



Marriott International, Inc.
Third Quarter 2022
Earnings Conference Call Transcript¹
November 3, 2022

Operator: Good day, everyone, and welcome to Marriott International's Third Quarter 2022 Earnings Conference Call. Today's call is being recorded. I will now turn the call over to Jackie Burka, Senior Vice President, Investor Relations.

Jackie Burka: Good morning, everyone, and welcome to Marriott's third quarter 2022 earnings call. On the call with me today 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.

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 2022 and 2019 reflect properties that are defined as comparable as of September 30, 2022, 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.

Additionally, unless otherwise stated, all comparisons to pre-pandemic or 2019 are comparing the same time period in each year. 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: Thanks, Jackie, and thank you all for joining us this morning.

We had an outstanding third quarter. Quarterly global RevPAR rose above 2019 levels for the first time since the pandemic began, up nearly 2 percent. RevPAR compared to 2019 improved sequentially from the second quarter in every region around the world. Global occupancy rose to 69 percent, while ADR outpaced 2019 by a remarkable 10 percent. Compared to pre-pandemic levels, worldwide RevPAR in September reached a new monthly high watermark, increasing more than 4 percent, or nearly 7 percent excluding Greater China.

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

During the quarter, leisure demand remained strong, well above 2019 levels. In the U.S. & Canada, full-service group revenue for the quarter showed continued growth, ending up 3 percent over the same quarter in 2019. Fourth quarter full-service group revenue is currently pacing up 4 percent, but is likely to improve further given the strong last-minute group bookings that we've seen all year.

The trend towards last-minute bookings has led to meaningful compression and pricing power, helping group ADR for new bookings rise each quarter this year. At our managed hotels in the U.S., ADR for in-the-year-for-the-year group bookings made in the third quarter rose 17 percent compared to same year bookings made in the 2019 third quarter, a significant jump from the 6 percent increase we saw in the first quarter. ADR for group bookings made in the third quarter for 2023 outpaced 2019 third quarter bookings for events in 2020 by 24 percent.

Business transient demand also continued to improve during the quarter, although it still lags 2019 levels. Third quarter business transient room nights in the U.S. & Canada were 11 percent below 2019. We are currently in the midst of our special corporate negotiations for 2023 and are very pleased with how they are progressing. After two years of holding rates steady, the early results look positive for at least high single digit year-over-year rate growth.

Third quarter day-of-the-week trends continue to suggest that travelers are combining leisure and business trips. In fact, the average length of a transient business trip has increased meaningfully, and year to date is up more than 15 percent compared to 2019.

With borders re-opened in most countries around the world, rising cross-border travel helped spur demand during the quarter, especially in Europe and in the Caribbean and Latin America, or CALA region. Cross-border guests accounted for 15 percent of our global room nights in the third quarter, an uptick from 12 percent in the first quarter of this year. In 2019, 18 percent of travel to our properties was from cross-border guests, so we anticipate additional upside from international travel, especially from Greater China, once stringent travel restrictions are relaxed.

Given rapidly rising interest rates and growing concerns about a possible global recession, we are closely monitoring consumer and macro-economic trends. There is no doubt that the hospitality industry is impacted by economic cycles, and with transient booking windows averaging only about three weeks, trends could change relatively quickly. However, we have yet to see signs of a slowdown in global lodging demand. In fact, we have seen just the opposite. Booking trends remain very healthy. Given sustained high levels of employment, consumer trends prioritizing experiences versus goods, pent-up travel demand, and a high level of consumer savings, travel spending has been incredibly resilient. In October demand remained strong across our regions, with the exception of Greater China where trends are still volatile.

Our powerful Marriott Bonvoy program grew to 173 million members at the end of the third quarter. The program achieved record penetration levels in the quarter, reaching 60 percent in the U.S. & Canada and 53 percent globally.

Members also continue to engage with our co-brand credit cards, which had another solid quarter. After recently making significant enhancements by adding new benefits to many of our U.S. cards, sign-ups have well exceeded expectations. This led to record new cardholder acquisitions as well as record spending for the first nine months of this year. We also introduced two mid-tier cards at the end of September, which should help drive strong growth going forward. While much smaller fee contributors than our U.S. co-brand cards, we have similarly seen record growth internationally this year in new card members and total card spend. This has been partially driven by China, where we've had great traction after launching our first cards there in July.

