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# Wyndham Hotels & Resorts, Inc. (WH)

Q1 2020 Earnings Call

## CORPORATE PARTICIPANTS

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**Geoffrey A. Ballotti**

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**Michele Allen**

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

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## OTHER PARTICIPANTS

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**Shaun C. Kelley**

*Analyst, BofA Securities, Inc.*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Welcome to the Wyndham Hotels & Resorts First Quarter 2020 Earnings Conference Call. [Operator Instructions]

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

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**Matt Capuzzi**

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

Thanks, 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](http://investor.wyndhamhotels.com).

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.

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

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## Geoffrey A. Ballotti

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

Good morning, and thanks, everyone, for joining us. As you'd expect, our comments today will be focused on our response to the pandemic and its impact on our business. It's clear that the near-term outlook for the economy is dependent on many factors, including the duration of government stay-at-home restrictions around the world. That said, we'll make every effort to address the issues that we know are important to you.

Our highest priority throughout the COVID-19 outbreak has remained the health and safety of our guests, owners and team members to whom we are providing continuous support and assistance and we hope that everyone listening on this call today is healthy and remain so during this difficult time.

First, we want to reiterate that our franchise, leisure transient, fee-for-service business model is highly resilient during economic turmoil. Over 90% of our hotels here in the United States remain open and operating. And we have an unwavering confidence in our ability to weather this crisis. This confidence is reflected in our board of directors' decision, which we announced yesterday, to maintain a quarterly dividend now at \$0.08 per share with the goal of raising the dividend in the upcoming quarters as visibility improves and travel demand continues to recover. We have made difficult and measured decisions to adjust our cost base to this new reality to preserve liquidity and to support our franchisees. Altogether, our actions since the start of this crisis have resulted in the identification of approximately \$255 million in cash savings that will help mitigate revenue declines and provide us with the funds to continue to offer support to our franchisees.

The actions affecting our team members were especially difficult decisions. To support them during this challenging time, we have provided benefits and partnered with several organizations to give displaced team members access to job opportunities across various industries that are now rapidly expanding their workforces such as retail, grocery, healthcare and senior living. Our team members' passion for hospitality makes them ideal candidates, and we're extremely grateful to have been able to partner with so many leading companies. To further assist team members, we have increased and expanded our fundraising efforts for the Wyndham Relief Fund which was developed many years ago to support team members facing unforeseen financial hardships. A great number of people, many of whom are experiencing their own challenges from this crisis, have stepped up to support their colleagues, a strong testament to our values-driven culture.

Our thousands of franchisees are also very much top of mind. This is an incredibly challenging time for them, and their long-term success is critically important to us. We have taken proactive steps to help them preserve cash during this period. We suspended certain fees and we provided payment relief by deferring receivables and suspending interest charges in late fees. And we've deferred property improvement plans and certain non-essential brand standards requiring cash outlays.

In addition, we are drop shipping difficult-to-procure emergency supplies grounded in guidance from the CDC for all of our US hotels, employees and guests. And we have partnered with industry associations to advocate for increased government relief. Through constant communications and webinars with leading subject matter experts, we have guided our franchisees through the relief provided by the Cares Act, for which the majority of our owners qualify. While Wyndham is not applying for any federal loan assistance, industry estimates suggest that more than 95% of our franchisees have applied for a PPP and/or an EIDL loan that nearly 80% were approved for one or both.

As a reminder, the vast majority of our franchisees are financed by local and regional banks, of which nearly 90% are already providing forbearance or other forms of debt relief according to the American Hotel & Lodging Association. And a large portion of our franchisees are SBA loan borrowers and are benefiting from the six months of debt relief the SBA is providing. Furthermore, with over 90% of the hotels in our system in the select service space, these hotels are less labor-intensive and typically operate at higher margins than full service hotels. They generally average fewer than a dozen full time employees and staff levels are highly scalable to demand. We believe that the majority of our hotels can support debt service at occupancy levels of approximately 30% before receiving any governmental assistance, which lowers this 30% breakeven considerably. We cannot be prouder of our franchisees on how they have risen to the occasion. So, many have volunteered free stays for traveling doctors, nurses and other first responders and others are offering their unused kitchens to help feed those who need meals. We've been moved by many of our loyal guests who are also supporting recovery efforts around the world.

Last month we launched Wyndham's EverydayHeroes initiative, which provides essential workers like truck drivers, warehouse workers, like grocery associates and of course healthcare workers with complimentary upgraded gold status through our Wyndham Rewards program. Our brands which are concentrated in the select service chain scale segments have been outperforming the higher end full service hotels. Nearly 90% of our domestic properties are positioned along highways and suburban small metro locations which have fared better than those in downtown metro markets. Our customer profile in the US is about 70% leisure in almost 90% drive to, making us less reliant on business days and air travel. While the impact of COVID-19 continues to rapidly evolve and the ultimate duration remains highly uncertain, as this pandemic abates here in the US, our franchisees should be among the first to benefit, positioning us well for a quicker recovery.

