Marriott International, Inc.
Goldman Sachs Travel and Leisure Conference Transcript[1]
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Stephen Grambling, Goldman Sachs Group, Inc.: All right. We are moving right along. And it's my pleasure to be joined by Tony Capuano, Chief Executive Officer of Marriott International.

We've got a lot of questions. But again, for those of you who showed up in person, we want this to be somewhat of an active dialogue. So if you've got questions, feel free to raise your hand. And what a difference a year makes.

Anthony Capuano, Marriott International, Inc.: It sure does.

Stephen Grambling: Since the last time we spoke at this conference a year ago, the industry has had a couple of ups and downs. We had Delta, Omicron impacting really some of the trends as we've seen a recovery, but now we've really seemed to hit our stride. I'd love to just hear what you're seeing in terms of consumer spending behavior, business travel behavior and how that makes you think about positioning the business going forward as we've seen these trends recover.

Anthony Capuano: Sure. Well, thanks for having me. Thanks to all of you for being here.

The resilience of travel is really remarkable, and all the data that we look at continues to underscore just how resilient travel continues to be. If you look at where we were, to your point, a year ago, it was pretty murky what the pace of recovery might look like. You fast forward to today. In May -- or excuse me, April, global RevPAR was down only 7 percent to 2019. In the U.S. and Canada, which is our largest market, we were back to 2019 RevPAR levels.

And when you go through the segments, obviously, the recovery has been led by leisure. We're double digits ahead of where we were in 2019. Business transient maybe is the tortoise, in the tortoise and the hare, of the recovery but really steady and encouraging improvement. At the end of last year, business transient was down about 30 percent. In March, it was down only between 10 percent and 15 percent. And as we look at the way the recovery continues to proceed through the first couple of months of this quarter, steady and really encouraging recovery.

And then group maybe is the most interesting and fascinating. You think back a year or so ago, conventional wisdom was leisure would lead the recovery, business transient would come next and eventually, group would limp across the finish line. Group has been extraordinarily strong.

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[1] Not a verbatim transcript; extraneous material omitted and edited for clarity and misstatements.

And in fact, if you look in May, RevPAR was only down 6 percent to 2019. And so on the first quarter earnings call, we talked about the last 3 quarters of this year being down high single digits to 2019. Based on what we saw last month, we actually think the last 3 quarters of this year will be down mid-single digits.

So group has been really, really strong and encouraging. And maybe most notable, it's not just social group, which we would have expected. You had lots of weddings and family reunions and all sorts of things that had been postponed during the pandemic. But business group is coming back dramatically.

I spoke down in Orlando at the Ernst & Young new global partners meeting, and they hadn't had it for 2 years. So we had 1,600 newly minted partners at the Marriott World Center ballroom. And I spent some time after my presentation talking to these partners, and the 2 themes you heard consistently from them: number one, they're hiring thousands of new accountants and consultants every year. They appropriately believe they have a strong corporate culture, and they need to be in person with those folks to immerse them in that culture. And they're in the client service business, and you have these 1,600 new partners that want to build their book of business. They absolutely believe the best way to do that is to be embedded in person in the offices of their clients and prospective clients.

Stephen Grambling: So I think that's a great start in terms of thinking about behavior from a consumer and a business traveler standpoint. What are you then hearing from owners in terms of what they wanted during the pandemic and what they want going forward?

Anthony Capuano: I think on the positive side, and I don't say this lightly, I think our -- the strength of our relationships with our owner and franchisee community is as strong as it's ever been. The very nature of that relationship is such that from time to time, we'll have disagreements on certain issues. In many ways during the pandemic, we set aside some of those more modest issues and came together in opposition to this common foe of this existential threat to our business.

I think there are edge cases certainly. But when I look at the owner community in aggregate, they have largely pivoted from a survival mentality to a recovery mentality. I know we'll talk about development in a few minutes. They are demonstrating by their actions their long-term confidence in the sector. They are encouraged about the pace at which top line revenue has recovered.

