Shaun Kelley, BofA Securities: I’m Shaun Kelley, the U.S. gaming and lodging research analyst at Bank of America. Thank you for joining us. Let me just start off with a quick additional disclosure. Conflict disclosures relating to the individual companies or securities discussed on this called today can be found on the call invitation.

Before I start, I just want to mention that this call is really a preview heading into our full gaming, lodging, global real estate conferences that are all taking place next week. We have an excellent lineup of CEOs next Thursday, September 17th, ranging from most of the large cap lodging companies to Draft Kings, Penn National, Caesars and more. So if you have not registered for that please reach out to me or you’re BofA sales rep to get signed up.

So without further ado, it’s my pleasure to welcome Arne Sorenson, the president and chief executive officer of Marriott International. So good morning and welcome Arne, thanks for joining us.

Arne Sorenson: Thanks, Shaun. It’s great to be with you.

Shaun Kelley, BofA Securities: As likely everyone knows, Arne’s been in his current role since 2012, having joined Marriott back in 1996. And he is the first person to hold the CEO post without the Marriott family name. He also serves in a variety of board roles including sitting on the board of Microsoft, the Business Roundtable, the Brookings Institution, and the Special Olympics. But on a much more personal note, not only has this been an incredibly challenging time for Marriott and the lodging industry but, Arne, you also, have been in an intensely personal fight with cancer. So, if you don’t mind me asking I’d love to just start with how are you holding up and feeling right now?

Arne Sorenson: Well, thank you Shaun. I feel good. I feel strong enough to be fighting the disease that we are all fighting, which is COVID-19, as opposed to fighting the disease that I have been privately fighting for the last year and a half or so. I was diagnosed last – basically the first of May 2019 with pancreatic cancer. And the team at Hopkins in Baltimore has been taking great care of me since. I’ve been through chemo and radiation and surgery and more chemo, and I’m getting to the end of that process and hoping against hope that we slip into monitoring at this point. But to be almost a year and a half into it and being still here fighting and working full time, I’m incredibly grateful for the progress that we’ve made.

---

1 Not a verbatim transcript; extraneous material omitted and edited for clarity and misstatements.
Shaun Kelley, BofA Securities: Well, this is super great to hear, and I know we're all pulling for you and wish you a speedy recovery with everything there.

Arne Sorenson: Thank you.

Shaun Kelley, BofA Securities: So let's just start with maybe the obvious but basic business climate question, if you don't mind, Arne. As it relates to kind of what's going on out there, industry health, post-COVID, and kind of the RevPAR environment, we have continued to see sequential RevPAR improvements through the end of August, both in the U.S. and globally. But maybe you can give us an update on current trends in your view on the trajectory of the recovery thus far.

Arne Sorenson: So, your question I think captures it quite well. Each week is better than the week before. I won't necessarily say that that will be the case without exception for the weeks going forward. But I think what we're seeing generally is that, in part because of the resilience of human nature, people are stepping out a little bit more each week than they stepped out the prior week. It varies a little bit from part to part of the world.

Obviously, we're just pulling our August numbers together but when we look across the globe what we see is RevPAR down about 65 percent. Maybe a point better than that when the dust settles -- 64 percent. And while that it is a powerfully negative number, it is a meaningfully better number than the minus 90 percent, or minus 90 plus percent, that we experienced starting in late China, and then across the globe as the virus moved through February and March.

And there are interesting little nuggets underneath that global average. I think in the United States we saw occupancy in the month of August at nearly 40 percent, 39 percent, which given our mix of big group boxes and luxury in urban boxes is, again, a good strong improvement from the depths of the crisis.

You look at China and we saw RevPAR in August decline versus last year just 22 percent. And what that tells you, that's still a big year-over-year decline. In the normal times we would be bemoaning a minus 22 percent number but think about that being simply seven months or eight months after the virus essentially shut down business in China, you see that they are coming back. Not just with leisure travel but they are coming back with business transient and to some extent group as well.

Shaun Kelley, BofA Securities: This debate around what we are seeing in the business and business versus leisure side is probably the primary question I get. And you kind of already alluded to a part of this is what you're seeing in China. But can you talk about any green shoots you are seeing here on the U.S. side? And again, you've got multiple hats out there including a lot of probably higher level corporate interactions and probably discussions with the government as well, so how are you thinking about the reopening on the business side especially as we head into the fall post Labor Day?
Arne Sorenson: So it's obviously a big world and a big country. Maybe I’ll just talk about the U.S. for a second as it relates to business travel.

What I think we're seeing is that across the United States folks are a bit more likely to be back to work the less they are in our coastal capital cities. Many of the participants in this call are, I suspect, New York or Boston-based, maybe San Francisco-based. Those are cities which are disproportionately dependent on mass transportation, they are disproportionately places where our biggest companies are headquartered. They are places where urban density is probably at its most extreme. So, think about the height of buildings and elevators and the like. But you go to the rest of the country and you find cities which are a bit more dependent on car transportation to get to work even, where the office buildings are less dense and less vertical, if you will. And I think in some of those places that we are already seeing businesses reopen, including offices reopen. And I think we are seeing some business travel start to take place.

