



**Marriott International, Inc.
Morgan Stanley Virtual Global Consumer & Retail
Conference - Presentation Transcript¹
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Thomas Allen - Morgan Stanley, Research Division: Hi, everyone. I'm Thomas Allen, Morgan Stanley's U.S. gaming, lodging and leisure analyst. I'm very happy to have Marriott International's CEO, Arne Sorenson, for our fireside chat. Thank you, Arne.

Before I get into it, I have to read a disclaimer though. So for important disclosures, please see the Morgan Stanley research disclosure website at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales representative.

If you have any questions during this fireside chat, feel free to submit them over the webcast.

So, getting right into it. Arne, thank you. Thank you, again, for taking the time.

Arne M. Sorenson - Marriott International, Inc.: You bet. Good to see you, Thomas.

Thomas Allen: Good to see you, too. So, I don't think it's a secret to anyone that COVID-19 has had a significant impact on the travel industry and on the hotel industry. Your RevPAR was down 66 percent in the third quarter, was thankfully improving throughout the quarter, but you talked on your third quarter call about how things had kind of stalled out a bit. Can you just give us an update on how things have been in October and November?

Arne Sorenson: Yes. The -- I mean October was more or less the same number as the third quarter, down about 65 percent, something like that. November, of course, ended yesterday. So, we don't have final numbers on November. It's going to be interesting to see how those numbers roll in, though. I mean we are -- of course, all of us watching the news about how the airports were crowded or maybe we should say, relatively crowded, right? Still down significantly from last year, but some of the busiest days since the pandemic began over the Thanksgiving holiday. Yet at the same time, we see the virus numbers spreading across the United States with a record average daily new cases, increases in hospitalizations and increases in death, too. And those latter statistics won't be good for our business.

We were -- as I was thinking about this conversation with you today, I was thinking a little bit, okay, what's changed since our earnings release from the third quarter, and -- which was done, I think, right before the great vaccine announcement. But I think in a sense, you could say that the near term maybe has gotten a little bit worse, right, because the virus stats have gotten a

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

little bit worse. But the medium and longer term has gotten a little bit better because I think the optimism about the vaccine has gotten to be that much stronger. I think we can sit here and say with a greater level of confidence than maybe a month or two ago, that sometime in 2021, we should see a shift towards an environment in which the virus is receded into the rearview mirror and we're then looking at, okay, what do demand aspects look like? How long does it take for people to get back on the road? How long does it take for the meetings to get booked? Those sorts of things, which are much more run of the mill, I suppose, than the continuing pandemic.

Thomas Allen: So, your business, obviously, sitting where you are, has a really global view. Can you just talk about the different regions? And I mean on your earnings call, you touched a bit on China, that gave you some encouragement. You want -- can you just talk about -- highlight that to the audience?

Arne Sorenson: Yes. China continues to be the brightest big market in the world. Business sort of nearing 2019 levels. Now remember, one of the reasons for that is the prior outbound business from China has stayed in China. So, you've got both an economy which is performing better compared to the rest of world relative to 2019, but you've also got the stay-at-home, if you will, supportive demand in the Chinese environment. And so that is, I think, really a positive sign about what the rest of the world can look like when the virus gets a bit more under control.

You look at other markets in Asia, South Korea, Japan, Taiwan, have all been a bit better than the rest of Asia Pacific, excluding China. You get further south and I think the virus numbers are a little bit more concerning. And as a consequence, we see stats which are a little bit more like the United States', maybe some place between the United States and Europe.

And Europe and the Middle East. The Middle East has been stronger than Europe. You look at Europe, with the virus numbers increasing again there and governments more inclined to reimpose restrictions. The -- I suspect November will not look good in Europe and probably the next couple of months will not look great in Europe, probably be among the weakest big markets in the world.

Thomas Allen: And then just bifurcating a little bit between leisure and corporate travel, the TSA stats that you mentioned around Thanksgiving, obviously, I think, highlights some strength in leisure. Corporate trends, and I think you were talking about in the third quarter, you were seeing kind of green shoots there. But any more detail would be helpful.

