Marriott International, Inc.
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Shaun Kelley - BofA Securities, Research Division: So our next presentation is with Leeny Oberg from Marriott. So I think everybody knows, but Leeny's the Chief Financial Officer and Executive Vice President of Business Operations for Marriott Worldwide. So Leeny, thanks for doing this for us.

Leeny Oberg - Marriott International, Inc.: Great to be here. Nice to see you all.

Shaun Kelley: I'm so excited to be back in person. So it feels very different and a long time coming.

Leeny Oberg: It was a great summer.

QUESTIONS AND ANSWER SESSION:

Shaun Kelley: Well, let's talk about the summer a little bit. So obviously, last update, we got -- we now have finally - are very close to crossing the threshold of being "fully recovered". For those of us that just means we can go back to year-on-year and not have to deal with this 3-year 2019 comparison anymore. But yes, just in your own words, maybe get us up to speed on the operating environment as you see it today. How have things felt across the summer? And just what are we hearing and seeing from the traveling guests right now, and then we'll dive in from there.

Leeny Oberg: Sure. Yes, we continue to be really pleased with the recovery and resilience of the business in the summer. If you remember, we talked in our call in the Q2 call about how -- by the time we got to June, we actually had crossed that threshold. And globally, worldwide systemwide, we were at RevPAR up 1 percent. And for the month of July, we actually ended up 2 percent compared to 2019. And when you think about where that improvement came from, it was overwhelmingly Asia Pacific. So in the U.S. and Canada for the month of June, it was fairly similar between June and July, roughly 3 percent RevPAR above 2019 levels, again, with occ bit below and rate a bit above, similar trend. Internationally, in the month of June, we were actually down mid-single digits from a RevPAR perspective in the month of June and really moved to about flat for the month of July, which overwhelmingly reflected the improvement in Asia Pacific, particularly Greater China.

Now as you know, Greater China has had a classic pattern during COVID, where the second certain markets open up, the larger markets open up, demand really pops, but then you have to really be watching the newspaper because they can close them right back down again. But certainly, during the month of July, we saw some markets open up and sure enough, RevPAR improved relative to

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

2019 fairly dramatically, which was a big help.

Shaun Kelley: Can you help us think about just the -- some of the other markets? Like so Europe is now a, I think, has gone from a little bit of laggard to off the charts and some of the data that we see. So help us think about that. And then maybe we can talk about segments.

Leeny Oberg: Sure. As you described, when you see the strength of the dollar, certainly, the U.S. traveler is no dummy, and that's always been a really great market for us is the travel from the U.S. to Europe, and we have seen that this summer in spades. So we've seen meaningful growth in RevPAR and frankly, really great outperformance compared to 2019. Caribbean, Latin America has been one of our strongest performers as we really emerged out of COVID, and that continued into July as well. So I would say they all continue to crank along. And again, as you know, leisure is very strong in the month of July. So the rate performance around the world is notable as you see this strong demand chasing the places they want to go, which is just a great affirmation of people's love for travel.

Shaun Kelley: And I mean, maybe to ask the question that's on everybody's mind. Obviously, I'm sure you see your data and see one thing and then you read our own newspapers and you see Wall Street, and you hear a very different narrative around recession, inflation, and a lot of consumer fears out there in particular, see a lot of retailers missing, technology companies starting to readjust to a bit of a new normal. So what's your take on the macro and concerns around the consumer? Have you seen pockets of softness? Is there an area that could concern you looking forward? Or are things pacing as you'd expect?

Leeny Oberg: So we have not seen pockets of slippage yet. And certainly, I think we're watching it really carefully. I'll never claim that we are not a cyclical business. So I would expect, to the extent that there is a real recession that we would feel the impact of it. But I think the more interesting part is that we may not feel it the way that we felt it in the past. And you've got a host of factors that I think could potentially mitigate any potential downturn that we see if we really hit a real recession. The fundamental of our product, right, is not that we -- compared to a retailer's inventory, I'm not going out there and trying to buy it. We've basically got a stock of rooms that are long-term assets that then we do reprice on a very current basis. And we, obviously, you can tell through the ADRs that we're really seeing the benefit of that as, with inflation, we've been able to basically move our ADRs in a way that helps offset this impact of some of the things like rising wages, et cetera.

