Marriott International, Inc.
Business Update
Conference Call Transcript[1]
March 19, 2020

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Marriott International Business Update Call. It is now my pleasure to turn the call over to Mr. Arne Sorenson to begin. Please go ahead, sir.

Arne Sorenson: Thank you everyone for joining us today. On the call with me today are Leeny Oberg, executive vice president and chief financial officer, Jackie Burka McConagha, senior vice president, investor relations and Betsy Dahm, vice president, investor relations.

Before I begin, let me 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 press release issued yesterday and our SEC filings, which could cause actual results to differ materially from those expressed in or implied by our comments. Forward-looking statements in the press release that we issued yesterday, along with our comments today, are effective only today and will not be updated as actual events unfold.

The Coronavirus, or COVID-19, is fast becoming the most significant event to ever impact our business, and that includes the 12-month period after 9/11 and the financial crisis of 2009. While the situation is changing by the day, we felt it important to update our key stakeholders on what we've seen to date and detail the numerous steps we are taking to address and mitigate the negative impact on our business during this complex and unprecedented global crisis.

Let me start with what we've seen recently. While the first two months of the year saw solid RevPAR growth in every region except for Asia Pacific, the virus' spread has clearly caused that picture to change dramatically over the last few weeks.

In the Asia Pacific region, which first saw the effects of COVID-19 in mid-January, RevPAR declined nearly 25 percent year over year through February, with Greater China RevPAR down 52 percent, and RevPAR for the rest of the Asia Pacific region down more than 8 percent. So far in March, as workers return to their jobs and regional travel resumes, albeit slowly, occupancy rates in China are beginning to rise. We have gone from over 90 hotels in Greater China closed at the height of the outbreak to under 30 closed today.

It is encouraging to see the trend lines in China and the entire Asia Pacific region starting to improve. However, as the virus has spread, there has been a sudden, sharp decline in demand

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

throughout the rest of the world, and RevPAR at our hotels has dropped dramatically. Over the last few days occupancy rates in North America and Europe were under 25 percent, compared to around 70 percent a year ago.

The crisis outside of the Asia Pacific region is much more recent, and the trends are still negative. Unfortunately, this situation will likely continue to get worse before it gets better. We do not expect to see a material improvement until there is a sense that the spread of the virus has moderated.

We continue to work with our customers to navigate this crisis. While there have been historically high levels of cancellations for stays through the first half of this year, there have not yet been a meaningful number of group cancellations for 2021 related to COVID-19, and many group customers are at least tentatively rebooking for dates in the second half of this year.

Throughout this crisis, the well-being and safety of our guests has been a top priority, and I could not be prouder of our teams who have been working tirelessly and selflessly. Last week we communicated with our guests, updating them on what we were doing to look after them during this crisis. We provided reassurances about the health and safety measures we are taking across our properties, following the latest guidance on hygiene and cleaning from the CDC and the WHO. We updated our cancellation policy to provide our guests flexibility during these challenging times. And for our Marriott Bonvoy members, we paused points expiration until August 31, 2020, extended the expiration date of suite night awards expiring at the end of 2020 for one year, and extended the use of free night awards expiring in 2020 to January 2021.

We have also taken strong measures to help our owners and franchisees. We have implemented measures that are primarily focused on reducing cash outlays. These measures include delaying all regular cycle renovations that are due in 2020 by one year and deferring required funding of FF&E reserves for six months. We are also putting initiatives on hold and suspending all brand standard audits for the time being. And we are working closely with our owners to evaluate when closing a hotel on a temporary basis might make sense. While owners are responsible for maintaining adequate levels of working capital, we are focused on easing their burden as together, we manage through this crisis.

These are clearly tremendously difficult times for the lodging industry, and my team and I, together with other industry leaders, are working hard to lobby for near term assistance from governments and agencies around the world.

These asks typically focus on three areas: emergency assistance for employees, preserving business liquidity, which is particularly critical for the owners of franchised and managed hospitality properties, and tax relief to ease near term cash flow challenges. Earlier this week, I was at the White House making these requests for government support and we've begun active outreach to Congress to advocate for immediate action and that the third phase of their stimulus efforts include hospitality businesses.

Outside the U.S., we are working with governments and other agencies to seek relief through available programs. One example is in Italy, where we are negotiating with the government and labor unions to get financial aid for associates from a national security fund.

Before turning this over to Leeny, let me reflect a bit on what the equity markets are telling us. On one level, they are telling all of us what has long been obvious: we hate uncertainty. In an environment of dramatic uncertainty, buyers are harder to find, making pressure from sellers that much more impactful. Looking more deeply, the markets are understandably looking for assurance that we will survive. Why do I say this? Because there is no other rational explanation for the selloff in our stock, even if you assume this crisis lasts many quarters. While none of us can know how long this will last, we think it very likely that the crisis is well behind us some time in 2020 or early in 2021 at the latest.

That leaves only one question. Will we survive that long? I am confident the answer to that is yes. Our business model is sound. The future prospects for travel are sound. Through management of our costs and balance sheet as to which we are taking very aggressive actions, we will work our way through this. Perhaps not next month or even next quarter, but nonetheless, reasonably soon, our associates will be back to work, our guests will be back on the road, and we will collectively look back on this experience as something we worked through together as a community of Marriott associates around the world, as a company and as a society writ large. Leeny?

Leeny Oberg: Thank you, Arne. I'd like to address three main topics this morning – first, the sensitivity of our business to changes in RevPAR; second, the steps we have taken to cut costs and preserve cash; and third, an update on our balance sheet and our liquidity.

