

28-Oct-2021

Wyndham Hotels & Resorts, Inc. (WH)

Q3 2021 Earnings Call

CORPORATE PARTICIPANTS

Matt Capuzzi

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

Geoffrey A. Ballotti

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

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

OTHER PARTICIPANTS

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Dany Asad

Analyst, BofA Securities, Inc.

Joseph Greff

Analyst, JPMorgan Securities LLC

David Katz

Analyst, Jefferies LLC

Michael J. Bellisario

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

Patrick Scholes

Analyst, Truist Securities, Inc.

Alton K. Stump

Analyst, Loop Capital Markets

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Dan Wasiolek

Analyst, Morningstar, Inc. (Research)

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Wyndham Hotels & Resorts Third Quarter 2021 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 will also be referring to a number of non-GAAP measures. Corresponding GAAP measures and a reconciliation of non-GAAP measures to GAAP metrics are provided in our earnings release, which is available on our Investor Relations website at investor.wyndhamhotels.com. We are providing certain measures discussing future impact on a non-GAAP basis only because, without unreasonable efforts, we are unable to provide the comparable GAAP metric.

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

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

Geoffrey A. Ballotti

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

Thanks, Matt, and thanks, everyone for joining us this morning. With the continued market share outperformance of our brands our global RevPAR increasing 56% versus last year and our domestic RevPAR surpassing 2019 by 7%, we were very pleased with our third quarter performance. We delivered another strong quarter with \$194 million of adjusted EBITDA, which was nearly 90% more than last year and 1% more than what we delivered in Q3 of 2019.

We generated \$141 million of free cash flow, our highest cash flow quarter ever and with all of our key drivers now tracking ahead of expectations, our board has restored our quarterly dividend to pre-pandemic levels in addition to recommencing our share buyback program earlier in the quarter. We opened 15,000 rooms, which was over 50% more than we opened in the third quarter of last year and 4% more rooms than we opened in the third quarter of 2019.

Year-to-date additions are trending at nearly 80% of 2019 levels and 50% higher than last year. With year-to-date terminations 47% below 2020 and 15% below 2019, we are now guiding to 1.5% to 2% full year net room growth. We awarded 151 new contracts globally in the quarter or 3% more than we signed in 2019. Here in the United States, we awarded 10 more contracts than we did in 2019, bringing our year-to-date domestic development activity to a level which is now on par with 2019. Global conversion activity is up 9% versus 2019, while new construction efforts in the quarter were consistent with 2019 levels.

New construction continues to perform better than expected with almost 460 deals signed since the onset of the pandemic and the number of projects in our new construction pipeline is now over 1,000 hotels for the first time in our company's history. With growing interest in our brands, our development pipeline increased 4% domestically and 5% internationally to a 193,000 rooms. Domestically, our pipeline growth was heavily weighted towards our higher RevPAR brands with over 4,000 rooms added in our midscale and upscale segments compared with this time last year.

Internationally, where our pipeline continues to be significantly concentrated in our Asia-Pacific region, we were pleased to see our Europe, Africa, Middle East and Eurasia region along with our Latin American region, each seeing around a 30% increase in their development pipeline versus 2020 as travel restrictions were lifted and markets began to open back up. The intent to travel among our 70% leisure customer base continues to strengthen, same day bookings continue to drop, multi-night bookings continue to grow and average length of stay continue to surpass 2019 levels.

In this work from anywhere world we're living in and with the flexible hybrid approach so many companies are taking to retain talent, we are seeing a strong rebound in consumer leisure travel. Thursday and Sunday night occupancy climbed to a historic high this quarter in the United States including our two highest non-holiday Sunday occupancy nights on record. Weekend and short four-night breaks increased 300 basis points since the beginning of the summer and continue to generate the largest percentage of leisure stays, followed by travel to visit family and friends.

The US Travel Association has long estimated that Americans forego \$800 million unused vacation days per year. We expect that unused vacation days will fall in the months and years ahead, fueling incremental demand for both our brands domestically and internationally, while providing more long weekend getaways to our affordable economy and midscale brands.

In August, US News & World Report once again selected Wyndham Rewards as the number one hotel loyalty program, given its simplicity, added benefits and flexibility. Along with Wyndham Rewards scope and breadth of over 50,000 aspirational vacation redemption opportunities including travel and leisure vacation clubs, Caesars Entertainment hotels and resorts and vacation homes, cottages and villas redeemable globally via our unique strategic marketing agreements with partners like Vacasa. And in early October for the fourth consecutive year, the readers of USA Today voted Wyndham Rewards, the number one hotel loyalty program in its 10 Best Readers Choice Awards. Wyndham Rewards enrolled nearly 2 million new members during the third quarter and now stands at over 90 million loyal members.

