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Q3 2024 Earnings Call

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PRESENTATION:

Operator^ Ladies and gentlemen. thank you for standing by. Welcome to Choice Hotels International's third quarter 2024 Earnings Call. (Operator Instructions) I will now turn the conference over to Allie Summers, Investor Relations Senior Director for Choice Hotels.

Allie Summers^ Good morning. Thank you for joining us today. Before we begin, we'd like to remind you that during this conference call certain predictive or forward-looking statements will be used to assist you in understanding the company and its results. Actual results may differ materially from those indicated in forward-looking statements.

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And you should consult the company's Form s 10-Q, 10-K and other SEC filings for information about important risk factors affecting the company that you should consider. These forward-looking statements speak as of today's date.

We undertake no obligation to publicly update them to reflect subsequent events or circumstances.

You can find a reconciliation of our non-GAAP financial measures referred to in our remarks as part of our first quarter 2024 earnings press release, which is posted on our website at choicehotels.com under the Investor Relations section.

This morning, Pat Pacious, President and Chief Executive Officer, will speak to our third quarter operating results; while Scott Oaksmith, Chief Financial Officer, will discuss our financial performance and 2024 outlook.

Following our prepared remarks, we'll be glad to answer your questions. And with that, I'll turn the call over to Pat.

Patrick Pacious^ Thank you, Allie. And good morning, everyone.

We appreciate you taking the time to join us. Choice Hotels delivered yet another quarter of strong earnings results.

We drove our adjusted EBITDA 14% higher our adjusted EPS, 23% higher year-over-year and raised our full year adjusted net income and EPS guidance. This strong performance resulted in raising of the midpoint of our adjusted EBITDA range by \$5 million to an expected 10% year-over-year growth.

Through the successful execution of our strategy, we've expanded the versatility of our business model, which, combined with our projected continued unit growth acceleration and our ability to drive better-than-expected RevPAR performance provides us confidence in our new growth outlook.

Our global hotel pipeline of over 110,000 rooms set a record for the third quarter, an 11% increase year-over-year.

Importantly, 99% of rooms in our global pipeline are in our more revenue intense brands, which means that the pipeline represents a meaningful RevPAR premium compared to our existing portfolio.

We also accelerated our global unit growth, both domestic and international, as we increase the velocity of moving hotels from our pipeline to open hotels, opening 75% more hotels globally in the third quarter compared to the prior year. Notably, we realized a 1.8% year-over-year net

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increase in global rooms across our more revenue intense brands including a 4% net increase for our international room portfolio.

A key addition to this growth story is the performance of the Radisson Americas brands. The significant improvement in digital traffic and booking conversion rates since the integration are attracting new hotel development commitments, which in the third quarter led to a 10% year-over-year increase in the number of rooms in the pipeline across the global Radisson Americas portfolio including a 53% increase in new construction rooms.

We are also pleased to be expanding our lead in the cycle resilient extended-stay segment.

For five consecutive quarters, we have grown our extended-stay unit size by over 10% year-over-year and with over 350 extended-stay hotels in the pipeline, we are on track to achieve a long-term average annual unit growth rate of 15%. Just two weeks ago, we celebrated a key milestone of 500 open domestic extended-stay hotels with the opening of our sixth new construction, Everhome Suites, in the Greater Phoenix area.

The property will serve the local booming infrastructure projects and industries, providing much needed longer-term lodging options. The Everhome Suites brand continues to see strong traction with 66 domestic projects in the pipeline including over 20 under construction.

Our strategic focus on more revenue-intense hotels means that the pipeline continues to be of significantly higher value than the current hotel portfolio. This higher revenue contribution is driven by a few factors.

One, the hotels in our domestic pipeline represent a RevPAR premium of over 30% compared to our existing portfolio.

Two, they have higher average effective royalty rates, driven by our strengthened value proposition to franchisees.

Three, they have, on average, over 40% higher room count per hotel than our current domestic system.

Importantly, our best-in-class hotel conversion capability moves projects rapidly through the pipeline and is a key differentiator for winning new franchise agreements.

In fact, of the domestic franchise agreements, we executed for conversion hotels over the trailing 12 months, we opened 141 during the same period, a 17% increase over the same period of the prior year.

As of the end of September, we grew our domestic rooms pipeline for conversion hotels by 68% year-over-year.

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And we expect our hotel conversion core competency to continue to be a key growth driver throughout the remainder of this year. Turning to RevPAR.

Our domestic RevPAR in the third quarter was ahead of our prior expectations.

In addition to the continued positive trends in leisure travel, we are seeing renewed strength in our corporate transient business travel, particularly in the transportation and government verticals.

We are now driving an acceleration in the growth in group travel year-over-year, both of which are further signs of the normalization of travel patterns we discussed on our prior call.

As a result of the incremental demand we are delivering to our hotels and exceeding our third quarter and October expectations, we are raising our outlook for the full year and we now anticipate returning to positive RevPAR growth in the fourth quarter.

I'd like to turn now to our international business, where we expanded our rooms portfolio by 3.8% year-over-year, highlighted by a threefold increase in openings.

With a pipeline that has increased by over 20% compared to the prior year, we continue to see a significant opportunity to further gain international market share in the coming years.

