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Wyndham Hotels & Resorts, Inc. (WH)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Wyndham Hotels & Resorts Third Quarter 2020 Earnings Conference Call. At this time, all participants have been placed on a listen-only mode, and the floor will be opened for your questions following the presentation. [Operator Instructions]

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

Matt Capuzzi

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

Thank you, operator. Good morning, and thank you for joining us today. 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 on our earnings release, which is available

on our Investor Relations website at investor.wyndhamhotels.com. To the extent there are non-GAAP measures discussed and future impact, we are unable to provide the comparable GAAP metric.

In addition, last evening, we posted an investor presentation containing supplemental information on our Investor Relations website. We may continue to provide supplemental information on our website in the future.

Accordingly, we encourage investors to monitor our website, in addition to our press releases, filings submitted with the SEC, and any public conference calls or webcast.

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 our third quarter call. In the face of continued industry uncertainty, Wyndham generated \$101 million of adjusted EBITDA and \$102 million of adjusted free cash flow during the third quarter due to the stability of our leisure-oriented drive-to franchise business. Over 99% of our domestic hotels remain open and approximately 80% of our franchisees are now running at occupancy levels above 30%.

We've already received payment on over 70% of the fee deferrals we provided to our franchisees for the months of March, April and May, and we continue to see our overall cash collections tracking within 10% of prior year levels.

Nevertheless, we know that some small business owners are struggling and may be forced to close without more government support, which is why we along with the rest of our industry are doing everything we possibly can to advocate at both the state and federal levels.

Our brands collectively gained more than 300 basis points of market share domestically during the quarter. This improvement was driven by rising demand in drive-to leisure travel during the weekends, which improved 26 percentage points compared to the second quarter combined with a robust return of our everyday business traveler during the weekdays which increased to 19 points compared to the second quarter. Approximately 70% of our bookings at our hotels are leisure-oriented with the other 30% coming from business travel.

Our everyday business traveler is a steady and reliable segment of business travel that has been far less disrupted by the pandemic. As the backbone of America's workforce, our everyday business travelers have continued to travel and seek a safe and comfortable stay after a workday on the road. Two-thirds of our business bookings come from the infrastructure industries including construction crews, utility workers and engineers. While this travel demand declined 49% in the second quarter, we've experienced a strong rebound in the third quarter with this business down only 24%, a 25-point improvement sequentially.

The vast majority, the remaining one-third of business bookings at our hotels come from logistics industries including manufacturing, trucking, rail and warehouse workers. We've seen similar rebounds in this segment, with bookings improving from being down 40% in the second quarter to down 26% in the third quarter, a 14-point improvement sequentially.

As a lodging leader for these everyday business travelers, we are not relying on air travel, international, inbound or large, convention-based corporate travel which is one reason why our business is uniquely positioned to continue to outperform. La Quinta was a beneficiary of the improving trends in our business and leisure travel demand. It was once again our strongest performing brand, growing its RevPAR index against its direct competitive set by over 700 basis points.

Globally, over 97% of our hotels are now open. And as Michele will cover, Asia-Pacific was our strongest performing region internationally. In China, where recovery is already a reality, our strongest performing market. Over 96% of our 1,400 hotels in China have reopened, and hotel occupancies have returned to near-normal levels.

Room openings, which declined 64% to prior year in the second quarter, improved to down 33% in the third quarter as we opened 21% more rooms domestically and 106% more rooms internationally in the third quarter than we did in the second quarter. Our domestic pipeline grew 3% sequentially to approximately 66,000 rooms, with a 6% increase in conversion rooms and a 1% increase in new construction rooms.

Our international pipeline increased 2% sequentially to over 118,000 rooms and it increased 12% to prior year. Globally, our pipeline grew 3% sequentially to approximately 185,000 rooms. Despite varying degrees of travel restrictions both domestically and overseas for our development teams, we were encouraged with their ability to execute 152 hotel agreements, over 30% more than they executed in the second quarter.

In the United States, we signed 11% more hotel contracts than we signed in the third quarter of 2019. This double-digit year-over-year growth in domestic executions was driven by a 23% increase in conversion signings, slightly offset by an expected decline of 4% in new construction signings versus prior year. Nevertheless, we were encouraged to see developer demand for 24 new construction hotel executions, representing continued interest in our highly-efficient Microtel model and La Quinta del Sol prototypes, as well as for our new dual branded La Quinta-Hawthorn Suites extended stay prototypes.

We were also encouraged to see six hotels complete construction and open, and another seven new construction hotels break ground in the third quarter despite the crisis. None of these – sequential revenue, adjusted EBITDA or room opening improvements would have been possible without the hard work and dedication of our corporate team members who support our owners around the world and who are now all back to work full time, along with our frontline associates who have gone above and beyond to keep our guests both safe and satisfied.