As it relates to net rooms growth, we finished the quarter with 828,000 rooms, a 2% increase over the prior year. The pandemic has inhibited our ability to open rooms both internationally and domestically. Room openings in the quarter declined from approximately 12,000 last year to 6,000 this year as franchisees have been focused on the crisis. And our development teams and opening teams have had to curtail travel. New construction projects are being completed, but some owners are waiting to open until travel demand begins to recover. We expect that new construction starts will slow over the next 12 to 24 months as financing is expected to be constrained until there are signs of recovery. Our global development pipeline ended the quarter with 189,000 rooms, an increase of over 8,000 rooms or 4% year-over-year. Our new construction pipeline grew by 3% and our conversion pipeline increased 8%. Our pipeline in the US is now 52% conversion and 48% new construction. While we still believe we could continue to grow our new construction system with low cost and highly efficient prototypes in our select service brands, we believe that this growth will continue at a slower pace than it has in recent years.

Converting independent hotels to our brands has always been an important part of Wyndham's consistent rooms growth through both up and down cycles. And as this industry recovers from COVID-19, we believe conversions will become an even more important growth vehicle for us. With over 15,000 independent economy and mid-scale hotels in the United States, we have restructured our franchise sales and development teams to increase our conversion coverage by approximately three times, redeploying new construction sales people to convert independent economy and mid-scale franchisees to our brands, brands that are designed to drive higher market share to our larger loyalty and marketing programs.

In addition to the increased support our teams can provide franchisees navigating through the post-COVID-19 recovery, our brands can help increase franchisee profitability by driving lower sourcing, technology, distribution and OTA commission costs, given our size and scale as the world's largest hotel franchise company. Our brands, such as Days Inn, Super 8, La Quinta, generate some of the highest unaided brand awareness in the industry and provide significant value to our franchisees, especially during difficult times. Like never before, travelers today and

going forward will be looking for brands that they can trust not only for quality, but also for cleanliness and for safety. Our field teams are focused on helping to ensure that our franchisees are as prepared as ever, ready to confidently welcome guests back to their hotels. We are working to implement enhanced rigorous cleaning protocols based on guidelines and safety information provided by the CDC and using EPA-registered disinfectants provided by Ecolab.

In leveraging our scale and relationship with world-class distributors, we're providing our franchisees what they most need and yet can't individually source themselves, washable cloth masks for team members as well as hospital-grade hand sanitizer and disinfecting wipes for our guests at check-in. We're providing new health and safety training to our frontline team members. We're making health and safety training available to our franchisees so they can address guest concerns. And we're mandating new health and safety operating standards.

At the same time, we're identifying offsets to the cost of these new standards to help our franchisees drive profitability. And we're also updating additional existing brand standards to address social distancing and other protective measures, building on our established processes and procedures to provide a clean and a safe stay.

We are extremely proud of how the entire Wyndham family has responded to this crisis. We remain confident in the strength and the engagement of our team and our franchisees and property owners whom they support. While these are extraordinarily difficult times, we are certain that our asset-light select service franchise business model is optimally positioned for continued long-term growth. Travel will inevitably rebound. And when it does, Wyndham will be there, ready to welcome the everyday traveler to our approximately 9,300 hotels around the world.

With that, I'll turn the call over to Michele.

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## Michele Allen

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

Thanks, Geoff. Good morning, everyone. I'll begin my remarks today with a brief review of our first quarter results and provide more detail around recent RevPAR trends. I'll then provide some insights on the rest of the year where possible as well as capital allocation. Constant currency RevPAR declined 23% on a global basis in the first quarter or 17% on a comparable basis, which excludes closed hotels. Comparable RevPAR was down 16% in the US and 20% internationally, led by China, not surprisingly, where RevPAR declined 61%.

First quarter revenues decreased \$58 million or 12% to \$410 million, including a \$29 million decline in cost reimbursable revenues due to hotel closures as well as asset sales by CorePoint Lodging. Excluding cost reimbursements, revenues decreased \$29 million or 9%, reflecting the RevPAR decline as well as a \$4 million decline in license fees from Wyndham Destinations.

Our adjusted EBITDA declined \$4 million or 4% to \$107 million in the first quarter, reflecting the revenue decline, partially offset by \$19 million of cost savings primarily related to our COVID-19 mitigation plan. Adjusted EPS declined 4% to \$0.50, reflecting lower adjusted EBITDA and a higher tax rate, partially offset by lower depreciation expense.

Our first quarter results clearly do not reflect the full effect of the pandemic on travel demand, especially in the US where we're showing preliminary RevPAR results for April down 66%. Occupancy was at its lowest point during the week of April 11, averaging 22% but has been showing slight improvement sequentially since then up to 29% last week. Nearly 5,900 of our 6,300 hotels in the US remain open and operating. And the economy and mid-scale segments where 75% of our portfolio is concentrated are showing relative strength with these brands

outpacing all other chain scales, running occupancy now in the mid-30s for our economy brands and high-20s for our mid-scale brands.

