



**Marriott International, Inc.  
J.P. Morgan Gaming, Lodging, Restaurant & Leisure  
Management Access Forum Transcript<sup>1</sup>  
March 7, 2022**

**Joseph Greff, J.P. Morgan Chase & Co.:** Good morning, everybody. We're very excited to have with us Tony Capuano, Chief Executive Officer for Marriott, also in the second row is Jackie Burka, who heads up Investor Relations for Marriott. Tony took over as CEO, I guess, 13 months ago, is it now?

**Anthony Capuano, Marriott International, Inc.:** Correct.

**Joseph Greff:** From a gentleman, Arne Sorenson, who was not just a phenomenal CEO, but just an even better human being. The one thing we always appreciated about Marriott over the 23 years of covering it was not just an appreciation of a great business model, but an appreciation of having a very deep management bench. And Tony is a prime example of stepping up in -- and the company not missing a beat from one of the more talented CEOs in America. So welcome, Tony.

**Anthony Capuano:** Thank you.

**Joseph Greff:** Appreciate your support coming here.

**Anthony Capuano:** Good to be here. And thanks for doing this in person. It's important for our business, obviously. And nice to see everybody so happy to be out on the road.

**Question And Answer Session:**

**Joseph Greff:** Yes. So maybe you can sort of talk about sort of from a more strategic perspective, what your top priorities are as CEO, maybe how you think about a report card on the business and how you plan on taking Marriott from here?

**Anthony Capuano:** Sure. So, a couple of things. I think number one, as I reflect on what you accurately described as quite a year from almost every perspective. I think I'm struck by the resilience of travel broadly, certainly, the resilience of our asset-light model. And I've been really energized as I mentioned to you before we started, I'm in the middle of a six-city trip right now.

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<sup>1</sup> Not a verbatim transcript; extraneous material omitted and edited for clarity and misstatements.

And as I visit our hotels and I see the adaptability and the resourcefulness and the passion of our frontline associates, it's really encouraging. And it really helps us pursue those strategic priorities you described. I think those priorities always start with a focus on our three most critical constituents: our associates, our guests and our owner community. Every decision we make, every prioritization discussion we engage in, it's trying to strike the right balance between the needs and expectations of those three really critical constituents.

I would say, secondly, net unit growth. Growth is a really important and powerful lever for our economic model, continuing to look for ways to be creative to drive accelerated growth.

Third would be about loyalty and the Marriott Bonvoy program, which is really around finding ways, not only to grow the program in aggregate, but to find ways to more deeply engage with those members, to drive their activation. And as you might expect, over the last two years with even our most loyal customers, many of them not traveling at all, exploring things like new credit card platforms and the Uber partnership and other ways to engage with them even when they weren't traveling.

And then I think lastly, and it dovetails with that comment, looking for opportunities to innovate around our business. Whether it's continuing to innovate in technology to activate service opportunities for our associates, whether it's looking for business adjacencies that can develop into new revenue streams like our recent launch of travel insurance. Even as we work through the recovery, we've got to continue to innovate.

**Joseph Greff:** Great. How do you think about your different customer segments? Obviously, leisure segment in most geographies, maybe not China, has been -- I mean, the definition of -- the epitome of resiliency and almost price inelastic. Why do you think leisure has been so strong?

Is it just a function of that leisure consumers are in good financial shape, they want to get to the house? Or at the, out of kind of a rut from the last couple of years? And how do you think about price elasticity to sustaining higher than pre-pandemic average daily rates?

**Anthony Capuano:** When I think about the three segments, maybe it's a little bit of the tortoise and hare, right? There's no question, leisure has been the bright, shining star of the recovery. We have seen extraordinarily rapid recovery, not only of demand levels, but pricing power, as you point out, in the leisure segment. Why? It's probably a few of the factors that you identified. You've got historically high levels of savings. You have folks that have been cooped up for two years. You have a lot of pent-up demand for leisure. Leisure, there are many options that are drive-to if folks were uncomfortable.

So leisure continues to be remarkably strong. And in fact, we just got through President's weekend here in the U.S. We saw RevPAR up 13 percent. We saw ADR up 12 percent. And as we start to move into the spring break window, forward bookings in leisure destinations, we see ADR up about 11 percent.

