Marriott International, Inc.
Second Quarter 2023
Earnings Conference Call Transcript[1]
August 1, 2023

Operator: Good day, everyone, and welcome to Marriott International's Second Quarter 2023 Earnings Conference Call. Today's call is being recorded. I will now turn the call over to Jackie McConagha, Senior Vice President, Investor Relations. Please go ahead.

Jackie Burka McConagha: Thank you. Hello, and welcome to Marriott's second quarter 2023 earnings call. On the call with me today are Tony Capuano, our President and Chief Executive Officer, Leeny Oberg, our Chief Financial Officer and Executive Vice President, Development, and Betsy Dahm, our Vice President of Investor Relations.

Before we begin, I would like to remind everyone that many of our comments today are not historical facts and are considered forward-looking statements under federal securities laws. These statements are subject to numerous risks and uncertainties, as described in our SEC filings, which could cause future results to differ materially from those expressed in or implied by our comments. Please also note that, unless otherwise stated, our RevPAR, occupancy and Average Daily Rate comments reflect systemwide, constant currency results for comparable hotels. Statements in our comments and the press release we issued earlier today are effective only today and will not be updated as actual events unfold. You can find our earnings release and reconciliations of all non-GAAP financial measures referred to in our remarks today on our investor relations website. And now I will turn the call over to Tony.

Tony Capuano: Thanks, Jackie, and thank you all for joining us today.

Our terrific second quarter results demonstrate the strength of global lodging demand and the success of our growth strategies. I have experienced the robust demand for lodging first-hand, as I have been on the road a lot this year and have had the privilege of visiting every one of our regions. It has been wonderful to spend time with our team of hard-working and dedicated associates at properties around the world and to see how quickly global travel has rebounded.

Second quarter worldwide RevPAR rose 13.5 percent versus the 2022 quarter, led by another quarter of meaningful recovery in Greater China. Less than two quarters after travel restrictions were lifted, RevPAR in Greater China has now surpassed 2019 levels, primarily due to the surge in domestic demand.

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

Worldwide occupancy in the quarter reached 72 percent, 5 percentage points higher than the year ago quarter. With our unwavering focus on maximizing revenues, global ADR grew 6 percent year over year.

Global leisure demand and ADR remain robust. Second quarter leisure transient room nights and ADR each increased 5 percent year over year, yielding 10 percent revenue growth. In the U.S. & Canada, leisure revenues rose 1 percent above last year's sensational second quarter. Demand in this market has been stabilizing on a year-over-year basis, with travelers from the region increasingly taking vacations overseas now that pandemic-related travel restrictions are behind us. Leisure room nights from U.S. and Canadian travelers jumped 90 percent in Asia Pacific and over 20 percent in Europe, compared to the same period last year.

The group segment had another great quarter, with revenues in the U.S. & Canada growing 10 percent year over year, driven by both rate and occupancy. Group revenues are expected to remain strong going forward. At the end of June, group revenue for the back half of 2023 was pacing up 11 percent to last year.

Meeting planners are beginning to book further out, a trend we're also seeing with transient customers. Group revenue for full year 2024 was pacing up 14 percent year over year at the end of the quarter, an improvement from up 9 percent three months prior.

Recovery in business transient demand remains slow but steady, with demand from our top corporate accounts progressing modestly in the quarter. In the U.S. & Canada, ADR again rose nicely compared to 2022, thanks to high single-digit special corporate rate increases. This led to business transient revenues rising 12 percent year over year.

Overall cross-border travel demand also rose again in the quarter, primarily driven by an increase in international visitors to the Asia Pacific region. The percent of total room nights from cross-border guests is now roughly 1 percentage point below 2019 levels of approximately 20 percent. Prior to the pandemic, international visitors accounted for nearly one-quarter of room nights in Greater China. With the region's international airlift still only around 40 percent of 2019 capacity at the end of the second quarter, we believe there is still meaningful growth opportunity in and from Greater China.

We remain keenly focused on strengthening our powerful Marriott Bonvoy loyalty program, which has over 186 million members. To further build engagement, we continue to enrich the platform with an enhanced booking experience, more choices for customers, and complementary products that drive more value and capture share of wallet, such as our co-branded credit cards and travel insurance. Our international credit cards had a record quarter, driving global card acquisitions up 25 percent and global card spend up 10 percent versus the year-ago quarter.

We are increasingly leveraging technology to enhance the guest experience, to drive profitability for our owners, and to simplify processes for our associates. As we've mentioned previously, we are in the process of a major global transformation of our digital and core technology. We will be launching new reservations, loyalty and property management platforms over the next several years and look forward to the numerous capabilities these new systems will offer our key constituents.

As we focus on paths for growth, we are adding new offerings and experiences in segments where we believe there is strong consumer interest beyond our current brands. A great example is our recent announcement of an exclusive, 20-year strategic license agreement with MGM Resorts International and the creation of MGM Collection with Marriott Bonvoy. The collection, which will launch beginning in October, encompasses 17 resorts with 40,000 rooms. This deal will provide us with significant presence in Las Vegas, one of the most popular destinations in the country, with fantastic properties like Bellagio, the MGM Grand and Aria…. as well as additional distribution in 5 other key U.S. cities. Beyond hotels, our strategic agreement with MGM will also give our members access to more sports, music, culinary, and entertainment experiences.