In China, we now have over 85% of our system back open, and we are seeing gradual signs of recovery with recent occupancy levels running in the mid-20s, up from low-single digits back in March. In Southeast Asia, we are running occupancy in the low-30s. And Europe, the Middle East and Canada are all running occupancy in the low-20s, while Latin America is running in the mid-teens.

As Geoff mentioned, we've taken a number of steps to mitigate these impacts. We came into this year with a cost infrastructure that was 65% variable and 35% fixed. We've already reduced our expected cash outflows in 2020 by approximately \$255 million. In addition to workforce and salary reductions, we reduced advertising spend by over 50%, cut our travel budgets by over half and eliminated 100% of non-essential discretionary spend.

We've also reduced our capital budget by nearly half, funding only the highest priority projects. While variable and marketing expenses will eventually return, we believe at least \$100 million of these cost savings will be permanent and reset our ongoing cost base which is about a 500 basis point improvement to our 2019 full year margin.

At March 31, we had \$749 million of cash on hand. Free cash flow was a net inflow of \$10 million in the first quarter compared to a net outflow of \$2 million in the same period last year. Year-over-year, free cash flow benefited from \$17 million of lower special item cash outlays related to the 2018 acquisition of La Quinta and separation from Wyndham Worldwide.

Looking at the balance sheet, as a reminder, we have limited financial and operating liabilities, excluding long-term debt. And our debt maturities are well-laddered with the first not occurring until 2023. Last week, we successfully completed an amendment to our credit agreement, waiving the quarterly tested leverage covenant until the second quarter of 2021. The covenant calculation was also modified for the second, third and fourth quarters of 2021 to use annualized EBITDA rather than the last 12 months EBITDA as previously required. In return for this modification, for the amendment period, we agreed to maintain a minimum liquidity of \$200 million, pay 25 basis points of higher interest on outstanding borrowings and restrict share repurchases.

Importantly, we retained our ability to make future dividend payments, provided we maintain at least \$300 million in liquidity. And we have the ability to elect out of the waiver period earlier which would eliminate the restrictions on both dividends and share repurchases. The amendment coupled with our substantial cash reserves gives us ample liquidity to operate our business and support our franchisees through this crisis and through the recovery period.

Let me take a moment to address the dividend. As Geoff mentioned, we have reduced the quarterly expected dividend payment from \$0.32 per share to \$0.08 per share. The impacts of COVID-19 are significant, but temporary. Over time, our business will naturally produce significant free cash flow. Maintaining a quarterly dividend payout is a clear demonstration of the resilience of our business model and of our board's confidence in the long-term growth prospects of the business.

Moving on. While we are unable to provide outlook given the uncertainties ahead, we would like to give you our best current view on certain operating statistics and financial metrics for 2020. At this time, we cannot predict future RevPAR trending, given all the uncertainty. With respect to room growth, we expect new construction room openings will be delayed beyond their scheduled dates and that conversion activity will be slow in the near term but accelerate when travel demand begins to normalize. Also, consistent with our strategy to increase our direct



franchise portfolios, we are increasing our efforts to eliminate non-compliant hotels in our China master portfolio and expect to remove another 9,000 rooms in the second quarter. These deletions will have minimal effect on revenues.

We expect that our marketing funds will adversely impact EBITDA in 2020, the amount of which will depend on the length of the pandemic. Normally, we offset marketing fund revenue declines by proportionately reducing variable expenses. However, given the magnitude of declines, it is likely that we will see some EBITDA impact in 2020. On average, for every point of RevPAR decline, you can expect to see about \$1.5 million of impact to EBITDA in this environment. License fee revenues will be at least \$70 million, reflecting the minimum levels outlined in the underlying agreement, \$65 million from Wyndham Destinations and \$5 million from Platinum Equity. Even if managed hotels reopen throughout the year, we expect cost reimbursement revenues to continue to decline as CorePoint executes its asset disposition strategy. I'll remind you these revenues have little to no impact on EBITDA.

Turning to expenses. As discussed, we have implemented \$255 million of savings, \$20 million of which was capital related with the remainder impacting the P&L. Consequently, we now expect expenses to be \$235 million lower than our original guidance. As Geoff mentioned, we have deferred franchisee payments until September 1 to provide a few months of positive cash flow at the property level. As a result, we are expecting a working capital drag in the second quarter that reverses in the back half of the year and into 2021. We now expect capital expenditures to be in the range of \$25 million to \$30 million.

Last, I'll remind you that we still have about another \$30 million of special item cash outlays remaining in 2020 primarily relating to the La Quinta acquisition and our separation from Wyndham Worldwide as well as two restructuring charges now in 2020 that will require cash payments of approximately \$30 million in total, the majority of which will be made this year. We've updated our regional RevPAR sensitivities which can be found in the Appendix of the Investor Presentation we've posted on our website last evening. Geoff covered our portfolio dynamics and how our franchisees are well positioned through this crisis and for the recovery. But before we open for Q&A, I would like to clarify a few other elements of our business model that are unique to us and particularly attractive in a down cycle.