Let me start with a review of our various fee buckets, which totaled $3.8 billion in 2019. While you may think this sounds like modelling 101, it's helpful in constructing Marriott's cash flow model given the wide range of RevPAR scenarios that could be considered in today's environment.

The first bucket is our "other franchise fees," which are not tied to RevPAR or unit growth. In 2019, these fees totaled $580 million. The biggest portion of these fees are credit card branding fees, which totaled $410 million last year. We earn these fees based on new cardholder sign-ups and average cardholder spend. Our experience with these fees is that while they generally fluctuate as the economy moves up and down, they do not follow specific RevPAR changes. As a reminder, we assume no credit risk on the consumer's credit card spend.

We can then group the remaining franchise fees and base management fees together. Simply stated, this bucket will move with RevPAR and unit growth based on the trends where the specific hotels are located. In 2019, these fees totaled $2.6 billion.

The final segment of fees is our incentive management fees, or IMFs, which totaled $637 million in 2019. As you know, how IMFs are impacted by changes in RevPAR depends on where they are earned around the world. In North America and Europe, incentive fees are earned based on the profits of the hotel after an owners' priority return. At a certain point, while a hotel may still be profitable, we will not earn incentive management fees. For example, in North America, incentive fees dropped 80 percent from 2007 to 2009 during the Great Recession on a roughly 20 percent RevPAR decline. In 2019, just under 50 percent of our incentive management fees were earned in North America and Europe.

In Asia Pacific and Middle East Africa, our contracts generally don't provide for an owners' priority return. We are simply paid a percent of hotel profits. In these regions, IMFs act much like base fees and will move with RevPAR and unit growth. If a hotel in one of those regions earns no profit in a year, then we do not earn an incentive fee, but we do earn a base fee. From 2007 to 2009, incentive fees in those regions fell about 20 percent on a roughly 20 percent RevPAR decline. It goes without saying that we are faced with a very uncertain environment today that makes it extremely difficult to predict how much we will earn in incentive fees in 2020.

Our traditional rule of thumb when discussing sensitivity for RevPAR is that a 1 percentage point change in RevPAR equally around the world, with hotel margins held flat, would lead to a $40 million change in total fees for the year and a $5 million change in owned and leased revenue, net of expenses. However, in an environment with rising labor costs and low RevPAR growth, it is more challenging to hold on to profit margins. So, assuming a 1 percentage point change in RevPAR and 20-basis point decline in house profit margins, that $40 million would become $50 million as incentive management fees decline, and the $8 million change in owned and leased, net.

Owned and leased hotel revenues, net of expenses, totaled roughly $300 million in 2019, and are more variable given they are based on bottom line profits of those hotels.   Note that termination fees, which totaled $50 million last year, are included in this line item as well.

Now let me turn to the second topic – cost cutting measures and contingency plans. We are taking numerous steps to mitigate the negative financial and operational impacts of the Coronavirus. We have implemented business contingency plans globally and will continue to adjust our plans as conditions change.

Arne already discussed the contingency plans we have instituted at the property level, including staffing, modifications of operating standards, closing floors or even the entire hotel, if necessary.

Let me also take a minute to talk about our efforts to reduce our costs that are reimbursed by the hotel owners. Many of the programs and services charges that the hotels pay us, such as marketing funds or loyalty charge-outs, also vary with hotels' revenues. Given the dramatic drop in RevPAR, we are taking substantial action to reduce the costs associated with running these programs by hundreds of millions of dollars to better align those costs with the expected revenue reduction.

On our earnings call, we said we expected the loyalty program to be a net user of cash in 2020, although to a lesser extent than in 2019. As a reminder, our main sources of cash coming into the loyalty program are revenues from our co-brand credit card partners, based on cardholder signups and credit card spend, and from our hotels resulting from Marriott Bonvoy member paid stays. The amount of funding from the credit card program far outweighs the amount from our hotels, which is very helpful in the current environment. Given the lower occupancies in our hotels, we are rightsizing our expenses in loyalty to offset the reduction in revenue that we expect in the program.

So far in March, we've seen redemption volume drop in similar proportion to paid stays. In addition, as occupancies and rates in our hotels decrease, our redemption costs decline given the sliding scale for redemption payments to the hotels. It is too soon to make a prediction about our overall cash flow from loyalty in this sort of environment, but in past downturns, it has been our experience that redemptions decline. As hotel average daily rates decline, members tend to conserve their points for times when rates are higher.

At the corporate level, our contingency plans include suspending Mr. Marriott and Arne's salaries for the balance of 2020, reducing salaries for the senior executive team by 50 percent, hiring only essential positions, temporary leaves in North America, shortened work weeks around the world, and a pullback on all non-essential spending.

We estimate the cost cutting measures currently in place will reduce 2020 G&A costs by at least $140 million. We are still in the process of implementing some of these plans and expect there will be additional savings beyond that amount.

Finally, we have reviewed all investment spending and determined that we can eliminate or defer at least one-third of the $700 to $800 million we had anticipated in 2020. As a reminder, we said on our earnings call a few weeks ago that we expect about $300 million of investment spending would be related to new unit development. Those are commitments we generally made over the last several years when the deals were signed, and we're contractually obligated to contribute those amounts when the hotels open. Of course, if some of those hotels are delayed, we may not have to pay those funds this year.

The last topic I want to cover is the company's balance sheet and liquidity.