Business travel has not come back as much as leisure but if you look at the business transient reservations made in the month of August, for example, I think they were roughly twice what we did in the month of June. And so percentage growth is -- those are big numbers from June to July to August, et cetera. But when you look at compared to where they would have been in 2019, we’re down much more significantly than our average RevPAR would be.

I think as, and, Shaun, we were talking about this a little bit before we opened up the call, but one of the things that I think is important for companies across the country to start to do now is sensibly welcome people back to the office. Maybe not require it. And it’s going vary a little bit by city to city. But the listening I’ve done of CEOs, not just in our industry but particularly CEOs of other industries, I think we’re starting to see that productivity gets harder to maintain with each passing month.

I think we are realizing that building a culture, training, starting new people, and maybe even more importantly, being focused on issues a little bit different from the urgency of the crisis in front of us, which is what we were all focused on March, April and May, but instead on the issues that we’ve got to be ready for next year or the year after that. The collaboration that’s got to be done. And more and more of that I think depends on people coming together.

And so for the U.S. economy generally, and obviously for our industry, this will be a help too but you look at all of the small businesses that are set up around the places where we go to work whether it be the sandwich shops or the coffee bars or the florists or the dry cleaners, these are places that still are frustratingly too often closed. And if we start to get back to work, again with a welcome not a mandate for instance, and with masks and with reduced density and the other things, to make sure we’re protecting people, I think we will start to see that – we will continue to see that business travel and business activity continues to improve.
Shaun Kelley, BofA Securities: Arne, maybe just get to the heart of – if I was going to summarize the one question I’ve gotten you know routinely in all of my investor conversations over the last four months, as it relates to lodging, after we got past the initial kind of cash burn piece of the equation, it really comes back to this long term impact on business travel. And I’d love to get your view on that. It’s funny, as I was preparing for this, I hadn’t realized you were actually on the board of Microsoft, which actually is a fascinating comparison to where we are. So, I’m curious on your view on sort of the long-term impact on business travel and specifically any thoughts around changing behaviors and technological change. Right, we’re all using some things today -- I mean it’s the Zoom conference call, maybe Microsoft Teams, but there’s new things out here that we were not really able to envision you know 10 years ago when we talked about even the upstart of video conferencing and then we compare and contrast that with certain areas, business profitability, you know things are actually OK especially for some of the bigger tech companies have been driving the economy for the last decade. So, love to get your thoughts on what is this longer term structural impact on both behavior and then specifically on business travel in the lodging industry?

Arne Sorenson: So maybe just to remind us all of the kind of dialogue we had as recently as a year ago, and think about the big tech companies because they’ve obviously benefited by this pandemic because we’ve had to rely on their tools to live our lives. But a year ago those tech companies were basically saying we want -- we’re building campuses, we want people to be here. We’re providing free food. We're providing games. The cynic might have said that’s because they wanted people to come to work and work not just 40 hour weeks but work all the time. But I think more fundamentally than that, what they said was, “We believed to collaborate, to solve issues that sometimes people hadn’t even identified needed to be solved, to be creative, to grow into new spaces, requires us to be together and to collaborate.”

Now we hear many of those companies and other companies say, “We don’t know that we will ever go back to the office. Remote work is going to be something that is here to stay. We’re going to communicate some flexibility to our workforce all the way through this academic year into the summer of 2021, etc.”

I take both of those as sort of extreme comments. I think the likelihood is that we will go back to the office. Even tech companies will go back to the office. Why? Because we can accomplish more when we’re looking at each other. Now we may not go back five days a week. We might go back three days a week or we might go back some weeks where it is every day and some weeks where it is no days, or we might stage things a little bit. But I think we will generally be back to a physical presence when the dust settles.

When you think about long-term travel impact, technology is the thing that has continued to change. My introduction to Marriott was from the outside, practicing law, when Marriott split in two in 1992. And of course, that was done after the first Gulf War and the first recession that really impacted our business profoundly. And then of course we had the tech bubble burst in early 2001, and 9/11 after that, and in the context of 2001 there was conversation about whether video conferencing would displace travel and we’d never get back to it. And then of
course we had a great recession in 2008, 2009, and 2010, and the same conversation took place there. And while technology has changed, the conversation hasn’t changed. In every one of those three prior times people said we’re never going to go back to travel the way they did. After the recovery from each one of those they went back to travel the way they did before.

And our guess is that we’ll see the same thing here. It may take us two or three years to get back to the same level revenue that we had in 2019 on a per property basis. But I think that people will go back. And I think to some extent we will continue to see the shifts that we've already seen over the last 20 years or so and that is there will be a bit more which is leisure than there has been in the past, than business transient, for example. There will be further blending of trips, so I think one of the things that we're likely to see if there is remote work is it allows us to travel while we work for personal reasons as well. So if I've got a remote week that's happening, or if I've got a week that’s got a remote few days, I might well go to the beach and work from there for a few days but also have a few days of vacation in a way that has opened up that week in a sense that it wasn't open before.

And I think you roll all that together and the gating issue here, for me at least, is probably less about technology, less about remote work, and more simply about what’s the economic hangover from this pandemic and how long does it take us to work through that economic hangover.

