Marriott International, Inc.
Morgan Stanley Global Consumer & Retail Conference Transcript[1]
December 1, 2021

Thomas Allen - Morgan Stanley, Research Division - Senior Analyst: Hi, everyone. I'm Thomas Allen, Morgan Stanley's U.S. gaming, lodging and leisure analyst. I'm very happy to be with Tony Capuano, the CEO of Marriott. Tony is actually at the Times Square EDITION across the street from Morgan Stanley's offices, and we just realized that now. So, this could have been almost in person, but it's not.

Anthony Capuano - Marriott International, Inc. - CEO & Director: I can probably step out on the terrace and yell out the window and you can get my response. Thanks for having me.

Thomas Allen: Exactly. So, two things -- I just have to do two housekeeping things first. First, 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.

And then second, if you have any questions for this webcast, please just submit them over the webcast and we'll get to them.

So, with that, we'll start.

So, Tony, thank you very much. Now that you've been in the CEO seat for around nine months, can you talk about your top priorities for the company as you look out over the next few years?

Anthony Capuano: Of course. Well, as you might expect, given that we are still in the midst of recovery from the pandemic, our teams around the world are keenly focused on driving demand and capturing more than our fair share of that demand as we watch the recovery develop around the world. But I think we're looking beyond the recovery as well. And beyond the recovery, I would give you four or five principal priorities.

I think number one, it's all about remaining focused on our key constituents. So those constituents, obviously, are our associates, our guests, our owner and franchisee community and, ultimately, our shareholders. We continue to be very focused on growing our industry-leading portfolio, both through new development as well as conversions. I think you should reasonably expect us to continue to enhance the Marriott Bonvoy loyalty program and grow both Bonvoy membership and engagement. And then maybe most importantly, you'll see us

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

continue to innovate and bring new ideas to that umbrella of Bonvoy branding into our operations that we think will drive engagement with those members.

Thomas Allen: So COVID obviously had a significant impact on your business. Can you talk about like how it's impacted your business, how you're recovering and if you think there are any changes in kind of consumer behavior coming out of COVID?

Anthony Capuano: Sure. So maybe I'll give you some quantitative responses to the first part of the question and then pivot to some of the trends we've seen emerge that we think may very well endure beyond the end of the pandemic.

As you heard in our third quarter earnings call, RevPAR was down about 25 percent relative to 2019 levels on a global basis. We continue to see good momentum in October. October RevPAR was down just 24 percent versus 2019, and that was about a 300-basis point improvement from where we were in September.

In October, we also saw global occupancy rise to about 61 percent, and that's the highest level we've seen globally since the start of the pandemic.

I just came back from a week in the Middle East. I was in Dubai, Doha and Riyadh. And I was pleased to see that what we call the MEA region, the Middle East Africa region, saw RevPAR fully recover and actually surpass pre-pandemic levels in the month of October. October RevPAR in MEA was up about 2 percent versus October of 2019. And as you might expect, that was led by the United Arab Emirates and the impact of Expo 2020.

As we look ahead to the end of the year, now I'll give you a reminder that I know you know, Thomas, Q4, we usually see a seasonal drop in global occupancy. Back in 2019, we saw global occupancy drop about 500 basis points from October to November and then about another 800 basis points from November to December. And -- but even while we're keeping a close eye on this new variant, we do currently still expect to see sequential quarter-over-quarter improvement in global RevPAR versus 2019 in the fourth quarter.

We had really strong October results. That recovery momentum continued into November. And in fact, I just got some statistics this morning. If you look at the Thanksgiving week here in the U.S., RevPAR was up almost 13 percent versus 2019. And that recovery was disproportionately driven by ADR. And so that, I think, fuels our optimism about the business performance we expect going into the Christmas and New Year's holidays.

On the second part of your question, I think we expect to continue to see this notion of a blending of trip purposes. It used to be quite easy to walk into one of our hotels and determine almost by site whether a guest was a business traveler or a group meeting attendee or a leisure traveler. I think that will become more difficult, but we think that's terrific news for our business. And we also are starting to see some data that would suggest a bit of a lengthening of stay.