They insist appropriately that we remain mindful of the fact that for us, with so much of our fee volume coming off the top line, it's terrific that we're back to 2019 RevPAR levels. For them, they've seen expense escalation over those 2 years, and they want us to stay very vigilant about continuing to drive operating efficiencies. And interestingly, we've started to bring back a bunch of our accountability measures: brand standard audits, QA and the like. And there -- they couldn't be more supportive, right? They care deeply about their neighbors. They've invested heavily in our portfolio of 30 brands. They want to make sure those neighbors are meeting our brand standards.

Stephen Grambling: Well, we heard yesterday from both Host, one of your owners, as well as a private equity panel, that renovated properties are certainly performing better and the investments, I think, are generally leading to a good payoff. And...

Anthony Capuano: I think that's right. And I also think -- I mean we'll probably talk in a few minutes about the extraordinary pricing power we're seeing, and that's terrific as long as you can deliver on product and service. Service is obviously tied to some of the labor challenges we're seeing in the sector.

But to your point, from a product perspective, new product typically wins. Newly renovated product typically wins. And those owners and franchisees that have the financial wherewithal to continue to invest in their assets are seeing it in terms of their top line performance.

Stephen Grambling: On the price point, obviously, very, very strong ADRs kind of leading this recovery. That's also helping with that labor dynamic and cost pressures. What's the expectation for how that trends from here? How much of that's been driven by the unique recovery that we're seeing versus maybe changes that you're making from a yield management standpoint?

Anthony Capuano: It's wholly appropriate to wonder with some of the prospective headwinds out there, whether it's fuel prices, rising interest rate environment, inflationary environment, that this wonderful run may come to a bit of an end. We're just not seeing it in our data. You look at Memorial Day weekend here in the U.S., again, our largest market. RevPAR was up 25 percent over Memorial Day weekend in 2019. The forward bookings for 4th of July and Labor Day look similarly strong.

In the first quarter, we talked a little bit about our luxury portfolio with rate increases of nearly 30 percent. And so we're just not seeing it. Why? I think a few reasons. You touched on the first one, which is there continues to be deep pockets of pent-up demand. Unlike previous economic cycles and economic downturns, here, you have this added dimension, which was folks were locked down for 12 to 24 months. And on both a personal and a professional basis, they've got a lot of catching up to do.

It's been well documented the historic levels of saving rates, particularly here in the U.S. I think that's driving consumer spending.

And I think the third trend that we're hearing more and more about and seeing in the data is this pivot -- pre pandemic, you heard lots of talk about younger generations focusing more on experiences than goods. That inverted a bit during the pandemic. Now I think we're seeing another inversion. You saw Target's numbers, which were troubling, but I think they illustrate an obvious truth, which is a move by the consumer towards spending more of that disposable income on experiences rather than goods.

Stephen Grambling: Right. And a lot of that also has to do with inventory.

Anthony Capuano: Of course.

Stephen Grambling: You're not in that business per se.

Anthony Capuano: That's right -- well, we are. We just get to reprice our inventory every day.

Stephen Grambling: Every day, that's right. So let's go to something that is near and dear to your heart, which is pipeline development. You recently reinstated -- or basically reiterated the 3.5 percent to 4 percent range. Help frame the building blocks to get there and then what -- how you think longer term about where that number should be.

Anthony Capuano: Sure. So I'll try not to overwhelm you with statistics, but I want to frame the discussion a little bit. The pipeline has been remarkable in its resilience over the last 2 years. We've stayed pretty consistently at plus or minus 0.5 million rooms. Maybe more impressively, we've stayed for, I don't know, Jackie, how many quarters in a row with more than 200,000 rooms under construction globally.

And then maybe most -- I suppose most encouraging to me, we continue to be at historically low levels of fallout from the pipeline, I think sub 2 percent. And so it underscores something that I've said in a number of our conversations, which is the vast majority of our owners are long-term investors in the sector. They're not jumping in and out when they think there's an opportunity. They're not flipping quickly. There are certainly some, but the vast majority are long-term investors and holders in the sector.

