coming years. How are you guys thinking about the long-term unit and room potential for that brand? What percent of the current contracted pipeline is conversion versus new build and how long does it take for a new construction ECHO brand hotel to open? Thanks.

Geoffrey A. Ballotti

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

A

Yeah. All great questions. We're looking anywhere depending on the developer between 12 and 24 months, I think averaging 18. These are very sophisticated real estate developers with strong construction backgrounds behind them and third party management companies behind them. And they're off and running and as excited as they could be. We're expecting another two dozen ground breaks this year. We said we'd have 100 open in the first five years. They will all be to your question, good question, new construction. We will not be doing conversions with this brand and we're expecting 300 in the first 10 years. And we feel very good about both of those numbers based on where we are. And there's no reason we can't do more given the demand out there that's building especially in states like Texas or Georgia or Arizona that are receiving so much of the infrastructure building that's driving a lot of this. We are expecting an increase of \$10 million to \$12 million of royalty fees for every 100 hotels that we open and expecting that to drop, about 85% of it to EBITDA.

Brandt Montour

Analyst, Barclays Capital, Inc.

Q

Okay. That's great information. Thank you so much.

Geoffrey A. Ballotti

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

A

Thanks, Dan.

Operator: Thank you. At this time I'll turn the floor back over to Geoff Ballotti for any additional or closing remarks.

Geoffrey A. Ballotti

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

Well, thanks, Todd, and thanks, everyone, for your questions and your interest in Wyndham Hotels & Resorts. We were very pleased with our first quarter where we delivered adjusted EBITDA growth that outperformed expectations and allowed us to raise our full year outlook. Our team members are very enthusiastic about the opportunities that lie ahead and 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 months ahead and at many of the upcoming investor conferences that we'll be attending. Have a great day, everyone.

Operator: Thank you. This does conclude today's Wyndham Hotels & Resorts' first quarter 2023 earnings conference call. Please disconnect your line at this time and have a wonderful day.

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