In the current environment, it is clearly of paramount importance we preserve liquidity. To that end, we have a $4.5 billion revolving credit facility that expires in June of 2024 to provide additional liquidity. As of March 17, we have drawn down $2.5 billion primarily to support repayment of our commercial paper, as that market has become quite thin over the past few weeks. So as of today, when looking at our outstanding excess cash, plus the amount still available under our revolver, less commercial paper still outstanding, our current net excess liquidity is around $1.5 billion.

As we've demonstrated in previous downturns, we have several levers we can use to preserve cash, including eliminating share repurchases, which we did in February, suspending additional cash dividends beyond the one we announced in February until conditions improve, and reducing payroll and other costs, as I've discussed.

Our contracts are clear that we have the right to be reimbursed for our costs, including the ability to request additional working capital from our managed hotel owners to ensure we are paid. Needless to say, we are doing all that we can to reduce the costs we need to charge the hotels in these times.

I know that many of you have asked about our ability to draw on the revolver as EBITDA falls, given the 4x leverage covenant and our other debt maturities later in the year. We are in compliance with our revolver agreement and leverage covenant. As we have discussed today, we are proactively and decisively taking all actions to preserve our liquidity and financial stability. We have strong, longstanding relationships with our banks and a proven ability to reduce debt quickly in prior downturns, and our focus on maintaining cash will hold us in good stead as we engage with them during these challenging times.

We can't predict the severity and length of this pandemic, so we are working hard to be prepared for any and all scenarios. We are committed to managing the company successfully through these unprecedented times, and we look forward to emerging on the other side of this, ready to welcome the millions of travelers who can't wait to visit our hotels.

I'll now open up for Q&A.

Question & Answer Session:

Joe Greff - JP Morgan Chase & Co: Arne and Leeny, can you talk about, I guess from the franchised hotel perspective, both in '08 and '09 and the period after 9/11, their ability to pay the royalty fees in cash and how much of that was, sort of, a delayed payment? And how are maybe some of those conversations from their side taking place right now with regard to the timing of those payments?

Arne Sorenson: Yes, so the -- I think the first thing to bear in mind is the worst quarter we had after 9/11 was obviously the fourth quarter of 2001. And if I remember right, RevPAR was down roughly 24 percent in the United States for the quarter as a whole. Obviously, the month of September, and -- of course, September would have been a Q3, or October would have been the worst month of the fourth quarter.

And interestingly during that quarter, if I remember right, only a couple of dozen hotels maybe in the United States that weren't covering their operating costs. And I think with the circumstance we've got today, to be fair, is meaningfully worse than that, because we've got RevPAR, which is at the moment running down, you know, substantially lowering those numbers.

So, to some extent, we're in unchartered territory. I think having said that, we are -- as business disappears, we are responding aggressively. And that is the case at the hotel level with our franchisees who are making many of decisions themselves through the managed properties. We're obviously, deeply involved in those decisions. And on a hotel-by-hotel basis, we're looking at rightsizing the operation of that hotel to meet demand in the environment. And if there is not sufficient business to support the hotel, obviously some of those hotels will close for a period of time.

And we are, at the same time, is what we're really talking about this morning, we're announcing internally here today as well, we are dramatically reducing the cost pools that depend on reimbursement from the owners so that they are rightsized. And I think in year's past we've had conversations internally and with many of you about what percentage of those are fixed and what percentage of those are variable. These are the times in which we proved that actually even fixed costs are variable, that we will do things we've not anticipated before in order to make sure that we are not burdening our owners and not burdening Marriott until such time as the business comes back.

I think that, what that leaves is debt service for hotel owners and franchisees. And there are a couple of things to say about that. One is debt levels in the industry are at much healthier levels heading into this crisis than they were in prior crises. That's a good thing. Secondly it is clear, I think, to folks in government, including the federal government, that this is a crisis that descends upon us in the U.S. economy and our industry room through no fault of anybody.

And -- so one of the principal things that we are talking to the government about is to make sure that they are providing forbearance support, both in soft terms in the sense of encouraging lenders to stay away from that and be flexible about mortgages, but also provide some kind of credit support, liquidity support for the industry particularly our hotel owners so that they can navigate through that. It's still quite early, obviously, but I am optimistic that the tools will be there for the vast majority of our owners to be able to navigate through this fight.

Leeny Oberg: Joe, I just want to add a couple of things. One is when we think about kind of the classic charges, be it sales or marketing, et cetera, that we charge the franchise hotels, I would say roughly two-thirds of them are variable based on the revenues of the hotel. So, they are going to float and obviously bear a lower burden for those. And then as we've talked about -- we've taken measures that, quite frankly, we've never had to take before to make sure that we're lowering our costs to match these lower expected revenues.

Then the only other thing I'll add is that cost for these hotels can be lumpy. It's not -- whether seasonality plays into a role for a hotel or for the reality that you've got some quarterly charges that they're used to for other costs, like property taxes, et cetera. They're -- it is not uncommon to have monthly fluctuations in the cost structure and then the revenue structure that have to be dealt with on the part of the owner.

Joe Greff - JP Morgan Chase & Co: Great. And then, Arne, you kind of addressed my follow-up question, with respect to the federal government looking at supporting the hospitality sector. How do you see the timing of that play out? I mean, obviously the sooner the better. And obviously we're seeing the operating trends get worse by the day. And obviously you've met with them earlier in the week. What are the next steps here?

Arne Sorenson: Well, the conversations are very, very active. The -- of course we had a meeting at the White House the day before yesterday, I think, right at Tuesday. We also had a Business Roundtable meeting yesterday with President Trump and Larry Kudlow and others were engaged in conversations with BRT, not focused obviously on the hospitality or the travel industries. Last night I had conversations with three members of Congress, all in senior leadership roles, about what they're looking at and what will need to happen. And I'm sure today there is probably another, well I guess, six or eight calls already on my docket and there'll probably be another few that are added. And I'm certainly not alone in this. Leadership in the industry, as a whole, is engaged and we're quite well coordinated.