In our key strategic region of EMEA, we delivered a 9% increase in RevPAR performance year-over-year, and we are attracting strong franchisee interest.

Our EMEA team just recently executed our first direct franchising agreement in Spain, where we are adding over 700 rooms to our portfolio with most to be onboarded by year-end.

And in France, we've already onboarded approximately 2,000 rooms through our recently awarded direct franchising agreement with Zenitude Residential Hotels.

Strengthening the value proposition we provide to our franchise owners by investing in our best-in-class franchisee success system continues to fuel our success. The state-of-the-art tools we provide for our franchisees to run their businesses efficiently help them maximize their profitability.

For example, last month, we began deploying a mobile-friendly one-stop platform for our franchisees to successfully manage all of their properties from wherever they are and in turn, help further reduce their operating costs. Relentlessly enhancing the value we bring to our owners is among the reasons why our existing owners choose to expand their hotel portfolio with Choice Hotels, and contributes to our industry-leading voluntary franchisee retention rate.

Our franchisees are deeply connected with their local communities, and we have always been at the forefront of relief efforts when these communities are impacted by natural disasters.

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I want to express our concern for everyone affected by the recent hurricanes.

I'm proud that the Choice Hotels family once again came together to support our owners and guests in the recovery efforts.

We have partnered with FEMA and are working closely with franchisees in impacted areas to help them accommodate emergency workers, repair crews and displaced families.

We were also the first lodging company to launch a matching campaign for our rewards members to donate their points to our signature partner, the American Red Cross. Turning now to our customer base.

At quarter end, we further expanded our rewards program, Choice Privileges, to 68 million members, an 8% increase compared to the prior year. This growth is the direct result of us creating a more compelling program including adding exciting new experiences, such as music and sporting event redemption options and adding new aspirational hotels.

Our 68 million rewards members now have access to over 1,000 upscale, upper upscale and luxury hotels around the world.

Our continued expansion into more revenue intense segments has also resulted in us strengthening our business delivery to both the group and business transient segments.

In the third quarter, we drove an over 5% year-over-year increase in revenues from group accounts, driven by our strength with the SMERF business.

At the same time, we increased our business transient revenue supported by our strengthened upper midscale portfolio, where revenues were up by more than 9% year-over-year in the third quarter.

I'm also proud that we were recently named to Time Magazine's World's Best Companies list of 2024. This achievement is a testament to our strong company culture, where we prioritize our people, drive innovation and seek to deliver long-term value for all of our stakeholders.

In closing, the positive momentum we've created, along with our proactive strategic investments and more versatile model have meaningfully enhanced our company's growth profile.

We believe we've positioned Choice to deliver sustained earnings growth and created long-term value even in the current domestic RevPAR environment.

We continue to generate attractive free cash flow annually.

Our priority use of this capital is to reinvest in our organic growth, particularly in initiatives tied directly to driving the revenue intense growth of our brand portfolio while returning excess cash to shareholders. I will now turn the call over to our Chief Financial Officer. Scott?

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Scott Oaksmith^ Thanks, Pat. And good morning, everyone. Today I will discuss our third quarter results, update you on our balance sheet and allocation of capital and comment on our outlook for the remainder of 2024.

For third quarter 2024, revenues, excluding reimbursable revenue from franchised and managed properties increased 17% to over \$256 million, and our adjusted EBITDA grew 14% and to a record \$178 million year-over-year. This was driven by a combination of global rooms growth in more revenue intense segments and markets, strong effective royalty rate growth, and the robust performance of our non-RevPAR dependent programs.

Our third quarter adjusted earnings per share also reached a record, reporting \$2.23 per share, a 23% increase year-over-year.

Let me first discuss our key levers for franchise fee growth, which include our unit growth, RevPAR performance and royalty rate.

For the third quarter, our domestic unit growth improved sequentially and increased by 1.3% year-over-year across our more revenue intense, upscale, extended-stay and midscale portfolio, supported by our expanded domestic pipeline, which has increased 10% year-over-year.

We expect to see an acceleration of our growth for the remainder of the year and continue to anticipate achieving our full year growth target of approximately 2%.

We opened 190 new hotels year-to-date through September, a 19% increase in domestic openings year-over-year, our best performance since 2019.

We are pleased to see our new hotel construction starts in the third quarter are on track, and we have seen an increase in new construction hotel openings over the prior year.

Our deliberate decisions and strategic investments in our franchisee tools, brand portfolio and platform capabilities are delivering results across all our brand segments, which is evident in our third quarter performance.

First, we continue to strengthen our presence in the upscale segment, nearly doubling our upscale domestic rooms pipeline year-over-year.

Second, we grew our domestic extended-stay unit system size by over 11% year-over-year.

I am pleased that Choice has the fastest-growing domestic extended-stay portfolio in the industry with two-thirds of all domestic economy extended-stay rooms under construction being Choice Hotel brands.

Third, we expanded our domestic midscale rooms portfolio to approximately 335,000 rooms highlighted by a 70% increase in hotel openings year-over-year.

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Turning now to our RevPAR performance.

