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Wyndham Hotels & Resorts, Inc. (WH)

Q1 2024 Earnings Call
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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Wyndham Hotels & Resorts First Quarter 2024 Earnings Conference Call. At this time, all participants had 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 Mr. Matt Capuzzi, Senior Vice President of Investor Relations. Please go ahead, sir.

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 and Head of Strategy.

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 and on our social media channels in the future. Accordingly, we encourage our investors to monitor our website and our social media channels, 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. Despite a challenging RevPAR environment here in United States, we're pleased to report another strong quarter of progress on our executions, openings, retention, and net room growth around the world. In addition, late last week, our board increased our share repurchase authorization by $400 million, demonstrating its confidence in our ability to generate significant cash flow and its commitment to continued shareholder returns in the year ahead.

We opened over 13,000 rooms globally, 27% more rooms than we opened last year, our largest first quarter of room openings since going public nearly six years ago. We increased our franchisee retention rate by 30 basis points versus the same time last year to 95.6%. We delivered a record 3.7% increase in net room growth. And
most importantly, for the 15th consecutive quarter, we grew our development pipeline by 8% to a record 243,000 rooms.

Here, in the United States, we again saw both sequential and year-on-year improvement, driven by 3.3% system growth in a more revenue intense midscale and above segments. We added 50 hotels domestically, including 11 hotel conversions under the newly-created WaterWalk Extended Stay by Wyndham brand. Located in key markets such as Charlotte, Raleigh, Tucson, and Jacksonville, WaterWalk by Wyndham adds higher FeePAR hotels to our system while expanding our portfolio into the upscale extended stay segment, complementing our new construction ECHO Suites and midscale Hawthorn Suites Extended Stay brands.

Internationally, we increased net rooms by 1% sequentially and by 8% versus prior year. Our Latin America team drove over 2% of sequential net room growth and 6% of net room growth versus prior year, adding significant conversions from competitive brands like the 600-room Wyndham Sao Paulo Convention Hotel in the financial capital of Brazil, along with a new TRYP By Wyndham Asunción, steps from the renowned shopping centers of Paraguay’s capital city.

Our EMEA team, which added 49% more rooms to its development pipeline than they did in the first quarter of 2023, once again grew net rooms sequentially and by 12% versus prior year, adding aspirational hotels like the Ramada Sapanca Thermal Resort in Turkey and the new trademark by Wyndham H2 Hotel in Downtown Vienna, Austria.

Last month, I had the opportunity to visit with our teams in Singapore and Shanghai and joined the signing ceremonies for 27 of the over 60 hotel contracts awarded to owners this quarter across Asia-Pacific. Our Southeast Asia and Pacific Rim region, which increased rooms by 2% sequentially and by 16% versus last year, entered several new markets, including Pattaya, a growing leisure destination in Thailand. In January, we opened the Wyndham Jomtien, an upscale new construction hotel and the first of another eight hotels we expect to open up in the Pattaya market over the next five years.

And our direct franchising team in China, which grew net rooms 1% sequentially and by 13% versus prior year, also had another strong quarter of openings and executions, awarding 38 new contracts to owners, over three times what they awarded last year in the first quarter, and opening new construction and conversion hotels across the country like the Wyndham Dalian Jinpu, an upper upscale five-star hotel in the city center of Hainan Province.

Globally, our teams awarded 171 contracts for approximately 24,000 room additions. Domestic contracts signed in the first quarter were 50% higher than last year for our midscale and above segments. And international Q1 signings increased by 80% year-over-year. This acceleration of our development activity grew our pipeline to a record 243,000 rooms in nearly 2,000 hotels. Midscale and above brands in the pipeline increased 4% to a record 168,000 rooms and now represent nearly 70% of our pipeline. Our domestic pipeline for midscale and above brands increased by 4%, and the pipeline for our highest international RevPAR regions of EMEA and Latin America increased by 21%.

In the toughest quarterly comp we will face all year, domestic RevPAR finished down 5% compared with 2023. Domestic occupancy finished at 90% of 2019 levels, down 440 basis points from Q1 of 2023, while pricing power remained strong with ADRs 14% higher than pre-COVID levels, yet still trailing inflation, which has increased 23% over the same period.

RevPAR improved 240 basis points from February into March and accelerated into April. Month-to-date through the 20th of April, domestic RevPAR ran 4% ahead of prior year, benefiting from both the Easter shift to Q1 and
weekend demand around the solar eclipse on April 8. And May revenue on the books is pacing 7% higher than it was at the same time last year. International RevPAR increased 14% to prior year in constant currency, driven by strength in Latin America, where RevPAR increased by 41%, and across EMEA where RevPAR increased by over 10%. And in China, which continues to face deflationary pressures, RevPAR also increased by over 10% year-over-year, driven by both ADR and occupancy, outpacing STR China RevPAR growth by 700 basis points.

Ancillary revenues increased 8% during the first quarter, driven by success from our blue thread licensing agreement with Travel + Leisure group, along with several new product offerings like our paid $95 Wyndham Rewards Earsner Business Card, which has garnered acclaim as Forbes' Best Business Card for Road Warriors, thanks to its automatic diamond status and its ability to earn a best-in-class eight points for every $1 spent on hotel stays and gas purchases.

And last week we launched Wyndham Business to streamline the direct booking process for businesses of all types and all sizes, along with travel planners who are contracting hotel nights for our nation's 15 million infrastructure workers across the United States of America, offering these planners a comprehensive suite of free tools that guarantee their companies a minimum 10% room discount, easy direct billing, and instant group bookings. We've tailored Wyndham Rewards Business to ensure a smooth travel planning process with personalized support from dedicated sales professionals.