We also recently announced our planned new affordable midscale extended stay offering in the U.S. & Canada. Our deep experience and leading position in extended stay lodging, coupled with the recent trends towards increased work flexibility and longer-stay travel, make us very optimistic about our growth potential. While it is still early days, initial interest from the development community has been extraordinary. We are working on several hundred deals and hope to have our first deals signed by the end of this year.

In the Caribbean and Latin America, we are excited about the recent addition of City Express to our brand lineup. These midscale properties have started to join our distribution channels, and we are thrilled with the noticeable uplift in conversion rates, ADR and bookings so far.

Our development team remains focused on driving conversions, especially multi-unit opportunities, and interest from owners remains robust. In the first half of this year, conversions accounted for 21 percent of our organic room additions. Including MGM, conversions represented 63 percent of our organic signings through June.

The MGM rooms entering our system beginning this fall will boost our rooms distribution in 2023 by 2.4 percent. With more than half of the year behind us, we have refined our full year net rooms growth expectation to 6.4 to 6.7 percent. Driving valuable global growth is a top company priority, and we are very pleased with the strong rate at which we expect our industry leading system to grow this year.

We look forward to sharing more about many key aspects of our business, including our broad global portfolio of over 30 brands…their exciting growth prospects all over the world…Marriott Bonvoy, the brand that brings it all together…our technology transformation...and our multi-year financial model at our investor day on September 27th. Now I will hand the call over to Leeny to discuss our second quarter financial results in more detail, as well as our updated outlook for 2023.

Leeny Oberg: Thank you, Tony.

Our strong second quarter results reflected solid demand and ADR growth around the world. With Greater China RevPAR more than doubling, international RevPAR rose an impressive 39 percent over the 2022 second quarter. Occupancy for our international regions reached 68 percent, a 12 percentage point improvement versus the prior year quarter, and ADR increased 14 percent.

RevPAR in the U.S. & Canada grew 6 percent versus the year ago quarter. Occupancy reached 74 percent, up 1 percentage point, while ADR increased 4 percent. While demand from both business and leisure guests remains strong, growth rates are stabilizing as we return to more normalized year over year comparisons.

Total company gross fee revenues totaled $1.25 billion, rising 16 percent, led by meaningful growth in incentive management fees, or IMFs. IMFs totaled $193 million in the quarter, with fees in Greater China up significantly given the strong recovery in that region. Impressively, our IMFs in the first half of 2023 were 19 percent higher than peak IMFs in the first half of 2018.

Our owned, leased and other revenue, net of direct expenses, grew 24 percent, despite lower termination fees, largely due to improved performance at our owned and leased hotels. Our strong IMFs and owned, leased performance demonstrate our operating teams' great work at driving profitability.

Corporate G&A rose just 4 percent, well below the rate of top line growth. With the strong operating leverage inherent in our business, adjusted EBITDA reached a record $1.2 billion, up an impressive 20 percent year over year.

On the development front, we are closely monitoring the financing environment, which remains tight around the world. While the U.S. and Europe are facing the most lending challenges, even in these markets, financing has not come to a standstill. Over the past few months, many owners in these regions have been able to secure financing and begin construction. In most of our other regions, there is much less dependence on debt financing for new deals, so hotel construction generally continues apace.

Properties in our industry leading 547,000 room pipeline that are already under construction continue to move forward. And we have not seen the number of deals leaving the pipeline increase. Global fall-out in the quarter was 1.3 percent, below our historical quarterly average of just over 2 percent.

Now let's talk about our 2023 outlook, the full details of which are in our earnings press release. With the better than expected second quarter results and robust global booking trends, especially internationally, we are raising our full year guidance.

While there is still a level of macro-economic uncertainty, as we look into the third quarter, the consumer is generally holding up well and our forward bookings remain solid. In the U.S., it now seems more likely that the U.S. economy could have a soft landing.

Our updated guidance range assumes relatively steady global economic conditions throughout the remainder of 2023, with continued resilience of travel demand. Growth is expected to remain higher internationally than in the U.S. & Canada, where we are seeing a return to more normal seasonal patterns, and year-over-year RevPAR growth is stabilizing.

For the full year, we now expect 7 to 9 percent RevPAR growth in the U.S. & Canada. We are raising our expectation for international RevPAR growth to 28 to 30 percent, leading to an expected 12 to 14 percent increase in global RevPAR.

Total fees for the full year could rise between 16 and 18 percent, with the non-RevPAR-related component increasing 4 to 7 percent. Non-RevPAR related fees are expected to benefit from higher credit card fees resulting from growth in average spend and in the number of cardholders.

We still expect 2023 G&A expenses of $915 million to $935 million, an annual increase of 3 to 5 percent, but still below 2019 levels. Compared to 2022, full year adjusted EBITDA could increase between 18 and 21 percent, and adjusted EPS could rise 25 to 29 percent.