Our Bonvoy members have been increasingly interacting with the platform through our direct digital channels, which helps boost owner and franchisee profitability. Since 2019, our share of room nights booked through direct digital channels has increased more than 5 percentage points, to 38 percent, while our distribution through OTAs has risen by less than a percentage point, to 12 percent.

The power of Bonvoy and our direct channels has also been evident in our latest offering, the Ritz-Carlton Yacht, which made its inaugural voyage from Barcelona last month. Remarkably, around two-thirds of all bookings for this incredible brand extension have been through direct channels, which is many times above the rates most cruise companies experience. Additionally, Bonvoy members account for more than half of the yacht bookings. We look forward to more ships joining the portfolio in the future.

Shifting to the development front, our pipeline grew for the fourth quarter in a row, totaling more than 502,000 rooms by the end of the third quarter. Signing activity in the quarter remained healthy in most regions of the world.

Our development team continues to be laser focused on conversions, a particularly bright spot in the development story. Conversions represented 21 percent of room signings and 27 percent of room openings in the quarter. We are very enthusiastic about the level of conversions on conversions, including for multi-unit conversion opportunities.

Outside of Greater China, we were pleased to see new construction starts pick up nicely in the third quarter. While not yet back to 2019 levels, new construction starts in the U.S. reached the highest quarterly level since the pandemic began.

For full year 2022, we now expect gross rooms growth of approximately 4.5 percent, compared to our prior expectation of closer to 5 percent. The change is primarily a result of fewer expected openings in Greater China, as the lockdowns there have extended construction

timelines. The good news is that we have not seen deals in Greater China, or in any of our regions, falling out of the pipeline at a higher than usual rate.

With just two months left in the year, we now expect deletions at the bottom end of our prior guidance. Deletions could be about 1.5 percent for 2022, or 1 percent excluding the 50 basis point impact from our exit from Russia. So our net rooms growth for 2022 is likely to be around 3 percent, or 3.5 percent before factoring in the deletions in Russia.

We are always looking at opportunities that help broaden the offerings for our guests, as well as our owners and franchisees. Last month, we announced our agreement to acquire the City Express brand portfolio, which is currently comprised of 152 hotels with over 17,000 rooms in the CALA region. We are bullish on the moderately-priced midscale space, which has meaningful growth potential. Upon closing this transaction, we will immediately gain a significant foothold in this high growth segment in CALA, while also becoming the largest hotel company in the region. We are incredibly excited about the opportunity to expand in this segment in CALA, as well as other locations around the world. If the transaction closes before year end, our 2022 gross rooms growth could be around 5.5 percent, and our net rooms growth could be approximately 4 percent. We really look forward to working with the City Express team.

We expect solid rooms growth going forward, given the attractiveness of our portfolio of global brands, our powerful loyalty program, our momentum around conversions, and our industry-leading pipeline. While the exact timing will depend on how new construction starts trend from here, we remain confident that over the next several years we will return to our pre-pandemic mid-single digit net rooms growth rate.

Now before I turn it over to Leeny, I just want to recognize and thank our associates around the world for their continued commitment, passion and resilience. Leeny?

Leeny Oberg: Thank you, Tony.

We had excellent financial performance again this quarter, driven by continued momentum in global RevPAR growth. In the U.S. & Canada, third quarter RevPAR was 3.5 percent above pre-pandemic levels, with ADR surpassing 2019 by more than 10 percent. RevPAR for all market types – primary, secondary and tertiary – and all brand types – from luxury through extended stay - was more than fully recovered for the first time.

With the exception of Asia Pacific, our international regions posted incredibly strong RevPAR growth, as restrictions across most countries fully lifted. Europe, in particular, benefited from a large increase in U.S. leisure demand thanks to the strong dollar. Compared to 2019, third quarter RevPAR rose 6 percent in Europe, nearly 19 percent in the Middle East and Africa, and nearly 18 percent in CALA.

RevPAR is still lagging behind 2019 levels in Greater China and in our Asia Pacific excluding China, or APEC, region. Greater China improved the most in the quarter, with RevPAR 23 percent below 2019, 30 percentage points better than a quarter ago. However, the recovery there remains uneven given China's renewed commitment to its strict zero-COVID policy. The good news is that we continue to see that when a market re-opens for domestic travel after a lockdown, lodging demand rebounds very quickly.