On a year-to-date basis, the program's overall share of occupancy for our franchisees grew by another 500 basis points compared to 2019 to nearly 40% globally and by another 400 basis points domestically to nearly one out of every two domestic guests asking for their Wyndham Rewards points at check in. Overall, direct contribution to our domestic hotels grew by another 120 basis points this quarter versus 2019, while OTA channel contribution declined over the same period by 100 basis points. The distribution power of Wyndham Rewards and its ability to

drive business directly to our hotel owners provided us the opportunity to team up with another very important leisure developer in our industry.

Earlier this month, we announced the launch of our 22nd brand, Wyndham Alltra, our first brand dedicated entirely to the fast growing, all inclusive segment through a strategic alliance with Playa Hotels & Resorts, a leading owner and developer in Mexico and the Caribbean. With the first two resorts in prime beachfront locations in Cancun and Playa del Carmen, Wyndham Alltra provides an entirely new midscale vacation brand for our franchisees to develop and for our members to both earn and redeem their Wyndham reward points. We continue to build on the success of our leading loyalty program as a direct reservation channel for our franchisees by promoting longer long weekends and midweek work from anywhere stays with incentives to non-members to enroll in Wyndham Rewards.

While there's been so much written about the nearly 2 million newly retired in the United States who are now more free than ever to travel, retirees who we consistently marketed to through our unique and traditional media channels and strong marketing partnerships with AARP, our marketing teams are increasingly focused on casting a wider net to attract younger consumers. Our nation's 150 million Gen Z, millennial and Gen X travelers represent our number one growth segment from a demand standpoint. It's a demographic which has grown from 62% of arrivals in 2019 to now 66% of our arrivals year to date, and it's up another 100 basis points from the end of Q2.

These next gen consumers shop and book differently, and our marketing teams are focused on the recency, frequency, channel and communication preferences of these new guests to ensure that we're reaching them at the right time, in the right way and with the right message. We're reframing loyalty offers to better suit behaviors, preferences and trends, providing more flexibility to our members with more valuable perks and continually innovating to meet rising guest expectations while driving more direct bookings to our franchisees. An example of this is our new mobile booking app, which continues to be our fastest growing direct channel. Downloads, app users and bookings through the app are each up about 50% compared to 2019.

We're also using Google Insights and advanced automation across search, display and video mediums to reach travelers where they are, introducing them to the significant value that our award winning brands and loyalty program can provide at a price point that can't be beaten for the experience our brands deliver. Another example is the tremendous benefit we're deriving from our new customer data platform. By deploying our marketing dollars through a targeted audience strategy, we're able to drive more direct bookings at a higher conversion rate, at a lower cost of acquisition, stretching our marketing funds further than we ever have before. We're also leveraging this platform to launch new member acquisition efforts, digital campaigns that are driving incremental Wyndham reward enrollments while generating new members who stay 65% more often and spend 84% more than non-member guests.

Just as Q3 domestic leisure demand outpaced Q3 2019, so too did demand from our everyday business travel segments whose office is the road. Our infrastructure and transportation segments representing the vast majority of the 30% of our domestic business travelers continue to outperform the broader white collar business transient and group segments by nearly 40 points, increasing by 8% overall versus 2019, driven by growing construction activity, utility project work and trucking demand from coast to coast. Corporate transient, which represents about 10% of our business travel segment and only 3% of our franchisees total revenues added another 16% of sequential growth since last quarter and is now down less than 30% compared to 2019.

Before handing the call over to Michele, I'd like to take a moment to thank our team members, both in the field and at corporate who have been more productive than ever over the past 20 months. We were incredibly proud to

be named among the best places to work in New Jersey for the second year in a row. And just last week, we were named number four on Newsweek magazine's most 100 loved workplaces. And we know that none of this recognition would be possible without our valuable team members around the world.

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

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Thanks, Geoff. And good morning, everyone. I'll begin my remarks today with a detailed review of our third quarter results. I'll then review our cash flows and balance sheet, followed by our updated 2021 outlook. We generated \$377 million of fee-related and other revenues in the third quarter and \$194 million of adjusted EBITDA. Third quarter RevPAR has now recovered to 97% of 2019 levels, up 7% domestically and down 25% internationally on a constant currency basis. Our economy brands here in the US continue to lead the recovery, with third quarter RevPAR exceeding 2019 levels by 14% while RevPAR for our midscale brands also continued their sequential climb surpassing 2019 levels by 4%. In the US, occupancy recovered strongly this quarter, now trailing 2019 by only 2%.

