Marriott International, Inc.
Bank of America Gaming & Lodging Conference
Transcript[1]
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Shaun Kelley – Bank of America: All right, everybody. Welcome back. We will keep going this morning with -- it's my pleasure to welcome Tony Capuano, President and Chief Executive Officer of Marriott International. Tony?

Tony Capuano – Marriott International: Thanks for having me. Good to be back.

Shaun Kelley: Thanks for doing this. We've actually got to spend some time together this year, right?

Tony Capuano: Yes.

Shaun Kelley: I participated in a couple of Marriott events. I was at your Global Growth Summit in Las Vegas. So that's -- so last time we did this together on stage. It was at the O theater at the Bellagio.

Tony Capuano: That's right.

Shaun Kelley: Which no one tells you is -- on top of water.

Tony Capuano: Water. That's right.

Shaun Kelley: So how many hours were you up there in a...

Tony Capuano: A lot. Quite a bit, but amazing venue.

Shaun Kelley: And the key, though, is that they can't drop the temperature a certain degree. Right, because the performers can recognize like a 1 degree temperature difference in the water. So it's got to always be same temperature so not always designed for speakers.

Tony Capuano: No. But beautiful venue and the team loved having you. So thanks for attending.

Shaun Kelley: It was a great experience.

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

Shaun Kelley: So Tony, speaking of great experiences, it's been a heck of a ride, but a year ago, we were sitting here questioning all the things about the hotel industry and why demand wasn't doing what it was supposed to be doing. And here we are a year later, and it's probably one of the best demand environments we've been in, in close to a decade.

So let's just start there -- 20,000-foot level view, talk to us for a moment about what you're seeing on the demand side and how it feels out there.

Tony Capuano: Yes. It's really interesting to me. We've -- every time we're together, we talk about all the way back to the early days of the recovery from the pandemic. You'll recall, I hated this phrase revenge travel. And the reason I hated it is that, that phrase suggested it was just going to be this little sort of fleeting moment in time. And I think I, and many in the industry, had a point of view that there was a more foundational shift. And that has proven to be the case. And we see it in the credit card spending data. We see it in the performance of our business that consumers are, across demographics, prioritizing travel and experiences over consumption of hard goods.

And we're many years removed from that recovery, and we're still seeing it across every age group, and that reveals itself in the business. In Q2, we were at 3.4 percent global RevPAR growth, ahead of our expectations. And you look at the July numbers that I was just going through, we see a continuation. We saw 7 percent RevPAR growth in July. We saw 8 percent RevPAR growth in the U.S. and Canada.

And one of the things that's really encouraging to me, even if you back out the impact in U.S. and Canada of this extraordinary FIFA World Cup, we were still up 5 percent in July. And then you even go to what has been for the last quarter or two, the most challenging geography, which is the Middle East. You might recall in Q2, we were down 43 percent, I think, in RevPAR. We were down just 12 percent in July, again, ahead of expectations.

And then maybe the last comment I would make about demand broadly, the most encouraging thing to me it's across geographies, it's across chain scales and it's across demand segments. Typically, I would sit with you and I would say this geography is weak or the strength we're seeing is principally in the luxury tier, or it's principally in leisure but we're seeing really solid sustained strength across each of those three sets of categories.

Shaun Kelley: So as we think about that dynamic, in particular, it sounds like as we get into the setup for the fall, I think there's some questions we're starting to receive about how much of this is just the easy compares for last year. There were a lot of things going on, right? It's hard to rewind, but we go back through. It was the trade war and the tariffs that kind of started a year ago, a big hit to government travel, a lot of corporate uncertainty.

Once we start to lap some of these things, and I think the last thing will be the government shutdown kind of around October, how does it feel as we start to kind of look out there? What do you think that baseline level of maybe demand feels like as we start to look out a little further?

Tony Capuano: Yes. And again, we've talked in the past about the fact that particularly the transient booking window is short -- just a couple of weeks. So I'll caveat my perspective with that fact because things can shift but it does not feel simply like the benefit of some easy comparisons.

When you look at the numbers we saw in July, when you look at the strength across segments, when you look at the strength across chain scales, to me, that tells me it's a bit more sustained, and that's really driving our enthusiasm about demand patterns going into the back half of the year. We are clearly seeing a lot of the RevPAR growth come out of ADR, which is terrific for our owner community because so much of that drives margin and returns, but we're seeing occupancy growth as well. And so you're seeing both components of RevPAR in a really compelling trajectory.

