Operator: Good day and thank you for standing by. Welcome to Marriott International's Second Quarter 2021 Earnings Conference Call. Today's call is being recorded. I will now turn the call over to Jackie Burka. Please go ahead.

Jackie Burka: Good morning everyone and welcome to Marriott's second quarter 2021 earnings call. On the call with me today are Tony Capuano, our Chief Executive Officer, Leeny Oberg, our Executive Vice President and Chief Financial Officer, and Betsy Dahm, our Vice President of Investor Relations.

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 June 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.

I am very pleased with our second quarter results and the accelerating pace of the global recovery. The tremendous overall improvement we saw in both occupancy and rate in the quarter demonstrate a basic premise - people love to travel and to stay at our hotels.

Demand grew steadily throughout the second quarter. Worldwide occupancy gained 6 percentage points in the month of June compared to May and topped 55 percent. Average daily rate in June was down only 13 percent from June two years ago. As a result, global RevPAR has risen meaningfully and swiftly from the depths of the pandemic when RevPAR was down 90 percent, to down just 38 percent in June compared to the same month in 2019.
Recovery timelines vary by region, given uneven vaccination trends, virus caseloads and travel restrictions. Yet we remain encouraged by the incredible resilience of travel demand, demonstrated by the rapid return of guests in areas where rules have been eased and people feel they can travel safely.

This can be seen most keenly in Mainland China, the first major market where RevPAR has recovered to pre-pandemic levels. RevPAR in the second quarter was driven by very strong demand, resulting in ADR exceeding 2019 levels. Occupancy reached 71 percent in April and 68 percent in May, before dipping to roughly 60 percent in June due to small COVID outbreaks and strict lockdowns in certain markets. Demand recovered quickly once the restrictions were lifted, as we have seen throughout the last year. July RevPAR is again expected to exceed 2019 levels.

Perhaps most encouragingly, in April, for the first time since the pandemic began, leisure transient, business transient and group room nights in Mainland China were all ahead of 2019 levels. This is especially impressive given the absence of international arrivals due to stringent border restrictions.

The U.S. & Canada accounts for roughly two-thirds of our rooms, and in this region lodging demand grew impressively during the quarter, led by increasingly strong leisure demand as the number of vaccinated people continued to rise. U.S. leisure room nights in the second quarter were 15 percent higher than in the second quarter of 2019, though we are seeing more blending of trip purpose with the more flexible work from home or anywhere trend. Total U.S. occupancy reached over 63 percent in June, with ADR down just 11 percent versus June of 2019. Our strong momentum has continued into the first three and a half weeks of July, with U.S. occupancy reaching 67 percent and ADR down only 2 percent compared to July of 2019. July RevPAR for this period was down around 16 percent versus July of 2019.

The U.S. is also seeing increasing signs of recovery in both special corporate and group demand. While special corporate booking levels in the first three and a half weeks of July are still down around 45 percent compared to the same period in 2019, we are optimistic that we have turned a corner. U.S. special corporate bookings rose 23 percent in June over May, and then rose another 27 percent in the first three and a half weeks of July, as compared to the first three and a half weeks of June, with improvement widespread across industries and lengthening booking windows. Many of our corporate customers are telling us they are beginning to get back on the road this summer, and we expect to see a step up in business travel post Labor Day as children go back to in-person learning and workers increasingly return to the office.

Group bookings in the U.S. have also gained momentum. U.S. group bookings made for all future dates were down 29 percent in June compared to those made in June of 2019, a large improvement from down 56 percent in March 2021 versus March of 2019. And for the first time since the pandemic started, group bookings made in the month of June for any time in 2021 exceeded in-the-year bookings made in the same month of 2019.
At the end of the second quarter, group revenue pace versus 2019 was down 31 percent for the fourth quarter of this year, improving to down 21 percent for the first quarter of 2022 and then down 12 percent for the second quarter of 2022. However, it is still early, and we expect bookings made closer to the event date will increase group revenue on the books for these time periods. Most importantly, our sales team is holding on to average daily rate. ADR for group bookings is almost flat for the fourth quarter and 3 percent higher for full year 2022, compared to the same periods in 2019.

In other regions in the world, demand in the second quarter improved over the first quarter in the Middle East & Africa, in the Caribbean & Latin America, and in Europe.

Middle East & Africa is benefitting from relatively high vaccination rates in many countries in the Middle East. Occupancy strengthened to 47 percent in June, largely driven by staycations in the UAE and quarantine business.

Occupancy in Caribbean & Latin American improved meaningfully during the quarter, rising to 45 percent in June. While urban destinations continue to struggle given slow vaccination rates and high COVID case counts, many of our resort properties in the Caribbean and Mexico are flourishing, as they benefit from easing international travel restrictions and their close proximity to the U.S.

Europe’s recovery is still lagging, given its heavy reliance on international guests, slower border re-openings, and shifting restrictions that change on short notice. Yet, with the EU easing many travel restrictions beginning in May, and an increasing number of hotels re-opening, occupancy doubled in just three months, reaching 31 percent in June.

The recovery in Asia Pacific excluding China stalled in the second quarter, as countries such as Japan, India, South Korea, and Australia imposed strict lockdowns in response to sharp rises in Delta variant cases and low vaccination rates. Encouragingly, the recovery is now picking up steam again, as caseloads in some countries like India have started to decline.