The thing that's interesting when I have these conversations, people say, "well, that's terrific, but obviously, it's going to wind down here at some point." We're quite bullish about having a lot of runway in front of us for leisure. One, the data shows us that it continues to be strong and growing; two, the pricing power, which you talked about. And I think, three, when we look at leisure around the world, the vast majority of that leisure recovery has been on the shoulders of domestic demand. And we're just now starting to see borders open in a wholesale way. And so the influx of cross-border travel in these leisure markets, we think, gives us lots of upside.

Pivoting to business travel and group, those would be the tortoise, slow and steady, hopefully, slow and steady carries the day. As you heard in the fourth quarter earnings call, and I think you actually asked a question about this, both those segments in the fourth quarter were down about 30 percent relative to 2019. But in each of those segments, that was about a 10-percentage point improvement. So we are seeing slow, steady recovery.

When I think about business travel, you are seeing even some of the companies that were most aggressive about going 100 percent remote, they, in turn, are now becoming some of the most aggressive about return to the office. And we're hopeful that will be a catalyst for continued improvement in business travel. And group, admittedly, a lot of it is leisure group, but that's continued to be strong and growing. And with a return to the office, we hope to see continued recovery on the corporate group side.

**Joseph Greff:** And what do you think of the two latter customer segments, individual business transient and corporate group and convention. Which leads the balance of this year? What growth...

**Anthony Capuano:** Yes, that's a great question. I mean the -- in the early days of the recovery, the conventional wisdom was leisure leads the recovery, business transient comes back and, eventually, group kind of limps across the threshold. I think they'll be neck and neck. I mean group has been strong, maybe strong to the upside, which has been encouraging.

**Joseph Greff:** And when you think about group for the balance of this year relative to pre-pandemic, how would you look at sort of revenues? How does that compare relative to maybe where we were a couple of quarters ago?

**Anthony Capuano:** Yes. We'll see. I mean we've been a little hesitant to -- we think in aggregate, we expect that 19 percent shortfall to 2019 that we saw in the fourth quarter will continue to narrow as we get to the back half of this year. But you raise an interesting question, which is -- and you and I have talked about this a little bit -- pre-pandemic, it was really easy to walk into the lobby of any hotel in the world, and say, she's a business traveler, he's a group meeting attendee, that family is a leisure family.

It's becoming harder and that's good news for our business. This idea of blended trip purpose we think is really going to help fuel the recovery. And where we really saw it over the last

couple of quarters in the way the day of the week demand patterns have recovered. So Friday, Saturday were the traditional leisure nights, Monday, Tuesday, Wednesday, traditional business travel nights and Thursday and Sunday were the shoulder.

Friday, Saturday are already well ahead of where we were in 2019. Monday, Tuesday, Wednesday, down about 30 percent. But Thursday, Sunday are almost back to where we were pre-pandemic, which would tell you people are blending trip purpose. Your group may not admit it, but some of them probably came out a day or two early for a little leisure travel in Vegas.

**Joseph Greff:** A lot of people in this room, I would imagine it.

**Anthony Capuano:** But I do think that blended trip purpose while it may make it a little harder for the brand companies to identify with great precision what their market mix is, I think it's great news for demand recovery.

**Joseph Greff:** How important is international tourism inbound to the U.S. for the RevPAR recovery and vice versa U.S. outbound to Europe and to other geographies?

**Anthony Capuano:** Yes. I mean as a pure percentage, it's a relatively modest percentage. But I think at which...

**Joseph Greff:** Which you kind of think about leisure in the U.S. and where it is right now with de minimis contribution from international it's remarkable.

**Anthony Capuano:** It is. What I think though, broadly, in our fourth quarter earnings call, we talked about the outperformance in the Middle East. And that was really, I think, the best illustration of the power of opening borders and cross-border travel. And given the events that we're watching unfold in real time in Russia and the Ukraine, even there, we've not seen material cancellation volume yet into Western Europe. The forward bookings through the spring and summer looks strong, and we expect to see more and more cross-border travel.

**Joseph Greff:** Right. Can you talk about labor and staffing?

**Anthony Capuano:** Sure.

**Joseph Greff:** You mentioned earlier when I said what are your focal points of priorities and you mentioned your people...

**Anthony Capuano:** Absolutely.

**Joseph Greff:** ...which is a main stay for Marriott since the very beginning with Mr. Marriott. How hard is it to just find the right kind of labor for you guys?

**Anthony Capuano:** So maybe I'll give you a macro and a micro answer. On a macro basis, a few quarters ago when we talked with you and your peers, we talked about the fact that we had in the U.S. upwards of 10,000 or 12,000 vacant positions, and that was making it more challenging for us, particularly in some of the leisure-focused markets that we're recovering most rapidly.