What we're talking to the administration and the Hill about is, essentially, two broad buckets: one is supporting associates in the industry, to make sure that we are doing everything we possibly can to help them transition through the next few months or quarters, as we hopefully see that the spread of the virus moderate and things start to return to normal. And that focuses on income support as well as support for health care and the like during that period of time.

And the second thing is really around credit support and flexibility for our hotel owners. How do we make sure that the resources, particularly the financial resources of the government are brought to bear to help owners navigate through this in our industry, but also in some other industries. The obvious reason for that, from a policy perspective, is to make sure that these businesses are prepared to reopen quickly and get people back to work normally as this gets behind us.

I think that the general receptivity to these conversations is very, very high. I -- it's hard to predict lots of things, including maybe particularly exactly when and how legislation moves. But we are encouraged by the constructive response and the speed at which these things are being considered.

Shaun Kelley - BofA Merrill Lynch: Thank you for hosting this call. So, I probably want to start with Leeny. Leeny, you were -- thank you for all the balance sheet and liquidity color. I think what we're trying to get a handle on is sort of the total net working capital obligations here if we sort of roll up some of the different buckets that you sort of alluded to. So, you talked about loyalty and the pattern there, uncollected -- potential for uncollected reimbursed costs. There's cancellation fees and/or received deposits. As we think about all of that on, sort of, an annualized basis and kind of what's coming in and going out, can you give us a sense just of the overall of, what kind of an annualized working capital drag could look like here so we can get sort of a better sense of the cash impact for the company overall?

And then second, if that's harder to do, is there just, maybe for Marriott Corporate, a bigger minimum RevPAR or occupancy level you think the company needs overall just to be kind of cash flow breakeven when you walk through the different buckets that you effectively walked us through?

Leeny Oberg: Okay. So yes, let me try to help out a little bit there. I guess, first of all, let's talk about our typical behavior just because I think it will remind you that there's a little bit of comfort in that we actually, typically have negative net working capital. And as we grow, obviously that -- that get better, because our fees get paid first and we've obviously got payables that are extended. So, on a normal year, we actually have additional cash from net working capital rather than a use of cash. And in today's world, no surprise, to your point we're modeling a wide variety of possible outcomes that obviously take into consideration the timing of payments that we receive and also the timing of payments that we make.

But to get to, I think, the bigger question you raised about the cushion for whatever can happen with net working capital. I'm going to give you a model. But it's really -- I want to be really thoughtful about this. This is not a forecast, it's not anything except just an example, because I think you've all looked at those buckets of fees. And you can make your own assumptions about what happens to those various buckets of earnings. And we've already talked about, obviously G&A being at least 15 percent lower than the guidance that we talked about earlier this year.

And so, let's take the $3.7 billion that is a good rough ballpark for what we had last year in EBITDA. And let's just haircut it by 50 percent. Just say it's down by 50 percent. And then you’ve of course got cash interest, you've got some reduced CapEx that we talked about and then some cash tax payments. And again, let’s -- again, just using some broad, rough averages that leaves you with, call it, $800 million. And then we’ve talked about the excess liquidity that we have of $1.5 billion that we -- that I described today. So that gives you $2.3 billion to deal with the fact that we have from maturities at the end of the year, as well as the reality that you have to deal with, whether EBITDA could be different or whether working capital could be different, et cetera. So, I think it does demonstrate that the company's got strong financial flexibility and just the model works really well.

Shaun Kelley - BofA Merrill Lynch: Okay. And just to be clear, I mean, when we think about those payable differences and just hard with the CP program for us to see and kind of model how the inflows and outflows work. I guess just to put it very precisely is -- how substantial can that drag be if sort of the world stops? Because that's the environment we're in. I mean down 50 -- I know we're going to get this question from clients, right? Down 50 is actually not as bad as where we are today. So, when the world stops, is there some way to ballpark that amount of cash that Marriott is on the hook for? Because that's kind of the number that I think people are going to zero in on in trying to just assess the health of and triage here for a quarter or two where conditions are actually, technically right now, meaningfully worse than the down 50.

Leeny Oberg: Yes. So again, I'd take you back to -- I mean you can look at our reimbursed revenues and reimbursed expenses. And you've got to take out some big buckets because there's -- obviously, a big chunk of that money is coming from our credit card companies. A big chunk of that is things related to kind of the normal ongoing wages at our hotels, which are now dropping absolutely, incredibly dramatically as we adjust the operating structures at the hotels.

Because, obviously, those reimbursed revenues and expenses include all the expenses of our managed hotels. So, when you bring it down to the nub, you are, I think, looking at a timing difference relative that -- as compared to assuming that it is that we are not paid. So again, I just -- I do want to reinforce what Arne said earlier that even though you could have a number of hotels closed, we would continue to expect to be charging our hotel owners for the very low amount of required costs that we need to keep running the system. It is extremely barebones.

And I will say, you get to where you need to think about Q1 as being quite normal and the assumption that perhaps Q4, at least, is not quite as dire as it is today and make your own assumptions about Q2 and Q3. But yes, you could see something that is a timing difference of several hundred million dollars. But again, it really depends on how you think about the assumptions on RevPAR and about the timing of the owner's payments to us.