Our third quarter domestic RevPAR exceeded our prior expectations as we drove better-than-expected performance from our Radisson Americas portfolio and extended-stay segment.

Importantly, domestic occupancy levels for the third quarter improved quarter-over-quarter by 80 basis points.

Furthermore, we have seen an acceleration of our domestic RevPAR performance headed into the fourth quarter with October RevPAR growing approximately 5% year-over-year.

We are driving increasing demand in multiple regions of the country and our global and local sales capabilities are allowing us to capture incremental demand generated by the recent hurricanes.

While domestic RevPAR was down 2.5% year-over-year, much of it was driven in part by the calendar shifts in the third quarter compared to the prior year, a negative impact of Hurricane Debby in early August and ongoing normalizing travel trends.

For the third quarter, our overall domestic upscale portfolio delivered RevPAR growth led by our Radisson upscale brand, which increased 4.2% year-over-year. Notably, our Radisson upscale brand outperformed STR's upscale segment by nearly 3percentage points and achieved RevPAR index share gains versus competitors. Given the better-than-expected third quarter and October results, we are raising our full year U.S.

RevPAR guidance and now expect the range to be between negative 2% and negative 1% compared to our prior expectation of between negative 3.5% and negative 1.5%. Turning to our third revenue lever.

Our effective royalty rate also continues to be a significant source of revenue growth.

Our domestic system effective royalty rate for third quarter 2024 accelerated sequentially and increased 6 basis points to over 5% year-over-year, representing approximately \$6 million of incremental royalties on an annual basis.

We continue to expect our full year effective royalty rate to increase in the midsingle digits driving significant growth in our overall adjusted EBITDA.

This performance demonstrates the positive impact of our strategy to drive the growth of our revenue intense brand portfolio and our enhanced value proposition to franchise owners.

We are optimistic about the continued upward trajectory of our effective royalty rate for years to come, given that the contracts in our domestic pipeline have on average a 70 basis point higher effective royalty rate than those in our current portfolio of open hotels.

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We continue to build on the strong momentum of our platform business.

Our ancillary fees benefit from expanded offerings to our franchisees and guests, increased transaction volume with our qualified vendors and the broader reach of our initiatives. These fees more than doubled year-over-year in the third quarter, particularly our co-branded credit card program has been yielding impressive results.

In fact, in the third quarter, credit card revenues grew 9% year-over-year. Continuing to expand our platform business and increase the number of products and services we offer is one of our key initiatives.

We believe that we can drive this strong revenue growth in the years ahead.

During the nine months ended September 30, 2024, we generated approximately \$240 million including \$123 million in the third quarter, an operating cash flow net of franchise agreement acquisition costs.

Our business continues to produce strong cash flow, which, coupled with our well-positioned balance sheet, allows us to execute on our capital allocation priorities including investing in our growth, while also returning significant capital to shareholders.

Year-to-date through October, we returned \$408 million to shareholders including \$56 million in cash dividends and \$364 million in share repurchases.

We repurchased 2.9 million shares, representing over 6% of our outstanding share count, and we had approximately 3.9 million shares remaining in our authorization as of the end of October. With a strong cash position and total available liquidity of \$676 million at the end of the third quarter, our capital allocation priorities remain unchanged.

We intend to build on our long track record of delivering outsized value by accretively investing to further expand our business. I'd like to now turn to our expectations for the remainder of the year.

We are raising the bottom end of our adjusted EBITDA guidance, primarily reflecting the improvement of our full year RevPAR outlook, which we have increased by 100 basis points at the midpoint.

We now expect our adjusted EBITDA to be between \$590 million and \$600 million, reflecting a 10% year-over-year increase at the midpoint compared to the prior expectation of between \$580 million and \$600 million.

In addition, we are increasing our adjusted earnings per share guidance to now range between \$6.70 and \$6.87 per share, which is an 11% year-over-year growth at the midpoint due to the higher adjusted EBITDA and lower-than-expected interest expense.

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Our ability to continue to deliver attractive earnings growth in light of the normalizing RevPAR environment demonstrates the increased versatility of our model. This outlook does not account for any M&A, repurchase of the company's stock after October 31 or other capital markets activity.

In conclusion, we remain confident in our ability to create value for all of our stakeholders over time, as we continue to deliver organic growth across more revenue-intense hotels and markets, realized robust effective royalty rate growth, drive co-brand credit card revenues expand our international business and maximize revenue-generating opportunities from our expanded scale and versatile business model. At this time, Pat and I will be happy to answer any of your questions.

Operator?

Operator^ (Operator Instructions) The first question comes from Shaun Kelley at Bank of America.

Shaun Kelley^ Pat or Scott, just can we start with what's going on with sort of the net reimbursable side, I think we're getting a number of questions on this, but on the net reimbursable revenues, they accelerated pretty meaningfully this quarter.

Can you just help us think about that?

How much of that may be either timing or what's a good run rate to think about?

Then -- more importantly, I think Scott, as we lap the Radisson deal and some reclassification kicks in here, can you remind us of the timing of that and how to think about this piece as we move into 2025?

Scott Oaksmith^ Thanks, Shaun. Yes.

As we've talked about in the prior calls, really, we're able to integrate fully the Choice and Radisson platforms at the beginning of last year at Q4 2023.