Throughout the pandemic, our overall guest satisfaction and net promoter scores continued to improve. And what continues to inspire and motivate our teams around the world is just how much has been accomplished throughout this unimaginable crisis with so many members of our organization both domestically and internationally working remotely.

And it has been encouraging to see consumer confidence in feeling extremely safe, while staying in our hotels double from April levels, according to the October Travel Intentions Pulse Survey conducted by MMGY Global. Though it has been a tumultuous time for all of us in our industry, our teams continue to innovate with an eye towards the future, with an eye towards maximizing the value we provide to our franchisees. We recently deployed three state-of-the-art initiatives aimed at increasing bookings at our hotels and increasing overall franchisee profitability.

First, as part of our broader digital investment strategy, we recently launched a best-in-class customer data platform to better enable our teams to compile, to visualize and to analyze data from multiple sources and deliver increasingly sophisticated and actionable guest insights. We can now better understand guest behavior and preferences, and leverage that knowledge to keep them loyal to our brands, which increases direct bookings and lowers overall customer acquisition costs for our franchisees, thereby increasing their profitability. Investing in our teams' understanding of our guests and how we can incentivize them to book direct enhances the return on the marketing dollars we spend.

Second, to support our everyday business traveler, we launched a powerful business-to-business solution called Wyndham Direct. Business travelers can now simply book on any direct channel, including our new mobile app, using a Wyndham Direct ID number. All guest room and incidental charges are now processed through our new Wyndham Direct platform with one monthly bill, and without the need for company credit cards. We've also automated the tracking and payment for these business customers and in doing so, we're saving them and our franchisees time and money.

This new technology is expected to continue to increase our bookings from both the infrastructure and logistic industries we service, and position us well to capture and increase share of the eventual return of corporate transient business travelers. And third, we launched what we believe to be the fastest mobile app in the industry, providing a first-class user experience that travelers are demanding. Booking a room is now easier and faster than ever with Lightning Book's three-tap booking process, powered by geo location that immediately displays up to three hotels within 15 miles of the guest, providing both our leisure and business road warriors the opportunity to book on-the-go.

Touch and Face ID removed the friction of authentication and account management, while in-state features anticipate where guests are in the travel journey and allow for remote check-in and check-out directly from the app, which will be available to the majority of our properties in North America by the end of 2020. Since its launch in late summer, app bookings over September and October are running 4% above prior year as compared to 7% below prior year during July and August, an 11-point improvement in such a critical booking channel.

An important element in driving increased direct bookings for our franchisees is our highly engaged 85-million Wyndham Reward members. These members have made Wyndham Rewards the most rewarding program in the economy and midscale space. They seek redemption at our 9,000 hotels and tens of thousands of aspirational vacation opportunities at Wyndham Rewards-affiliated club resorts, vacation rentals and marketing partners.

We're incredibly proud of our Wyndham Rewards loyalty program. And just three weeks ago, the readers of USA Today named Wyndham Rewards the best hotel loyalty program in the industry, marking the third consecutive year that we've received the highest honor in the hotel loyalty program category above all peers.

And this was also the second consecutive year that the readers of USA Today named Wyndham Rewards co-branded credit card the best travel and hotel card in the industry. This year's rankings come on the heel of Wyndham Rewards' newly announced and updated credit card suite of new products including the Wyndham Rewards Business Card, the first Wyndham credit card built for the small business owner staying at Wyndham Properties who is also spending heavily on marketing, advertising and utility, expenses for which they can now earn a standout 5 points per \$1 spent. And the program also provides an industry leading 8 points per \$1 spent on gas purchases and Wyndham Hotel stays.

Despite all of the challenges our industry is facing, our drive-to leisure-focused franchise business has never been better positioned for growth. Our teams continue to innovate and deliver impressive results in the face of so many obstacles. We're deeply appreciative of their faith in our ability to emerge from this crisis as a stronger company as we strive to deliver continued support and value for our franchisees and hotel owners.

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

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Thanks, Geoff. Good morning everyone. I'll begin my remarks today with a detailed review of our third quarter results. I'll then review our balance sheet and cash flows, and provide our best view of 2020 projections. As Geoff mentioned, in the face of continued industry headwinds, we generated \$337 million of revenue, \$101 million of adjusted EBITDA, and \$102 million of adjusted free cash flow. Our performance was driven by the return of leisure demand, our everyday business travelers, the drive-to nature of our portfolio, and our ability to tightly manage cost.

Third quarter revenues excluding cost reimbursement revenues decreased \$144 million or 36%, primarily reflecting a 38% decline in global RevPAR. Adjusted EBITDA declined \$89 million from \$190 million to \$101 million in the third quarter, reflecting the revenue changes partially offset by a 33% reduction in cost. Adjusted diluted earnings per share was \$0.36. Comparable RevPAR, which is in constant currency and excludes hotels temporarily closed due to COVID-19, declined to 35% on a global basis in the third quarter, including declines of 32% in the US and 43% internationally.