Because, again, as I said before, on the managed hotels, there are working capital calls, and there is cash that we have to pay some of these bills. So, I think sizing it between kind of a downturn versus what you may want to be considering as a six months of a 90 percent decline in RevPAR, they're pretty different. But I think a timing difference of several hundred million of cash is probably the best way that I can size it right now.

Arne Sorenson: Yes, I totally agree with what Leeny has said. The -- a full year minus 50 percent RevPAR number is, obviously, a stunningly negative number. And when you think about where Q1 is likely to end up, with March obviously being dramatically worse than January or February, the March number is not going to be anywhere nearly that bad -- or the Q1 number, excuse me, is not going to be anywhere nearly that bad. Q2 could be worse than that, without a doubt. In fact, we would guess it's going to be worse than that. Q3 and Q4, we're going to have to watch and see how it goes.

But you think about these reimbursed costs for a second, we spend $1 billion or so on marketing annually. We're not going to -- why are we going to market in the midst of fear and when people are social distancing and not traveling? So, some of these things -- well, it would be a dramatic overstatement to say that they're easy to recalibrate. It is obvious that they need to be recalibrated, and they will be recalibrated. And when we go through all of those steps, what we end up with is a risk of, in all likelihood, hundreds of millions of dollars of issues that we're going to need to work our way around, not billions of dollars of issues that we're going to work our way around.

And given the likelihood that this is something that, again, we'll work through this system, maybe not 100 percent, but overwhelmingly work through the system by the time we get into 2021, those are issues that we've got the strength to work through. Strength based on our balance sheet going into it, strength based on our debt structure going into it, strength based on our relationship with lenders and the -- I think the broad support we will have to work our way through it. And again, while there's lots of work, lots of painful work that has to get done, the work is well underway. And the challenges, while significant, are surmountable.

Stephen Grambling - Goldman Sachs Group Inc.: I have one very quick follow-up on the last comments. Just on the several hundred millions on the working capital, is that a net number for the year where you're getting some back in the fourth quarter? Or are you saying that's kind of the maximum headwind that you would see over that six-month window? And then I have an unrelated follow-up.

Leeny Oberg: Yes. So, my first comment is, obviously, this all depends on what you assume about severity and the length of time. So, you -- can you come up with the most dire scenario on the planet? You could. Can you come up with something that is more modest? I think several hundred million is reflective of a serious -- not one month sort of serious downturn in RevPAR. It is reflective of what you could envision this year.

And again, I'll point out what we said before. I do mean that's largely about timing difference rather than necessarily that it becomes costs that we are so-called stuck with. Because as we talked about, we are reducing the cost in line with what we're expecting in terms of revenue from the owners because so many of their charges are revenue-based. So, we're dropping them dramatically.

So, I would say it's a reasonable example that does have some variability, but that by the end of the year, there's several hundred million, depending on what you assume for RevPAR is reasonable.

Stephen Grambling - Goldman Sachs Group Inc.: And then as an unrelated follow-up, I guess, if we look at what's happened in China and news yesterday that there's no, I guess, domestic cases, new domestic cases, can you just quantify some of the trends that you're seeing in terms of forward bookings and maybe delineating between group business and leisure? And as you are working with your owners in North America to work through this, what kind of control do you have over average daily rate in this environment as you think about trying to sustain price in a recovery?

Arne Sorenson: The -- so just a couple of anecdotes. I would say it's still early in China, but I think many people around the globe are encouraged by the kind of news that you just talked about. No new cases, for example, yesterday. Factories probably back to something like 75 percent of capacity, a bit less travel internally in China certainly than the recovery in the factory capacity, but still some increasing movement.

One anecdote, Macau, we think, got down to probably about 2 percent occupancy. It is back into the 20 percent range, something like that. And when we look at business on the books for April and May, we see those numbers moving up another 10 points or so in each of the next couple of months. Hainan, think of that as China's Florida, where we have, I don't know, two to three dozen hotels, something like that, we see business returning there as well. I think that the -- in Shanghai, we've got a number of hotels that are back into the 25 percent or 30 percent occupancy kinds of numbers. And they -- the country, as a whole, was obviously down in the 5 percent to 6 percent range, I suppose, something like that at bottom.

And so that is -- that's encouraging. I don't think we can take it to the bank yet because this is something that they're sort of working their way through, but we are quite encouraged by that. I think when it comes to the rest of the world, obviously, their -- China has been wrestling with this longer than any place else has. I think we've got to see some -- the words we've used are moderation in the spread of the virus or sense of moderation in the spread of the virus before we start to see recovery in other parts of the world, including the United States.

Now come to the United States where it's the most recent, it is -- because it's the most recent, it's a little hard to predict. But again, the experiences that we're seeing are not the same in every single market. I think of some of my well -- personally well-known areas in the Midwest that are very much drive-dependent, not dependent on the air traffic, probably not dependent on group meetings but a little bit more on leisure and local mix, and those hotels will perform somewhat better than the hotels which are big, medium boxes that are overwhelmingly dependent on travel and -- or on air travel, excuse me. So, we'll work that through.

I would -- I think we'd all love to say that we have the power to maintain rate in a low-demand environment. I think, certainly, the way we are pushing pricing where we're involved in pricing is not to chase fear by discounting in a way that's not going to make any difference but there are thousands of folks in our industry that are involved in pricing. And lower occupancies always put pressure on pricing, and this will, too. There will be folks who experiment with trying to get people incentivized to get back on the road. And that's fine. Let the experimentation happen.

And at some point in time, those experiments will start to show that fear is declining and that people are getting back on the road in bigger numbers. And that's okay. It will be fine to learn that. And as we learn that, it will actually tell us to turn on more aggressive marketing, and we'll sort of encourage each other in a way in peeking out the doors of our houses and getting back at least to taking preliminary steps to travel.