So since then, we had that opportunity to unlock some more ancillary incremental revenue streams.

So for the first couple of quarters of this year, we were around that \$10 million to \$12 million in incremental EBITDA from those programs, was a little bit higher in the third quarter of around about \$15 million.

Really, that is a reflection more of the seasonality of some of the programs that we have given that third quarter is one of our largest quarters in terms of our guest traffic through our hotels.

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So through the first three quarters of the year, we're about around \$35 million of incremental revenue.

As we discussed before, we will lap those comparisons beginning in for Q4. Last year, that was around between \$8 million and \$10 million in revenues in the fourth quarter.

So you should think about these going forward being kind of outside of the Q3, we're a little bit higher between \$10 million and \$15 million of quarterly incremental EBITDA, which as we go forward should grow in kind of concert with the size of the system as well as other opportunities we'll have to continue to have further penetration to grow those revenue streams.

Shaun Kelley^ Great, Scott. Just to clarify, it moves out of the add-back piece beginning in Q4 as you lap it?

Or does that not start until calendar year 2025?

Scott Oaksmith^ Yes. We'll reclass those revenues beginning in Q1 of 2025 when we have full year comparability.

But for Q4, they'll still be sitting in the same reimbursable line item.

Operator^ The next question comes from Michael Bellisario of Baird.

Michael Bellisario^ Just first question for me, just on your own hotels and CapEx, and thanks for splitting those lines in the cash flow statement.

I think that's helpful.

Can you just remind us how many 100% owned hotels are on your balance sheet today?

How many are under construction?

Maybe what do you expect to start next year and beyond?

Then if you have those same numbers for the JVs, too, I think that will be helpful to provide some context on the capital spending front for owned hotels.

Scott Oaksmith^ Sure, Michael.

So we have 10 hotels that are open and operating at this point in time with a handful of other ones under construction.

So as we've talked in the past, our capital support programs are primarily related to growing our Cambria and Everhome brands. Really, those thought processes is to use our balance sheet to

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accelerate the growth of newer introduced brands to prove out the performance of those brands and then to recycle that capital.

So if you think about this program, we've been at it a little bit longer for Cambria.

And we've put out about \$800 million around the Cambria brand, but we've recycled about \$300 million of that.

So constantly, we're in the process of launching these new hotels and then selling them.

So as that opportunity awaits us, we will continue to look for those recycling opportunities.

So today we have just a handful of hotels under construction on the Cambria and Everhome brands and maybe five to seven JVs that are currently under construction.

Michael Bellisario^ Got it. That's helpful.

Then just switching gears on your RevPAR commentary.

Can you maybe quantify the hurricane benefit that you saw in October?

Then you mentioned a pretty big step-up in group and business transient.

What percentage of your total room nights are group and business transient?

Patrick Pacious^ Yes. Thanks, Michael.

I think when you just step back, October was up basically 5% in RevPAR, some of that was hurricane related, but we want to make sure investors understand it was not primarily a hurricane-driven event.

We're seeing strength in a variety of areas outside of the impacted regions.

So if you look at Texas, Louisiana and New England, those states, which are sort of outside of the impact area, those also saw a pretty significant outperformance for us regarding our expectations.

I think the broader RevPAR story is really, you look at the Radisson brand family performance as a whole, that was up 1%. The upscale segment, Scott mentioned at Radisson, itself was up 4.3%. The Cambria brand was up 3.3%.

So the upscale segment outperformed our expectations.

Then the third element is the extended-stay segment, which has continued to be a really strong performer for us.

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When you look at the -- your second question around the business transient piece, these are primarily a -- in the quarter, it's kind of hard to sort of designate how much is sort of the normal expectation.

But it's basically back to almost the 2019 levels, which speaks to this theme we're seeing, which is kind of a return to the normalization of what it looked like back in 2019 prior to the pandemic impact.

So the growth in both business transient and in group is pretty impressive.

It's interesting because the business versus leisure mix in the quarter for us was 65% leisure and 35% business, which is really a reflection, which is pretty high for us on the business transient side, pretty high given now that we have the Radisson brands as a component of our total hotel inventory, we're able to drive more business travel as a percentage of the overall rooms count.

So it is expected for us to be a key driver for us as we move forward.

Operator^ The next question comes from Stephen Grambling of Morgan Stanley.

Stephen Grambling^ I just wanted to touch on expenses a little bit. How would you be generally thinking about inflation, SG&A or just overall SG&A expense growth as we think about 2025 and beyond?

Scott Oaksmith^ Yes.

So on the SG&A front, we're pretty pleased with our ability to manage the SG&A this year in the quarter.

Our adjusted SG&A was up just about 4%.

We're around mid-single digits for the full year, about 6%.

So given that we are a scale business, it is something that we think we can continue to maintain our SG&A growth in that mid-single digits.

And so we've been pretty successful over time.

Stephen Grambling^ Then I guess a follow-up on free cash flow. A couple of questions have touched on this a little bit, but I guess how should we be thinking about free cash flow conversion heading into next year?

Is there -- have you front-loaded any of the capital spend into some of this growth and that should ease off?

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Or are you anticipating that things are going to continue into next year?

