CLEVELAND RESEARCH COMPANY

Marriott

Important disclosures can be found in Appendix
February 15, 2022

Key Insights

- **2023 RevPAR outlook up 6-11%, assumes wide range of 2H outcomes –** 4Q RevPAR was 5% above 2019, improving 2pts Q/Q. Marriott expects 1Q23 up 30-32% y/y with N Am up 25-27% and int'l up 47-49%, suggesting stability in growth vs. 2019 levels. January was up 52% (N Am up 43%) and was described as seeing no signs of demand softening. Full year 2023 was forecasted up 6-11% y/y with N Am up 5-9% and Intl up 12-18%. Macro uncertainty and a short booking window (3 weeks for transient) resulted in a broader range than Marriott historically provides. Marriott said the low-end of this forecast assumes meaningful softening of the economy and flattish y/y RevPAR the 2H.

- **Group pace up 20% y/y, expect strong ITY FTY –** 4Q US managed Group RevPAR accelerated to 10% above 2019 (3Q was up 3%), better than the 4% growth pace entering the quarter due to strong close-in. Marriott noted 2023 Group is pace up 20% y/y with room night and rate growth each quarter. Leadership expects this to strengthen further based on strong lead generation and increased quotes for ITY FTY bookings. For context, half of Marriott group room nights last year were booked ITY FTY (historical was 1/3). While far away, 2024 Group demand is up 5% y/y as of Jan 1.

- **Leisure strong, BT stable, blending of trips remains evident –** 4Q global leisure transient demand was 7% above 2019. Business transient demand in N Am was steady through 2H22 at 10% below 2019, a touch softer vs. expected 90 days ago. SMB continues to lead, large corporate is lagging. For 2023, Marriott said corporate negotiated rates materialized at HSD% growth. Top special corporate accounts (accounting, consulting, etc.) improved 9 points relative to 2019 in January. The company continues to see blending of business & leisure (shoulder occ better vs mid-week) and noted the business trip length of stay is up 20% vs. 2019.

- **Unit growth outlook indicates 88k gross room adds (17k from City Express) –** Marriott expects 2023 net units to grow 4.0-4.5% y/y. This follows 2022 net unit growth of 3.6% ex-Russia exits. This outlook assumes 5.5% gross room adds (88k rooms) including a 1% contribution (17k rooms) from City Express. Marriott development pipeline stepped down sequentially to 496k rooms (up 2% y/y), and rooms in construction fell to 199k (down 1% y/y) indicating starts under-paced gross openings (65k rooms). Management noted US construction starts moved up meaningfully from trough (still below 2019) as supply chain, costs, and labor availability moved in the right direction.

- **Key money similar to historical pace** – Marriott indicated a maintained approach to financing, key money, and investment support, with frequency and magnitude of these similar to pre-Covid and geared towards meaningful high fee generating assets. Their investment budget for 2023 includes ~$200-225M of key money, consistent with historical investment for the system. Conversions stepped up to 27% of gross openings in 2022, up from 21% in 2021.

- **Investing in customer-facing technology** – Marriott is forecasting higher than typical investments in customer-facing technology at roughly $150M for 2023, which they noted will be reimbursed by the system over time. Advantages were cited as improving mobile app experience for guests and allowing associates to better interact with Bonvoy members. Mobile app users grew 32% y/y in 2022, driving digital room nights up 27% y/y.

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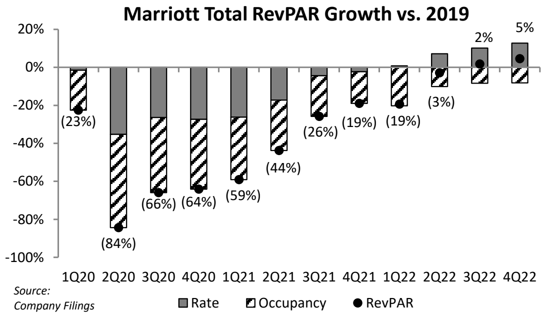
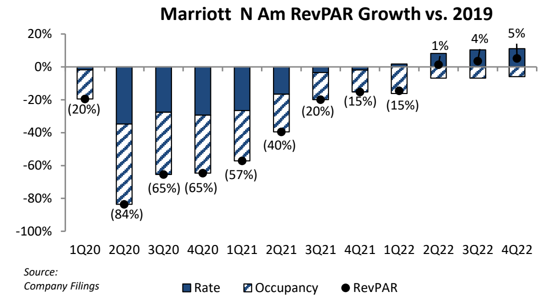
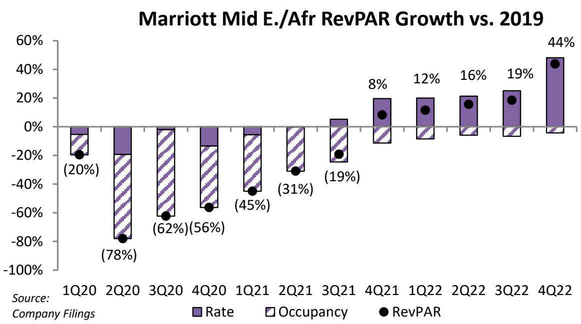
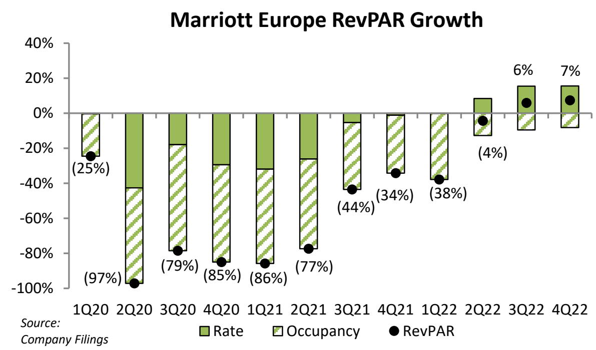
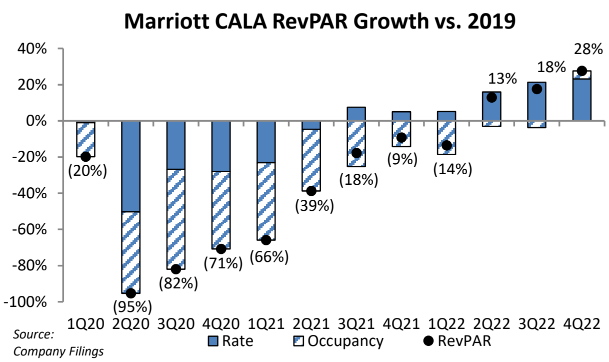
Key Charts