Harry Curtis - Nomura Securities Co. Ltd.: Thanks for the speed with which you've come out with this detail. I have a couple of questions. First of all, have you considered preselling your card points as a strategy to increase liquidity? If so, how might it work? And is there a market for them? And if there is a market for them, is there any rough estimate of how much liquidity it could bring in?

Arne Sorenson: The short answer is we've considered everything, including that, and that is one of the tools which could be available for us. I think it's premature to predict that we will do it. I think the -- Leeny talked about having drawn on the revolver. So, the revolver is a beautiful instrument that was thankfully renewed not long before this. We've got great relationships with more traditional avenues of financing the company, and I think to some extent, those things might be preferred.

But we're looking at everything and we'll take the steps that we need to take. I don't want to sound Pollyannaish on this because there is plenty of uncertainty out there and lots of work and conversations that need to get happened before we pull the levers on certain things. But having said that, what we hear and feel is positive. We've got good partnerships with good, well-heeled financial institutions, and we are highly optimistic that we will be able to pull the levers we need to pull in order to navigate through this.

Harry Curtis - Nomura Securities Co. Ltd.: Arne, just a quick follow-up, but it's more of a general hospitality question. Across the spaces that we cover, our sense is that the companies have been providing wages and benefits through March. When you have conversations with congressmen in crafting some kind of a support, do you get the sense that there will be a direct pickup by the government for those that have lost their jobs at the end of March? And how long might it take to get cash into the hands of those? And I'm thinking -- and the question really is much, much more broad related to the risk of recession in the United States and the duration of recession.

Arne Sorenson: Yes. And the recession risk, obviously, is real. I have been saying to the folks I've been talking about -- talking to in government for the last three -- at least the last three or four weeks, that at least in my view, you can't shut down the level of economic activity we're shutting down without having a recession in the United States. And we really ought to be focused on how do we make that as short and as shallow as possible. A big part of that is the number of folks who are in jobs that cannot be done remotely, engaged in the service industry, including ours, but not only ours, think about restaurants and arenas and health care workers and travel industry folks and the list goes on.

There are, I think, at least three different tools being talked about, all quite open-minded. One is, to what extent does government provide credit to employers to maintain jobs through this transitional period as we're sort of staying home and not engaged in this economic activity? That's expensive but it's certainly on the table, and there are many in the government who are quite interested in them. The second, which you've seen talked about quite a bit, is a direct grant from government to people. And probably, there will be an income limit on it, but that's expensive, too. It's being talked about. It is a very quick way of getting money into people's pockets, particularly those who most need it. And the third is a little bit more normal, put the word normal in quotes. But it is to make sure that unemployment insurance is immediately available, is funded well. The states, obviously, are involved in this as well, that there are tools put in place to make sure that there is no gap in health care coverage, both for virus coverage and for broader health care coverage.

And all three of these things, I think, are being talked about. It's impossible for us to predict where we'll end up. But certainly, one of those three will be -- if not more, will be used in significant force to at least help feather the challenge over the course of the next few months or maybe a quarter or two.

Smedes Rose - Citigroup Inc.: I just -- I wanted to ask you a little bit about cancellation fees and whether or not if you're being more flexible now than maybe versus prior times. We're just hearing maybe some different things from owners about how that's working, and I'd be curious to see your commentary on it.

Arne Sorenson: Yes. We -- it's now probably two weeks ago, I guess. I don't remember precisely the date off the top of my head. But we were communicating with owners, obviously, watching the way things developed. We had prior to that waived cancellation fees, including for advanced purchase or prepaid reservations for business to and from China and in some of the other hardest hit markets around. We had -- it was only about two weeks ago that we moved in the U.S. to do the same, which we did through the end of April, if I remember correctly.

We'll have to see whether and how that's extended, obviously, based on conditions as they evolve. And on one level, looked at in isolation, there would certainly be owners, and, to some extent, us, too, who would like to have those resources available to help us navigate this. At the same time, it is crystal clear that it is reasonable for guests to want some flexibility given the unanticipated aspect of this crisis. And we saw not just the airlines move, but we saw others in the industry move and felt like this was the right thing to do for our customers.

In the group context, it is a little less uniform, I suppose. And generally, what our sales teams are doing and our hotel teams are doing are working through with group customers, rebooking. Some of it depends on the precise timing of the meeting and trying to make sure that we are setting ourselves up as best as we possibly can with good relationships with those group customers, but also as much, what solidity to future bookings as we could possibly have.

Smedes Rose - Citigroup Inc.: Okay. And then -- I mean it may be too soon, but are you hearing anything from developers in terms of their ability to access capital? Just thinking of your pipeline and the potential for a recession and maybe that pipeline coming in. So...

Arne Sorenson: Yes. We're watching that carefully. The world is a big place. I know that I had an e-mail this morning from our team in Asia, and they're about to sign a 13-hotel deal in Japan, for example, and talking about some development conversations actually coming back in China and some continuing through definitive signing in other markets in Asia Pacific. In the United States, of course, we were opening hotels January and February. It's hard to get this data even for us on a day-to-day basis, but I would guess that there are many hotels that will not be rushing to open until there's greater clarity on this in the next few months.

So, there will certainly be a delay in the openings that we would have anticipated. I suspect there will be a delay, less severe, but there will be some delay, too, in new signings. Now the deals that were close -- right on the precipice of being signed, some of those will still get signed. Construction may not start until there's greater clarity.