**Shaun Kelley, BofA Securities:** You know that’s a much bigger political and economic question obviously, as we start to think about it, and I think we've started to try and put her arms around maybe quantifying that or at least comparing it relative to what we saw back in the global financial crisis. And, obviously, there are some elements where the job site is worse, some of the profit side indicators are actually not nearly being impacted the same way. Anything that actually sticks out to you when you think about the economic side of the recovery that might either be a hindrance to lodging or might just play out differently this cycle? Because, I mean, we're trained to think in cycles when it comes to hotels and this is obviously the beginning of a new one.

**Arne Sorenson:** Yeah, I mean I think that the jobs picture is the main thing to look at. And the data is a bit confused I suppose. You know you look at new jobs being posted, or you look at new hirings being done. You look at the unemployment rate. And some of those stats are not as bad as I think we would have anticipated. At the same time, it seems reasonably clear that we have lost millions of jobs across the United States and even more than that across the globe. And it's hard to believe that the loss of those jobs won't have some kind of lasting consequence.

Now, the more those jobs are lost in small business, in restaurants, in, you know, that kind of space, I think the more the impact is likely to be on leisure travel, ironically. That’s the stronger part of recovery today. But leisure travel is probably more threatened by that kind of economic crisis than business travel. And if business travel is disproportionately driven by larger
companies, by white collar workers, we’re seeing relatively greater strength in that space today then we're seeing in the small company land. But I think it’s what we’ve got to watch.

My own expectation is that the economic hangover will take us a few years to work our way through. That when the dust settles and the stimulus money is gone, and we are back to figuring out who’s gainfully employed and not, what kind of business starts we have, and those sorts of things, that it is going to take a little while to get back to where we were before.

**Shaun Kelley, BofA Securities:** It also implies a bit of a sort of possible different pattern of how things might play out kind of pre- and post-vaccine. There's a piece of business travel that doesn't seem like you know it may well be allowed, especially when you think about the urban density piece, may be able to return. Especially when you think about groups coming together. Some of those areas are sort of, kind of -- may need a vaccine or may need at least broader therapies to deal with this. So, I just want to ask directly, as we come back post Labor Day and there's a lot more discussion in the broader market about potential vaccine how do you think a vaccine plays out? And I’m not just – I’m going to give you the scenario which is if we were to get one by the end of the year what do you think that means for corporate travelers? When can they really start to come back? How do you think your largest corporate customers are positioning or starting to plan for maybe that post-vaccine world?

**Arne Sorenson:** So, let me not pretend to be an expert on the vaccine, but maybe just talk even in a more limited way about how RevPAR moves for the industry over the course of the next year or year and a half. Obviously, Shaun, you talked about this question you get frequently from folks on this webcast and investors, which is, how far can leisure take us, what's happening with business transient, what does it mean when we get into the fall where it's a little bit more of a business travel season than a leisure travel season? And, you know, we were quite deliberate in our second quarter results in putting out statistics about how, yes, there is more business transient in a typical fall than there is in the summer. But it's only a few points difference in mix.

Leisure continues to be relevant through the fall, and to some extent, this blending of leisure and work, because of remote work, expands the leisure season in a way. And so, for us, and again, there is nothing we can look at to prove that we’re right on this. And I’ll confess that we have some internal debate about it. But for us, I would guess that human nature being what it is, we will see a general modest continuing positive recovery over the balance of 2020. At the pace similar to what we’ve seen over the last couple of months. I’m not talking about a step function up but a modest bit of greater comfort about traveling, both for leisure and for business transient.

I think at some point in 2021, and the precise timing of this depends on both the vaccine, which you talked about, it also depends a little bit on how does the virus move itself, when we get through the fall where we could obviously see an increase in cases because of seasonality, what happens in the spring, do we get to a place where the virus starts to recede of its own accord even independently from a vaccine by mid-year next year? I don't know the answer to that, but
I think the likelihood is because of, either a vaccine or because of the virus’ own course, that sometime in 2021 we will see a step up in travel. We'll see a step up in the RevPAR progression, if you will. Largely, in the first instance, driven by business transient travelers, who have not only been welcome back to work but probably said, “you know what, time now to start coming back to work. Time for us to start calling on our partners or our customers and getting out there and doing what we do.” I think at the same time as that occurs, we’ll start to see group bookings stick. And group will not show up immediately in the hotels because the booking window tends to be longer. So that will take a bit more time for it to show up in actual RevPAR numbers. But nevertheless, that there will be a step function, which over a relatively short period of time, a few months, maybe a quarter or two, gets us to a place which is commensurate with where the economy is at the time. I would guess that that is still meaningfully below 2019 hotel level revenue, but it's a whole lot closer to that then where we are trading today. And from that point on, then over the next couple years maybe, we will modestly with the economy grow back towards the kinds of revenue levels that we had before.

**Shaun Kelley, BofA Securities:** I think it’s a really helpful outlook of exactly how you sort of expect this progression to occur and it makes a whole lot of sense. Maybe my last question before we move over to the unit growth and development side of the business is, is there anything that has really behaved surprisingly or differently to you? When you think about, let’s call it the RevPAR component, of behavior here? Whether it’s the pricing side of either how well it’s held in in certain areas, or how much it has dropped off? We’ve tested some of cycle rules, if you will, Arne. We’ve seen patterns before but this sort of broke all those rules. So, I’m kind of curious when you look back at it, or when we all look back at it what will we have seen that just behaved a little differently than perhaps we thought?