Scott Oaksmith^ Yes.

In terms of free cash flow as the year ends -- as you know we're a seasonal business.

So year-to-date, our cash -- our free cash flow is about (62%,) we expect to be around that number for the full year.

I would expect a similar free cash flow conversion into 2025percentage. Just as a reminder, that excludes the recyclable capital that we've talked about where we're investing and growing our brands.

At the end of the day those are being invested in hotels that are open that we have the ability to recycle. Through this year through the year-to-date, we've spent about \$135 million, and we've had some recycling opportunities already in the fourth quarter.

So we expect that to be a similar pace, about \$135 million for the full year on our recyclable capital.

We're still working through our 2025 planning process, but we would expect probably a similar level of that into 2025.

Then 2026 and beyond, we should start seeing some more meaningful recycling of that capital.

Stephen Grambling^ So just to be clear, another \$135 million, I guess investment into next year, net outflow?

Scott Oaksmith^ Yes. Roughly, it should be about the same as this year.

Operator^ The next question comes from David Katz at Jefferies.

David Katz^ I apologize if I missed this, but I wanted to sort of talk about the overspend/underspend in the marketing funds.

I know that there can be timing differences as we move through the year, but we usually think about kind of getting to the end of the year approximately flat.

Is that an expectation that we should change?

Or any color there would be helpful.

Scott Oaksmith^ Yes. Thanks for the question, David.

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For our marketing reservation, we obviously operate these over a very long-term period and our contractual obligation to our franchisees is to ensure that we break even over the long term.

But if you go back and take a look at our history, we've had more of an investment in the repayment cycles versus operating these every year around breakeven.

So if you were to go back the last couple of years, we ran some pretty hefty surpluses, especially through the pandemic when some of the marketing with more elevated leisure travel wasn't needed.

And so we've come into this year with a pretty hefty cumulative surplus.

So this year, we're expected to be in a deficit of just under \$40 million, but we're still in a net surplus for that fund, we should end the year somewhere between \$25 million and \$30 million surplus.

So over time, as we look for areas of investment, which makes sense to continue to drive our value proposition capabilities, we may overspend that going forward.

But that's something we take usually 5-year viewpoints and outlooks on how to manage that to ensure that we're balancing in your investments with really continuing to grow long-term abilities for us to provide value to our franchisees.

David Katz^ Understood, five years.

If I can -- just as my follow-up, we're noting some increasing focus incrementally on group.

Intuitively, that seems as though it's commensurate with moving upscale or up the RevPAR scale.

Is that the right way to think about that?

Or is there some sort of focused strategy to that, that we should consider also?

Patrick Pacious^ Yes, David, it's actually more broad-based than that.

If you think about the extended-stay segment, the ability to drive group business that's focused on a particular project, it might be a commercial customer that's bringing together a team for three weeks to work on a specific project, and they need long-stay accommodations.

It's certainly true, as you mentioned, in the upscale segment, larger meeting spaces in the hotels. The hotels are located in more urban markets as well.

So that's a key driver.

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But the real highlight, and where our largest footprint is in that sort of midscale and upper midscale segments, and we did see a pretty significant pickup in group travel there.

I mentioned the SMERF business, the social, military, education, religious and fraternal.

So those are small groups, but still a good driver of business, and those tend to stay in our sort of upper midscale and midscale hotels.

So it's more broad-based than just upscale, and it impacts a significant amount of our total portfolio. Thanks very much.

Operator^ Your next question comes from Robin Farley at UBS.

Robin Farley^ Just going back to your commentary about Q4 RevPAR being positive.

Some others are calling out November being kind of a weak month because of the election period.

So just understanding that your October came in strongly, how much visibility do you have through kind of second half of November and into December and maybe extended-stay business gives you more visibility.

But just maybe compared to others being cautious about November.

Patrick Pacious^ Yes.

So I think just, Rob, when you start and look at the macro, we're seeing trends that are correlated with the broader macro trends.

So if I look at the macro, consumer confidence is high.

It's actually the highest it's been in a number of months. GDP growth, which correlates very highly to RevPAR has been 3% the last two quarters.

Labor force participation rate, which is back to almost 2019 levels. When people have a job, they travel.

Then you're not seeing that sort of new supply growth coming in.

It's expected to be muted kind of less than 1%.

So the broader macro trends are pretty positive for our segments and our type of traveler.

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Regarding November, when we look at what we're seeing on the books for November, it is higher than it was at this point last year, which is giving us more confidence that what we saw trend-wise in October will continue into the month of November as well.

Robin Farley^ Okay. Great.

Then also, I don't know if you said when you were talking about investing in new growth.

What percent of your new growth additions involve key money?

Scott Oaksmith^ In terms of key money, each deal we look at, it's predominantly in new constructions where we're the primary heavier users of key money. And really, that's to help the cost of construction to make sure that deals get done.

But then we do selectively use those as part of our revenue intense strategy to bring higher rated units into our system.

So we haven't disclosed the exact amount of key money we use per project, but it's typically in our midscale and above hotels where we use it as a customer acquisition tactic that helps bring on more higher revenue intense hotels at a faster pace.