In APEC, South Korea joined India and Australia in crossing the full recovery mark, but this was offset by Japan's borders remaining closed until the end of the quarter. Third quarter RevPAR in APEC was 14 percent below pre-pandemic levels, an 8-percentage-point improvement from a quarter ago. As we move through the fourth quarter, APEC is benefiting from a recovery in airlift and Japan's now-open borders.

Third quarter total gross fees of \$1.1 billion rose 11 percent compared to 2019, exceeding the top end of our guidance. Growth was driven by RevPAR improvement and room additions, as well as another quarter of strong non-RevPAR related fees. Those fees totaled \$192 million in the third quarter, largely aided by ongoing growth in our co-brand credit card fees, which rose 22 percent year over year.

The strength of our industry-leading luxury portfolio also contributed significantly to fee growth in the quarter. Gross fees from our luxury properties were up 13 percent versus the same quarter in 2019, even with Greater China's weaker performance. While our luxury properties account for 21 percent of our managed rooms, they contributed 34 percent of our total incentive management fees in the third quarter.

Third quarter adjusted EBITDA also exceeded the high end of our guidance, outpacing the same quarter in 2019 by 9 percent.

With the strong U.S. dollar, foreign exchange, net of hedging, negatively impacted adjusted EBITDA by \$22 million in the quarter, some of which was included in our guidance a quarter ago. This negative currency translation was more than made up for by the positive impact from increased U.S. leisure travel abroad. We estimate that, net of our hedges, a 100-basis-point change in the U.S. dollar could affect full year 2022 adjusted EBITDA by less than \$10 million.

G&A and other expenses totaled \$216 million in the third quarter, better than our guidance, largely reflecting lower than expected administrative costs and bad debt expense.

At the hotel level, we remain focused on containing operating costs for our owners and franchisees, while also delivering superior service to our guests. With ADR 15 percent above 2019 and our significant productivity enhancements, third quarter profit margins at our U.S. & Canada managed hotels were 2 full percentage points above 2019 levels, despite meaningful wage and benefit inflation. Wage and benefit growth, while still high, continued to moderate in the third quarter.

Let me now turn to our fourth quarter and full year 2022 guidance, the details of which are in our press release. As we head into the end of the year, we are very pleased with the strong continued momentum in our business. Group and transient bookings are showing further gains against 2019. In both the U.S. & Canada and internationally, we expect fourth quarter RevPAR compared to pre-pandemic levels to accelerate from the third quarter, even with anticipated weaker demand in Greater China.

Compared to 2019, fourth quarter RevPAR could increase 4 to 6 percent in the U.S. & Canada, be down 2 percent to flat internationally, and increase 2 to 4 percent globally. Worldwide fourth quarter RevPAR could increase 27 to 29 percent over fourth quarter 2021.

We're still working through our 2023 budgets and recognize that there is heightened macro uncertainty. That said, we currently think 2023 global RevPAR could increase nicely year over year, driven by gains in both the U.S. & Canada and internationally. Each quarter could see growth compared to this year, with particularly strong growth in the first quarter due to the easier comparison given the impact of the Omicron variant in early 2022.

For full year 2022, we are now anticipating G&A expenses of \$880 to \$890 million, slightly better than our prior guidance, primarily due to lower bad debt expense. We are also raising our full year adjusted EBITDA guidance and now expect adjusted EBITDA of around \$3.79 billion at the mid-point of the range, which is 6 percent above our prior full year peak in 2019.

Due to the timing of some capital expenditures for owned and leased hotels and corporate systems, as well as key money payments, we now expect full year investment spending of closer to \$500 million, assuming the City Express transaction does not close in 2022. Strong spending on our credit cards is expected to result in loyalty being a slight source of cash for the full year before factoring in the reduced payments received from the credit card companies.

Year to date, our net cash provided by operating activities was \$1.9 billion, a significant increase of nearly \$1.2 billion compared to the first three quarters of last year, a strong reminder of the power of our asset light business model. At the end of the quarter, our leverage ratio was excellent at the low end of investment grade targets. With our solid financial results and cash flow generation, we have already returned \$1.9 billion to shareholders through buybacks and dividends through October 31, and we now expect to return more than \$2.7 billion to shareholders this year.

In closing, we are incredibly proud of how well our business is performing and how resilient our business has proven to be. Tony and I are now happy to take your questions. Operator?

