Marriott International, Inc.
Third Quarter 2021
Earnings Conference Call Transcript[1]
November 3, 2021

Operator: Good day, everyone, and welcome to Marriott International's Third Quarter 2021 Earnings Conference Call. Today's call is being recorded. I will now turn the call over to Jackie Burka, Senior Vice President of Investor Relations.

Jackie Burka: Good morning, everyone, and welcome to Marriott's third quarter 2021 earnings call. On the call with me are Tony Capuano, our Chief Executive Officer, Leeny Oberg, our Chief Financial Officer and Executive Vice President, Business Operations, and Betsy Dahm, our Vice President of Investor Relations. We are very happy to not only be doing this call all together in person this morning, but to be doing it from the road at the beautiful JW Marriott Orlando Bonnet Creek.

I will remind everyone that many of our comments today are not historical facts and are considered forward-looking statements under federal securities laws. These statements are subject to numerous risks and uncertainties, as described in our SEC filings, which could cause future results to differ materially from those expressed in or implied by our comments. Statements in our comments and the press release we issued earlier today are effective only today and will not be updated as actual events unfold. Please also note that, unless otherwise stated, our RevPAR, occupancy and Average Daily Rate comments reflect systemwide, constant currency results for comparable hotels and include hotels temporarily closed due to COVID-19. RevPAR, occupancy, and ADR comparisons between 2021 and 2019 reflect properties that are defined as comparable as of September 30, 2021, even if they were not open and operating for the full year 2019 or they did not meet all the other criteria for comparable in 2019. You can find our earnings release and reconciliations of all non-GAAP financial measures referred to in our remarks today on our investor relations website. And now I will turn the call over to Tony.

Tony Capuano: Thank you, Jackie, and good morning, everyone.

Over the past few months, I have been fortunate to have spent the majority of my time back on the road. I have been speaking with our associates, meeting with customers, attending industry conferences, and engaging with our owners and franchisees, as I have been doing this week here in Orlando. My travels have taken me to Europe, the Caribbean and Latin America, and many parts of the country, here in the U.S. It has been wonderful to see so many people traveling again and to witness firsthand the resilience of global travel.

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

This resilience was clearly evident during the third quarter. The strong global RevPAR recovery momentum we experienced in the spring continued into the summer, thanks to sustained robust leisure demand and impressive average daily rates. July worldwide RevPAR reached a new peak since the beginning of the pandemic, down just 23 percent compared to 2019 levels. Occupancy in July rose to 61 percent, an increase of over 500 basis points from June, while ADR was down less than 3 percent versus July of 2019. In August, global demand softened a bit, primarily as a result the impact of the Delta variant and the subsequent delay in many companies' return to the office. However, demand stabilized in September before rising once again in October.

Recovery trajectories remain varied by region and have been uneven. RevPAR in all our regions except for Greater China improved in the third quarter compared to the second quarter. The recovery in Greater China has been choppier given its zero COVID-19 policy. Mainland China was the first market to see RevPAR return to pre-pandemic levels a quarter ago, and RevPAR rose again in July, to 11 percent above July of 2019. But demand then fell significantly in August after the government imposed strict lockdowns in response to small regional COVID outbreaks, leading to a meaningful decline in RevPAR for the month. Demand then swiftly rose again in September as soon as those restrictions were lifted.

In the U.S. and Canada, third quarter RevPAR performance improved meaningfully, to down less than 20 percent compared to the same quarter 2019. Results were driven by elevated leisure demand and ADR nearly at 2019 levels. Total occupancy reached 67 percent in July, retrenched a bit in August, and held steady in September before rising again in October.

Third quarter RevPAR in the U.S. and Canada improved across all brand tiers and all market segments – primary, secondary and tertiary. While primary markets are still the most challenged, these markets saw the largest RevPAR gains during the quarter, as demand in gateway cities like New York continued to rise.

Group demand accelerated nicely in the U.S. and Canada in the third quarter. Group room revenues for the quarter were down 46 percent versus the third quarter of 2019, a significant improvement compared to the second quarter's decline of 76 percent versus the same time period in 2019. Group bookings have also been increasing. In-the-year-for-the-year U.S. managed group bookings beat 2019 levels for each of the last five months through October, as event booking windows have shortened during the pandemic. Most importantly, group ADR has continued to rise, and for full year 2022 is currently pacing nearly 4 percent above pre-pandemic levels.

In the U.S. and Canada, special corporate was the segment most impacted by the Delta variant during the quarter, given the delay in return-to-office timelines. As a reminder, the special corporate segment represents business transient customers who book at pre-negotiated rates. We estimate this segment has been accounting for roughly half of business transient room nights, although we can't know with certainty the trip purpose for transient bookings other than special corporate. The special corporate segment therefore gives us the best indication of business demand trends.

Special corporate bookings showed steady recovery each month this year until we saw a slight pullback in the back half of the third quarter. The gradual upward trajectory returned in October, with bookings versus 2019 growing each week during the month. Special corporate bookings are currently down less than 40 percent compared to the same time frame in 2019.