But you've also got, from a macroeconomic perspective, you've still got a fair amount of pent-up demand for travel. You think about how we really don't have the full cross-border population of travel that we normally would have. I think you've still got some pent-up revenge travel, if you will, of people trying to make up. You've still got excess savings that have not been worked off, and you've also got a really strong labor market.

And when we think about prior recessions, every recession is different, right? They're all different reasons, different lengths of time. And when I think about the unemployment ticking up from 3.5 to 3.7 last week that we saw, these are still numbers that show that there are plenty of jobs for people who want to work, and the reality that we're a good ways away from something

that I think would have a meaningful impact on how people feel about their security for future wages. So I think that could also help offset it. Now, of course, you've got to contrast that with where you think the Fed may really go or may really need to go to slow inflation down, but we're certainly not there yet.

Shaun Kelley: It's super encouraging. When we start to think about segments. One thing we've coined is this idea of a leisure to business handoff, right? So often, when we're talking to investors, we hear a lot of fears around the consumer. They tend to cover companies that are very focused on the consumer. So we've also got that business travel lever. And obviously, in many cases, that's the majority of your business, and that is not yet fully recovered. So first of all, maybe just help us break down those two components with maybe peaking travel on the leisure side? It doesn't even feel like we necessarily seen that. But if you were to see that, what do we have left in the tank on the business travel, what's the ability to start to offset that with just what's continuing to happen on the business travel side?

Leeny Oberg: So just as a quick reminder, classically big picture, pre-COVID we were roughly 60 percent business, 40 percent leisure. Then you saw during COVID really had quite a flip where you went to almost 47 percent, 53 percent of leisure being bigger. Now we're back to more like 53 percent business, 47 percent leisure. That was Q2. But remember, that's got group in it, right, as a component of business. So let's first talk about group because I think one of the things I do think could be helpful as we move into, again, what may be a period of softness related to a recession. I want to make sure it's clear. I'm not saying, for sure, we know exactly when or if this recession may happen and how deep it will be. But certainly, to the extent that there is one. I mean, you can imagine if the Fed keeps going at this, that at some point, it has a real impact on the economy.

But when you think about that -- group, I think could behave differently this time than in prior recessions because you've definitely seen with this change in how people work and where they work and how companies get their people together, we continue to see really strong in-the-year-for-the-year group bookings. So if you think about where we were even a month ago, we had talked about for the rest of this year, that we were looking at the group pace at being down in the, whatever, 3 percent, 4 percent and 5 percent down space, we're better than that. We're already better than that in one month just as we continue to see really strong in-the-year-for-the-year bookings. So you compare the month of - the most recent month, for example, the bookings for the rest of this year were up 30 percent compared to 2019 for group. So I think group could help soften. On the business transient side, you've got two components that are worth remembering. One is the more classic retail business transient traveler. And that level is back. That level is back to 2019. It makes up roughly half of our business travel, those numbers of nights are back.

It is really the negotiated rate, which remember, that tends to be the lower-rated business. That is what is still down notably from 2019 levels. And while we continue to see progress, and we expect we will see more progress after Labor Day, that is the area that when you think about the entire recovery from a number of nights perspective, that demand is the slowest to return. But I also think we've got this weird world where what you count as a leisure night versus a business transient night is getting harder and harder to distinguish. When you think about people coming and having a combination of, frankly, both group and business and leisure, all in one trip, where I think it's going

to be helpful for us, but also makes it a little bit harder to do your classic segment work.

I also think it's worth noting we're just getting into the corporate rate negotiations for next year. We've had two years of holding rates flat on negotiated rates. I would not expect that to continue to be the case in 2023. We'll see how that rolls out, but that should also be useful as well.