In fact, our economy brands drove occupancy to 103% of 2019 levels. Our midscale brands were at 94% and our higher end chain scale brands with a heavier urban concentration averaged 76%. Our franchisees capitalized on this demand by yielding rate. Overall ADR in the US surpassed 2019 by 10% led by our economy and midscale brands as leisure demand drove up weekend rates and bled into Sunday nights. These trends continued into October where month-to-date economy RevPAR is again 14% higher than 2019 and mid-scale RevPAR is again 4% above 2019. Similar to second quarter, we saw particular strength in national park and outdoor locations over the third quarter.

The South Atlantic region, where 22% of our US system is concentrated grew RevPAR by 16% and national park destinations where 4% of our US system is located grew 13%. Internationally, RevPAR improved to 75% of 2019 levels, up from 56% in the second quarter. Apart from Asia-Pacific, our international regions all experienced significant sequential improvement from the second quarter as travel restrictions were lifted and pent-up demand [ph] drove vacations (14:20) and leisure travel well into the fall. Canada improved to 83% of 2019 levels, up from 51% in the second quarter and EMEA improved to 75% up from only 32% in the second quarter. October month-to-date results indicate continued recovery with Canada now at 92% of 2019 levels and EMEA at 79%.

Recovery in China stalled during the third quarter as a result of summer lockdowns, but steadily improved since mid-August. October month-to-date is now over 90% of 2019 levels. Our domestic royalty rate improved to 4.6% this quarter, up 13 basis points versus 2019, reflecting the strength of our brand value proposition and the quality of new deals coming into our system. Our international royalty rate also improved this quarter, up 12 basis points due to our greater focus on the more profitable direct franchising business.

Overall, our global royalty rate is up 27 basis points from pre-COVID levels back in third quarter 2019. Adjusted EBITDA increased 1% compared to 2019, including a \$12 million favorable impact from the timing of marketing spend. Marketing revenues exceeded expenses by \$19 million in third quarter 2021, reflecting better than expected RevPAR performance compared to \$7 million in 2019. Excluding the effects of the marketing funds, adjusted EBITDA decreased \$10 million or 5% versus 2019, reflecting a 3% global RevPAR decline and \$15 million of lower license fees from travel and leisure.

This was partially offset by organizational changes we made last year to reduce our overall cost structure. Our adjusted EBITDA margin and our franchising margin both improved versus 2019. Our adjusted EBITDA margin

increased approximately 600 basis points, which included approximately 300 basis points of improvement from the changes we made to our cost structure last year as well as another 300 basis points of favorable impact from the timing benefit related to the marketing funds.

Our franchising margin calculated on the same basis as our peers, which excludes the effects of the marketing funds, increased approximately 200 basis points to 85%, again reflecting the cost structure changes. Adjusted diluted earnings per share was \$1.16 improving 5% from 2019, reflecting the benefit of share repurchase activity as well as lower interest expense as a result of the redemption of our \$500 million senior notes in April this year.

Free cash flow for the quarter was the highest ever on record, growing to \$141 million compared to \$92 million in third quarter last year and \$136 million in the third quarter of 2019. Year-to-date free cash flow was \$304 million compared to \$34 million last year and an outflow of \$26 million in 2019. These results are a reflection of our disciplined cost approach as well as strong cash collections and working capital management.

As always, our first priority is to invest our excess cash into the business to support future growth. Year-to-date, we've deployed \$25 million of development advances, which is about 2.5 times the amount we spent during the same period in both 2019 and 2020. We are on track to deploy the \$40 million we earmarked at the beginning of the year. We ended the quarter with approximately \$930 million of liquidity and our annualized first lien net leverage ratio was 1.9 times, well below the 5 times limit imposed by our credit agreement. Total leverage stands at 3.7 times within our 3 times to 4 times target range, which is ahead of where we expect it to be at this point in the year.

As Geoff mentioned, management recommended and our board approved another increase to our quarterly cash dividend, restoring the quarterly payout to the pre-pandemic level of \$0.32 per share with a dividend that is expected to be declared in the fourth quarter. In addition, we recommenced our share repurchase program during the third quarter, purchasing \$27 million of shares at a weighted average price of \$73.13. We paid \$23 million in common stock dividends this quarter and combined with our share repurchase activity, returned \$50 million to shareholders while year-to-date we've returned \$79 million.