Our powerful, asset-light business model continues to generate a large amount of cash. In the first half of this year, our net cash provided by operating activities surpassed $1.5 billion, nearly 50 percent higher than the same period last year. We have returned $2.3 billion to shareholders through June.

With the increase in our adjusted EBITDA forecast, we now expect to return between $4.1 billion and $4.5 billion to shareholders in 2023. This assumes full year investment spending of $900 million to $1 billion, which includes the $100 million spent on the acquisition of the City Express brand portfolio. With our major technology transformation, we will also have elevated technology spending this year and over the next few years, though this investment is overwhelmingly expected to be reimbursed over time.

Our capital allocation philosophy has not changed. We're committed to our investment grade rating, investing in growth that is accretive to shareholder value, while returning excess capital to shareholders through a combination of a modest cash dividend and share repurchases.

Thank you for your interest in Marriott. Tony and I are now happy to answer your questions.

QUESTION AND ANSWER SESSION:

Stephen Grambling - Morgan Stanley: Maybe to start off, just on the non-RevPAR-related fees. You gave some color on that in the quarter. But I guess what are your expectations for the remainder of the year? And can you just remind us on how those contracts were structured in terms of length of term? Is there an opportunity to renegotiate those coming up?

Leeny Oberg: Yes. No, we've got several years left on them, Stephen, and are really pleased with the continued growth in the credit card fees, and frankly, really particularly pleased with adding so many new countries.

So I think when you look at credit card fees for the year, I think, broadly speaking, a double-digit growth rate is right. Now for total non-RevPAR fees, we've talked about a 4 to 7 percent growth in non-RevPAR fees because of the lumpiness of things like residential fees. And the reality, as you remember, our timeshare fees are overwhelmingly a flat payment that go up only slightly.

So overall, I think we're looking at 4 to 7 percent. But again, on the credit card side, we continue to see really strong growth.

Stephen Grambling - Morgan Stanley: Great. And then as a follow-up, it's unrelated. Just on the technology investment. Obviously, a lot of talk about AI recently across all industries. How are you generally thinking about the tech investment with an eye on positioning yourself towards leveraging these types of new technologies?

Tony Capuano: Sure, Stephen, I'll try and take that one. I think, obviously, AI has already incorporated into how we think about running our business. It has been for a while. We continue to look for opportunities to leverage evolving technologies like AI to remove friction for our guests, to create capacity for our associates. But we do it in a way that is mindful, mindful of how rapidly the technology is evolving and mindful of some of the real important considerations around facets of evolving technology like privacy.

Leeny Oberg: Stephen, the only thing I'll add to that is the reality that at the end of the day, we do believe that it is the person-to-person and the experiential part of our business that makes it so unique. So being able to use generative AI in a way that enhances that service, we see as a real benefit, but never to take away from the fundamental people-to-people part of our business.

Stephen Grambling - Morgan Stanley: Right. Before, during and after the stay.

Leeny Oberg: Right.

Shaun Kelley - BofA Securities: So we continue to get a lot of questions from investors on the net unit growth side of the equation, and appreciate all the color that you gave. So maybe we could just dig in a little further. It looks like at the very high end of the range of what you provided previously, you trimmed that very modestly, excluding sort of the deal with MGM.

So could you talk about just that change, and more broadly, what you're seeing in the environment?

And then I think the second part of the follow-up would be, as we look a little further out, and I don't want to steal too much thunder from the Analyst Day, but what are the preconditions necessary to think that maybe this year could actually be close to the trough. What would have to go right to see, let's call it, core growth ex City Express and ex MGM actually improve in 2024 or beyond?

Tony Capuano: Sure. Shaun, let me start and then I'm sure Leeny will chime in. On your first question, you're right, there is a very modest, kind of a 20 bps adjustment at the high end, to the guidance. We are delighted with the impact of this terrific MGM deal to so meaningfully increase our guidance for net unit growth for 2023. That little tweak at the high end really is reflective of kind of normal ins and outs.

On the plus side, we've seen a little lower deletions to the system than we had visibility into a quarter ago. And then we've seen a handful of projects that we still are confident will open, but we've seen the timing of a handful of those openings slip into early 2024. And it's those ins and outs that led to that modest tweak to the high end of the guidance.

On your second question, I would suggest to you that last year was probably the bottom of the trough. The numbers we've seen, particularly on the conversion front are leading strong growth towards that mid-single-digit unit growth that you've become accustomed to in your time covering Marriott. I think in terms of continued improvement. You'll hear a little more of this from Leeny. I think the biggest thing we're hoping for now is continued relief from the constriction we see in the debt markets in the U.S. and Europe for new construction. We're seeing powerful interest on the conversion side. We're seeing no shortage of developer interest or availability of the equity. I think the one impediment we're seeing is it's not an absolute absence of debt, but we're not seeing the free-flowing debt we saw a few quarters ago.