Shaun Kelley: And we were speaking with somebody last night about this a little bit, but some of the policies have changed around how you do corporate negotiated. Have you -- do you still do -- do you do a flat rate and negotiate hotel by hotel or are you starting to move to a more flexible model that works off of more of a best available rate that actually allows you to get closer to, if you're charging a lot on the leisure side, just allows you to get closer to whatever you're seeing across the rest of the hotel?

Leeny Oberg: It's a variety. It has been a variety. I think there tends to be a desire to say all those contracts are one kind. But I'll tell you, based on the size and numbers of nights and where people travel for a certain client, it's really going to vary. But there certainly is a fair amount of flexibility relative to the market moves in the way these rates work.

Shaun Kelley: Maybe shift gears slightly, help us think through the rate and occupancy components here because this has just been a bit of a structural surprise. I mean, last cycle, we was out there for five years and couldn't push dollar rate, it felt like. And it was really, really challenging. Now all of a sudden, we've got 15 points of rate, but occupancy is now the piece. Where do we stabilize and what's that optimal mix both for you? But largely, this is about your owners and helping them manage a new normal here. It would seem like many of them are benefiting on the margin side from the higher rates and the slightly lower occupancy, especially in a tough labor market.

Leeny Oberg: And better productivity. Give us a little bit. It's not only because of rates also because they're really great...

Shaun Kelley: I want to unpack that a little bit, too. But yes, just help us think through the mix a little bit and just how you think this cycle or new normal plays out.

Leeny Oberg: The devil's in the details in terms of you really have to get into which markets and which types of hotels. When you look at the luxury side, just to give you a sense, our luxury resorts over most recent times, they're seeing RevPAR up 37 percent compared to 2019 levels and even up 9 percent compared to a year ago. So they are -- and it is very strong on the ADR side. It's really important to recognize how dynamic our marketplace is. And it does get down to the very cities, the actual locations and what's going on in those specific markets.

So for example, you've seen this summer, you've seen the large urban markets really pick up and see some real improvement as you saw momentum both in the business transient side and in group and continued strong leisure. And so sure enough, what does that do? That's a really great thing for rate. The booking windows continue to be short. They are back to similar to 2019 levels, but they're still short. And so if people are making a decision to go and they've still got these pent-up savings and they really want to travel, they're going to go where they want to go

and pay up. So I do think as we move forward, there is room for both. I think you will continue to see occupancy gains as we move into 2023. But I don't think the rate gains are necessarily over either.

Do I think the rate gains at some of the top luxury markets that, that gap over 2019 is going to necessarily continue to grow? Probably not, but it's pretty impressive. Where I think you're going to continue to see some of these rate gains are in the markets that either have heavy special corporate as we go into 2023 with different negotiated rates or also just as the strengthening of demand comes into play. So I think you'll probably see some of both, but again, not as heavily weighted to the ADR side as it has been. So more evenly balanced and probably not -- obviously, this year's RevPAR over last year is extraordinary, and I wouldn't necessarily expect to see quite the same increase this year.

Shaun Kelley: It'd be great.

Leeny Oberg: Yes. I know. I know.

Shaun Kelley: Let's talk about a few Marriott-specific things. So I wanted to dig in on something you were just referring to. One of my favorite stats coming out of the second quarter was the company-operated margins being, I believe, 300 basis points above the second quarter of 2019. And that was, I think, company-wide. It's pretty stunning actually. Can you help us unpack that a little bit? What is driving that? What are you doing on the initiative side? What have you learned and helped owners do because that's obviously -- most of the benefits are according to owners that also helps you a lot. We'll talk about your drivers in a minute. But yes, just help us think about what are some of the initiatives that got you there because even when we look across our blended average owners, that's better than what we've seen. I mean, we obviously see Host's numbers. So we know one of your biggest owners, but we also see plenty of other owners that are still not quite back yet, more urban exposed. So how did you do it? And what's driving and how much of that could be sustainable?

