Marriott International, Inc.
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Stephen Grambling, Morgan Stanley: Our next presenter perhaps needs no introduction leading the world's largest hotel chain with over 1.5 million rooms in almost 140, probably growing at this point…

Tony Capuano, Marriott International: 138 countries,

Stephen Grambling: 138 alright. So I'm close. I'm trying to anticipate the next…

Tony Capuano: Twenty more in the pipeline though.

Stephen Grambling: Twenty more in the pipeline, so I need to update that as well. And yet the company continues to grow, as you pointed out, delivering 12 percent growth, 48 percent revenue growth, 48 percent EPS growth versus 2019 levels. To help us understand how Marriott will continue to defy the law of large numbers. We are very excited to have President and CEO Tony Capuano.

Tony Capuano: Thank you for having me.

Stephen Grambling: Of course. You know, one of the things I guess I'd like to start off with is just hearing about what you're seeing in the business. Any recent trends? And then maybe we'll shift to the longer term after that.

Tony Capuano: Sure. So the -- maybe I'll just start -- as we were talking about before we started, I did a bunch of media yesterday and -- in response to almost every opening set of questions I got, I gave the same answer, which was, when you look at what we've seen in terms of recovery trends over the last two years, to me, it's proven two absolute truths. Number one, absolute truths about the resilience of travel on a global basis; and number two, absolute truths about the wisdom of our model.

The strength of our asset-light model, the diversification of our portfolio across quality tiers and across geographies, really has been demonstrated in terms of the speed or the velocity at which our business has recovered.

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

Stephen Grambling: That's great. So I guess if we look out over the next 1 to 3 years, this is one of my -- I'd call it the lightning round questions. But do you think the trends then from where we are here will accelerate, decelerate, hold stable? What are some of the big building blocks as you think about maybe a longer-term trajectory?

Tony Capuano: So again, given the wisdom of that business model, I don't anticipate fundamental changes to that strategy. But I do think there will be some things that will continue to evolve, some of which maybe are byproducts of the experience coming out of the pandemic. This idea of blended trip purpose, I think, is here to stay. We talked about this a little bit in the first quarter earnings call. We like to look at recovery through a lot of different lenses. One of the ones we've looked at most recently is recovery by day of the week. The speed with which Sunday and Thursday recovered, proves to us empirically something we expected intuitively and that is both transient travelers and group travelers are, with increasing frequency, tacking on a couple of days of leisure pre- and/or post-business trip or group meeting attendance. And we think that's going to endure long beyond the end of the pandemic and we think that's great for our business.

It may make it a little harder for us to tell all of you with great precision exactly what our market mix is because we'll have folks that show up for a five-night stay, three of which are business travel nights, two of which are leisure nights, but we think it's great for the long-term prospects of our business.

We think technology will take an ever-increasingly important role in our business. But I want to qualify that a little bit. Certainly, technology will add efficiency to the operation of our business. But often, people hear that and they say, "Great, you're going to eliminate jobs, you're going to do all these things." I had a group of 30 MIT graduate students visit our headquarters a couple of weeks ago. And one of them raised their hands during the Q&A and said, “Geez, with all these advances in AI, can you envision a circumstance in the future where you'll have a hotel with no employees.” And I said, “My goodness, I hope not.” Right? We're in the people business. We're in the service business.

But what I do think is, the advances we're making in technology will create capacity for our associates. And if we create even a minute or two minutes of additional capacity, during the check-in process, for instance, that allows our associates to further engage with our guests, understand the reason for their visit to our hotels, and further enhance that visit, then I think that's great news for our business.

I think international will continue to be a more and more important part of our business. Today, about 50 percent -- or excuse me, 57 percent of our industry-leading pipeline is outside the U.S. I expect that percentage will continue to rise. In round numbers, we only have about a 4 percent market share outside the U.S. So the runway for growth outside the U.S. is meaningfully longer than it is domestically. And so international will continue to be a more and more important part of our business.

And then lastly, I would say to you that business adjacencies, things like our branded residential business, The Ritz-Carlton Yacht Collection, our new travel insurance platform, areas where we can broaden the touch points that we interact with our guests and loyalty members, will continue to be more and more important part of our business.

Stephen Grambling: There's lots that we could jump off from there. You had an announcement this week about, effectively another new brand. You also did an acquisition of City Express.

Tony Capuano: We did.