Moving now to our updated 2021 outlook, in light of the continued outperformance of our business model and stronger than anticipated third quarter, we are raising our 2021 outlook as follows. We expect rooms' growth of 1.5% to 2% up from our prior guidance of 1% to 2%. For RevPAR, we are projecting a year-over-year increase of approximately 43%, up 300 basis points from our prior guidance. Versus 2019, this translates to a decline of approximately 14%. Our outlook assumes continued strong trends in the US, with the typical fourth quarter seasonal pullback and importantly, continued recovery overseas. Fee related and other revenues are now expected to be \$1.21 billion to \$1.23 billion, up from \$1.16 billion to \$1.19 billion.

As is our practice now, we have excluded cost reimbursements from our revenue outlook as these revenues have no impact on adjusted EBITDA. Adjusted EBITDA is now expected to be \$560 million to \$570 million, up from \$525 million to \$535 million. This guidance represents 90% to 92% of 2019 levels. Given the accelerated RevPAR recovery, we now anticipate we will underspend our marketing, reservation and loyalty [ph] funds (19:54) by approximately \$5 million in 2021. Year-to-date through the third quarter, revenues have exceeded expenses by \$26 million. For the fourth quarter, we expect expenses will exceed revenues by about \$21 million as the fourth quarter is typically a lower demand period, meaning we have less revenue coming in during the period to offset the cost basis. We're expecting adjusted net income of \$275 million to \$285 million, up from \$244 million to \$254 million.

Adjusted diluted EPS is projected at \$2.93 to \$3.03, up from \$2.60 to \$2.70 based on a diluted share count of 94 million that excludes fourth quarter share repurchases. And we expect full year 2021 free cash flow conversion from adjusted EBITDA of approximately 60%, up from our prior outlook of approximately 55%. Note that our 2021 outlook still assumes the minimum level of license fees from travel and leisure, as well as other variances versus 2019, which can be found in more detail in the investor presentation posted on our website.

In closing, our third quarter results continue to demonstrate the resiliency and significant cash flow generation capabilities of our business model. With RevPAR recovery tracking ahead of expectations, our dividend now restored to pre-pandemic levels and the recommencement of our share repurchase program this past quarter, we continue to build on our strong track record of driving shareholder return higher. We are confident these trends will continue throughout 2022.

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] We will take our first question from Stephen Grambling with Goldman Sachs. Your line is open.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Q

Hey. Good morning. Thanks for taking the questions. Maybe I'll start off with, I know it's probably early to really be giving a whole lot of detail on 2022, but I'd love to just hear your initial thoughts across maybe some of the different trends, what do you think about the strength in leisure trends and the sustainability there, recovery in some of the business trends and where the growth could be, maybe even beyond 2019 at some point? And then also, what are some of the major moving pieces to think through as it relates to net unit growth in that acceleration you've been discussing?

Geoffrey A. Ballotti

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

A

Okay. Thanks, Stephen.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Sure. Good morning, Stephen.

Geoffrey A. Ballotti

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

A

Thanks for the question.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Please, Geoff.

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

A

Well, I'll start, Michele, on, I guess, the – just the leisure trend, first piece of that question. Yeah. Look, I think the industry all of us were positively surprised as kids went back to school. I mean to look at our economy RevPAR's even up 14% in the quarter and 14% as Michele reported October month-to-date and to see that strength continue, I mean, it just keeps getting better. We all saw Smith Travel come out last week with the week ending October 23, STR economy was up 17%. Wyndham Hotels & Resorts Economy was up 20%, 3 points over the industry.

And I think, the demand out there that is despite being out of the peak leisure season to see economy so far ahead of 2019, midweek occupancies now – midweek occupancies near 2019. But ADRs mid-week continue to 2019 levels just continues to speak to that demand, and we think that that demand certainly is going to continue throughout this fall as it's been and into next year. And from a business travel standpoint as we talked about in our script, I mean, it keeps picking up our infrastructure and construction and transportation business just keeps chugging along. And we do not expect that to slow down at all.

On the net unit growth, we're just so pleased on so many different fronts with what happened in the quarter, just a monster quarter on executions, especially when it comes to conversions. I mean, to think that our franchise sales and development teams around the world awarded over a 100% more conversion rooms domestically than they did in 2019 and 20% more internationally than they did in 2019 gives us just great strength as we added 6% more, as Michele mentioned in our pipeline.

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

Q

Great. And maybe an unrelated follow-up. You mentioned mobile bookings up 50%. I guess where is that penetration now? How does that compare across different types of customers? And how are you trying to leverage mobile to drive consumer engagement, perhaps incremental partnerships in the future?

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

A

Well, our partnerships are critical to us. I mean, the partnerships that we have with Wyndham Rewards and what we're doing in fact, our team is out there today meeting with one of our strategic partners in Las Vegas with Caesars is really important. And as we as we talk about what's going on the mobile front, I think the thing that we're just most excited to see is that we're attracting younger consumers that we haven't had before into the program. It is driving a real improvement in our marketing ROIs on the digital front, to your point, I mean, we've been able to take our conversions from sub-10% to over 40% and cut our social costs and booking in almost half.