We have heard from some owners that they're -- notwithstanding the fact that we're giving them more time on renovation, we've heard from some owners that they actually want to accelerate renovations because they think there's advantage, cost advantage to moving forward with that, both in terms of the cost of renovation and the displacement that will be avoided by doing it now.

And so, we'll watch all of those things. I think net-net, we would say that 2020, we're likely to open fewer hotels than we anticipated at the beginning of the year, and we're probably likely to sign fewer hotels than we anticipated at the beginning of the year. But I don't think those things will turn off in their entirety because the rational economic behavior will be to move forward with some percentage of them, both of them.

Patrick Scholes - SunTrust Robinson Humphrey, Inc.: Arne, how do you feel -- I'm sorry. As far as your original guidance for 5 to 5.25 net unit growth, I mean, what's a realistic assumption for this year? And how is it being impacted next year? And am I correct to assume that signings over the last several weeks have ground to a halt?

Arne Sorenson: Leeny might have a smarter answer than I do on this. But if we were 5 to 5.25, the number we'd give you is it will be less than that.

We don't have a number to give you at this point in time. Not one that's worth expressing. And I'd just say what I repeated, which is that the development pipeline has not ground to a halt. That would be...

Leeny Oberg: We've been signing deals.

Arne Sorenson: We've been signing deals.

Leeny Oberg: We continue to sign deals.

Arne Sorenson: And we still have development committees that are meeting monthly. The volume is lighter. And again, we will be -- I think the numbers will be lower than what we anticipated, but they won't be zero.

And my guess is maybe when we report second quarter results -- I'm not even sure, at the end of the first quarter results, we're going to have a number that is very useful to you. We might be able to give you a month or two of sort of recent data and some anecdotes. But I think it's going to be a little while before we're going to have much clarity into this.

David Katz - Jefferies LLC: Thank you for making time and for all the detail. I wanted to ask a question that, quite frankly, I never thought I'd be asking, and you probably hadn't thought you'd have to address or answer. But in circumstances where either franchisees or hotel owners actually cannot pay, right, rather than sort of being in a position, right -- what are the -- how do the remedies work in a situation if there were a hotel -- obviously, it's something that may happen in a normal course and may happen more so today. And then I have one short follow-up.

Leeny Oberg: So certainly, on the franchised hotels, the reality is we have had bad debts before. So, it's part of being in a partnership where you work with each other to try to do what you can to weather a storm, whether a hotel has been in a market that's had an earthquake, whether there's been a tsunami. It happens around the world that there are crises and that we work through things with our owners.

As we talked about, obviously, we're dramatically reducing the bills that we would charge them anyway. And then on the charges that are left, quite frankly, David, they are not big in the big scheme of things relative to running the PMS and kind of the basics on the reservation system, et cetera.

So, I would say that in many cases, you're working through it from a timing standpoint and doing what you can to help them through the situation. As you've heard, we've said we're more than willing for them to defer FF&E, to use their FF&E to deal with other costs to the extent their lenders allow. So, there are a host of things that you can do to try to manage through it. And then obviously, they themselves can work on whether they've got other sources of capital to tide them over for the short term for two or three months to deal with paying their bills.

So again, our experience is that between reducing the costs dramatically as well as working through things with them that when you have a several month hiatus like this or whatever it's going to be, that we can work through it.

David Katz - Jefferies LLC: Understood. And my one short follow-up, and this may be a question for the other side, is that there's an arrangement with Host and yourselves around renovating some hotels. Is that the kind of thing, under these circumstances, should -- we should presume as being sort of revisited in terms of timing and magnitude under the circumstances?

Arne Sorenson: Well, Host, obviously, is going to be principally involved in making those decisions. And I would guess that they're going to look at – does it make sense to accelerate some of these or defer some of these. And both, I think, are worthy of analysis.

Kevin Kopelman - Cowen and Company, LLC: Just a quick -- just one follow-up. Can you talk a little bit more about when things do start getting better, how quickly you anticipate being able to scale back up your centralized services and also your staffing at managed hotels?

Arne Sorenson: Good question.

Leeny Oberg: Good question, first of all.

Arne Sorenson: Yes, we'd love to talk about it.

Leeny Oberg: Let's go. This will be fun.

Arne Sorenson: Yes. Yes, it's actually something that we have wrestled with here. I mean, I think the -- from the tenor of the questions this morning, which are not at all surprising to us, the primary thing we've been focused on, and to some extent that you guys are anxious about, is can we rightsize the business fast enough, both our expenses and the systems expenses to deal with the reduced revenue that we're confronting. And we've moved very forcefully on that. And in a way, that is heart-wrenching to many of us and breathtaking in lots of respects.

In the many, many hours of tossing and turning at night these days, I'm worried about that, but I'm also worried that we've -- we are cutting so deeply that the rebuilding process will be more challenging than -- maybe more challenging than we anticipated and maybe to some extent that we might regret having moved as aggressively as we've moved.

I suppose on one level, we hope that's the problem we confront because it would imply that we're coming back sooner and stronger than sort of our worst-case scenarios or the scenarios that are causing us to act now with the kind of aggression that we're implementing.

And that's -- it's a long-winded way of saying that's a challenge we'll face when we get there. And I am hopeful that if we treat our people well and the crisis -- the health crisis goes the way that we expect it to go, that this will be an interlude. It will be a leave. It will be a furlough that we will quickly be able to pull the people back that we need to pull back and get going on things. I think there will be pent-up demand from our customer base, and that will come back. It may not come back 100 percent, but it's going to come back very substantially, probably quite quickly. And we'll deal with those issues. They will be, by comparison to what we're wrestling with today, issues that we will enjoy sort of figuring out how to solve.