We anticipate that Wyndham Business will not only drive additional bookings to our select service hotels, it will also drive additional membership to Wyndham Rewards, USA TODAY's number one loyalty program for six years running, along with additional cardholders to our suite of co-branded credit card products, providing us a new channel for ancillary fee growth. We're currently offering four distinct credit card products tied to Wyndham Rewards in the US and we see significant opportunities to expand these products globally as Wyndham Rewards continues to grow in importance both domestically and internationally, up over 40% since 2019 and up 7% year-over-year to 108 million members strong.

Finally, we'd like to thank our franchisees and team members for their unwavering commitment and support over the past months throughout Choice's failed takeover attempt of our company. Through it all, it was no surprise to see Wyndham Hotels & Resorts selected by Newsweek as one of the 2024 Most Trustworthy Companies in America and is a four-time honoree as one of the 2024 World's Most Ethical Companies by Ethisphere. On behalf of our board, we also want to thank our shareholders for their overwhelming support. We're confident in our growth strategy and in our ability to create substantial value, both in the short-term and in the long-term.

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

Michele Allen
Chief Financial Officer & Head-Strategy, 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 outlook.

Before we begin, let me remind everyone that the comparability of our quarterly results is impacted by the timing of our marketing fund spend, as discussed back on our February call. In the first quarter of this year, marketing fund expenses exceeded revenues by $14 million, as expected, compared to expenses exceeding revenues by $4 million in the first quarter of last year. 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 the marketing fund impact.
In the first quarter, we generated $304 million of fee-related and other revenues and $141 million of adjusted EBITDA. Fee-related and other revenues declined $4 million year-over-year, reflecting a 4% decline in royalties and franchise fees and a 3% decline in marketing revenues. These declines were partially offset by an 8% increase in ancillary fee streams. The decline in royalties and franchise fees primarily reflects lower RevPAR in the US and the lapping of our highest quarter of other franchise fees, both of which were partially offset by a larger global system and international RevPAR growth.

Ancillary revenues reflect higher license fees and credit card revenues, as well as the effects of strategic marketing partnerships driven by initiatives that harness the power of our Wyndham Rewards loyalty program. Adjusted EBITDA grew 3% on a comparable basis and our adjusted EBITDA margin improved 250 basis points to 83%. First quarter adjusted diluted EPS was $0.78, up 1% on a comparable basis, reflecting adjusted EBITDA growth as well as benefits from our share repurchase activity, which were partially offset by higher interest expense.

During the first quarter, we executed $275 million of new forward starting interest rate swaps on our Term Loan B facility, which will begin in fourth quarter 2024 and expire in fourth quarter 2027 at just under 3.4%. As a result, nearly all of our Term Loan B is now swapped through the end of 2027 at a blended fixed rate of 3.3%, more than 200 basis points lower than current SOFR levels.

Free cash flow before development advances and transaction costs was $102 million, up 5% year-over-year, primarily reflecting adjusted EBITDA growth. Development advance spend increased $18 million year-over-year, reflecting our ongoing efforts to capitalize on opportunities and the competitive landscape, particularly in attracting higher FeePAR properties to our system across the globe.

We returned $89 million to our shareholders in the first quarter through $57 million of share repurchases and $32 million of common stock dividends. We ended the quarter with over $580 million in total liquidity, and our net leverage ratio of 3.4 times was in the lower half of our target range. We are planning to finish the year at a net leverage ratio of at least 3.5 times, which provides over $400 million of capital available for share repurchases this year or 7% of our outstanding shares at recent price levels.

Additionally, depending upon the availability and actionability of M&A opportunities, we could increase our leverage to 4 times, which would provide us with over $750 million of available capital, which would equate to 13% of our outstanding shares. And with the board's recent approval of an additional $400 million in share repurchase authorization, we now have nearly $800 million available under the program.

Turning now to outlook. We're increasing our adjusted diluted EPS projection by $0.07 to a range of $4.18 to $4.30 to account for our first quarter share repurchase activity. This outlook is based on a lower diluted share count of 81.6 million shares and, as usual, excludes any future potential share repurchase activity.

Our outlook for RevPAR remains unchanged. You'll recall from our February call that we expected a challenging comp in the first quarter with gradual improvement moving throughout the remainder of 2024. Last year, in the second quarter, we began to see a shift in travel patterns as COVID restrictions were lifted. Cruise and inexpensive air travel to destinations like Mexico and the Caribbean opened back up, while domestic leisure and drive-to hotels, experienced demand declines, especially along the coast. We saw domestic RevPAR gradually deteriorate in 2023, starting modestly at down 1% in the second quarter and then deepening to down 4% by year-end. We are now beginning to lap these effects.
Geoff already touched on some of the improving trends that we began seeing in March, April and May. When combining these recent trends with our expectation of incremental infrastructure capture as we move into the second half of the year and strong positive growth internationally, we continue to expect full year global RevPAR growth of 2% to 3% this year.

There are also no changes to our expectations for the marketing fund. For Q2, we expect the funds to overspend by $5 million to $10 million, bringing the first half overspend to approximately $20 million, which we then expect will reverse in the back half of this year. Combined with the $7 million we recorded during 2023, we now expect costs relating to Choice's failed takeover attempt to approximate $50 million in total, down from the previous $75-million estimate. The vast majority of this amount will be paid out in the second quarter, and remember that these costs are excluded from our 2024 outlook.

In closing, our first quarter results reflect strong execution on our growth strategy despite softer industry-wide RevPAR in the US. We continue to accelerate net room growth and pipeline growth. We generated significant ancillary fee growth and improved operating margins, driving incremental earnings growth. And we continue to generate significant cash while maintaining a strong balance sheet with ample leverage capacity to further enhance shareholder returns over the remainder of the year.