Stephen Grambling: Help us think about how those tie into those trends that you are describing?

Tony Capuano: Sure. So maybe I'll go in reverse order. The acquisition you referenced is an acquisition in the Caribbean & Latin America region, it's a Mexican chain called City Express. And if -- when you think about the M&A we've done over the years, the Starwood transaction tends to dominate those headlines given its scale and the transformative nature of that transaction.

But if you rewind prior to the Starwood transaction, we did a fair number of what we internally referred to as bolt-on acquisitions. We did Delta Hotels. We did Gaylord. We did AC. All of those transactions tended to have some common attributes. They tended to be in geographies where we weren't necessarily completely satisfied with our pace of organic growth and they tended to represent for us growth platforms, either on a regional or potentially a global basis.

And I think the City Express transaction fits the bill on both fronts. It's solidified our leadership in the very important Caribbean & Latin America region. With the closing of that transaction, which added about 17,000 rooms to our portfolio, we are now the largest hotel player in the CALA region.

It also signified the company's entry into the mid-scale tier. Prior to that acquisition, that's not a tier where we've been a player. We think it's a tremendous opportunity for us. It is a new entry point to gain Bonvoy members, to attract travelers who to date have not been playing in a price point that we had an offering for them. And then lastly, it's a platform that we think has application in other markets around the world as a growth platform.

It is a well-established tier. It is an area where many of our owners and franchisees would like to grow with us. And when we add platforms to our portfolio, we often look at it through both of those lenses. Is this a platform and a product that we think will resonate with our guests around the world? And is it a platform that we hear from the owner and franchisee community is an area they'd like to grow with us?

And so the first iteration of that in terms of moving outside the CALA region is the announcement we made earlier this week. And that is, we're going to have an extension of that, which is an extended stay mid-scale offering that we're going to develop. It's a new-build platform. It will be here in the U.S. Often, when we launch these brands, the most challenging thing is to find a name where we can perfect the trademark, which is why we have an operating name right now of MidX Studio. We'll come up with an eventual permanent name. But when you look at the strength that our extended stay brands had through the pandemic and through the recovery, namely Residence Inn and TownePlace, extended stay is extraordinarily strong.

And when you look at some of the demographic changes we've seen coming out of the pandemic, you have more and more travelers and workers that are taking on temporary assignments, whether those are consulting assignments, government work, temporary work, construction work, whatever it might be. And they are looking for temporary accommodations, 20-plus nights, where they don't necessarily want to commit to a yearlong lease with security deposits, first and last month rent, et cetera. And we think there's a lot of white space here.

Stephen Grambling: Going back to the pipeline and net unit growth, I guess the skeptic, from an investor standpoint might be, hey, are some of these in response to what we're seeing from either the capital markets being tighter or any risk that you see to the pipeline or net unit growth. So what gives you confidence in, effectively the pipeline coming out of the ground, and also what will drive net unit growth to be either above or below your expectations set out.

Tony Capuano: Sure. So as we talked about in the first quarter call, we continue to be confident in the 4 percent to 4.5 percent forecast we've given you for 2023. In terms of broader confidence about our ability to get back to mid-single-digit net unit growth on a consistent basis, the fact that we have the industry's largest pipeline at about 500,000 rooms, number one. Number two, the fact that we are not seeing any sort of extraordinary relative to historical norms in terms of fallout from the pipeline. We're seeing quarterly fallout sub-2 percent, which is at or below historical norms, which gives us some comfort.

We've got quarter after quarter after quarter of about 200,000 rooms under construction, which gives us a great deal of comfort. And then I think the last piece would be the acceleration we've seen in our conversion activity, both on signings and openings. I would remind you that one of the -- maybe this is a little bit of a challenge for all of you in terms of your modeling. But one of the unique things about conversions, many of them never make it into the pipeline. Right? Because they sign and open so quickly.

So from a modeling perspective, maybe that creates a little bit of a riddle but from a performance perspective, that's fabulous news, right, because they come into the system so quickly and start generating fees.

We have -- as you know, in my former role, I ran development for the company for about 12 or 13 years. Never in my career with the company, have we had a more owner-friendly stack of conversion-friendly brands than we have today, both hard brand and soft brand.