They have site control. They've invested in predevelopment. They have entitlements. They may have been slowed a little bit because of some constriction in the debt markets, but they intend to go forward with the bulk of these projects.

The constriction in the debt markets that I described, some supply chain issues, some escalation in construction costs, I think, has slowed a bit some of the construction start activity. Although we are meaningfully ahead of where we were a year ago in terms of construction start pace.

3.5 percent to 4 percent, we continue to feel good about for this year. We've not provided guidance beyond 2022 for all the reasons I just described: the unpredictability of the pandemic, which is still simmering; construction cost environment. We see some encouraging signs about the faucet opening a bit in terms of debt for new construction. But that -- those uncertainties caused us to pause before we give guidance. But I will say we are increasingly confident about our ability to get back to that historic level of mid-single-digit net unit growth.

And I think in particular, if you rewind to our first quarter earnings call, maybe selfishly because I don't run development anymore, I was frustrated. But in the first quarter, we approved and signed more deals than in any first quarter in our 95-year history. And I think in a lot of ways, that's the statistic that best illustrates the confidence the owner community about -- their confidence in the continued recovery in the sector.

Stephen Grambling: There's a long tail to that so you don't have to sell yourself short.

Anthony Capuano: Well, I told our team we opened more rooms ever last year than in our history, and I think I can take credit for some of those. But no, I thought the first quarter pace was really, really encouraging, and it illustrates my earlier point that the vast majority of our owners are no longer in survival mode, right? They are looking forward into what they think will be a sustained and really powerful recovery.

Stephen Grambling: And what does that pipeline look like now versus pre pandemic 3 years ago, both in terms of regional mix, chain scale?

Anthony Capuano: Yes. I would say in terms of regional mix, I think at the end of the first quarter, we were about 57 percent international. I think that's a number that will continue to tick up a little bit. Round numbers in the U.S. and Canada, we've got about 17 percent or 18 percent market share. We're mid-single digits outside the United States or low single digits. So I think in terms of runway, while we think we still have lots of opportunity for growth domestically, the longer runway is certainly outside the U.S. and Canada.

China has our biggest pipeline. That's obviously slowed a bit given the zero COVID policy. But over the long haul, we've got, round numbers, 400 hotels open in China, about another 400 in the pipeline behind it.

Caribbean and Latin America, which has had really extraordinary recovery, I think were up 11 percent over 2019 in terms of RevPAR. We're seeing, especially in the leisure destinations, lots of growth there.

I just came back from Europe Sunday night. Cities are full, flights are full. RevPAR is recovering. When you look at our forward bookings into Europe over the last couple of weeks for bookings into the summer, we're about 50 percent ahead of where we were in 2019. And so I think that in turn, will spur development activity in the region as well.

Stephen Grambling: What about from a chain scale standpoint? Do you feel like there's specific pockets that you want to focus in? Or even by brand, are there areas that you think are underpenetrated where there's opportunity to accelerate growth?

Anthony Capuano: Yes. I don't -- none of them are mutually exclusive, which I think is good news. So maybe I'll touch on 3 areas. I continue to be encouraged in the luxury tier. I talked earlier about the strength of luxury pricing that we've seen. About 10 percent of our global room inventory is in our luxury brands but that 10 percent represents about 25 percent of our RevPAR-related fees. They are big brand builders for us. They are powerful enablers of the Bonvoy loyalty program. So I think you'll continue to see a strong focus in luxury.

And some of that focus will be fueled by the strength of our branded residential business. It's not lost on me that the last couple of years were among the most challenging years for our hotel business ever. They were also a couple of the strongest years we've ever had for the branded residential business. So those 2 working together give me a lot of confidence about the future of luxury.

The other end of the chain scale spectrum, select service continues to be a really important focus area for us. I think it's reasonable for the group to expect in the coming years a meaningful acceleration of select service growth outside the U.S. and Canada. I think we've got lots and lots of runway to continue to grow our select service portfolio in international markets.

