Brandt Montour - Barclays Bank PLC, Research Division: So I am very excited to have the CFO of Marriott here, Leeny Oberg. IR, Jackie Burka over here in the front seat and Betsy Dahm. Thanks so much for being here.

QUESTIONS AND ANSWER SESSION:

Brandt Montour: Okay. So first question, macro demand question to get it out of the way. But the three major demand segments - leisure, corporate transient, and group. Can you talk about those three segments in the context of the broader recovery and those -- and the momentum within those segments and how you view the current -- sort of the current backdrop for those segments right now?

Leeny Oberg - Marriott International, Inc. - CFO & Executive VP of Business Operations: Sure. Well, first of all, Brandt, thank you for having me. It's great to be here. Great to see you in this role. It's terrific. And we could take that question and probably spend the whole time on it. So we'll try to whip through it because there's a lot to cover there.

But as we've talked about, we've been really pleased with the resilience of demand and the strength of it across the business segments, albeit with business transient a bit behind the others but still improving. And we look, for example, at the month of October, and despite the reality that we clearly have an uncertain macroeconomic environment as we move into 2023, we continue to see really strong demand.

So, for example, when you think about RevPAR for the company, systemwide worldwide for Q3 was 1.8 percent above 2019 levels. The month of October was 3 percent. And you saw, for example, U.S. and Canada, which was 3.5 percent for Q3, was actually close to 5 percent. And you saw international improve by about one point, still below 0. But that’s with the reality that China in the month of October was meaningfully worse than Q3 because of the COVID shutdowns.

So kind of across the board, we continue to see kind of the power of people's love for travel, pent-up demand, pent-up savings, recovery in certain markets. Asia Pacific outside of China, for example, continues to make great progress. Europe also just absolutely screaming with the weaker pound and euro.

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1 Not a verbatim transcript; extraneous material omitted and edited for clarity and misstatements.
When I go into the segments, leisure has obviously been the star of the show over the past year and half. And again, we continue to see strength in Q3 even over the powerful summer of 2021, where we continue to see leisure business really strong.

And I'll give you a statistic for Thanksgiving week. RevPAR was actually up 15 percent Thanksgiving week in U.S. & Canada and that is with occupancy only being down 4 points and rate more than making up the difference at 19 percent over 2019 levels. And while, of course, we'd love to see occupancy get back to the 2019 levels. If you remember, in Q3, you actually had occupancy more like 6 points down compared to 2019. So again, really nice, continued momentum across the board.

On group business, continue to pace 4 percent above 2019 levels for Q4. I think with all the in-the-quarter-for-the-quarter bookings, you could actually that end up even a little bit better. And then as you look at the rate component of that, it continues to be very strong on the group side. Which is a good reminder that right now, groups are basically being willing to trade flexibility for price. And we see that trend continuing, which I know you're going to want to talk about kind of how we see things next year, and that's one of the elements that does make things a bit uncertain just because there's so much more in-the-year-for-the-year bookings.

Then on the business transient side, as we've talked about before, it does continue to improve, albeit still meaningfully behind 2019 levels. When you look at the smaller, non-negotiated corporate rates, that business is back. That business actually in Q3 was 10 percent above 2019 levels. So your classic small-company salespeople, engineers out working on a project that are, frankly, often in secondary and tertiary markets. That business is absolutely back and shows good economic activity.

I think it is the special corporate accounts where we continue to see that while it is improving, it is still meaningfully behind 2019 levels. Some of that, obviously, is related to a bit of the way people are working, where, for example, the, call it, 20-to-30-year-olds are perhaps able to work more in a hybrid fashion. What we are hearing from the special corporates at the senior level at the so-called consulting or investment bank partner levels or MD levels that, that business is back, that those nights are back. And obviously, you're seeing really strong rate in the upper end of our properties, and I think that helps reflect that demand. So ask me where you would like to fill in where I didn't cover...

**Brandt Montour:** That was such a great introductory, I mean -- or not that could have been a whole fireside right there. We can go now. No, But you've mentioned 2023. And I would like to dig in a little more on how you're thinking about 2023 from the angle at least where you have easy comparisons, right?

But I think the crux of your call and Hilton's call a month ago was that you're both looking for some level of growth in 2023 year-over-year. And so why don't you unpack where the growth is coming from - occupancy versus rate - across the segments or regions?