Arne Sorenson: Yes. And we don't have much more detail there. I mean I think we can look at each month in the U.S., for example, and see that business trend has gotten a bit better since March or April. But it is -- the rate of improvement is dramatically weaker than we've seen in leisure. And that's no real surprise. I think as long as offices remain closed in some of our biggest cities and with our biggest employers, or if not, technically closed at meaningfully reduced density and with dramatically higher flexibility, there's a lot less reason for many

business travelers to get back on the road. Nobody to call on, for example, if they would be on a road to call on their customers or their clients.

And so, I think to some extent, we're going to need to see businesses reopen, employers start to encourage people to get back towards behavior that was similar to what they did before. And so, while each month gets a little bit better, and again, we'll see about November and December, given the virus stats. I suspect the recovery in business transient and group will be much more dependent on the distribution of this vaccine.

Thomas Allen: And just -- I mean group is obviously the one business you have that has longer lead time than the rest of your business. Have you seen any changes in conversations since the vaccine announcement that kind of gives you confidence? Is there anything around group that gives you confidence as you look into 2021 and the future?

Arne Sorenson: Well, what we've heard from our group customers from the beginning, or nearly the beginning, has been fairly encouraging. And that is, we want to rebook our meetings, or we want to book new meetings, but we don't really feel like we can do that until we can have the kind of confidence we need to have that it will go over well with our group attendees. And those could be from one company or they could be from an industry or they could be an association that people come together and work.

And what we've seen throughout this pandemic is the next quarter's group business getting canceled, for example, with a desire to rebook for a quarter later or two quarters later or sometime next year. And with each passing month, of course, that has continued to roll into now 2021. But I think we still hear from our group customers, "We expect to rebook" or "We want to book that new meeting." And it's crystal clear to us that from their perspective, as long as we get the vaccines distributed and people get back on the road, they're going to put those meetings back on the docket for next year.

Thomas Allen: And how flexible are you being with the kind of group managers and the corporate travel managers?

Arne Sorenson: Yes. And this is a little bit different than transient travel, obviously, because it can be quite lumpy. And it could be booked at very different times, right? There could be instances in which somebody has booked during the pandemic at reduced rates and maybe sort of deliberately taken the risk as a customer about whether or not they'll be able to hold that meeting. And so, we're working that through. And then of course, it won't surprise anybody to know that one of the things that goes into that set of considerations is, are they rebooking the meeting? And the more the answer to that is yes, the more likely that there is to be some flexibility associated with it. But it varies a little bit based on the hotel and the market and the month that we're talking about. And the teams are working through that.

Thomas Allen: I went to Mexico in October for my 10-year wedding anniversary, and I knew I was taking the risk, right? There's a 1-week booking cancellation window. And I was like, "I'm willing to take this risk because I need to get out of the house." So, I understand that.

Arne Sorenson: Happy anniversary.

Thomas Allen: Thank you. So on -- can you just talk about, look, like, you're kind of at the whim of whether people are willing to travel or not. But looking at the press and looking at - following you, obviously, it does seem like you're taking some initiatives to try and make people feel more comfortable traveling. Can you just talk a little bit about that? Any successes you feel like you had from that?

Arne Sorenson: Yes. We've had a lot of success. I mean we rolled out a program called our Commitment to Clean early, probably May or June, I don't even know that I can remember the month, because it was clear to us that the early traveler was going to demand a safety element or cleanliness element that was even more prominent than what they've always expected. And clearly, forever, people have valued a clean room, expected a clean room, demanded a clean room. I think Marriott has benefited from this because we've got a very strong operating culture and I think a strong reputation that we can deliver that kind of quality to customers.

I think you get into a pandemic, and that all gets magnified, right? Is my room safe? What's the process of checking in? And can I get from arrival at the hotel to my room and still feel safe? What kind of services do I have around fitness, around food and beverage, around other aspects of a hotel? Obviously, that's going to vary significantly depending on whether it's a limited-service hotel or a full-service resort destination that's got all sorts of services associated with it.

And so, we wanted to essentially deliver cleanliness. We want to deliver social distancing, mask-wearing, protocols around checking in, digital check in for those who were most interested in avoiding the human contact or limiting the human contact. And by and large, that has worked extraordinarily well. We have an internal process of certification and monitoring so that we are making sure that we are keeping tests in the hotels in the way that they're rolling this out. And we know that they are highly compliant and delivering against it.