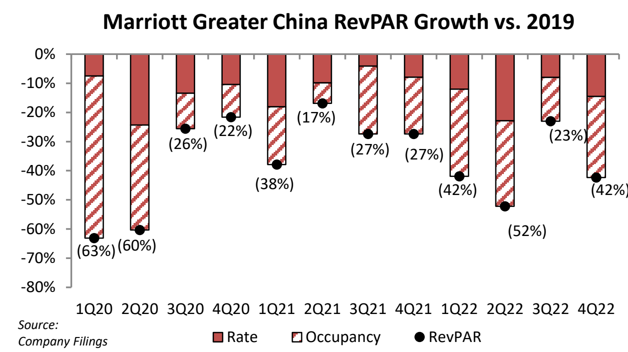


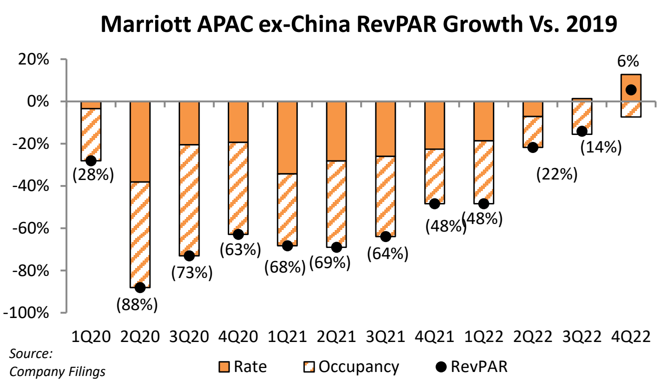


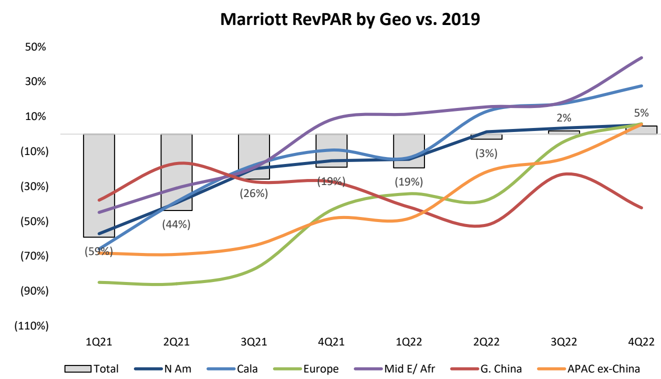












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Full Conference Call Notes

Segment demand

- Globally leisure demand has remained robust
  - 4Q leisure transient room nights increased 7% vs. 2019
  - Leisure ADR was up 22% vs. 2019
- Group experienced the most meaningful improvement in 2022
  - 4Q US & Canada Group revenue increased 10% vs. 2019
  - 2023 group revenue pacing up 20% y/y with room night and rate growth each quarter
  - Expect group revenues this year to strengthen further
  - Strong lead generation and increased rate quotes for ITY FTY bookings
  - Half of 2022 group room nights were booked in the year (up from 33% in 2019)
- US & Canada BT demand was steady from 3Q to 4Q at around 90% recovery
  - For 2023 we have special corporate rate growth of HSD%
  - Small & medium business demand was up 6% Q/Q
  - Have seen slower steady recovery from larger companies
  - Bit of a ways to go to get back to pre-pandemic levels
  - In Jan, top special corp accounts (accounting, consulting, defense, healthcare) improved 9pts vs. 2019
  - Seeing more compressed booking window in group
  - Think meaningful upside to from ITY FTY bookings materializing during the balance of 2023
  - Group on the books for 2024 on January 1 was up 5% y/y
- Day of the week trends in US & Canada point to blending of business & leisure trips
  - 4Q mid-week occ was still down MSD% vs. 2019
  - Shoulder & weekend occ down LSD%
  - Avg. length of business transient trip in the US is 20% longer vs. 2019
- Cross-border travel accounted for 16% of 4Q transient room nights
  - Up 1 point from last quarter but still 3 points below 2019