I mean, we know now more about who is staying with us, where they're coming from. And look the investments couldn't have come at a better time. I mean with Google removing their third party cookies in Chrome and pressuring all of those that use Chrome and Google for marketing, what we're doing now on the digital front is to really improve the precision of our communications and provide those younger consumers with more relevant offers and get them to book into our hotels.

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

Q

That's excellent. Thank you so much.

Geoffrey A. Ballotti

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

A

Thanks, Stephen.

Operator: We'll take our next question from Dany Asad with Bank of America. Your line is now open.

Dany Asad

Analyst, BofA Securities, Inc.

Q

Hey, good morning, guys. My question is just to follow up on the NUG piece, I mean net unit growth piece. So just with all the headlines around China and there's been some issues on the development front, are you or your developers on the ground seeing any ripple effects that could be causing any concern on your end for the hotel development side for Wyndham?

Geoffrey A. Ballotti

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

A

In China, no, Dany. I mean, new construction has especially, for us and our developers on the ground returned to normal. I mean, we're all seeing the numbers that [indiscernible] (27:17) reporting, I mean, pipeline numbers in China on the new construction front continue to explode. Our new construction pipeline increased 5% in the quarter. We're continuing to introduce new brands like Wingate, Wyndham Garden. You might have seen the release that Microtel is going to have 20 new hotels under development. And look our net unit growth in China is on the direct franchising side running double digit. I think it's 11% year-to-date to where it was last year. And overall, with our [ph] master's blended in (27:52) we're back in that high-single-digit range.

Dany Asad

Analyst, BofA Securities, Inc.

Q

Got it. And then, on that topic of that sustainability of leisure strength, is there maybe like one or two, either macro trends or data points that you're looking at whether it's consistently or not, but just something that you're looking at to kind of being like okay, well, it'll give you more confidence that this is a trend that has some legs that will keep coming for – keep going for the coming months and quarters?

Geoffrey A. Ballotti

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

A

Well, I think the biggest trend that gives us that confidence is just, again, is that what happened on the execution front in the conversion space. I mean for our pipeline to grow 6% and [ph] toward 2x (28:38) the number of conversion rooms domestically and 20% more internationally. I think the other data point in terms of our confidence moving forward and how we get moving that [ph] 2 to 4 to 3 to 5 (28:50) is just how happy our teams are that we completed throughout 2020.

That sizable restructuring we've talked about on these last two calls. I mean we're moving over 20,000 unprofitable and non-compliant franchise rooms that are no longer going to be an issue for us moving forward is something that gives us great confidence in terms of continuing to grow the NUG. And then, I think our value proposition would be the third point I would add to that. I mean to see our RevPAR indices of our brands where they are, I mean we've talked about what we publicly reported back in April, we've never had a Super 8 FDD report at a 103% fair market share, [indiscernible] (29:34) 108% or great new brands like La Quinta at 109% which continues to impress gives us just a lot of momentum as our engagement with our franchisees is stronger,

we think than it's ever been given the support we've shown them. And then I guess finally, as we've discussed, moving that retention up as we continue to do is another really important piece of the puzzle.

Dany Asad

Analyst, BofA Securities, Inc.

Thank you very much.

Q

Operator: We will take our next question from Joe Greff with JPMorgan. Your line is now open.

Joseph Greff

Analyst, JPMorgan Securities LLC

Good morning, guys. I don't think these questions were asked. I had some problems with the operator. When we think about your RevPAR to EBITDA sensitivity heading into next year, is it fair to say that the RevPAR sensitivity in 2019 is what you would expect next year in terms of, what, one point of RevPAR equates to sort of incremental EBITDA or fees? And then if there are differences, what would be the puts and takes in 2022 versus that relationship in 2019?

Q

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Hi, Joe. Good morning. No, I think you're absolutely right. The 2019 RevPAR sensitivity will hold likely in a material fashion for 2022. I don't expect there to be any real differences there. Of course, when we're talking about the EBITDA line, we will have some puts and takes, some headwinds with respect to the license fee and then maybe some inflationary cost increases, as we move three years beyond the 2019 cost levels. But otherwise I expect it would hold.

A

Joseph Greff

Analyst, JPMorgan Securities LLC

Great. And then, Geoff, you mentioned all these positive data points on the development front. To what extent or how much is there a gross room addition headwind going into next year and beyond from 2020 and 2021 delayed or elongated construction cycles that gives you some – almost low risk [ph] easy help (31:55) in accelerating that net rooms growth?