Robin Farley^ Would you say kind of as a percent of total units, you're talking about growth that is growing compared to previous levels, in other words, not so much the dollar amount of key money per deal, but just total percent of deals in which you invest on kind of key money, has that generally trended up a little bit?

Scott Oaksmith^ Yes. There has been -- just given the competitive environment and the tougher new construction environment, there has been an increase in the use of key money. You can see that in our dollars. Most of that is around the revenue intensity of our hotels.

Obviously usually key money is sized based on the revenue that those projects will bring to Choice.

So we have seen an elevation of our key money just simply because we've moved more up the chain scales, but there has been an increased need to use key money on more deals maybe that we previously had experienced.

But we think that's really more of a cycle where we are, just given the muted supply growth, we would expect long term that to be back to where it has been historically.

Operator^ The next question comes from Lizzie Dove at Goldman Sachs.

Elizabeth Dove^ I guess bigger picture question, looking into 2025.

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I think there's been several benefits this year in terms the Radisson synergies and some of the underspend and I think some early termination fees. High level, I know you've talked longer term in the past about kind of high single-digit EBITDA growth.

I'm curious with those kind of different factors that I talked about that's been a benefit this year, how you do think about kind of that outlook, especially for 2025 going forward?

Patrick Pacious^ Yes. Thanks, Lizzie.

We'll give our 2025 outlook in February as our normal practice.

I think when you look at kind of what's next for the company, it's really kind of three key areas.

It's the realization of the pipeline we spoke about, 30% RevPAR premium of hotels that are sitting in that pipeline and the realization of that.

Second is the growth of our international business, which we've doubled that EBITDA from that business, and we had a really strong international growth in the third quarter.

Then finally, continuing to grow our ancillary revenue business.

Scott mentioned the co-brand credit card, some of our partnerships and the like. These are things that are growing outside of that sort of RevPAR -- domestic RevPAR environment.

I do think those are things that will be key drivers of growth for us in the coming years.

Elizabeth Dove^ Got it. That makes sense.

Then I just wanted to follow up, especially on the kind of extended-tay side of things, given that we've seen Hilton, StudioRes going more in that area, is there anything you've been seeing in terms of competitive pressures there?

Patrick Pacious^ No. I think when you look at our four brands in those segments, we have both new construction and conversion. The conversion opportunities for both MainStay and Suburban are significant.

I think we crested the 100 open suburbans recently.

We are seeing on our new construct brands, if you look at the WoodSpring brand, and investors looking for a proven prototype, a proven operating model and a proven exit.

We've been able to demonstrate that in very significant and robust ways for the WoodSpring brand.

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The WoodSpring brand is actually two-thirds of all economy extended-stay new construction projects that are going on in the country right now.

So we're actually seeing more interest in our brands and the ability of our company to stay on top of that and stay in front is something that's a key focus for all of our teams.

Operator^ The next question comes from Joseph Greff at JPMorgan.

Joseph Greff^ I have a question that has been similarly asked and you answered it in different ways.

But if we think about your longer-term growth drivers and longer-term growth algorithm, and we think about it before, any kind of consequence of net reimbursable excesses or deficits, how closely do your fee or EBITDA stream match the compounding of RevPAR growth and net rooms growth?

Scott Oaksmith^ So I think in terms of kind of -- speaking to the algorithm, Joe?

Joseph Greff^ Longer term, right, not necessarily if you want to be more specific.

But if we were to look at beyond this year, if we were to look at RevPAR growth of X, net growth of Y, G&A growth of Z, and we kind of put them in the blender, how closely does EBITDA fee growth match those three drivers before the consequences making adjustments for the reimbursable stuff?

Scott Oaksmith^ Yes.

So obviously the royalties is still the lion's share of our revenue.

So that algorithm of rooms growth, royalty rate and RevPAR will still drive a significant lift to our EBITDA.

But as we become a more versatile business over the last several years and particularly since the Radisson acquisition, our ancillary fees are allowing us to grow our top line revenues even in all different types of RevPAR environments, so certainly the size of the system will still be important in terms of the more rooms you have, the more opportunities you have to leverage that for those ancillary revenues.

But that metric of RevPAR royalty rate and room still remains intact.

The other thing I'll just remind you is as we move more upstream, there is a multiplier effect as the hotels we're bringing into the system are 20% more valuable than the ones that are exiting.

So as you get that growth in the higher-rated chain scale segments, there should be an accelerator on the royalty side.

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But I still think if you look at the building blocks for Choice this year, you can still kind of build through those levers.

Patrick Pacious^ Yes, Joe, I think you look at that unit growth and effective royalty rate, this quarter effectively offset the RevPAR decline that we saw. Then you add to that, international being up about 4% platform and procurement was up. Co-brand in particular, as Scott mentioned, was up 9%.

Then I think the real focus here is that the Radisson revenue synergy opportunity is continuing to be realized, and we do expect that, as Scott said, those units are now going to flow through some of the procurement partnership and co-brand opportunities that we have.

So it is a -- it's a factor that I think is going to help sort of flow through from RevPAR unit growth ultimately into those ancillary revenue streams.

Then you add to that the international component.

Operator^ The next question comes from Meredith Jensen at HSBC.