When we look at those numbers today, we've got plus or minus 6,000 vacancies, which interestingly is almost precisely where we were on a run rate basis prior to the pandemic. So on a macro basis, you look and you say, great, you're not materially worse off than you might have been before the pandemic started.

The challenge is, pre-pandemic, those 6,000 openings may have been spread fairly evenly across the country. They are disproportionately in the markets that have recovered most quickly. And so the irony is those are the markets where we have the best pricing power, where we can drive the most rate, and our guests are happy to pay those rates if we're delivering on the service promise, which is made more challenging when you've got some high vacancy rates.

**Joseph Greff:** And the driver for why it's, from your perspective -- the driver for why it's hard to hire. Is it -- what is it? Is that being necessarily competitive on wages?

**Anthony Capuano:** I don't know if it's hard to hire. I mean we still have relative by historical measures, low unemployment in this country. I do think that pre-pandemic travel and tourism sector broadly was viewed as a set of safe harbor industries, where there were to always be plentiful jobs where careers could be built and that confidence has been shaken by some of the really difficult decisions that the big hotel companies had to make in the early days of the pandemic. So I think as an industry, we've got some work to do to restore that confidence and identify the opportunities that exist and the careers that can be built.

**Joseph Greff:** Great. Maybe we can pivot to your old field, development. Sort of another, I guess, nice surprise to the upside throughout the pandemic has been a nice steady increase -- sequential increase in your development pipeline. Can you talk about the drivers of that, the importance of conversions - conversions now I think we're 21 percent of net rooms growth last year.

**Anthony Capuano:** And 27 percent of signings last year.

**Joseph Greff:** Right. And that's up a decent amount relative to history, which is mid-teens, at least of new rooms growth.

**Anthony Capuano:** So a few things. Obviously, net unit growth and growing our portfolio is not only important as an economic driver for Marriott. But when you think about the three constituents that we serve, new hotels kind of meet the needs of each of those constituents, creates job opportunities for our associates, gives more opportunities for our loyal Marriott Bonvoy guests to explore the world, and for our owners who -- many of whom are multi-unit

owners, gives them more opportunities to continue to grow their share of development wallet with us.

It's pretty remarkable that in 2021, which will go down as among the most challenging years in the history of our industry. We opened more gross rooms, about 86,000 rooms than in any other year in our history. I think that demonstrates a few things. It demonstrates the development community's confidence in the long-term viability of the travel and tourism sector. I think it reflects when they are committed to projects, they're not trying to market time for a quarter or two. These tend to be long-term investors and holders of assets. And I think it demonstrates the appeal of the broad brand portfolio that we offer and the performance of those brands from a RevPAR index perspective, from a revenue generation perspective, and from a loyalty perspective.

**Joseph Greff:** Great. I'm also surprised there hasn't been sort of an air pocket of openings in that the ones that are delayed, everything is delayed, and then at some point we'll see things pop. Do you think we're at a bottom in terms of where that is? I mean, I know the world is ever changing as we've seen in the last couple of weeks, obviously, inflation having an impact on construction starts, among other things. But did you think sort of that, that will -- that we're -- that this year or last year, we'll have marked the bottom in terms of...

**Anthony Capuano:** Well, it's going to be interesting to see. I mean, I know that we've been hesitant to provide much visibility beyond 2022 for exactly the reasons you described.

**Joseph Greff:** God forbid, you provided guidance last month and then you have...

**Anthony Capuano:** I'll bring Jackie up and then she can address that.

**Joseph Greff:** Right. I mean there's only downside versus upside right now, right?

**Anthony Capuano:** No. But what I will say to you -- you hit on one of the highlights, which is the uptick we've seen in conversion volume. It's one of the silver bullets we have because you can deliver those openings more quickly. The reality is for a select-service hotel, you're talking about a plus or minus 24 months from the time you put the shovel in the ground until the time you open. For full service and luxury it can be even longer than that.

So as a result, you've seen fairly sharp declines in construction starts versus 2019. In 2020, they dropped about 40 percent. In 2021, they dropped even further. They will come back, and we have confidence about that. You started this question talking about pipeline. We saw in 2021 a fallout rate from our pipeline that was about 1/3 lower than what our historical average had been.