I experienced both of those trends myself two months ago. I went to Europe for the IHIF Berlin Investment Conference. I've probably gone to that conference for 30 years. But historically, I would take a Sunday night flight over, spend two days in Berlin and come back. Instead, I took a 12-day trip. And during the course of that trip, I was in five cities. And at various times during those 12 days, I was a business transient traveler. I was a group meeting attendee, and I even snuck in a bit of leisure travel. So, I think both of those trends will likely continue even when the pandemic is behind us.

Thomas Allen: So, talking about that earlier -- well, I guess we're in December -- earlier in November, the U.S. reopened borders to international travelers. Historically, I think about 95 percent of your U.S. business has been domestic customers. But like have you seen a change? Did you see a change in international visitors after that happened? And do you think it's sustainable?

Anthony Capuano: Well, your memory is spot on. Back in 2019, only about 4 percent of our U.S. business was international, but we would see a higher percentage in some of the big gateway cities across the country.

Here in New York would be a good example. If you look back at 2019, international demand in New York City was about 11 percent of total demand. We have seen very steady and encouraging improvement in international bookings since the announcement in mid-September, again, particularly in those gateway markets. And in fact, if you look at recent weekly bookings from international guests, they are about 60 percent higher than what we saw in the weekly bookings pre-announcement of the border openings.

Thomas Allen: Time will tell how Omicron impacts that but encouraging all the same.

Anthony Capuano: No question.

Thomas Allen: So then just -- you touched on how things -- the momentum has continued in November, and you highlighted the really strong Thanksgiving. Has it been broad-based? Like have you seen the special corporate and group bookings continue to pick up? Or has it been more kind of leisure-dominated still?

Anthony Capuano: We have. Particularly here in the U.S. and Canada, we've seen a nice steady improvement in both group and special corporate bookings. If you look at weekly special corporate bookings, they're currently down around 35 percent versus where we were same period in 2019, but that's a nice pace of improvement even compared to just what we saw a month ago when we were down around 40 percent.

And then on the group side, new group bookings have also improved pretty steadily. If you look at recent new weekly bookings for all future dates, they're only down between 10 percent and 12 percent versus the same period back in 2019.

Thomas Allen: Great recovery. Talking about another side of your business just around unit growth. Pre-COVID, you're growing hotel rooms a bit over 5 percent a year. You're now at about 3.5 percent. Do you expect to get back to those pre-COVID levels?

Anthony Capuano: Yes. We're very confident, Thomas, that we'll get back to those mid-single-digit growth rates. I think given the attractiveness of our brands, the uptick we've seen in development activity, the really encouraging trends we've seen around conversions through the first three quarters this year, our industry-leading pipeline, the fact that we've got more than 200,000 rooms under construction, I think all of that continues to drive our confidence.

Precisely when we get there is a little difficult to predict, as you might expect. Even the events for the last four or five days remind us of the unpredictability of the virus and the pandemic. And that, coupled with some of the supply chain challenges we've had likely make it difficult to get there in 2022. Although, again, I am encouraged by the pace of conversion activity we've seen through the first three quarters.

Thomas Allen: And then what are the kind of key geographic regions that's driving the net growth?

Anthony Capuano: Yes, it's interesting. When I think about growth -- and obviously, in my prior role, I was -- my thoughts were consumed with net unit growth. Round numbers, we've got a 17 percent or 18 percent market share in the U.S. and Canada. We've got between 3 percent and 4 percent market share outside of the U.S. and Canada. So, over the long haul, we think there is a really significant runway for growth internationally.

I talked about our pipeline, which is just a shade under 500,000 rooms. More than 60 percent of that pipeline is international. And if I had to guess, I would suggest to you that, that percentage mix will continue to rise towards a higher proportion of international growth, but not to the exclusion of domestic growth. We continue to see strong demand for our brands here in the U.S. and in Canada.

Thomas Allen: And then you have about 30 brands today. How do you think about that portfolio? And do you see opportunities for organic and inorganic opportunities there?