First, 96% of the hotels in our system are franchised. So, we have minimal exposure to asset risk and the associated operating costs and capital requirements. We are truly asset-light, requiring less than \$15 million in annual CapEx spend compared with \$200 million to 600 million at big box lodging C-corps. We also have minimal exposure to incentive fees. So, our revenue will improve as occupancy improves. As demonstrated, our cost structure is highly variable and can be quickly modified in response to market dynamics. With a \$255 million of recently implemented savings, of which at least \$100 million will be recurring in 2021, we will emerge from this crisis more efficient than ever, generating even higher margins.

Next, our growth is independent of the new construction environment. We have a long-proven track record of growing net rooms during lodging cycle downturns by igniting our conversion engine, which is fueled by the strength and flexibility of our value proposition. Even during the Great Financial Crisis of 2008 when debt markets were closed, we grew our system 3%. Finally, our business naturally generates substantial excess cash. We know we will get through this. And when we do, we will continue to put that cash to work by investing in the business to produce long-term results or, absent that opportunity, by returning it directly to shareholders through dividends and share repurchases.

In conclusion, our asset-light business model is remarkably resilient. And our concentration in the select service segment provides a path for strong recovery, sustained system growth and substantial free cash flow which as always we are committed to using to achieve high returns for our shareholders.

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] And our first question comes from Joe Greff with JPMorgan. Please go ahead. Your line is open.

**Joseph Greff**

*Analyst, JPMorgan Securities LLC*

Q

Good morning, everybody, and thank you for the slide deck and hope you and your families are healthy and well. With respect to the slide number 25, the April cash burn, I just had a few questions on that. With regard to the \$32 million of franchise and management fees, I'm presuming that that's a cash number as it relate to franchise. So, is there a deferred franchise number that this \$32 million is net of?

**Michele Allen**

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

A

Yes. Hi, Joe. Actually, this is not net of any deferrals. At this moment, we're still collecting cash. I think, back in the Great Financial Crisis of 2008, we saw about 1/4 of our franchisees needed additional assistance. So, if you were to apply that same percentage, you could see about \$8 million a month in working capital drag.

**Joseph Greff**

*Analyst, JPMorgan Securities LLC*

Q

And that is your expectation is that going forward through September 1 is you would see that drag?

**Michele Allen**

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

A

Again, it's hard to predict. But certainly, that's – we're planning for that as the minimum amount.

**Joseph Greff**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Great. And then, with respect to the \$45 million expenses on the other side of slide number 25, is that inclusive of some of the cash charges of \$18 million that you'll take in the 2Q? And then, secondarily, on that \$45 million, is that fully taking into account the \$235 million of OpEx savings...

**Michele Allen**

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

A

Yes and yes.

**Joseph Greff**

*Analyst, JPMorgan Securities LLC*

Q



[ph] Yes and yes? (00:24:54) Okay. And then, with regard to your development pipeline, I heard your comments loudly and clearly before. Of the 48% that's new construction, how much of those have some – have committed financing for that. I get the delayed comment certainly.

**Geoffrey A. Ballotti**

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

Thanks. Thanks, Joe. So, if you look at our pipeline, as you pointed out, 40% is new construction. And of that 40% of the pipeline that's under construction, we would expect those to continue and to open within the next 12 to 24 months.

**Joseph Greff**

*Analyst, JPMorgan Securities LLC*

Okay. And then, what did you see with regard to conversion activity in April? Was there much in the way of that? I kind of get the environment. But just to get a sense of how conversions look early on in this pandemic.

**Geoffrey A. Ballotti**

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

Yeah. I think, to Michele's point and it's back on slide 7 – I'm sorry, on slide – yeah, slide 7, you saw what happened in the last downturn. I think we're already starting to see that. Now, when you look at our opens in the first quarter of 2020, they were considerably skewed towards conversion. And that is certainly what we saw in April as well.

**Joseph Greff**

*Analyst, JPMorgan Securities LLC*

Great. And then, Geoff, I think your comments in the beginning of the call you talked about I think it was not necessarily your franchisees, but the industry about 95% of franchise owners have received PPE or some sort of EIDL loans with of 80% approved. Do you have hard and fast numbers for your franchisees? Do you think it's on par with [indiscernible] (00:26:49)?

**Geoffrey A. Ballotti**

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

We think it's really tough to be pinpoint-specific on that, Joe. But the [ph] HMLA (00:26:58) is doing a great job. They released last Friday their survey, estimating – and they were surveying – we're probably the biggest piece of that survey. The domestic industry and they're estimated that 95% of those franchisees have applied for either the PPP or the EIDL loan and we think that we're probably somewhere in that ballpark.