Leeny Oberg: So I think some of it is definitely around agility, how quick we were to make dramatic changes. So it's one of the things I feel like the owners have given us particular credit for is that the company went into - really reimagine how we run the hotels at a dramatically lower occupancy rate very quickly. So then when you look at it, you're basically getting to breakevens at levels of occupancy that we've never even imagined before. And so then when you start to build back, you are much more careful about what resources you were adding back. Now of course, to be fair, part of what's going on here is that demand has increased so rapidly that in some cases, we almost couldn't quite keep up with the hiring that we needed to do. But I will say in Q2, that was not as much an impact on the margins as it was, for example, in the quarter or the quarter before that. We weren't there yet in a fully staffed way but closer. So I think you've got several things from a true improvement standpoint.

One is definitely around the way you work your labor scheduling and your labor planning, which is being much more "just in time" for lack of a better phrase, where you're able to really think about the next week ahead and exactly what you need as compared to thinking one and two and three months ahead on staffing for it. And when your demand is more volatile, you have to think that

way because it's so much of it is transient. You really -- you can't assume that it's all going to be full. So that's definitely one part. And then the other part is all the work that we've done on our technology. So when you think about the contactless technology that we put into place and really accelerated in many respects, mobile check-in, mobile key, mobile chat, all those things, which I think COVID helped drive for the necessity of it, but that also has been super helpful. And then on top of that, you look at things like direct bookings.

I do believe that the power of Bonvoy and what happened with people's use of digital technology and digital commerce during COVID definitely accelerated by a few years. And there's no doubt that, that helped drive more reservations to our digital commerce channel. That is obviously cheaper than if somebody is going to some of the other places to make a reservation. So that's also helpful for us when you think about the cost structure of the hotels. So it's really up and down the chain. You've got to then also, of course, look at the breakdown of rooms profit versus F&B because F&B always is traditionally a bit lower margin. Although again, I will say in Q2, we outperformed on the F&B side relative to our expectations. But I think we are determined to hold on to as much of this margin improvement as we can.

Shaun Kelley: One of the trade-offs here is, I think as a brand, your job to be pretty maniacal about the quality because you can't let that slip, you can't risk the reputation of your brands over really any extended period of time.

Leeny Oberg: Absolutely right.

Shaun Kelley: So what have we seen on that front because we do hear the -- they're no longer nightmare stories. They're maybe just like the story is a little bit about, "Oh, the outlets are still aren't quite open. I paid X dollars and the experience wasn't quite there." Where are we at in that readjustment and where do you want to be?

Leeny Oberg: Right. So we always want to do better, but we are -- we've really gotten over where you had a - truly a disconnect between the rapidity of the increase in demand versus the ability to get. So I think in many cases, we are back to where people are finding that the food and beverage outlets are open where they are, certainly, in all of the resorts and that you are in some of the urban markets, obviously, it's been slower to come back. But I think meaningfully better, maybe not all of them. I think in some cases, we have allowed the hotels to not open all of the outlets and to keep that a bit more limited until they see the occupancy fully rebound. But we do see far fewer complaints. We're also seeing guest satisfaction improve nicely and getting back to levels that reflect more normal time. But as I said before, I would say, we always want to do better.

And that one thing that I think COVID has proven with leisure travel as people really want the experience that you have in a leisure stay. That means the hotels really got to get at it to making sure. It's not like a business traveler who comes in, hooks on to the Internet, does their work and then leaves the next day. You've got to really make sure that the experience is terrific. So the operations team is spending a lot of time on that. And then the last thing that I would say on the guest experience piece is that when we think about the overarching desires of our consumers, I think you really can't underestimate the importance of technology and what they are expecting. And when they can say ahead of time, "This is what I want. This is where I want to go, can I find out

about a restaurant. I want to make sure I have this pillow." Being able to do all of that on their phone and being able to connect with the hotel and then being able to talk about that during their stay, I think, has really helped on the customer satisfaction front.