From conversations with our corporate customers, we know that many of them, especially those with more client-facing jobs, are increasingly eager to get back on the road. We expect the recovery in business transient to gradually continue, as more workers return to the office, guest visitation policies are relaxed, and greater numbers of employees are permitted to travel again. We also expect the traditional business trip to continue to evolve, with a blurring of the lines between business and leisure travel.

In the Middle East and Africa, third quarter RevPAR came in less than 20 percent below pre-pandemic levels, led by strong performance in the UAE and Qatar. RevPAR topped third quarter 2019 levels in Qatar thanks to preparations for the 2022 World Cup, while RevPAR in the UAE was nearly even with 2019, largely benefiting from staycations.

Europe's recovery took another large step forward in the third quarter. Occupancy doubled in one quarter to reach 47 percent, as many key international borders re-opened, entry restrictions eased, and almost all hotels were once again open.

The Caribbean and Latin America posted third quarter RevPAR 18 percent below 2019 levels. Demand for our resort properties remained robust, particularly in the Caribbean and Mexico. Urban destinations, while slowly improving, still lagged. Historically, the third quarter is the region's softest quarter seasonally. Yet, many resorts saw record occupancy and ADRs, and our luxury ADR in the region for the quarter was ahead of 2019 levels by 32 percent.

The recovery in Asia Pacific excluding China advanced more slowly in the third quarter. Results were mixed across countries, though India saw a meaningful improvement in demand as COVID caseloads dropped and restrictions lifted. Encouragingly, many countries in the region have recently taken significant steps to re-open travel, such as announcing new vaccinated travel lanes. Demand in October accelerated nicely as a result.

Developer sentiment continues to improve, in step with the global recovery, and the pace of signings has picked up meaningfully this year. At the end of September, our pipeline stood at nearly 477,000 rooms. Gross room openings through the third quarter of this year exceeded the first nine months of 2019 by 25 percent and surpassed the same period last year by almost 50 percent. Deletions from the pipeline remain at the low end of our long-term trend.

Conversions remain a meaningful driver of rooms growth, given our impressive roster of conversion-friendly brands and the meaningful top- and bottom-line benefits associated with being part of the Marriott system. We have already added more conversion rooms in the first nine months of this year than we did in all of 2019. Accounting for over 30 percent of all signings in the first nine months of this year, compared to around 15 percent of signings pre-pandemic, conversions are expected to be a significant contributor to growth over the next several years.

For the full year, we still expect that gross rooms growth will accelerate to around 6 percent. With more clarity around our estimated full-year deletions, we now expect 2021 net rooms growth will be approximately 3.5 percent. The attractiveness of our brands, our increasing development activity, our momentum around conversions, and our industry-leading pipeline give us confidence that we will see meaningful rooms growth going forward. We expect that over the next several years we will get back to our typical mid-single digit net rooms growth that we demonstrated prior to the pandemic. However, the exact timing is hard to predict and will depend on a host of factors related to the global recovery, including the lending environment and evolving supply chain dynamics. Supply chain issues have pushed some openings and construction starts out a few months, but the deals continue to move forward.

Turning to Marriott Bonvoy, global enrollments, driven by digital sign-ups, accelerated during the quarter, growing the program to 157 million members as of the end of September. We remain extremely focused on fostering engagement with our members. We recently rolled out numerous successful special promotions such as our second annual Week of Wonders and the relaunch of Marriott Bonvoy Moments, where members can use points to gain VIP access to a broad variety of experiences. Additionally, we just announced several loyalty program updates including status, award, and point extensions, which should further encourage members to stay with us as global travel rebounds. Since the start of the pandemic, we have grown our share of bookings coming through our digital and other direct channels. Over 76 percent of our global room nights in the first three quarters of this year were booked through our direct channels, with around half of these booked through our digital channels.

In closing, I firmly believe that the long-term recovery is on track. The resilience of travel and consumers' desire to visit our 7,900 global properties is undeniable, and I am looking ahead with a lot of optimism about our future. At this point I'd like to turn the call over to Leeny.

Leeny?

Leeny Oberg: Thank you, Tony.

We are pleased with our third quarter results, which reflect the continued meaningful improvement in the global recovery. Third quarter worldwide RevPAR was down 26 percent compared to the same quarter in 2019, despite the impact of the Delta variant in the latter half of the quarter. In comparison, global RevPAR declined 44 percent in the second quarter versus the same period in 2019.

Worldwide occupancy rose to 58 percent in the third quarter, and ADR was only 4 percent below the third quarter of 2019. We have been very pleased to see rate almost back at pre-pandemic levels in just 20 months. In comparison, global ADR had lagged the recovery in RevPAR in prior downturns, taking around five years to rebound after the 2009 recession and around four years to recover post 9/11. Importantly, the recovery in rate has not just been driven by customer mix. Our third quarter retail, or rack, rate in the U.S and Canada was essentially flat with the third quarter of 2019.