In the US, our select-service brands saw RevPAR declines of 30%, with two-thirds coming from occupancy and one-third coming from ADR. Occupancy peaked at 50% in July as the summer travel season was in full swing and consistent with typical seasonality pulled back slightly to 49% in August and 47% in September. These occupancy levels translate to year-over-year reductions of 25% in July, 21% in August and 17% in September, continuing the sequential improving trends we've experienced since our April lows. And through the week ending October 17, month-to-date occupancy is running at 50%.

ADR has also been performing well in the select-service space. Since the trough we experienced in mid-April, ADR for our domestic economy and midscale brands has steadily climbed from down 23% at its low point to currently down only 12%. Importantly, we continue to see significant enough price differentials between the chain scale segments to impact decision making for our value conscious everyday travelers.

Internationally, occupancy levels for the third quarter also showed improvement month to month, with third quarter averaging 34% compared to 19% in the second quarter. For China, where we have our largest presence, occupancy declines narrowed considerably from 54% in the second quarter to 33% in the third quarter, and October month-to-date China is nearing 2019 occupancy levels. Canada, our second largest presence internationally also saw significant occupancy improvements from down 61% in the second quarter to down 36% in the third quarter, a level currently being maintained month-to-date in October.

Moving to our planned terminations for 2020, last quarter, we disclosed that we would be strategically removing 19,300 unprofitable non-compliant rooms to better position the company for long-term success. 9,200 of these rooms have been removed to-date. 2,600 have been retained as we were able to bring these rooms back into compliance. The remaining 7,500 rooms are scheduled for termination in the fourth quarter, though there is potential that some of these rooms may also be retained.

Year-to-date, we have proactively removed approximately 18,200 non-compliant, underperforming and royalty-dilutive rooms from our system. About 70% of these rooms were related to master franchisee relationships, where the effective royalty rate was only 1.2%. As you know, we have been de-emphasizing master franchise license agreements given our direct franchise capabilities and growing infrastructure in these markets.

The remaining 30% include low-royalty properties that have a history of compliance issues, as well as hotels that were previously covered by unprofitable management guarantees, which would have had a significantly negative impact on EBITDA in 2020 and 2021 had we not negotiated our way out of them last year.

Moreover, exiting non-compliant hotels from our system provides us the opportunity to redeploy operational and financial resources to more engaged franchisees much in need of our support and to replace these markets with hotels that are profitable for us and better representations of our brands. These strategic terminations adversely impacted our net rooms growth by 220 basis points, absent which our system size as of September 30th would have been slightly above last year.

Turning now to cash, we ended the quarter with \$735 million of cash on hand. Free cash flow for the quarter was \$92 million or \$102 million excluding special items cash outlays primarily related to our restructuring actions. As Geoff mentioned, franchisee collection rates are trending within 10% of prior year rates. And to date, we've collected better than 70% of the fees we have previously deferred in support of our franchisees. The remaining 30% will take some time to work through our cash flows as we are providing our franchisees most in need with extended payment terms.

As mentioned on last quarter's call, we've taken a number of actions to mitigate the revenue losses from the COVID-19 travel disruptions. In the third quarter, we achieved \$73 million of cash savings related to these actions or \$203 million year-to-date. We remain on track to deliver the full-year target of approximately \$255 million as previously discussed. As expected, third quarter cash savings were lower than second quarter as we welcomed our furloughed corporate employees back to work in August and also resumed advertising spend to capture the increasing summer and fall travel demand.

We ended the third quarter with over \$1.2 billion of liquidity, up from \$665 million at the end of the second quarter. The increase reflects the August bond issuance, as well as free cash flow generated in the third quarter. Though our balance sheet had afforded us the luxury of being patient and we weren't compelled to take on additional debt, the credit markets were too attractive to ignore in August. As a result, we raised \$500 million of cash by issuing eight-year bonds at 4.375%, 100 basis points lower than our inaugural bond issuance in 2018.

We attribute the execution to an appreciation for the unique strength and resiliency of our business model. The proceeds from this issuance were used to repay a portion of our outstanding revolver borrowings.

Our Board of Directors continue to demonstrate its confidence in our business model and our ability to generate significant cash flow through its decision in August to once again approve a quarterly dividend, which continues to be unique among our peers in the hotel industry. We expect to recommend a similar dividend for the board to consider in November, and to consider an increased dividend in 2021.

