Marriott International, Inc.
Fourth Quarter 2020
Earnings Conference Call Transcript[1]
February 18, 2021

Operator: Ladies and gentlemen, thank you for standing by, and welcome to Marriott International's Fourth Quarter 2020 Earnings Conference Call. Today's call is being recorded. I will now turn the call over to Jackie Burka McConagha, Senior Vice President, Investor Relations. Please go ahead.

Jackie Burka: Good morning, everyone. We are all truly heartbroken by the recent unexpected passing of our President and CEO, Arne Sorenson. He was an exceptional, visionary leader but more importantly, an exceptional human being. He will be deeply missed. As you are aware, Arne decided to reduce his schedule to fully focus on his health earlier this month. In consultation with the Board, Arne asked Stephanie Linnartz, Group President of Consumer Operations, Technology and Emerging Businesses, and Tony Capuano, Group President of Global Development, Design and Operations Services, two long-time members of our leadership team, to jointly oversee the company's day-to-day operations. Stephanie and Tony will continue in this capacity until our Board appoints a new President and CEO, which is expected to occur in the next two weeks.

Stephanie and Tony are joining us on our call this morning. As usual, we have Leeny Oberg, our Executive Vice President and Chief Financial Officer, and Betsy Dahm, our Vice President, Investor Relations, with us as well.

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 and occupancy comments reflect systemwide, constant currency, year-over-year changes for comparable hotels and include hotels temporarily closed due to COVID-19. 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 Leeny.

Leeny Oberg: Thank you, Jackie, and good morning. Like all of you, my heart is very heavy at Arne's passing. I feel incredibly fortunate to have worked with such a wonderful and talented leader and to count Arne as a good friend. So many of you have reached out to us with your

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

condolences for his family and for Marriott and have shared your fond memories of him, and we have been comforted by your kind words.

Stephanie, Tony and I wanted to share a few stories with you about Arne as well this morning. In the hospitality business, work inherently includes a lot of travel. Most days when Arne was on the road, he would lead an early morning group run around the hotel's neighborhood with as many associates as were interested. As a fellow runner, I would join the crew and watch Arne somehow find a way to spend time with every runner in the group. He'd run ahead with the quick runners and then run back to the walkers and find a way to connect with each and every person. He'd ask them about their families, their roles at Marriott, and their points of view about their markets. The run would be over at 6:30 and he would then move on to a full day of meetings and at least five more hotel tours. You could tell he fed on these connections with people and that he cared about them deeply. I have learned so much from him and I will miss him tremendously.

We are all committed to honoring our incredible leader by building on his legacy, and we, of course, want to update you on our business this morning as we move the company forward. Today we will cover our usual earnings call topics, with Stephanie focusing on the customer and demand side of our business and Tony discussing our rooms growth and development trends. I'll cover our financial results and liquidity. Given the uncertainty around the pace of vaccinations and therefore demand recovery, we will not be providing earnings guidance today. We will, however, share what we can about our outlook for 2021 in a few key areas. We'll plan to take your questions after our prepared remarks.

And now I'll turn it over to Stephanie.

Stephanie Linnartz: Thank you, Leeny, and good morning. This week, we lost a wonderful friend and mentor. Arne was an incredible leader, both for Marriott and the industry. And he was fun, in a competitive way. Like Leeny, I also remember the countless times we ran together and he would always beat me. Always. But what I will remember the most about Arne was his humility, his lack of ego and his passion for developing others. Arne and I attended The World Economic Forum in Davos together for the past six years. The first year I attended, I went to everything with Arne – taking it all in and learning so much from all of his interactions. The second year we went, pretty much as soon as we arrived, he pushed me out of the nest, so to speak. He encouraged me to schedule my own meetings and do my own media interviews. He believed I was ready and in typical Arne fashion, he empowered me to grow. He knew it was best for me and for the company. That's what true leadership is – believing in your team and helping your teammates believe in themselves. I am honored to have worked with him, and we are all committed to building on his legacy. I know Arne would want us to talk about business so let me start us off.

COVID-19 has impacted our business to an extent we never imagined, making 2020 by far the most challenging year in our company's history. Full year worldwide RevPAR declined 60 percent, with average occupancy of just over 35 percent compared to 73 percent for full year 2019. In

2020, occupancy and year-over-year RevPAR changes showed steady improvement from the trough in April through the summer and into the early fall. However, with spikes in COVID cases in many markets around the world, we saw the global pace of recovery flatten in the fourth quarter and in the first few weeks of 2021. Currently over 94 percent of our hotels are open.

Recovery trajectories to date have varied greatly by region. Mainland China, where there has generally been a sense that the virus is under control, has led the recovery and strongly exemplifies the resiliency of demand. Occupancy reached 60 percent in July and remained above that level through the end of 2020. Fourth quarter RevPAR in mainland China was only down 12 percent year-over-year. We saw additional proof points of the ability for demand to recover quickly in other areas as well during the fourth quarter, including the Maldives and Dubai. Occupancy in both markets jumped to over 60 percent in December after their governments eased travel entry restrictions.

In the fourth quarter many countries around the world reinstituted strict temporary limitations on traveling and gathering to combat rising virus cases. Demand in the U.S. was clearly sensitive to spikes in COVID cases and government travel advisories, as we saw during the traditionally travel heavy holiday period from Thanksgiving through New Year's. Many cities in Europe also shut down. Similarly, in China, we have recently seen several markets essentially on lockdown in January and February for several weeks at a time in order to fight the spread of the virus, leading to a meaningful drop in occupancy in these markets. Overall occupancy in mainland China year to date has fallen to an average of around 40 percent. The good news is that once these temporary shutdowns are lifted, we have seen demand return quickly. For example, occupancy in Chengdu and Qingdao recently jumped from around 20 percent to over 60 percent in just two weeks after their local governments announced the virus outbreaks were under control and removed travel restrictions.