**Leeny Oberg:** So let's do the easy ones first, and then we'll get to where there's the heightened uncertainty that obviously, the easy one is Q1. No matter pretty much where you look across the board, you saw Omicron have a huge impact. You can already start to see in January, when you start to
look at little bits and pieces of the bookings, you can see that already is showing much more of a normal pattern.

And you'll be hearing us talk about comparisons of 2023 to 2022 going forward. Kind of I think the world of 2019 -- yes, the world is 2019 now seems -- it's like when we talk about the first year we acquired Starwood, which now you realize that was more than five years ago. So kind of move on to the future.

But I do think that the easy comparison will really be quite a global benefit and a big one, right? I mean we were down almost 20 percent last year, I mean, this current year, in Q1 compared to 2019. So that obviously is pretty easy.

Then you've got other areas of the world, which also are seeing easier comparisons because of their really not great comfort in travel in chunks of this year. By the time you got to the summer, you were seeing a lot of it open up. But Asia Pacific outside of China, for example, we continue to see steady improvement. But that was still down in Q3, that was still down 15 percent compared to 2019 levels.

So that, I think you'll continue to see Japan, India, Australia, all of those markets really starting to open up and be - see more international and domestic demand. So put the easy ones aside, and I think that should encourage you that there is a good opportunity on both occupancy and the rate side throughout the year for those two components.

I think the harder one, as we all sit and watch what's going on in the economy, is the classic ones related to fundamental macroeconomic conditions. The booking window is still short on the transient side, still three weeks-ish, and that means that things could turn on a dime.

At the same time, I think we've got some factors that help our industry in a way, relatively more than some others. I think you've still got pent-up demand, desire for experiences over goods. Still, this feeling of “I really didn't like being pent up in my four walls at home. And if there's one thing I'm going to do because I can do, it's travel.” I do think the greater hybrid work environment - when I look out there at airports and when I'm traveling all over, you see it in the airports in quite not the huge lumps that it used to be about weekend versus weekday. And we see it in our occupancies for day of the week.

That's where, again, I think general economic activity, obviously, will have an impact, but I think we've got some of these factors that can help mitigate that part for us. That could make it to the extent it happens, could make it a softer impact.

**Brandt Montour:** And within that, group which seems to be maybe the brightest of the stars. Not necessarily in what it's run rating at, but what it could do in the future. And that's part of the pent-up demand story. But I guess the question is, comparing this to the last cycle, when I think everything just got canceled in 2009 groups. Companies canceled their groups, all the conventions or some of the conventions, the corporate-related ones at least. How is it going to be different this time?
**Leeny Oberg:** So this is again why I find it interesting. Every recession is different. Or every cycle is different. It is the case that group behaved a little bit better than transient. They were both down meaningfully to be fair, in the Great Recession. So there isn't that big a difference between transient and group.

I think a couple of factors are different. I think group is now more in-the-year-for-the-year, which will make it a little bit easier for people to alter their plans. We're now seeing 50 percent of our group in-the-year-for-the-year. That used to be 25 percent. So that's one element.

I think the other one is that cancellation fees are never fun to pay. And so one way that a company can adjust their group is to basically take fewer people. We used to look at both groups cancel but also attrition -- i.e., if a group was supposed to have 600 nights, and they ended up only having 500 because not as many people came. So that's where I think you could see how they play.

But again, I also would look a little bit at behavior differences. And that is that I think, in some respects, organizations are using group now as a way to shore up culture, training, relationships, development of their people. And so in some respects, it may become a bit more required than I'm going to give a great big bang for my salespeople because they had a great year.

So I think some of this will be interesting to watch because I think there is some fundamental desire to make sure that we keep the kind of the tightness of the organization moving forward because people aren't working in the office quite as much.

I think if you look - Ryman, when they put out their occupancy, you can basically see that Gaylord is really -- their occupancy has recovered beautifully. And I think that's where you see this desire on the part of organizations to say, you know what, we've got to make sure that we're keeping the company's culture moving forward. That may actually make some of that group business be even a little bit stickier during a downturn.

And remember, the Great Recession was a downturn that was not like the recession of even 2001. I mean it was deep and broad and, to some extent, extremely worrisome as people were looking at the U.S. financial system, which was at that point in peril. That's really not where we are. So there again, I think there is a greater degree of comfort in the stability of kind of the economic underpinning, if you will, that, again, could also help moderate what we see.