Loyalty

- Record global card member acquisitions and card spend last year
- Credit cards now available in 9 countries following November card launch in Saudi Arabia
- In 2022, our mobile app users were up 32% y/y
- Digital room nights rose 27% y/y and digital revenues grew 41% y/y

2023 guidance

- To date we have not seen signs of demand softening
- Expect 1Q RevPAR up 30-32%
  - US & Canada up 25-27%, Intl up 47-49%
  - January RevPAR was up 52% (US & Canada up 43%)
  - Bookings across customer segments and geographies are excellent so far
  - Rising cross-border travel
  - Strong group revenues due to demand and ADR gains
  - Business transient revenues benefiting from higher volumes and special corporate rate negotiation
  - Expect APAC ex-China meaningfully above 47-49% range
  - China probably somewhere in that ballpark
  - EMEA will also be very high given where it was a year ago in 1Q
- Expect full year up 6-11%
  - US & Canada up 5-9%, Intl up 12-18%
  - China could see a 30% y/y increase

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  - Less visibility given short-term booking Windows and a significant macroeconomic uncertainty
  - Providing broad range for full-year RevPAR and other key metrics
  - High end reflects steady global economic picture (resilience in travel demand across segments/markets)
  - Low end assumes global RevPAR in is flat y/y in 2H
    - Reflects meaningful softening of the global economy beginning in 2Q

Development

- Financing environment for new projects and hotel sales remains challenging
  - Higher interest rates and uncertainty surrounding economic downturn
  - Supply chain disruption, construction costs, and availability of labor have improved
- City Express portfolio should add around 17k rooms in midscale space
  - Excited about oppty to expand in Carib & LatAm as well as in other locations around the world
- Recently announced apartments by Bonvoy
  - New 1-3 bedroom serviced apartment brand in upper upscale & luxury
  - Already received great deal of initial interest from owners and developers
- Conversions were 20% of room signings and 27% of room additions in 2022
- Added 394 properties in 2022 representing over 65k rooms
- Net units grew 4.4% gross and 3.1% net (up 3.6% excluding Russia exits)
- Forecasting 2023 net rooms growth of 4.0-4.5%
  - Gross rooms up 5.5% includes including around 1% from City Express
  - Assumes deletions of 1.0-1.5%
- Key money deals tend to drive premium valuations and premium fees
  - Tend to be much more heavily weighted to our luxury portfolio
- Canceled projects are on pace with what we've experienced historically over a long period of time
- The move from "signed to getting a shovel in the ground has not accelerated as much as we would like
- US construction starts are moving meaningfully from the trough, but not quite back to pre-pandemic

Regional performance

- US & Canada was up 5% (ADR up 11%)
- MEA up 44% - boosted by World Cup in Qatar
- Carib & LatAm up 28%, Europe up 7%, APAC ex-China up 6%
- Optimistic about meaningful RevPAR recovery in China
  - Could take time to increase airline capacity and passport/visa requests
  - Huge demand surge in January – CNY nearly in-line with 2019
  - Chinese travelers accounted for 40% of our 2019 room nights in APAC

Investment spending

- Forecasting 2023 investment spending of $850M to $1B
  - $100M for City Express acquisition
  - $150M renovation spending on Union Square (NYC) and Elegant (Barbados) – both all-inclusive
  - Expect to selling these hotels with long-term agreements
- Incorporates higher than typical investments in our customer-facing technology ($150M)
  - That will overwhelmingly be reimbursed to us by the system
  - Recognition that digital experience for customers and associates is critical
  - Very excited about the work we're doing on our tech systems
  - Transforming mobile app experience for guests
  - Allowing associates to better interact with Bonvoy guests
- Key money in the ballpark of $200-$225M - lines up with our historical numbers for the system

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City Express

- Expect to grow the brand aggressively across CALA
- Evaluating the applicability of that brand in other markets around the world
- Have not made definitive decisions about when or if we roll out City Express in other places
- Historically our acquisitions gave us meaningful foothold in a region we weren't growing quickly organically
- Same strategy will apply to City Express

Labor

- Expect G&A costs up 3-5% for 2023, still below 2019 levels
- Higher travel expenses and annualization of positions we added in 2021-2022
- Other than that, things are quite normal
- Wage pressures have moderated, more normalized environment the property and corporate level

APPENDIX

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