Shifting to the development front, our pipeline stood at nearly 478,000 rooms at the end of the second quarter. Openings were strong, with nearly 25,000 rooms added to our system during the quarter, and deal signings were also healthy. Additionally, less than 2 percent of rooms fell out of the pipeline, one of the lowest levels we have seen in the last three years. We are very pleased with our momentum around conversions as well. Conversions accounted for 26 percent of rooms added in the first half of this year and have been a meaningful contributor to signings. We continue to have the largest pipeline of global rooms under construction. We are also seeing great momentum around our branded residential business, with a record 18 residential properties expected to open during the year.

For the full year, we expect that gross rooms growth will accelerate to approximately 6 percent. And with more visibility into anticipated full year deletions, we now expect 2021 net rooms growth to be towards the higher end of our previous expectation of 3 to 3.5 percent. As a reminder, this estimate includes the 100-basis point headwind from the 88 Service Properties
Trust hotels that left our system earlier this year. We are pleased with the continued progress on replacing those hotels with new product. We are now in conversations for 80 percent of those locations, with signed or approved deals for nearly 20 percent.

We continue to enhance and expand Marriott Bonvoy into an immersive travel platform that includes multiple products and offerings that enable us to provide value to our members beyond hotel stays. The program grew to over 153 million members at the end of the quarter.

Homes and Villas by Marriott International, or HVMI, which currently has around 35,000 whole home listings, has been an attractive offering and tool for engaging with members throughout the pandemic. With nearly 40 percent of listings in markets where we don’t have distribution, HVMI is expanding the number of destination options for our guests. Over 90 percent of HVMI room nights in the quarter were booked by Bonvoy members.

Our co-branded credit card holders were very active in the second quarter, with global card spend surpassing the same period in 2019. Global card acquisitions were also strong, reaching 2019 levels. Our recent credit card launches in South Korea and Mexico have seen strong initial interest from consumers in those markets. The South Korean card issuer, Shinhan Financial Group, touted the launch of our card as one of the most successful premium card launches they have ever had. Our total co-brand credit card fees in the second quarter surpassed those in the same quarter of 2019 for the first time since the pandemic began.

We’ve also been very pleased with our successful Uber collaboration in the U.S. The number of members linking their accounts to date has far exceeded our expectations. Activated accounts were already averaging six transactions in just the first ten weeks, demonstrating our ability to drive real engagement with our Marriott Bonvoy members beyond the hotel stay.

We are always working on innovative ways to enhance our guests’ full travel experience. Just last week we became the first major hotel company to provide U.S.-based customers with the opportunity to purchase travel insurance. Guests can now buy travel insurance when they make a reservation through Marriott’s website or mobile app by linking to approved products sold by Allianz Partners. As part of this distribution agreement, Marriott will earn commissions from Allianz.

In another effort to connect with Bonvoy members beyond the hotel stay, we are piloting a program that allows members to earn and redeem points at food and beverage outlets in select hotels, even if the member is not staying in the hotel. The program is currently in over 200 outlets in Asia Pacific and the Middle East, with expansion to over 500 outlets expected by the end of the year.

We also remain keenly focused on engaging with another key constituency, our owner and franchisee community. We have worked closely with them throughout the pandemic to help lower costs significantly. With the meaningful improvement in demand, profitability for many hotel owners accelerated in the second quarter. As the recovery continues, we are aligning with our owners and franchisees to balance two important goals as we think about our path
forward – maximizing hotel level cash flow and driving great guest experiences, as Leeny will discuss in more detail.

We are also working to address the labor challenges we are seeing, mainly in the U.S. in markets such as Southern Florida, Texas and Arizona, where demand has rebounded quickly. To that end, we are increasing our social and targeted marketing of Marriott as a best employer with career advancement opportunities, as well as holding job fairs to reach qualified candidates. Hiring tools, including one-time sign-on bonuses and temporary incentives, sometimes in combination with base salary adjustments in select markets, are also being successfully employed.

Before I turn the call over to Leeny, I want to thank our amazing team of associates around the world. I have spent time in Los Angeles, Miami, and New York over the last couple of weeks, as I’ve been getting back on the road again. It has been wonderful to visit our hotels and to meet with so many of our associates and see firsthand their passion and resilience. These have been challenging times, but we are looking forward with optimism. While the timeline is uncertain, I am confident that our business will fully recover… and continue to grow from there.

Leeny?

Leeny Oberg: Thank you, Tony.

Our second quarter results reflected the strong pace of the global recovery and the incredible resilience of our business model. Worldwide occupancy came in at 51 percent, a significant increase of 13 percentage points over the first quarter of this year. We also saw meaningful improvement in our average daily rate decline versus pre-pandemic levels, with ADR down 17 percent in the quarter compared to the second quarter of 2019.

We are optimistic that rate recovery will occur faster than in prior downturns when ADR gains lagged occupancy gains. It has been very encouraging to see that in Mainland China, ADR has come back in tandem with demand.

Elsewhere, ADR has also been particularly strong in areas where occupancy has rebounded quickly. In Aruba, Puerto Rico and Mexico, over half of our 28 luxury and upper upscale comparable resorts saw record high ADRs for the month of June. In the rest of the U.S., robust demand across our 34 comparable luxury resorts drove ADR for those hotels up more than 40 percent above June 2019 levels. Demand in Greece rose quickly after travel restrictions were eased in April, leading to a 20 percent premium in ADR for the quarter versus the same period in 2019.