**Joseph Greff**

*Analyst, JPMorgan Securities LLC*

Great. Thank you very much, guys.

**Operator:** We'll take our next question from Shaun Kelley with Bank of America. Please go ahead. Your line is open.

**Shaun C. Kelley**

*Analyst, BofA Securities, Inc.*

Good morning, everyone. I hope everybody is safe, and thank you for the additional disclosures. So, maybe just to follow up on the franchise fee deferral point, Michele, I think if I caught that comment correct in the last question, roughly an \$8 million expectation for April. But I think you said that, that would be consistent with behavior back in terms of what you saw in the relief needed in the global financial crisis. And so, I guess the first question is just as – would the math be right to think if we are looking at sort of an \$8 million number over the next six months, something in the \$50 million ballpark could be a helpful guide for working capital needs for the business? So, that'd be kind of the first part of the question.

And then, second, is that behavior like – is that behavior correct, just given the magnitudes of the RevPAR declines we're seeing are so much greater than what we saw during the global financial crisis, is 25% enough? Are the asks currently substantially higher than that or just sort of what's the kind of tenor from the conversations you're having with franchisees right now?

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

A

Thanks, Shaun. I think the way that you're thinking about it is the right way, taking the \$8 million per month somewhere between \$50 million, potentially \$75 million for the full year of 2020 because we do expect – we don't expect all of our franchisees will need the assistance. But we do also expect that there will be some that need additional assistance, some extended payment terms. And so, that could push some of those fees out of 2020 and then into 2021.

For the second part of your question, as to whether or not the 25%, the 1/4 that needed it, in the last down cycle is the right anchor, that, we don't know. We are not asking our franchisees to request financial hardship. What we have told them is that we will defer the fees until September 1. And that is meant to provide a couple – what we hope to be a couple months of positive cash flow at the property level before they have to make payments to us. Now, we are still seeing cash collections come in every day. And it would – that – what we're seeing right now for the month of April would be relatively in line with that 25%, maybe a little higher, like, maybe somewhere between maybe 1/3. And then, I would also say that it depends on RevPAR and how much the fees – what the amount of fees are that we're billing.

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**Shaun C. Kelley***Analyst, BofA Securities, Inc.*

Q

Right. Okay. I think that's helpful. And then, just to drill down a little further – sorry to get lost in the weeds here, but I think this is pretty important because you're the first major franchisee and management franchise or a management company to report. So, in terms of what's actually being deferred, are these those royalty and sort of system and services fees that would be a matter – are both those on the table? Or is it only a portion of the overall fee structure...?

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

A

No. It's 100% of the royalty and the system fees, both.

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**Shaun C. Kelley***Analyst, BofA Securities, Inc.*

Q

Okay, both. That's helpful. And all of that's incorporated in the \$8 million – or the numbers that you're seeing thus far?

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

That's true.

A

**Shaun C. Kelley***Analyst, BofA Securities, Inc.*

I think that's it for me. Again, I really appreciate all the extra help and disclosures.

Q

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

Thank you, Shaun.

A

**Operator:** We'll take our next question from Patrick Scholes with SunTrust. Please go ahead. Your line is open.**Patrick Scholes***Analyst, SunTrust Robinson Humphrey, Inc.*

Hi. Good morning, everyone.

Q

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

Good morning, Patrick.

A

**Patrick Scholes***Analyst, SunTrust Robinson Humphrey, Inc.*

I'm wondering if you can provide a little color on your hotels in China, specifically what percentage are open today and what does that compare to at the trough likely in February. And then, additionally, of the customers that are coming back to your hotels in China, what are the characteristics, is it primarily leisure, outside of the city? What customers are coming back first? That's my first question. Thank you.

Q

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

Thanks. Patrick, it is – right now, right around 200 of our 1,600 hotels are still closed, and that's down from at the peak, approximately 1,200 of our 1,600 hotels in China being closed. Occupancy has continued to tick up. We've been running occupancies in the 20s, up from the single digits and low-teens two weeks ago. So, that's encouraging. In terms of the travelers, it's a lot like here, what you saw as business began to pick up were people that needed to be traveling, whether it was government, whether it was emergency crews. But we are beginning to see leisure travel pick up in China.

A

**Patrick Scholes***Analyst, SunTrust Robinson Humphrey, Inc.*

Okay. Thank you. And then, my last question concerns your pipeline and how we analysts should think about a growth rate for this year. It had been 2% to 4%. What would you think a ballpark or realistic range today that growth would be for you for this year?

Q

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

A

Well, I think it's absolutely possible to see positive net room growth this year, Patrick, as we pivot to more conversions, as we're able to do in 2008 and 2009 and 2010. And to Joe's question earlier, we saw a big pickup in terms of our mix of opens in the first quarter. Domestically, 85% of our opens were conversion. And that's sort of, to Joe's question, where we picked it up. We have an ability to continue to add rooms from a conversion standpoint and look to do that. When you look out across the industry in terms of the hotels that are closed right now and you look at Smith's numbers, it is in the independent space that our teams will be focused on. And so, yes, absolutely possible and that's our hope longer term, absolutely continue to maintain our 2% to 4% guidance with a look to move that up over time to 3% to 5%.