QUESTION AND ANSWER SESSION:

Shaun Kelley, Bank of America Securities: Tony, probably wanted to start with you, if we could. One thing that's been a bit of a theme, and you hit on it as well through your

commentary was just how strong the development environment has held up and I'm wondering if you could unpack that for us a little bit, just given we continue to hear about rising financing costs, a little bit more stress in some of the commercial real estate markets, and that contrasts pretty greatly with what you kind of implied in your comments about just how well your signings are going and your activities going. So can you help us square that up a little bit and just talk about what you're seeing on the ground?

Tony Capuano: Of course. So on the signing side, we continue to see strong development committee volume. We continue to see strong franchise application volume in most markets around the world. The constriction we're seeing in the debt markets for new construction, particularly here in the U.S., is lengthening the cycle even a bit longer in terms of getting shovels in the ground. But we're quite encouraged about the consistency we've seen in the volume of under-construction projects in our pipeline.

In fact, we were looking at it over the last few days. As you saw in our release, we continue to have a little over 200,000 rooms under construction. It's actually the 20th straight quarter where we had more than 200,000 rooms under construction globally.

The market in China is most certainly where we're seeing the most challenges. A disproportionate share of our projects in the pipeline in China, in fact, about 60 percent, are in the luxury and upper upscale tier, principally in primary markets, which are -- well, the combination of those quality tiers in those markets cause those projects to be the most significant fee generators. But they are more complex development projects, and it takes a little longer for them to get open in a market like China.

But broadly, we continue to see really powerful interest in our portfolio of brands. And we're maybe most encouraged by the volume both on signings and openings in the conversion tier.

Shaun Kelley, Bank of America Securities: That's great. And then maybe as my follow-up, Leeny, you mentioned, I believe, as you're looking out to 2023 RevPAR that it could increase nicely and you said each quarter, positive versus this year. Could you just talk a little bit about again very high-level assumptions behind that? I know no one's got a crystal ball here, but just how did you kind of -- how do you consider the macro when you think about that outlook and maybe some of the pluses or minuses that could factor into that?

Leeny Oberg: Yes, sure. Thanks, Shaun. As you say, there obviously continues to be a fair amount of uncertainty about the possible recession given the Fed's continued rise in rates and economic headwinds that do continue to grow. But I think we've got some things in our business that really do lead us to confidence about 2023, although we are not predicting per se a recession. We clearly believe there does continue to be pent-up travel demand, particularly in parts of the world where the borders are just opening. We're also seeing just generally a desire for travel and services as compared to goods, which we do see strongly in leisure. Also see, as we think about kind of the overall macro environment that there is pent-up savings for the consumer.

So we'll have to see. But again, from where we sit right now and as we look into the booking trends moving into 2023, we continue to see strength across all the business segments, Shaun. And then the last thing I would say is the reality is our booking window is still short. So at roughly three weeks for transient bookings, things could change relatively quickly. But for the signs that we see right now, we feel good about 2023. Obviously, Q1 is a particularly helpful item given we had Omicron in the first quarter of 2022.

Joseph Greff, J.P. Morgan Chase & Co.: I was hoping you could talk about 2023 group business on the books for next year? And maybe talk about it maybe a little bit differently than maybe how you've talked about it in the past. I was just wondering how much of group for 2023 is on the books as a percentage of what you anticipate the total to be? And then maybe you can just talk about in segments in terms of when that was booked, so to get a sense of pricing, how much of 2023 group was booked in 2022? How much of it was booked in 2021? How much it was booked prior to 2021? And obviously, how much would you anticipate in the year, for the year, just given the relative strength of group of late?

Tony Capuano: Yes, of course. So let me start macro and then I'll try to get a little more precise in reference to your specific question. 2023 group revenue on the book is currently pacing down about 11 percent relative to 2019. Although candidly, you heard Leeny's comments about the short booking window on transient, a similarly short booking window on group. And so I don't know that looking at that down 11 percent is particularly relevant. Even for Q4 this year, we're up 4 percent, and we think that will likely improve through the quarter, given the strength of short-term bookings and the trade that many of our customers are making for flexibility and they're willing to pay a higher rate.

When I look deeper into what's on the books for 2023, room nights are down in the high teens. ADR is actually up close to about 10 percent. And then I think your second question was really about when that business is being booked? I guess I'll try to give you some 2022 data that is hopefully indicative of the trends we're seeing. About 50 percent of the group business we've seen year-to-date in 2022 was booked in the year, for the year. That's about double what we saw pre-pandemic, where typically, we'd see about 25 percent of our total group volume being booked in the year, for the year.