And I think you're seeing that in the results. As we talked about in the quarter, both in terms of openings and signings, we're approaching nearly 1/3 of our volume on conversions. And one of the things that's really encouraging for me, of course, we continue to identify and close and open single-asset conversions but we're getting some good traction on portfolio conversions as well. The two that come to mind that have been most impactful, driving our all-inclusive business was the Sunwing portfolio that we did a year or so ago. And then most recently, we did two tranches in Vietnam with a group called Vinpearl that added a few thousand rooms to our portfolio across Vietnam. And I think you'll continue to see our conversion volume be driven by a nice blend of individual asset conversions, both independent hotels and conversions of competitor-branded hotels but also portfolio conversions.

Stephen Grambling: Is there a reason why conversion activity could be picking up at this moment versus as you look over time? Is it -- you're coming off of the pandemic and there's any kind of pent-up changes that need to happen or anything else?

Tony Capuano: Yes. Well, I mean, the one that there's lots of discussion in the market -- I spent the day over at the NYU conference yesterday. In the early days of the pandemic, there had been some prediction that there would be all this distress in the early days of the pandemic that would lead to lots of distressed asset transactions, which would be a fertile hunting ground for conversions. That never materialized, I think, because the lenders perhaps, by necessity, were willing to kick the can down the road. A lot of that patience is coming to an understandable end. And so there may be some measure of distress that might lead to an uptick in conversion activity.

You also just have some CMBS debt that will be coming due that also might lead to a little frothier asset transaction market as well. It typically leads to transaction volume, which in turn leads to more conversion opportunities.

Stephen Grambling: Is there any other impacts that you're seeing from the regional bank fall out to call out, it sounds like conversions are maybe on the...

Tony Capuano: Yes. So on the new-build side, certainly. Even before some of the upheaval on the regional banking market, there was already constriction in the debt markets for new construction. That has just added another layer of complexity. Our expectation and our hope is that will be relatively short term. I would make a couple of comments to you in that regard.

Number 1, the deals that are getting financed, they tend to be great sponsorship and strong brand affiliation. So it'll be a smaller pie of deals that are getting financed but we would expect to get a disproportionate share of the debt commitments that are being made.

The deals that are already fortunate enough to have debt commitments seem to be getting completed. And then the last comment I would make is think about the diversity of the geography of our pipeline. The constriction we're seeing in the debt markets for new construction tends to most significantly impact the U.S. and Europe. In most of our other international markets, they are somewhat less reliant on conventional debt -- bank debt financing than we are in the U.S. and Europe.

Stephen Grambling: Makes sense. One of the things you referenced in the beginning of your comments was technology. One of the things that we've heard over the past day was, there's all sorts of innovation that are happening from a technology standpoint. You all have talked about a big investment that could be multiyear. What's the driver there? What is the potential upside from these tech investments?

Tony Capuano: Yes. So the project you referenced, our growth platform initiative is the re-platforming of three of our biggest systems, our property management system, our reservation system and our loyalty system. I'm always quick to point out that is just part of an ongoing kind of evergreen investment in our technology. Technology is critical to the future of the system. That's just a big project in the midst of that ongoing investment. I think the upside to that is significant, both on the top line and the bottom line.

On the top line, what's most exciting to me is the reservations re-platforming there. And the reason I say that -- most consumers today think about online purchasing through a lens of Amazon, right? And they are quite familiar with going on the Amazon platform, seeing all the tabs across the top.

And so when I think about the re-platforming of our reservation system, think about all the things that I sell to all of you or I have the ability to sell all of you. I sell you rooms, I sell you food and beverage, spa, golf, residences, retail, all of these things. On the current m.com platform, at least with a one-click functionality, what I have the ability to sell you, is rooms.

And so when we roll out the enhanced reservations platform, in a very similar one-click platform, I will have the ability to sell you the entirety of the portfolio of services and products that are available for our guests and members. So we think that represents very significant revenue upside for our owners.

And then from a margin perspective, the efficiency of operations, to go to what we internally talk about as a single pane of glass so that whether it's in our customer engagement centers or at the front desk, to empower our associates with a single pane of glass that gives them access to all of the guest data in a single view, we think will dramatically enhance the efficiency and the response time of our associates in all of their guest interactions.

Stephen Grambling: That makes sense. Given you have a variety of different types of hotels and brands, what's been the owner response to this tech investment? Is it different by brand, chain, scale, geography?

Tony Capuano: I mean I think they all recognize that technology is table stakes for the future of our industry. And so they're all quite enthusiastic, particularly when we start to do demos with them about what the functionality actually offers. As you might expect, as with any initiative, they say, “How much is it going to cost? And when is it going to be ready?”