Shaun Kelley: Let's hit on the consumer for a certain point, we'll go through a few of those different areas. Last year, I mean, you probably couldn't escape a conversation where we weren't talking about the K shaped economy, right? We were seeing this continued strength, the high-end consumer was traveling, but there were -- there was that softness in those lower end price points. It seems like -- and I'm a big data hawk as a lot of people are in here, we're starting to see some signs that post-World Cup, those 2 pieces are starting to narrow a little bit.

How would you frame that dynamic? And also just talk about what you did see over the summer, to the extent you can, because you do well in parts of that K just given sort of the natural brand mix that you have?

Tony Capuano: It's part of the story that gives me so much enthusiasm about what the back half of the year sets up like. It's not just even in the few weeks since the World Cup, we were talking about it in Q1 and in Q2. And again, while I don't want to pick a singular month as defining a trend, I thought this was really interesting.

If you look at our business July YTD[2] on a global basis, luxury, which, in many ways, has been a bright shining star, RevPAR was up 5 percent. If you look at premium and select brand, RevPAR was up 4 percent. And if you look at mid-scale, we're still in some ways in our infancy, although between open and pipeline, we've got about 500 mid-scale hotels now. They were up 5 percent. And so this notion that the RevPAR trends are almost singularly led by luxury is just inaccurate. And that's why I say, looking at the strength kind of uniformly across chain scales is a really encouraging set of data.

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[2] Said “in July” instead of “July YTD”

Shaun Kelley: We started to talk to people kind of during Q2 and after the other area that was really resilient felt like just business travel, right? That was a segment that, again, I think last year, you might have seen that, that freeze or that pause from people after some of the uncertainty kind of leading out of April, and then maybe just change decision-making patterns, but it feels like that's come roaring back. You have that unique vantage point, you're talking to corporate customers, you're talking to large industry leaders, how are those conversations going right now? What are they saying out there?

Tony Capuano: So we continue to see good strength and growth in business transient. Tends to be more rate driven than occupancy driven. But again, I think when you think about some of the areas that our owner community is navigating, that strength in ADR is a real positive for them.

I think the big multinationals are being a bit more targeted. They are to be sure traveling, but they're really looking at travel that they think is high impact. We're seeing much stronger growth trends in the small and medium-sized component of our business transient world. And then obviously we are back to a world where we're seeing positive growth in government demand as well.

Shaun Kelley: And then group is sort of a key area for Marriott. You've got a lot of large-format hotels, upper-upscale being a lot of where the DNA traces back to. And so that also gives us little bit of that lead in terms of what we're seeing out there. How does that feel? That segment has benefited a lot from low supply growth for a long period of time, especially in the U.S., but where do we sit right now? And are people still comfortable booking for those kind of larger pattern groups?

Tony Capuano: Yes. It's a critically important segment for us, as you point out, particularly here in the U.S., by a pretty wide margin, we've got the largest convention and group hotel network. A lot of the big boxes, whether that's the partnership we have with Ryman on Gaylord, the MGM partnership, which gives us some big box capacity as well.

We're seeing -- we have more visibility than we have in transient because the booking window is longer. But even there, and one of the things that's so interesting to me, Jackie and I were talking this morning, and we were saying, maybe we shouldn't guide as much as we do on group.

When you look over the last number of years, by the midpoint of the year, only 40 percent, 45 percent of group room nights are on the books for the following year, right? And so we still have months of run time to tell the story of what group is going to look like in 2027. We talked in Q2 about group demand for 2027 being flattish. In July, we saw a turn upwards in a really encouraging way. But I think when you and I are talking towards the end of the year, we'll have much better visibility into 2027, but we're feeling pretty good about it.

I was in Indianapolis maybe 2 months ago, we hold an event called the Exchange. And we bring in about 600 corporate and association meeting planners. And this is not a statistical view. This is an anecdotal view. But they all were talking about booking patterns that would suggest more group meeting bookings in 2027, 2028 and 2029, than they saw in 2025 and 2026.