Gross fee revenue reached $776 million in the third quarter. Our non-RevPAR related franchise fees were again particularly strong, totaling $173 million in the third quarter, 19 percent ahead of 2019 levels. Credit card branding fees of $113 million were up 11 percent compared to the 2019 third quarter, on the back of strong new account acquisitions and robust global card spending. Our residential branding fees also had another outstanding quarter, totaling $18 million.

Incentive management fees, or IMFs, totaled $53 million in the quarter. Over 40 percent of IMFs were earned at resort properties, with IMFs from our luxury resorts around the world up almost 30 percent compared to the third quarter of 2019.

We were pleased to see positive results from our owned and leased portfolio in the quarter, primarily due to improved performance at hotels in the U.S. and Europe.

Third quarter G&A and other expense totaled $212 million and were impacted by compensation true-ups and additional legal expenses. We continue to realize meaningful savings from the significant restructuring activities undertaken last year, and we still expect full year G&A and other to be roughly $800 million, down 15 percent to 2019 levels.

We also recorded a $164 million pre-tax loss on extinguishment of debt during the quarter associated with the repurchase of $1 billion of our 5.75 percent senior notes due in May 2025. As part of our balance sheet management, we have focused on bringing down our average interest rate, lengthening our average debt maturity, and reducing our debt balances. Over the last 18 months we have reduced our outstanding net debt by $1.4 billion.

At the hotel level, we have significantly improved margins and lowered breakeven occupancy levels around the world. In the third quarter, even with RevPAR for managed properties in the U.S. and Canada down 27 percent versus pre-pandemic levels, 97 percent of our managed hotels in the region had positive GOP, or gross operating profit.

We are proud of the work our teams have done in maximizing margins during the pandemic.
We expect many of the cost reduction and productivity enhancement initiatives we have implemented will be maintained as occupancies continue to rise. Given the current labor environment, we are keeping a close eye on wage and benefit inflation as associates are hired back and open positions are filled, but our cost reduction efforts could offset this inflation in future years.

As demand continues to rise, we are working closely with our owners and franchisees to maximize hotel profitability while delivering the outstanding guest experiences our customers expect from our brands. We are close to completing an extensive review of our brand standards and are already implementing numerous changes intended to help reduce hotel operating expenses while improving flexibility based on customer needs as occupancies rise.

Looking ahead, we are still not in a position to be able to give specific RevPAR or earnings guidance. But I would like to share some general observations and provide color on certain additional items where we do have some visibility.

We are optimistic about the pace of global recovery as we look ahead into next year, as more markets re-open around the world. With meaningful continued improvement in business transient and group demand, continued growth in leisure demand, and healthy levels of ADR, we expect to make substantial progress in closing the gap to 2019 RevPAR levels by the end of next year, assuming no major setbacks in the pandemic recovery.

To further help your modeling for 2021, as a reminder, the fourth and the first quarters of the year historically have seen lower demand than the second and third quarters. In 2019, global occupancy fell around 6 percentage points from the third quarter to the fourth quarter.

Turning to fees, at current RevPAR levels we still expect the sensitivity of a one-point change in full year 2021 RevPAR versus 2019 could be $35 to $40 million of fees. As we have seen, the relationship is not linear given the variability of IMFs and the inclusion of non-RevPAR related franchise fees. We expect our non-RevPAR related fees to continue to benefit from strong credit card and residential branding fees.

Interest expense is now anticipated to be around $420 million. Full year cash taxes are now expected to be $350 to $375 million.

Our anticipated full year cash flow from the loyalty program has not changed from our expectation a quarter ago. We still expect it to be positive for the full year before factoring in the reduced payments we will receive from the credit card companies. After factoring in these reduced payments, which are expected to effectively repay around one-third of the total $920 million we received in 2020, we continue to anticipate modestly negative cash flows from loyalty.

We remain focused on carefully watching capital expenditures, and we now expect full year investment spending of $525 to $550 million, below our expectation of $575 to $625 million that we shared last quarter. Total investment spending includes capital and technology expenditures, loan advances, contract acquisition costs, and other investing activities.

As we think about capital allocation, retaining our investment grade credit rating remains a top priority. We are making excellent progress bringing our credit ratios back in-line as we continue to generate positive cash flow and manage our spending levels. Assuming this progress continues, we could be in a position to restart capital returns in the back half of 2022.

We're very enthusiastic about how our business is performing and we are happy to now take your questions. Operator?

QUESTION AND ANSWER SESSION:

Joseph Greff – JP Morgan Chase & Co.: I know you don't want to necessarily talk about 2022 with any great specificity, but I just want to get a sense of how you're thinking about the leisure segment as we head into next year. Obviously, that's a segment this year where demand has recovered the most and pricing has been fairly inelastic and price obviously up significantly.

Do you think leisure can maintain some sort of growth trajectory in 2022? Or do you think that has to come down? And then, obviously, it's more than compensated by the growth in the transient -- the business transient segment. How are you thinking about that right now?