**Patrick Scholes***Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Okay. Very good. Thank you.

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

A

Thanks, Patrick.

**Operator:** We'll take our next question from Anthony Powell with Barclays. Please go ahead. Your line is open.

**Anthony F. Powell***Analyst, Barclays Capital, Inc.*

Q

Hi. Hello. Good morning. A similar question in terms of the US RevPAR trends, you mentioned that you saw a trough in early April with improvement since. What kind of customers drove that incremental, I guess, demand over the past week or two in the US. Do you see more discretionary travel happen?

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

A

Yes. We're continuing to see a real wide mix and it just continues to expand. I mean, what we saw immediately was our hotels that many of them filled and – or have been running the occupancy in the economy and mid-scale in the sort of 30% range right now, filled with emergency care case workers, filled with armed force, both Navy and Army business, be it fleet relocations or family stays, a lot of government from state and county buyouts. But what we're focused – most focused on right now – or what we're beginning to see pick up are what our GSO team refers to as boots in beds. Those who are traveling, still traveling, who continue to have project-related lodging needs, it's the construction workers, it's the transport workers, it's utility infrastructure, petrochemical. And look, as long as stay-in-place orders remain in effect, that will be the business that our global and national sales teams be it in China or be it here in the United States target. But as people begin to travel and we begin to see and believe that they will – the first thing they want to do is get in their car and drive to visit family members and friends. We're not seeing a lot of that yet. But we have had a lot of pickup from the groups I just mentioned.

**Anthony F. Powell***Analyst, Barclays Capital, Inc.*

Q

Got it. And you left some room to maybe increase the dividend to \$0.16 a share quarterly this year, you see an improvement in demand, what exactly are you looking for to make a decision? Do you need to reach positive cash monthly? Or what kind of metrics are you looking for to make that jump?

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

A

Hi, Anthony. I would say what we're looking for is some certainty in the outlook, right? So, we're just looking for when will travel demand begin to recover so that we can – so we can put a pin in our outlook and in our liquidity analysis. And then, I don't see a reason why we wouldn't look to increase it to the maximum allowable amount under the credit agreement.

**Anthony F. Powell***Analyst, Barclays Capital, Inc.*

Q

Maybe one more, Geoff, on what you just said about leads in kind of the leisure travel. Can you just give a bit more color on what kind of leads you're seeing? And that's all for me. Thank you.

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

A

Sure. From a leisure transient standpoint, we're seeing business begin to – especially, the question a little earlier ago, in terms of what's happening overseas, as travel restrictions are lifted, we're seeing leisure travel begin to pick up. What we saw over the weekend with Beijing relaxing its quarantine requirements for arrivals and [ph] see trip (00:38:06) reporting, both air and train arrivals pick up, I think we'll begin to see that from a leisure standpoint which is what we're looking to pivot to and shift to here in the United States as soon as travel restrictions are lifted. But again, what we're targeting right now here in the United States are those emergency management and healthcare, those hospitals and medical workers and those people that need to be traveling are out there traveling.

**Anthony F. Powell***Analyst, Barclays Capital, Inc.*

Q

Thank you.

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

A

Thank you.

**Operator:** We'll take our next question from David Katz with Jefferies. Please go ahead. Your line is open.

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

Q

Hi. Good morning, everyone. Good to hear your voice. Hope everyone's well. I wanted to ask about conversion hotels versus new builds. And if you could talk about the economic impact, broadly speaking, of conversion hotels entering your system and the degree to which those start to earn compared to a new build which presumably goes through a ramp-up phase, is there any differential between the garden variety conversion versus a new build and the rate at which they start to earn – generate fees?

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

A

Hi, David. I...

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

Hi.

Q

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

I think that, any time you open a new hotel, there is going to be a little bit of a ramp-up just in your paid search and getting your name out there and starting to build reviews and just awareness in general on online and in – with some of those – some of the other groups that Geoff kind of mentioned but mostly from the leisure side online. And for a conversion hotel, you wouldn't – we wouldn't expect to have that. They're already well positioned in their market. So, we would expect that the earnings for a conversion hotel would – the increased profitability that our brands are driving would start immediately for those hotels.

A

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

Right. If I may follow that up, you indicated that you're putting more resources, right, or ramping up the conversion engine. Does that involve adding inducements? I – presumably, you're competing with other systems, right, to capture new units, are you allocating any balance sheet or other financial resources to that may go up that we should contemplate?

Q

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

We have earmarked \$30 million in our initial guidance to support development activities. We do think there will be incremental opportunities in this environment. And we'll be selective about using our capital. But yeah, we could see it potentially increasing beyond the \$30 million.