Joseph Greff, J.P. Morgan Chase & Co.: Great, thank you. And then, Leeny, we heard your comments, obviously, about broad expectations for 2023 RevPAR growth. How do you think non-RevPAR-related fees performed relative to that RevPAR growth expectation? Would you expect it to be similar? Would you expect it to be plus or minus? How do you think about that?

Leeny Oberg: So we're in the middle of our budget process, Joe. So we obviously aren't getting to where we're talking about specifics on RevPAR growth of 2023 over 2022. I think what we've seen this year is credit card fees, frankly, being up over 20 percent year-to-date this year. And I think for the full year, obviously, our guidance implies the same. So I think you'll continue to see

growth in the cardholders and then growth in spend. But whether it matches exactly RevPAR, we're not in a position to say specifically.

Obviously, when you look at compared to 2019, those credit card fees have grown meaningfully more than hotel-related fees because of COVID and the steady growth in cardholders and credit card spend each and every year as we've moved through 2019. But I -- again, broadly speaking, we are looking at growth of non-RevPAR fees in 2023, both from credit cardholders, as well as spend. But the relative rate of growth compared to RevPAR, we will get closer to as we move through the budget process, but we're looking for healthy growth in both.

Robin Farley, UBS Investment Bank: I was curious about the acquisition that you made in October and you talked about expanding in the mid-scale segment in the CALA region with that brand. Do you have thoughts about the mid-scale segment in the U.S., not necessarily with that brand, but in some other brands that maybe we don't know about yet.

Tony Capuano: Yes. Of course. So, as we mentioned in the release on the acquisition, and I think, I at least touched on this in my prepared remarks, the acquisition initially is focused on the CALA region. We are equally excited about the growth prospects for mid-scale across CALA and what this transaction does for us in terms of further strengthening our footprint across this really important region. As with many acquisitions that we've done over the years, once we close, once we start rolling in CALA, we will, of course, evaluate the applicability of this platform as to whether it makes sense to roll out some or all of the sub-brands under the City Express banner into other markets around the world. But right now, we're focused on getting the transaction closed.

Robin Farley, UBS Investment Bank: But in general, is the mid-scale segment in the U.S., something whether it's that brand or not, that you kind of have your sight set on?

Tony Capuano: Well, as you know, we are not in the mid-scale segment in the U.S. Certainly, this acquisition gives us the opportunity to evaluate whether it makes sense to enter mid-scale in any other market inclusive of the U.S.

Robin Farley, UBS Investment Bank: And then just one follow-up on your comments about the pipeline growth in rooms under construction. And you mentioned that it's been a very steady sort of rooms under construction in the last few quarters, or you're steadily above that 200,000 unit rate. Is there -- can you give us a little bit of insight into sort of new construction starts in the U.S.? Only because sort of the broader U.S. market seems to be a slowing number of new construction starts in the hotel space. So just wondering how that -- the sort of incremental hotel starts looks?

Tony Capuano: Of course. So again, outside of Greater China, which is quite a volatile environment, we're pretty encouraged about what we're seeing around the world in terms of new construction starts. We are certainly not back to the peak of 2019, but as I mentioned

earlier, new construction starts in the U.S. & Canada reached the highest quarterly level we've seen since the start of the pandemic.

Smedes Rose, Citigroup Inc.: I wanted to ask a little bit about net unit growth as well going forward, just probably remains difficult for developers to kind of access capital. And I'm just wondering, do you see Marriott providing more of a backstop to developers either through loan guarantees or just direct financing?

Tony Capuano: Sure, of course. So as both Leeny and I referenced, the availability of debt, particularly for new construction here in our biggest market is a bit challenging. The good news is the pipeline continues to be strong. We continue to see fallout from the pipeline below our historical averages. As has always been the case in constricted debt markets, brand affiliation, track record of the developer, strength of the sponsorship are what -- are the factors that capture the construction debt that is, in fact, available. And so we see signs that the strength of our brands continue to capture a disproportionate share of what's out there.

A quarter or so ago, we announced closing on the financing for a \$1.2 billion Gaylord Pacific Hotel in Chula Vista, California. This quarter, we announced the closing on financing for a new Ritz-Carlton Reserve in Papagayo, in Costa Rica. So we do feel like we are grabbing meaningful share of the dollars that are out there. And I'm sorry, Smedes, what was the second part of your question? Oh, on key money?