Moving to our best view of certain operating and financial metrics for the remainder of this year. Full-year 2020 global RevPAR is expected to be down approximately 40%. We are updating the RevPAR sensitivities we previously provided from an \$8 million impact per point to approximately \$7.3 million per point. At the 40% RevPAR decline assumption, this translates to adjusted EBITDA of approximate \$318 million to \$324 million for the full-year 2020. We are expecting our marketing funds to overspend by approximately \$50 million in 2020. The effect of which is reflected in our adjusted EBITDA estimated range.

In a typical RevPAR environment, we manage our marketing funds to breakeven on a full-year basis. However, to optimize franchisees' top-line production, we elected to maintain advertising spend and revenue-generating functions despite lower revenues particularly in our seasonally slower fourth quarter. Note that our accounting for the marketing funds is not comparable to our peers in that we do not remove their negative effect from our results of operations or cash flows.

Below adjusted EBITDA, we expect stock-based compensation of approximately \$19 million, depreciation and amortization expense excluding acquisition-related amortization expense of \$60 to \$62 million, interest expense of \$112 million to \$114 million, and an adjusted tax rate of approximately 29%.

Adjusted EPS is expected to be in the range of \$0.94 to \$1.01 based on a diluted share count of approximately 93.4 million shares. Last, I'll remind you that we have \$5 million of special item cash outlays remaining this year. And looking forward to 2021, we expect to move past the current noise of one-time charges in cash outlays as we emerge from the pandemic and move further away from our spinoff and acquisition and integration of La Quinta.

In closing, our business has showed tremendous resilience through this unprecedented crisis. We are innovating our way to increase market share for our hotel owners. We're strategically removing non-compliant and brands attracting hotels from our portfolio, while building a pipeline of quality assets and we're supporting our franchisees. Our focus is on the long-term success of our brands and our franchisees, both of which are uniquely positioned to continue to outperform through the recovery and well into the future.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We'll take today's first question from Joe Greff with JPMorgan. Please go ahead.

Joseph Greff

Analyst, JPMorgan Securities LLC

Q

Good morning everybody, thank you. Geoff, I'd like to start off by just talking about conversions. I think we all have the sense in this kind of environment companies like Wyndham has an opportunity with conversions and it's nice to see that grow sequentially, up about 14,000 rooms quarter-over-quarter. Can you give us a sense of what geographies, what brands -- could you give us more specificity on maybe the drivers of that increase? How much of it is pull from your development guys or push for third-party owners that are dealing with stress and looking to improve and shore up its operations?

And then, when would you suspect conversion opportunities or conversion growth in the pipeline might peak or plateau? And maybe understanding the relationship between -- if your segments are at breakeven occupancies and thereby have less stress than others, does your conversion opportunity in your target segments, does that peak before maybe others in the industry? Thank you.

Geoffrey A. Ballotti

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

A

Thanks, Joe, and it's the million-dollar question that's out there. We were very pleased with our conversion signings picking up. Our executions sequentially were up 30% domestically and 60% internationally for conversions. But, in terms of when it is going to pick or plateau, there's a number of things that I think need to happen and I think it's going to be a ways away as we work through extended forbearance and the hope from so many of our franchisees looking for more stimulus and just a sort of lack of deal flow that's out there. I could tell you this, having been out there on the road traveling with our franchisees this quarter, that we're having conversations with developers that we've never been able to have before.

I mean, there are so many independent developers that are out there that are realizing that our brand could provide RevPAR premiums and lower distribution costs and operating cost savings. But, they're just not ready to make that that decision. In terms of the signings on conversions and in terms of where we saw them domestically, they were really from a geographical standpoint strong in Georgia and Arizona and Florida and in Texas, there was a great pickup in signings.

In terms of our brands, there was great interest in the economy space in Travelodge, and also in our Baymont from a conversion, or even La Quinta, people willing to put in key money. But, I think it's going to be a ways away until it's going to peak or plateau, and whether that's going to happen in the fourth quarter of this year or the first and second quarter is up for anybody's guess.

Joseph Greff*Analyst, JPMorgan Securities LLC*

Q

Great. That's helpful, Geoff. And Michele, yes, I was hoping maybe you can give us not so much for this year for the fourth quarter, but just as we kind of think about next year, we kind of think about the approximate conversion of EBITDA to free cash flow. Obviously, it was very favorable, more favorable than what we had modeled in the 3Q and you had a sort of nice working capital contribution from that. How do you think about that going forward and maybe including in that, how to think about working capital?

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

A

Good morning, Joe. I think as we move into 2021, obviously, we are working through the budget cycle right now, so we're not prepared to discuss in detail. I would expect to see stronger free cash flow conversion from adjusted EBITDA for the full year. I don't think the Q3 levels are going to be -- the Q3 2020 levels would be representative of a full-year 2021 at these lower revenue numbers, converting at 60% is probably not realistic. However, that still remains our longer-term target and as we approach 2019 levels, 2019 demand levels, that's where we would look to be.