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

QUESTION AND ANSWER SECTION

Operator: Thank you, Ms. Allen. The floor is now open for questions. [Operator Instructions] We'll go first this morning to Joe Greff of JPMorgan.

Joseph Greff
Analyst, JPMorgan Securities LLC

Geoff, Michele, I know you talked to your developers and developer community frequently. I would love to hear from you about some of your recent conversations that you've had with them, particularly after March 11, the date that Choice decided to stop its pursuit of buying you. Are you seeing or are they communicating to you an acceleration or a pivot with respect to development? So, whatever pause you may have seen, has that reversed? And is there anything within these conversations that maybe more brand specific or conversion specific that you would call out?

And just my last follow-up question with respect to this topic is, is it fair to think that starts start to really pick up and accelerate now and maybe you're kind of closer to the 4%, the higher end of your net rooms growth target for the year versus the midpoint? And that's all for me. Thanks.

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

Yeah. Thanks, Joe. Absolutely, we are seeing a lot less uncertainty out there in the development community. We are talking to our franchisees, obviously, daily. Our teams had great successes, I think it was your question last quarter on the first – on the first question [indiscernible] (00:19:22) in terms of could last quarter have been better? We had a great fourth quarter, a record full year of openings. And we've had, again, our largest first quarter of openings since going public six years ago.
But certainly to your question with the deal noise dissipating, owners who are uncertain on committing the deals with us, those who did not want to wind up in the Choice system have agreed to sign. And I think there's no better example of that than the dozen WaterWalk conversions that we did this month. So, yes, I mean, the conversations, the trend, the pause, if there was one out there, has reversed. And we're certainly seeing a lot more activity on both the conversion and the new construction signing front.

Our teams had a really good quarter not only on the conversion side, our conversion room openings from a signing standpoint were up over 20%, I believe, in the quarter. But new construction executions were also up. They were up double digits, up over 20%, I think, versus the first quarter or even back before COVID. And so, yeah, we're really positive with the tenor of conversations that are going out there – going on out there with our franchise development teams, and any uncertainty that was out there in terms of doing business with us has certainly gone away.

Joseph Greff
Analyst, JPMorgan Securities LLC

And then with respect to maybe the higher end of net rooms, growth is more reasonable than sort of the midpoint...

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

Sure. Look, I mean, we're really feeling good right now about we've taken our 2% to 4% up to 3% to 4%, as you've seen. And we've just finished the first quarter with a 3.7% net rooms growth and believe we're firing on all cylinders.

The other piece of that, of course, is retention. And we're making just great progress. I mean, we've always said that moving our retention up a point moves our net room growth up a point, and our retention continues to improve both domestically and internationally. We've moved over the last two years since going public from 93% to over 95%, and we had this quarter domestically a retention improvement of – I believe it was 20 basis points year-over-year. And internationally our retention improved 30 basis points. So, that 2% to 4% net room growth target that's been increased to 3% to 4% with the first quarter at 3.7%, our highest quarter ever, gives us confidence to continue to move that number higher.

Joseph Greff
Analyst, JPMorgan Securities LLC

Great. Thank you.

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

Thanks, Joe.

Operator: Thank you. We go next now to David Katz of Jefferies.

David Katz
Analyst, Jefferies LLC

Good morning, everybody. Thanks for taking my question. Pursuant to the subject of NUG, I wanted to go just a little bit farther. One of the things we've been seeing and I think the deal that you included in your announcement
exemplifies it where we're seeing some affiliate type deals. Can we just talk more about the NUG environment generally? Should we be seeing more of those kinds of deals? And give us a little bit of understanding about the revenue intensity of those kinds of deals because it seems to be more than just yourselves, more of an industry trend. Thank you.

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

Sure. I mean, I think if you look at our pipeline, what you continue to see, David, is it be weighted more to upscale and higher RevPAR brands like WaterWalk, which I'll talk about in a second. I mean, if you look at our openings this quarter, we'll always be leading in the economy segment. But when it comes to the midscale and above segments, our openings in the first quarter, midscale, upper midscale, upscale, they were up 30%.

Our executions in terms of what our teams are selling was more in that revenue intense segment. It was up 70% year-over-year in terms of executions. And you're seeing that reflected certainly as we've laid out in our IP, in our pipeline, our midscale and above pipeline, in the more revenue intense segments which not only have a higher FeePAR attached to them, but they also have a higher royalty fee, ability to drive that royalty fee higher has gone up.

In terms of WaterWalk, that's a conversion straight franchise agreement that we're very, very excited about. It's a relationship with a really strong upscale brand in the more revenue intense segments with a great pedigree. It's led by the very motivated granddaughter of the late Jack DeBoer, who I think many on this call know he was the founder of Residence Inn and Summerfield and Candlewood Suites, and just a run by a very experienced group of developers. Jim Anhut, a 20-year IHG veteran. Jim Mrha, a 35-year Marriott and MGM veteran. And Jim Strawn, who is the President of Woodspring. These guys have built a dozen really great upscale hotels in some great markets that we talked about in the script.

I mean, if you look at the cover of Matt's IP, which he put out last night, you see a picture of one of those revenue intense hotels, which – the WaterWalk by Wyndham Boise, which just received 9 out of 10 star reviews on most of the online review sites. So, this is a great upscale complement to our economy and midscale extended stay product. It's both new conversion and – new construction and conversion opportunities for us and for our teams out there, talking to owners of older upscale gen one extended-stay brands that are facing PIP requirements.