Tony Capuano: Yes. Maybe I'll take a high-level shot at this, and Leeny can jump in with some more color. I don't see our tried-and-true philosophical approach to investment in projects changing even in this environment. Certainly, the competitive environment gets more competitive by the day, but we will apply the same disciplined lens that we've applied in the past. And among the long list of reasons, we'll continue to take that approach over the years when you look at the projects where we've leveraged the company's balance sheet to get to accelerate growth, those are projects that tend to generate outsized fee volumes.

Leeny Oberg: The only thing I'd add is that we are not seeing that we are increasing our financing support or investment support in a meaningful way for deals. I think at the end of the day, the first mortgage loans that projects are looking for do not typically come from Marriott and that has not changed. In terms of debt service guarantees, operating profit guarantees and key money, I would say we continue to see them in the same kind of frequency and proportion as we've seen in the past.

Patrick Scholes, Truist Securities: I know you sort of touched on this and made some implications for next year. When we think about the right net unit growth to model for next year, a number of considerations. Number one, you did see your pipeline tick up a bit from 2Q, but then again, the trajectory of year-over-year quarterly growth has been going down. Is it a fair assumption when we think about the organic number to use that it's similar to this year's 3 percent for next year at this point?

Tony Capuano: Thank you, Patrick. Again, the -- some of the murkiness that's out there causes us to be reluctant to give you a hard number. What I will tell you is we are encouraged by deal volume. We are encouraged by the volume of under-construction projects. And maybe most notably in a debt constricted environment, we are particularly enthusiastic about the volume of conversion deals we're approving and signing, the volume of conversion deals that we're opening, and the volume of conversion discussions we're having, both on individual projects and multi-unit opportunities.

David Katz, Jefferies LLC: I wanted to ask about IMFs. The release says two-thirds of them were international. Can you just add a little color on what percentage of North American hotels are earning them today? And any qualitative commentary about how that curve might roll out into the future would be helpful.

Leeny Oberg: Yes, sure. So let's talk about a couple of things. First of all, just from the dollar size, David, we were at \$35 million of IMFs or about one-third from the U.S. & Canada, and that is pretty similar to what it was in Q3 2019. It was 39 percent. Now it was 26 percent of overall hotels in the U.S. & Canada earning incentive fees in Q3 and 56 percent in 2019. But it's important to break out full-service from limited-service because the reality is that we had a large portfolio back in 2019 of managed limited-service hotels, which, as you know, left our system over a year ago.

So if you actually look at full-service, we're actually at a slightly higher percentage of hotels earning IMFs in full-service than we were in 2019. And again, as we talked about before, in my comments that you saw house profit margins at our full-service hotels, up 200 basis points compared to 2019 with our strong RevPAR performance and really strong efforts on the cost containment side. So we feel good about what's going on. We've talked about -- hoped for expected growth in RevPAR in 2023, both U.S. and internationally, which should bode well for continued progress on incentive fees.

Obviously, wage and benefit growth is something we're keeping an eye on, which has moderated a bit, although it still reflects the fact that we're in an inflationary environment. And then the last thing I'll say is we've continued to see improvement in the large urban markets where we've got a number of managed full-service hotels in the U.S. And we've seen nice progress as we moved into Q3 in some of those urban markets, and we expect them to continue on as we move into 2023 with that recovery.

David Katz, Jefferies LLC: Understood. And as my follow-up, the discussions happened during COVID, early on about the fee structures and the interactions between owners and yourselves, around contracts and service delivery, et cetera. And interestingly, it came up with -- in a couple of places from investors recently about what's changed. Now that at least for most of us, COVID is kind of in the rearview mirror. Can you just talk about how that's different and how that's manifesting itself in the numbers?

Leeny Oberg: So fundamentally, the fee structures have not changed. So I would say, while we did things that, on a temporary basis, helped on the reducing reimbursable costs and helping with extensions on accounts receivable, they were all really overwhelmingly temporary things. And then also, if you remember, 85 percent of the things that we charge are based on top line revenues of the hotel. So they flex as the revenues go up and down, which is helpful to the hotel owners.

I think you see things like what we've talked about on our direct digital bookings, things like that, which do help the hotel margins by coming through that channel rather than coming through the OTAs, as an example, all the productivity efforts that we've done to help improve our productivity per room. We've obviously worked very hard to make sure that we can make the most out of every revenue dollar that comes through the hotels. But as far as structural changes in the contracts, there's nothing really to look for there.