Anthony Capuano: Thanks for the question, Joe. We are -- continue to be quite bullish about leisure. We think there's lots more run room in terms of this leisure-led recovery. You heard some of the statistics that Leeny and I shared in our prepared remarks about the performance and the pricing power that we've seen in our resort destinations. And so, the short answer is we absolutely believe that leisure can continue to grow into 2022.

Leeny Oberg: Joe, one other comment I'll make is that we've seen -- actually since 2010, we've seen leisure trips grow faster than business trips. And I think with the reality that there's still some pent-up demand as well as increased savings rates and, frankly, more flexibility in travel, that we absolutely believe that leisure can continue to grow going into 2022.

Joseph Greff – JP Morgan Chase & Co.: Great. And you mentioned it on the call, and you have it in the press release that you have greater visibility on deletions, and I know that the room deletions comment was really specific for this year. Can you talk about the visibility on deletions for next year and maybe where that trends? Obviously, I'm not looking for a gross or a net rooms growth number, but just how you see the visibility on deletions for 2022 maybe relative to historical percentage deletion rates.

Leeny Oberg: Yes. No, great question. And we're in the middle of our budgeting process now, so I think we feel extremely solid about the numbers for 2021. It's too early to give you a specific number. But obviously, the one-time bump that we had this year from the SVC portfolio, we don't expect to happen. And I do believe that it will fall back to more normal levels in 2022 with perhaps still a tinge of COVID-related impact, but I think more likely to be falling back into levels that you've seen before.

Shaun Kelley - BofA Securities: Maybe as my first, Tony, sort of ask the same question, if I could, but focusing a little bit more on corporate and group. Obviously, we're right at the cusp of probably how much lead time you have. But can you just talk a little bit about corporate behavior? You gave us a little color through that things are rebounding a little bit in October. But just what little signs do we have heading into 2022 on what I consider core business transient and then also just maybe on the group bookings front?

Anthony Capuano: Of course. So, the biggest improvement we expect or that we saw this quarter came from business transient, which has already picked up even a bit in October. We're quite encouraged. Special corporate bookings have improved each week in October when we compare them to 2019.

And because you asked for a little bit of granularity, I can tell you that new special corporate bookings in October for some of our key customer categories had some really nice growth. And I'll give you two examples. Accounting and consulting grew 35 percent over what we saw last month, and technology business grew about 31 percent versus last month.

When I flip to group, which was the second part of your question, at the end of September, group revenue was pacing down around 43 percent versus 2019. But we think we could see some improvement from that level given the volume of last-minute bookings, which have been quite a significant recent trend. In the quarter, fourth quarter, bookings in October were above October of 2019 by the highest percentage we've seen since the pandemic began.

And maybe the last thing I would tell you on growth -- on group, excuse me, that is also quite encouraging. When we look at the group that's on the books for 2022, the ADR for that group is up about 3 percent, almost 4 percent, relative to the group that was on the books for 2020[2].

Shaun Kelley - BofA Securities: And maybe just as my follow-up, if I could. Could you just give us a little bit -- there's been more discussion in the industry than probably is normal about small and medium-sized corporates, and that activity rebounding a bit faster than what we've seen in maybe the larger Fortune 500 or top 50 accounts. Could you talk a little bit about that exposure for Marriott, if you break it down that way, or maybe the behaviors that you're seeing between small and medium and larger-sized corporates?

Anthony Capuano: Yes, of course. Historically, we saw business transient business coming out of small and medium-sized companies was about 60 percent of our business transient revenue. Now given that the larger businesses have been a little slower to recover during the pandemic, for the first three quarters of this year, we've seen about 75 percent of that revenue coming from small and medium accounts.

Thomas Allen - Morgan Stanley: Given much of your marketing spend is done through the system fund, I'd be interested to hear just an update on where you are in your kind of marketing strategy and spend versus kind of pre-COVID. I remember back to early 2019, you did a big Bonvoy push. I'm just trying to think about what you're doing now and the potential implications for distribution and market share.

[2] Year corrected.

Leeny Oberg: So, you're absolutely right that, broadly speaking, our marketing spend is a function of the top line revenue from our hotels. And that is in two places, Thomas. One is obviously in classic sales and marketing fund. But also, when you think about the revenues coming into our loyalty program are also driven by a combination of our credit card spend as well as hotel revenues and penetration of Bonvoy stays at our hotels. And so clearly, that is still meaningfully down from 2019, however, obviously, a whole lot better than it was in 2020.

And I'm sure you've seen lately that we've done a fabulous new campaign that has been on everywhere from airlines to sports games, et cetera, that really emphasize how special it is to be able to travel and to have experiences that open your mind, if you will. And so, it's been a really concentrated reminder to the -- to our consumers of how special travel is. And that new campaign has generated incredible response from all the different customers and media touch points.

Thomas Allen - Morgan Stanley: Okay. Just as a follow-up. Just can you update us on OTA distribution and your thoughts there?