At the same time, I talked to one of our road warrior customers yesterday. For obvious reasons, I won't name, but stays with us -- stayed with us well over 1,000 nights. This is a business entrepreneur who owns his own business, has been on his -- on the road through the pandemic, as has his team, and doesn't want to wear a mask. And so you end up with this dynamic, which is, okay, how do you deliver the experience that the most conservative customer, the most safety conscious customer is going to want to have in order for us to earn their confidence to get back out on the road.

Then how do you also recognize that customer, which is out traveling and really doesn't want to do more than they want to do on the personal level. And so, you work through that with the

operating team sort of as best you can. And what I explained to him, and he certainly understood, was you're going to get better services as the hotels get better occupancy, and that's going to depend on our satisfying the most conservative among us. And let's try and work together to make that happen.

Thomas Allen: So, is he going to wear a mask?

Arne Sorenson: Oh, he's going to wear a mask, yes. He readily admitted that he's much more inclined to wear a mask if somebody says, please. That's just human nature.

Thomas Allen: And when the CEO of Marriott calls you and asks you to a mask, hopefully, you listen.

Arne Sorenson: Yes. But that really wasn't the reason for my call. I obviously get customer e-mails every day by the dozens. I read them all. I don't talk to them all, obviously. I wouldn't do anything else if I did. But I get on the phone with a few of them every now and then just because there's something about their message that has intrigued me, and I want to understand it better or I want, just occasionally, to reach out and touch somebody on a personal level and say, "Tell me what you're experiencing out there?"

Thomas Allen: At the end of the day, this is a hospitality business so focus on hospitality. So, I think technology is an important factor in the business, and there are certain industries that are on the right side of a technology shift and certain that are not, right? And I think Microsoft said this, and I think our restaurant analyst, John Glass, said that they both felt that the shift to technology accelerated three years through the pandemic. How do you think that's impacted the overall hotel industry? And how do you think that's impacted Marriott specifically?

Arne Sorenson: Well, and remember, we're on both sides of this technology equation. We're not a tech company in the sense that we've got a few tech companies out there, quite a few that have benefited extraordinarily from the pandemic immediately, right, as we've had to use their tools in order to replace other approaches we've taken the things the way we do work and the way we live our lives. But having said that, we've got a loyalty program and a dot com site and an app where we are probably one of the top ten globally in terms of the dollars of volume we do through our site every year. And the loyalty program, obviously, is very much technologically enabled. And I think there are aspects of this reliance on technology, which will remain extraordinarily good for us in the years ahead. I talk about digital check-in. I think digital check-in will be something that gets accelerated because of the pandemic that we've been through.

Then you got, of course, the question about, all right, but people are not meeting in person. People are not traveling as much. They're using tools like the one we're using for this conversation, Thomas, to see each other, right? And we say it's nice to see you because it's -- to have the video is a much better -- much more personal link than simply the telephone call. At the same time, I think what we hear from folks every day, I hear it every day, is this gets to be

less and less satisfying, the substitute for personal contact. I'm eager to get back. I'm eager to get back to the office, I'm eager to get back on the road. And I think we will see that, obviously, we'll deal with the economic environment when the pandemic recedes, and economic strength is highly correlated to lodging demand and to spending. And there'll probably be some lingering impacts of that.

And companies that are under pressure, too, will have some focus on travel and entertainment budgets as being things that they can keep down for a while and control. But I think over time, we will see that people like to travel. They like to travel for work. They know it's important to get together, particularly with their customers and clients. They know it's important to train and to build cultures. And some of that you do through meetings and through events of various kinds that use our facilities. And I think we'll see that businesses gradually build its way back. Whether there will be some modest changes around the margins, I think that's certainly possible. There has been over the last 20 years or so, maybe that will be accelerated a little bit.

But there are elements of a word I hate, bleisure. I'm not even sure that if that's been picked up yet. But there will be some upside in the leisure space as maybe remote work makes a little bit - - makes that a little bit more likely for more days a year. And maybe it's a little bit of combination of leisure and business, but it allows more travel because of the flexibility associated with our work environment. And so, all things considered, I think we'll get back to a more normal kind of environment. Not identical necessarily to what it was before, but a more normal kind of environment as the economy lets us get there.