Global RevPAR declined 44 percent compared to the second quarter of 2019, a more than 15 percentage point improvement compared to the first quarter RevPAR decline versus the 2019 first quarter.
We recorded gross fee revenue of $642 million in the second quarter. Our non-RevPAR related fees again proved to be quite resilient. Totaling $160 million in the second quarter, these fees have now fully recovered to second quarter of 2019 levels. Our residential branding fees were strong again this quarter at $14 million.

Incentive management fees, or IMFs, totaled $55 million in the quarter. Almost half of our IMFs were earned in Asia Pacific, mostly from hotels in Mainland China. Around 30 percent of our IMFs were earned in the U.S. & Canada region, with a number of U.S. luxury hotels generating more incentive fees than in the second quarter of 2019.

Second quarter G&A and other expense was 18 percent lower than in the second quarter of 2019, primarily as a result of our significant restructuring activities undertaken last year. We had a tax benefit of $41 million in the quarter, due to releasing $118 million of reserves related to the favorable resolution of pre-acquisition Starwood tax audits. We continue to believe that going forward, our core tax rate will be around 22 to 24 percent absent any legislative changes to corporate tax rates.

Adjusted EBITDA in the second quarter was $558 million, which included $22 million of German government support for certain of our leased and joint venture hotels.

I also want to highlight the sale of the Punta Mita St. Regis in the quarter, a joint venture in which we held a minority interest. It is encouraging to see transactions like this occurring, and we expect to receive a total of at least $36 million in after-tax cash proceeds from the sale. We will continue to operate the hotel under a long-term management agreement.

At the hotel level, our numerous cost reduction and productivity enhancement efforts have significantly lowered breakeven occupancy levels around the world – even further than we anticipated when the pandemic got underway. As a result of these efforts, as well as the strong recovery progress, the financial condition of many of our owners and franchisees continues to strengthen as does our accounts receivable collections performance.

Over 95 percent of our managed comp hotels in Mainland China had positive gross operating profits, or GOP, in the second quarter. Our GOP margin for managed comp hotels in this region expanded over 200 basis points versus margins in the second quarter of 2019. The strong margin expansion exemplifies the beneficial impact of our recent cost reduction and productivity enhancement efforts, given operations have fully come back in mainland China with the recovery in demand. These results also reflect our strong top line performance, driven by meaningful share gains in the region thanks to our strong distribution, especially in the valuable luxury space, our popular brands, and our powerful loyalty platform.

In the U.S., the number of managed hotels with positive GOP improved significantly in the quarter as demand increased. Approximately 90 percent reported positive GOP in the second quarter, up from around 60 percent just one quarter ago.
As occupancies increase, we are working closely with our hotel owners around the world to balance maximizing hotel profitability while also driving guest satisfaction. We are being thoughtful about how and whether to bring back costs, programs and amenities that were reduced or eliminated as we navigated the depths of the pandemic.

For example, we have already reinstated accountability for our intent to recommend scores, with accountable brand standard audits resuming next year. We also introduced a new set of renovation rules, which will allow for additional deferrals of some renovations as well as reduced scopes for certain properties. We are considering how best to evolve housekeeping brand standards across each of our hotel brand tiers while ensuring guest expectations are met. We do believe that once business has fully recovered and operations are fully back, there will be permanent areas of margin improvement, primarily related to our productivity enhancements and the increased use of contactless technologies such as mobile check-in and mobile key.

As we look ahead to the rest of this year, while we are keeping a close eye on variant strains, we are optimistic about the continued global recovery. Our momentum has continued into July, and we expect an uptick in business travel this fall. We expect that when improved ease of international travel occurs, that will also fuel further recovery in lodging demand. While there is still too much uncertainty to be able to give specific RevPAR or earnings guidance, I’d like to provide color on specific items where we do have some visibility.

Starting with the top line, 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. We expect our non-RevPAR related fees to continue to benefit from strong co-brand credit card fees and robust fees from our branded residence sales.

We still expect full year G&A to be roughly $800 million, significantly lower than in 2019, and interest expense is still anticipated to be around $430 million. Full year cash taxes are now expected to be $325 to $350 million.

A key component of cash flow is the loyalty program. With the acceleration of leisure demand, we have continued to see redemption nights pick up nicely, especially in our resort destinations. We remain focused on carefully controlling Bonvoy program administrative costs, and we still anticipate that full year cash flows from the loyalty program could be positive 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 expect that cash flows from loyalty overall could be modestly negative.

With better visibility and our continued disciplined approach to investment spending, we are lowering the top end of our full year investment spending expectation and narrowing the range to $575 to $625 million. Total investment spending includes capital and technology expenditures, loan advances, contract acquisition costs, and other investing activities.
We are focused on bringing our credit statistics back in line with our historically strong investment grade levels. Our leverage ratios continue to improve, as Marriott’s asset-light business model is showing its resilient cash flow characteristics. We expect continued improvements in cash flow generation as the recovery progresses.

I also wanted to add my appreciation for our incredible team of global associates who have worked tirelessly throughout the pandemic. They truly exemplify the Marriott spirit to serve and take care culture.

In closing, we could not be more pleased with our progress in the quarter, and we look forward to the continued return of guests to our 7800 hotels around the world.

We are happy to take your questions. Operator?