Leeny Oberg: Yes, sure. It's very similar to what we've talked about before, which is that, clearly, the OTAs have gained share as a result of special corporate being down on a relative basis. But we're still seeing that our digital channels are gaining share faster than the OTAs. So, while I'd say that OTAs are probably now at about 14 percent of total bookings, you still remember that our direct channels are over 76 percent and about half of that is coming through the digital channel.

So, we're very pleased to see that digital continues to gain share very nicely. Our mobile app downloads have grown really well. So, the OTAs have been an important driver of business for us during this pandemic. But I think, from a share perspective, we're continuing to see the same trends we've been seeing.

Patrick Scholes - Truist Securities, Inc.: Hilton has been pretty vocal about having daily housekeeping on-demand, and I haven't heard as much from you folks. What do you think about that going forward, especially for your mid-scale types of properties?

Anthony Capuano: Well, it's a timely question, Patrick. As I mentioned in the opening remarks, we've just spent two full days with a significant number of our owners and franchisees here in North America. As we shared with them, we continue to run a few different proofs of concept evaluating how we strike the right balance between guest expectations and the economic challenges that our owner community continues to face. We got tremendous engagement and input from that community. And I think we continue to move towards a more definitive and permanent position on housekeeping.

Patrick Scholes - Truist Securities, Inc.: Okay. And then just a quick follow-up question. You had noted eventually getting back to your mid-single-digit long-term net unit growth. But for next year, is it reasonable to assume that net unit growth percentages will be roughly similar to what they are this year?

Anthony Capuano: It's too early to give specific expectations. Now what I can tell you is we are, with increasing confidence, feeling like in the midterm, we're going to get back to that mid-single-digit rooms growth. But I think it will be a bit challenging next year, and it will be challenged for a few reasons.

I think, number one, the continued unpredictability of the pandemic. But maybe more impactful, we have seen some delays in construction starts, some of which have been direct results of interruption to the supply chain. But again, those feel like short-term impediments.

And in fact, it's interesting if you look at the pipeline, both in Q2 and Q3, the fallout we saw was the lowest we've seen in the last three years. So that would certainly suggest that, while we may have to struggle through a bit of these short-term delays, it actually bolsters our confidence in our ability to get back to that mid-single-digit growth rate.

Stephen Grambling - Goldman Sachs Group, Inc.: I guess, to follow up on the initial 2022 expectations, what guardrails can investors think about around the more concrete expense items such as G&A? And should the relationship you've outlined between RevPAR and EBITDA generally hold as we think into future years?

Leeny Oberg: So sure. So, a couple of things. On the G&A front, I think, certainly, you have to take into consideration what's going on with wage and benefit inflation. And then, I think, as we get back to more kind of fully-loaded RevPAR numbers in the system, I think you should expect that, for the next year, anyway, that it will be a little bit higher than just inflation as we get the organization back to kind of full operations.

But again, I still think that you're looking at overall levels of G&A reflecting the significant work that we did in 2020 to rebuild Marriott so that it still will be meaningfully lower than the kind of guidance that we gave at the beginning of 2020, which was $950 million to $960 million. Similarly, as you asked about -- what's your other question that you asked about, Stephen?

Stephen Grambling - Goldman Sachs Group, Inc.: Just as we think about the relationship between RevPAR and EBITDA.

Leeny Oberg: Yes, for EBITDA and RevPAR. Yes, I think it will be the same, except, perhaps a little bit bigger as we have more and more owned, leased profits coming back as well as IMFs coming back. If you remember, pre-pandemic, we were close to $50 million per point of RevPAR. We're obviously getting, hopefully, closer to $40 million. And that's obviously hotel-related RevPAR.

The non-RevPAR will tie much more into both the residential fees as well as the credit card fees. But it should expand, although, I think, again, in 2022, it will still be closer to the $40 million in 2022 and then, again, continue to grow from there.

Stephen Grambling - Goldman Sachs Group, Inc.: And since you mentioned the non-hotel-related fees and credit card fees, I think you referenced that you'd had very strong sign-ups. Can you just remind us of how a customer typically progresses once it signs up? Do you see a burst of spending right at sign-up? Or is there a kind of a gradual build? And are you seeing any change in behavior on that?

Leeny Oberg: Yes, absolutely. Absolutely a gradual build, you're right. It absolutely kind of -- it takes a while to get going.

Smedes Rose - Citigroup Inc.: I wanted to ask you a little bit more on the group bookings that you are seeing in the U.S. Is it fair to say that the sort of larger CBD, sort of more group-oriented properties, are continuing to lag? Or have you seen -- are you seeing kind of any uptick there? And maybe any other sort of just changes in the composition of the group?

Anthony Capuano: Of course. Maybe I'll give you some macro observations. But before I do that, certainly, we're seeing really strong social group activity and expect that to continue. In terms of citywides, which, I think, was part of your question, it was interesting. We spent the last two days with many of our full-service owners here in the U.S. And I think their view is they're seeing softness in citywide activity in the first half of 2022, but are hopeful they'll start to see some pickup in the back half of next year.