Shaun Kelley: I want to switch gears for a second on demand topic, but this environment has been one where we can also start to see a positive dynamic for your owners, right? So finally, some RevPAR growth and more importantly, RevPAR growth that outpaces unit level or line level inflation, which owners have been dealing with for years. I'd like to kind of just start maybe with the high level of where do you feel like that owner health dynamic sits? And kind of what's some of the message back from franchisees? Because it's been -- I mean, I think in all fairness, it's been a tough go, right, 8, 9 years, first, very low single-digit RevPAR growth, 2017 and 2019, then COVID where it was just a game of survival, right? And then you got your revenge travel for a period, but then we have the inflation on the back end. So it's been a tough go. So just how are those conversations going? Let's start kind of at the highest level and then we'll dig a layer deeper on some Marriott level initiatives.

Tony Capuano: So to state the obvious, if you have an asset-light model, the relative health of your owner and franchisee community is critical. Our success and their success is inexorably linked. And so every day, we are engaged both internally and with the owner community talking about what we can do to drive enhanced top line performance, what we can do to drive margins.

We're looking at every variable in the equation that drives hotel level margins and returns. That served us well for decades, and that will always be the case. There is a broad recognition that our business models are fundamentally different, right? But one of the most powerful levers of our model is net unit growth. That's on the shoulders and balance sheets of our partners. And so we've got to be driving performance that encourages them to continue to invest in our portfolio of brands.

I would say they are encouraged. I mean we all know in any business, you can drive bottom line two ways, right? You can cut costs or you can drive revenue. To your point, I think there is a level of encouragement about what we're seeing in RevPAR trends across sectors, across chain scales. But they expect us appropriately to leverage our industry-leading scale and attack every one of those variables in the equation. And we do that every day in a proactive way.

Most recently, there's been a fair amount of coverage about some reactive work we're doing. I said it on the Q2 call. I'm appreciative that the owners care enough about their relationship with Marriott and the recognition of how linked our performance is, our respective performance, to engage us the way they have. And I think we're making good progress. But that's going to happen every day for as long as Marriott's in business and has an asset-light model.

Shaun Kelley: So you did outline on the second quarter some new initiatives, though for the owners. So one of the biggest costs when we think about the unit economics that they bear is the overall full franchise fee plus the programs and service -- some of the common charges that are necessary that Marriott provides for those owners on their behalf, right?

These are going to be marketing, loyalty, reservations, some of the big categories. So what are you doing just maybe lay it out for us a little bit more specifically, what are some of those initiatives that you've now started to lay out? And what kind of -- what are the owners starting to react to what's been the initial response?

Tony Capuano: I think there is a broad recognition both in the owner camp and the brand camp, despite looking really hard there's not a single silver bullet, right? And so the way I've characterized it in the discussions with many of our owners and franchisees, we've got to find lots of nickels and dimes. But if you find enough of them and stack them up, we ought to be able to drive pretty significant improved performance.

So what are we doing? We are leveraging some of the efficiencies we created a year ago when we went through our exercise that resulted in us reducing almost $100 million in net admin. Last year, we reduced the loyalty charge-out rate for the Bonvoy program by 5 percent. We're doing a lot of work in the procurement space, to again, leverage our economies of scale and pass on those efficiencies to our owners. We're looking at emerging technologies like AI and the benefits we think will emerge from our technology transformation and how those can drive margins.

Just last month, we announced an intent to recommend incentive that can drive about a 50 basis point reduction in affiliation costs. So we're looking at, again, every variable and saying where are there opportunities to try and drive performance. And I want to go back to the technology transformation for a minute. I think rightly, when people hear about the scope of this technology transformation, they say there should be real operating margin efficiencies that will emerge.

And we agree. But I think what gets talked about less is the revenue enhancement opportunities. And that's one of the pieces that we're all really excited about, both on the Marriott side and on the owner side. If you think about the suite of products and services that I would like to sell you in the booking path, the old central reservation system was suboptimal in terms of its efficiency.

The new system will allow you to book food and beverage reservations, spa appointments, golf tee times, all of these sort of things during the booking path, which we think represents really significant revenue upside. And even in the rooms business, I was just in London, I was touring one of our Autograph hotels, beautiful old historic building, but it probably had 100 different room types and the ability to merchandise those 100 different room types and price those commensurate with the unique attributes of those rooms, I think represents real revenue upside as well.

Shaun Kelley: If we look at analogies out there strategically, and it's going to get to the tech transformation let's go ahead and hit on it now. On -- the airline industry has done a lot, right, in terms of re-segmenting the cabin, figuring out different ways.