**QUESTION AND ANSWER SESSION:**

**Shaun Kelley, BofAML Securities:** I was wondering if we could just talk a little bit about the development environment. I was just hoping you can give us a little bit more color. Obviously, it looks like the NUG increase was primarily driven by reduction in deletions. But maybe help us look out a little further, 2022, 2023. How are the conversations going? And how do you think excluding the SVC component, the outlook has looked or changes versus maybe 90 days ago?

**Tony Capuano:** Of course. Thanks, Shaun. As we mentioned in the prepared remarks, we are increasingly confident in our ability to deliver at the top end of our range in 2021. I think, when we look at factors like the number of rooms we have under construction, more than 200,000 rooms, the lowest fallout we've seen from the pipeline in about three years, the accelerated pace of conversions, we're increasingly optimistic that we can get back to a mid-single-digit net unit growth pace.

But as you've seen with some of the data coming out of STR around the slowdown in U.S. construction starts, the reality is the impact of those reduced construction starts will make it challenging for us to get back to that mid-single-digit level over the next year or two.

**Shaun Kelley, BofAML Securities:** Tony, just as the follow-up to -- mid-single digit being more of a medium-term target, but just for the next year or two, construction starts probably limiting maybe a little bit below that range. Is that the way to think about it?

**Tony Capuano:** Yes, I think that's right. I think we're guiding to about 3.5 percent net unit growth, excluding the impact of SVC in 2021. And then 2022 and 2023 will be the years that we think will be impacted by that drop in construction start activity in the U.S.

**Leeny Oberg:** Shaun, just one follow-up, and that's that we do believe that, while we are constrained by these lower construction starts that the industry has seen in the U.S., that we
are going to be able to offset some of this through conversions. And we're really pleased with the pace of conversion signings and the conversations that we're seeing on that front. Hard to be specific at this point about exactly where that leaves us. But that, again, as Tony said, we're confident about getting back to the mid-single-digit rooms growth rate.

**Joseph Greff, JPMorgan Chase & Co.:** Just wondering, you touched on this a little bit in terms of the labor challenges and labor costs going up. So, when we look at the 2Q results, and we're looking at your reported results, is there a lag in sort of the operating cost structure, particularly with labor relative to the revenue recovery? Is the exit rate coming out of the 2Q in cost structure, is that something that's more significant than the reported results because of potential add?

**Leeny Oberg:** Well, as you know, that's going to overwhelmingly show up in IMF, Joe, from a standpoint of kind of the way that the quarter's operating profit works at the hotels. So -- and as you might imagine, with owners' priorities in the U.S., we didn't have a very high percentage of hotels earning incentive fees yet. The biggest growth in incentive fees was in Asia Pacific. And frankly, the labor cost pressures are much, much lower there. So honestly, I don't think that there is a meaningful impact at all relative to the really rapid increase in occupancy that then necessitated that we get our employment levels in the hotels up as quickly as possible. And as you said, I think there is a little bit of a lag there. But I don't think it had any sort of impact on the profits for the quarter.

**Joseph Greff, JPMorgan Chase & Co.:** Great. And then you mentioned a group pace for the first quarter and second quarter of next year, but maybe you gave it and I missed it, but did you talk about full year 2022 pace?

**Tony Capuano:** Yes. The -- sorry, Joe, the -- yes, we talked a bit about 2022 pace. And I think the -- there's a couple of encouraging things. When we look at booking pace, we continue to see volumes increasing pretty measurably into 2022. And maybe just as encouraging, if not more encouraging, is the pace of ADR growth that we're seeing for 2022 bookings. In fact, if you look at group bookings beyond -- in 2022 and beyond, ADR is actually about 3 percent ahead of what we were booking back in 2020 for the following year. So, the ADR pricing power that we're seeing in group in 2022 and beyond is very encouraging.

**Thomas Allen, Morgan Stanley:** Just -- you've seen some really encouraging trends out of China. Can you just talk about like the pluses and minuses of using China as a comp? Like how does your China business differ from kind of your global business?

**Leeny Oberg:** So, Thomas, it's a good question. And I'll say a couple of things. I think one of the things that is the most consistent in Greater China and the U.S. is the reality that the overwhelming percentage of travelers that stay at our hotels in those two regions are domestic. And so, we're seeing -- obviously, you're seeing some of the same trends in the U.S. that we saw earlier in Mainland China, which is that when people feel comfortable to travel, the demand picks up really, really quickly, albeit with leisure being the strongest. And clearly, that is quite helpful for the hotel's occupancy levels because they're not traveling outside their
country. But I will say that I think the trends have been remarkably similar in terms of the pace of ADR recovery at the same time.

And I think the other thing that I'll point out that is interesting is that in Mainland China you do see markets, when they do have a pop in some COVID cases, they do shut down demand very quickly because the cities are closed down. We haven't obviously seen that same impact in the U.S. because the population is more varied in terms of kind of the travel and the way cities are shut down or not shut down. So, in that regard, it's perhaps been a little bit more fluid in the U.S. But we have seen really terrific similarities in these markets where the occupancy is so much based on domestic travel.

I think the other thing I'll point out is that the F&B recovery in Greater China, I think, does point out the real strength of our hotel brands there. And that, I think, has been really impressive as well.

**Thomas Allen, Morgan Stanley:** Just a quick follow-up. You mentioned RevPAR was down 16 percent in July versus 2019. Is that U.S. only? Or is that global? And if it's one of them, can you give us the other two?