Leeny Oberg: So Shaun, the only other thing that I would add is the reality that you've heard us talk more and more about multiunit conversions, which does make things a little bit lumpier on the rooms growth. If you remember, when we added a big slug of all-inclusive rooms a couple of years ago, when you look at the MGM deal that we recently announced, I take your point that M&A would be looked at separately. But I do think on the conversion side, you should continue to see us chasing these lovely multi-unit conversion opportunities that can bounce the numbers around a little bit, but definitely give us confidence in our mid-single-digit net rooms growth number as we look forward.

Shaun Kelley - BofA Securities: Great. Congrats on the MGM deal.

Tony Capuano: Thanks, Shaun.

Joseph Greff - JPMorgan Chase & Co.: I have two questions. One, what's embedded in your full year fee guidance for incentive management fees? It looked like in the 2Q IMF per managed room was up a nice 13 percent over 2019. How does what you have incorporated in full year guidance for IMF, how does that compare on a per-room management basis to 2019, both domestically and internationally?

Leeny Oberg: So, Joe, we can work through the per room. Obviously, we've got the reality that the system overall is about 11 percent bigger than it was in 2019. So those comparisons start to be a little bit less meaningful.

But to your point about where IMF should be for the full year, I think what you've seen in what we reported today clearly points to the reality that we hope, assuming things continue the way our guidance predicts, is a number of IMF that exceeds our 2019 peak by a good amount. The amount of percentage of hotels earning incentive fees so far is 62 percent in Q2 versus 72 percent in 2019. So we're clearly getting much closer. And in Asia Pacific, it's in the mid-80s in both years.

So I think it -- as you know, we've got a different structure of IMF in Asia Pacific. And as our growth has been outsized in that region, they have a very positive quality of behaving much more like base fees. So I think you should continue to see strong growth there.

In Q2, we were looking at about 41 percent coming from the U.S. & Canada and 30 percent coming from Asia Pacific. So we're getting much closer to our 2019 proportion of incentive fees. And again, as we talked about before, when we look for the rest of the year, we do see the reality that we expect IMF to be higher than our peak.

Joseph Greff - JPMorgan Chase & Co.: Great. And then my follow-up relates to the MGM deal that you recently announced. Can you talk about, broadly, the economics and how it works for you?

I know it kind of works in a couple of ways. What you put in MGM's portfolio and then what you get kind of 1/3 in the Marriott system as the newer people exporting out to your properties around the world.

But let's say, the direct channel is such where you're putting in 5 to 10 percent of MGM's occupied room nights per year, how much of that in direct annual fees could something like that generate? Or can you give us some sort of way of thinking about the fee magnitude? I know it's probably different than the average franchise and licensing fee per room. But helping us understand the economics there, I think, would be helpful.

Tony Capuano: Yes. So it may not surprise you, Joe. We're not going to go into granular detail on the economics of a specific deal. What I can tell you is the structure of the transaction is akin -- much more akin to a traditional franchise deal. We are getting paid on room revenue across their U.S. portfolio of 17 resorts. It's not just some sort of loyalty lockup. It's structured to look a lot more like a franchise agreement.

The reason is we talk about it as a strategic licensing agreement...It's more broad than what we had with the Cosmopolitan, which was, in fact, a straight franchise agreement. Here, we've got a much broader ability with the creation of the MGM Collection portfolio to make this a much bigger play for our 186 million Bonvoy members in terms of the ability to give them access to the wealth of content that MGM makes available, to link the 186 million Bonvoy members and the 40 million MGM Rewards members, and as a corollary, to be a loyalty partner with BetMGM.

So we've called it a strategic licensing agreement because of some of those complexities. But in terms of the way we've structured the financial arrangements, you should think about it more through the lens of a more traditional franchise agreement structure.

Richard Clarke - Sanford C. Bernstein & Co.: I've just got a question on the remaining occupancy slice you've got to get back. Your occupancy today is still sitting about 4 percent lower than it was in 2019. How much confidence that you can get the rest of that back?

And is there any need to cut prices to get that back in? Is there any price elasticity you need to drive to get the remaining bit of occupancy back in the system?

Tony Capuano: Yes, you're right, Richard. We're still down about 3 points on a global basis. But we see some real opportunities for growth. As I mentioned in my prepared remarks, we continue to see steady recovery on the business transient side, which gives us some optimism. And we continue to see continued recovery on cross-border travel, which gives us another layer of optimism.

And then I would say, third, as I mentioned, in Greater China, which is our second largest market, you've still only got about a 40 percent recovery of cross-border airline capacity. And so in terms of inbound and outbound international travel related to China, we think there's some real opportunity for occupancy recovery there as well.

And then, lastly, you've heard us talk about this the last couple of quarters, but we continue to see in the data real legs to this phenomenon of blended trip purpose and we think that's going to continue to drive occupancy, particularly in the days of the week that historically we considered shoulder days.

Richard Clarke - Sanford C. Bernstein & Co.: Maybe just as a follow-up to that, your kind of composite U.S. & Canada luxury RevPAR down year-on-year in the quarter. I mean, how much are you putting that down to the international travel moving overseas from the U.S.? Or is there some overall price moderation going on within luxury properties there?