I think cruise line industry as well, right? They find different ways I've got a view. I don't have a view. If we think about that, can you just -- I think this could be actually quite a big deal for Marriott. So why like -- why was this not available or customizable before? Just what is that feature set? Because I think these are -- you think about this ancillary business and this ability to upsell even just to enable -- it's not a hard sell, the ability to enable that capability to your associates working at the front desk. It seems like it's a big opportunity.

Tony Capuano: Yes, no question. And it is a massive undertaking, right? Because redoing our central reservation system for a portfolio of 10,000 hotels would be a significant undertaking. The fact that simultaneously, we're changing out the PMS system and the loyalty platform. It was really making sure we had done the research, we had found the right partners and we had thought about the right sequencing so that it would be incrementally positive rather than terribly disruptive to the business is why you might look from the outside and say, "Oh, you should have done this 5 years ago." We were working on it 5 years ago, but in a way to ensure that we did it as efficiently and as impactfully as possible.

Shaun Kelley: And just maybe to wrap up on the owner and franchisee side. One thing that did come out a little bit was that some of the costs of what you're going to be returning to owners are actually going to be borne by Marriott as opposed to just efficiencies. It sounds like both variables are in play. We're going to get more efficient. They're going to be doing things there, but we're also going to bear some of these costs directly. And it wasn't a huge number, but it was a bit of a commitment there. Why was that the right approach for Marriott?

Tony Capuano: Yes. And for those of you that didn't read it, on the list of things I mentioned that we're working on to try and drive owner performance, the one that we pointed out that we'll be paying for on our own P&L was this ITR incentive. And...

Shaun Kelley: Intent to Recommend.

Tony Capuano: Intent to Recommend incentive. That's right. And we looked at it and we said, what an ideal place for us to invest in the business. And the reason I say that, we always talk about the constituents that we serve every day. It is a clear and powerful message to the owner and franchisee community about our commitment to them and where they are in the recovery cycle.

And then when you think about our associates and guests, they want to be in the best hotels in every market where we operate. What a terrific way to incent and provide benefits to that guest community because our owners are saying, okay, maybe we've been holding off on a renovation or a re-concepting of a food and beverage outlet. Here's an opportunity to make that investment. And the benefit of that will be to the guests. The associates will be energized in it. And we think and ultimately, what we're doing is we're investing in the equity in our portfolio of brands. That was the rationale.

Shaun Kelley: And strategically, you weren't even the first kind of company where this debate or discussion of owner health kind of came up this quarter. One of the concerns we feel, Tony, is this -- maybe just at the margin, a question mark as to whether or not we might be seeing a new level or a new breed of competition, right? This is a new dimension from which -- and yes, I don't think it's as acute as, hey, we're changing the fee algo that the business model provides, but it is the broader fee structure of what owners are bearing and the balance. So how do we get some comfort that this isn't the beginning of sort of a new dimension of kind of competition here? How far are we willing to...

Tony Capuano: It's the right question to ask. Maybe I'd answer it two ways. Number one, the full year guidance we provided is reflective of our expectations of the efforts that we're making around owner health. The second, to me, more powerful illustration -- we talked on the Q2 call -- this is our 99th year in business, 69th year in the lodging business. In the first half of 2026, we signed more management and franchise agreements than in the first half of any of the prior 68 years.

And so in so many ways, we can try and cobble together unrelated data points and try to weave them into some sort of narrative. To me, the owner and franchise community votes with its wallet. And there is no more powerful endorsement of their belief in the strength of our revenue engines, the reach of our loyalty platform and the equity in our brand portfolio than them voting with their wallets and generating record levels of deal volume.

Shaun Kelley: I mean you sort of cued me up perfectly for the segue into development, which is, I think, is a topic near and dear to your heart. So let's talk about it. I mean, first of all, the new development at the second quarter was there was a little bit of like a wiggle in some of the pipeline. I think you framed it as timing related, just unpack what's happening because there's a lot going on and...

Tony Capuano: There is a lot. The -- so -- there is a lot in there. So I'm going to try to stack it up here. I think in the U.S. and Canada market and in at least Western Europe, we still do have this triumvirate of challenges around development costs and regulatory environment and the lending environment, which makes some of the new build a little more difficult than we've seen in prior cycles.

With that said, conversions continue to be a critically important part of Marriott's growth story. In the quarter, we saw something like 30 percent to 40 percent of both openings and signings in conversions. And I think that will continue to be an important part of the growth story that we tell.