**Tony Capuano:** That's U.S. only.

**Leeny Oberg:** ...yes.

**Thomas Allen, Morgan Stanley:** Do you have a global number?

**Jackie Burka McConagha:** We don't have global numbers yet.

**Leeny Oberg:** No, we don't. And that was just for the first 3.5 weeks. Just to be clear, that wasn't for the month of July. As you know, this is all in real-time that we're pulling this together, so we don't have all those numbers quite yet. And again, as we said, that was for the U.S.

**Thomas Allen, Morgan Stanley:** I appreciate all the color. Thank you.

**Robin Farley, UBS Investment Bank:** I have a question about margins. But first, if I could just clarify Tony's comment about guidance for this year for unit growth at 3.5 percent. I thought I heard him say excluding the Service Properties Trust. But you meant including that, right?

**Tony Capuano:** Yes. Sorry. That's right. So, excluding the impact of our SVC, our guidance would be 4 percent to 4.5 percent, and we'd guide to the high end of that. If you account for the impact of those 88 SVC hotels, it would be 3 percent to 3.5 percent, and we're guiding towards the high end of that range. That's correct. Sorry if I misspoke.

**Robin Farley, UBS Investment Bank:** I just wanted to clarify that. And is the sort of higher end of the 3 percent to 3.5 percent range from fewer removals, is it a timing factor? Or in other
words -- or were there properties that sort of were not maybe in compliance with brand standards that came back into compliance and won't be removed in 2021? Or is it just that some of the removals are sort of pushed into 2022?

Tony Capuano: No. I think really, Robin, it's a by-product of as the year advances we have more and more visibility on both fronts in terms of the timing of the individual openings and the status of projects going out -- potentially going out of the system.

Robin Farley, UBS Investment Bank: Okay. Great. And then the margin clarification -- or question. Leeny, you mentioned 200 basis points ahead of 2019, I think it was for in Greater China. And I think when you've talked about potential for margin improvement in the U.S., you've maybe sort of said you wouldn't necessarily expect a big increase or a big change in the margin when RevPAR is recovered. Is that still the case? In other words, should we think about the -- some of the -- this sort of 200 basis points of margin in the example you used in China. Is that kind of temporary maybe because brand standards aren't what they were in 2019? Or I'm just trying to square that with your sort of previous comments.

Leeny Oberg: Sure, sure. So, a couple of things. First of all, I was speaking about Mainland China. And there, I think the interesting thing is that, with RevPAR back to essentially similar levels in 2019, we are producing GOP margins that are 200 basis points better. So, I think that shows you some of the work that we've been able to do on the cost-management side and productivity enhancement side that, that would tell you that those are kind of good margins to think about going forward.

I think in the U.S., Robin, the interesting thing here is that we've got a lot of those similar productivity and cost enhancements that we've done here, which would lead you to some similar sort of conclusions. I think the thing you have to think about is how quickly do labor costs and benefit costs increase.

So, as we talked about before, if ADR recovers really quickly, and you've got these productivity and cost enhancements in place, you've probably got a similar opportunity in the U.S. for those similar kinds of numbers that we talked about in Mainland China. But again, a lot of this depends on how quickly it all comes back in the U.S. and also what's going on with wage rates and benefit costs.

Smedes Rose, Citigroup Inc.: I was just hoping you could give a little more color on the kind of the composition of the group improvement you're seeing in 2022, maybe any changes on a regional basis, maybe potentially away from larger, higher-cost cities. Or if you're seeing anything just in terms of the kind of the kind of corporations or they tend to be smaller. Is it larger? Maybe just some color on what you're seeing on any kind of forward bookings.

Tony Capuano: Sure. So, as you know, group is a complex group of subsets of types of groups. Where we're seeing really significant acceleration is on social. In fact, in many ways, social group demand is largely back to pre-pandemic levels. We are not seeing rapid recovery in citywides yet, the sort of big-box convention hotel citywides that we enjoyed pre-pandemic.
And then the fall, I think, will be quite telling as we look for more conventional corporate group demand to return.

The only other comment I might make, Smedes, is that we are seeing in-the-year-for-the-year group bookings stronger than what we've typically experienced in a pre-pandemic environment.

**Smedes Rose, Citigroup Inc.:** Okay. And can I just ask -- just to kind of follow up on the question about margin. As you guys make decisions around housekeeping, would that be kind of the key driver for potential margin improvement for owners is possible the elimination or significant reduction in housekeeping? Or are there other items on the table that would be very important towards potentially driving margin expansion at the property level?

**Tony Capuano:** Smedes, you can expect us to continue to try to strike the right balance between the expectations of our guests as they get back on the road and the financial realities that our owners and franchisees face. We'll continue to be guided by guest preference. And it is quite interesting when you read some of the verbatims that we hear from our guests. Some of our guests that are dipping their toes back into travel are still a bit hesitant about having housekeepers in the room, and they appreciate the choice of housekeeping at their discretion. Others are vaccinated and feeling encouraged about the safety of travel, and they would prefer a more conventional housekeeping solution. And so, I think whether it's housekeeping protocols, whether it's food and beverage service, we'll continue to evaluate and evolve those service levels by market and by quality tier around the world.