**Arne Sorenson:** So, there's not a lot that is surprising to me. By the way, Shaun, it doesn't mean I would have predicted it to go this way. But having seen the way it has evolved, I think there's a lot of logic to it. I think the thing that was most gratifying to me and, to some extent, though not surprising in retrospect was not something I predicted, has to do with human nature in the way it responded to the research of the virus in early July. When that took place, I thought we would see a more significant retrenchment back to quarantine, basically. That folks would say, “Oh my goodness all bets are off, risk is back in the world, and therefore that vacation I was thinking about taking I’m no longer going to take.” And actually, when you look at the July numbers, yeah July 4th was better than the weekend which followed, but in a sense that was less about the virus, in retrospect, than it was about the seasonality of the holiday weekend. And what we saw as the month went along is actually people were amazingly resilient. And so, travel increased over the course of July and it increased into August. Again, in retrospect, I'm not surprised by it because it proves something about human nature which I think is reasonably well known.

I think the other thing, you talk about rate versus occupancy, and this is only going to play out obviously over time. We do compete in a highly diversified industry where pricing is done by not by Marriott for all Marriott hotels or Hilton for all Hilton hotels, but a mix of Marriott and our franchisees for our portfolio and similar for the other portfolios. And so, there is plenty of
price competition in our industry. Having said that, the rate impact that we've seen so far is less about price discounting than it is about the disappearance of the higher-rated business. The business transient business. And because that business is gone, it leaves the average rate actually achieved much more dependent on leisure business which is never been quite as high as the business transient segment.

**Shaun Kelley, BofA Securities:** But also quite encouraging, actually, for if that return comes the ability to possibly regain that on the sort of positive mix shift side of the equation it would seem.

**Arne Sorenson:** I think that's right. Yes.

**Shaun Kelley, BofA Securities:** So, let’s transition over a little bit. The other side, obviously, of Marriott’s business and, obviously, the RevPAR piece and the demand piece has been critical throughout this environment. But we’ve still got the unit growth and development activity side. So you’ve been pretty clear on some of these statistics coming out of Q2. I think one of the bigger surprises was actually that signings were up meaningfully year over year in Asia during Q2. So, I want to start kind of there. Has that momentum continued? And then give us a sense of how some of your U.S. conversations are progressing as we move across the summer?

**Arne Sorenson:** Yes, the good news coming out of Asia Pacific continues. I think year to date our signings are up about 30% compared to last year, which is absolutely stunning. I’m not sure I can tell you exactly why the numbers are that good. I mean, we know that our RevPAR index numbers in China are spectacular. We’ve got a distribution of hotels in the luxury and premium space that is clearly second to none. And when we look at RevPAR index against the competitive landscape there, we are performing extraordinarily well, and I suspect that’s a piece of it. We are taking share in those markets from the rest of the industry.

I think secondly, obviously, the recovery in China means that the abject fear about the impact of the pandemic on the development side receded much faster than it did in the rest of the world. And that is particularly the case in China but that is less the case for the rest of Asia Pacific, which is also better than the United States or Europe would be. But, you know all things considered, maybe this is cultural, too, which is longer term focus to some extent in some of those markets where folks look at it and say this is something that's going be behind us and we're going to look through it and we are going to just keep going with our plans.

I think you get to the United States and Europe and see something which is still a little bit too early to have good granularity in terms of our ability to guide. We talked at the end of second quarter about maybe 2 to 3 percent unit growth for the company in 2020. There is considerable guesswork in that. But really that is sort of assuming that projects that are not close to opening in some of these markets get delayed. I think what we've seen on the positive side is that the projects which were well under construction and nearing opening are back under construction and will open this year or next. I think we are seeing, not surprisingly, that
there are fewer brand-new construction starts even sometimes for deals that were fully signed and baked in our pipeline. And I suspect that that is a mix of financing but probably more fundamentally it is the owners of those projects wanting to get smarter about how this pandemic gets behind us and what their expectations will be for the performance of that asset.

We’ve obviously talked about conversions as well. I think that the conversion activity is likely to step up, and at least to some extent, offset projects that get delayed and elongated. Conversion activity, if you look at prior cycles, is most likely to take place as assets change hands. And assets, some assets, are beginning to change hands but not many yet and I think we’ll see that assets increasingly change hands as we get into the latter part of this year and next year. And as that occurs, new owners will often assess what’s the brand affiliation I’ve got on this asset? What’s the right brand affiliation for me to have in obviously a weaker environment to make competing that much stronger?

Shaun Kelley, BofA Securities: You covered a lot of ground in there and that’s sort of three or four of my questions in one.

Arne Sorenson: Yeah, sorry about that.

Shaun Kelley, BofA Securities: No, no, it’s perfect. But I do want to circle back. So starting with Asia Pacific then, this has been a big pipeline driver and a big balance of your kind of incremental growth for a number of years. So if we just think about just that component of the business overall, maybe you can help us understand how much can, let’s say at the trough of U.S. activity, and let’s exclude conversions for a minute, how much can just Asia Pacific alone help kind of power your net unit growth story? How much can that contribute to Marriott overall?