Joseph Greff*Analyst, JPMorgan Securities LLC*

Q

Great. Thank you, guys.

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

A

Thanks Joe.

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

A

Thank you.

Operator: And we'll take our next question from Dany Asad with Bank of America. Please go ahead.

Dany Asad*Analyst, BofA Securities, Inc.*

Q

Hey, good morning, everybody. I just wanted to follow-up on Joe's question from earlier. Geoff, you gave really good color on the puts and takes for 2021, when it comes to unit growth. But if we boil it all down, are you comfortable giving us maybe like a best guess for how 2021 unit growth could shape up?

Geoffrey A. Ballotti

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

A

Thanks, Dany, for the question. We're not providing unit growth guidance, but we are absolutely committed to the 2% to 4% net room growth that we were delivering pre-COVID.

And I think, excluding the proactive removals of the low royalty non-compliant master license agreements, which we were delighted to exit along with the unprofitable management guarantee rooms, net room growth would have been flat domestically and it would have been up 4% internationally.

And we're certainly committed to that 2% to 4% and moving that over time to 3% to 5%. But again, I think as I said to Joe, a number of things have to happen aside from what I mentioned on forbearance and stimulus.

Our deal teams need to be allowed to travel again, they can't be constrained again, and we're certainly concerned in terms of our European teams being able to get out and about right now. And I think again the bid/ask need to narrow on hotels that are going to transact.

There is so much significant cash on the sidelines both with owners and with funds, but there's not yet a lot of transaction, but there certainly is a lot of opportunity with the conversations we're having with the very strong sequential growth in our opens. I mean, we opened sequentially 20% more rooms domestically and 100% more rooms internationally, and really strong growth in our pipeline overseas. And again, good growth in regions year-on-year like Southeast Asia and the Pacific rooms.

So we're not providing guidance on this call, but we are committed to getting back to that 2% to 4%.

Dany Asad

Analyst, BofA Securities, Inc.

Q

Understood. And maybe if I could just sneak one in on China. I mean it was your best performing region, but your domestic numbers weren't actually that far off from what you put up in China. But we don't really have as much granularity over there as we do domestically. So maybe can you just help us parse out what that performance was for the quarter either by geographies or segments...

Geoffrey A. Ballotti

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

A

Sure.

Dany Asad

Analyst, BofA Securities, Inc.

Q

...and then how can we apply that to...

Geoffrey A. Ballotti

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

A

Yes...

Dany Asad

Analyst, BofA Securities, Inc.

...your recovery.

Q

Geoffrey A. Ballotti

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

...you're spot on in terms of – look, we were thrilled with the performance in China, but it is a much lower average daily rate, when you look at the 1,400 hotels that we have over there, less than 20% are in tier 1 cities. And that 80% are in either satellite cities to the tier 1 or more importantly tier 2 and tier 3 and tier 4, which are much lower, and we run an economy system over there. I mean over 70% of our 1,400 hotels are economy. And it was to your point, very – they're similar but actually better than here in the United States.

A

If you think of occupancy in China, for us it was down 18 points in August. It improved to down 8 points in September and improved a little bit in October as we've been seeing. It was great to see last week's economy occupancy again improve and I think there's a lot of reasons for that, consumer confidence is up and our teams are out there and they're traveling and we're seeing really strong production from them on both the openings and the pipeline.

Dany Asad

Analyst, BofA Securities, Inc.

That's it. Thank you.

Q

Operator: Next question is from David Katz with Jefferies. Please go ahead.

David Katz

Analyst, Jefferies LLC

Good morning, everyone.

Q

Geoffrey A. Ballotti

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

Good morning, Dave.

A

David Katz

Analyst, Jefferies LLC

Thanks for taking my questions. I wanted to go back to La Quinta and delve just a little bit deeper. You've made some general commentary about it and some high level metrics. But what else can you share with us about the progress of that brand, both in terms of driving unit growth in terms of driving RevPAR returns on that investment to the degree that you can, and what your vision for it is near-term, long-term?

Q

Geoffrey A. Ballotti

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

Sure. Thanks Dave. It is, as we said in our prepared remarks, continues to be throughout this year our strongest performing brand. Our RevPAR index just continues to grow. It was up again another 700 basis points, 800 basis points overall and continues to run the highest occupancy and the highest ADRs in its segment.

A

In terms of being able to grow it again, when we began, from a franchise standpoint, we have seen great growth. We've executed 103 new deals since acquisition. The net unit growth since acquisition is running at 8%, and the strongest is we've talked about before, a measure is franchisee engagement, and our retention rate with our owners – with our La Quinta owners, who right now are I would say happy with the RevPAR index gains that they're seeing. Our franchise retention rate for the last 12 months still exceeds 98%, which is at the top of our performance for all of our brands.