Anthony Capuano: Well, it's interesting. Maybe appropriately, the Starwood transaction tends to consume discussion about M&A. But as you'll recall, prior to the Starwood acquisition, we were rolling along at a pretty good clip in terms of smaller regional acquisitions, some of which filled a geographic gap in our distribution, some of which may be a demographic, something like Moxy and sometimes a product offering like the Elegant deal as we entered into the all-inclusive space.

I would expect the vast majority of our growth going forward would be organic. But as we've done for as long as I've been with the company, we'll evaluate acquisition opportunities on their merits. Thankfully, we're in a position where we don't need to do M&A simply to achieve scale. But if it achieves some of the metrics we've evaluated in the past in terms of helping us gain a foothold in a market where we've been challenged to grow organically and/or if it's a platform that we think has regional or global growth implications, then we'll certainly take a look.

Thomas Allen: And then just one last one on your net unit growth and your brand portfolio, how much are construction delays and supply chain issues impacting your businesses?

Anthony Capuano: We've certainly seen some issues certainly here in the U.S. and all of us watch these same troubling images of freight backed up at various ports around the country. It has slowed down some of our construction, either starts or completions, a bit. But I think the really encouraging news -- Leeny and I talked about this in the third quarter earnings call. We're at a 3-year low in terms of the percentage of the pipeline that's falling out, and so we continue to have a high degree of confidence that the hotels that are in the pipeline are going to open. They may just slip one quarter or two as a result of some of these supply chain interruptions.

Thomas Allen: And what do you think is driving that very low percentage dropout that you're seeing?

Anthony Capuano: Well, a few things. I think number one, when you look at our universe of owners and franchisees, they tend to be long-term investors focused on long-term holds with these assets. They don't necessarily get too cute in terms of trying to time the market or time cycles. And I think in this particular circumstance, they think about putting a shovel on the ground today with a hotel not opening for 18 or 24 months. And they've got some measured optimism about that hotel opening in the teeth of a pretty strong recovery environment. And they also wonder whether some of the hotels that they might compete with will have not done renovations through the pandemic period. And so, they envision a bit of a double win, opening into a strong recovery environment and being the newest product in their given market.

Thomas Allen: Tony, I had dinner with a friend last night who was going to go do a project with a hotel company. He was asking me about profit improvement plans. And so, can you just talk about -- Marriott's been famous for being very structured around what you have your franchisees and your partners do. But have you kind of gotten through the process of like helping them through COVID while also making sure that they kind of maintain their quality?

Anthony Capuano: Yes. The -- I think one of the things that's really been encouraging to me, given our business model, we don't always agree with our partners on every aspect of the business. But we just had about 200 of our owners and franchisees together with us in Orlando. And we reviewed the fact that through our advisory councils, we had nearly 100 meetings with them over the last year. And in some ways, they -- we've all come to the same side of the table to try and figure out how we can help each other weather the storm.

We have worked together to identify operational efficiencies. We've worked together to identify strategies to try and fill vacant positions. We've tried to identify operating efficiencies that we think can endure beyond the end of the pandemic. When possible, we've helped our partners navigate some of the government support programs that have been available. And subject to lender approval, we've tried to give our owners flexibility on things like FF&E reserves. And then you combine that with some of the really terrific work that our teams have done at the above-property level.

As you know, in 2020, we completed a very extensive organizational realignment to reduce our corporate G&A. We were able to lower that by plus or minus 15 percent. We expect G&A this year to be about $800 million, which would be about 15 percent lower than where we were in 2019. And we do think a lot of those savings can be sustained over the long term.

Thomas Allen: Can you just talk about what those are? I think that people are surprised when they hear a company like Marriott can cut its head count by 15 percent and sustain it. So, can you just talk about what you're doing differently?

Anthony Capuano: Yes, it's really about prioritization, Thomas. I think we have focused more of our teams on demand recovery. We've tried to find more efficient ways to do the same type of work. In some areas, maybe we've modified the scope of work we do. You look at a function like global design, maybe we do some of that work through technology and on a hybrid basis, combined with in-person visits. But it's really looking at every part of the enterprise and trying to identify areas for enhanced efficiency.