Arne Sorenson: Well, I think Asia Pacific, particularly China, is going to contribute a disproportionate share of growth both in RevPAR, as we are seeing today for existing hotels, and new unit growth. I can’t give you a percentage of what that means for the company as a whole. But I suspect we’re going to see that continue. I mean, if we’ve got 65 percent, or so, occupancy in China in the month of August you can see that same store RevPAR growth and, therefore, fee growth to Marriott, is going to be moving faster up. Maybe not in percentage terms, but certainly in dollar terms, faster up than the rest of the world which is going to take slower to get back to kinds of occupancy levels that we are already experiencing in China.

And I think similarly we’ll see both openings in the near term, but openings in the medium term, with new projects being signed, grow more robustly than we are seeing in the rest of the world.

Shaun Kelley, BofA Securities: If we then dig into the under construction kind of part of the equation, I’m just kind of – it sounds like some of that activity is resumed again and I think we saw this very early period where you just weren’t allowed to do anything and everybody went pencils down. But, obviously, most of these projects it’s pretty hard once you’ve started to do a
lot else other than kind of push forward to completion. So, can you help us think about what this means for the pipeline broadly? I mean obviously you’ve got I think close to half of the overall pipeline already under construction...

**Arne Sorenson:** Yes, that’s right.

**Shaun Kelley, BofA Securities:** ...but what does this mean for the other half? As investors try to dig in to what’s committed, and what happens -- what happens to that other half of the pipeline that – is that going to happen, but you know it could be materially delayed or how do you think about that, that other component?

**Arne Sorenson:** It’s a good question. I mean obviously the RevPAR impact of this crisis is more severe than the RevPAR impact that we had in prior crises. But what prior crises told us is that the majority of those projects in the pipeline that were not under construction ultimately get built and opened. Heavy majority of those projects. They do get extended, to be sure, and sometimes they get extended by years if construction hasn’t started. But it’s always been interesting to see after the fact how folks come in and say, even a project where we thought that one’s never going to happen, two or three or four years after the fact somebody is saying, “You know what, I’m moving forward on this and we are going to get it open.”

And while the RevPAR impact here has been more significant, and therefore there is probably a bit higher risk that some of those projects get killed, we would expect still that a significant majority of the pipeline which was not yet under construction will ultimately get done. I can't tell you what the delay is going to be, but it wouldn't surprise me for that delay to be longer than a number of quarters and into a number of years. Particularly for projects that are in the hardest hit markets, that may be not financed, and that depend on sort of the proof of recovery being in front of our eyes before somebody is going to have the confidence to finance it or more forward with the construction.

**Shaun Kelley, BofA Securities:** They are in the process of trying to build, or were in the process of trying to build a select service hotel across the street from where I live in New York City, and yeah, I’ve got to think that that is probably on that list of projects that no longer pencil for a period of time.

**Arne Sorenson:** Yeah, and of course each market is different. I mean I think we could talk about New York, you know, from an office perspective, from a demand perspective, is going to be one of our toughest markets in the United States. It has got more dependence on international travel than any other market we’ve got in the United States. Miami and San Francisco, and LA I suppose would be the next closest. But for those of you who live in New York, you know this city does not draw people today because shows aren’t open, restaurants aren’t open, museums aren’t open. And there's not the reason to go to New York that there would have been in the past. And so, you look at the challenge that New York will have to rebuild demand, that will probably have an impact on the development pipeline in New York that is more significant than many other markets in the U.S.
Shaun Kelley, BofA Securities: That makes a ton of sense. So you also mentioned conversions as possibly picking up and I think many of us that have seen at least one big cycle in the hotel side, kind of know that you’ve got a bit of a wall of, particularly a bunch of CMBS financing, that could start to accelerate some of that changing of hands. But I also want to point, kind of point to a different area where sort of your willingness or looking at -- possibly looking at different contract structures. So, any thoughts on your desire to do more managed or franchised type conversions going forward? And also, just how do you think about doing those types of deals, as you think about the broader pipeline going forward. Kind of pros and cons between franchised and managed hotels going forward.

Arne Sorenson: So obviously, if you look at our statistics over the last decade or so, and it varies a little bit by part of the world, but let's keep this focused on the U.S. for sake of discussion. We have increasingly franchised, but we've also grown the managed portfolio. And we are still more likely to manage the higher up the chain scale you go, and the bigger the hotel gets. So, the more group dependent, the more it skews toward luxury, the more likely we are to manage. But we are franchising in those spaces, too. And you think about the brands that we've got now, post-acquisition of Starwood, not just Autograph which Marriott had before, but with Luxury Collection and the other premium brands that are in the portfolio. And we've got a spectacular portfolio of brands that our partners, whether they want us to manage them or whether they are interested in running for themselves, as a franchise, are drawn to. And I think we’ll do both.

And I think in the conversion context, particularly with collection brands, we will do franchised but we will also do some managed. I think in the hard brands, core brands if you will, we'll see some of the same. Now we don’t franchise every brand. We don’t franchise Ritz-Carlton, as an example. But many of our brands are going to be available and we’ll work with our good partners to structure the deals in a way that most meets their interests.