I mean we're really happy with what we're seeing in terms of improved retention and our economy midscale but nobody's running higher than a 98% retention rate. Our pipeline, we continue to see deals. Our pipeline increased 3% sequentially and we're seeing growth internationally.

We're seeing growth – and that's really I guess our vision is for our teams to continue to be able to execute deals across Latin America as they're doing in Europe, Africa and in the Middle East, as we've been seeing, and now we're beginning to see signings in Asia Pacific. So we're really pleased with the performance of the brand. I would say, Michele, from an ROI standpoint, we're feeling good about how we're doing and exceeding everything that we set out to do on the synergy side.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

A

Yes, we actually are, we've achieved right around the high end of our initial synergies, actually our revised synergies estimate, which was taken up from our initial estimate. And ROI is a little difficult to measure right now just because of the COVID impact. So, we would have to kind of kick that down the road, Dave, a little bit.

David Katz

Analyst, Jefferies LLC

Q

Understood. And I know you've touched on this a little bit in the opening remarks, but thinking ahead a couple of quarters, as we get into early next year, the concern around franchisee financial health, as you start to kind of normalize those interactions, what kind of provisions or what discussions you're having in anticipation of that kind of distress starting to play a role?

Geoffrey A. Ballotti

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

A

Well, I would say our franchisees, Dave, have been really pleased with the support that we've been providing them first on the deferred fees level with our property improvement flexibility with some of the brand standard changes that we've made, and certain fixed fees which we've brought down.

I think moving forward what our franchisees are most interested in what we're spending the most time on is trying to get them more support on the federal level. I mean it is – the biggest hope is that they will have a second drawer of PPP and I'm optimistic that that still could be done before the end of the year.

I, along with the rest of the HLA officers are hoping that there's a chance to do a standalone bill attached to the CR when Congress comes back, and before it has to be signed in December. And I think that along with where their occupancies are running right now would be the biggest thing in terms of support that they could hope for and certainly we could hope for.

David Katz

Analyst, Jefferies LLC

Q

Great. Thank you for taking my questions. Be well everyone.

Geoffrey A. Ballotti

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

Thanks, Dave.

A

Operator: And our next question is from Anthony Powell with Barclays. Please go ahead.

Anthony F. Powell

Analyst, Barclays Capital, Inc.

Hi good morning. I have a question on the I guess everyday business travel that you talked about earlier in the prepared remarks. Is this a higher or lower kind of rate business than your leisure? And over time, are you trying to increase your mix of this everyday kind of business travel beyond [ph] 20%, 25% (36:46) or are you happy with the current level?

Q

Geoffrey A. Ballotti

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

Yes, it's absolutely a slightly higher rate, Anthony, and we're very happy and would love to see it increase. I mean it is what has we believe, as we've talked on last call and this call, really differentiated us from – and our brands from their ability to continue to grow share.

A

We think we're going to continue to see that every business traveler demand increase throughout the fourth quarter and well into next year. I mean we talked about the infrastructure business that was down 40% in Q2, improving to down 20% in Q3, and it is picking up .

I think most of the network, the cable, the utility crews are out there, they're traveling in full force. Residential and commercial construction is back in a much bigger way it was in the third quarter than it was in the second, and I think will continue.

And there are large infrastructure projects that are just starting. Anecdotally, I was on the phone yesterday with one of our Howard Johnson owners who was telling me about the SK Battery project in Georgia. I did not know that South Korea Battery was building a 2 million square foot plant. And it's begun and his hotel is full and he is running full every night with construction workers that are driving in from Texas and Alabama and Louisiana. Those are the boots on the bed that we talk about on the infrastructure side.

On the logistics side, that other big piece that we talked about in our prepared remarks, that's certainly benefiting from a pickup in manufacturing. I think all you've got to do is look at the rising ISM Manufacturing Index and it supports that from an inventory handling and sortation standpoint.

Again, I think there'll be more deliveries this fourth quarter than there have ever been. And the rising PMI data supports certainly that that business is picking up. But transportation's back, trucking is back, rail is back. And just another anecdotal standpoint talking to Caroline who is one of our – who leads our global sales force, she was telling me that one of our big logistic accounts is a leading data collection service company and they're out there partnering with hospitals to streamline inventory supply chains.

Their business increased across our hotels and they're in hundreds of our hotels six times versus the second quarter. But more importantly, when I pressed around it, it's up 35% year-over-year. So our job to your question is

for our national sales teams, our global sales teams to be out there finding more of these types of accounts and growing that share. And right now, it's what's again been really helping us differentiate our RevPAR index growth.

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

A

And I would just add to that Geoff that – and I would just add to that really quickly, the investments that we're making in the business today, specifically Wyndham Business which is a suite of technology tools and the Wyndham Direct tool is really there to increase that set – that capture a higher degree of that segment spend.

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

A

That's a great point.