Meredith Jensen^ I was hoping you might sort of look out five years or so.

If you could give us an idea of what your, in ideal world, the chain scale might look like versus, say the end of last year or whatever point makes sense and sort of the breakout in chain scale and also how it may look in leisure and business and international, just as things play out towards your more revenue-intense strategy.

Patrick Pacious^ Yes, Meredith, we look at the long-range trends that are going to impact our business and the segments where we operate. Let's start with retirements. 35% of wealth in the country is held by people 55 and older and a number of the trend towards retirement by the end of this decade, one in five Americans will be retired.

So that traveler has a lot of net worth, that traveler has a lot of discretionary time.

They're spending that and prioritizing travel over other things.

We're seeing in the research we're doing the increase in people traveling for sporting events and for music events and for a variety of other sightseeing things. Road trips is our second one that we see continuing to be a key driver for the brands that we operate in, particularly our midscale brands. About 5,000 of our hotels are within a mile of a highway exit.

So being where travelers want to go and being the stop along the way we do see road trips continue to be a long-term driver.

I look at remote work, while it's not as robust as it was 2, three years ago.

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There are a number of jobs that have moved to that type of status.

So people have flexibility in the day of week when they can travel.

So we are expecting that to be a long-term driver of growth for us as well.

Then finally, when you look at our extended-stay segment, we do expect to continue to see the rebuilding of American manufacturing plus the infrastructure investments that are going on in the country to be a key driver of that segment.

If you look at that segment alone, we have 500 extended-stay hotels today 350 -- over 350 in the pipeline.

So to your point, as you look out in five years, we feel like our portfolio is very well positioned to take advantage of some of these pretty significant macro tailwinds that will drive lodging demand in the next five years.

Meredith Jensen^ And one quick follow-up on international and the growth you're seeing there and outside of potentially Radisson into Asia and other areas, what kind of the fee structure should we think about for those international pipeline adds in the business in general?

Patrick Pacious^ Yes.

It really depends on the market and the type of franchise agreement we have in place.

So as you're well aware, some of our markets are master franchise agreements.

So if you look at Japan, the Nordic countries, Brazil in particular, India, those are master franchise agreements. Where we're doing direct franchising though is where we usually get higher effective royalty rate.

And so what we're seeing on that front is, as we mentioned, EMEA continues to grow for us.

We've added new hotels in France and in Spain.

Then here in the Americas, there's excitement around the Park Inn brand by Radisson in Canada. There's interest in our Radisson kind of green sign and above brands in the Latin American and Caribbean market.

What's exciting about those hotels is they're generally larger hotels than we might see domestically.

So from a unit perspective, the revenue intensity of those units generally tends to be higher than what we see domestically.

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Operator^ The next question comes from Patrick Scholes at Truist Securities.

Patrick Scholes^ When we think about your raised guidance for the rest of the year, certainly sounds there's something organic in there and then there's some hurricane positive demand tailwinds. When you break out that point -- that extra point of RevPAR for the full year, which certainly will be greater for the fourth quarter, how would you break that down between that point hurricane impact versus sort of the organic improvement you've mentioned?

Patrick Pacious^ Yes.

I think Patrick, the thing we've really looked at in Q3, that's a really positive, and that's a broad-based increase we're seeing in occupancy quarter-over-quarter, up 1%.

So as everybody knows, occupancy sort of leads rate.

So when occupancy is going higher, the franchisees have an opportunity to follow that with rate with muted supply growth.

We do expect that, that's going to continue to be a key driver for RevPAR as we move into the fourth quarter.

I think when you try to break out the hurricane impact, it's not that easy to do.

It is certainly impacting the length of stay as families need to relocate for renovations and the like.

But I think when we sort of bake it into our numbers, the full year hurricane impact will probably be about 40, maybe 50 basis points of impact.

So if you take a look at that and you look at the overall pickup that we are guiding to, we're seeing strength outside of that region.

We're seeing strength outside of the segments that normally get impacted by the hurricane.

So this is not just a hurricane impact story.

We are seeing the trending moving in the right direction, which gave us confidence to move the RevPAR guidance in a positive direction.

Operator^ The next question comes from Brandt Montour at Barclays.

Brandt Montour^ I just want to circle back to the \$15 million in the third quarter, the ancillary unlock.

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Can you break that out between Radisson and legacy Choice?

Scott Oaksmith^ Yes.

It's a mix of both, Brandt.

So as we talked about, part of it was the realignment of our contracts as well as the Radisson bringing that in.

So it's probably 75% Choice, 25% Radisson if you did the allocation there. Where we've really seen an opportunity is not only unlocking that, but obviously to sell more services across a larger portfolio.

For instance, one of those revenue streams are our property management system.

We've been able to roll that out not only to the Radisson properties that we've acquired, but also expanded into additional segments for Choice.

So for now all of our extended-stay brands are now using our Choice Advantage proprietary management system, which they had not previously.

So it's a little bit of a mix of both.

But we're excited not only that we were able to realign the contracts but to find additional ways to grow those revenue streams through our broader-based system.

Brandt Montour^ Great.

Then just a follow-up question on RevPAR.