Q

Geoffrey A. Ballotti

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

Yeah, I think it's a great question, Joe, that our teams are looking at. I mean, our new construction opens and what we're adding to the pipeline continues to give us again just great confidence in terms of being able to continue to see the new construction opens – continue. I mean, we opened another 27 new construction hotels this quarter. I think we opened about – or executed – we awarded about 20 new – 70, I believe, new construction contracts, which was right about on the same level that we opened – that we awarded back in the third quarter of 2019, and over half of these deals are being signed with existing franchisees. As we mentioned in the script is the first time we've had over a 1,000 hotels to your point in our new construction pipeline, that's up 6% or 60 hotels from last year.

A

Another 15, I believe, broke ground this quarter, which is up 30% from last year. And I think there's a real belief out there that there's confidence to initiate among our franchisees where they can new construction. I mean, it's not just in China that we're seeing a significant uptick in projects in the early planning stages. I mean, in this

country [indiscernible] (33:21) also reporting, there's more new construction hotels to open in 2022 than there was back in 2021 and that same number, I believe their reporting is going to open in 2023. So we're finding conversations happening daily with our small business owners and franchisees is how do I build a select service hotel as efficiently as I possibly can at the highest ROIs and they're looking at new construction prototypes like Microtel and La Quinta and that's where we're seeing the growth.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Yeah. And I would just add, Joe, we have about 50,000 rooms in the ground right now and half of that we would expect – about half of that we would expect to open in 2022.

Joseph Greff

Analyst, JPMorgan Securities LLC

Q

Thank you.

Operator: And we will take our next question from David Katz. I apologize, one moment. And, David, your line is now active.

David Katz

Analyst, Jefferies LLC

Q

Good morning. Can you hear me?

Geoffrey A. Ballotti

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

A

Yeah. Thanks.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

I can.

Geoffrey A. Ballotti

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

A

David, sorry for the delay.

David Katz

Analyst, Jefferies LLC

Q

Not at all. First I wanted to just go a little farther [ph] if you can (34:42) on net unit growth. And I know you've talked about it a fair amount, but I'd love to take just a kind of a longer term view and talk about the puts and takes that can get you to a higher perspective domestic NUG level. Is there a long-term vision of getting to that mid-single digit level and what has to happen for that to occur? And I mean specifically, in the United – in the domestic markets?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Sure. Yeah. Great question, David. Thank you. Of course we always have the goal of improving our net room growth driving that higher and particularly in the US because those are very profitable rooms for us. We have talked about returning to our annual rate of 2% to 4% and then driving that higher to 3% to 5%. That is still a goal and then even beyond that, so what we need to do are two things. We need to improve our retention rate and we are showing great momentum toward that goal in 2021. And we expect to continue to show momentum toward that goal in 2022 and beyond. And then we need to restore the addition side.

Right now, we're tracking about 85% of our 2019 levels in 2021. So we want to get that back to 100% and potentially even a little bit more than 100%. And same thing on the international side. But specifically talking about the domestic side of the portfolio, we would expect our economy brands would maybe be kind of flattish. And this is a very large system, a bunch of legacy large brands in there. And then we would expect some incremental growth – much larger incremental growth coming out of our midscale and above chain scale. So when we talk about the domestic portfolio, it's really about driving the development activity through those midscale and above chain scale.

David Katz

Analyst, Jefferies LLC

Q

Right. And if I can just follow – I appreciate all that. If I can just follow that up [indiscernible] (37:03) is a two, three, five-year time horizon to get to those aspirational levels? Is that a reasonable way to think about it? Or is that something that you feel like could happen sooner than that?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

I think we will step our way into those aspirational goals over the next two to three years, so you should expect to see some momentum toward those goals.

David Katz

Analyst, Jefferies LLC

Q

Got it. Perfect. Nice quarter. Thanks. Appreciate it.

Geoffrey A. Ballotti

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

A

Thanks, David.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Thank you.

Operator: And we will take our next question from Michael Bellisario with Baird. Your line is now open.

Michael J. Bellisario

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

Q

Thanks. Good morning, Geoff and Michele.

Geoffrey A. Ballotti

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

A

Hey, Mike.

