Marriott International, Inc.
Barclays
Eat, Sleep, Play, Shop Conference Transcript[1]
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Brandt Montour – Barclays: Good morning, everybody. Welcome back to day three of the Eat, Sleep, Play, Shop conference. My name is Brandt Montour. I'm the senior analyst covering gaming, lodging, and leisure here at Barclays. I'm absolutely thrilled to be here with Leeny Oberg, the CFO of Marriott International. Leeny, thanks so much for being here.

Leeny Oberg - Marriott International, Inc. - Chief Financial Officer and Executive Vice President, Development: Thanks for having us. Great to see you all.

QUESTION AND ANSWER SESSION:

Brandt Montour: So I thought we would start off with a couple of very high-level questions. And this is a consumer conference. We'd love to hear very broad thoughts about the consumer, your feelings about the consumer into 2025 with all that's going on in the world.

Leeny Oberg: Sure. I'll start with Q4 because I think we were pleasantly surprised to see how October panned out. The company actually ended up having nearly 5 percent in RevPAR for the month of October with really nice gains in both rate and up globally -- up to 74 percent from an occupancy standpoint. And really, all markets around the world doing a little bit better than we expected and driven by essentially all the segments and all the tiers.

So I just think it's a great representation of a pretty sturdy travel demand environment, as well as a sturdy economic environment. And maybe it's not the most outstanding growth from a classic GDP standpoint. But again, at the margin, probably a little bit better than was expected.

And then on top of that, you had the reality that the impact of the November election was less than we thought. So if you remember, we had talked about that we thought the election in the U.S. would have a 300-basis point impact on November. And the reality is it had 200-basis point impact. And I think you can attribute that largely to the fact that it was a decisive election that we did not have days and days and weeks and weeks of uncertainty about who won and what the answer was. And people kind of got back at it, which again, a good example of the resiliency of the business and overall strength of all the segments of the business.

So, I think, start there has a good feeling as we look towards the end of the year. And then as we look into 2025, clearly an element of this is really going to depend on how the Trump administration kicks off their start and what do they throw out there and what do they do in terms of bills, et cetera.

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

But I think you probably can all feel the same thing that we feel, which is just a bit more pro-growth, pro-business sense and a bit more optimism about economic growth. And to the extent that we have stronger economic growth, our business always has had a strong correlation relative to both business investment, as well as overall GDP in whatever country our hotels are in, and to the extent that ends up being higher than what was projected four months ago, that will obviously likely be good for our business.

Brandt Montour: That was a very positive answer. I'm going to have to ask a question that might take a little bit out of that positiveness because I want to ask about some of Trump's policies that might have a backwards effect.

No one knows what will come through first, how much of it would get done. But I'd love for you to sort of talk through the different buckets of items that are factors that could eventually play into your business from immigration to tariffs, et cetera?

Leeny Oberg: Right. I think, first and foremost, we will always want to put at the top of the list, employment, inflation, consumer confidence, overall levels of business investment, which I think will continue to be the strongest drivers.

When you get into specific strategies and policies that the Trump administration may put into place, then that will be a tweak off of that. But I still think we all need to keep our eyes on those headlines, first and foremost. But then when you get into it, let's talk about tariffs as an example.

Clearly, there is the reality that for hotel construction, there is importing of raw goods. So whether you're talking steel, wood, furniture, et cetera, we've seen the impact of tariffs before when they were instituted in, I guess it was 2017. And in that case, it did increase construction cost for hotels by about 5 percent. And in today's world where construction costs are already high, as well as labor being fairly tight and lending on new construction, I would say new hotel construction is still fairly tight. That could have an impact.

At the same time, you've seen conversions be a very strong part of our growth picture. We only see that continuing, if not growing. So I think that is kind of the offset to that, but that will be something to really watch.

And then on the immigration side, I would say it's really too soon to tell. A whole lot of this depends on kind of exactly what sort of immigration policies are put into place and agreed to. We obviously try to do all of the efforts on our managed hotels to verify documentation on our associates and kind of what this results in across all industries in terms of wage, inflation, et cetera, I think it's way too soon to tell.

Brandt Montour: Okay. Let's talk about global RevPAR and I was hoping you could take us around the world. We'll start with how 2024 is coming into fruition versus your original expectations. And then maybe you can use that to give us the building blocks for how we should think about 2025?