It does not have a pipeline today, but we expect to build one. Our extended stay supply is underserved and demand is building. So, our franchise sales teams will look to grow this brand aggressively and it adds an upscale Extended Stay brand for us to sell that we haven't had to sell previously. And final point of your question, are there more deals like that out there for us to do? Absolutely.

**David Katz**  
*Analyst, Jefferies LLC*

So as the follow up, right, just, Michele, going back to part of your commentary about the potential of reaching 4 times leverage, we're always obviously listening with a high degree of scrutiny. Does that mean that there are maybe some things in the offing that we should just keep in mind and prepare ourselves for remainder of this year? Or was that just setting some boundaries?

**Michele Allen**  
*Chief Financial Officer & Head-Strategy, Wyndham Hotels & Resorts, Inc.*
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I think it's setting some boundaries, maybe a floor and a ceiling with respect to share repurchases, David. But our first priority, we've always said for capital allocation is to invest in our business for future growth and that can be through organic or inorganic opportunities, and that would include M&A. We're delighted with the progress we've made toward our net room growth and pipeline growth objectives this quarter. And so, our strategy is working and we're able to secure some really great revenue accretive long-term franchise agreements. I think WaterWalk is a good example of us executing on that strategy.

But when we think about the share repurchase, I would think about we'll probably going to do a minimum of that $400 million and then we could potentially go above the $400 million depending upon the availability and actionability of those investment opportunities. And the only other thing I probably would say is we believe that the stock is significantly undervalued at the current trading levels. And so that represents a compelling investment opportunity, which is why our board recently authorized another $400 million in share repurchase, which then gives us the ability to go above and beyond that $400 million.

David Katz
Analyst, Jefferies LLC

Got you. Thank you.

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

Thank you.

Operator: We'll go next now to Dany Asad, Bank of America.

Dany Asad
Analyst, BofA Securities, Inc.

Hi. Good morning, Geoff and Michele. In your prepared remarks, you guys called out domestic occupancy like finishing at 90% of 2019. Can you maybe help us just get a sense for the remaining 10 points, where are they coming from, whether it's geographies or segments?

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

Good morning, Dany. The remaining 10 points of occupancy are going to come from really all over the United States and then the Southeast Asia, China region, both of which in the US and in Asia-Pac we continue to index below the 2019 levels. We see it not just in midweek but also in weekend today. So, we really think that there's opportunity across the globe to improve occupancy. I think you'll see the rest of the year RevPAR forecast assumes that we're going to pick up another point of occupancy. I don't think it's specific to any one particular region.

Dany Asad
Analyst, BofA Securities, Inc.

Got it. Okay. And then just as a follow up, maybe a little bit higher level, just looking at your unit growth, it's accelerated over the years quite nicely. We're right in that 3% to 4% rooms growth range you've guided to. But when we parse out where you're growing domestically, it looks like a lot of that incremental growth is coming from your higher end chain scales. And at the same time, you go back to what your footprint look like in 2018, 2019, and you have about 12% or 13% less economy rooms than you did back then. So, can you maybe just help us
understand what’s driving this dynamic and whether you’d consider this – from a strategy perspective, whether this is Wyndham actively pushing into higher chain scales? Thank you.

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

Yeah. Dany, I would say actively we are certainly pushing into higher chain scales, as I said, on the previous question. But we will always be looking to lead in the economy segment. Now, to your first part of your question in terms of why the economy declined, I would say that despite limited new supply coming into the economy segment, where one-third of the exits from our economy system are for non-hotel use. And second part of that question, why are they leaving? Majority were older, lower quality units.

We still experienced this quarter the highest economy add rate since back in 2017, to your point, before we went public. Our owner first value proposition is certainly resonating with franchisees. We had gross additions in the economy space at 3% and our retention rate, I think, the STR economy retention rate was several hundred basis points lower than our over 95% retention rate in economy.

So, we’re pleased that our economy retention rate continues to improve. We’re pleased with the transaction volumes that we’ve been seeing. Certainly, the economy potential will increase for us with ECHO. And, yes, we’re really pleased domestically with the 3% net room growth in the midscale and the above segments which, to your question, we’ll continue to focus on.

Dany Asad
Analyst, BofA Securities, Inc.

Got it. Thank you very much.

Operator: Thank you. We go next now to Michael Bellisario of Baird.

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

Thanks. Good morning, everyone.

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

Good morning, Michael.

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

Just my first question, want to go back to net unit growth, but focus on key money in the development advance notes. Maybe help us understand, what are the returns you’re targeting on those investments? And then secondarily, we can see the dollars going out the door in the cash flow statement. But maybe help us understand what percentage of deals that are either signed or opening are you actually putting money into?

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

Good morning. From a return perspective, we are always targeting hurdle rates that are well in excess of our cost of capital and that is part of our underwriting process. Geoff just talked about moving into the higher RevPAR
chain scales, and over 75% of the deals that we funded in the quarter were in this category. And then, of course, we also are starting to see some of our ECHO funding go out the door as well.

So, we're thrilled with the progress that we've made, and the strategy of using key money to penetrate into those upper chain scale and higher RevPAR markets is working. And I'd say the amount of key money isn't necessarily tied to a specific percentage of deals. We're happy to participate in opportunities when they present themselves.

Was there a second part to that question? I think I might have missed.

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

Yeah. Just the percentage of deals either signed or opening that you're putting money into. I guess, maybe the better question is how much has it stepped up versus prior years or maybe it hasn't?

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

No, I think it actually has as a greater portion of our openings and additions into the system are coming in those higher RevPAR chain scales and higher RevPAR markets. We are able to participate and willing to participate more in those deals because they represent better returns just from an underwriting perspective.