Shaun Kelley, BofA Securities: And bringing this to the broader SG&A discussion, and I think you guys have been pretty clear about some of the reductions that have been made there in some of these extreme circumstances, but when you think about this change in particular, right, if over time there's any sort of natural transition to kind of franchise relative to manage, does this have any impact on broader corporate efficiency, if you will? In terms of, do you have to carry as much centralized sales efforts? I think we know there’s a big, especially around the group business, some big efforts that Marriott bears there, maybe different levels of compliance and staffing, even at the corporate level to support this more complicated revenue streams? Is that something that could come out of this or is that a little too granular?

Arne Sorenson: Yeah, at the margins it may. I mean I think, you know, obviously the margins in the business, I’m using margins twice here in two different way, sorry about that. But both the managed and franchised business run good profit margins for us. I think if you look at – you’ve always got a question of allocation of G&A and other overhead costs, and to what extent they can be fairly attributed to managed, versus franchised, versus sort of corporate, if you will. But
I think we would acknowledge that the margins in the franchise space are probably higher than the margins in the managed space. Although the margins in the managed space are good, too. And so, we don't run from that business in the sense that it is profitable to us and there are real advantages of managing.

That has to do with the customer expectations, where they are most sophisticated. Again, think group and luxury. It has to also do with having insight into the challenges of running hotels which our franchisees obviously do as well in their own context. And as a consequence, I think we will – we’re not going to exit the managed business. To the extent that’s where these questions go, that is, I think, unlikely for lots and lots of reasons and not something that we think would be to the long-term best interest of us.

Having said that, we have worked very aggressively already in this pandemic to reduce not just our own overhead costs, but to reduce the system costs for managed and franchised hotels in the system. And we have taken steps that, prior to the pandemic, would have been unimaginable in terms of the level of cost-cutting. And I think that cost-cutting, because this is going to be a years-long recovery, and because, you know, you'll have certain aspects of cost growth that will continue even in a weaker economic environment, we are going to have to make sure that we keep those costs down. For managed and franchised, and for Marriott.

And we’ll do the best we can in order to navigate through that and make sure that we’re able to drive our margins, drive our hotel owners’ margins, but also make sure we’re meeting our guests’ expectations. Which will continue to be significant.

**Shaun Kelley, BofA Securities:** I did want to ask about that, that system and brand fund, kind of component of cost. Is that savings that is passed along and the level of the change that you've done? First of all, does that impact essential services that those franchisees or managed hotels are receiving? Or are they getting anything less as a result of this? Because, I mean, alternatively it would seem when those costs come down it is very much a passthrough to their kind of broader market structure.

**Arne Sorenson:** Remember the bulk of these expenses, not 100 percent of them, but the bulk of them get charged as percentage of revenue. Or a percentage maybe of transactions sometimes which is tantamount to also being a percentage of revenue. And so, when revenue declines by 90 plus percent, and now in August at minus 65 percent, there’s immediate reduction in dollars coming in to defray the costs of the services that have been provided in the past. And it became incumbent on us to make sure that we were reconciling the resources available to pay for those services to the level of services that were provided. I am hopeful that we are not depriving the system of the kind of services it needs to have. At the same time, we have fewer services being provided because there is lower volume being provided. Without a doubt.

**Shaun Kelley, BofA Securities:** That makes perfect sense. And then the last few things to wrap up, you know the broader unit side of the equation is probably around – I wanted to ask around
M&A. So, Marriott was actually quite brand acquisitive in the early, even mid-part, of the cycle leading up obviously to the capstone with Starwood. So, what do you think about opportunities presenting themselves as a result of this new cycle? And what strategic areas do you think fit Marriott’s portfolio?

Arne Sorenson: So that's good question, Shaun, and of course it's always dangerous to predict what's going to happen in the M&A space, or the consolidation space, broadly. The Starwood deal obviously being the biggest, or one of the biggest, ever done in the industry happened in part because Starwood put itself up for sale. We shouldn’t forget how unusual that is. For competitors, one to acquire another is always a hard thing to predict. Sometimes we use the phrase social issues to describe it. Sometimes we use different issues. But unless you've got a willing seller it is hard to make deals happen.

I think when we look, when we looked at Starwood and we looked at many of the smaller deals that we did, what we saw strategically was that we thought we could be stronger by having more choice to our customers, for members of our loyalty program, for members of our own sort of ecosystem, if you will, and that we could compete better with not just existing lodging companies but with potential disruptors who wanted to be in the middle of our relationship with customers, or who were trying to in some other way impact our business. And so, we thought breadth of choice, particularly for the kinds of locations and brands which are aspirational for big business travelers. So, think about resort and lifestyle destinations, luxury brands, other places that we like to dream of traveling. By having those in our system, we thought we would be strengthened.

And if there is one particular frustration that I've got because of the timing of this pandemic, I think when you look at the kinds of numbers we're posting as we got into the latter part of 2019, the second half and the first part of 2020, that strategy was proving to be accurate. Market share numbers were moving. The size of the loyalty program was moving. Stickiness of our relationship with customers was continuing to move. And while I say all that in the context of thinking about potential future M&A, because I think the strategy which drove us to do that then is a strategy which is still right today.