Thomas Allen: So, thinking post the pandemic, do you think that there are things that you can do that maybe already started doing that can drive a shift in business a little bit? Say leisure is a lot stronger than in the past. Say that there is more of this virtual meeting than there was in the past. I mean technology drives change, right? Are there things that you think you can do to kind of make up for that potential lost demand?

Arne Sorenson: Yes. I mean I think there are -- I'll give you two different extremes on it, if you will. One is just making sure that on the leisure side that we continue to do what we need to do on a marketing perspective, in a servicing perspective, and to some extent, to recognize that a leisure trip is not going to be a 100 percent leisure trip. It's going to be a leisure trip, but also maybe with a day or two of remote work that's included in there. So, we've got to make sure we're delivering the Wi-Fi and the other tools that are so important to work, although they're obviously, extraordinarily important to our personal lives, too. But -- so there's a way of recognizing that leisure or combined customer, marketing to them, using the loyalty program in a way that embraces them the way that they'd like.

I think the other -- maybe a very different part of our business would be in the meeting space. And that is how do we, with our meetings customers, develop the best hybrid meetings that can be done. And listening to our group customers, a number of them have been pleased to see that in this virtual world, their attendance numbers have gone up significantly. And they want to hang on to that larger group because that, in effect, is their customer group often or it is the

group of folks that they'll pick from next year to show up at their meetings. But they want to make sure that they have the stickiness of the in-person group, too. So how do you end up using technology from a hotel meeting -- in-person meeting event to drive something that works well for both? And there's good thinking happening around there and good tools that are being used. I think we'll, at the same time, recognize that we're learning at this point. And hopefully, there is upside both for our customer there and for us longer term.

Thomas Allen: One of the things that -- sticking on technology, one of the things that there's always a focus on is the relationship between the hotel brands and the OTAs. And typically, in downturns, hotels lean in on the use of OTAs, but you had a lot of strength in kind of brand dot com and your direct distribution. Can you just talk about how that dynamic has kind of evolved and how you see it in the future?

Arne Sorenson: Yes. I mean, in a way, this is a dramatic oversimplification, but we've got direct booking to the hotels, which comes through our website or comes through somebody calling the hotels. And obviously, different parts of the world have different trends still associated with this, but we've got our own proprietary channels. Then you got OTAs, which broadly defined, include the Expedia and Booking, Ctrips and others around the world who are principally technology companies, not online travel agents, right? The reason we call them OTAs is online travel agents.

And then you've got another category, which, ignore the travel agents for a second, which I should do only at my peril because they're great partners of ours, but look at the tools that are often used by the business traveler, GDS system, for example, some of the corporate travel platforms. And what we've seen in this year is our share has actually gone up. The OTA share has gone up as well, obviously. But with the decline in business travel, the GDS and some of those other tools that really support that have gone down.

And you can look at any one of those and reach some conclusions. We're obviously gratified that our direct channels have gone up. We're also not surprised that the OTA channels have gone up as well because we are more leisure-dependent, and they have always been stronger in the leisure space and less strong in the business transient space. We certainly have capacity. We certainly want to get that leisure business stay with us in our hotels so that we get our fair share or more than our fair share of our business. And in a way that is much more clearly value-add and incremental business to us from the OTAs, and would sometimes appear to be the case. And so, we're glad to have that business. I suspect as we get back towards business travel and group growing again, we'll see some of the same trends that we saw before the pandemic come back into place.

Thomas Allen: So when you say that -- I mean if you try to adjust for the obvious shift in business versus leisure mix, does it feel like the direct is -- the direct versus OTA mix is shifting a lot? Or not really?

Arne Sorenson: I think it is less about OTA versus brand or OTA versus GDS, for example, than it is about the mix of business in the hotels. And when it's the leisure traveler fundamentally doing drive-to vacations, that is disproportionately important to the volume of hotels today, you're going to see that the OTAs come with that. It's not so much that there is a share shift within the segments that is terribly pronounced at this point in time.