And then the third area I would focus on would be our conversion-friendly brands. So you have our 3 soft brands: Luxury Collection, Autograph Collection and Tribute. You also have brands like Delta Hotels, which are particularly conversion-friendly. And I think as we wait for the debt markets for new construction to open more and more, I'm really excited about the prospects given that stack of conversion-friendly brands for full-service conversions globally.

Stephen Grambling: Following up on that point. Typically, during disruption, we see conversions tick up. What did you see? Or can you frame the increase potentially that we saw as a percentage of openings through the pandemic? And so where would that normally kind of go back to? And then it sounds like you're saying you're going to see that maybe sustain.

Anthony Capuano: Yes. I'm going to look at Jackie when I answer this to make sure my numbers are right. But I think pre pandemic, conversions were kind of mid-teens typically in a given year. Over the last couple of years, we've seen those tick up into the 20 percent to 30 percent range. But I am encouraged that we should continue to see really strong conversion activity.

One, because when you look at the performance of a post-conversion asset, it gives our transactors really compelling stories to tell to prospective conversion owners. And again, we've just got such a rich assortment of conversion platforms that provide a design -- a level of design flexibility that maybe we've not had in past cycles. So I think conversions will continue to be a really strong story for us.

Stephen Grambling: Another one on development. So key money has been something that's been used over the years in different places. How's your thoughts around how to deploy key money change, especially in an environment where there's maybe more difficult financing options and maybe you could even act as somebody who can either bridge that gap with developers?

Anthony Capuano: I'd start by saying I don't think the pandemic has meaningfully changed our philosophical approach to the deployment of Marriott capital in pursuit of growth. I think we have historically been quite disciplined in terms of how we deploy that capital. When we slice and dice data on a forensic look-back basis, the deals where we do deploy Marriott capital tend to generate meaningful premiums in terms of their long-term fee potential. And that lens which we apply when we evaluate Marriott investment has stayed consistent through the pandemic, and I expect it to stay consistent well beyond the end of the pandemic.

Stephen Grambling: So changing gears a little bit. We keep hearing more and more at this conference and in general about the labor pressures that are being faced. From your vantage point, how are you thinking about the path forward for operating margins at the hotel levels? And then what are you doing to try to help alleviate some of that pressure?

Anthony Capuano: So if you'll indulge me, I'm going to get on my soap box just for a minute. We had the CEO panel at the NYU Conference yesterday. And one of the things that was most encouraging to me about having the 5 biggest global brand CEOs on the stage together, the repair work we need to do in terms of the workforce's perspective about careers in the travel and tourism sector broadly.

This isn't a competitive wrestling match, if you will, among the hotel companies. This is something the industry needs to come together to remind that workforce that it's a terrific industry. It's a great industry to build long-term careers. Depending on whose statistics you believe, something on the order of 1 in 5 jobs that were lost during the pandemic were in the travel and tourism sector. So we've got to do a better and more consistent job of sharing the narrative about the careers that can be created.

I know for Marriott, one of the best stories we like to tell is we've got 8,000 hotels roughly, so 8,000 general managers. More than half of those started in hourly positions. So of course, we've got to pay competitive wages. But if we simply hang our hat on competitive wages, we won't address some of the labor challenges that the industry faces. We've got to tell a better story about the careers that can be built here.

I think secondly, in the U.S. market, we've got to continue as an industry to engage with the administration on immigration. The challenges that we see in immigration in this country create yet another hurdle for the travel and tourism sector in terms of addressing some of its staffing challenges.

To the second part of your question around margins, we and the industry more broadly worked really hard during the course of the pandemic to identify sustainable enhancements in productivity and efficiency at the hotel level. We are increasingly confident we'll be able to maintain those efficiencies even in a post-pandemic world. And that's acutely important now in an environment where you see inflation impacting operating costs and certainly wage rates.