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

Got it. Understood. And then my follow up is on the buyback but along the same lines on the spending front. What are the sources or what is the source of capital for that incremental buyback? Is it really just line of credit borrowings? Or are there other sources of capital that you could use to fund those buybacks to manage the interest expense better? Thanks.

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

No. I think most of it will come through leverage capacity this year.

Operator: Thank you. We go next now to Patrick Scholes of Truist.

Patrick Scholes  
Analyst, Truist Securities, Inc.

Hi. Good morning, Geoff and Michele.


Patrick Scholes  
Analyst, Truist Securities, Inc.

My first question is when I look at where the stock is trading, I look on the valuation multiple, it looks to be about as cheap as it's ever been and certainly the spread on the valuation multiple between yourselves and most of the C corps is about as wide as it's ever been. What do you think investors are missing here? I'd like to hear your thoughts on that. Thank you.
Geoffrey A. Ballotti  
President, Chief Executive Officer & Director, Wyndham Hotels & Resorts, Inc.

Yeah. It's a great question, Patrick, and it's a question we ask ourselves every day. I mean, we're really excited with what's happened to us since we went public six years ago. I think in terms of looking at us versus everyone else out there, we are a completely now pure play. We've sold our owned hotels as investors wanted to see us do. We've sold our managed hotels. We've exited all of the HMA guarantee deals that we've had and we're now – we're growing the way investors have wanted to see us do.

So, I think investors want to see us continue to deliver as we've been doing. We've grown the pipeline since we went public, 40% to, as you see in the pipeline deck, nearly 2,000 hotels. And we need to continue to deliver. It's been 13 consecutive quarters beating consensus EPS and adjusted EBITDA. And we've got an industry leading EBITDA margin out there. So, we need to continue to tell our story about shareholder return. We've returned $2 billion of capital to to our shareholders and continue to execute. We opened more hotels last year, I believe, than any other public company with over 500 openings and 66,000 rooms.

And while there might be concern out there and we hear that every day in terms of the macro RevPAR environment, which is certainly weighing on us, we believe we just need to continue to keep doing what we're doing. And we're really happy with everything that we're doing on the retention side, on growing our business, on continuing to add to the pipeline revenue accretive rooms and continuing to improve our retention rates. And we need to continue to show investors that there is a huge ancillary fee opportunity out there that we're beginning to deliver on. You saw – you began to see that this quarter.

And I think, finally, we need to continue to show investors that we are very disciplined when it comes to capital allocation in terms of the accretive deals that we've been doing, like Vienna House and seeding new brand launches such as ECHO and and now WaterWalk as we continue to pay out a dividend payout rate in the 30s and return excess cash to shareholders.

Patrick Scholes  
Analyst, Truist Securities, Inc.

Okay. Thank you. I do think something that might be helpful would be to have a big Investor Day. I don't think we've had one from you in – you folks in a number of years. So, that's my unsolicited opinion of something that might help. Moving on to my follow-up question, is there anything you folks in the executive management team think you could be doing better at this point? Thank you.

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

Well, we think about that every day, Patrick. I mean, I think the one thing that the last 10 months has proven to us is that we could always continually improve when it comes to our communications with everyone. Throughout these last 10 months, I think, the one thing that we learned was that more communication is better with our team members, certainly, to your point, with our shareholders and investors, and with our franchisees. I mean, we're feeling right now that we have a franchisee engagement level that's never been higher. The best measure of that is certainly our retention rates. And we need to continue to work on that.

Patrick Scholes  
Analyst, Truist Securities, Inc.

Great. I have a couple more questions, but I'll hop in the queue. Thank you.
Operator: Thank you. We go next now to Brandt Montour of Barclays.

Brandt Montour
Analyst, Barclays Capital, Inc.

Hi, everybody. Thanks for taking my question. So the infrastructure spend and the implied lift that you're looking for in the rest of the year from that segment, can you just give us a sense what you think that you did in the 1Q or what sort of delta or lift you got in the 1Q from that segment? And then when you – just broadly on this piece of your business, is this business already booked or what kind of dynamics are there around your visibility for this specific business that gives you that confidence?

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

It is a great question, Brandt, in terms of the visibility. There's a slide in our investor presentation that we have seen an uptick in federal government allocations from 15% last year to nearly 40% of the incremental $640-billion spend of the $1.5-trillion bill. And it's mostly to the states, but only a fraction of that has been spent from a visibility standpoint. I mean, when you think about those big bridge and road and train projects and airport projects, the shovels haven't hit the ground.

But since we've been investing in our capabilities, we have been able to track an 11% increase in infrastructure revenues for our franchisees. And everything that we're doing around that, last week, we launched Wyndham Business to help manage companies' travel needs, providing discounts and allowing planners to instantly book without needing to RFP or contract at one of our franchised hotels. And the pace of applications immediately doubled. And we think that will help lead that double digit uptick that we're seeing in leads from those projects. We've seen a 20% increase in new accounts. So, we think there is a tremendous amount of potential for us out there. In the quarters ahead, we think it will translate into, I believe, Michele, about $5 million of royalty revenues to us this year. And we've put out what we think it means for us once those projects get underway. I'd stop maybe there.

Well, I'd say, finally one thing, I think an opportunity that we believe is also out there that we're starting to see is a pickup in the oil and gas markets. I mean, when you think about, Brandt, the nation's power demand growth from data center build-outs, or AI booms, or EV charging stations that are driving the electrification of America, natural gas is coming back. And some of our nation's largest oil and gas states are seeing steady pickup they're increasingly excited about. I have the chance to talk to the CEO of one of our large owners last night who has a lot of properties, a lot of Microtel, Super 8s, and Hawthorn Suites in West Virginia. He's seeing trucks back in his parking lot. He said that occupancy is slowly coming back. ADR is still not there yet, but he's very optimistic.