Tony Capuano: And maybe the only thing I would add, we obviously have brought back all of our quality metrics, so our QA audits, our brand standards. You might think that the owners would balk at that. I think quite the contrary. They care deeply about their neighbors within the portfolio and continue to encourage us to bring back and enforce those standards. And then similarly, we obviously gave our owners and franchisees a measure of relief on renovation cycle at the very bottom of the trough of the pandemic.

We're bringing those requirements back but with some pragmatic perspective on hotels that are doing a terrific job on service as evidenced by those quality metrics and giving them the ability to selectively extend some of those renovation cycles.

Bill Crow, Raymond James & Associates, Inc.: Tony, we view hotel demand as kind of a lagging economic indicator, maybe three or six months. I'm curious whether you agree with that? And if so, what is the best, whether it's a consumer view or other economic data points to try and judge the macro change that, that may be afoot?

Tony Capuano: Yes, it's a good question. I would maybe refer back to some comments that both Leeny and I have made this morning about this extraordinarily short booking window. So, probably not as much of a lagging indicator as we might have experienced pre-pandemic. While we are encouraged and optimistic by the forward booking data we see, I think Leeny said it best. We also recognize that we work in an industry that is cyclical and subject to economic cycles.

And because of that short booking window, trends can change quickly. However, even if, in fact, we are in a recession or we fall into a recession, I think the company and travel more broadly are positioned a bit differently. Leeny, maybe you want to talk about that?

Leeny Oberg: Yes. I think we definitely see that we could perform relatively better than we have in prior recessions. You've definitely got unemployment rates right now that are truly at historic lows. And while certainly what is happening with interest rates would be expected over

time to influence that. We are a far cry from the 9.5 percent that we were in the great recession.

And similarly, when you think about pent-up savings and the desire for people to take and do travel, to not assume that they can put it off that they really don't want to postpone it and that there is still both business and leisure trips that families and consumers want to make. And while consumer health is something that we will be watching extremely closely, for the moment, there does look to be some extra room there that could help as we go into a potential recession.

Bill Crow, Raymond James & Associates, Inc.: That's helpful. If I could just ask my follow-up question. We understand that owners' meetings recently, the topic of consistency of brand has kind of come up. Is there some complaints about not removing enough rooms from the system? You talked about net unit growth, a low number of removals. Should we expect that to go up over the next couple of years as you get back to kind of enforcing capital spending?

Tony Capuano: So maybe I'll take the first part, and Leeny can take the second. As I mentioned earlier, the vast majority of our owners are quite pleased that we've brought back our quality metrics and quality requirements they care, as you point out, meaningfully about the quality of the overall portfolio.

While there may be some pockets of frustration, I think there's also a broad understanding that it was appropriate to suspend those processes during the depths of the pandemic and that it will take us a bit now that they are reinstated to get back to having enough empirical data to be a little firmer on enforcement.

Leeny Oberg: The only part that I would add is that for the owners who did do some renovations during COVID, I think the results that they're seeing are powerful. And I think our good incentive for other owners to do the same. We did -- as Tony mentioned, we did give owners a bit of a pass in the heart of COVID to help everybody manage through the pandemic. But I think as we are coming out of it, I think the entire industry recognizes the importance of having both product and service up to where our consumers, our guests expect them to be given the prices that people are paying.

So we do expect there to be additional renovations and, frankly, probably a pickup in renovations now that we're largely through that impact and believe that the returns on those renovations will be strong. For the time being, we certainly continue to see that we expect our deletion rate to stay in this 1 percent to 1.5 percent rate that we've talked about for several years. We will, as we get into the new year, refine that a bit as we go through the entire budget process. But I think that sort of range should be your expectation.

Brandt Montour, Barclays Bank PLC: So maybe -- so when you think about corporate transient recovery and specifically focusing on your largest accounts, the larger corporates in the U.S., what is the tone that you kind of get back from them when you talk to them about how they're

planning for the future. Obviously, we know that near term, you're seeing good trends, but we hear and see headlines regarding -- especially in tech, some larger companies pulling back on expenses and things like that. I'm just curious how you feel about some of those things?

Tony Capuano: Sure. So at a macro level, we are, again, encouraged by the sequential quarter-over-quarter improvement in business transient. You'll recall that in the U.S. & Canada, BT was down almost 25 percent in the first quarter. That dropped to 13 percent in Q2 and just down 11 percent in Q3. As we've discussed in the past, small- and medium-sized companies, which are about 60 percent of those BT room nights are fully recovered. And in fact, in Q3, their room nights were up about 10 percent.