Leeny Oberg: All right. So I'm going to go the farthest away first, just for grins. And let's go over to Asia. We've obviously got a little bit there of kind of a disparity in the world of RevPAR. And that is that you've got demand and country GDP growth in Asia Pacific outside of China just really being outstanding and very strong. So whether it is on kind of the growth of our new rooms and the signings and the RevPAR, you really see just outstanding results and we expect to see that continue. Whether you're talking India, Indonesia, Malaysia, Japan, we really see the demand for our products and lodging demand to be excellent.

Greater China, obviously, has had a much tougher year on the RevPAR side, but not on the signings and rooms growth side. And I'll kind of talk separately on the rooms growth side. I think a big chunk of that is our targeting the right segment of the market for growth. Select-service has been our big winner this year in terms of growth in Greater China and just really strong investor demand for that product in Greater China, which ends up being more in the secondary and tertiary markets. And to some extent, even in the new Tier 1 cities.

On the demand side, clearly the Chinese consumer has shown more concern to the economic environment this year. And we saw, as we moved into the second quarter, we saw a meaningful slowdown in the recovery of RevPAR from COVID. And where you really saw it jump out is in the difference between leisure and the markets like Beijing, which have a much more diversified set of demand factors.

And in the big cities like Beijing and Shanghai, yes, it's not been great but meaningfully less impacted than a place like Hainan. And this is accentuated by the fact that you don't have as much cross-border traffic going into China as we had pre-COVID. So right now, you've got about 85 percent of the customers in our hotels in Greater China are from Greater China. And if there is a sense of concern about future employment or about housing cost, et cetera, that just means kind of all of those elements of their travel are curtailed. And you don't get that extra benefit of lots of people coming in cross border, which has kind of made it worse. And then you add on to that the reality that once there was the freedom to travel, the highest and Chinese travelers actually left to go to other places, overwhelmingly in Asia Pacific. So we clearly saw in the second quarter a pretty meaningful decline in RevPAR.

The thing I'll say is it does seem to have stabilized. I can't tell you that it's gotten dramatically better, but it's also not gotten worse. And as we look out, obviously, some of the stimulus measures that have been put into place, hopefully more of a sense of stability in the economy. That while the real estate woes are clearly not over, they don't seem to be accelerating. That you put all that together, and we continue to be hopeful for more of a flattish RevPAR environment in 2025.

So now we move to a few other parts in the world. You've got EMEA. Europe, incredible benefit from cross-border travelers coming from all over, not just the U.S. There were some real events this year that drove the outsized RevPAR growth, which probably means it could calm down a little bit. But we still do expect that the weakness of the pound and the euro to continue to be helpful to the demand picture in Europe. Middle East Africa continues to be excellent and a lot of economic growth going on there that we see kind of continuing on with those trends.

I think the U.S. is, I would put it as steady as she goes picture. Again, as I talked about before, I think the economic view on the U.S. economy could shift my point of view as we get into February and March. So it's hard to tell yet exactly where we're going to be.

When I say "steady as she goes", that's more with the GDP view of in the kind of 2.5-ish sort of range, which is more similar to this year. And I think we continue to see the demand picture across the three segments as good. Maybe at the margin, you see special corporate continuing to gain more ground as we move into 2025.

And I think leisure, you're going to see leisure continue. It's just moderated, it's normalized. But I think we expect to continue to see it be strong, but perhaps will accelerate if we have a meaningfully stronger economic picture. Group, obviously, has been a homerun hitter, both globally and in the US. And we have as you know, a group pace number of 7 percent for next year and 2025. That's both nights and rate. Very, very strong.

And then last and absolutely not least, in CALA, you've got a good picture for demand this year and for next. And I'd also put that in the "steady as she goes" category.

Brandt Montour: Okay, great. And so, for the U.S. just to clarify, as things stand now before any type of economic-related inflection, you would see group as the strongest, business transient in the middle, and then leisure, the weakest but still positive. Would you say business transient would be the upside surprise factor?

Leeny Oberg: Could be. Again, it depends on what we're seeing from an overall economy. But yeah, I think, I mean, certainly in October you saw, I think probably both a bit of leisure surprise and certainly Monday, Tuesday, and Wednesday nights in the U.S. was stronger than expected in October. So that would lend towards that thesis.

Brandt Montour: Okay. Before we move on to development, I want to ask one more demand question. I think it was last quarter that you guys -- or that was two quarters ago, the ancillary spend comment about sort of global softness. Was that a bit of an anomaly, do you think, back when you saw that or did that sort of continue into the last few quarters?