**Brandt Montour:** Okay. On the leisure side, looking into next year or at least just from -- going forward from right now, and you have a dominant position in leisure, it's not lost on us. The question that I get is “Oh my gosh. Well, it's so expensive to go on a family -- a big nice family vacation.” And so I think a lot of investors are concerned about rate compression at the high end on the leisure side just because everyone needs to go on a vacation. And they want to go on a vacation. And maybe there's been a shift but maybe they were going on, I don't know, 15 vacations in 2020 and 2021. They don't need to go on 15, they can go on 10 or the numbers are crazy. That's not what I do, by the way. Anyway, you know what I mean. So is their...
Leeny Oberg: I was going to say, that's kind of interesting...

Brandt Montour: It's Saturday day trips count...

Leeny Oberg: Again, bleisure now. You can go work anywhere.

Brandt Montour: Well, you touched on that. That's sort of part of it, I guess, but answer it, I guess, any way you want.

Leeny Oberg: Well, I think it depends very much on the sector. I agree with you that there has been some pent-up revenge travel. But I also think there are some fundamentals that are going to change next year that are going to help us on the rate side that we haven't had the benefit of over the past couple of years.

One of them is special corporate rates, for example. We rolled over rates for a couple of years. We're now obviously in that process of renegotiating those rates. We've talked about feeling pretty comfortable that you could see an increase in rates on special corporate that are high single digits increase. And I think that in and of itself, if you think about it, can be a nice boost.

There is room in occupancy. That is the other part.

And then we are 10 percent of our rooms are luxury. 10 percent of our pipeline is also luxury. And so while, frankly, many of you in this room probably have been feeling that pain as you look at trying to book your vacations. The reality is that we have 30 brands that are across many, many price points. And when you look at the overall RevPAR, I think you could see that it's -- while there could be some softening of the increase over the kinds of incredible rates of increase that we saw this year, that there are other areas that can kind of offset that.

And then the other part is just recognizing that there is fundamentally this desire to travel. That I think while somebody could choose - maybe they aren't going to Dorado this time, maybe they're going to go to Half Moon Bay, et cetera, where they're both extraordinary, but one was really extraordinary this year versus another. There is still very much a desire to get out there and that life is short.

Brandt Montour: It is short. So I guess the follow-up to that is your franchisees are in charge of their pricing and you give them tools to do a good job with that. Again, comparing back to 2009, if it's the relevant comparison, but is there anything different about the tools they have or the structure of the industry now versus 15 years ago, where you think they'll act a little differently?

Leeny Oberg: Yes, I do. I think COVID, right, we've all learned a lot from COVID. I think everything from people's comfort with digital commerce and really doing so much of their shopping, booking, exploration online. That's just one example to the reality that kind of -- as you think about what was going on in the Great Recession, it was very much just heads in beds. And I think there's been some real lessons learned during COVID about - at some point, occupancy is really not as attractive as making
sure that what demand you do go after you do the best you can to maximize that revenue. And I think all participants in the industry have learned that.

I think the other thing is to remember back in the Great Recession, we didn't have the consistency of pricing that we have today. If you remember back then, we had Travelocity, Expedia, there was much more of an ability to frankly, get heads in beds through deep, deep discount pricing. And through a lot of very hard work in the industry, we've basically gotten to where there is much more consistent pricing for our consumers so that they don't have to worry that depending on where they go, they're going to get consistent pricing. That also is very helpful.

Now to your point, there is still the reality that our franchisees all make their own decisions. But I think generally, the industry has taken some learnings from COVID that will make the focus on rate to be better than it has ever been in the past. Demand is demand. Obviously, if you have a sharp recession, if the Fed raises rates so quickly that then all of a sudden things dive quickly, obviously, we are a cyclical business. I will never say that we don't feel the impact of a cycle. But I think the chasing occupancy element is a bit different than it used to be.

Brandt Montour: And chasing occupancy, when labor maybe is harder to flex up, maybe a little bit of a different world now. I want to ask about that. Where is your system in terms of the staffing up effort? How is labor cost inflation trending against that if it's cooling off at all? And then -- sorry, this is a three-parter, and then I can't remind –

Leeny Oberg: Now I've got to remember...

Brandt Montour: ...and sorry, I just caused the delay. So we should probably just start it over. The last question is about service levels. And that's been a topic, I think, in terms of people having trouble with towels, I guess, is the right headline.