**Stephen Grambling, Goldman Sachs Group, Inc.:** So, you mentioned a number of things about the Bonvoy brand extensions and creating value there as well as the strength of non-RevPAR-related fees, including the credit card fees. How do you think about the growth of this segment going forward? And how closely it's tied or not tied to kind of a core business, whether that's net unit growth or RevPAR, going forward?

**Leeny Oberg:** So just broadly speaking, the non-RevPAR fees, Stephen, are made up of kind of a variety of things. But the biggest chunk of them that make up, again when you think about it going back to 2019, call it, $579 million. The biggest chunk is obviously the credit card. And that is going to overwhelmingly relate to both the number of cardholders and the amount they spend on their co-brand cards.

And as we talked about today, their spending has actually gone back to 2019 levels, and you saw the similar thing happened to our co-brand fees. So, I think both the power of Bonvoy, combined with kind of general level of consumer spend and health of the economy, particularly obviously the U.S. since these fees are overwhelmingly driven by the U.S. cardholders, is how you should think about that. I think you're going to continue to see outsized growth in our residential branding fees, although they are obviously meaningfully smaller. Timeshare fees is much more of a stable number because, as you know, those are overwhelmingly fixed. So, I think the biggest driver is really how you think about consumer credit card spend on our co-brand cards.
Stephen Grambling, Goldman Sachs Group, Inc.: So, I guess, as a follow-up, is there an opportunity to monetize or generate credit card fees or other types of fees in the international markets where it hasn't been as much of a contributor?

Leeny Oberg: Yes. No, there are just -- they're meaningfully smaller depending on kind of the economic structure of the credit card business in those various countries. And obviously, the U.S. is a very, very large market. So yes, we are, and we expect to continue to see increases in our international credit card co-brand card fees.

And as we talked about in this insurance, travel insurance business that we're entering into, we should also be able to benefit there as well. But I would not expect them to be meaningful in terms of Marriott's overall earnings stream.

Stephen Grambling, Goldman Sachs Group, Inc.: Great. And if I can sneak one other follow-up on just on the IMF. You referenced that only a few North America properties are kind of above that owner priority level. Is there any kind of level of occupancy recovery or specific markets that we really need to see to start seeing those start to be earned again?

Leeny Oberg: Well, honestly, they range all over the map. Just to give you a sense, when you go back to 2019, we basically were in a position where our full-service hotels, about half of them were earning incentive fees. And overall, for the U.S., it was, call it, 56 percent when you take in our limited-service. And there, you obviously had occupancies up into the 70s. But otherwise, I will say it's a big mishmash depending on the specifics. The counter to that is, as we described in Greater China, where we're at 77 percent earning in the year-to-date numbers for IMF. And back in 2019, it was at 86 percent. So, you can see that they behave much more in line with base fees. While in the U.S., you really have a ways to go before we get back to earning meaningful incentive fees from the U.S.

David Katz, Jefferies LLC: I wanted to take a little longer-term look, Leeny, and wonder what would have to happen and how you might be thinking about getting back into the capital returns game and whether we'd have a shot at maybe recommending a dividend by the end of the year and how you might be thinking about the setup for these items next year, which is sort of what we're used to with Marriott.

Leeny Oberg: Sure. Absolutely. I think, as you pointed out, David, we're seeing tremendous progress. Our credit ratios are absolutely improving literally month by month, and we're really pleased with the progress. First and foremost, we want to get our credit ratios back in line with being a strong investment-grade credit. That is the first priority, and we are well on our way. And so, I do think we're going to be talking about capital return sooner rather than later.

As you know, David, so much of this is around the pace of continued global vaccination rates as well as restrictions on travel and consumers' comfort with travel, both domestically and internationally, as well as people returning to their offices, et cetera. So, as we said, we can't predict and give you RevPAR and earnings outlooks in specifics. But if we continue to see really
strong progress like we have been seeing, we could absolutely imagine that we're talking about capital return later on in 2022. Exactly when we're able to count on that and have a discussion with our Board on that topic remains to be seen, but you certainly can envision a scenario that, assuming things continue to progress, that that is the case.

**David Katz, Jefferies LLC:** If I can follow that up, 3 to 3.5x was usually a target. Is there any qualification around that, that we should be thinking about today?

**Leeny Oberg:** No. Except to say that we, again, would want to feel like we are squarely staying there, i.e., that the market is -- the lodging recovery has stabilized, that things have gotten to a position where reaching that 3 to 3.5 is something that we foresee being very solid going forward. But I think that other than that, no additional constraints.

**Richard Clarke, Sanford C. Bernstein & Co.:** Just want to ask a quick question on the gap between your gross and net unit growth. I think you've done about 19,900 exits in the first half. And if I look at the gap between your net unit growth, that would imply you need to do about 15 -- a bit more than 15,000 exits in the second half. That's about double what you did in the second half of 2019 and actually even ahead of the exits you had in the second half of 2020. So, is there anything in particular -- anything particular that's coming out there? Is it just conservative? Or anything you could mention on that?

**Tony Capuano:** No. I mean I think we continue to expect to see deletions for the full year in that 1 percent to 1.5 percent rate. They -- excluding the impact of SVC, obviously. In terms of baseline deletions, they tend to ebb and flow a little bit from quarter-to-quarter. But on a full year basis, we are increasingly comfortable with that guidance of 1 percent to 1.5 percent deletions, excluding SVC.

**Richard Clarke, Sanford C. Bernstein & Co.:** Okay. That make sense. So, are you saying that the deletions in Q2, the sort of 2 -- 2,000 or so, 2,500 exits, that's a particularly low number and there might be a bit of a catch-up from that in the second half?