Leeny Oberg: I would say that that is certainly the leisure normalization factor where, again, I think probably most of us in this room as we were coming out of COVID, that frankly all price discipline was thrown out the window and you didn't kind of care where you eat or what you paid for your hotel room, you just wanted to get out and about. And I think that has normalized and you've seen a bit more normal view of how people go and make their purchasing decisions. So I think that does fit in with the leisure normalization component.

And then I would say group, food, and beverage has absolutely been in line with what we expected and it has been fine.

Brandt Montour: Okay. G&A. You guys recently announced a new G&A efficiency program. You got it to $80 million to $90 million in run rate savings beginning in 2025. How should we think about G&A in 2025 more broadly? And can you talk about sort of the savings that your owners might see in that effort?

Leeny Oberg: So let me first talk about the effort overall. And it really was an enterprise-wide effort. And I think that's important to recognize because while I know many of you in this room are focused on the G&A that we report, there are billions of dollars that we spend on behalf of our owners to deliver the programs and services that are required to run a hotel. And they are critically important that we do that in as efficient a way as possible.

So we have really gone after all elements of the business. And not with a kind of standard, just go and everybody find a certain percent, but with a much more strategic eye on how do we think about where decisions are made, how are they made? What are the critical ones to business impact? And really trying to make sure that the resources were lined up that would produce the most value.

So it really was much broader than just classic kind of overhead corporate costs. And as a result, we have announced to the owners that there'll be a reduction in their loyalty charge out rate as a result of our work here. Obviously, we're going to continue to do everything we can to make those affiliation costs with us only more efficient as we move forward. But that is a kind of immediate manifestation of this work that will be a reduction in the charge out rate.

And then, obviously, on the G&A side, the way I would think about it is if you think about the guidance that we gave of the $1.055 billion, which is the midpoint of the guidance we gave for 2024. There were a couple of onetime items related to a guarantee and a litigation. So you back those out to get your more normalized run rate.

And then think about the $80 million to $90 million savings off of that. And then, obviously, you need to have the normal inflationary increase, kind of pick 3 percent to 4 percent, whatever you think appropriate. That gets you to how I would think about 2025. We'll be able to talk a little bit more as we get into 2025 about how they should manifest themselves during the quarters in 2025.

But I think, obviously, relatively speaking it will for sure be by the end of the year that you can really count on it. But that is the way I would think about 2025's numbers.

Brandt Montour: Okay, great. So moving on to development, everybody's favorite topic. You have stuck with your guidance from the Investor Day almost two years ago now, right? It was a while ago.

Leeny Oberg: September of 2023

Brandt Montour: Okay, so it was like 5 percent to 5.5 percent net unit growth CAGR. And you haven't given guidance on 2025 yet, but maybe you could just talk about sort of the puts and takes with regards to the long-term guide and sort of what would be the swing factors between the lower end or the higher end of that range.

Leeny Oberg: Now, so you're right. When we give a number for a year, we are very careful to feel like we've done the ground-up homework, which we're in the middle of doing right now. So giving a specific number for 2025, we're not able to do that yet, but we are working through the process. And certainly this year, as you've heard, we're at 6.5 percent this year, including the MGM adds and the Sonder rooms. Most of them anyway, in addition to just really great fundamental onesies and twosies, I call them, of development deals coming into the system. And that's on top of the 4.7 percent that we had in 2023. And so you put that together for a three-year CAGR of 5 percent to 5.5 percent for end of 2022 through the end of 2025. And we continue to feel very comfortable.

When you think about kind of where we could end up on the lows and the highs, clearly the pace of conversions has been excellent. And part of that is really understanding how quickly the conversions can enter the system. You can have something as quick as the Delano, which actually will never even show up in the pipeline because it was signed and opened in the same quarter versus something that is an adaptive reuse in China, which building is half built and could take two years to finish.

So as part of our work, is to make sure the signing pace we're very happy about and thrilled. We continue to expect a record number of signings this year and look forward to continuing to see the pace of room growth be very strong.

Obviously new construction in the U.S. is one of those variables. And I would say that while bank lending for hotel deals has rebounded for existing hotels, I would say on the new development side, it's still a bit restrained and obviously, construction costs and construction labor and kind of all the time it takes to get all the permits, et cetera also are factors.

Construction starts are clearly meaningfully better this year than last, but they are not back to 2019 levels. And so we'll be keeping a very close eye on that. And then that same equation is really the same around the world in terms of examining the elements. It used to be that conversions were such a major player in the U.S.