Thomas Allen: And then labor shortages and wage inflation is obviously a big discussion point in the market in general. Can you talk about kind of two ways, one, how it impacts your core corporate business, the Marriott -- like, I guess, your managed hotels are Marriott employees. The core corporate and then how you help your owners with their head count and their employees?

Anthony Capuano: So, it's interesting. We got a question during the third quarter earnings call, and the question was, I heard from an owner that wage increases or wage rates are up 20-plus percent. That's definitely not what we're seeing. I'm sure somewhere around the world, there's a market where that's the case. We have seen some wage pressure. And as you might expect, where we see that problem most acutely is in those markets where demand has recovered most quickly. So, Arizona, Florida, California, those types of markets. The other side of that coin, obviously, is those are the markets where we're seeing the most rapid growth in average daily rate as well. So that's a bit of an offset.

But we've worked, as I said earlier, closely with our owners and franchisees to try and come up with ways to streamline hotel operations, look at every part of the operation and identify those efficiencies. And we are increasingly confident that the efficiencies we've identified should help offset the vast majority of the wage and benefit inflation that we're seeing.

And then maybe the last part of your question, we are doing everything we can to support our owners and particularly our franchisees in terms of job fairs and doing a better job getting the narrative out there about what an extraordinary company Marriott is to build long-term careers, sharing statistics that we've talked about with pride for years that more than half our general managers started in the hourly ranks. And so, we are in some markets having to do some onetime incentives, but we're really trying to help spread the narrative about the opportunities that the company offers.

Thomas Allen: How much of this do you think is transitory? And using the term transitory, how much do you think like -- how much inflation do you think there is? And how much of it is transitory is, I guess, the question.

Anthony Capuano: Yes, it's a great question. I mean I think the bigger challenge for us, depending on which consultant you endorse, upwards of potentially one in five jobs in the travel and tourism sector have left that sector permanently. And so, I think the challenge for companies in the sector is really to do a better job explaining why this is a sector that prospective employees should be drawn to, identifying the long-term opportunities that exist and getting folks that are not simply shopping for the current highest hourly wage rate, but instead are more keenly focused on identifying long-term career development opportunities. And I think that's maybe the most powerful tool we have to try and mitigate some of the wage pressure that we're seeing.

Thomas Allen: And asking the question in a more positive light, can you just talk about the pricing power that you've had to date and how sustainable it is? And why do you think it is?

Anthony Capuano: Yes, it's been a pleasant highlight of the recovery is the recovery of the pricing power. If you look back at other challenges, whether it was post 9/11, whether it was post Great Recession, in those instances, it took us upwards of four or five years to get back to pricing power. And as we talked about in the third quarter earnings call, in many markets, we're already back to 2019 ADR levels.

Why? I think a few things. I think you look at savings rates in many countries around the world, certainly in the U.S. You look at -- I don't particularly love this term, but you hear lots of folks talking about revenge travel. I just think people are -- have been reminded as they've been quarantined, how much they missed the ability to visit friends and family, explore new cities, try new foods, experience new cultures. And I think that's why you've seen, particularly the leisure segment, come back so strong and endure even beyond the end of the traditional summer season.

Thomas Allen: Have revenue managers changed their mentalities at all to think to themselves, "Let's not focus as much on occupancy and let's focus much more on rate?" We're hearing that a bit from the casino companies. I'm not sure if maybe the hotel industry has broadly changed that or not.

Anthony Capuano: Well, I think the hotel industry has really made remarkable progress over the last number of years on the science and the sophistication of managing yield. And so, I'd be more worried if I heard somebody saying let's just go for rate. I mean we are trying to strike the right balance between occupancy and pricing in a way to maximize room revenue. And I think you'll continue to see us take that approach.

Thomas Allen: And talking about doing things differently. Last week, you announced a new partnership with Amadeus. Can you just talk a little bit about what you're getting out of that relationship?