The enthusiasm probably ramps up a little bit when you get to some of the larger, more complex group hotels, destination resorts because they see relatively more upside. But there is uniform enthusiasm across the portfolio.

Stephen Grambling: One of the other areas I could see there being upside is just from a distribution standpoint. I guess where are we now in terms of bookings versus in mobile versus online versus property direct? And how might some of these investments even change that dynamic?

Tony Capuano: Yes. I mean, mobile, particularly outside the U.S. but around the world, mobile is increasingly more and more and more important. And I think the functionality and the seamlessness of these new platforms will only enhance the appeal and the removal of friction from the mobile experience.

Stephen Grambling: Got it. Maybe turning to loyalty, you have over 180 million...

Tony Capuano: We’ve got 182 million members.

Stephen Grambling: Customers on the Bonvoy. I think that the revamp kind of happened right before the pandemic but maybe folks haven't been as focused on this. What comes next for loyalty? You kind of talked to a few things that could be tangential, how does loyalty fit in?

Tony Capuano: So loyalty in some ways, internally, we talk about the Bonvoy program a bit as maybe our most important brand. It's the umbrella that ties together the entirety of the portfolio. And in some ways, one of the most interesting and informative byproducts of the pandemic was it really opened our eyes to the importance of that platform in terms of its ability to allow connectivity to our members.

Think about the early days of the pandemic, you had 180-some-odd million members, our principal way to stay connected to them was their hotel stays and suddenly, they weren't traveling. And so I applaud the team for some of the things they did like launching the Uber partnership we did during the pandemic, where all of a sudden, every time a member ordered Uber Eats, right, that created a touch point with the Bonvoy platform.

And so the way we think about the future of Bonvoy is a broader set of touch points throughout the travel experience. And so expanding to things like Uber partnership, expanding with partnerships like the Allianz travel insurance platform. I think you should reasonably expect that we'll look for more and more ways to expand our stickiness with our members throughout the travel experience. And in many ways, we'll do that through partnerships like that.

Stephen Grambling: Makes sense. Maybe turning back to the macro. We've been on edge, it feels like for two years. Are we going to hit a recession, not going to hit a recession from rising rates? What are you watching to assess the macro? And how do things like, for example, higher airfare and the broader trip impact your business?

Tony Capuano: I think we look at a lot of the same macro metrics that you do. We watch GDP. We watch the employment numbers, which have been extraordinary. We watch a lot of the consumer metrics.

One of the great things about our credit card relationships is, they give us great visibility into some of the spending patterns of the consumer which are so impactful on our business. We watch some of the corporate metrics, which obviously impact business travel. And we watch our own spending pattern of our members.

We obviously operate in a cyclical business and virtually every media interview, I do, every analyst meeting I fit in, we often start with, "In the face of all these economic headwinds isn't the party over?" The answer is we're just not seeing it in the data yet. And I think part of that relates to a trend that we started to see pre-pandemic but seems to continue even as we're in recovery. And that's this notion that more and more consumers have made up their mind that they're going to shift a significant portion of their discretionary spending away from consumption of hard goods towards investment in experiences.

And then pre-pandemic, when you look at some of the data from our credit card partners, that seemed to be disproportionately shading towards younger consumers. It seems like the pandemic has caused that trend to spread across multi-generations. And we really see that in our data.

Stephen Grambling: Now you referenced the cyclicality of the business, yet RevPAR was down 60 percent in 2020 and you generated positive free cash flow. Talk to us about how the sensitivity of the model has changed and how it might change if we go into a run of the mill or whatever that means downturn?

Tony Capuano: Yes. I think I'm beating a dead horse a little bit but I think the wisdom of the model has really borne itself out. I was with Mr. Marriott a couple of weeks ago and he reflects on all of the challenges he's seen this company face in his 91 years. And this by far has been the biggest challenge the company and the industry has ever faced. And to see the speed with which the company's performance has responded, it really underscores how strong and resilient our business model is.

And as I think about the inevitable economic downturns and economic challenges that we'll face in the future, I think the company is better positioned than we have been in any other prior economic downturn. We're just much more diversified. We're more diversified in terms of our geographic footprint. We're more diversified because we derive a higher percentage of our business from the franchise side of our business than we did in previous economic downturns, meaning a significantly higher portion of our fee volume comes from the top line, meaning a smaller percentage of our business comes from the incentive management fees. So there's a little less volatility there.