**Leeny Oberg:** Yes, they do -- they are really quite variable during the year. You could have one quarter with 7,000. You could have one quarter with 1,000. It's really -- it varies. And we do look at this region by region very carefully and looking at expirations and how things are going. So, it is -- continues to be, as Tony said, it continues to be our best estimate at this point. It is clearly better than where we were earlier in the year because, again, we had a wider range that we were considering, and we have been able to firm up that range so that we feel better to say that we will be in the space that says we'd be at the top end of that 3 percent to 3.5 percent range.

And I should add, part of the comfort around that is with the openings as well that we have greater visibility on the openings, and we're extremely pleased with the openings in the second quarter and year-to-date.
Dori Kesten, Wells Fargo Securities, LLC: Given the trends that you’ve seen in new signings, the opening schedule, when would you expect to see the pipeline resume quarter-over-quarter growth? I think, in the last downturn, you saw about six quarters of compression.

Tony Capuano: Yes. Again, I might give a different version of the answer I just gave on deletions. The pipeline tends to ebb and flow a little bit. Some of the indicators we look at, development committee volume, for instance, and we are starting to see an acceleration in our volume of deals, particularly in June and July, in our biggest markets, specifically in the U.S. & Canada and in China. And I think that is encouraging for us.

The other thing is, remember, more than 25 percent of our volume right now is in conversions. And because of the quick turn on those conversions, often, those get signed and opened and never even make their way into the pipeline. And so that adds to some of the quarter-to-quarter variability as well.

Dori Kesten, Wells Fargo Securities, LLC: Okay. And can you just remind us what the difference is in fees between a -- between your pipeline that's luxury versus select-service on average?

Tony Capuano: Sorry. The difference in fees, you said?

Dori Kesten, Wells Fargo Securities, LLC: Yes, like the long-term expectations of what a Ritz can earn for you guys versus a Residence Inn.

Tony Capuano: Sure. I mean, setting aside the fact that there can be pretty wide variations from market to market, the rule of thumb we’ve shared in the past is that a luxury hotel stabilized annual fees could be as much as 10x the annual fees of a select-service hotel like a Fairfield Inn.

Michael Bellisario, Robert W. Baird & Co. Inc.: Just a two-part question. I wanted to focus on Bonvoy. I'm not sure you mentioned it. What was the occupancy contribution during the quarter? And then the bigger-picture question, maybe just -- how are you thinking about further broadening the platform and value proposition for guests? Is there any renewed interest in travel adjacencies, partnerships or any other brand holes in the portfolio -- the brand portfolio that you're seeing? Really just kind of what are your plans to add more value for customers as everyone seems to be fighting for a greater share of everyone's travel wallet today?

Tony Capuano: Great. Well, let me try to take both of those, and Leeny may chime in as well. On your first question, Bonvoy penetration continues to recover. In Q2, we were almost 50 percent, 49.5 percent to be precise. That was a significant increase. We went as low as about 43 percent at the bottom of the pandemic, but it's still a couple of points shy of where we were pre-pandemic at about 52 percent. But the pace of penetration recovery, I think, is quite encouraging.
And then on your second question, I think we continue to look for opportunities to make the program stickier to engage with our customers even as they start to get back into travel, and we tried to give you a few examples. I think the new travel insurance program is an example. The Uber partnership, I think, is a terrific example. The new branded credit cards are a good example. And then just the number of app downloads that we're seeing with the Marriott Bonvoy app, I think all of those point to our efforts and the success of those efforts in trying to grow engagement among our Bonvoy members.

Vince Ciepiel, Cleveland Research Company: A lot of mine have been answered, but one thing I'm trying to get a little bit more clarity on, as it relates to your perspective, the trajectory of U.S. RevPAR, I think you mentioned in the first few weeks of July, down only 16, ADR impressive, only down 2. It sounds like leisure is really contributing nicely to that. I'm just curious how you're thinking about the handoff through the second half from leisure into more corporate and group and just how sustainable that July run rate is.

Tony Capuano: Well, certainly, the fall is going to be fascinating to watch as more and more schools open for in-person learning, as more and more companies get back to the office. I think the data that is perhaps most telling from our perspective is some of the statistics we shared with you on special corporate bookings. As we mentioned, those bookings rose 23 percent in June as we compare to May. And then again, it's just the first 3.5 weeks of July, but we saw another 27 percent increase in those first 3.5 weeks of July versus the same 3.5 weeks in June. And so, the magnitude and the steadiness of the growth in special corporate bookings, I think, is quite encouraging.

And then you've heard us talk about this before. This blending of trip purpose continues to be a real and measurable phenomenon. And we think it's good for our business, and we think it will continue well beyond the end of the pandemic. With all that said, we will continue to be vigilant as we watch the pace of vaccinations around the world, the effectiveness of those vaccinations relative to the Delta variant and monitor the impacts of that on our business.

Vince Ciepiel, Cleveland Research Company: Great. And one follow-up, if I may. With that ADR number in July, I think the recovery in ADR has been progressing really nicely and probably better than a lot of folks thought going into this year. Curious, what do you attribute that progress in ADR to? And how sustainable do you think that is through the second half?