Leeny Oberg: I'll start, Tony, and feel free to jump in. So a couple of things. Certainly, we do attribute it to the reality that a year ago in Q2, there were meaningfully fewer choices for travel. There really were consistent restrictions for going overseas, less airlift, et cetera. And there's clear that when you look at the travel patterns this year that there is a big exodus of Americans going over to Europe and other places in the world. So that certainly had an impact.

The other thing I would say is that on luxury in the U.S., we actually saw a strengthening in the metropolitan areas. And they, in general, have a little bit lower RevPAR than some of the resorts. So some of this is a bit of a mix shift. And as you saw, the rate hardly moved in U.S. & Canada in Q2, and that was off of a year last year in Q2 where luxury rates were extraordinary.

So just as a reminder, luxury rates have -- in U.S. & Canada have actually outpaced inflation when you compare to 2019, and that still is the case. While the other segments are coming more and more in line with inflation-adjusted rates as they continue to gain, as you saw ADR up 4 percent in the second quarter.

And as we also said in our prepared remarks, there is a normalization going on. There's definitely a more seasonal pattern to travel, and frankly, a nice sturdy mix of leisure, business transient and group that supports pricing going forward for the industry, we think.

David Katz - Jefferies LLC: I wanted to just focus on the capital returns for a bit, which had a significant bump, and again, my sense is that this is something you'll discuss in the analyst meeting.

But can you help us just look out a little bit and assume that the business momentum continues? And maybe just help us calibrate how you think about the growth in that capital return if we can make our own assumptions about where the business would go.

Leeny Oberg: Sure. Thanks for the question. You're right, the adjusted EBITDA and strong cash flow kind of move upward in our guidance has given us a view to increase our expected capital returns this year. And just in basic math, the midpoint of our EBITDA moved up approximately roughly $150 million, about half of it outperformance in Q2 and about half of it increased guidance in the back half of the year. And if you just kind of simply take that and lever it, it's pretty straightforward about how you see the increased capital returns.

But I do want to go back to our first kind of the most important thing, which is that we first want to invest in our business to grow. And we want to do that in a way that provides returns that are attractive for our shareholders and do it in ways that kind of meet our strategic objectives. So that is always first on the list and then a consideration of how we see the business moving forward.

We do have a more diversified earnings stream than we had before. We've got a more global earnings stream than we've had before. We've got strong operating leverage in the business. And so I would expect to continue to see this investing in the growth of our business, including our technology transformation. But then with the remaining cash, excess cash, being able to return it to our shareholders in this mix of a modest dividend and share repurchase.

David Katz - Jefferies LLC: Got it. And if I can, as my follow-up, just ask about really the top tier corporate business. I know there was some of this in your prepared remarks. But as we talk through the industry or industry-related people, we get a sense that there is sort of a Fortune 100 that's been slower to come back versus the SME that was much, much faster. An update there would be really helpful if there is some movement at the top as well.

Tony Capuano: Sure. So your characterization is accurate. The SMEs, which represent about 60 percent of our business transient segment, they were first fully recovered a quarter ago and their demand continues to be quite robust. The large corporate room nights continue to be recovering a bit more slowly. In Q1, we saw kind of slow and steady recovery, and that continues to be the pace.

What we hear from them anecdotally, from one perspective, they continue to meet a great deal as they hire new staff, as they immerse them in their culture and do training meetings. And we think that's one of the drivers of the strength we're seeing in the group segment. Their international travel has been probably the slowest component of their travel to recover. And so it's a segment that we're monitoring closely, but it is certainly recovering more slowly than the SMEs.

Leeny Oberg: The only thing I'll add, David, is that on the special corporate rate, I think it is worth noting that you've heard us talk before that we got nearly double-digit increases in negotiated rate this year. And as we look out to next year, we're starting to have those conversations and we are looking for an additional meaningful increase next year as well.

And while you're right that the classic big four and tech firms are still down in nights meaningfully compared to 2019, overall business transient is up compared to 2019 and we are continuing to see some recovery. So we do eventually think that it will kind of get back to levels that we saw in 2019 on the special corporate side eventually. And again, overall business transient is doing well from a revenue perspective.

Tony Capuano: Yes. And David, maybe just one clarification and additional comment. On the recovery of the SMEs, we saw them fully recover in Q1 of 2022, not 2023, just to make sure I'm precise.

The other thing I will tell you is while the recovery of the large corporates has been not as rapid as what we've seen with the SMEs, we do see strong enough demand even with the large corporates that it is giving us pretty good pricing power. As we talked about a couple of quarters ago, and one of the underpinnings of the rate growth we saw in the quarter was our ability to negotiate high single-digit special corporate rates for 2023. And as we start in earnest to go into corporate rate negotiations for 2024, we have every expectation that we will be emerging from that rate negotiation season, having achieved high single-digit rate negotiated rates for the second straight year.

Smedes Rose - Citigroup Inc.: I just wanted to ask you a little bit about the loyalty program. And I'm sorry if you've shared this already, but what percent of occupancy came through loyalty members in the quarter?

And could you just touch on maybe what you're seeing on direct bookings versus the percentage of bookings coming through OTAs?