Our worldwide occupancy and year-over-year RevPAR decline in January were roughly the same as we saw in December. Looking ahead to the rest of 2021, booking windows remain very short, and there is still a large amount of uncertainty. While vaccines are slowly rolling out, the pace is too uncertain to be able to predict when occupancy will move meaningfully higher. But as the year progresses, assuming wider distribution of effective vaccines, we are optimistic that the pace of recovery will pick up speed and accelerate throughout the year.

In the U.S. and Canada, we are encouraged to see some small green shoots of increased demand for corporate and leisure transient bookings, as well as in group lead volume. While still down meaningfully year over year, transient booking pace and visits to our direct booking sites have been improving recently. Occupancy over Presidents' Day weekend was the strongest we have had for a long weekend since the beginning of the pandemic, led by leisure demand, and we are also starting to see a bit of momentum behind special corporate bookings.

Group revenue pace in the U.S. and Canada for 2021 is also still down significantly compared to group revenue pace for 2020 at the same time last year, though the declines are less severe for the second half of the year. In January we had a very strong month for group bookings in 2022 and beyond. Additionally, this business was booked at average daily rates 11 percent higher than business booked in January 2020 for stays in 2021 and beyond. These are encouraging signs that there is strong demand for travel in future years once real progress has been made in containing the virus.

As we think about marketing in this environment, our teams continue to analyze the latest consumer trends to help shape our recovery strategy. We are keenly focused on personalization and localization, on capturing more leisure as well as "bleisure" travel as the lines between work and home blur, and on increasingly leveraging our digital direct channels and, in particular, our Marriott Bonvoy app. We recently released our updated, redesigned Bonvoy app with the goal of better meeting the travel shopping needs of today's leisure traveler.

The power of the Bonvoy platform has become even more evident during the pandemic, as many of our more than 147 million members have continued to interact with us in ways other than staying in our hotels. Our Marriott Bonvoy credit card holders have remained particularly engaged. Global credit card spending on our cards for 2020 was down only 16 percent year-over-year, in marked contrast to the steeper decline in RevPAR. And while not material from a financial perspective, one of the most significant expanded offerings to members recently has been our whole home rental platform, Homes and Villas by Marriott International, or HVMI. We grew the number of units on the platform from around 2,000 at launch less than two years ago to approximately 25,000 today. And we saw increased demand from our Marriott Bonvoy members, with over 90 percent of HVMI room nights in 2020 booked by members.

We continue to focus on driving demand to our hotels and on engaging with our members, with creative content and special offers including our Escape to Luxury and Bonvoy Escapes promotions. Additionally, early last year we extended elite members' status through early 2022, and we recently credited their accounts with another deposit of elite night credits to give them a head start toward elite status in 2022.

Before I turn the call over to Tony, I want to thank our incredible team of associates around the world who have shown true dedication and resilience throughout these challenging times. Tony?

Tony Capuano: Thank you, Stephanie, and good morning. Arne was a remarkable person. I'm proud to call him a friend and mentor. One of my favorite trips with him sums up how truly special and unique he really was. After we acquired Starwood in 2016, Arne wanted his senior leadership team to do an eight-day whirlwind trip around the world. He wanted to visit as many properties as we could to welcome our new associates and show them that the Marriott "people first" culture was real. And he wanted each of us there with him. As we toured property after property, Arne made a point to meet as many people as possible, to shake every hand and to look each person he met in the eye. He was so sincere and genuine. He also made sure to spend time with his leadership team outside of these meetings. In particular, I remember one overnight flight to the Middle East. Towards morning, Arne woke us all up and brought us to the lounge in the back of the plane so we could just spend time together and enjoy each other's company. This was classic Arne. He wanted to build a cohesive team that, while not afraid of some spirited debate, truly liked and respected each other. And it worked. Our jobs are infinitely easier because we are all rowing in the same direction.

Now, being the humble person that he was, I think Arne would say that we need to move on to the business. So, let me now talk about our rooms growth. In 2020, we added nearly 63,000 rooms worldwide, for rooms growth of 4.6 percent on a gross basis. Room openings in the year were impacted by slower construction timelines and supply chain issues as well as some owners temporarily waiting to open their hotels due to COVID-19. Asia Pacific was the one region where we opened more rooms in 2020 than we did in 2019, adding over 18,000 rooms, with gross rooms growth of over 8 percent versus year end 2019. In China, we recently opened our 50th hotel in Shanghai, the JW Marriott Shanghai Fengxian, a phenomenal accomplishment, as our international growth continues to strengthen.

On a net basis, including deletions of 1.5 percent, our global distribution grew by 3.1 percent year over year. Deletions were generally in-line with the average levels we've seen over the last three years, despite a number of hotels exiting our system for COVID-19 related reasons. While signings for full year 2020 were not as robust as we had expected at the beginning of the year, our overall pipeline continues to lead the industry, totaling over 498,000 rooms at year end. We also benefited from continued momentum in our residential branding business, and had another strong year for residential signings, a testament to the power of our brands.

For the full year 2021, assuming progress is made in containing the virus, we expect gross rooms growth to accelerate to approximately 6 percent. While we have seen some delayed construction starts and could continue to see some delays in openings, 46 percent of our pipeline is already under construction. Additionally, we anticipate benefitting from the backlog of openings that were pushed from 2020 into this year.

We also expect to see a meaningful impact from conversions this year, as owners and their lenders seek the incremental top and bottom line benefits from being part of the Marriott system. We are extremely pleased with our recently announced conversion deal in CALA that is expected to add 19 resorts and nearly 7,000 rooms to our all-inclusive portfolio. Our biggest deal yet in CALA, these hotels fit perfectly with our focus on leisure, currently the strongest segment of demand. And while they were not in our year end pipeline, these properties are all anticipated to join our system during 2021.