So to the extent we can have more choice within our system, more aspirational destinations within our system, a bigger loyalty program, a bigger ecosystem of our own proprietary channels, all of which gets fueled by portfolio deals or M&A deals or organic growth, all which drive towards the same thing. That’s attractive to us and we will continue to look.

Shaun Kelley, BofA Securities: And I know it is a little further afield but you have made the wager into Homes & Villas, and we appreciate that it’s small and I think very deliberate in how you kind of make sure that it doesn't overlap with a lot of existing Marriott products. But I have to ask because as we move into the fall and I believe Airbnb has confidentially filed for an IPO, what...

Arne Sorenson: Is that confidential?
Shaun Kelley, BofA Securities: Only the filing, not that it happened. So, what’s your thought on this because the vacation rental side has been -- I think there's some data points out there that have been surprisingly strong, right? They actually solved a very basic need for a lot of people looking for suburban and vacation properties in control of potentially their own experience. On the flip side, obviously, some of the urban pillars of density that some of these things were built off of, they can’t be working at all. So how do you think about that, let’s call it the vacation rental space broadly, and how appealing could that area be on the M&A front looking out a number of years?

Arne Sorenson: So, let’s throw two phrases out there to just illustrate where I think we’ve got strength and where I think there is less strength. Vacation rentals is a phrase you used which implies whole home product, where in a pandemic a customer can basically control the entire facility. Another phrase, which is an older phrase which you didn’t use, was home sharing. And if home sharing implies a one-night stay in somebody else’s flat or maybe using an extra bedroom, sharing that space with somebody else, it has none of those attributes about controlling your own space.

Our business, Homes & Villas by Marriott International, HVMI, is very much focused on the whole home product. And it is growing. It is not big for us although it’s grown by a number of multiples since 2019. The challenge here is making sure we’ve got the product because we know we’ve got the demand. It fits well with the loyalty program for folks who are looking at leisure, particularly if they are taking a bigger family or a bigger group where hotels can be less conducive. And what we saw in the data that we were looking at was many of our customers were already using vacation rental product but outside of our own system because we didn’t have anything to offer in that system.

And I think what we will see is that our business in this space continues to grow at fairly substantial growth rates. I can’t tell you how quickly it gets to the place where it is material to us financially, but it’s not today. And I wouldn’t tell folks that you should expect that in a few quarters it is going to be material. But I do think it is a place that long term has a real compelling reason to be within our portfolio.

Shaun Kelley, BofA Securities: To push a little further, is there a place where you could leverage other parts of the infrastructure? And I’m thinking out loud a little bit but around -- obviously around -- you do a lot of services. Everything from laundry, to cleaning, to lots of deep, detailed things and you’ve got to be able to repeat those services broadly across the entire world at this point. Does that infrastructure come into play? We all know about the loyalty side of it, so the revenue side of it, but is there -- is there a cost infrastructure play that could also be intriguing here for Marriott or is it that way too far afield?

Arne Sorenson: I doubt it. The model we're using to grow this business is more akin to a franchise model than a managed model. In other words, we’re entering into relationships with home management companies, basically. And they are both delivering inventory and they are
providing the cleaning services, and key delivery and that sort of thing. If we look at what we have tried to do and experimented with over a number of decades there have been times where we have said, “You know we've got an infrastructure of people who clean hotels. Can we efficiently do that for residential products or do it for other products other than hotels?” And I think what we found is that is an easier idea to understand than it is something to actually deliver. And I think what we suspect here is that we're better off simply delivering this kind of experience to our customers, through our partners, and not necessarily trying to use hotel resources to go out and clean homes and villas, for example.

Shaun Kelley, BofA Securities: Interesting. So, I’ve got about five minutes left and I’d love to just touch quickly on a couple of financial items. So, I’m just going to rattle these off. The first one would be the cash burn and liquidity side of the business. So obviously you guys have worked – and I know Leeny has led a lot of these efforts to get really aggressive on everything from raising cash to understanding the new cash burn model at extremes we could have never imagined. But as originally projected I think we were at about $150 million dollars a month of cash burn on a down, let’s call it 90 RevPAR, which was sort of the ultimate extreme scenario. Systemwide we are now much better than that so just how do you feel about both the current cash burn rate across the business and the broader liquidity profile of the company?

Arne Sorenson: Yeah and you’re right to call out Leeny on this. Leeny Oberg as CFO and her team, including Carolyn Handlon, our Treasurer, and a number of others have done an extraordinary job in the last number of months. And I think we are rock solid. I think that the – we’ve got a couple of things happening. One is that the real cash burn numbers have turned out to be better than we modeled. And that’s entirely appropriate because I think as we go into this we want to have the most conservative set of assumptions that we can have to make sure that we're setting ourselves up to survive whatever the environment throws at us.

And I think the second thing is we are now seeing, again, recovery which is not a snap back but recovery which is steady. And I mentioned in August, I think, U.S. occupancy was 39 percent. That probably doesn’t get the system as a whole to break even before debt service, but we are approaching the breakeven kind of numbers. And so not only will that drive an increase in what we receive because revenue is going up, but it will also relieve, to some extent, the pressure that is on the owners.

Now, it doesn’t relieve it sense that they are back to normal, but I think that both those things together mean that cash burn rates that we’ve got have come down meaningfully. The funds that we have raised are very, very substantial when you look at the, not just the renegotiation of the covenants on the revolver, but the bonds that we have issued and the deal that we did with JPMorgan Chase and with Amex. We’re in a situation where, I think, safely we can say we’ve got years of runway.