Leeny Oberg: Yes, sure. So just real quickly, overall, mid-50s for Bonvoy penetration, low 60s for U.S. & Canada. And when you look at -- we are still kind of mid-70s for a direct contribution -- direct channel contribution for our bookings, and the OTA is 11 to 12 percent. So again, fairly stable.

The main point is that our -- when you think about the digital channels, they have gained meaningfully more share over the past several years than the OTAs and grown very nicely. And when you look just kind of one last data point for you, when you think about redemptions as a percentage of our total room nights, it's 6 percent. And digital is mid-30s.

Smedes Rose - Citigroup Inc.: Okay, okay. And then I was just wondering, can you talk a little bit more about how you guys are thinking about credit card fee growth. And you mentioned it was up double digit. Is it -- I mean I don't know if you can say, but is it driven by incremental spending sort of on a same-store basis? Or is it more driven by more cards going out there? And maybe how would you think about the sort of longer-term growth rate in that fee stream?

Leeny Oberg: Sure. All of the above. You've got great news in terms of adding cardholders. That is obviously a critical component to this, is adding additional cardholders. And we're very pleased with adding additional cardholders. And then obviously, it's the average spend on those existing cardholders.

So as you see growth in those two, you get the growth in credit card, but just as importantly, is adding new countries. So when we add a South Korea, a Japan, a China, it really opens up a new market that goes from zero to thousands of cards with growth potential that goes off many years into the future. And we are continuing to add additional countries.

So we'll talk more in September about kind of how to think about that in a 3-year model. But as I said, for this year, I think you can be looking at them for overall total credit card branding fees to be in about the roughly 10 percent range.

Smedes Rose - Citigroup Inc.: Well, I can attest that my kids are helping on the fee growth for you.

Leeny Oberg: Well, thanks. We appreciate the support.

Dori Kesten - Wells Fargo Securities, LLC: Where do you feel that your gap by region or brand type exists today?

Leeny Oberg: I'll start, Tony, and then you jump in. I think you've heard us talk about our entry into the affordable midscale space since the acquisition of City Express in CALA and with our conversation about MidX Studios, which is a midscale extended stay product that we're very excited about in the U.S. and are having great conversations with owners. And really, we look at that around the world as providing great opportunities for us, in addition to growing all of our other brands. I mean I think it's important to note that we think there's lots of room for us to have growth across all segments around the world in our existing brands.

But for example, we're excited about what we see as the possibility for a conversion midscale brand in EMEA and look forward to some announcements in the back half of the year regarding that. So we'll continue to look to try to meet our customers' needs and expand our distribution in a way that strengthens Bonvoy.

William Crow - Raymond James & Associates, Inc.: Tony, you talked about normalization in the U.S. We talk about it as well. And the last, I don't know, 6 weeks or so, we've seen RevPAR in the U.S. plus or minus 1 percent, maybe up to 2 percent.

Just curious what it is that you can look at and say, the real normalized rate might return more to 3 percent to 4 percent? What are the drivers out there to get us off this sub-inflationary growth rate?

Tony Capuano: Yes. Good question, Bill. I'd point to a few things and maybe I'll try to answer you going segment by segment.

I talked in my prepared remarks about the leisure segment being up in the quarter 10 percent. One of the things that was really encouraging to me in the leisure segment was that, that 10 percent improvement was split almost perfectly evenly by both occupancy and rate improvement. We saw a 5 percent improvement in ADR, which I thought was quite encouraging. And that was a global number.

Pivoting to the U.S., which I think was your question. In the U.S. & Canada, we talked a little bit about group. Some of the pricing power we're seeing in group as evidenced by the revenue pace we're seeing, not only in the back half of 2023, where we're pacing up 11 percent in revenue, but also where we're seeing in 2024 where we're now pacing up 14 percent, which is already up 5 points just 3 months since the last time we talked to you about group pace.

And then as you heard from Leeny, when she was asked one of the earlier questions about business transient, you have 6 percent ADR growth in business transient in the U.S. & Canada, which I think is another data point.

When you throw all that in the blender together, all of that gives us some comfort that there is some opportunity.

The only thing I would say to you, and you heard Leeny referenced this, we do expect year-over-year ADR to moderate a bit given some of the comparisons, particularly as we get into year three -- or excuse me, Q3 and Q4 but we do expect ADR to continue to grow through the back half of the year.

Duane Pfennigwerth - Evercore ISI Institutional Equities: Congrats on these results. If we just play back your guidance revisions since the start of the year on international, we know Europe is strong. But how would you rank other international regions in terms of the contribution to that guidance revision?

And if you would, it might be early here, but any early thoughts on domestic versus international growth rates into 2024.

Tony Capuano: Sure. So let me talk maybe a little bit about China, and then I'll let Leeny do the balance of the tour around the world.

I talked in my prepared remarks about how encouraged we are about the recovery in China and the fact that Greater China as a market surpassed pre-pandemic RevPAR in the quarter. And it was able to achieve those results principally on the shoulders of domestic demand given some of the stats that I shared on the relatively modest recovery of international airline capacity.