Anthony Capuano: Of course. As we've talked about in the past, we are making some significant investments in our core technology platforms. I think the agreement with Amadeus is one component of that, but we are rebuilding and supplementing our core technology infrastructure to support our growth ambitions over the next several decades. And I think that Amadeus relationship will be a natural part of that evolution.

Thomas Allen: One thing that's been a bright spot in your recovery has been around credit card fees. They were up 11 percent in the third quarter versus 3Q 2019. Can you just discuss how you're driving such strong growth there?

Anthony Capuano: Yes. The credit card fees have been really resilient and a real bright spot for us. Before I talk about some of the statistics, one thing I would mention, Thomas, one of the really interesting challenges that our credit card platforms helped us address, we've got 160-ish million members of Bonvoy. And particularly in the early days of the pandemic, they weren't traveling much, if at all. And I think our credit card platforms were one of the tools we were able to use to stay so engaged with our customers and work with our credit card partners on grocery purchase bonuses and those sorts of things, so that we stayed connected and sticky with our customers through those early days.

Obviously, growth in credit card branding fees is really a function of two variables: cardholder spend and new cardholder acquisitions, and we continue to see good, steady growth in both of those areas. Even in the midst of the pandemic -- and we talked a little bit about this on the earnings call. We launched new branded credit card programs in really important international markets like Mexico and South Korea. And both of those new card products are off to great starts as well. And so, I think we feel even more and more optimistic about the strength of those programs and the power of our partners.

Thomas Allen: And that reminded me that you have the JV with Alibaba in China. Can you just talk a little bit about how that's been coming along and just the China market in general and kind of what you've been seeing in the China market?

Anthony Capuano: Sure. So, the Alibaba partnership has been a terrific opportunity for us as I think you're aware, it allowed us to create, in effect, a Marriott storefront on the Alibaba site, which gave Alibaba members access to the entirety of our 7,800-hotel portfolio. I think it did a terrific job of helping the Chinese consumer really understand the breadth of the portfolio, the positioning of the 30 brands within the portfolio.

As you may have seen, we just made an announcement with Rakuten in Japan, which I think will give us similar exposure to the portfolio. China has been interesting. China is obviously our second biggest market. We've got about 400 open hotels and another 400 hotels behind those in the pipeline.

In the second quarter, Leeny and I, with great pride, proclaimed that China was back, that demand across all three segments was at or above 2019. And then you fast forward a quarter, again, because of the unpredictability of the pandemic, at one point, you saw more than 100 cities in Mainland China shut down, at least for short periods of time, which impacted that performance in the way you might expect.

The good news, though, I think, for our model is that -- and for the China market, you saw those markets lock down, get containment of the virus and then reopen relatively quickly. And we have real-time visibility into those demand trends. And so, you saw a terrific demand in the second quarter, a moderation in that demand in cities where there were lockdowns. And as soon as those lockdowns were lifted, almost an immediate reacceleration of demand in those markets.

Thomas Allen: Interesting. One of the things that we have noticed that's been kind of a structural change in your business has been small and medium-sized enterprises have kind of come back a lot faster than large enterprises. Why do you think that is? And then do you think that that's like a lasting change? Or do you think that that's just a temporary kind of phenomenon?

Anthony Capuano: If you look at our data pre-COVID, so use 2019 as an example, small- and medium-sized customers represented about 60 percent of our business transient. Year-to-date this year through the first 3 quarters, that is up to about 75 percent. I think it's relatively easy to understand. Although it's been fun for me the last 2 days seeing New York feel so alive. As I talk to our customers, you've still got spotty return to the office in many major urban markets around the country. We've always anticipated that a significant return to the office would act as a catalyst for a large company business transient demand.

And so, in the interim, you've seen small- and medium-sized companies represent a bigger percentage of that revenue. Our expectation would be, as you see more and more major urban markets reopening that it will likely settle back down in that 60-ish percent range.

Thomas Allen: Big picture question, when do you think RevPAR will get back to 2019 levels?