Thomas Allen: And you have now over 140 million loyalty members, if I remember correctly. Can you just talk about how that's helping you kind of deal with the pandemic?

Arne Sorenson: Well, the loyalty platform, obviously, is extraordinarily important to us. We were -- meaningfully over half of our entire business before the pandemic was loyalty members in our hotels, either redeeming for their stays or paying for their stays. And that number was growing every year. If you look at late 2019, and we've talked about this before, I was troubled by this pandemic for many reasons, but one of the frustrating parts about it was both the performance of the loyalty program and our market share numbers from the latter part of 2019 into the first part of 2020 had tremendous momentum with them.

I think, in part, it was all the work from the Starwood integration that was done and behind us. It was the sort of proof of one of the theories of that deal, which was by having that much broader choice, that much bigger portfolio in terms of geographic destination, price point, brands, sensibility, lifestyle and luxury, obviously, we are extraordinarily strong with -- having all that rolled into one would drive market share gains for us, and we think that was very much the case.

And obviously, you get into an environment like this one, and loyalty will still be the thing that we build on, but when that business traveler has pulled off the road, we then use the loyalty program to say, all right, well, let's still find that traveler for the leisure trip that they're taking. Let's make sure that we are continuing to sign up leisure travelers as well as business travelers, so that we get them as part of our community of loyal members. And I think in many respects, the strategy remains the same.

Thomas Allen: And I think one of the bright spots was loyalty growth in China. Can you just talk a little bit about that?

Arne Sorenson: Yes. I mean, China, whether you look at loyalty growth, you look at loyalty penetration, what percentage of our total business is loyalty members, or you look at our market share data, and we have been absolutely killing it there in the last number of years. And in fact, our market share numbers in China and a number of other parts of the world continue to go up substantially this year. We are the biggest high-end operator in China by far. And by high end, I mean luxury brands as well as the sort of 4-star, full-service brands in the way we think about it here in United States.

And with that, and with our partnership with Alibaba and a great relationship with Ctrip and some others, we've got a very strong group of Chinese loyalty members and Chinese travelers who've got strong loyalty to us when they travel there as well as when they travel abroad.

Thomas Allen: Are you seeing the Chinese customers -- I think the long-term goal is to get some of the Chinese demand outside of China. Are you seeing -- were you seeing -- I mean now you're not seeing it at all. So were you seeing that improve as you kept on increasing the mix of Chinese loyalty members, as you keep -- kept on developing new properties. I think, 1/3 of your pipeline's into China -- or is in Asia? So, you kept on giving them more offerings. Were you kind of seeing that flywheel continue to build?

Arne Sorenson: Oh, absolutely. And obviously, the Chinese traveler is most important the closer you are to Mainland China, right? So, you get to Macau and Hong Kong, these are obviously big Chinese destinations, but even Thailand or Australia or Singapore, other Asia Pacific markets, the Chinese traveler is hugely important. And increasingly, that's the case in Europe and in the United States as well. And by having our brands well-known, by having a big loyalty base in China, we can capture more than our fair share of that business when they travel abroad.

Thomas Allen: Perfect. Moving on to net unit growth a little bit, as that's always a big focus with investors. You're running at a little over 5 percent growth pre-pandemic. You kind of cut that expectation in half. With third quarter earnings, it sounds like you're a bit more optimistic, saying kind of 2.5 percent to 3 percent. Can you just talk about all the kind of competing dynamics as you think about what your net unit growth should look like over the next few years?

Arne Sorenson: Yes. All good questions. And of course, we've got some learning that is quite relevant to this from prior economic crisis. Albeit this one, the impact of our -- on our business has been more substantial. And so, we got to have some humility, pretending we know exactly what's going to happen from that. But reasonably, clearly, the bulk of the under-construction pipeline should open. It might take a little bit longer to get open, but it shouldn't take a lot longer to get open. And that's going to be the balance of this year as well as 2021 and 2022, say, principally. And as a consequence, I suspect our gross room openings in those years, will -- we don't have numbers for you at this point, but will look not that dissimilar from what we were experiencing before the pandemic.