Stephen Grambling: I think you'd be surprised at how many questions I sometimes field about how labor inflation at the hotel level impacts your G&A. But maybe talking about the corporate G&A, what are the puts and takes to think about inflation impacting that line as we think about margin expansion for Marriott? And even tie in CapEx because I guess I'm usually more focused on free cash flow margin. So is there also inflation that we should be thinking about on the CapEx side?

Anthony Capuano: So from a cultural perspective, arguably, the toughest part of the last 2 years were some of the really difficult decisions we had to make at the corporate level about long-tenured, really valuable Marriott associates. But it was of critical importance, and we made those decisions. We made them decisively. At the above-property level, we cut something on the order of 30 percent of our workforce. Obviously, as business recovers, some of that functionality and capability and head count needs to be restored, but we are meaningfully more efficient at the corporate level than we were pre pandemic and committed to maintaining that efficiency going forward.

Stephen Grambling: That's great. Changing gears a little bit. Let's talk about the Marriott Bonvoy program. What are the biggest initiatives?

Anthony Capuano: Did you want to show me your point balance?

Stephen Grambling: I need to -- sorry, I'm using those points to offset that ADR -- the ADRs are pretty high.

Anthony Capuano: I mean I say that as a joke, but it is interesting to me. And maybe this is a good intro to a discussion about Bonvoy.

One of the really remarkable -- well, one of the privileges of my new role is the amount of time I get to spend with our customers both on the road in general and at some of the customer events we have. The passion they have around the program is remarkable. I mean I can't count the number of customers who, when I get the opportunity to meet them, immediately, they pull out their phone and flash their number of nights and their number of points. But I do think it underscores the power of that program.

Stephen Grambling: Are there any new partnerships that you'd think about that could help bolster it or technology that you think you can leverage the program to better customize with the consumer?

Anthony Capuano: We'll continue to evaluate. And our experience over the last 2 years, one of the big learnings for me about the power of the Bonvoy program, at its very core -- think about it. We had some of our most loyal, most valuable customers who suddenly weren't traveling, or they were traveling meaningfully less than they did pre pandemic. The fact that we had such strong credit card programs and continue to launch new card products even during the pandemic, we launched a new card in Mexico, we launched a new card in South Korea just as 2 examples.

We launched a partnership with Uber during the pandemic that allowed folks to pair their Bonvoy and Uber accounts both for rides as well as Uber Eats and the like. The more we can do -- Stephanie Linnartz, who you know well, she talks about constantly enhancing the stickiness of the program. And the more touch points we can find to connect with our customers certainly while they're on the road traveling but even beyond that travel window, I think you'll continue to see us look for opportunities to grow the number of touch points that are available with those members.

Stephen Grambling: That's great. And I said I'd try to make it fairly active in terms of the dialogue. So if anybody has a question -- we got Walter over here.

Analyst Question: Can you just add to that a little bit in terms of Marriott Bonvoy? Just how it's evolved in terms of who's using it [over the last couple of years]. Why has that changed? How might it continue to change?

Stephen Grambling: I'm going to go ahead and repeat the question.

Anthony Capuano: Yes, of course.

Stephen Grambling: I'm not sure the mic was on, but it's just a question of who is the customer who's using Bonvoy and how has it changed through the pandemic.

Anthony Capuano: I think the core most active customers, so the Ambassadors and the Titaniums, that's not changed dramatically. Certainly, their travel volume moderated during the pandemic, but we're seeing those core customers ramp back up quite quickly. Some of the enhancements to the program that I just described, I think, have created more opportunity for those customers who travel less frequently.

And Stephen, to your point, one of the reasons you'll see us continue to be aggressive to look for ways to further expand the program is for exactly that other end of the spectrum, the folks that might only travel once or twice a year. If the only way for them to engage with Bonvoy was during their stay, they may lose some measure of enthusiasm about the program. The ability to give them opportunities to continue to grow their points balance even when they're not traveling, I think, makes the program more compelling for that end of the customer base.

But we've also seen really remarkable growth in the program's aggregate membership even during the last 2 years. I don't recall where we were, Jackie, pre pandemic, but we're mid-160 million and growing right now. So that -- the base continues to grow quite impressively.