More broadly around group, you heard some of the comments I made in the prepared remarks. Q3 revenue is down 46 percent in group as compared to 2019, which was a big uptick compared to the statistics we shared with you last quarter, where we were down 76 percent versus 2019. The other statistic I would share with you that I think is interesting. In-the-quarter-for-the-quarter bookings in October were above in-the-quarter-for-the-quarter bookings from October 2019 by over 30 percent, which is the highest percentage increase we've seen since the beginning of the pandemic.

Smedes Rose - Citigroup Inc.: Okay. And then I was just hoping if you could talk a little bit more about what your owners are seeing on labor costs. It sounds like you're sort of somewhat optimistic about the growth in IMF next year. And I'm just sort of trying to, I guess, square that with the fact -- I mean, we heard from one owner last night that labor is up 20 percent. I just wondered what your folks are seeing.

Anthony Capuano: Of course. So, like many other companies around the country and around the world, we are seeing some challenges with labor. It won't surprise you that those challenges are most acute in the markets where we've seen the most rapid recovery in demand. So, leisure destination is kind of leading the way. From our perspective, we have a multi-pronged approach to try and address those issues.

We've been doing -- we've ramped up our efforts in social and targeted marketing, highlighting the extraordinary opportunities that exist at Marriott. We have, in some instances, used one-time sign-on bonuses or temporary incentives. And we do still have many open positions to fill, but we are seeing a bit of an uptick in applicant flow and have been filling jobs pretty steadily over the last several months.

Leeny Oberg: And I would add, we are not hearing from our owners that it's universally 20 percent. There may be a couple of markets here and there where that could be happening in a particular situation. But broadly speaking, while it's clearly meaningfully higher than it was back in 2018 and 2019, I would say 20 percent is not the norm.

And the only other thing I'll say is that, while ADR is still not back to 2019 levels, traditionally, in our business, we have been able to see that ADR tends to be able to hold on to inflation, that we've seen ADR increases that are at least inflation, if not higher. And while, clearly, at the moment, we're not back there yet, that should be helpful as well.

David Katz - Jefferies LLC: I know that we have seemingly a fair amount of time to discuss this. But with respect to capital returns, if you could just talk about what would have to happen for capital returns to maybe start earlier or later, for that matter. And within the construct of those capital returns, any changes in how you would think about the mix of buybacks versus dividends and the puts and takes around those, just so we can start the conversation now, nice and early?

Leeny Oberg: Sure. So, first of all, similar messages to what you've heard before, which, maintaining our investment-grade credit rating is a top priority for Marriott. We do want to continue to get our credit ratios back to the 3 to 3.5x levels of debt-to-EBITDAR. We are really pleased with the progress that we're making in that regard. It probably happened faster than we might have imagined a year ago. And so, with that in mind, we are feeling increasingly confident that we'll be able to turn to returning capital to shareholders, perhaps with continued progress in the recovery in the back half of 2022.

When we think about the mix of dividends versus share repurchases, I think it's instructive to look at what we did in the Great Recession, which is that we -- as we move closer and closer to that 3 to 3.5x range, we reinstituted a modest, a smaller than -- smaller-than-it-was-before cash dividend and then return to the normal level of cash dividend before we began share repurchases. And Tony and I will be talking about that to the Board and continuing to have a dialogue, but I don't think that… That's a pretty good framework for you to consider as we move forward.

I think from a kind of rationale, David, I think one of the things we really like about the 3 to 3.5x level, for us, is the flexibility that it then gives us when we see an opportunistic investment come our way. And so, we do want to return to that area knowing that when those come up, we want to be able to take advantage of them. And in that regard, kind of reestablishing that policy and those levels, I think, is where we're headed.

David Katz - Jefferies LLC: Perfect. And if I can just follow up with one just modeling detail. When we look back historically versus this year, with the differential in cost reimbursements and revenue and costs, there are periodic positives versus negatives. And this year, it's been more of a positive so far. Is there any sort of input you can help us with the remainder of this year and how that evolves into next year, just to keep our models straight?

Leeny Oberg: Yes, sure. I think, as a reminder, over time, that the idea is that is essentially a net neutral to the company, i.e., these are cost reimbursements without a profit component, and the timing of the revenues and the expenses can obviously vary. Just kind of to your point, as you look at what's happened this year, you have seen that the gap has narrowed between the net reimbursed revenue line, and that's really a reflection of loyalty.

When you think about last year, far fewer redemptions were taking place. And we had lowered our administrative costs in the loyalty program to take into consideration the much lower RevPAR that we had in the system. So naturally, that has come back to a higher level this year as -- and redemptions have also grown meaningfully. But again, I think over time, you'll continue to see some variation quarter-to-quarter and year-to-year. But over time, the general direction is net neutral to the company.

William Crow - Raymond James & Associates, Inc.: Tony, I appreciate the comments on the special corporate-rated business travel and the pickup you're seeing in consulting and technology, in particular. I'm curious whether the destinations have changed. As we look at the STR data, it's pretty barren in some of these bigger New York, Chicago, San Francisco. Is that consistent with where your -- what you're seeing from the special corporate-rated business?