Leeny Oberg: So first is the shift towards more leisure. And that obviously has meant that our hotels need to be even more focused on making sure that they're delivering on the service promise that we have. Because we're not naive in thinking that at the end of the day, it is the experience with our associates on property that is what brings people back to Marriott International's 30 brands. And for all of us at the company, that is a huge emphasis as we really come into full recovery.

No doubt 2021 was a real challenge, right? You were having this incredible increase in demand, people dying to get out and about and a real challenge in getting enough people on property to take care of the guests. That has moderated. While we still have more open positions than we had in 2019, it is meaningfully better than it was in 2021.

So I think we've seen our guest satisfaction scores increase meaningfully from 2021. And it won't surprise you, we're incredibly focused on it across all the range of the tiers. So labor is still a challenge in terms of filling the jobs as fast as we'd like, but it is meaningfully better and the wage pressures have also moderated.
So there -- clearly inflation is much higher and wage rates dramatically higher than 2019 and in general, have outpaced inflation in the U.S. & Canada anyway. But we are seeing that come into line where it is much closer now to being like inflation and a steadier stream of applicants and also with the reality that we're doing things differently.

We're allowing much more flexibility in our associate scheduling patterns. The ability to kind of choose maybe a 4-day work week instead of a classic five-day work week that is always 7:00 a.m. to 3:00 p.m. So we're doing our bit, as well, to demonstrate the attractiveness of working for us, as well as the career opportunities, which, frankly, are quite different from some of your classic hourly positions.

So it's moving in the right direction. I would say we're not back yet, and there's obviously - the industry did suffer with kind of people worrying about COVID. But as you think about people's concerns about a possible recession, I think that also encourages the workforce to be thoughtful about hop, skipping, and jumping every six months.

Brandt Montour: Okay. That's helpful. Okay. And switching or moving over to development. So you guys lowered your net unit growth guidance by 50 bps. And you said that basically that China, more complex properties in China, in China in general, and just the supply chain and the delays in China is sort of what was the cause of that? And I guess the question is, is the entire chat and your peers are saying the same thing, of course.

Leeny Oberg: Well, the pace of the opening up of large cities in Greater China, I think, is still quite uncertain. The good news is that these projects are not being canceled. They are continuing to move forward. We are not seeing them fall out of the pipeline. We do expect them to open.

But is the China construction pipeline -- is the whole thing being pushed back? Or is this a situation where what was going to open this year is just going to open next year instead?

Leeny Oberg: Well, the pace of the opening up of large cities in Greater China, I think, is still quite uncertain. The good news is that these projects are not being canceled. They are continuing to move forward. We are not seeing them fall out of the pipeline. We do expect them to open.

We're in the middle of budget season at the moment in terms of trying to predict exactly when all of this happens and rolls through. So I can't give you specifics about whether they all fall into 2023 or whether it's kind of moved everything out a bit. And we'll be able to give more color on that before long. But I will say some of this depends very much on the situation in Greater China.

As you know, we have a pipeline that is roughly speaking, right now, our hotels right now in Greater China are roughly 75 percent full-service, 25 percent select-service. So you can see that these properties are generally larger, more urban, more complex. You can see how supply chain or the shutdown of a city could have tremendous impact on the construction of one of those hotels.

And frankly, the finishing of it, the permitting of it, getting all the workers on property and trained, all of that gets delayed when you have a city just absolutely shut down. And to some extent, they're shutting down, opening up, shutting down, opening up, shutting down. So that also adds to the challenge of the timing.
So I think we feel great about these projects still happening. Absolutely no sense that they're dropping away. But we -- and we do expect China to open back up and see it rebound very quickly like it did in 2020. But at the same time, it's hard to tell, especially in these large markets.

**Brandt Montour:** Okay. And over in the U.S., on starts, that actually seems to be a better story, at least what we saw in the 3Q. It seemed to bottom. And so I guess the question is, can you unpack why that's bottoming at a time where interest rates are really high. And is there a level that the Fed could go to where it breaks down, or that dynamic breaks down, we have a little bit of a double dip, or I guess it's demand dependent?

**Leeny Oberg:** Right. These properties take a while to build and come online. They can be anywhere from classically two years for a limited-service property up to as much as four years for a full-service property. I can remember working on the pro forma for the NoMad Ritz-Carlton, which opened up in 2022. I don't know if you know down on 29th in Broadway. Absolutely spectacular gorgeous Ritz-Carlton Hotel. I was working on that pro forma in 2013 and 2014.