A

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

Got it. And one last one, if I may, in the past, when we focused specifically on the La Quinta system but I suppose it's relevant broadly speaking, can you talk about your exposure to oil-related markets and what you're seeing or expecting or contemplating so far?

Q

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

Specifically, David, to La Quinta, correct?

A

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

Well, actually, I was kind of trying to slip in two with one stair so – yes, La Quinta and, yes, broadly speaking.

Q

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

Good to hear your voice. The La Quinta oil market exposure is, as we've talked before, a little bit heavier than overall for us. We are 18% of La Quinta units overall, and I'm talking the entire 1,000 La Quinta systems are located in oil and gas markets. And we have seen muted to no impact in those markets. Recall, on the last call, we talked about how Q1 would be really our last tough quarter and then things would begin to improve. What

A



we're actually seeing right now, David, is those oil and gas markets for La Quinta are operating slightly better, 200 basis points better over the last six weeks than the rest of our entire system. And it's remarkable that 96% of that 18% that are located in the oil and gas markets are open and that they're operating. Crews are in there doing maintenance, doing research, doing cleaning and it's also a situation where often those crews would have to double up. They're now being told that it's one crew member to a room. Overall, our oil and gas exposure is similar over the last the month of April. And so far, in the last few days, they've been performing no worse and a little bit better than the rest of our system. The oil and gas markets are 12% of our system and they're – again, 96% of our hotels in those markets are open.

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

Got it. Thank you very much, and be safe, everyone.

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

Thanks, David.

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**Operator:** We will take our next question from Ian Zaffino with Oppenheimer. Please go ahead. Your line is open.

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**Mark Zhang***Analyst, Oppenheimer & Co., Inc.*

Hey. Good morning, guys. This is Mark on for Ian. Thanks for taking our question. So, thanks for giving all the details, I mean, around additional disclosures. But I just want to dig a bit into the international side. So, can you guys just walk through sort of what type of occupancy levels are needed for breakeven in Europe and Asia? Is that similar to the US assets or the US footprint? Then, as a tack-on, has there been any talk of government financial support internationally there as well? Thanks.

---

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

You know what? I'll take the first part of that question. And I think Geoff will talk a little bit more about the governmental support or maybe lack thereof. With respect to breakeven, we don't have – I don't have in front of me the international regions. But what I can tell you is that, globally, we think we can breakeven at about 40% occupancy. It'll probably be a little bit higher in the international regions because there's not as much scale from an infrastructure perspective. So, my guess is probably around that 50% mark. But we would have to – we'd have to have Matt go and grab the numbers and send them over to you, guys.

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

And I think Michele answered, Mark, the second part of that question. There is nowhere near the amount of governmental assistance or support that we're seeing here in the United States really in any of the regions that we're operating.

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**Mark Zhang***Analyst, Oppenheimer & Co., Inc.*

Okay. Great. Thank you. Thanks, guys.

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

Thank you.

A

**Operator:** And we will take our next question from Jared Shojaian with Wolfe Research. Please go ahead. Your line is open.

**Jared Shojaian***Analyst, Wolfe Research LLC*

Hi. Good morning, everyone. I hope you're all doing well. Michele, maybe a question for you. I guess, just going back to the \$100 million of 2021 savings, if I run the math from the margin number you gave, it sounds like about 1/2 of that is EBITDA related. But correct me if I'm wrong on that. And then, is the remainder savings for your franchisees? Is that the right way to think about it? And then, as we think about the long term, are these permanent savings beyond 2021? Or do you think that eventually some of these costs are going to have to come back once you're operating back to a prior peak level?

Q

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

Hi, Jared. For the \$255 million, those are all our savings. And then, we think that \$100 million of those are resetting the ongoing cost basis. So, those would be savings into years beyond 2020. There are no franchisee savings in that number. Those would be calculated separately on behalf of the franchisees. What is sticking is about, we have 440 positions that we're eliminating. So, the salary and wages associated with those employees will be sticking into the future years as well as some facilities reductions and other discretionary spend items, such as vendor spend and certain other tools that we've – that we're no longer going to be using in the business.

A

**Jared Shojaian***Analyst, Wolfe Research LLC*

Thank you. So, just to clarify, I mean, are you saying that, with these savings, last year's \$613 million EBITDA would have been \$713 million? I mean, how do I think about that?

Q

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

Yeah. That's the right way to think about it.

A

**Jared Shojaian***Analyst, Wolfe Research LLC*

Okay. And you feel pretty confident that 2022, 2023 once we're back to – whenever it is, when we get back to peak level that you're not going to have to bring on some of these costs? I mean, it just seems like that's such a big number when you're already running at about 70% margin. I guess, any incremental color you can share on that?