Now let's shift to our 2021 outlook for net rooms growth. Not including the approximate 100 basis points one-time headwind from the 89 Service Properties Trust, or SVC, mostly limited service hotels that are leaving our system by the end of March, we expect deletions of 1.5 to 2 percent. That's slightly higher than we have experienced recently due to the potential for more COVID-19 related exits. Coupled with our gross rooms growth expectation, we expect net rooms growth of roughly 3 to 3.5 percent, including the exiting SVC rooms. We have already received interest from multiple owners about new deals in those markets and look forward to the opportunity to replace many of the first-generation limited-service SVC hotels with newer product.

A key component of our demand recovery strategy is remaining keenly focused on the health and safety of our guests and associates. We first introduced our heightened cleanliness standards in April of last year. Since then, we have been increasingly leveraging contactless technologies such as mobile and web check-in, mobile key, and mobile chat to reimagine the guest stay experience for this environment. Last month we began rolling out additional health protocol options for group meetings at certain properties, including onsite temperature checks and providing for COVID testing capabilities.

We have also remained focused on working closely with our owner and franchisee community to help them navigate these challenging times and have taken many steps to significantly lower their costs in this environment. These steps include waiving FF&E contributions for most hotels, with lender consent, reducing certain fixed charges for programs and services and extending the delay on renovations. We are also working with hotels on payment plans when necessary, and we are very pleased that the vast majority of our hotels are paying their bills.

I also wanted to acknowledge our associates this morning. They have exemplified the Marriott culture throughout the pandemic, whether it's looking after first responders, prepping meals for those in need, or hosting blood drives at our hotels. They are a remarkable team and we could not be more proud. I will now turn the call back over to Leeny to talk about our fourth quarter financials in more detail.

Leeny Oberg: Thank you, Tony.

In the fourth quarter of 2020, worldwide RevPAR declined 64 percent, with occupancy of 35 percent. As Stephanie noted, mainland China continued to lead the recovery. Leisure remains the strongest driver of demand in mainland China, and in the fourth quarter, stays in the leisure segment were up double digits year over year for the second quarter in a row. Business transient and group demand in the region also continued to rebound well in the fourth quarter, and we have been pleased to see this evidence of pent-up demand across all travel segments. In fact, group stays comprised around 20 percent of overall room nights in the fourth quarter, back in line with 2019's distribution.

Demand in the rest of Asia Pacific also continued to improve in the fourth quarter, with occupancy reaching 35 percent, up 10 percentage points from the third quarter, primarily driven by domestic leisure travel in Australia, South Korea and Japan as well as economic reopening efforts in countries like the Maldives and India.

In the U.S. & Canada, leisure and drive to destinations remained the strongest markets throughout the fourth quarter. RevPAR declined 65 percent in the quarter, in-line with the year-over-year third quarter decline, with occupancy of 35 percent, just below third quarter's level of 37 percent. The seasonal decline in occupancy that typically happens during the fourth quarter was less pronounced in 2020, given the overall lower level of business travel.

Trends in EMEA were mixed. Fourth quarter occupancy in the Middle East and Africa reached 36 percent, an 11-percentage point improvement from the third quarter, reflecting strong domestic leisure demand in many major markets in the Middle East. The recovery in Europe took a step back in the last few months of 2020, as most countries reimposed restrictions after major second waves of the virus. During the fourth quarter, roughly one-third of our hotels in Europe were temporarily closed, and occupancy fell to 15 percent.

In CALA, around 20 percent of hotels were closed during the fourth quarter. Resort properties, particularly in Mexico, drove an improvement in occupancy to 24 percent in the region, up from 15 percent in the third quarter.

With global RevPAR down 64 percent, our fourth quarter gross fee revenues totaled $423 million, a decline of 57 percent versus the year ago quarter, largely in line with the year-over-year decline we saw in the third quarter.

Over 60 percent of the $44 million of fourth quarter IMFs were earned in Asia Pacific, of which three-quarters were earned in Greater China. Over 95 percent of our hotels in Greater China had positive gross operating profit in the fourth quarter, with over 90 percent generating positive profits for the full year. These results reflect the strong rebound in demand when the virus is under better control and our ability to help our owners control costs.

Within franchise fees, our non-RevPAR-related franchise fees continued to be resilient, totaling $133 million in the fourth quarter, down 15 percent from the year ago quarter, with credit card branding fees down 18 percent.

Fourth quarter G&A improved by 31 percent year-over-year, reflecting our significant cost reduction efforts. In the fourth quarter our total income tax provision was a benefit of $150 million, primarily due to the favorable resolution of pre-acquisition Starwood tax audits.

We reported fourth quarter Adjusted EBITDA of $317 million, down 65 percent versus the fourth quarter of last year, essentially the same decline as in the third quarter.

I will now turn to cash burn, as we have described on prior calls. Our monthly cash burn rate was only slightly negative in the fourth quarter, even with RevPAR down 64 percent. The impact of the company's $130 million 401(k) match payment in October and higher cash interest due to the timing of payments were partially offset by continued strong receivables collection efforts and robust loyalty cash flows.

We have been pleased with the strength of our cash generation in 2020 in light of the dramatic reduction in revenues. Our full year financials show net cash provided by operating activities of $1.6 billion, which included the one-time $920 million of proceeds from our amended co-brand credit card agreements. Subtracting out the $920 million as well as all investment spending, we generated positive operating cash flow – a strong performance in a year when RevPAR was down 60 percent. These results show the true power of our asset light business model and are a testament to our company's ability to quickly and effectively adapt to a significant and rapid change in demand.