Anthony Capuano: Well, I would love to tell you, maybe I can ask you 15 questions about the pandemic, and if you could give me the answers, I'll tell you.

What I can tell you is we continue to be really encouraged about the pace of recovery. I think it's a bit of folly to predict with any precision precisely when it's back. And I felt that way a week ago, I think the events for the last four or five days underscore the idea that we've got to see how the pandemic continues to evolve before we're prepared to make those sorts of definitive projections.

Thomas Allen: Okay. Something that you can see a lot clearer is just your -- the OTA mix within your business. It's picked up during the recovery. Obviously, leisure has been very strong, and so that shifted it. But like how do you think OTAs kind of fit in, in your distribution channel?

Anthony Capuano: Well, the OTAs are important partners to us. They give us access to consumers that are a little more difficult to market to through our traditional channels.

Interestingly, if you rewind to just before the pandemic, in 2019, we saw the OTA share of room nights actually dropped for the first time in several years. And as you know, we have the ability to yield out that business on high-demand nights. Thankfully, as leisure has led the recovery, we've seen an uptick in demand coming through the OTAs. But over time, we expect our direct share will continue to increase in the same sort of way we saw it between 2017 and 2019.

Thomas Allen: And then Airbnb, do you feel like it's having any different impact today on you than it did pre-COVID?

Anthony Capuano: Well, certainly, maybe the way I would answer that, if you look at our Homes & Villas platform, just before the pandemic started, I think we had order of magnitude, about 3,000 listings. As we sit here today, we're more than 35,000 listings. And so, I do think the combination of strong leisure demand, coupled with folks being really focused on cocooning a bit with friends and family, led to an uptick in demand for multi-bedroom homes and accommodations. It's driven the performance of Homes & Villas. It certainly helped Airbnb through that period. But interestingly, I think as demand recovers, you'll continue to see our customers, one can expect all the services and amenities that they've grown to love in our hotel portfolio.

Thomas Allen: And then there was a recent settlement in Pennsylvania around disclosing resort fees. What exactly is going on there? And do you think that will have any impact on your business?

Anthony Capuano: I don't think so. I mean we were very confident in the disclosures that we had built into our channels around resort fees. That settlement, which had no financial implications or admissions of wrongdoing or anything else, simply give us the opportunity to provide even more clarity and transparency to our guests on resort fees and the value proposition of those resort fees. And we're very comfortable with where we landed with the Pennsylvania AG.

Thomas Allen: So final question. We haven't talked a lot about groups. So just talk about what you're seeing on the convention front, how optimistic you are that it's going to rebound in kind of the months and years ahead?

Anthony Capuano: Yes. So statistically, I mentioned a couple of numbers earlier. And on the Q3 call, we talked about steady improvement, both on overall bookings and some really encouraging data on the pricing power we've seen in ADR through the third quarter.

A few months ago, we had about 300 U.S. association and corporate meeting planners together with us in Orlando. They were bullish on the protocols we had put in place to offer safe meetings. They were taking lots of photographs and videos to send back to their constituents. I think they left that meeting with lots of confidence about the ability of Marriott to pull off safe meetings.

And maybe most interesting to me, what we heard qualitatively over those few days, while we've done, I think, an admirable job of putting in place the technology platforms to enable hybrid meetings, almost to a person, those meeting planners said, "It's nice that you have that. But if we're going to have the meeting, our members really want to attend in person. And so, you've convinced us, you know how to hold these meetings safely. And we hear a disproportionate number of our -- either employees or members insisting on attending in person." So that continues to fuel our optimism about continued recovery in the group segment as well.

Thomas Allen: All right. Tony, we got through a lot there in a very quickfire way. Thank you much for...

Anthony Capuano: I felt like I was in a Jeopardy lightning round.

Thomas Allen: Exactly. Well, thank you very much. And audience, thank you very much for listening.

Anthony Capuano: Thomas, thanks so much for having me. Let's do this in person next time.

Thomas Allen: Definitely.

Anthony Capuano: All right. Thank you all.

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