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

Q

Thanks. And in terms of the RevPAR [ph] maturity (40:06) for the year down 40%, are you baking in any kind of softening from the increased COVID cases we're seeing in the US and Europe and other geographies in that number?

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

A

Our fourth quarter estimate right now is about 30% to 35% in the US and globally really. And so, we haven't been seeing a significant impact from the COVID spikes. But I think Geoff, do you want to add anything to that?

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

A

No, I mean it's a great question. It's a question we're all worried about, our franchisees are worried about, Anthony, it's certainly a concern. And we saw rising case loads earlier this summer and we were really worried about them, and post the July 4th what happened in California and Florida.

But what happened in July was better than June, it was down 13 points, this is just domestically, and in September improved to down 11 points. And as we showed in our investor deck that we sent out last night, October is running down 9 points.

So we certainly – we're looking at it both in the top states per capita, North Dakota, South Dakota, Wisconsin, or by the number of cases, Texas, Illinois, California and Florida, and we are not yet seeing any change. But it's certainly of concern and it's certainly something that our teams are watching.

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

Q

All right. Thank you.

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

A

Thanks, Anthony.

Operator: And the next question is from Stephen Grambling with Goldman Sachs. Please go ahead.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Hey thanks. I guess on free cash flow, how are you thinking about the guardrails for offering support to existing owners and/or even key money and new owners, as you look to both bolster the base and drive net unit growth? And perhaps any color you can provide specifically on how to think about the free cash flow impact from these efforts?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Hi Stephen, as we look forward to 2021 and beyond, we are expecting that there will be a good amount of opportunities coming our way. Geoff has talked about that on the last couple of quarters – on the calls for the last couple of quarters. And I could conceivably see us doubling our development advance spend from where we currently are, which is approximately \$20 million this year.

I think there could be further opportunity beyond that, as we move past 2021, but that's my best guess for 2021 at this point. And those dollars would be spent not just to attract new properties into the system, which obviously is a high priority for us, but they also could be spent to help retain certain properties in our system as well.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Okay. And I guess as a quick follow-up on that, do you anticipate it's going to be centered on any specific brands, chain scales or regions?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

I think there's a probability, a high probability that you could see it centered around some of our new construction brands Microtel and La Quinta. I think there's also a probability you could see it probably more centered in the US and in some of the higher RevPAR markets, so we can drive higher ROIs for us and for our hotel owners.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Thanks, that's helpful. Thanks so much. I'll jump back in the queue.

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Thank you.

Operator: The next question is from Patrick Scholes with Truist. Please go ahead.

Patrick Scholes

Analyst, Truist

Hi, good morning, everyone. Geoff and Michele, you've talked about in the past that 40% is the occupancy level, rule of thumb where fees can be paid. Has that changed at all of late from where you were, say, in 2Q?

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

A

Hi, Patrick. The breakeven level that we look at for our franchisees is about 30% occupancy. And then based upon how they're capitalized, it could be sometimes 40%. So at an LTV of 70%, which is on average where our franchisees are leveraged or capitalized, we expect the majority of them will be able to break even in the low 30%^s, and that has not changed. Our cash flow at Wyndham Hotels is typically breaking even at the 40%.

Patrick Scholes*Analyst, Truist*

Q

Okay. Thank you. My next question and this is a difficult one to answer very high level, how quickly do you think it will take for your leisure business to get back to 2019 bubble, certainly some of the industry prognosticators out there are saying that that could actually happen by the back half of 2021? I'd like to hear your thoughts on that.

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

A

Yes, I mean again we're not providing guidance, Patrick, but I guess there's a couple of things that we certainly look at and we're encouraged by. I mean consumer demand is increasing. The drive to we can get away in the short breaks are increasing. We talked last call about and something we continue to look at and one of the things we're really thrilled with this new Amperity customer database that we have is the ability to poll how our guests are traveling. And we saw a 20% increase in our guests willing to drive over 400 miles, and that was encouraging to see.

I think remote work and remote learning, which we certainly were benefiting from, is certainly going to continue throughout the fourth quarter and throughout most of next year. And it's what really drove – when we look at September occupancies, I mean we ran over 50% in the national parks, over 50% along the beaches, and nearly 60% in the mountain states.

I think we're going to see demand shift to the Carolinas and we're seeing that now in Myrtle Beach to Florida. We're seeing that now in the Panhandle and to the Arizonas and Californias. But there are two measures that we also look at. Advanced bookings are increasing, so that's encouraging. Same-day bookings are coming down and multi-night bookings are increasing.

And something else that we're really pleased to see is that our average length of stay are increasing. It went up 3% in July, it was up 7% by the end of September. And that type of increased consumer demand is people feel safer and are willing to travel will certainly continue to support us through what we're all concerned about right now with the recent COVID spikes.