You get beyond 2022 into 2023 and 2024, obviously, a fair amount of that depends on what kind of construction gets started now or gets started next year or maybe a little bit in the first part of 2022. And I think if you look at that realistically, you would have to say that there will be, because of the pandemic, fewer construction starts than we would have had otherwise. That's a fairly obvious statement, I think, right? How much -- how many fewer and for how long will we experience fewer? It's going to depend a little bit on the shape of the recovery, which we obviously can't know for certain yet. So that would suggest that the gross room openings

will start to taper a little bit as you get to 2023 and 2024. There are -- there's upside associated with conversions, potentially. I think our experience in prior crises would be that upside from conversions is probably not quite as powerful as the downside from new construction starts. But let's see here because, obviously, in the extraordinary weakness of this environment, the conversion has that much more to offer in the upside. So, we'll see how that works.

And then the third factor here, of course, is deletions, or the number of hotels that might leave the system. And there, we'll have to play this out a little bit. We probably will see for the industry, hopefully, not too much for us, but for the industry, we'll probably see more hotels that never reopen after this crisis than we have seen under prior crises because of the depths of this one, because there will be some number that simply have failed financially and will not get picked up by somebody else. Maybe, to some extent, because alternative uses will be better in some of these markets based on the -- and it's going to depend on the shape of the recovery and the like. Roll all that together, we're optimistic that the net number for 2021 will be better than 2020 because the openings will happen. But we're going to have to watch this over the next couple of years and see how it goes.

Thomas Allen: Yes. I mean it's just -- when I talk to generalists about it or I talk internally about your business, and I tell people that your deletions this year are only going to be 1.5 percent to 2 percent, which you guided to, versus last year, it was 1 percent. Last year was a really good year, right? I mean, typically, it's kind of 1 percent to 1.5 percent. People are shocked. These hotels are suffering. It's going to be a long road back. I mean what is the dynamic? I mean is it that the hotels -- the hotel owners were very profitable before? Is it that there aren't alternative uses? I mean, like, what's the stickiness of all these units?

Arne Sorenson: Well, I think it's all of that in some respects. I mean these are -- hotels tend to be purpose built. They're not easily converted into other uses. They are owned by folks who made the investment as a hotel investment, right? And as a consequence, there's a lot of momentum, which is driving them towards having that continue to be the usage of that piece of real estate.

Now remember, what we're doing today, at the depths of the crisis, we had 2,000 hotels closed in our system. We're now less than 500 closed. And probably the biggest area of closure is in Europe, not the United States. Those hotels we don't view as having left our system because our intention is, and the owner's intention, as far as we can tell, is to reopen those hotels and reopen them in our system.

But as there are a few already. I know of one, for example, I won't name it, that has already decided it will not reopen with us, and it was a troubled hotel beforehand. We were not happy exactly to let it go, but it was the right decision to let it go. And so, once that decision was made, even though it didn't open as something else, it's still closed, it was closed with us before. It's already been deleted from our system because we know it's not coming back.

And so, we'll work our way through that. I think to some extent, each owner or each lender, if a lender takes control or each new owner, if a new owner steps in to try and recap, is going to end up making their decisions about what the best use of that real estate is in light of the fact that there is an existing management or franchise contract on that asset, which is another factor that goes into sort of encouraging it to retain the usage they had before.

Thomas Allen: And I assume most of the hotels that are still closed are mostly full-service, gateway city hotels with probably higher-than-normal group business and maybe owned by institutional capital. I mean that's just -- I mean when I think about the REITs that I cover, they still are keeping some of those big boxes closed because they know they can survive the pandemic, they're doing the equations, and that business just isn't as good as your select service properties are doing right now, right?

Arne Sorenson: Yes, that's right. Yes; not just as compared to select service, but compared to geographic location, right? So, we've got full-service hotels, Ritz-Carlton, St Regis, Marriott, Westin, et cetera, on beaches and in mountain destinations, which have performed really quite well in certainly the last number of months of the pandemic as vacationers have gone there.