And when we look at states that did perform well above last year in some of those oil and gas states, West Virginia was up, I think, about 5% over prior year and up in Louisiana, similarly. Alaska was up double digits. So, with over 10% of our system positioned in oil and gas markets, we're also feeling, in addition to infrastructure looking ahead, very well positioned to capture that come back as a tailwind as well.
Okay. That's great. Thanks for that. And then maybe on the other side of things, on the leisure domestic travel side, I think we sort of got a good sense for the easing comps. But sort of in light of what we're all seeing away from you in the macro in the lower end and middle income consumer, I guess, we're heading into the leisure – the big leisure travel period this summer. That's generally a strong period of the calendar for you. What are the indicators you could point to or what do you look at year-over-year that kind of gives you a sense of how that consumer is gearing up for this summer?

Sure. And kind of back to Patrick's question earlier in terms of what's weighing on our stock, it's that concern of that middle income guest. But what we're seeing is that that middle income guest is more employed both – and we look at their wages and their savings, they're higher than they were back in pre-COVID levels. Their home prices are up, their stocks are up, their deposit levels are stable, and they're in good shape.

We look at consumer confidence, that's obviously growing. If you look at the monthly insight report, I think consumer sentiment is up significantly from like 65% to close to 80% from last March to this March. We look at length of stay and we are continuing to see longer lengths of stay by a couple of hundred basis points versus where they were before things slowed.

Booking windows, we look at daily and they continue to tick up. We talked about our trends looking out to Memorial Day weekend and into May, but our booking windows are similarly up 7% to last year from 19 to 21 days now. Cancellation rates are steady and drive-to, which is about 90% of our domestic demand, continues to chug along. People are driving further than they were pre-COVID, and we think it will continue to be the number one vacation preference this summer.

Excellent. Thanks, all.

Thanks, Brandt.

Operator: We'll go next now to Stephen Grambling of Morgan Stanley.

Hi. Thanks. I guess following up on shareholder feedback, I guess one area we get questions on is just how the pipeline and net unit growth translates to fees. So, looking at the pipeline, you did give some stats on the growth in midscale and above. Can you help quantify or provide color on how the royalty rates and RevPAR for the pipeline compares to the existing base, especially as we think about some of the new brand launches and how the pipeline has evolved over the past few years?
Yes, sure. If you think about our development focus on the more revenue accretive deals, our domestic pipeline right now carries a RevPAR premium in excess of 15% compared to our existing system and an average royalty rate that is at least 5 basis points higher than our current system.

And specifically double clicking into the midscale and above segments, we see a 30% RevPAR premium for those hotels compared to our existing system. But it's not just in the US that we're driving towards this objective of increasing royalty rate and bringing in higher FeePAR rooms, we see it internationally. And as we focus on growing our direct franchising business and, there, we're seeing royalty rates that are 15% higher on average than our current international system.

I think that nailed it. Thank you.
Yeah. We really did, Steven, see that pick up into March. I think we saw well over 100 basis points of share gain in March as leisure ramped back up, and so much of our business is leisure focused. I think we're also seeing travelers whose government and corporate per diems have been tapped out. They're beginning to try us. Our brands have always outperformed the broader lodging market segments when there's any pressure out there on the macro side and we think we could continue to do it. And certainly our brands, our large brands continue to overindex from a share standpoint.

Our most recent April [indiscernible] (00:47:27), our largest brands, La Quinta, Hawthorn Suites well over fair share, Microtel as well. Days Inn, again, very proud of the team and all the great work we're doing with Days Inn and Super 8. Days Inn has jumped from 117% to 120% fair market share in our latest filing. And it's really being driven by all the great work our marketing teams are doing on the Wyndham Rewards side. Our share of occupancy continues to grow. I think it's up over 700 basis points domestically versus where it was pre-COVID.

And so, we're going to continue to promote into that and look to continue to grow share, becoming more competitive, certainly, on ADR further out and looking for that base business - that infrastructure business to put on the books as often and as frequently as we can as our global sales teams could get that contracted business in. That allows franchisees to drive rate closer to arrival date on the weekends, and that's what we're beginning to see.

Okay. Thank you. And then just pivoting to margins, the margins ex marketing spend were fairly strong in the quarter. How much of the year-over-year margin gains from the higher margin ancillary revenue and how much is from some of the core operating expenses, and how should we think about that moving forward?

I think it's about, off the top of my head – and, Matt, you'll have to go back to confirm. But I think it's about two-thirds from the ancillary and maybe a third from the cost side.

Yeah. That sounds about right.

We are – yes. And we do – we are expecting margins to be pretty comparable year-over-year on a full year basis.

Okay. Thanks. Appreciate it.

Operator: We'll go next now to Ian Zaffino of Oppenheimer.
Isaac Sellhausen
Analyst, Oppenheimer & Co., Inc.

Hey. Good morning. This is Isaac Sellhausen on for Ian. Thanks for taking all questions. Just a follow up on the infrastructure impacts. Could you maybe help us understand how the 1% to 2% uplift is split between ADR and occupancy? I'm not sure if you can break it out specifically, but it sounds like there's obviously a big opportunity more broadly to bridge the gap to 2019 occupancy levels.

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

Absolutely. We see tremendous occupancy more so than rate. One of the biggest issues that we've got out there is our rate, our pricing pressure, as we said in our prepared remarks, with rate up 14%. We are educating and working with our franchisees to make sure that when one of our field sales, global sales teams bring them an infrastructure account that they're not only immediately responding to the RFP, but that they're realizing that that base business that I just talked about is so important, albeit a much longer length of stay at a lower average daily rate.