Loyalty was a key piece of the equation, generating over $500 million of net cash flow in 2020 after being a net user of cash in 2019. This year's positive cash generation from loyalty is on top of our credit card related fees included in EBITDA as well as the $920 million of cash received from our amended co-brand credit card agreements. The loyalty program benefitted from strong cash inflows from our credit card programs given the resilience of consumer credit card spending, while the loyalty program's operating costs and redemption expenses were down significantly. Redemption expenses were much lower than usual in terms of both volume of nights and the rate paid to hotels for redemptions given the low occupancy environment.

At the end of the fourth quarter, our net liquidity was approximately $4.4 billion after the paydown of over $600 million of debt during the quarter. The company's net liquidity represents roughly $800 million in available cash balances plus $3.6 billion undrawn on our revolver. We believe our liquidity position and resilient cash flow from operations comfortably position us to meet our short- and long-term obligations.

I also want to briefly discuss the $243 million fourth quarter charge related to the Sheraton Grand Chicago put. Shortly after the Starwood deal closed, we granted the hotel owner a one-time right to put the leasehold interest to Marriott in 2022 for $300 million in cash. Given the current environment, we have determined the put is likely to be exercised, so we increased our liability. We have the right to defer the closing on the put until late 2024.

Moving on to full year 2021, while we won't be giving RevPAR or earnings guidance, I'll provide a bit of color on certain items where we do have some visibility.

Starting with the top line, at current RevPAR levels, for full year 2021, we expect the sensitivity of a one-point change in RevPAR compared to 2019 RevPAR on our fees could be between $35 and $40 million per year. Please note that given the nominal level of RevPAR in 2020, the impact of a one percentage point change in 2021 RevPAR compared to 2020 RevPAR could be more like $15 to 20 million. As we saw throughout 2020, the relationship is not linear given the variability of IMFs and the inclusion of non-RevPAR related franchise fees as well. In order for us to start earning IMFs in the U.S. and other markets where IMFs stand aside to owner priorities, we will need to see substantial improvement in RevPAR levels. We anticipate that the majority of IMFs in 2021 will again be earned in international markets. We expect our non-RevPAR-related fees to remain resilient and show strong year-over-year growth in 2021.

We expect G&A to total $775 to $800 million in 2021. Note that the cash component of G&A will be lower than this range given non-cash stock compensation. Interest expense is anticipated to be roughly $430 million for the full year.

Turning to several other major items that will impact cash flow, our cash taxes are expected to be $275 to $300 million for full year 2021. Investment spending excluding amounts expected to be reimbursed over time is anticipated to total $375 to $450 million for the full year. We anticipate another $200 million of investment spending that is expected to be reimbursed over time, for total investment spending of $575 to $650 million, as compared to $375 million in 2020. Approximately $220 million of the total spending in 2021 is for maintenance capex and our new headquarters. Total investment spending includes capital and technology expenditures, loan advances, contract acquisition costs, and other investing activities.

We expect cash flows from the loyalty program to be roughly neutral in 2021, even after the reduced payments we will receive from the co-brand credit card companies that effectively repay roughly one-third of the total $920 million received in 2020.

In closing, while the timing of a full recovery is unpredictable, we are optimistic that we will see notable progress over the course of this year. We have seen real evidence of the pent-up demand for travel, and we look forward to welcoming more and more guests to our hotels.

We will now open the line for questions.

QUESTION AND ANSWER SESSION:

Shaun Kelley - BofA Securities: I guess, I'd just like to start by offering my most heartfelt condolences to the Sorenson and Marriott family and team regarding Arne's passing. I think we all appreciate the stories and memories that everyone shared on the call, and we're all better people for having gotten to spend time with him. So, he will be warmly remembered, and greatly missed by all of us.

Leeny Oberg: Thank you, Shaun.

Shaun Kelley - BofA Securities: If I could turn attention maybe to some of the comments – and appreciate all the color that the team has put together this morning. I think maybe a good place to start would be to refer to some of Stephanie's remarks around some of the green shoots that she alluded to and that we're starting to see in some of the travel environment. So Stephanie, if possible, I was wondering if you could elaborate a little bit on some of your comments around the group booking position as we maybe move across the year, if you could help to give us a little bit more on that? And then specifically, the rate commentary, you mentioned the up 11 percent. If you could help us unpack that a little bit? I think that's highly encouraging and a little different than we might expect to see in a different hotel environment or different cycle.

Stephanie Linnartz: Sure, of course. So, as it relates to our group business, we are encouraged to see some really positive trends. As I mentioned in the prepared remarks that the -- on end of the fourth quarter of 2020, our group pace for 2021, it was down negative 57 percent. But the second half of the year was down just 25 percent to 30 percent. We're also, on the group front, seeing some positive trends as it relates to group cancels. They've really slowed for the second half of 2021, and they are at normal levels for 2022 plus.

We're also seeing some great trends on lead volume. While it's certainly behind 2019, it's improving. As a matter of fact, over the last 45 days, lead volume has increased 20 to 30 percentage points. So, a significant improvement from what we experienced in the fourth quarter of 2020.

The other thing I'd note on the group from -- we're starting to see a pickup in what I'd call more normal types of groups. So as an example, we're starting to see some incentive meetings book in the fourth quarter of this year.

And to your question about rate, yes, January was not only a strong booking month, which was terrific. Actually, the best month we've had in a couple of years, but the rate was up for futures, 11 percent. And I should note, most of those groups that were booked into the future years at those higher rates were in-house groups versus citywides. We haven't quite seen citywide bookings come back yet.

So, I think that the story on the group front just underscores the point that there will be a return to meetings and group business. It may be slower than we would like but we're seeing the demand. And as you can imagine, Shaun, we're talking to our customers all the time, meeting planners, our top accounts. And they all want to get back out on the road and travel.

We're also seeing, in China, some quite positive things on the group front. As a matter of fact, the bookings in China, group bookings, were up to 20 percent of our room nights, again, which was encouraging. China is a great story. It shows that there's pent-up demand for travel. Six weeks after this virus was announced in China, people started booking room nights again. It started with leisure but then quickly towards as the year moved on, moved to both business travel and group. And of course, much of it -- most of it was domestic, but still strong demand. So, we're very encouraged as to what we're seeing on the group front.