You've got a higher percentage of our fees coming from non-RevPAR-related fees from credit card and the like. And you've got more, well, I said geographic diversity. And then -- oh, sorry and then you've got just a greater diversity across quality tiers. We're thrilled that we've got as strong as a concentration as we have in upper upscale and luxury. But we're opening the aperture a little bit with our entry into mid-scale as well.

Stephen Grambling: A lot of your comments about these changing trends were focused on this blending of business and leisure and changing consumer patterns. What about on the group side? Has group mix changed? And what are you seeing in group as we look out for the rest of the year?

Tony Capuano: Yes. So group has -- it's really interesting to me. In the early days of the recovery, the conventional wisdom suggested that leisure would lead the recovery, then business travel and eventually group might limp across the threshold.

Group has really surprised through the upside in a really compelling way. Our group has been very strong for us. We talked a little bit in the earnings call about this. Group was really strong in the first quarter. And when we look at the last three quarters of this year, booking pace is up about 16 percent. And we actually think there's a good chance that number will go up, because you're seeing a lot of in-the-year-for-the-year bookings. So the group trends are really very encouraging.

Sorry, just one fine point on that. You asked in terms of mix, we're kind of about back to where we were about 75 percent business group and about 25 percent leisure group.

Stephen Grambling: Assuming that, are there any other areas where the consumer hasn't fully recovered as you look maybe globally?

Tony Capuano: Yes. I mean business transient is definitely the tortoise, in this tortoise and the hare of recovery. But you almost have to look at it in two categories, small- and medium-sized businesses have more than fully recovered. And that's been really encouraging. The big multinationals, they are steadily recovering but they're not all fully, all the way back.

One of the things that will be interesting to watch, you asked at the outset about trends that may continue over the next number of years. As I talked to some of our big global corporate customers, they like us have some pretty ambitious ESG goals. And so one of the things you may see, we're watching this closely, they obviously need to get on the road. They need to visit with their customers and their partners. You may see them take fewer trips but maybe longer duration, which might not be as good a news for our friends in the airline industry, may be less impactful for us. But they may say, to reduce our carbon footprint, we may take five trips rather than ten trips but we might stay four nights rather than two nights on each of those trips.

Stephen Grambling: With -- maybe to the last question on my end, I was just in Asia, there's a lot of concern around the macro there but that's also a market that's just beginning to recover. What are you seeing in terms of how that market is opening, both in terms of domestic China but also international travel? And what is that -- what is also happening from a development standpoint?

Tony Capuano: Yes. So I might break it into APEC and then China. APEC is fully open and really kind of booming on all fronts, both in terms of business recovery of the core lodging business and from a development perspective. Greater China is really fully recovered at this point, although it's going to be fascinating to watch because that country is almost -- well, I guess it's disproportionately fueled by domestic demand.

While Greater China has recovered and in fact, in April was about 7 percent ahead of where we were in 2019, cross-border airline capacity was only about 40 percent recovered to where we were in 2019. So we think there's still meaningful upside to that China recovery story as more and more airline capacity is recovered.

Stephen Grambling: That's great. We are about a minute over. Next up, we're going to have Hyatt, which we saw briefly.

Tony Capuano: I am stunned, you didn't want to ask me about April results.

Stephen Grambling: Wow, I don't -- we see the RevPAR data.

Tony Capuano: Yes. But we haven't talked about April anywhere.

Stephen Grambling: I asked for the update, give me the scoop.

Tony Capuano: So we talked about first quarter obviously, we had a terrific April and we continue to see the momentum building. Our worldwide RevPAR was up 16 percent in April. And what was really encouraging for us...

Stephen Grambling: That versus 2019.

Tony Capuano: No, year-over-year, we were up 16 percent and pretty balanced, occupancy, about 6 percent up, ADR up about 7 percent. U.S. and Canada, we saw up about 6.5 percent. International RevPAR was up almost 50 percent year-over-year in April. And so the trends look really compelling coming into the second quarter.

Stephen Grambling: That's great. Yes. Well, thank you. We've got that in.

Tony Capuano: Thanks for having me.

Stephen Grambling: Thanks, everybody.

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Note on forward-looking statements: All statements in this document are made as of June 6, 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 expectations regarding opportunities to expand the City Express brand portfolio; 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.