Shaun Kelley, BofA Securities: And you mentioned the burden that’s on owners and that is probably kind of the last area I wanted to hit on quickly which is the broader component of franchisee health. Could you just remind us of what’s the current status on things like the fee
deferrals and collections with franchisees and how that's progressed over the last few months?
Any relief that they are in need of or that you’re willing to granted them at this stage, and how
that will continue into the fall?

**Arne Sorenson:** So, the relief that we’ve granted I guess I would say is twofold. The biggest
and most fundamental we’ve already talked about and that is really reducing the cost burden to
a level which is consistent with the reduced revenues. And so that is cutting to make sure that
we weren’t allocating dollars higher than what sort of was happening on the revenue side. And
that was cutting services and resources that obviously no longer could be afforded.

I think, secondly, that there are a number of areas in which there were fixed costs that were
not revenue dependent where we have either waved them for a number of months, or
defferred them for a number of months, to provide some further marginal sort of relief. And
again, this is something that we’re constantly talking with our owners and franchisees about.
I’ll be the first to admit that many of them would like us to do even more. But I think many also
understand that the pressure that they face is also pressure that we face, and we’ve got to
navigate our way through it. And as each month goes by, I think we’ve been relatively pleased
with the receivables performance, and I think as recovery continues to take a step at a time in a
positive direction I think we’ll get even more comfortable with that.

**Shaun Kelley, BofA Securities:** And just to be pretty clear on this, Arne, most of this is coming
in the form of, to the extent relief is needed, and I’m sure it is on a case by case basis. But this
is primarily you know fee deferrals rather than fee waivers, right? These are things that more
about collections and timing and getting your owners back to health than they are necessarily a
full-on waiver of you know the relationship for contractors.

**Arne Sorenson:** That’s right. And in fact, when you use the word fee I think it is important to
recognize that fees are almost without exception revenue based. And so, when business is
down 90 percent our fees are down 90 percent.

**Shaun Kelley, BofA Securities:** Right.

**Arne Sorenson:** And so there's not -- even there there's not a strong significant number of even
deferrals, let alone waivers. Because the right to collect those fees has disappeared with the
loss of the revenue. As revenue comes back, they will naturally come back and we expect the
bill to get paid.

**Shaun Kelley, BofA Securities:** Right. Well, that takes us to the top of the hour. I'd like to start
by just thanking you again for the generosity of your time you know in helping us lead off into a
big conference week next week. I think this is the perfect welcome back for everybody to get
up to speed on where we sit with the lodging industry. So, Arne, thank you for your time.
Arne Sorenson: Thank you, Shaun. Really great to hear your voice and thank all of you for listening and participating. I hope you're all well and look forward to seeing you all again in person. Hopefully before too long.

Shaun Kelley, BofA Securities: Just again, a reminder to everyone, September 17th for our full gaming and lodging conference. I look forward to hosting most or many of you there. And thanks everyone. Have a great day.

--End—

Note on forward-looking statements: All statements in this document are made as of September 10, 2020. We undertake no obligation to publicly update or revise these statements, whether as a result of new information, future events or otherwise. This document contains "forward-looking statements" within the meaning of federal securities laws, including statements related to the expected effects on our business of the COVID-19 pandemic and efforts to contain it (COVID-19); future performance of the company's hotels; RevPAR, occupancy and demand estimates and trends; our development pipeline and room openings; our liquidity expectations; and similar statements concerning anticipated future events and expectations that are not historical facts. We caution you that these statements are not guarantees of future performance and are subject to numerous evolving risks and uncertainties that we may not be able to accurately predict or assess, including those we identify below and other risk factors that we identify in our Securities and Exchange Commission filings, including our most recent Quarterly Report on Form 10-Q. Risks that could affect forward-looking statements in this document include the duration and scope of COVID-19, including whether, where and to what extent resurgences of the virus occur; its short and longer-term impact on the demand for travel, transient and group business, and levels of consumer confidence; actions governments, businesses and individuals have taken or may take in response to the pandemic, including limiting or banning travel and/or in-person gatherings or imposing occupancy or other restrictions on lodging or other facilities; the impact of the pandemic and actions taken in response to the pandemic on global and regional economies, travel, and economic activity, including the duration and magnitude of COVID-19’s impact on unemployment rates and consumer discretionary spending; the ability of our owners and franchisees to successfully navigate the impacts of COVID-19; the pace of recovery when the pandemic subsides or effective treatments or vaccines become available; general economic uncertainty in key global markets and a worsening of global economic conditions or low levels of economic growth; the effects of steps we and our property owners and franchisees take to reduce operating costs and/or enhance certain health and cleanliness protocols at our hotels; the impacts of our employee furloughs and reduced work week schedules, our voluntary transition program and other restructuring activities; competitive conditions in the lodging industry; relationships with clients and property owners; the availability of capital to finance hotel growth and refurbishment; the extent to which we experience adverse effects from data security incidents; and changes in tax laws in countries in which we operate. Any of these factors could cause actual results to differ materially from the expectations we express or imply in this document.