Joseph Greff – JP Morgan Chase & Co.: I'd like to offer my condolences as well. Arne was obviously a talented executive, and everybody respected him for what he's done over the years at Marriott and for the lodging industry. But I remember him as just being a good man and how he treated everybody so respectfully and something to aspire to for everybody else. So, I know it's a big loss for you guys. So, I just wanted to mention that.

So, my question is for you, Tony. I was hoping on the gross rooms outlook commentary for this year, if you can go through the composition of the gross rooms. How much of it is conversions? How much of it is new construction? And of the new construction, I guess, how much of it is pre-COVID vintage versus any limited-service new construction that maybe think about it as commencing since March of last year? And then as you think about investment spend for the balance of what's in the pipeline, ex the 2021 gross rooms openings, do you think that accelerates in 2022 and beyond relative to what you're spending this year?

Tony Capuano: Great. Well, first of all, thank you for your kind sentiments, most appreciated. I think as we think about 2021 openings, obviously, we've indicated in our prepared remarks, an acceleration to about 6 percent gross openings. And to state the obvious, there's more limited visibility than we've had into the markets pre-COVID. But there's a number of factors, I think, that give us some measure of comfort that support our guidance. I think, number one, we've got about 230,000 rooms under construction around the world as we sit here today. You also heard us talk a little bit about the Sunwing all-inclusive project, adding 7,000 rooms. That gives us almost 100 basis points of growth in gross openings in 2021.

To your point, there were a number of hotels under construction last year that had been targeted for 2020 openings, and they slipped principally because of COVID-related construction delays. And we expect a significant number of those hotels to open in 2021.

And then I think the last thing I would say is that while it's certainly early days, we're only 10 or 11 weeks into the year, we're seeing some encouraging signs related to accelerating conversions activity. If you look at the fourth quarter of 2020, about 21 percent of our signings were conversions. And that was the highest percentage contribution from conversions that we had seen since the first quarter of 2019. And so, we did go back and take a look at some previous cycles. And in fact, at the last peak, we saw conversions spike all the way up to about 24 percent of total signings. And I think that's quite encouraging as well.

The only other thing I would add, Joe, that also gives us some measure of comfort, we've seen from quarter-to-quarter since the pandemic started, a relatively steady level of rooms under construction. And obviously, we've shared that with you in each of the quarterly calls.

Leeny Oberg: And Joe, when you think about on the investment front, obviously, as you're adding more rooms on a relative basis to 2020, you'd see a little bit more investment. But when you think about the kind of classic typical investment either per deal or per average key in a full year, I would say we are not seeing any sort of meaningful increase in the amount of investment that were needed to put into deals. And obviously, when you look at our pipeline, for example, in the U.S., which is 80 percent limited service, there, typically, the investment is far less. And -- so I think while you would expect that our investment will increase a bit relative to the really low 2020 levels, I would not expect it to see it take kind of meaningful step-up relative to the overall number of rooms.

Thomas Allen - Morgan Stanley: And let me just echo my condolences to Arne's family and all of you at Marriott. As analysts, we were lucky enough to watch him as an incredible CEO, and experienced him as an amazing leader, and just that he will be truly missed.

Leeny Oberg: Thank you, Thomas.

Thomas Allen - Morgan Stanley: So, for me, can we just talk about the all-inclusive strategy a bit more? In 2019, you announced Elegant Hotels acquisition. You've been intermittently announcing some more organic growth. And then there was the announcement this week or last week about -- with Sunwing. Can you just talk about what you've been learning so far as you've kind of built up this business?

Tony Capuano: Sure. Thank you, Thomas. I think maybe I'll talk a little bit about all-inclusive from a growth and a deal side. And then I might ask Stephanie to chime in from a demand and a leisure perspective.

On the transaction side, as we talked about when we launched into the all-inclusive space, it was frustrating for us to see the pace of growth in the all-inclusive space, certainly in CALA, but even in Southeast Asia and some of the Eastern European resort markets, and not to have a platform to compete for those opportunities. Since our launch, the market reaction from the development community has been quite significant. I think one of the things that gives us so much enthusiasm about the Sunwing announcement, beyond the fact that it's great, rapid increase in our footprint, it has accelerated the volume of inquiries we're getting about new opportunities, particularly on the conversion side. And Sunwing is a terrific partner for us. They have been in the all-inclusive space much longer than we have, and we think it is going to be a very symbiotic relationship where we both have a lot to teach each other.

Stephanie, maybe you can chime in a little bit on leisure demand?

Stephanie Linnartz: Yes. Sure, absolutely. We are really excited to see our offering of all-inclusive properties grow for our consumers. Leisure demand is very -- is the strongest segment right now. And it is also -- leisure is, as a segment, overall growing even faster than business travel. So, we see a lot of runway for continued leisure demand. What we're most excited about with our all-inclusive properties is we're going to have properties across seven of our brands. Seven of our premium and luxury brands. And it's going to be a terrific offering, particularly for our Marriott Bonvoy members. It is really -- anything that makes the Marriott Bonvoy program stickier and more engaging is great for our business. So, whether it's growing our all-inclusive business, HVMI, of course, our terrific leisure properties around the world, we just see the growth of all-inclusive is a great proposition for our consumers.

Thomas Allen - Morgan Stanley: And then just sticking on the development front. In the past, you used to do about one bolt-on acquisition a year, thinking Delta, Protea, Gaylord. Is the current environment creating opportunities? And how do you think about kind of balancing it with your balance sheet?