Shaun Kelley: Let's play this through the P&L for Marriott for a minute. So the two places I can see this mattering are IMF and the owned and leased margins. So help us think through both those…

Leeny Oberg: Base and franchise fees, too.

Shaun Kelley: I mean -- but if we think about the higher leverage components, what does it take to get back to full recovery for those because often, we think of those as lagging. But in these cases, again, with margins are back, those things should be really close to back, barring some mix differences and whatnot. So is there anything that keeps you from full recovery and beyond on those types of line items?

Leeny Oberg: Yes. No, I don't think so. Again, I'm glad you pointed out IMF because actually IMF in Q2, if you think about it, we were at -- in the U.S. and Canada back to similar levels as we were in 2019, but with far fewer hotels earning incentive fees. So for example, in the U.S., back in Q2 of 2019, we're at 56 percent of the U.S. managed hotels earning incentive fees. Q2 of this year was more like 20 percent.

Shaun Kelley: It was the same dollars.

Leeny Oberg: And the same dollars. And then outside the U.S., just as a reminder, this quarter in Q2, a little bit over 50 percent of our IMFs were from U.S. and Canada. Typically, that number is only 1/3. And that is because, obviously, international RevPAR is recovering later than U.S. and Canada. And those IMFs, as you know, don't have an owner's priority typically in Asia Pacific, which is the slowest area to come back, which again, I think should be tremendous help. And I agree with you. I think there is some real upside potential. I suspect you're going to ask me a little bit about luxury. But I think international luxury is one particularly interesting area when you think about IMF potential ahead of us because we have more luxury presence outside the U.S. than we have inside the U.S as a percentage.

Shaun Kelley: And you beat me to it. I actually want to switch to net unit growth a little bit because the other critical driver of the model and the outlook. Here, obviously, in the quarter, we took down numbers a little bit just given Russia and Ukraine exposure, I think, clearly, a one-timer. But help us think about the broader development backdrop. Because obviously, as we do talk about economic slowing, particularly the financing market slowing, that does have a pretty real-world implication for just getting hotels open across the finish line. So what's the outlook there? Can we maintain a 3 percent to 3.5 percent type of number? Is this a realistic level? Or do we need to start factoring in delays in macro even from this level?

Leeny Oberg: So one quick reminder that while you're right, we lowered -as a result of the decision to suspend operations in Russia, we did lower our expectations by roughly 0.5 point for those roughly 25 hotels. But just as a reminder, those hotels produce less than $10 million of fees,

so way, way, way under 1 percent of our revenues, just from a financial impact standpoint. So a couple of things. While you're right that there's definitely been a slowdown in construction starts, just as a reminder, we had record signings in Q1 and Q2. We are not seeing fallout from the pipeline. Clearly, as we've talked about from the beginning of the year, this slowdown in construction starts is impacting growth, particularly in the U.S. in 2022 and perhaps a bit beyond. But I think broadly speaking, I think we still feel very positive.

The conversion opportunities that we've already captured and expect to continue to capture with the soft brands that we have. They were 30 percent of our signings in Q2 and roughly 20-odd-some percent of our openings in Q2. I think there's continued tremendous potential there. And frankly, as we talked about with the deal flow that we're continuing to see, I think what's come out of COVID is that investors in our asset class have been really comforted to see such strong demand. And I think these are long-term assets. Folks are thinking about these over the next 20, 30 and 40 years. They're not thinking about them just over the next year. So while you're right, there's clearly been a bit of a temporary jag in that normal ongoing pace of opening rooms. I think the fundamental flow is still really strong. And while you do have to deal with supply chain issues and material increases and financing costs, we aren't seeing that it's having a fundamental impact on the flow.

Shaun Kelley: Great. With my little bit of remaining time I want to talk about balance sheet capital return. We've got the Chief Financial Officer. So you're in charge of this. Help us think through a little bit of the capital return side of the story because obviously, as we start to exit recovery mode, one of the biggest upside surprise across the entire quarter in lodging was your buyback announcement actually, I think, more than almost doubling your target to $2 billion for the year.