Michael J. Bellisario

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

Q

Big picture question, you're sort of tying together a few of the prior points you made in the prior questions, but want to go back to 2018, turn the clock back here and that growth algorithm that you guys provided post-spin, was 8% to 14% EPS growth, not asking you for a number here unless you want to give one, but maybe big picture now that your portfolio and you've made it through the pandemic, what do you think that growth algorithm looks like going forward? What are the puts and takes versus your pre-pandemic expectations? And then, maybe where do you think that growth rate should settle out on a forward-looking basis?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Yeah. Sure. I think it's a pretty simple business model, right, Michael. It's net room growth plus our RevPAR growth and maybe a point from scale and a little bit as well from driving the royalty rate higher, particularly as we focus more on the midscale and above brands in the US and as well as the direct franchising business international, which carries a much higher royalty rate than the master relationships do. And then, dropping to the EPS line, we would apply the effects of cash deployment. So, to the extent that we can find a compelling business opportunity to invest, we would drive it through EBITDA. And to the extent that we can't, it would obviously come through the share repurchase line item. So, I think we're still committed to that high-single digit, low teens EPS growth rate over time. And as we can continue to improve our net room growth, obviously that algorithm can continue to improve.

Michael J. Bellisario

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

Q

Got it. That's helpful. And then just kind of as a follow-up. Your targeted leverage range is still 3 to 4 times. Do you think operating in maybe the upper half of that range is more appropriate now versus closer to the midpoint where you have been doing pre-pandemic given everything you've learned from the pandemic and the cash flow sensitivity of the business model?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Yeah, we have evaluated this, and 3 to 4 time leverage range did provide us maximum flexibility during the pandemic to be able to support our franchisees the way we felt was necessary and then also the right level of security, right, from a bank relationship perspective. So somewhere in that mid-range, yeah, I'm perfectly comfortable in the high end of that 3 to 4 times. And I would say we would be willing to even step out of that range for a compelling investment opportunity, of course, with the expectation that we're able to get back within the range within a short period of time.

Michael J. Bellisario

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

Q

Got it. Very helpful. Thank you.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Thank you.

Operator: We will take our next question from Patrick Scholes with Truist. Your line is now open.

Patrick Scholes

Analyst, Truist Securities, Inc.

Q

Hi. Good morning, everyone. Just a couple of quick questions. Wondered if you, Michele, can you say – I'm sorry, were you active in the share repurchase market so far in 4Q?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Yes. We were on our 10b5-1 plan for the month of October.

Patrick Scholes

Analyst, Truist Securities, Inc.

Q

Okay. Very good. So that continues. And then just one more specifically on the small bump up in the net room growth for the year, was that increase mostly attributable to the all-inclusive or was there anything specific or was it just a combination of kind of everything you discussed so far?

Geoffrey A. Ballotti

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

A

Little of all-inclusive, obviously, but it's really been a combination of everything and as we've been talking about, I mean, we're seeing continued concentrated growth in the higher revenue generating segments and that was certainly reflective of our openings and what you saw going into the pipeline.

Patrick Scholes

Analyst, Truist Securities, Inc.

Q

Okay. That's it. Thank you.

Geoffrey A. Ballotti

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

A

Thanks, Patrick.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Thank you.

Operator: We'll take our next question from Alton Stump with Loop Capital. Your line is now open.

Alton K. Stump

Analyst, Loop Capital Markets

Q

Great. Thank you. Hey, good morning. Congrats on what was obviously a great quarter, sort of everything pretty much beat our expectations across the board. I was surprised in particular by as to how much [ph] dilutions (42:20) were down year-over-year. I think you mentioned even versus 3Q 2019. I guess what is key driver of that given the fact that there's obviously a lot of [indiscernible] (42:28-42:34) trend of lower dilutions if that could continue going forward?

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

A

Hi, Alton. Good morning. Our retention year-to-date is tracking about 50 basis points better than 2019. We don't look at it so much on a quarterly basis because there can be some noise from one quarter to the next. I would not look at it compared to 2020 as we know we were driving some rooms out of the system that year in connection with COVID and kind of resetting our portfolio. So really the baseline would be 2019 and we're trending about 50 basis points favorable and that really reflects all the investments we're making and the value proposition and our level of owner satisfaction, which is at – for our field team which is interacting mostly with our franchisee base, that's at 99% rate right now.

Alton K. Stump*Analyst, Loop Capital Markets*

Q

That makes sense. Thanks so much. And then just as I kind of think about unit, kind of, growth, obviously, of course goal is to get back to your long-term [indiscernible] (43:38) could that happen next year? Or is it more like a 2023, 2024 story or kind of how do you see that playing out over the next couple of years?

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

A

Yeah. So, we're not going to provide guidance for 2022. We're not prepared to do that yet. But what I can say is we would expect to see continued improvement toward our longer-term goals of driving net room growth above 3% to 5% range.

Alton K. Stump*Analyst, Loop Capital Markets*

Q

Okay. Great. Thanks so much, Michele. I'll hop back in the queue.

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

A

Thank you.

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

A

Thanks, Alton.