Tony Capuano: Sure. I think there are lots of conversations. I think from where I sit, I'll be surprised if there is a high volume of activity because I think buyer and seller pricing expectations are still out of alignment. And I think there may be some distressed circumstances where transactions occur. But I do think that gap is significant. We'll continue to look. And if we see something that makes sense, we'll use the same lens that we've always applied to the evaluation of bolt-on acquisitions - does it fill a gap for us in terms of either geographic distribution or segment and are the economics compelling?

Also -- maybe the last fine point I would put on that, not only for individual hotel transactions, but for M&A transactions, the financing markets are challenging at best. And I think that will have some cooling effect, potentially on the volume of M&A deals you see in the market.

Stephen Grambling - Goldman Sachs Group, Inc.: I also want to share my condolences to everyone on the call, as well as the entire Marriott and Sorenson family. We will miss Arne's voice, his openness and his outrageously fast response time in e-mails. So, I guess it's just another sign of his ability to connect with everyone.

Leeny Oberg: So true.

Stephen Grambling - Goldman Sachs Group, Inc.: So Leeny, you mentioned G&A in the $775 million $800 million range. Can you help us think about the different levers of costs that were removed and how you may expect some of these to return perhaps in 2022 and beyond a more robust recovery? And as a related follow up, how do you think about permanent reductions in management costs or charge outs to owners that could also bolster margins for them and allow you to recapture IMFs at a lower band of RevPAR?

Leeny Oberg: Yes. Sure. So, first of all, on the corporate G&A front, when you look at these levels compared to the 2019 levels, you're looking at a high-teens reduction in comparison. And you do need to remember that both of those numbers include bad debt. And while in the long run, bad debt is a cash cost, it is kind of in-the-year-for-the-year, often not a cash cost because it's a reserve taken. And again, it's a little bit hard to predict exactly where that'll go in 2021. And I think you would normally expect in this environment, it might be a little bit higher than normal levels. And certainly in 2019, it was not even anything to worry about. But overall, I would say, from a cash perspective, you would see that our cash cost on a G&A front with the $775 million to $800 million is -- that reduction is a bit higher than the high teens sort of number that I've described on the expense line.

And when I think about it going forward, Stephen, I would say a couple of things. First of all, obviously, I would expect that some will need to be added back as we move forward into a much-improved picture for our industry. But I will also say that we undertook some work in 2020 that while extraordinarily painful and difficult, I think was a reflection that we view that it will take some time for the industry to recover. And we really need to put ourselves in a position where we could make these cost savings last a very long time, if not permanently. So, while you could see costs go up a bit more than inflation, I think you will see most of these savings be sustainable.

And similarly, on the hotel front, we've done a lot of work to do things that are both temporary and sustainable on the cost front. We've obviously done some temporary reductions in fixed costs at the hotel level. We've obviously done some, again, really painful work in the way of furloughs, et cetera. But we've also done some really innovative things around how to better staff the hotels, how to better get our work done, how to manage some of the programmatic costs that go to those hotels. And I think those, again, will be sustainable.

When I think about in 2021, what we've tried to do is hold on to as much of the margins that we had in 2019 as possible. So, while I think the hotel margins will obviously suffer from a reduction in revenues compared to 2019 at the hotel level. We think we have been able to save the vast majority of that margin decline through the work that we've done. And then obviously, as we move into a much more normal picture, there will be sustainable savings that allow us to get to a profitability point that returns back to where it was much quicker.

Smedes Rose - Citigroup Inc.: Our condolences as well regarding Arne. Just thinking about him, it just seems like he's always struck me as a man of such kind of grace. And it's just really sad that he's not with us anymore. I wanted to ask you...

Leeny Oberg: Thank you, Smedes.

Smedes Rose - Citigroup Inc.: I wanted to ask you, really just a little bit more about the relationship with owners who may be facing financial stress. And what, if anything, Marriott is doing, I guess, in terms of concessions or delayed payments or any other kinds of relief and whether some of those might be permanent?

Leeny Oberg: Sure. I talked the question before about some substantive work that we've done to try to match the cost with the revenue decline in the short term and again, try to make a bunch of it sustainable. But overwhelmingly, our owners are paying us. And we've had tremendous success in collecting our receivables. Most hotels have reopened. And obviously, amongst the select-service hotels, quite a few of them are actually cash flow positive. We have arranged payment plans for a large number of our hotels. And when you think about it typically, Smedes, they pay us in 30 days. And to be able to stretch that out over several months is a big help. And we're seeing there, again, overwhelmingly that they are making payments on those payment plans. And while there are obviously -- we need to get back to where there's substantial recovery to get them to a much better spot.

For the moment, they are hanging in there, and they are able to pay some down and work with us to be able to navigate through this time. But I do agree with you, we are paying incredible attention to our costs on property and working with the owners to try to find ways to do even more. And a whole lot of this depends on what the owner's particular situation is, too, in terms of how well capitalized, what is the debt structure and what kind of market they're in. But overwhelmingly, we have seen really strong performance. And the newest information about the PPP loan extension and expansion, as well as whatever may come from a stimulus bill, hopefully, will be added benefit to them as well.

Smedes Rose - Citigroup Inc.: Okay. And then I just wanted to ask you on the agreement with Sunwing. Did Marriott pay any upfront money for those properties to come into the system? And also, did the owner agree to invest any incremental capex? Or do you feel like they are kind of ready to go?

Leeny Oberg: Well, I'll take the first one, and then I'm going to turn it over to Tony for the second one. We would never get into specifics on a particular deal. But I can tell you that this was a very, very capital-light deal. I'll just leave it there.

Tony Capuano: And I think similarly, on the second half of your question, these are terrific physical assets. There are some modest renovation requirements, but these are pretty conversion-ready assets that we're excited to get into the system and start welcoming our Bonvoy guests.

Patrick Scholes - Truist Securities, Inc.: Certainly, our deepest condolences to both the Sorenson and Marriott families. Obviously, it goes without saying we will deeply miss him very much.