Leeny Oberg: More than $2 billion

Shaun Kelley: Actually more than $2 billion of the year. So thank you for…So help me think through that a little bit because as we play it out, we still see even a more significant potential into 2023 based on historical leverage parameters for Marriott. So help us with the guidepost of what is that parameter? And then what could lead you to one end of the range versus the other? Because when you're up to what over $4 billion of adjusted EBITDA, half a turn is a lot of money.

Leeny Oberg: It is. I think we go back to, if you remember, it used to be that 1/10 of a leverage point in the ratio, very broadly speaking, is $300 million to $400 million in cash. So to your point, it gives you a lot of opportunity. And I think the resilience in our business model has been demonstrated so well that it has popped quickly. And I think we got to being in the lower end of our range, our targeted range of 3.0 to 3.5x adjusted debt to adjusted EBITDAR quickly. And we feel great about our prospects, and we're going to continue to run the business to be very efficient with our shareholders' capital.

First and foremost, as you know, we want to run the business to drive growth in that adjusted EBITDA, which means we need to invest in our business. But beyond that, we really do expect to continue to generate more cash than we need and to return it to the shareholders in the form of a modest cash dividend and share repurchase.

So from the way that we looked at that more than $2.2 billion, that did keep us roughly in that range of 3 to 3.5x. I would expect we will continue to do that. We're very committed to our investment-grade rating. But it does, as you say, depending on where adjusted EBITDA goes to 2023, and I'm not going to confirm or deny your number, given that we're working through the budget process now. But it does, as you described, give you the potential for really quite notable share repurchases. And you'll probably notice that we raised a bond yesterday -- day before yesterday for $1 billion of 5-year paper. And it's not like the business is not generating tons of cash because we are. So I think that, again, continues to point to very good long-term management but a reflection that we are generating a lot of cash and expect to use it wisely.

Shaun Kelley: Would anything in the macro outlook, could that be enough to drive that outcome? Or do you really look at it as, look, we hold this ratio based on our numbers today? So what I'm really saying is if we -- the conditions are starting to deteriorate a little bit and more along the lines of maybe things that we're seeing today, is that enough to hold you back? Or do you look at an opportunity to possibly go on offense a little bit, especially when we see pretty big movements in stock price. And I know you've never been one to really game the stock. You've been pretty algorithmic with the way you've purchased, but it could give you or present some interesting opportunities/dislocations to just really prove the power of how you can compound earnings with this program.

Leeny Oberg: So first and foremost, we want to be in this 3.0 to 3.5x range. And we're determined to stay there. It frankly does take quite a bit to move you out of that. But I don't see us in the face of a recession saying that I want to play at the top end of that range, right? I mean we don't want to do anything that reflects a lack of commitment to being a really strong credit. And part of that is because the opportunities that then provides us on an opportunistic basis. So yes, opportunistically, have we ever gone out and bought something like Elegant Hotels to really help propel our all-inclusive business and grow our CALA business? Yes. Those $200 million doesn't really move the needle on the leverage target, but we are very careful to be watching what's going on with that ratio. And if you really were seeing that you thought you were going into what looks like a serious recession, I think we probably would be thoughtful about where we sit in that range, right? And I don't think we're interested in playing with fire.

Shaun Kelley: Perfect. Well, thank you for the time.

Leeny Oberg: Great to see you, Shaun.

Shaun Kelley: Hopefully, there's no fire to be played with and thank you, Leeny. Appreciate it.

Leeny Oberg: Likewise. Good to see you.

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possible effects on our business of the COVID-19 pandemic (COVID-19); our RevPAR, rooms growth and other financial metric estimates, outlook and assumptions; travel and lodging demand trends and expectations; occupancy, ADR and RevPAR recovery trends and expectations; future performance of the company's hotels; our development pipeline, signings, rooms growth, deletions and conversions; our investment spending and capital return 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 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.