One of the things that I think has been really affirming for the company is to see that conversions outside the U.S. are now quite a regular thing and are growing. So whether it's Four Points Flex in EMEA, whether it is Fairfield over in Japan, kind of all the way across the board, Autographs, Luxury Collection, Tributes, it's great to see that that is becoming de rigueur around the world. And I think it really gives good credibility to the kinds of numbers that we're talking about.

I'd say Europe's new construction picture is probably arguably the weakest. Asia Pacific outside of China probably has the new construction picture, that's the strongest. And then everywhere else kind of falls in between.

But we're very excited about the progress that we're making in midscale around the world and continue to expect to see acceleration in those signings both on the conversion and on the new build front, as well as all of our other brands. So it's a really quite exciting time when we feel like with the platform of Bonvoy, that we see such excellent demand for our product.

Brandt Montour: And maybe over on the U.S. side, we always like to talk about or ask about the mood of developers. And this year, 2024 or 2025, it was naturally supposed to be a -- I don't know how to put it in words, but you're seeing the starts that opened in late 2023 when there was an inflection and starts then start to open in 2025. And that's a good story year over year. But then you have the Trump event and so, is the developer mood -I could only imagine…

Leeny Oberg: No, I think again, hotel developers are certainly, as you might imagine, a glass half full crew. And so no, I think, I think they absolutely generally are feeling good about the business environment.

Brandt Montour: Is there a dynamic whereby rates coming down not as much as it had, but they are somewhat lower? Is that a potential tailwind for conversion activity in 2025 as well?

Leeny Oberg: Yes, I think so. I do think there's probably better recognition that rates may not fall as far. But I think at the same time, the offset to that is that there is a view of more stability. I think one of the things that has held a lot of real estate investors back has been this question of, well, if I just wait six more months, if I just wait six more months, then I can hopefully really see things ease up even more.

And I think we're starting to see the view that they'll hopefully fall some more, but maybe not as far. But I'm also looking at a more stable and positive picture for the next few years, which at the end of the day, that encourages going ahead and moving forward. So I feel pretty good about that.

Brandt Montour: Can we just double click on China development, which you've briefly touched on? One of your competitors earlier in the week called China development is divorced from China, the RevPAR side, the fundamentals of RevPAR, in terms of its momentum, in terms of its growth potential. Do you agree with that? And sort of help us understand the evolution of things on the ground.

Leeny Oberg: So our Chinese growth, I would say, has never been stronger. I mean, we are seeing demand for the full range of brands as excellent. I think there's been particular success, it's been in the limited-service space. And as you know, for that, for Marriott, that is a bit more of a greenfield. We have started with upper upscale and luxury being in the main big Tier 1 cities and then moving to the new Tier 1.

And I think the interesting component is now really seeing just tremendous demand for the limited-service brands. And when we haven't really had that much product in that space, the demand is very strong. Some of that is new build, but also a lot of it is adaptive reuse. And if you think about the way the real estate market is evolving in China, you do have kind of a number of projects that were halted.

And so you've got an opportunity for real estate investors to kind of step back and go, what really makes sense for this project now? And the demand for this product has been growing nicely. The middle class is still really growing in China. It's a massive middle class and the opportunity to provide more great Marriott brands across Greater China with a product that the investors like, the framework of what they see on the return side, and the cost per key side has again been excellent.

One of the things to remember is that our teams around the world are really run by nationals. So when you think about our developers, all of our Chinese team, they're Chinese nationals. They've got great relationships. They're really aware of what's going on in the different markets and making sure that we're selling a product that is going to fit both the consumers' needs as well as the investors’.

And it has been great to see that the support from the SOEs, from the private investors kind of universally, has been very strong in this limited-service space. And remember, it provides great jobs, great opportunities for both construction workers and for hotel workers, great employment opportunities in China as you see this growth.

So I think overall there's been a lot of support there and a view that the demand is absolutely there for, in particular, the growth of the segments that are below full-service. Now, we're still seeing great growth in full-service and luxury, but we've had strong presence there and strong pipeline there. So this is really adding a level to that.

Brandt Montour: You're 11 months into the MGM deal. I'd love to hear things that surprised you that you weren't expecting, good or bad, since that launch. But then I also want you to talk about MGM and Sonder and the idea that these deals are a little bit more creative than deals we've typically seen. If that's sort a new chapter for Marriott or if they just were sort of one-off that were too good to pass up?

Leeny Oberg: I'll do MGM first and then I'll talk a little bit about Sonder. Because actually, in some respects, the deal innovation part is quite different between those two because Sonder is quite frankly, not very different. It's actually very typical for us in terms of the way our classic franchise agreements work.