Question for you, you talked about 94 percent of your hotels at the end of the year open and probably 6 percent not open. How might you think -- or what do you internally think about the trajectory of re-openings? And I assume those are mostly urban top 25 hotels, correct?

Leeny Oberg: Well -- so let me help you a little bit here. Thank you, Patrick, and we appreciate your thoughts. So, first of all, in U.S. and Canada, we're only talking 3 percent of the hotels. So only 159 in all of North America. The biggest concentration is in Europe, where 34 percent of the hotels are closed. And then also in Caribbean and Latin America, where 11 percent of the hotels are closed. So, I would say there, there can be some true structural reasons why in those markets, government regulations, actually, in some cases, require that the hotels be closed.

So I think one of the things that we've all learned over the last year is that, in many cases, even down at levels of 10 to 15 percent occupancy, a hotel can be better off being open than it is closed, from a cash flow perspective. And we've, again, done everything we can. Most of our charges, as you know, are based on revenues. So that floats with the occupancy.

So I think, in general, we would, as you see things start to pick up a little bit, hopefully, as the vaccinations continue to progress even more, then you will start to see these remaining closed hotels open up.

Robin Farley - UBS Investment Bank: Great. Please let me add my condolences on Arne's loss. I'm very sad. Obviously, he was such an unfailingly kind person. So, I just want to add my condolences.

Leeny Oberg: Thank you, Robin.

Robin Farley - UBS Investment Bank: My question is on the unit growth topic. I know conversion's visibility is kind of more limited, maybe only within the next few months, and removals kind of similarly. But when we think about gross unit additions from kind of new construction that would happen next year in 2022, a lot of that would probably be underway or have to be underway already now. So, I guess -- I wonder if you could give us some thoughts on the growth unit additions for 2022? In other words, trying to get a feel for whether -- how much of the acceleration in gross additions in 2021 is the openings that got pushed from 2020 into 2021? And kind of what that may look like past that, the impact of those openings sliding into 2021?

Tony Capuano: Thank you, Robin. As I said in response to one of the earlier questions, state the obvious. There's a lot less visibility into the future than we had prior to the pandemic. I think beyond 2021, we're going to need to get a bit further into the economic recovery. We're going to have to see how quickly the financing markets rebound and how quickly construction starts begin to pick up.

As I said, we do have 230,000 rooms under construction. But it is interesting, as I talk with our transactors around the world, the good news is we're generally not seeing much in the way of fallout of under construction pipe -- projects from the pipeline. I think if there's going to be an impact, it will likely be further impact on the length of the construction cycle. And so, it's a little tough to know what that looks like in 2022. I am hopeful that in the next couple of quarters, that visibility will improve a little bit. But I just don't think we've got great visibility beyond 2021 at this point.

Robin Farley - UBS Investment Bank: Okay. No. That makes sense. I mean it's actually surprising how many rooms are under construction, very similar to what it was a year ago, and actually given everything that's gone on, I would have thought that new starts would have made that number lower, but it's fairly consistent, only a few thousand rooms different than a year ago. So that's why it seemed potentially encouraging for 2022. But...

Tony Capuano: We agree. That's one of the statistics we've been watching. And to your point, it's quite encouraging that we've seen such stability in the volume of under construction rooms around the world.

Robin Farley - UBS Investment Bank: Yes. And then just one quick follow-up. Can you give a little more color around the put option. It's just when we normally look at your what's added back restructuring -- for acquisition costs related to Starwood, obviously, that put option is a significant amount. So just a little bit of color around that.

Leeny Oberg: Yes. Sure, absolutely. Yes, we always say, we're overwhelmingly done with the integration of Starwood. And we're kind of hopeful that this is the last bit. But when we acquired the company, Starwood's management agreements for the Sheraton Grand Chicago and the Westin Times Square included very broad cross-brand territorials, which actually -- when you think about it, meant that for the rest of our 28 brands, we were severely limited in those areas.

So, soon after we did the deal, we entered into a settlement agreement with a hotel owner where basically we granted that owner a onetime right to put the leasehold interest in the hotel to Marriott in 2022 for $300 million in cash. Now it's worth noting that there is a ground lease underneath this hotel. We actually don't have to buy that. If we want to buy that land, we'll have the right to for an additional $200 million, but it is worth noting that there is a ground lease on the hotel as well. But this is for buying the interest in the hotel.

The other interesting part is that given the current economic conditions, we believe that the put is probable of being exercised. And as a result, we needed to reflect what we think is the current value. And obviously, all these markets are struggling, and that resulted in this charge.

The other thing that's worth noting is that we actually have the right to not actually close on the put until late 2024. So even though it could get put to us in 2022, we wouldn't necessarily have to buy it until the end of 2024. And so it's actually worth noting that also part of the impairment that we had in the contract, the amortization line reflects the fact that, frankly, right now, if you ask us, we would expect that we would defer that purchase until the end of 2024 and continue to manage the hotel until the end of 2024 to take into consideration the fact that we don't buy it until then.

The other part that I guess I'll add is that since that agreement was signed, we've actually added 4,000 rooms in the Chicago and New York markets. So while it is painful and clearly, a direct result of COVID, we do think that in the broad picture, it's really important for us to be able to have the capability to expand our brands in those really important markets.

Robin Farley - UBS Investment Bank: And if the value of the hotel improves over the next two years or between now and late 2024, you would reverse some of the loss, I would assume? The value that's being run through?

Leeny Oberg: Yes. Obviously, you've got to look at that every single quarter, and we would. But this will be a combination of a whole lot of different factors as we move over the next few years. But fundamentally, yes, you're right.

Vince Ciepiel - Cleveland Research Company: Great. I also wanted to express my sympathy to Arne's family and the Marriott team. He certainly will be missed.