You've got the conflict in the Middle East and while the Middle East represents only about 3 percent of our global fees, it's 6 percent of our pipeline. Now the good news, from my perspective, we've not seen any sort of measurable project cancellations in the Middle East, but whether it be because of the interruptions in supply chain or interruptions in capital flows, we have seen some project delays, which is why we guided to the lower end of our full year guidance on net unit growth.

The only other thing I would say to you and I've said this in the past, sometimes I think we collectively do ourselves a bit of a disservice picking one specific moment in time to measure the trajectory we have in growth. And I've talked to you in the past about the way we look at multi-year CAGRs. If you look at our NUG CAGR since the end of 2023, we're at 5.2 percent, which dovetails very nicely with the long-term guidance, we've given about our confidence in our ability to deliver mid-single-digit NUG into the foreseeable future.

Shaun Kelley: We've talked about this in the past, but sort of this elevated level of conversion activity that is in the industry, you obviously have soft brands and things that can really lean into this opportunity. Is there a way you can help frame what this looks like on sort of a more medium term basis, because I think it's hard for investors to fully appreciate what -- I think when it's new build, it's in pipeline. We see it for years before it opens. There's a contract that's signed. So -- and there's a lot of certainty to it. I mean, over 90 percent of what's signed ultimately gets built. Very different conversions. It can be in and out quickly...

Tony Capuano: Sometimes they never hit the pipeline.

Shaun Kelley: Could be multi-brand. So help us with that kind of that visibility equation. How are we leaning in? And where are you seeing that growth headed?

Tony Capuano: Well, I appreciate the question. If you would ask me to write one question for myself, this probably would have been it. Because you're right, there are multiple layers to it. The first thing I would say to you, I spent a big portion of my career in development. And early -- in my tenure in development, I used to look and say, it's a really fascinating dynamic. It was almost a little bit like a seesaw.

When you were in really strong economic environment, the seesaw would tilt this way. You'd see a big uptick in new build activity and conversion activity would fall by the wayside. Then when you would start to pivot to a weaker economic environment, that seesaw would invert, you'd see a slowdown in new build activity but a big uptick in conversions. Since that time, at least at Marriott, we have made a number of very deliberate steps to strengthen our competitiveness in conversions. What does that mean?

We've built a -- while we'll convert almost any brand in the portfolio, we've built, I think, a really compelling stack of conversion-friendly brands across quality tiers. From Series by Marriott and City Express all the way through our luxury brands like Luxury Collection.

Number two, we've been much more creative and pragmatic in how we think about conversions. That doesn't mean lowering standards. That doesn't mean taking any mangy dog that limps across the threshold, what that means is recognizing many owners maybe don't want to go naked in terms of their access to a distribution system while they're doing the renovation.

So, in the right strategic circumstances, we'll look at things like white label. And what that means, an example of this would be we are converting the Pelican Hill Resort in Newport Beach, California to the first St. Regis Estate, which is a spectacular asset. But it's going to undergo a $100-plus million renovation, you can book it as the Pelican Hill Resort on marriott.com today. Once the renovation is done, it will be flagged the St. Regis Estate, but that was an opportunity to bring it into the system, give them access to the strength of our revenue engines and then eventually flag it once the renovation is done.

So my expectation is, on a go-forward basis, even in an environment where the economy is strong and you see a big uptick in new build, you won't see that historical fade of conversion activity. You take all of the factors that I've described, combine it with the fact that we've added development resources around the world who are laser focused just on conversion volume, and it's not just single asset conversion volume, it's portfolio conversions as well. You throw all of that together, I think our future holds the promise of a strong economic environment where new builds are flowing again, but not at the expense of conversion volume.

Shaun Kelley: And then two areas to take that down. Let's stick with conversion. I think international conversions in particular, very, very hard to pin down, right? Now we're talking about geographies where we typically haven't had as good a data or a good understanding. And maybe even one phenomenon we're starting to hear about is kind of first-generation turnover in markets like China, where all of a sudden, you might have a conversion opportunity where you've never had that before.

So where does that -- kind of where does that balance in? How much does international makeup of that balance, do you think?

Tony Capuano: Yes. I think it will be an increasingly important part of the growth story outside the U.S. borders. I mean what's interesting, conversions tend to come from two pots, right? You've got conversion of other brands where either that brand has been terminated or a contract expires. And then you have conversions of unbranded inventory.