Bill Crow - Raymond James & Associates, Inc.: Arne, despite the fact that all the casinos are shut down, let me ask you an over/under question. Where do you think -- over the next 90 days, what percent of your system-wide U.S. hotels will actually close?

Arne Sorenson: I don't know. I don't think it will be rare. I think we'll have -- I think we'll have many that close.

Bill Crow - Raymond James & Associates, Inc.: You think it's more than 50 percent?

Arne Sorenson: I don't know. It's too soon to know. I mean we know that there are hundreds of hotels that are either closing or looking at closing. And they are -- it's painful in part because, often, those hotels are bigger hotels, and they're more dependent on group, which means that there are that many more people that are impacted. They also have the advantage of being in -- often in well-established destinations. Think about our great cities in the United States or great resorts in the United States. And I think as conditions improve, they are the ones that are most obvious to be no-brainers to reopen and probably reopen fairly quickly, maybe to some extent, a bit in stages as business begins to come back.

So, I wish I had a better answer for you. I don't think it will be rare, but it's far too soon for us to give you a guess on how many hotels it will be.

Bill Crow - Raymond James & Associates, Inc.: All right. Another question about the other side of this, two-parter. How do you prevent giving up all the gains on the book direct campaign where hotels instinctively have gone to any discount channel they can to put heads into beds? And the second part of that is, do you need to return to businesses old? Or is this an opportunity to implement some of the technology and other changes that are going to completely change the way you staff hotels going forward?

Arne Sorenson: Yes, those are all good questions. I think the tools that we have used to drive direct booking, both the technology tools and the loyalty program, will continue to be the tools that we use going forward. And I think if we manage the relationship with our customers well through this process, we should put goodwill in the bank, if you will, in those relationships in a way that will help us longer term. And so, I don't see that as being difficult.

I do think that as it relates to opportunities to sort of refashion our business or do it in somewhat different ways, those are things we'll look at. This is obviously not the focus at the moment. But each of us, I think, will learn a lot from this as we've gone through, and some of those learnings will be things that get implemented in the business and will be things that last for a long time.

All right. Operator, I think we'll -- I don't know what you've got in the queue, but maybe we should take one last question and then wrap up and thank people for their time this morning.

Rich Hightower - Evercore ISI Institutional Equities: Thanks again for doing this, I echo my colleagues in saying that. I've just got one question. Arne and Leeny, as you guys are talking to the government about a possible bailout package of whatever sort for the industry and sort of the terms and conditions that come along with that, how do you think share repurchases and other sort of day-to-day capital allocation decisions might change depending on the outcome of that process? So that's not a liquidity question but more of a fiduciary capital allocation question as we exit the crisis eventually.

Arne Sorenson: The -- well, I don't know that I have a particularly insightful answer to that. I mean, I think we are -- as Leeny took you through today, we have ceased share repurchase and dividend behavior. And I can't imagine going back to that until we've got greater clarity about what the future looks like. I do expect that we will get back to a place where, given our business model, this company produces a substantial amount of cash. And we've talked with the investment community for decades now about how best to use that cash and manage that cash. And I know that there is popular sentiment, which is strongly against share repurchase, and to some extent, a crisis like this might fuel that.

At the same time, the cash that we produce, if it's not needed to invest in our business, belongs to our shareholders. And I think, sensibly, we can and should view those as constructive tools that could be used to manage our cost of capital and manage our business.

And they -- we don't think we've ever used them to harm our business. We'll be very thoughtful and careful about that. But we'll try and navigate through that as in the fullness of time.

All right. Well, thank you all very much. We appreciate your time this morning and the support that we feel from so many of you. We know that you want us to work our way through this just as much as we want to be able to work our way through this. We're doing that. It is an extraordinary amount of work.

I'll close by thanking not just the leadership team at Marriott but the team of associates all around the world who are bearing a burden that they didn't anticipate. They are remarkable people, great leaders, great team members. And to you, thank you. Look forward to working our way through this with you and getting to the other side, which we will do. Thank you.

--End—

Note on forward-looking statements: This press release contains “forward-looking statements” within the meaning of federal securities laws, including statements related to the expected effects on our business of the COVID-19 pandemic; RevPAR and occupancy trends; the impact of contingency plans and cost and investment reductions; our liquidity and working capital expectations; and similar statements concerning anticipated future events and expectations that are not historical facts. We caution you that these statements are not guarantees of future performance and are subject to numerous evolving risks and uncertainties that we may not be able to accurately predict or assess, including those we identify below and other risk factors that we identify in our most recent annual report on Form 10-K. Risks that could affect forward-looking statements in this press release include the duration and scope of the COVID-19 pandemic and impact on the demand for travel, transient and group business, and levels of consumer confidence; actions governments, businesses and individuals take in response to the pandemic, including limiting or banning travel; the impact of the pandemic and actions taken in response to the pandemic on global and regional economies, travel, and economic activity; the pace of recovery when the COVID-19 pandemic subsides; general economic uncertainty in key global markets and a worsening of global economic conditions or low levels of economic growth; the effects of steps we and our property owners and franchisees take to reduce operating costs; competitive conditions in the lodging industry; relationships with clients and property owners; the availability of capital to finance hotel growth and refurbishment; the extent to which we experience adverse effects from the Starwood data security incident; and changes in tax laws in countries in which we earn significant income. Any of these factors could cause actual results to differ materially from the expectations we express or imply in this press release. We make these forward-looking statements as of March 18, 2020. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.