But think about New York, not to pick on one of my favorite places in the world, but do you go to New York for a leisure trip today? Yeah, I don't know. You can't see a play. Many of the restaurants are going to be closed. The weather is not great. And so you end up, not just because it's full-service compared to limited-service, but because of that destination, which has got more dependence on international travel, more dependence on air travel, probably more dependence in normal time on group business and little to offer in terms of leisure because of the way the pandemic is working in that environment. All of those factors go into what I think is accurate in your question, Thomas, which is, at least in the United States, many of the hotels that are closed are owned by well-capitalized owners who are deciding, "We're better off waiting until next year sometime before we pull that -- open those doors again."

Thomas Allen: I was supposed to go back on a leisure trip to New York last week, have Thanksgiving with my family and I canceled. So, I'm a good example of what you're talking about.

Just on your cost structure. So, you talked about, in the future, having your G&A be about 20 percent below what your 2020 original guide was, right? And so, can you just talk about how you're finding ways to be more efficient?

Arne Sorenson: Well, we've looked at everything. Obviously, the first wave here was not to get to a 20 percent reduction, but was to get to a 70 percent reduction or something like that because the -- many of the costs are either borne by Marriott or they are borne by the hotels that are getting the benefit of the services. Think about the call centers and the reservation systems and lots of things that are paid by the drink, if you will, by the hotel when they get benefit of that reservation.

And when the business sort of functionally disappeared in March and April, we had this -- move very, very quickly and very deeply to beat that. And then as the months of the pandemic worked their way through, our team across the globe and across every discipline, basically said, "Okay, let's look at what we have to bring back, what we should bring back, what we can defer bringing back or what we can kill." And of course, the lens we brought on that conversation was quite a bit tougher than the lens we would have used in 2019. And maybe I'm confessing too much, right, because maybe we should have been just as tough in 2019 as we would be in the midst of a pandemic.

But obviously, we were being that much more, what, skeptical, I suppose, about whether it was really worth doing that. And so, what we've done is essentially said, it doesn't quite track exactly 20 percent versus 20 percent. But basically, we have said there are things we thought were worth doing before that in the new reality we face we think are no longer worth doing. And so, we killed them. And the expectation is that, that is a new baseline. It's not something that's going to come boomerang in back when we get a good year of RevPAR but is something that we'll sort of leave behind. And maybe in a way, it's confessing that we should have never started in the first place. But those are the kinds of conversations and decisions we've made.

Thomas Allen: Before I follow-up on this, Jackie, just wanted me to point. So, Jackie from IR, everyone, says that you've guided to gross unit growth next year accelerating, not net unit growth what you said.

Arne Sorenson: Exactly.

Thomas Allen: Everyone, that's a clarification. Arne did not change their guidance. It was supposed to be on gross.

You touched on the Starwood acquisition earlier, but M&A has been kind of part of your cornerstone for a long time. I mean, Protea, Delta, the list goes on, Gaylord. Is that something that as you think forward will continue to be kind of a focus for Marriott?

Arne Sorenson: Well, if we can find things that create value, we'll do it. We're not into buying to be bigger, just to be bigger. But as we're talking about - in the context of the loyalty program, we do think having the breadth of choice is very much the advantage of the hotels that are in our system, the business that we already have as well as the businesses that we could potentially acquire. And so, we'll continue to look and see whether there are opportunities. I don't have any particular expectations that there will be M&A in the near term that involves us. But we're always keeping our eyes open.

Thomas Allen: And then just in terms of capital allocation, prior to the pandemic, you paid a dividend, and then the majority of your cash flow, you returned to shareholders. You typically -- I think you forecasted kind of you try to be in that kind of 3x to 3.5x leverage. After the rating agencies, you kind of could push it a little bit. Are you going to wait to get back to that level before buying back stock? Or do you think you can kind of start buying back stock earlier?

Arne Sorenson: Well, I mean our lenders, our revolver banks as well as our bondholders and credit rating agencies will be looking carefully at the way we answer those questions. And I think the right set of expectations now is that the first thing we've got to do is get our ratios back to an acceptable place. And if we were out buying stock aggressively well before that, there would be consequences associated with it. And generally, those consequences wouldn't be good.

Thomas Allen: I think there's mostly equity investors on this call, but -- and then...