Patrick Scholes*Analyst, Truist*

Q

Okay. Thank you very much for the color.

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

A

Thanks, Patrick.

Operator: Next question is from Ian Zaffino with Oppenheimer. Please go ahead.

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

Q

Great thanks, just building on that last question, can you actually describe kind of who these leisure customers are, what's driving them, what's motivating them, and sort of how we think about modeling like the recovery of leisure travel? And then I have follow up, thanks.

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

A

Yes sure. Hi, Ian. There are about – about a third of our leisure customers are coming from short weekend getaways, so four days or less. And then we have another third travelling for family visits and so they're going to visit mom or visit grandparents, for instance.

And then, we also – another large category of our leisure spend is the stop-along trip. So you're headed to a destination and you're going to stay in one of our hotels for one night. So those are the three largest categories, after those three groupings that we have, the traditional five plus night leisure vacations.

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

Q

Okay great. And then I have a follow up on, I guess a different topic is, is terminations. How we're modeling that as well, do we expect any further terminations going forward? Any color you could give there would be really helpful, thanks.

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

A

Sure. We are – I think it was actually, we had disclosed it on slide 8 of our investor presentation. So we do have some additional rooms coming out in the fourth quarter in connection with our previously announced termination, strategic termination strategy. And so that should be about 7,500 rooms in the fourth quarter.

And then there's about 2,000 that we identified for 2021. Outside of that, the scrub that we performed in the second quarter was very thorough. Of course, we're going to have franchises that struggle through COVID, and what comes next for them remains to be seen. But for good operators, with a history of brand engagement, we're going to do everything we can to help them avoid failure.

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

Q

All right great. Really appreciate this. Thank you very much.

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

A

Thank you Ian.

Operator: We can take our last question from Michael Bellisario with Baird. Please go ahead.

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.

Hey good morning, Mike.

Michael J. Bellisario

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

Just on the pipeline, I think last quarter you gave some financing stats in terms of the new construction, what your estimate is of who has financing in place. Where does that stand today, and then have you seen any changes domestically versus internationally over the last 90 days or so?

Geoffrey A. Ballotti

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

No, we really haven't. I would say we scrubbed it really hard last quarter. And it's in the investor deck in terms of – is pretty consistent to what we saw at the end of the second quarter.

I would say that we've been pleased adding to the pipeline all of the new construction rooms. I mean we were – I think our teams were somewhat surprised to see the amount of interest in some of our new construction brands, like our Microtel Moda or our La Quinta or our [ph] Duel (51:17).

We've now signed 40 Microtel Modas and there are developers out there that are looking for that to either repurpose or take advantage of this. So, we had a – we saw domestically in our pipeline, we increased 3% to 66,000 rooms. A big pickup of that of course was in the conversion rooms, but also in the new construction rooms.

And then internationally, our pipeline grew 12% to prior year, and there was great growth in Southeast Asia and again in China. And there was a huge pickup in conversion rooms in China, but also a pickup in new construction rooms in China. It's great to see new construction rooms begin to break ground again both internationally and domestically. Our ground breaks, new construction in Q3 totaled 24 new construction rooms and 6 of those were in the USA.

Michael J. Bellisario

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

Got it. And then just to be clear, the percentage of your pipeline that's new construction that has financing in place, that's what you said is really no change.

Geoffrey A. Ballotti

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

No change versus Q2.

Michael J. Bellisario

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

Okay, got it.

Geoffrey A. Ballotti

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

Yes.

Michael J. Bellisario

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

And then just second question, I think you maybe commented on maybe a little qualitatively at the beginning, but I wanted to ask differently, on your signings in the quarter, can you give us the breakdown of what was within existing franchisee versus new franchisee signings, and how that split maybe has [ph] turn it (52:56) over time or how you – it's like it's maybe changed going forward?

Geoffrey A. Ballotti

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

I would say more new signings than with existing franchisees. Michele, would you agree with that?

Michele Allen

Chief Financial Officer, Wyndham Hotels & Resorts, Inc.

Yes, I would agree with that, and I think that's something we can follow up on and get more specific data points.

Geoffrey A. Ballotti

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

But I don't – I haven't seen much of a change there.

Michael J. Bellisario

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

Okay, thank you.

Operator: And as it appears we have no further questions, I'll return the floor to Geoff Ballotti for closing remarks.

Geoffrey A. Ballotti

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

All right, thanks very much Keith and thanks everyone for your time today. We very much hope you'll go out to the App Store and download and review our new mobile booking app on your iPhone or Android device. It is a one gorgeous looking booking app.

Michele, Matt and I very much look forward to speaking with many of you in the weeks ahead and more importantly hopefully meeting with you face to face in the not too distant future. Take care everybody and thanks again.

Operator: And this will conclude today's program. Thanks for your participation, you may now disconnect. Have a great day.

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