In the U.S., it sounds surprising, but even today, you've got approaching 30 percent of the inventory in the U.S. is unbranded. But when you move outside the U.S. borders, you've got 50 percent to 60 percent of the inventory out there is unbranded. And so in terms of relative fertility of the fishing hole, there is really an enormous amount of opportunity for conversion of unbranded product internationally.

Shaun Kelley: And then just to wrap up on new build. You mentioned the sort of the delicate balance of all the constraints on -- we got interest rates, we've got unit level inflation, we got inflation. It's even higher on the constructions and the trades competing against lots of areas that people want to build ,maybe data centers these days.

So what -- just where is the appetite right now? Like what's the -- has the conversation shifted because the one good silver lining is all of a sudden, they might be looking at the demand curve saying, "Oh but, wait, like starting to come back, starting to feel a little bit better." And I always feel like the most optimistic people in the world have to be real estate developers. Because not only are you making the bet, but you're making the bet like 3, 4, 5 years out, staking, zoning and permitting and all these things. So a naturally optimistic group.

Tony Capuano: Yes. But I also think there's one other factor that drives the phenomenon you described and particularly in the U.S. market, we're going on a decade now of below historical average supply growth. That's one of the big drivers of the performance that we've seen. But I think increasingly, you have developers. And remember, sharks never stop swimming or they die, right? Developers similarly have built these shops to develop, their objective is to get out there and develop when they see opportunities. Most of them are not trying to time the market for a quarter or two. They tend to be long-term holders of that real estate. And so they're investing in many cases, through a multi-decade lens. But I think they look at the current environment, the demand curve and these historically low levels of supply growth and you see some inventory coming out of the lodging supply being converted to housing uses, being scraped for data centers or whatever it might be. And I think they are starting to see a window of opportunity to gear back up their development engines.

Shaun Kelley: And specifically in the U.S., is there a chain scale or a prototype that sticks out that's meeting that need or...

Tony Capuano: yes, I mean. It tends to be in the select and mid-scale brands. Those are more easily financed. But even in the premium and luxury and big-box convention hotel, because of the strength of our brands, because of our lender relationships, it feels like we're getting a disproportionate share of those limited construction starts as well.

Shaun Kelley: Another theme here that came up on the second quarter call was you've actually raised your investment spending outlook. And a piece of that was earmarked for opportunities on the development side, whether that's equity financing, mezzanine lending or key money. Talk to us about the sort of decision to kind of raise that budget, what competitively makes that kind of need happen today? And what are you starting to see as a result.

Tony Capuano: I say the big drivers, it is a [inaudible] to be sure. We have the industry's largest luxury both portfolio and pipeline. Given the outsized fee contribution and earnings potential of those luxury hotels, that's a lead we would like to extend -- the economics of luxury hotels are such that often, they require some brand financial participation as part of the capital stack. The good news for us, I think, Shaun, we don't have to chase every deal in pursuit of scale. We are fortunate to enjoy industry-leading scale. So the same rigor that we've always used in the financial evaluation of deployment of any Marriott capital remains in place. We've got decades of empirical data that suggests if we follow those metrics, the deals where we ultimately decide to deploy Marriott capital, whether it's key money, whether it's mezz debt, whether it's guarantees. Those deals end up driving outsized fee volume. And so we'll continue to have that same discipline we've always had.

Shaun Kelley: The luxury piece makes a ton of sense. We know the cost inflation. We also know the ADR inflation that has moved through with that, and given the success there. And maybe we just got a commercial on a St. Regis Estate component or brand. I don't know if...

Tony Capuano: [indiscernible] it's a brand extension. Yes, we talked about it. So we've converted a hotel in Kapalua in Maui to St. Regis Estate, and we'll convert Pelican Hill as well.

Shaun Kelley: And we have Ritz-Carlton Reserve, too. So now my list of places that I really want to go and stay out just continues to grow.

Well, just one more on the investment spending, but we know that on the quarter, you also did mention that there were some more demands, and then just maybe the competitive factoring in a little bit moving down chain scale of where those are. Is that more to jump-start new brands? Or what might be driving some of the needs a little bit lower down?