Tony Capuano: Well, we certainly look at the pace at which demand is recovering, and the amount of pent-up demand is maybe best illustrated by the pricing power we're seeing in rate. We knew we'd have that in leisure, but it's really encouraging to see that pricing power extend to both business transient and group. And in China, obviously, we've seen ADR come back at the same time. And so, you throw all that in the blender, it's really encouraging, and I think it's just driven by the sheer volume of demand.

Leeny Oberg: The only other thing I'll add to that is the reality that so much of this depends on macroeconomic factors. And so, as consumer confidence and consumer spending and general economic growth continue, that will be an important part of being able to continue to see this
growth in demand. And that has also always had an impact on how companies do their group bookings, do their business trips, et cetera. And that is another element of this price power.

**Bill Crow, Raymond James & Associates, Inc.:** First, a clarification. I think it was Smedes that asked about 2022 group segmentation. And I think your answer was about -- it was largely a social with little evidence of citywides coming back. Was that really more about 2021? Or is that still 2022?

**Leeny Oberg:** We'll get Jackie to get back to you with super specific, but I think the reality, Bill, overall, if you're still seeing big chunks of association, corporate and government nights in 2022. But at the margin, where we're seeing the strongest kind of in-the-period-for-the-period demand is in both the smaller and medium-sized groups as well as the social groups, where, in many cases, they've put off having events for a year and now coming forward. But again, when we think about the big chunks of business, we've still got -- I mean, I'm sure you've heard from Gaylord about their bookings. There's still a wide swath across all the big segments of group business for 2022.

The other thing to point out is that we still are in a position where the room nights are -- the current pace for group is still down for 2022. It's just down a lot less than it used to be. And that it also -- we're seeing strong rate, where rate is actually up compared to 2019. And with each progressing quarter, you see those nights improve as you move farther and farther away from Q3 of 2021, where there's still obviously some concern around these variants.

**Bill Crow, Raymond James & Associates, Inc.:** If you will, my question that I really wanted to address is housekeeping. And how are the guest requests for nightly housekeeping trending? We had heard from someone else that they had doubled over the last 3 to 6 months, where the guests are proactively asking for that.

And then I guess the second part of that is simply, should we expect that the guest-facing experience at luxury and upper upscale hotels will be very similar to where it was eventually in 2019? And therefore, the best opportunity for margin improvement on the housekeeping side might be at select-service hotels? Is that a fair way to think about it?

**Tony Capuano:** Okay. Well, so there's a few questions embedded in there. I think, on your first question, the housekeeping protocols will really continue to be driven by guest preference and will likely vary as you kind of move up and down the quality tiers. On your second point, I think I tend to agree with you that in the luxury and upper upscale tier I think that the guest expectations should be much more similar to what they saw in a pre-pandemic environment.

And then on your third question, I'm not sure I necessarily agree with that for the simple reason that what's driving margin, certainly, there's the cost side, but there is the top line piece as well. And while it's a single data point, we saw over 4th of July weekend U.S. resort ADR up about 10 percent. But if you carve out just the luxury tier -- Jackie will have to keep me honest here -- but I think we were up close to 35 percent in ADR. And so, at that sort of premium and rate, you
should expect some meaningful margin improvement even if you're back to pre-pandemic service levels.

Patrick Scholes, Truist Securities, Inc.: One of the more controversial topics right now are -- is what percentage, if any, of business travel may be permanently lost. And certainly, a New York Times article yesterday throwing more fuel on that fire. I'm wondering what your thoughts are around that question.

Tony Capuano: Well, again, we've shared a bunch of data points with you today that I think underpin our optimism about the return of business transient demand. I do think, going forward, this blending of trip purpose that you've heard me talk about, we continue to think it's great for our business and our industry, and we continue to think it's here to stay for quite a while. We are optimistic about the return of business travel. We talk to about 700 corporate travel managers every month. And we are hearing anecdotally from our customers, particularly those that are in customer service businesses, law firms, accounting firms, consulting firms, that it is critical to their business that they be on the road and in person with their customers.

If anything, going forward, I do think it may be a bit more difficult to determine precisely looking at a guest walking through the lobby exactly what their trip purpose is. We're not asking you at the front desk are you here for business, are you here for leisure or both. But I do think you'll see a lengthening of stay as a result of this blending of trip purposes. And in fact, that length of stay is measurable, and we continue to see that through the second quarter of this year.

Great. Well, again, thank you all for your participation and interest this morning. I hope you hear our optimism about the pace of recovery we're seeing in many markets around the world. We're excited ourselves to be back on the road. We hope you're getting out there as well, and we look forward to seeing you in our hotels in the weeks and months ahead. Thanks, and have a great day.

Note on forward-looking statements: All statements in this document are made as of August 3, 2021. 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 possible effects on our business of the COVID-19 pandemic and efforts to contain it (COVID-19); recovery in lodging demand; travel and lodging demand and trends; future performance of the company's hotels; our development pipeline, signings, rooms growth and conversions; the expected timing and completion of certain transactions; our investment spending 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 or Annual Report on Form 10-K. Risks that could affect forward-looking statements in this document include the duration and scope of COVID-19, including the availability and distribution of effective vaccines or treatments; the pandemic’s 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, banning, or cautioning against 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 the pandemic’s 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 and any dislocations in recovery as a result of resurgences of the pandemic; 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 have taken and may continue to 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, our voluntary transition program and our other restructuring activities; competitive conditions in the lodging industry and in the labor market; relationships with customers 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.