Arne Sorenson: And by the way, it wouldn't be smart from our perspective either. I mean we -- one thing the pandemic tells us is we live in a world where there are plenty of uncertainties and things can happen. And we are surviving well, in part, because we started this in the 3x range as opposed to 5x range, right? And if you said, all right, you're now at 5x and you're going to go out and start buying back stock, yes, that might feel good at the moment, but what happens if there's some other unanticipated event that comes down the pike, and we'd be weaker going into that than we'd want to be, that our credit rating agencies would want us to be, but also probably, weaker than our equity holders would want us to be. And so, all of that has got to go into this. And the main priority for us from the beginning of this pandemic has been we know we'll get through it. We've got to make sure we're structured to get through it so we can get the benefit of the recovery. We are essentially certain that we will do that now. But we want to remain certain that we'll be able to do that whatever it comes in the future.

Thomas Allen: And then just one last question. The topic du jour is alternative accommodations. Can you just talk about both as a threat to your business and an opportunity for your business?

Arne Sorenson: Yes. I mean I think, obviously, you've got Airbnb about to go public based on what we read the newspapers, and they have obviously filed their documents, which we've all had a chance to take a look at. So, it's been interesting to read. I mean I think what -- and we got into the Homes & Villas business 1.5 years ago or something like that. It was clear to us that the home-sharing space included a business that was attractive to us and a business that was not attractive to us. What was not attractive to us was the -- it's cheaper than anywhere else you can stay, part of that business, right? And that tended to be more urban, smaller units, sometimes actually true home-sharing in the sense that it would be somebody's extra bedroom. Sometimes it would simply be a studio apartment. But that all -- we've never been in the business of providing the cheapest place for people to stay. We've been in the business of providing quality and predictability and luxury and other attributes associated with our business.

But there was another business here, which was a whole home product, which was, in many respects, quite different from a hotel room in that you could all offer multiple bedrooms to traveling families or traveling groups who wanted to have a place to get together where a traditional hotel maybe was a little bit more difficult. That business already existed, not just

Airbnb and other new-age entrants in that market, but folks who have been in that market for a long, long time. And we thought with the loyalty program and the continued shift towards leisure, this could be a good place for us to be. If anything, that has been proven out here as well. I think where our competitors in this space have tended to succeed. It's more in the part of the business that is attractive to us, which sort of reaffirms the business that we've taken. And I think if you look at the cheapest place to stay at a city, that business is probably still under significant pressure and still not very attractive to us.

Thomas Allen: All makes a lot of sense. Arne, thank you very much for taking the time to talk to all of us. This has been really interesting and very helpful for all of us. So, thank you.

Arne Sorenson: You bet. Glad to be with you and be well.

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Note on forward-looking statements: All statements in this document are made as of December 1, 2020. We undertake no obligation to publicly update or revise these statements, whether as a result of new information, future events or otherwise. This document contains "forward-looking statements" within the meaning of federal securities laws, including statements related to the expected effects on our business of the COVID-19 pandemic and efforts to contain it (COVID-19); future performance of the company's hotels; RevPAR, occupancy and demand estimates and trends; our development pipeline, room additions, terminations and net rooms growth; our liquidity 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 Securities and Exchange Commission filings, including our most recent Quarterly Report on Form 10-Q. Risks that could affect forward-looking statements in this document include the duration and scope of COVID-19, including the location and extent of resurgences of the virus and the availability of effective treatments or vaccines; its short and longer-term impact on the demand for travel, transient and group business, and levels of consumer confidence; actions governments, businesses and individuals have taken or may take in response to the pandemic, including limiting or banning travel and/or in-person gatherings or imposing occupancy or other restrictions on lodging or other facilities; the impact of the pandemic and actions taken in response to the pandemic on global and regional economies, travel, and economic activity, including the duration and magnitude of its impact on unemployment rates and consumer discretionary spending; the ability of our owners and franchisees to successfully navigate the impacts of COVID-19; the pace of recovery when the pandemic subsides or effective treatments or vaccines become available; 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 and/or enhance certain health and cleanliness protocols at our hotels; the impacts of our employee furloughs and reduced work week schedules implemented during portions of 2020, our voluntary transition program and our other restructuring activities; 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 data security incidents; 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 document.