**Joseph Greff:** And why is that?

**Anthony Capuano:** Well, I think it speaks to my comment about the profile of our owners and franchisees. They're not jumping in and out of the development cycles trying to time the market. These are long-term holders. In most cases, they own the site, they've invested heavily in predevelopment, and so they are going to finish the vast majority of these projects.

Remember, too, that of the roughly 485,000 rooms in the pipeline, more than 200,000 of those rooms are under construction as we sit here today. So we feel really good about in the medium term getting back to our sort of historical average of mid-single-digit net unit growth. The question will be how quickly can we get shovels in the ground. We are starting to see modest improvement in month-over-month construction starts, but we're a long way from where we were in 2019.

**Joseph Greff:** Right. The construction start delays, is it more concentrated in urban versus nonurban? Higher end versus lower price point hotels?

**Anthony Capuano:** I mean it shades because of the mix of our activity where we see the slowest volume obviously in terms of absolute numbers is in select service, but that represents a disproportionate share.

**Joseph Greff:** And stepping away from the near term, thinking about things medium and longer term, how important is luxury growth?

**Anthony Capuano:** Yes. We feel really great over the long term about the portfolio of luxury brands we have, the size of our footprint, the depth of our pipeline. And one of the reasons that's so critically important while luxury rooms represent about 10 percent of our global inventory, those luxury rooms generate about 25 percent of our RevPAR related fees. And so they are disproportionately impactful. I mean you've heard me for as long as you've known me say all rooms are not created equal, but that's probably the statistic that illustrates that best.

And then I think, secondly, when you think about the increasing importance from a consumer perspective of a loyalty program. In many ways, these beautiful luxury hotels are the payoff for that loyal customer that's spending 100, 150 nights a year, it's to take their friends and family to stay in one of these beautiful luxury properties.

**Joseph Greff:** What's going on with China development? That seems to be, again, surprising to me, relatively steady, not seeing much of a change?

**Anthony Capuano:** Yes. The -- in fact, we just put out a press release in the last few days, we're going to open 50 additional hotels in China this year. We've got a pipeline that's slightly bigger than our current footprint across China, and it's growing rapidly. I mean five years ago, I think we had 85,000 or 90,000 rooms in China. We're close to 185,000 or 190,000 today.

It continues to be steady, and I think it's a different version of the same answer I gave you. These are long-term investors that are doing big horizontal mixed-use projects, and we continue to see really strong demand for our brands across Greater China.

**Joseph Greff:** Right. So the one component or among the many components of guidance items, some operational and some not, but you did target for this year, 3.5 percent net rooms growth.

**Anthony Capuano:** Yes.

**Joseph Greff:** And you also indicated confidence in getting back to that historical mid-single-digit percentage. How much of that is growing the gross at a higher pace than what you're planning on doing for this year or shrinking that deletion percentage?

**Anthony Capuano:** Yes, I think it's both. I mean we work both ends of that balloon as aggressively as we can. On the gross rooms growth side, we had a terrific signings year last year. We signed a little over 90,000 rooms last year, and we'll look to build on that momentum. You talked a little bit about the conversion volume we saw in 2021. That's a powerful driver of quick openings, and we'll continue to be both aggressive and creative on trying to drive conversion volume.

And as recovery kind of ripples through our owner and franchise community, we'll work, as we have for the last two years, with our owners to look at projects and try and retain those if they can continue to be accretive to our brand equity and continue to be profitable for both us and the ownership side.

**Joseph Greff:** Historically, Marriott has grown its footprint not just with organic same-brand growth but also through external M&A-related growth. Is M&A a focus for you? And how do you view that from here?

**Anthony Capuano:** This is why I like you, Joe. You didn't set me up with, is 30 brands too many or not enough and then give it to M&A. I would say to this, we are delighted with the breadth of the portfolio. We like having that breadth of choice, both for our guests and for our owners. There aren't any sort of glaring gaps. But as we have been -- done in the past, we will look at opportunities. If they -- we think they're accretive to our shareholders, if we think they fill a particular opportunity, we will certainly evaluate them.

**Joseph Greff:** Great. So invariably every corporate person here is going to get the question about, hey, what's your exposure to Russia, what's your exposure in Eastern Europe. Please address that if you could.

**Anthony Capuano:** Of course.



**Joseph Greff:** But could you also talk about -- maybe from your perspective, who has been in this industry for so long, dramatic increases in commodity prices such as oil, how that directly or indirectly impact your business?