Leeny Oberg: So, first of all, as we talked about, the smaller and medium-sized business transient has been relatively stronger, and that, to your point, is more likely to be in secondary and tertiary markets. However, during Q3, we saw the best improvement in our big cities in special corporate that we've seen since the pandemic. So, I think it is absolutely moving in the right direction, including those larger cities.

William Crow - Raymond James & Associates, Inc.: Okay. And then my follow-up is kind of on a bigger-picture basis. Should we be putting a bigger risk premium on the fee income coming out of China, given the changes in kind of government attitudes going on there?

Anthony Capuano: Well, how much time do we have, Bill? I think, listen, China is a really important market for us. It is a dynamic and evolving market. Like anybody that's got a significant footprint in China, we continue to watch with great interest and great focus the evolving landscape there.

But when you look at the composition of ownership that we have, when you look at the percentage of our portfolio that has whole or partial ownership by state-owned enterprises, I don't think we look at it as having any really remarkably higher risk profile than we've thought for the last number of quarters.

Leeny Oberg: And one reminder, as I'm sure you know all too well, we typically do not have an owner's priority on our IMF there. And so, the IMFs actually behave very similarly to base fees.

Dori Kesten - Wells Fargo Securities, LLC: Based on your early -- based on early conversations that you're having with developers, how do you expect signings to trend over the next several quarters? And are there certain markets that you're having to provide additional incentives that you haven't historically?

Anthony Capuano: Well, as I mentioned earlier, the pace of global signings has picked up significantly since the bottom of the trough created by the pandemic. Year-to-date, our signings are up about 30 percent compared to where we were same time last year. What we hear anecdotally from our partners, financing for acquisitions and conversions of existing assets continues to be pretty readily available.

Construction financing for new builds is more challenging. The construction financing that is out there, as we've seen in other more conventional down markets, tends to rely heavily on relationship lending, tends to rely heavily on quality of sponsorship, and tends to rely heavily on the quality of the brand affiliation.

In terms of additional investment, we are not seeing any sort of remarkable spike in the use of the company's balance sheet. The guiding principles that have guided our deal-making in good and bad markets remain intact. In instances where we see a strategic imperative or in instances where we think we can drive premium fees and earnings for the company, we will consider use of the company's balance sheet.

Dori Kesten - Wells Fargo Securities, LLC: And I may have missed this, but what was the reasoning for the lower investment spending in 2020 -- I'm sorry, in 2021?

Leeny Oberg: No, that's fine. So, as we've talked about before, a couple of things. One is that we did talk about how some construction starts have pushed forward a little bit. And so that would then impact some of when the key money goes out the door. But probably more importantly and larger is we just really are able to refine the amount of capex that we're going to spend on system capex as well as the company's new headquarters building. And when you put those together, you get the reduction that we described today in the press release.

Richard Hightower - Evercore ISI Institutional Equities: Just in terms of the development pipeline, again, I guess, given that it's a little more heavily skewed towards luxury and upper upscale than maybe some of your peers, wondering if you could describe any differences in the economics of those tiers, specifically versus the select service tiers and even by geography. I mean, are there any pockets of tightness more so than the average around construction cost, lending availability, et cetera, et cetera, that we should be aware of?

Anthony Capuano: Sure. So maybe I'll remind you, we got a question on this topic a quarter ago. And I think the specific question we got was, within our portfolio, in terms of the economics to MI or to Marriott from a fee perspective, how would a luxury hotel like a Ritz-Carlton compare to a lower-tier product like a Fairfield Inn? And the response we gave a quarter ago was, obviously, subject to variability by geography, but it's about 10x.

We see about 10x the fee potential in a luxury hotel that we typically achieve in a select service hotel. They are more complex projects. They are more capital-intensive projects. The complexities of getting them financed are not insignificant. But as evidenced by the volume of luxury and upper upscale in our portfolio, the strength of our brands, I think, command pretty effective ability to source debt for those projects.

Richard Hightower - Evercore ISI Institutional Equities: Yes, I appreciate that. And maybe I'll turn it on its head for a second, but the economics to the owners as well, I mean, are there any key differences in that regard versus what actually impacts Marriott itself?

Anthony Capuano: Well, as I said, these are complex projects. You heard in Leeny's prepared comments some pretty extraordinary numbers about our branded residential business. And with increasing frequency, we see the luxury projects being developed as mixed-use projects that include a branded residential component. That's often critical in underwriting those projects and getting them financed. In leisure destinations, the premiums we've seen in luxury rates over the last couple of quarters have been extraordinary.

Robin Farley - UBS Investment Bank: I want to circle back on the group booking outlook. I know you talked about price or rates being up 4 percent next year. I'm wondering if you could give us a sense of what kind of group bookings is relative to 2019. I think there's this idea that there's going to be a lot of pent-up demand for it.

But I'm wondering if that's actually translated into bookings yet? Maybe, obviously, not for Q1, but are there quarters in Q2, 3 or 4, where the -- what's on the books is back to 2019 levels? Or are groups kind of not pulling the trigger just yet?