Tony Capuano: Some of it could be a little bit of high-profile urban select brand. I think for us, I mentioned in one of my earlier answers that we're still sort of in our infancy in our entry into mid-scale. And I think as that proves itself out, we may use a little bit of investment, particularly on some of the portfolios. I think about what we're doing with something like Series by Marriott. We did a big transaction in India with a group called Fern, where I think we've already converted more than 40 of their hotels. And so for some of those portfolios, we might use judiciously a little bit of Marriott capital as we prove out the thesis of some of these new mid-scale platforms.

Shaun Kelley: I'm digging back into the memory banks here, Tony, but it starts to be as you do this...

Tony Capuano: The younger [indiscernible] the longer.

Shaun Kelley: It starts to get interesting. And one area I found that people always discounted was Wall Street is quick to jump to the amount of money that's spent on the outgo. We can easily calculate that. But they actually missed some recycling opportunities. Can you talk about that? You do have a few things that you've invested in over time that I think that we publicly know about, but just maybe even more philosophically, how do you see the ability to maybe get some of this capital back out over time as well.

Tony Capuano: Yes. I mean if you look at the entirety of our owned lease portfolio, it's less than 50 hotels of the 10,000 in the system. So it's a relatively modest piece. They've ended up on our balance sheet through a variety of events, whether that was the Starwood acquisition, whether that was some brand reboots that we've done, whether it was entry into a new segment.

But it's always done with an eye towards the right timed recycling of that capital. So the ones that I see in the future right here in New York as we tried to send a message, both to the consumer and the owner community about the next version of the W brand. We've done a complete reinvention of the W Union Square here in Manhattan, came out spectacular, performing really well. That's an asset that we will clearly recycle.

When we entered into all-inclusive segment, we bought a portfolio called the Elegant Portfolio in Barbados. I think 6 of the 8, we've completed head-to-toe renovations. We're finishing up the last two when those are done and have some run time with performance, I would anticipate recycling those assets as well.

Shaun Kelley: I'm just having a moment, the W Union Square, I'm pretty sure they had a bar underneath called like the Underbar.

Tony Capuano: Way back when -- we came into the light. Now we have a rooftop bar.

Shaun Kelley: This is all pre-camera phones. So there are probably some stories there that I prefer not to...

Tony Capuano: It was dark down there.

Shaun Kelley: Yes. All right. So let's wrap up on -- we talked about tech transformation a little bit ago, but we obviously can't hold a conversation about technology and not mention AI. So a year ago was really when LLMs are coming on the scene. People are starting to download ChatGPT is exploding on the consumer use case. We now know a lot more about the technology a year in. So take us through that journey, how would you characterize the use case for AI? And where are you starting to see it in practice in the hotel industry?

Tony Capuano: Sure. So I mean, to me, the biggest impact you'll see on our industry is the distribution landscape. And so we're attacking that a few ways. We are -- whether it's with Google or OpenAI, we're trying to give them access to as rich a pool of content about our portfolio as possible so that we show up in a really both authentic but prominent way. I read reports recently from both Skift and from Lighthouse saying the Marriott portfolio is showing up in those platforms more readily available than any of our peers, which I think is a good way to start to partner with some of those big platforms.

And then I think within our 4 walls, we now have 100 percent availability to our 300 million members of Ask Bonvoy, which is a plain language, verbal search function or written search function within the Bonvoy app, which is off to a great start. Again, it's early, but those that are using it, we're seeing a much higher conversion rate than we have in some of [indiscernible] they so choose. We continue to experiment with OpenAI and their ads platform. So again, I think it's early, but I do think it is going to have a meaningful impact on the landscape distribution for the entirety of the industry. And we want to be at the front edge of that transformation.

Shaun Kelley: There's a lot more we can talk about here, but we are running out of time. So I just want a brief commercial, but we do have plans to host Marriott's Chief Revenue and Technology Officer, Drew Pinto. He's going to be here on October 2. So definitely flag that if you're interested in this topic, we're going to go a lot deeper about everything from distribution to booking channels to that, maybe the travel funnel a little bit. So that will be a great opportunity to do that. And thanks to Jackie for helping us put that together. That's an exciting meeting for us to have.

So Tony, thank you for your time. [indiscernible].

Tony Capuano: My pleasure. Thanks for having us. I think that will be -- I brought Drew to one of these sets of investor meetings once and it was the easiest day I ever had because they only wanted to talk to Drew. And so I would encourage you to participate. He will be a terrific speaker for you.

Shaun Kelley: Great. Thanks again.

Tony Capuano: Thank you for having me. Good to see you.

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