One of the stats that was really encouraging to me, if you look at Q2 RevPAR in Greater China, we were up almost 125 percent to last year. I think that speaks to the strength and pace of recovery in that market, but it also speaks to the quality of our distribution particularly in the major markets like Beijing and Shanghai.

Leeny, you want to maybe talk a little about APAC and EMEA?

Leeny Oberg: Sure. And I think a lot of this is just about acceleration of recovery. So if you think about it, it's a little bit hard to predict exactly how airlift is going to go and how cross-border travel and how a country is going to emerge from the pandemic.

And so I think the reality is that the recovery in China has come faster than we expected. And cross-border, while it is still meaningfully lower in China than it was pre-COVID, we've got international airlift only at 40 percent of pre-COVID level. So there's clearly more room to go.

There's no doubt that as that country has rebounded. And as the rest of Asia Pacific has also really opened its borders completely, we've seen that all of the travel there has picked up very fast.

So when I kind of go back to where at the beginning of the year, where you might have imagined Greater China and Asia Pacific outside of China, they are both up the most.

I think the only other comment I would make is that, obviously, Europe this summer has dramatically outperformed expectations. And we continue to see really strong demand in Caribbean and Latin America and Middle East Africa.

So international really benefiting from all the cross-border travel. And frankly, from a global economy that has probably been a bit stronger than everyone anticipated at the beginning of the year.

Duane Pfennigwerth - Evercore ISI Institutional Equities: Appreciate the detailed response. And maybe just a quick follow-up on MGM, does that effectively franchise agreement cover all of their revenue or just revenue generated through your channels, through marriott.com, through Bonvoy, et cetera.

Leeny Oberg: Sure. So, we're not going to get into the details of the calculation, but it is based on hotel revenues. So it is not an a la carte sort of sort of deal.

Robin Farley - UBS Investment Bank: Great. Just circling back to the MGM deal. I guess it was my understanding that even though it's a great partnership, that MGM would not be paying you franchise fees the way we would normally think about rooms in your pipeline paying sort of a 4 to 6 percent franchise fee. So I don't know if you can just clarify whether they would be paying franchise fees the way we would normally think of your franchise fees being?

And then my second question is the way the release is written, and I apologize if I'm interpreting this incorrectly, but it sounds like you're counting the MGM rooms in your rooms under construction. And I'm just wondering, is there some reason why you counted them as new construction versus more of a conversion, if I'm interpreting that correctly.

And then also, if I'm interpreting that correctly, your rooms under construction, excluding the MGM rooms, is like 30-something percent of your pipeline, whereas kind of historically it had been in the kind of the high 40 percent range, closer to 50 percent? And just thinking about rooms like physically under construction as a percent of your pipeline being a bit lower, obviously, there's -- we know what's going on in the macro environment, but it seems like that would have implications for 2024 openings if the rooms under construction are, in fact, that low, if I'm interpreting it correctly from how you're counting MGM in the construction pipeline.

Tony Capuano: Sure. So I think there's three questions in there, I'll try to hit all three, Robin.

On the first one, as Leeny mentioned, while we're not going to disclose the specific deal terms, this is structured very similar to a franchise agreement where we are receiving a royalty fee on rooms revenue. This is not as Leeny termed it, an a la carte, where we're only getting paid on fees generated just through our proprietary channels. So I do think you should think about it through the lens of a more traditional franchise fee structure.

On your second question, we typically do conversions pending opening in our system are typically included as rooms under construction because they typically have some measure of property improvement plan, improvements and construction before they come into our system. Even in the case of MGM with extraordinary quality assets, there are, for instance, some life safety improvements and some other physical improvements that are required to those assets before they will be plugged into the system. And that's why they're characterized in that way.

And on your third question, I'm doing the math just in my brain so we can do it more precisely for you. But if you take the quarter-end pipeline and you back out those numbers or back out the MGM, we would have been a little over 500,000 rooms in the pipeline. And if you back the MGM numbers out of the under construction, we would have been a little over 200,000. So it would have been 40-ish percent under construction versus the 30 percent that you referenced.

And so in terms of implications going forward, I'd reference a response I gave you maybe a quarter ago, which is for, I don't recall the precise number, but 20-some-odd quarters despite really strong openings, we've continued consistently to have plus or minus 200,000 rooms under construction globally, which I think bodes quite well for our continued recovery to mid-single-digit net unit growth.

Robin Farley - UBS Investment Bank: Okay. And just one quick clarification then. I wasn't counting when you gave rooms in your pipeline at quarter end, just since the MGM deal was announced in July. Are you including MGM in that number? It sounds like you are from the math you just walked us through. I just wanted to clarify.

Tony Capuano: In the pipeline, yes, we are in the 547,000, yes. So that would include -- to be more precise, that would include the roughly 37,000 incremental rooms that will come in, not the full 40,000 because the Cosmopolitan is already open and operating in the system as an Autograph as we sit here today.

Robin Farley - UBS Investment Bank: So it's included in your June 30 pipeline, even the...

Leeny Oberg: Yes. The deal was signed before June 30. So it's appropriate that it was in. It was not announced until a few weeks ago, but it was signed.