Operator: And we will take our next question from Ian Zaffino with Oppenheimer. Your line is now open.

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

Q

Hi. Great. Thank you very much. Couple questions here. I guess the first one would be, just given how well you're kind of higher end brands have done, is there a greater desire to push deeper into that? I know you have some initiatives, but maybe kind of doubling down on those or kind of sticking to our knitting of the midrange or upper midrange? Thanks.

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

A

Sure. Thanks, Ian. I mean, we will stick to our knitting and we're really happy again to just see how strong the growth has been in both our openings and our pipeline in that midscale and in that upscale. I mean, I think if you look at the deck, the investor presentation that we have, you see that reflected there. You do see on that same page that we do have two new higher end brands which we're thrilled with. The partnership that we have with Playa with the Wyndham Alltra brand and we think all inclusive is a segment right now that is going to be in great demand from developers, both in the Caribbean and Mexico with Playa, but also internationally, we're starting to see some pickup there as we referenced in terms of our pipeline.

And then while, we talked a little bit about on the last call, the launch of our Registry Collection, I mean, just a remarkable identity brand with today 240 five star resorts around the world on five continents with some of the most recognizable resorts in their markets. We're starting to see some traction there, but when it comes to our – where we're getting the growth in our upper midscale brand, it's La Quinta in our upscale brand, it's Wyndham, it's Wyndham Grand and it's Dolce actually internationally. Those brands will continue to grow for us.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Okay. Thank you.

Q

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

And I think also, Ian if you just – if you believe that leisure is going to continue to be the primary driver during the early stages of this new lodging cycle, then we would expect to see some higher growth rates in our upscale segment as our distribution platform is really poised to benefit from that leisure demand.

A

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Okay. And then I know we're still in kind of 2021, but if we were to look at 2022 and think about CorePoint, the sale happened sort of before year end, how do we think about that into next year? Thanks.

Q

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Yeah. It would not be appropriate for us to comment on any potential transaction for CorePoint. I'm sure they're going to update on their status on their call and then we will provide a fulsome update on what that means to our 2022 and beyond when we have information regarding whether or not they actually are going to be selling their portfolio.

A

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Okay. Thank you very much, guys.

Q

Geoffrey A. Ballotti

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

Thanks a lot, Ian.

A

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Thank you.

Operator: And we will take our final question from Dan Wasiolek with Morningstar. Your line is now open.

Dan Wasiolek

Analyst, Morningstar, Inc. (Research)

Q

Hi. Thanks for taking the question. So I'm wondering what you guys are thinking as far as the ability for some of these international markets in 2022 to maybe catch up to the RevPAR demand recovery that we've seen in the US, whether that can maybe occur next year and kind of supplement the sustainable leisure demand that you guys are expecting in the US next year?

Geoffrey A. Ballotti

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

A

Yeah. I think if there's one thing, Dan, that's been true throughout this pandemic, it's as travel restrictions are opening up or easing, that RevPAR comes back quickly. I mean, it was just great to see Europe, Canada and Latin America this quarter, all gaining more than 20 points of RevPAR since Q2. And it's great to see after the most recent lockdowns, a steadily improving RevPAR in China as Michele referenced back to nearly 90% of 2019 levels. I think the best example out there is Canada. It was down 40% before, it's now – it was down 10% in September and I think it's running October month-to-date ahead of where it was in October. And so, look one of the great things is as airlines have added capacity, I mean, we saw that in Europe, I mean, the inter-European lift just created a really strong quarter for us in October. I mean our big markets over there, Germany came back, UK came back, the demand for vacation travel, I think this fall, we talked about earlier this week adding 12 great new resorts that we just opened this quarter with our CLC relationship in countries like Spain, Tenerife, the Canary, which are sun-seeking destinations for Europeans. I think there's a real ability for us to continue to see RevPAR recovery as those restrictions are lifted.

Dan Wasiolek

Analyst, Morningstar, Inc. (Research)

Q

Helpful color. Thank you. Nice quarter, guys.

Geoffrey A. Ballotti

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

A

Thanks a lot.

Operator: We have no further questions on the line at this time. I will turn the program back over to Geoff Ballotti for any additional or closing remarks.

Geoffrey A. Ballotti

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

Well, thank you, Brittney. And thanks, again, everyone for your time today. Michele, Matt and I very much look forward to speaking with many of you in the weeks ahead. And more importantly, hopefully seeing more of you face to face. Have a great weekend ahead and happy Halloween on Sunday.

Operator: Thank you. This does conclude today's Wyndham Hotels & Resorts third quarter 2021 earnings conference call. Please disconnect your lines at this time and have a wonderful day.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.