Isaac Sellhausen
Analyst, Oppenheimer & Co., Inc.

Okay. Understood. Thanks. And then a quick follow up on extended stay. When should we expect the first ECHO Suites locations to open up? And maybe what's the time line for conversions at WaterWalk as well?

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

Sure. It's a great question we ask our developers all the time. Slide 8 of our investor presentation, if you flip to that, shows a half a dozen of the nearly dozen that are nearing completion and should be opening soon across the country. We now have a dozen hotels under construction in 10 states from Texas – well, from Florida all the way across the country and another 30 sites in active development. It's going to be up to the local inspection offices who receives their first certificate of occupancy. But my guess is it should be sometime this summer. Developers of Plano, Texas and Spartanburg, South Carolina would be my guess. They're racing each other to have the grand opening that we'll all certainly attend.

As to WaterWalk, I think in terms of timing and we've just announced that deal, we're just right now doing everything that they're looking for in terms of bringing them on to our distribution platforms and shifting more mix to direct and getting them a more Wyndham business to drive operating margins. But as I said, this is a pipeline that our franchise sales team is very excited about beginning to build, and it'll be a mix of conversion and new construction going forward.

Isaac Sellhausen
Analyst, Oppenheimer & Co., Inc.

Okay. Great. Thank you so much.

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

Thank you.

Operator: We'll go next now to Alex Brignall of Redburn Atlantic.
**Q**

Alexander Robert Lyon Brignall  
*Analyst, Redburn Atlantic*

Hi. Thanks so much for taking the questions. The first one is on RevPAR. It's kind of a broader question that I've been putting to everybody. But the comps that you're referring to, obviously the year-on-year number in Q1 2023 was the highest. But based on your own disclosure, the number versus 2019 was the lowest in Q1 of 2023. And it's about 600 basis points, 700 basis points harder in terms of versus 2019 to H2 2023.

In Europe – it's all obviously not in the US, it's all international. In Europe, we're beginning to see those year-on-year numbers turn negative, particularly UK, because the versus 2019 comp, that's when it got harder. So, I'm just trying to reconcile how you're thinking about that comp in terms of versus 2019 rather than versus the year-on-year number that you talked about. Thank you very much.

**A**

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

Yeah. Thank you, Alex. I'll let Michele dive into the year-on-year comps. But just overall, we were really pleased with what happened in Europe. All of our largest countries saw positive year-on-year. And let's just talk year-on-year for a moment because then I'll get to the – I think the base of the question, which is the tailwind we have still to 2019. But we saw Germany and you mentioned UK, both with sort of low-single digit year-on-year growth. UK was both rate and occupancy for us. I think we were up about 3% in the UK year-on-year, two points were rates and occupancy was probably flat. And we saw growth in Turkey as well. That was double digit. And Spain was double digit.

But the opportunity for the rest of the year is still an occupancy tailwind when we look back to to 2019. I mean, versus 2019, international accelerated from – and I think this is in the deck, from 45% from Q3 to Q4 to 60%, I believe, it was for Q1 versus 2019. So, there are 14 solid points of occupancy tailwind to capture internationally. And across the world, all of our regions are seeing a really sharp uptick in – obviously overseas corporate contracted and MICE is very important for us. We're seeing a pickup there.

Tour operators over in Europe are very optimistic. European low cost carriers are forecasting a banner summer and a record high. So, our European teams are encouraged and we see opportunity there as we do in Asia. But, Michele, I don't know if you want to add anything to that.

**A**

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

Yeah. That was great, Geoff. I think the only thing I would add is most of the growth we've seen in Q1 versus 2019 is AD, and it's the pricing power. It's not the recovery and occupancy. We still have a long runway of occupancy recovery in EMEA, and in Asia-Pacific, and most of the international regions. So, that's what we're really focused on from a recovery standpoint in international.

**Q**

Alexander Robert Lyon Brignall  
*Analyst, Redburn Atlantic*

Okay. Fantastic. And then and then just a follow up. You have phenomenal signings performance all the way through COVID, much better than some of your peers. And it seems that that's continued after the hiatus that you had that wasn't of your causing. Do you think that the strength in Q1 is the market being stronger? Or would you attribute it largely to your own kind of performance and maybe taking back some share that had been held back whilst you were dealing with other people?
Sure. I'd say it's more of the latter, Alex. We look at it both ways from a conversion and a new construction standpoint. But our new construction prototypes, our La Quinta – our La Quinta and Hawthorn dual brand, our Microtel, our ECHO Suites, I mean, they have all been really performing well with developers. And any of that hiatus uncertainty that was out there, any conversations that we've been having that may have been paused, those are picking back up.

Our new construction executions were up 20% versus, as I said, all the way back in pre-COVID. And you're seeing it reflected in our pipeline and, certainly, conversion room signings. Because of the owner first value proposition we're delivering just continuing to, we believe, perform well and steal share and there's no reason we can't keep doing that.

That's fantastic. Thank you so much.

Thanks, Alex.

Operator: We'll take our next question now from Dan Wasiolek of Morningstar.

Hey. Good morning, Geoff and Michele. Thanks for taking my question. You kind of already talked about this. But just in relation to that, I guess, tailwind potential of ADR kind of closing that gap with inflation and the occupancy recovery that you can still have, how are you guys thinking about that looking beyond this year? I mean, is this barring an economic recession, a potential couple year tailwind for RevPAR growth that we can kind of look forward to maintaining the type of growth you're expecting this year for the next few years after that?