**Anthony Capuano:** So just to ground you on our presence. We don't have any managed hotels in Ukraine. We've got 28 managed and franchised hotels in Russia. Those hotels represent significantly less than 1 percent of total fee volume. When we look at outbound Russian travelers, they are meaningfully less than 1 percent of room night generation around the world.

So there's the human side. We are very focused on the safety of our associates and the safety of our guests in those markets. But from a materiality perspective, in terms of the company's financial performance, not particularly significant. The appropriate follow-up question to that is given what we're watching unfolding in real time, how material is the impact on our business, particularly in Continental Europe.

And the answer is it's too early to tell. We continue to see strong forward bookings into Europe. The last literally four or five days, we've seen a really modest uptick in cancellations, but not anything measurable at this point. But clearly, we've got to watch it closely. I mean, the view today could be very different than the view tomorrow. Recovery around the world has largely been driven by traveler confidence. And depending on how the situation evolves in the Ukraine, could that have an impact on traveler confidence to Europe? Of course.

**Joseph Greff:** And historic impact on steep prices, steep increase in oil and commodity prices?

**Anthony Capuano:** We're doing a bunch of analysis right now, and we'll look at what our historical experience would be -- has been, particularly for drive-to destinations in the U.S. The thing I will tell you while we'll look at that as a data point, I do think the current environment is a bit different. I think in the U.S., you've got historic levels of savings rates. We continue to see in the data, just extraordinary levels of pent-up demand. And while folks will certainly look at every element of the cost of that trip, the volume of pent-up demand is such that, at this point, we're not anticipating any sort of material impact.

**Joseph Greff:** Great. At this point, I'll see if there are any questions from the audience.

Great. One final question then to close out our 30-minute fireside chat session. Capital return, I know you've addressed it and talked about it on the last earnings calls, if you can sort of remind us or update us on the latest there?

**Anthony Capuano:** Of course. So as we discussed on that call, we are keenly focused on getting back to that 3x to 3.5x adjusted debt to adjusted EBITDAR ratio. We are feeling -- assuming there are no major shocks to the pace of recovery that we've seen, we are increasingly confident about the ability to start to return capital to shareholders in the back half of 2022.

Our expectation is we'll lead with capital return through a dividend, probably a bit below our historical kind of 30 percent target that we've had. But we continue to be on track, I think. We reduced our debt by a little under \$2 billion in 2021. We've got really modest maturities over the next 18 months. And, knock on wood, as recovery continues, we look forward to starting to return capital.

**Joseph Greff:** Great. I have one more question. The fourth quarter, you guys generated \$186 million of credit card-related fees, which is an enormous amount. So when you forecast that internally, is that harder for you guys to forecast than, say, more RevPAR-related fee streams?

**Anthony Capuano:** I mean it's a different calculus certainly, but we've got -- I mean, the credit card companies, our partners are terrific in terms of the transparency of data they have, they're tracking it not just by the day, but by the hour. And so I think that gives us some visibility. And I think for us, the last two years gave us lots and lots of opportunities to dig in deeper on how our Bonvoy credit card holders, how they think about the use of that card, where they're using that card and allowed us to do some things with points promotion on groceries and the Uber partnership and some other things we've done to really drive engagement through the credit cards.

**Joseph Greff:** Do they give you the data that maybe shows how credit card activity associated with Bonvoy compares to credit card activity associated outside of programs like Bonvoy?

**Anthony Capuano:** They slice and dice that data every way you can imagine.

**Joseph Greff:** How does that rate of growth or change compare then?

**Anthony Capuano:** Well, I think for that passionate loyal Bonvoy member, we're getting a really significant disproportionate share of their spend of wallet.

**Joseph Greff:** That was my last question. Thank you, Tony.

**Anthony Capuano:** Joe, thanks for having me, and thanks for hosting the event. I appreciate it. Good to see you.

**Joseph Greff:** Likewise. Good. Thank you.

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**Note on forward-looking statements:** All statements in this document are made as of March 7, 2022. We undertake no obligation to publicly update or revise these statements, whether as a result of new information, future events or otherwise. This document contains "forward-looking statements" within the meaning of federal securities laws, including statements related to the possible effects on our business of the COVID-19 pandemic (COVID-19); recovery in

lodging demand; travel and lodging demand and trends; our growth prospects and expectations; future performance of the company's hotels; our development pipeline, signings, rooms growth and conversions; our investment spending expectations; our expectations regarding capital returns to shareholders; 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.