And obviously, with COVID, it delayed some of the finishing of the construction. But these large urban projects are complicated and take a while.

So in the U.S., we've definitely seen a rebound in the construction starts, although we are clearly still not back up to the peak levels of construction starts, which are overwhelmingly limited-service hotels for us in the U.S. And we're not back yet, but have seen a really nice ramp up this year.

But to your point about interest rates, we've also seen fabulous signings this year. Really around the world, but U.S. & Canada has had a great year in terms of signings of new deals. And I think it points out that the developers are looking longer term than just looking at the next three years. And while some projects are clearly impacted right now by the financing, I would say, tightness where it is both expensive and it's tighter. I mean there's no doubt that there's not as much money out there for development projects. You need to be a really strong brand in a proven market and frankly, a proven developer to be able to get your financing.

And you're right, they are at rates that are more expensive. But at the same time, when you're looking at the dynamics of travel over a longer term, I would argue our asset class is actually looking better than it was perhaps three years ago, where I don't know if you remember, but you and I would be debating about whether RevPAR was going to be up 2 percent or up 2.5 percent, which is a bit of a different world, right?

So I think the long-term view of developers on a piece of real estate that they think has really strong demographics over the long term, I think still wins out. And again, we aren't seeing that those deals are falling away. I think it's more of a function of the timing.

**Brandt Montour:** Remind us what you've said about net unit growth over the next couple of years, if you've given any range or qualitative stats. And then what that assumes with regards to China or conservative China, aggressive China or conservative U.S. starts aggressively starts...
Leeny Oberg: No, I think I like to be able to be very secure in my point of view. So I think for now, we're not willing to say, okay, we'll get back to mid-single rooms growth by x year or in 2025 or in 2024, etcetera. I think for us, it's important to recognize that we do have a bit of a dislocation right now that we're working through, and it's getting better. But the timing over the next 12 months or 18 months still has some uncertainty around it.

I'm very confident that we will get back there. The signings numbers, the pipeline numbers, the lack of fallout, the continued progress on construction projects, and seeing construction starts around the world, gives us a lot of confidence.

Conversions, as you know, Brandt, has been a real bright spot for us. You've seen 25 percent of the -- kind of in the 20s for both openings and signings for conversions for the company, which I think is a great indicator of the strength of Marriott Bonvoy and of the power of the return model that we're trying to drive for our owners and franchisees. And that's obviously something that we expect will continue to help us get back to that 5 percent. But I'm not ready to peg it yet.

Brandt Montour: Okay. Fair enough. Cash flow, capital return, great story for you, of course. You just raised your dividend. You upped your share repurchase authorization pretty recently. Can you just remind us the target leverage range and how you think about that range in terms of how sustainable is that range in terms with a cyclical downturn potential.

Leeny Oberg: So I'm first going to deviate for a minute and talk a little bit about our liability structure because I think it's important to note that kind of going into COVID, we had a heavier weighting of commercial paper. We had shorter weighted average lives on our long-term debt. We have extended those. I expect we will not - while now that we've got our strong BBB across the board from the rating agencies, we do look forward to reentering the commercial paper market. I do not expect it to be at the same levels that it was pre-COVID. So that, just as you think about your debt maturities, I think when you consider leverage ratios, that's a helpful component.

But as we talked about it, we were in fantastic shape at the end of Q3, really at the very bottom end of a strong investment grade target area. We think of adjusted debt to adjusted EBITDAR of roughly 3 to 3.5x as being the right place to live. And as I said before, so far, we've been really moved very quickly down to the bottom end.

But just a good thing to remember that as we've talked about an adjusted EBITDA expectation this year of something that looks like $3.78 million, I think, is the midpoint of the range. One tick - 1/10 of your leverage ratio is either something like $350 million of debt or it's about $100 million of EBITDA. So it actually does give you a fair amount of room to make sure to play.

But we take all of that into consideration, I think probably one of the most positive things that's come out of COVID for us has been seeing how quickly our stats rebound and that the company's cash flow is just incredibly strong. So we're going to be careful, but we're also going to drive returns.
Brandt Montour: Any questions in the audience for Leeny? Thanks so much.

Leeny Oberg: Yes. No, great to see you. Thank You. Thanks for having me.

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