Brandt Montour - Barclays Bank PLC: Great. Just one for me, maybe for Tony. Maybe you could just give us a view into the development backdrop in China as it stands today. Just sort of the latest lay of the land in terms of starts and construction progress and any sort of acceleration and sort of how things look on the ground, that would be helpful.

Tony Capuano: Sure. Of course. So maybe I'll sort of go in sequence. We are seeing a very encouraging uptick in the pace of development inquiries, a parallel uptick in the number of signed MOUs and then parallel committee submissions and approvals.

As you'll recall from some of our previous conversations, oftentimes, unlike many other markets around the world, new construction hotels often come into our development process when those structures are well under construction as opposed to a U.S. deal where it might come to us as a greenfield site. Many of those under construction buildings had been paused during the pandemic. We have seen parallel encouraging restart of many of those construction projects.

So when we think about each of the milestones in the development of a hotel project or the life cycle of a hotel project, we're seeing encouraging uptick at every one of those milestones across Greater China.

Ari Klein - BMO Capital Markets Equity Research: Tony, you mentioned the strength of U.S. travel to overseas markets. Maybe can you update us on what you're seeing as far as international visitation into the U.S. and your outlook there and maybe what drives the resurgence.

Tony Capuano: Sure. So I'm going to ask Leeny to remind me the exact percentage. But historically, the percentage of inbound international into the U.S. market has historically always been relatively modest, I think, sub-5 percent, if memory serves. And so as borders open, you're starting to see that recover, but it is not nearly as impactful as outbound U.S. into some of these international markets, as we've talked about in the past.

Now the exception to that I will tell you is if you look at a couple of individual cities, Ari. And so just to give you a flavor, we were just looking at this the other day. Use New York as an example and that may not surprise you a great deal. If you go back to 2019, the international traveler's share of transient room nights in New York in 2019 was 12 percent. In the second quarter, we actually exceeded that. In the second quarter of this year, 13 percent of transient room nights in the New York were international inbound. That city really stands out.

There's only a handful of other major U.S. cities that are double digits. Washington -- or excuse me, Miami, is 12 percent in the quarter. It was about 15 percent back in 2019. San Francisco was 11 percent back in 2019. It was actually 10 percent in the second quarter. Hawaii, the state of Hawaii as a destination, was 12 percent in 2019 and it was actually 10 percent in the second quarter. So hopefully, that gives you a bit of a flavor.

Ari Klein - BMO Capital Markets Equity Research: Yes, I appreciate it. And then, in the U.S. specifically, on the development pipeline, are you seeing any differences in the ability for owners to finance higher-end or bigger-project hotels versus the smaller ones that are maybe more selective service?

Leeny Oberg: So I'll start, and Tony, jump in. So the old saying continues to be true that proven markets, proven brands, proven developers, proven owners always wins out. And that is still the case. So it really depends on the project.

I will say that we've seen such great impact from renovated hotels that I think there is the reality that an existing hotel that is not a new development project, that's not, kind of, not earning money for quite a while, that those are easier to do, especially when they're turning it into a fantastic representation of a particular brand. And I think those are getting done.

But I think the reality is that both with the level of interest rates and the loan-to-values that are being required is that it's tougher to make these deals pencil. So they are happening. They're getting done. They're just not getting done at the same pace that they were before.

Michael Bellisario - Robert W. Baird & Co.: Just wanted to follow-up on the MGM deal but focus on group. A couple of parts here. Maybe what's your view on the upside in Vegas for group business at these hotels. Maybe more broadly, how are your sales teams incentivized to put groups into certain hotels? And then presumably, Vegas is going to gain share. Maybe what's your view on the markets that lose share as group rotates into Vegas.

Tony Capuano: Sure. So maybe I'll try at a high level, and then, Leeny, you might want to be a little more granular.

Obviously, we think it's a huge win for our group customers. As you know, Michael, the way we sell group is we look at their multiyear rotational needs and for many of these particularly large groups, Las Vegas is always in their multiyear plan. While we had the ability to offer them the Cosmopolitan, the breadth of offerings we can now make available to them, particularly the largest of those groups that need very significant meeting space, we think we've got a terrific opportunity to keep them within the Marriott group ecosystem much more effectively. Our sales teams will be collaborating closely, the Marriott and the MGM sales teams, to ensure we capture as much of that demand as possible.

In terms of markets that might be impacted by that, most of those groups are rotating through Las Vegas as a destination anyway. And so I don't think we're deeply concerned that groups going there will be at the expense of those destinations. We just think we have a better probability of capturing that Las Vegas rotation within the Marriott ecosystem.

Well, thank you all for your interest this morning. I wish you safe travels, and we look forward to seeing all of you in Miami this September. Thank you.

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Note on forward-looking statements: All statements in this document are made as of August 1, 2023. 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 our RevPAR, rooms growth and other financial metric estimates, outlook and assumptions; our growth prospects; the effect of changes in global economic conditions; travel and lodging demand trends and expectations; booking, occupancy, ADR and RevPAR trends and expectations; our development pipeline, deletions, and growth expectations; our planned entry into midscale extended stay; 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 describe 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.