Q

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

Yeah. I would say – listen, there are always going to be other investments we're going to make in the business as we move forward, right? So, what we – the 440 positions that we eliminated right now are not volume related. And

A

so, we don't expect that those would come back. The facilities reductions, again, we – those are based upon where we see our workforce. And we don't expect that we would have to increase our facilities footprint into the future. Would we choose to spend some incremental discretionary spend on new initiatives? Yes, potentially we would so – but I do think the vast majority of that \$100 million would be sticking into the future.

**Jared Shojaian**

*Analyst, Wolfe Research LLC*

Q

Okay. Very helpful. Thank you. And then, just for a follow-up maybe for Geoff. On slide 8, you showed that independents in the lower chain scale segment are 2.5 times higher than your room count. Do you have a sense as to what percentage of those independents would have better economics from being part of a brand affiliation because, inevitably, I would think for many it might not make sense particularly at the very low end? And then, can you just talk about why they haven't converted previously and why they may now be more likely to convert?

**Geoffrey A. Ballotti**

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

A

Sure. I think why now is they are not receiving the support that so many of their branded competitors are receiving. And I think the biggest savings for them, Jared, and we've talked about this before, anywhere between 50% to 100% of their business is coming through an OTA at possibly a 25% commission rate. To be able to cut that in half and shut that – or switch that 50% to 100% to cut it in half to 25% or 1/3 is a compelling reason enough in addition to all the other support that is provided by the brands in terms of the sourcing and all of what we mentioned in the script we could provide.

And that was certainly, again, back to that slide, I think the case back in 2008 and 2009. We opened 60% more rooms in 2008 and 40% more rooms from independents. And I think that is going to be the case coming out of this in 2021, 2022, 2023, where independents will be much more likely to consider.

I also think there's a lot of, in the economy space, authority that goes along with being affiliated with a large branded company. And people, as they begin to travel again, are going to be looking for hotels that they believe are very focused on safety and on cleanliness. And I think those will be some of the decision makers that independents which might not have been willing to consider that before may consider at this time.

**Jared Shojaian**

*Analyst, Wolfe Research LLC*

Q

Okay. Thank you very much.

**Geoffrey A. Ballotti**

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

A

Thanks, Jared.

**Operator:** And we'll take our final question today from Michael Bellisario with Baird. Please go ahead. Your line is open.

**Michael J. Bellisario**

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

Q

Good morning, everyone.

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

Good morning, Michael.

A

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

Could you just remind us what happens if an owner hands the keys back to a lender what do you, the franchisor, do in that situation, kind of, what happens to the fee stream, what happens to the brand?

Q

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

Sure. First off, we just want to say that, to-date, we have seen zero hotels out there hand any keys back to the bank or to any receiver. And we've seen zero terminations due to coronavirus. But what happens is, generally, the banks would prefer to continue with a 20-year relationship with the local entrepreneur who has a franchise agreement. And again, we believe that demand is still out there. And for 2020 and hopefully into 2021, we're not going to see a lot of hotels handing keys back to the bank. As Michele said, the breakeven occupancy is 30%. It drops a lot when you factor in PPE or EIDL loans or who knows in terms of what's still coming. The passage of the Main Street Lending Act could be another big support. We believe our franchisees have ample liquidity and support. And their banks are looking to work with them and defer those interest payments, be they three months, be they six months. We've heard stories of being deferred till the end of the year. So, generally, the bank is looking to work hand in hand with the operator. They're not looking to manage [ph] and the franchisor (00:52:54) franchisee.

A

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

And then...

A

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

Got it. That's helpful.

Q

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

And I can cover the technical part of that question, Michael, really quick. What typically would happen is the franchise agreement would be assigned to a receiver. The receiver would enter into a short-term agreement with us, while they look to sell the asset. When the asset sells, we would be the incumbent which puts us in a better position to win the long-term franchise agreement.

A

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

That's helpful. And then, if you look back in 2008, 2009, can you provide any status about the percentage of hotels that may be handed back to the lender last cycle just for perspective?

Q

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

A

Yeah. It was very – it was insignificant in 2008. It began to build in 2009. By 2010, I think we saw – and Michele, correct me if I'm wrong, about 4,000 rooms come back in at the peak. It was right around there.

**Michele Allen**

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

Yeah. It was less than 4% of the system – was less than 4% of the system, I think, over three to four years. But in total, less than 4% of the system.

**Michael J. Bellisario**

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

Got it. That's helpful. Thank you.

**Michele Allen**

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

Thank you.

**Operator:** And there are no further questions on the line at this time. I'll turn the program back to Geoff Ballotti for any closing remarks.

**Geoffrey A. Ballotti**

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

Well, thanks, David, and thanks, everybody for dialing in. We all remain intent on making sure that we're taking the appropriate steps to minimize the impact of the crisis and ensure we are all well positioned in the year ahead. Michele, Matt and I look forward to talking to you in the weeks ahead and hopefully seeing you in person very soon.

**Operator:** Thank you. This does conclude today's Wyndham Hotels & Resorts first quarter 2020 earnings conference call. You may disconnect your lines at this time, and have a wonderful day.

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