Anthony Capuano: Of course. Thanks, Robin. So, if I look at 2022 in aggregate, and I look at total group revenue on the books at the end of this past quarter and compare that to what was on the books at the end of the third quarter in 2019 for 2020, we're down about 20 percent in gross revenue. We're down about 23 percent in total booked rooms. And as I mentioned earlier, we're up nearly 4 percent in ADR.

Robin Farley - UBS Investment Bank: Okay. Great. Now that's helpful. And then just on the lower investment spend, and I know, Leeny, you mentioned that it was kind of refining some of the headquarters and systems capex. Is there -- is it somewhat related to the -- there's some like impaired contract investment in the quarter that -- was there like a significant project or maybe it's multiple ones that got canceled or something? Just wondering if that is related.

Leeny Oberg: No, not at all.

Robin Farley - UBS Investment Bank: So, what's driving the impaired contract investment in the quarter?

Leeny Oberg: Sorry, yes. No, the -- actually, it was a -- it was not a contract investment. This was an initiative for some international hotels that we had begun in 2019 related to operational improvements in some international hotels. But as a result of COVID and all that is going on in those hotels that it no longer makes sense to carry forward with that. So, the investment that we had put on our books to date needed to be written off. It was actually a program initiative of the company for the hotels. It was not related to a hotel contract.

Robin Farley - UBS Investment Bank: So, it was like you had kind of made loans to some hotel owners as an incentive, and then kind of now -- that the loans are written off. Is that roughly how it works?

Leeny Oberg: No. No, actually, as you know, very often, we have programs that we do for our hotels that they reimburse us for. And in some cases, we actually develop the programs and, over time, the hotel owners pay us back. And in this case, we had begun work on the program and invested some funds to develop the program and decided, once COVID came, it no longer made sense to implement that program at the hotels and have them repay us over time, so we wrote off the investment.

Robin Farley - UBS Investment Bank: Okay. Great. That's helpful. I don't know if -- one final. So, you made a comment when talking about priority of using your cash flow kind of reinstating a smaller dividend then repo then larger dividend. And you mentioned the investment-grade rating to kind of take advantage of opportunities -- to be opportunistic, I think, was the expression you used. Is there anything acquisition-wise that you think about where you would be looking for opportunities? I don't know if you can characterize anything, and then that's it for me.

Anthony Capuano: I would say that the approach we've taken to evaluating those sorts of opportunities remains intact. If you look at our track record in this area, we don't feel any particular pressure to do acquisitions, simply for the sake of scale. If we see a gap in our portfolio, whether that be a brand gap or a tier gap that we think represents significant growth opportunity or a significant gap in our geographic footprint, that can be solved the way we did with AC in Spain or Protea in South Africa, we would certainly take a look at that. But I think Leeny's comment is really around our capital philosophy to ensure we are in a good position should one of those opportunities present itself.

Chad Beynon - Macquarie Research: I wanted to ask about the continued recovery in rates given how strong it's been. Anthony, you talked about the outlook for group, but I'm wondering if you could kind of touch on maybe some of the differences in leisure, BT and group? Have you guys been able to test and learn maybe how high you can push pricing? Or is this tough to do without kind of full compression nights.

Anthony Capuano: Well, there's a lot in that question, I think, that the good news, what we've seen through the last couple of quarters, is the ability of the leisure segment to create compression. And the creation of that compression, almost irrespective of which segment drives the compression, is driving really terrific pricing power.

I think when you look at our retail rates across the portfolio, we are essentially back to 2019 levels. And that's another statistical illustration of the strength of our pricing power. And what's really encouraging about that is that we're achieving that pricing power, albeit at lower occupancy levels than we were experiencing in 2019.

Chad Beynon - Macquarie Research: Okay. Great. And then a quick follow-up, maybe a near-term modeling help. Leeny, you mentioned that normal seasonality is for Q4 over Q3 to be down 6 percent sequentially from a RevPAR standpoint. Has there been a major difference, looking back on leisure versus corporate, given that I think we all expect for corporate to kind of improve sequentially here?

Leeny Oberg: Yes, sure. I think when you look overall at the business, it is traditionally the case that you have lower business overall. Again, I think, interestingly, I actually expect leisure could continue to strengthen. Because when you think about coming out of the pandemic, increasingly, people are feeling comfortable traveling. Where we see festive bookings in places like CALA, et cetera, it's great demand. And the holidays are pacing up well compared to 2019, so I think we're very encouraged.

But the overall message we were trying to impart is that, typically, it is a period, just with family holidays, et cetera, that it is a lower occupancy quarter. And it's worth mentioning that when you go back to 2019 and 2018 levels, and you look at our EBITDA in Q3 and Q4, as we talked about in our comments that, typically, Q3 is a higher RevPAR-driving quarter than Q4 typically.

Anthony Capuano: Thank you very much. And thanks to all of you for your continued interest in the company and the recovery of the global travel and tourism industry. We are back on the road, and we look forward to running into you in our hotels around the world. Thanks again and have a great day.

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