I had a question on leisure. You mentioned the favorable trend lines there, expectations for outperformance in that segment for some time, meeting that demand with the all-inclusive offering. I wanted to dig more into your Homes & Villas. Just curious how you think you're progressing there? What you think about the trend lines and demand for short-term rentals as we live in an increasingly remote world? And how you think you're meeting the needs of those, around 150 million loyalty members in terms of their interest and appetite for short-term rentals?

Stephanie Linnartz: Great. Well, thank you, Vince, for that question. Yes, we really are excited about HVMI, primarily as an offering for our Marriott Bonvoy members. We launched that business in 2019 with about 2,000 homes as I mentioned in the prepared remarks. And the reason we launched the business is we were talking to our Marriott Bonvoy members and 8 out of 10 of them said not only -- not that they were just thinking about renting a home, but they actually had done it through another platform. So, we knew it was an offering they wanted that we didn't have. And we knew it would be complementary to our core hotel business.

So, we launched the business in 2019. We've grown it to 25,000 homes. There is about a couple of million homes in the segment in which we play in. I think it's really important when we talk about HVMI to make some distinction from other platform. First of all, we only have whole homes. We also -- it's not an open platform like some of the other players. You can't just put a home on there. We only work with professional housing management companies, and we have very, very strict standards about what type of premium and luxury homes we'll allow on the platform - standards around amenities, design aesthetic, service levels, safety, security, et cetera. So, we are very strict about which homes get on the platform.

And one of the most important things about HVMI is you can earn loyalty points and burn loyalty points there. Yes, I mentioned in the prepared remarks that 90 percent of our bookings are coming from loyalty members. Also, 30 percent of the bookings are redemptions. People redeeming their Marriott Bonvoy points. And we saw the business do well, particularly during last summer because people wanted a whole home. Forty percent of our HVMI destinations are actually new to Marriott. They're where we don't have hotels, and many of them are in more remote locations, which really was quite attractive during COVID. So, we're excited about the offering, and we see it as complementary to our core business and a tremendous value proposition for our Marriott Bonvoy members.

Dori Kesten - Wells Fargo Securities, LLC: I also want to offer my condolences. Arne was really one of a kind that will be sorely missed.

Leeny Oberg: Thank you, Dori.

Dori Kesten - Wells Fargo Securities, LLC: I was wondering, I guess this is for Leeny, how important is it for Marriott internally to return to share repurchases and/or dividends? And is there anything beyond your leverage target that we should be using as a timeline guide?

Leeny Oberg: No. I don't think so. I think, obviously, the stability of the marketplace will be important. I'm kind of assuming that we continue on the beginnings of this recovery and get to a much more stable place. I think we clearly have to recognize that it will take us a little while to get back to where our leverage ratios are where we want them to be, and we will need to be considering whether the market is as stable as it was from 2012 through 2019 when you think about the volatility of our cash flows.

But I think, broadly speaking, looking at our business model and the way we generate cash, that I think the fundamental strategy is still the same, which is grow absolutely the best way we can with really efficient use of capital, resulting in a business model that generates significant excess cash over and above what we need to reinvest in the business. And in that respect, we would look forward to returning to both modest dividend and share repurchase.

Dori Kesten - Wells Fargo Securities, LLC: Okay. And Stephanie, as a follow-up, if you look out three years, how would you expect your exposure to leisure business, transient and group to have shifted? Are you of the belief that it'll eventually return to the distribution that we had over the last few years?

Stephanie Linnartz: Yes. When we look medium, longer-term past COVID, we think there is robust demand for travel across all segments: leisure, business travel, group meetings. There could be some slight shifts here and there. But again, we -- as I mentioned, we -- when the COVID gets under control, we see the demand come back. And we're already -- on the business travel side, we're starting to see green shoots. Our special corporate bookings in January in-the-month-for-the-month were the best that we've seen since last fall. And when we look at the bookings from our corporate accounts further out, we're seeing them tick up each week, particularly from accounting and consulting firms and technology companies.

So again, post COVID, we see robust travel demand across all segments. Again, could there be some shifts here and there, yes, but we're quite bullish on the overall outlook.

Chad Beynon - Macquarie Research: I'd also like to offer my condolences as well. We all learned so much from Arne, and he was such a kind person to all of us.

Leeny Oberg: Thank you, Chad.

Chad Beynon - Macquarie Research: Tony, somewhat of a hypothetical, but how do you think domestic price integrity and ADRs will play out once occupancies improve, I guess, near-term in the back half of 2021 and then medium-term in 2022? Obviously, this is the higher component of house profit in IMFs. Was there anything that you saw in China in the fourth quarter in terms of how pricing played out? And anything to think about this from prior cycles?

Stephanie Linnartz: Sure, Chad. I think -- this is Stephanie. I'll take that one on pricing. I mean pricing is really about compression, not trip purpose. And so, in normal times, we can get compression from leisure business. In our resorts when they are quite busy or special events. And our retail rates, we don't really differ between business and leisure. We do have some negotiated volume discounts for corporate accounts. But the key to pricing really is about occupancy rebounding. And right now, that's the challenge. I mean, in terms of ADR, it fell very steeply in April and May of last year. And that was driven by very low occupancies, and we had caregiver rates and the like in our hotels. But the occupancy did tick up throughout the year. Of course, it varies market to market. In general, last year, we saw luxury ADR hold up best with extended stay ADR next. And again, it really does get to compression. I think it will be interesting to watch this recovery. If demand comes back much more quickly than we anticipated, we may be able to grow ADR faster than we did coming out of the last downturn. But again, it's really about -- it's more about compression than it is about trip purpose.

Operator: Ladies and gentlemen, we have reached the allotted time for questions and answers. I'll now return the call to Leeny Oberg for additional or closing comments.

Leeny Oberg: Thank you very much. I appreciate everybody joining this morning. We can't wait to see you out on the road, and thank you again so much for your kind thoughts. Take care.

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