Yeah. I think it's a multiyear recovery especially on the occupancy side. And we know that during periods of increasing demand that there is the ability to push rate higher. I would say absent the occupancy recovery, I think there is still room for ADR growth, particularly when you look at it compared to the rate of inflation. So, we see it as a multiyear recovery in both occupancy and ADR across the globe.

Okay. Thanks. All my other questions were already asked and answered, so thank you. Nice quarter.

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

Thanks.

Operator: We go next now to Meredith Jensen of HSBC.

Meredith Prichard Jensen  
Analyst, HSBC Securities (USA), Inc.

Yes. Hi. I was interested in the Wyndham for business and how the new platform might differ from what existed prior and what kind of metrics or what kind of questions we can ask going forward to kind of track the progress of that, given the importance of groups and small businesses to your overall business? Thanks.

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

Sure. Well, we are adding a lot to it. We've had a focus on, Meredith, obviously, helping companies manage their travel needs and providing discounts. But we're looking to help these planners make it easier to book. And I think the metric that you want to look at going forward are the number of members we have and the pace of applications and those applications being signed. And as I said, since we've launched it just a week ago, our weekly pace has doubled and it will further continue to drive the 1.8 million companies out there that are booking this infrastructure business for our select service economy and midscale hotels across the country.

So, it is it is just one of those. We've done a lot from a technology standpoint to continue to make it easier to do business with us. We've been investing heavily in our capabilities, and we've been increasing our sales team to sell Wyndham Business. We've increased our sales team by 25%, and we'll continue to roll out more new technology like this that allows them to book without having to RFP. And that's something that – the team is really excited about is they've identified, I think we talked about this on the last call, over 3,600 projects within 10 miles of markets of our hotels with multiple hotels in those markets that are looking to contract because, again, it is really early days. While 40% has been allocated of that spend, it's not yet been spent. And we want to make sure it's spent with us.

Meredith Prichard Jensen  
Analyst, HSBC Securities (USA), Inc.

Super. Thanks. One last quick and apologies if I missed that before. If you could discuss kind of the engagement in the loyalty program between brands, if there's kind of a differential in kind of the occupancy there or the take up and maybe internationally also what you're seeing.

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

Sure. Our share of occupancy – and you didn't miss it. I don't think, Meredith, we talked about it. But I touched high level that our share of occupancy was up over 700 basis points, which is really important for our franchisees. It's one of our biggest value proposition go-to-market offers that our franchise sales team has, and it is higher domestically than it is internationally. Roughly one out of every two check-ins [indiscernible] (01:02:02) across the United States of America, here in this country, will be asking for their loyalty points.

Overseas, that share of occupancy is lower. But overseas it's growing higher. It's growing faster. And it has an opportunity to continue to grow. I think our overall share of occupancy domestically is roughly one out of two. I
think on a global basis, we’re somewhere approaching 40% share of occupancy. And with the work that our marketing teams are doing in countries like China – our China team is very bullish. The awareness of Wyndham continues to grow. When you think about ancillary fee opportunities over there, I mean, we’ve become a lot more targeted. And from a digital marketing platform, marketing standpoint, I mean, they’re doing a lot of really creative things over there. We could continue to push that higher.

Meredith Prichard Jensen  
*Analyst, HSBC Securities (USA), Inc.*

Great. Thanks so much.

**Operator:** Thank you. And our final question today will come from Patrick Scholes of Truist with a follow-up question.

Patrick Scholes  
*Analyst, Truist Securities, Inc.*

Great. Thank you. Just a follow-up question here regarding the quarterly results, specifically international. Certainly, in Latin America, your numbers were phenomenal. Can you give us a little bit more color on how you did 41% RevPAR there? Certainly, that caught us all by surprise.

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

Yeah. It’s a good question, Patrick. Most of it is Argentina. And you know all about the hyperinflation down there. If you back out Argentina, our Latin America RevPAR came in at roughly 3%. And that was driven by – obviously, Argentina had a great quarter. It’s an important market for us, but that was the bulk of it. We had good results in Brazil. We had good results in Peru.

Patrick Scholes  
*Analyst, Truist Securities, Inc.*

Okay. And then lastly on China here, you did significantly better than the overall market. What drove that? Thank you.

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

Sure. Yeah. China – again, our China team, as I just said to Meredith, is very, very bullish. We’re seeing more domestic travel. Flight capacity is part of it. Obviously, some of our peers have talked about not being able to fly in terms of the load factor the way you could before. But cost consciousness our team believe is also part of it.

If you look at the Chinese travel patterns this year, they’re opting to stay closer to home, especially over the Chinese New Year period. I believe that was February 10, I think it was for eight days. We saw a really strong pick up of more domestic travel, and we think that will continue throughout the rest of the year.

In terms of where it’s happening, our Tier 1 cities, our big Wyndham’s, big Wyndham brands are doing very, very well and are probably outpacing the Tier 2 and 3 cities we’re in.

Patrick Scholes  
*Analyst, Truist Securities, Inc.*
Great. Thank you.

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

Thanks, Patrick.

Operator: Thank you. At this time, Mr. Ballotti, I'd like to hand things back to you, sir, for any closing comments.

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

All right. Thank you. And thanks, everybody, for your questions and your interest in Wyndham Hotels & Resorts. Michele, Matt, and I look forward to talking to and, hopefully, seeing many of you in the weeks and months ahead at many of the upcoming investor conferences we'll be attending. Have a great day.

Operator: Thank you, Mr. Ballotti. This does conclude today’s Wyndham Hotels & Resorts first quarter 2024 earnings conference call. Please disconnect your line at this time and have a wonderful day.