Brandt Montour: Sorry, for the audience. Sonder is an apartment.

Leeny Oberg: Yes. And so the product itself is where I was going to say, that part is a bit more -- you haven't seen us do. We've launched Apartments by Marriott and discussions with Sonder ensued and we had great opportunities. So we haven't done as much of this kind of product in the marketplace before. But the actual agreement nature of it is actually very typical for us.

MGM is absolutely unique. And you've heard, I'm sure many of you have heard us talk about this over time, which is that we've wanted very badly to have some great presence on the Strip and places for our group to go, places for our Bonvoy members to go, and have really worked very hard over the past 20 years to make that happen.

And while we have a little, it was nowhere near the kind of presence that we wanted. And I think as MGM ended up purchasing The Cosmopolitan, we had some great conversations. And I think a real mutual agreement of understanding how much the Bonvoy members could contribute to the topline to those hotels. And I think when you did have, for Bonvoy members, really, the main place that they could go with The Cosmopolitan before as their main choice for either going in a paid stay or redemption stay.

And while we do have three other hotels near the Strip that Marriott actually owns in Las Vegas, they are not right in the heart of the Strip and don't have a casino component, et cetera. And so in that regard, this opportunity to meaningfully increase the rooms for Bonvoy members was very attractive for us, also very attractive for MGM. And we worked out a deal that really reflects a bit of a sharing of the brands.

And so of course, the nature of the agreement is different, although it has a fundamental component that is off of room revenues. So it's not solely based on the channel contribution, although there is an element that certainly improves with more channel contribution. But the best thing I can say is that I think for both companies, we've outstripped what we expected in terms of the contribution of rooms that we've delivered.

And I think also the core values of what the experiences we want to deliver has been only more aligned. The two companies are even more aligned than we might have imagined. I mean, I think there is a desire to really provide great experiences, some unique moments for people who stay there, that both companies really care a lot about. So I think it's actually ended up being a partnership that has only worked more seamlessly and provided even better demand.

And then I think, in terms of kind of how we think about these, I'll call them multi-unit deals because Sonder is really a more typical sort of agreement. So I wouldn't kind of call that out except to say it's clearly many rooms in one deal. And I think it shouldn't surprise you that kind of smaller hotel owners who might have 10 or 15 hotels that either don't have a brand or they have a loose affiliation that the power of Bonvoy, I think, is only more attractive when you see the platform and all the digital investment that we're making.

And so I think it helps support our growth targets and, obviously, it's something that I think you should expect to see. It can make the growth a little lumpy. But I think we've talked about before that earlier this year, there were, call it 1,300, 1,400 rooms in Japan that were a multi-unit deal that we did with an owner that, yes, it is lumpy, but it just happens to be a conversion of 13 hotels rather than one hotel. And I think we look forward to more of those.

Brandt Montour: We have a question here. [Inaudible question from the audience.]

Leeny Oberg: Sure. So group is absolutely back to where it was. It's roughly a quarter of our nights globally. And that's exactly where it was before. I think where you see the difference is a flip flop between leisure and BT. Remember, our system has grown, call it by 20 percent since pre-COVID. So some of this, you have to get into the nature of where you've grown, et cetera. But broadly speaking, your point is a valid one in terms of having the delta in the occupancy overall, pre-COVID versus now is about 3 percentage points of occupancy.

No, that's overall. So what that means is on Monday, Tuesday, Wednesday night, it's actually a bit more than that. While in, for example, the shoulder night, it's less. So you end up with 3 points lower overall. But Monday, Tuesday, Wednesday, you're actually more than that. Now, every city's got peak times when there's the Rockefeller Center lighting or whatever, where you're not going to see any difference in weeknight occupancy.

And so, I would say the percentage of room nights between leisure and BT has shifted a little bit, kind of 4 percentage points shift between the two. So if 24 percent, then you split the rest, you've got a bit higher leisure percentage and a bit lower overall BT to make up the difference between pre-COVID, which shows I think partly why there's probably at the margin, a bit more opportunity in BT in 2025.

Brandt Montour: We have time for one quick last question. On the M&A front, what would be most interesting for Marriott right now looking across the globe?

Leeny Oberg: Our approach on M&A is the same as it's always been, which is that we're always going to be opportunistic, but we're also going to always be quite disciplined. It's important that we look at every big chunk of market and look for where we think that there could be something unique and really additive to our growth opportunities for the future and we'll continue to do that.

Brandt Montour: Okay. Leeny, thanks so much for being here.

Leeny Oberg: Great to see you all. Happy holidays to everyone.

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