Stephen Grambling: I've got a follow-up on that real quick and we'll go over here, which is if you're going after that maybe slightly less frequent customer, that sounds like there is some overlap with what I would think of as a traditional OTA customer. How do you think distribution channels will then change going forward? Or how have they changed through the pandemic?

Anthony Capuano: So pre pandemic, the share of OTA business was on a fairly steady decline. And I don't say that in a dismissive way. The OTAs are an important partner of ours. They do give us access to some of the less frequent travelers or maybe travelers that aren't as familiar with the program. But it was trending to be a less and less significant portion of our business.

When you look at who was traveling over the last 2 years, you saw it start to grow a bit, but our direct channels grew more rapidly. And so as we get to a more stable recovery, my guess is the pre-pandemic trend line will -- we'll sort of get back to that pre-pandemic trend line.

Stephen Grambling: Makes sense. I think we had a question in the back here.

Analyst Question: Just one question on the color you provided on where your focus is. I think pre pandemic, you were starting to focus on all-inclusive. Is that still an interest of yours?

Anthony Capuano: It is. And it's a great question. Because this was a leisure-led recovery, I get lots of questions in these forums and from the media about it's great -- or comments where folks will say, "It's terrific to see you starting to focus on luxury." Even pre pandemic, luxury as a segment was growing meaningfully more rapidly than business transient or group. And so to your point, we jumped into all-inclusive before the start of the pandemic, which has served us quite well.

We announced the Ritz-Carlton Yacht Collection before the pandemic. The first ship is in sea trials in Spain. I saw a video earlier this week. I think that will help us on the luxury perspective as well. Marriott Homes & Villas, we launched pre pandemic. But in terms of the volume of listings, it's grown about 20-fold during the pandemic.

So we recognized how powerful leisure was as a segment and how rapidly it was growing. I think the pandemic maybe has just sharpened our focus a bit on the continued importance to grow our offerings that appeal to the leisure customer.

Stephen Grambling: As we wrap up here, I'd love to shift gears to capital allocation priorities. You recently reinstated the dividend. You've talked about buyback. Just remind us of what the strategy is in terms of where you're going to allocate your free cash flow as it comes back. And what are the guardrails around leverage? And perhaps even tying in how the current environment might be different or dictate how you think about setting those leverage levels.

Anthony Capuano: When I'm lucky enough to be invited to these conferences, sometimes I feel a little badly because I feel like I'm going to be the dullest speaker because our broad philosophy of how we manage the balance sheet and allocate capital has not changed materially. And it's obviously served us well. The fact that we went from the depths of the pandemic to reinstating the dividend just 2 years later maybe underscores the power and the wisdom of that model.

We have a targeted debt ratio of about 3 to 3.5, as we've done in other economic downturns, as we start to get more and more confident about recovery. We'd lead with reinstatement of the dividend, which we announced during the first quarter earnings call. We've also indicated that we expect, if the recovery continues to proceed the way we expect it will through this year, that we will restart share repurchase. And I think that's still our plan right now as we move towards that 3 to 3.5x debt ratio.

Stephen Grambling: Awesome. Well, we are right at time here. So join me in thanking Tony Capuano and Marriott International. Thank you so much.

Anthony Capuano: Thanks for having me.

Stephen Grambling: Good to see you.

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Note on forward-looking statements: All statements in this document are made as of June 7, 2022. 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 possible effects on our business of the COVID-19 pandemic (COVID-19); our RevPAR estimates, outlook and assumptions; travel and lodging demand trends and expectations; occupancy, ADR and RevPAR recovery trends and expectations; our growth prospects and expectations; future performance of the company's hotels; our development pipeline, signings, rooms growth and conversions; our investment spending expectations; the timing of future dividends and share repurchases; 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 the risk factors that we identify in our Securities and Exchange Commission filings, including our most recent Annual Report on Form 10-K or Quarterly Report on Form 10-Q. Any of these factors could cause actual results to differ materially from the expectations we express or imply in this document.