When you pivot to the larger companies, your comments are right. Special corporate, which tends to be a lot of those big companies, their room nights were down about 17 percent in the quarter. And when you start to look at the specific tiers within special corporate, you brought up tech as an example. They were down about 23 percent in the quarter. Trying to respond more qualitatively in terms of what we're hearing from them. I think it's really embedded in the short booking window. They absolutely talk about the value of face-to-face interaction with each other, with their customers, with their clients.

But they are also, again, much like our group customers willing to trade a bit of pricing for flexibility. And then the last thing I would say to try to address your question, we are relatively early in the special corporate rate negotiations. But what we're seeing in terms of the pricing and our growing confidence that we're going to end up at least with high single-digit year-over-year rates is pretty encouraging as well.

Brandt Montour, Barclays Bank PLC: Great. I appreciate it. And then on conversion activity, which you guys did talk about and hoping to ask it in a slightly different way. But just given the sort of counter cyclical activity in past cycles, and sort of one would think maybe that we're sort of at the tail end of conversion activity that was elevated because of COVID, but maybe that there's some -- a pickup -- there could be a pickup of conversion activity if we went into another -- if we went into a recession. Is that how you think about it at this point?

Tony Capuano: It's not. It's not. I think the reality is a couple of factors are in play here that give us even more confidence about the runway we have for conversions. I think number one for Marriott, we've never had a better stack of conversion-friendly brands and across multiple quality tiers, which is really encouraging for us. Number two, we talked a bit about the constriction in the debt markets. There is meaningfully, not meaningfully -- relatively more debt available for existing assets than there is new construction. But the same lenses from the lender's perspective apply, brand affiliation, track record.

And so in order to source the debt that is available for existing assets, I think you see existing owners and buyers of assets thinking longer and harder about brand affiliation. And then I think third, I mentioned this in response to one of the earlier questions, the uptick we've seen in

multi-unit conversion discussions is a little different than what we've seen at the tail end of other cycles.

Duane Pfennigwerth, Evercore ISI: Nice to speak with you. On the business transient commentary, which I think you said down 11 percent, I wondered if you could provide some regional color. Where would you mark that recovery across the geographies that you touch? And then just as we think about the shape of that recovery curve, we've seen some nice sequential improvement here, but should we be thinking about a plateau through early next year when we have new sort of budget cycles? Or are there regions where you still think sort of sequential improvement into 4Q on BT is on the table?

Leeny Oberg: Sure. So let's talk -- I'm going to reference back to Tony's comments about where roughly 60 percent of our BT in Q3 was from small- and medium-sized companies. And that, frankly, is sprinkled all over the country. So that's going to be everywhere from New York to Tulsa to smaller markets that are -- at limited-service hotels rather than -- the larger special corporate accounts obviously are more headquartered in the urban large cities.

The thing I will say is we've continued to see progress as we moved along. When you think of, for example, you think of New York City, which has moved quite nicely during the year, with the improvement in BT, where they were down 29 percent in Q1. Today, New York City was actually 3 percent higher in Q3 than 2019. So, I think you will continue to see the progress. The trends in BT are similar, both internationally as well as in the U.S. I do think as we move into 2023, a lot of this will depend on the state of the economy. So kind of having a prediction about exactly where BT will go, it is tough to pinpoint.

We do look for continued improvement and think it will ultimately get back to where it was, but the exact timing of that - hard to say. And then the last thing I'll point out is just the reality that we have seen it moderate in terms of its rate of improvement as we've moved into Q3, and I would expect to see that moderation continue.

Tony Capuano: Great. Well, thank you all again for joining us this morning. Thanks for your continued interest in Marriott. Get back on the road, we look forward to seeing you in our hotels in the coming weeks and months. Have a great day.

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Note on forward-looking statements: All statements in this document are made as of November 3, 2022. 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 (COVID-19); our RevPAR, rooms growth and other financial metric estimates, outlook and assumptions; travel and lodging demand trends and expectations; occupancy, ADR and RevPAR recovery trends and expectations; our development pipeline, signings, rooms growth, deletions and

conversions; our investment spending and capital return expectations; our expectations regarding the addition of the City Express brand portfolio to our system; 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 the risk factors that we identify in our Securities and Exchange Commission filings, including our most recent Annual Report on Form 10-K or Quarterly Report on Form 10-Q. Any of these factors could cause actual results to differ materially from the expectations we express or imply in this document.