Looking at the RevPAR that you guys report for midscale and upper midscale, it looks like it was down about 300 basis points year-over-year. The STR for those segments was flat.

So I'm curious if that -- if there's a reason why you saw underperformance in those two segments, and then I know that things got better for you sequentially.

So did anything slip from the third quarter into the fourth quarter and why that might not be the case or if you're still sort of seeing that -- seeing some sort of relative drag versus what STR would be seeing?

Patrick Pacious^ No. Brandt, it's really a factor of where our midscale hotels are located and the regions they're located in.

If you break out the STR numbers by region, where we have a significant amount of our inventory, those regions did not perform as well as regions where we under index.

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So it's primarily a regional story as to what drove that.

Operator^ The next question comes from Dan Wasiolek at Morningstar.

Dan Wasiolek^ So just wanted to dig a little bit more into the Infrastructure Act. You referenced that you have 5,000 hotels within a mile of interstate. Just kind of -- I believe some of the states have begun to allocate funds here.

I'm wondering in those states and those locations for the whole hotels that you have, if you've seen any incremental room night benefit coming from infrastructure stays?

And if so, if you can maybe offer some quantification just kind of wondering how to think about this over the next few years.

Thanks, Dan.

Scott Oaksmith^ Thanks, Dan.

As you mentioned, I mean the infrastructure bill is certainly starting to roll out.

Our opinion will be kind of a more phased rollout throughout the country as different states are more advanced and how quickly they can allocate that into projects.

What we've seen is overall construction spending is up about 4% year-over-year across the country.

But really, there's really some top 10 states that have received most of the infrastructure dollars today.

And about 38% of our hotels are actually located in those top 10 states.

So we are starting to see that come through in particular into our extended-stay product.

We've also seen some good increased business in the oil markets, where we've got a decent share there.

So we are starting to see that infrastructure.

It won't be -- because it's rolling out so much regionally, it will be more of a regional play as we see that come through.

But certainly we are well positioned to capture that increased demand that, that spending will drive.

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Dan Wasiolek^ Okay.

So is -- should we think about kind of the 500 extended-stay hotels currently that you have as being the main beneficiaries versus kind of maybe the broader portfolio that's near the interstate or is it kind of a combination of both?

Scott Oaksmith^ Yes. It will really be a combination of both.

As we've stated many times, while the extended-stay product is perfect for that type of stay occasion, it's definitely an undersupplied segment.

So there's 2x the demand than the supply.

So as there aren't extended-stay products located next to all these projects, we certainly see that in our economy and midscale hotels, which are net beneficiaries of those travel occasions.

Patrick Pacious^ And Dan, I would say while the work crews may be staying in the extended-stay product, the project managers and the architects and design folks and the engineers, there's a variety of other incremental room night occasions that occur that might not be on site full time, but come in every couple of weeks.

Those tend to benefit our more transient-oriented hotels.

Operator^ And the next question comes from Christopher Stathoulopoulos at Susquehanna.

Christopher Stathoulopoulos^ Just want to make sure I have this right and start to go back to this again here, 40 to 50 bps impact from the hurricanes on full year RevPAR, did you quantify or size up so far as election impact and the calendar shift, which I think you alluded to in the prepared remarks?

Patrick Pacious^ Yes. I think the calendar shift, I mean I think in Q2, we had -- sorry, Q3, we had two less weekends.

So that's a factor that impacted us by about a 90 basis point drag, Christopher.

So calendar shifts do have a meaningful impact on the quarter.

Obviously you make it up on the -- in the full year.

When you look at the election, we actually have seen pickup in markets like Wisconsin, Minnesota, so those are -- hopefully, the election will be over tomorrow.

But when these elections drag on, that does drive a tailwind business as well.

So we have seen some of that as well.

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I think the other thing that we're seeing broad-based is I mentioned people are traveling for sporting events. The realignment of college football is driving a significant amount of fan bases traveling to the markets they normally had not to travel before.

So Texas and Georgia and Austin, that occurred at the same time around the F1 race.

So a market like Austin really picks up business. When Oregon goes to Michigan and Ann Arbor to play those fan bases travel, and they're not the local fan bases.

So we are expecting that, that's going to continue to be a driver at that sort of local market level of the sporting events and music as well. When Taylor Swift goes to Miami, you do see a pickup in business.

So that is a trend that we do think is going to continue more of the sporting and music event-driven travel. We're seeing it in the consumer research, and we're seeing it in the actual numbers as well.

Christopher Stathoulopoulos^ Okay. And as a follow-up, if you could just put a finer point, I realize you're still in your planning process for '25.

But generally speaking, as we think about leisure business, group transient, domestic, international, high-level thoughts, it sounds like on the business side, transient grinding higher.

We do have a updates to RTO policies, group solid. Is there a reason on the leisure piece domestic that we should expect anything at this point beyond seasonally in line with perhaps a downside bias to that?

Anything -- just some color here as we're thinking about the segments, if you will, for '25.

Patrick Pacious^ Yes. I think if you just step back and look at the macro, the RevPAR in the U.S. generally grows between 2% and 3%.

If you look at our RevPAR going all the way back to 2019, we're up -- I think it's 9%, Scott, right, in the quarter.

So that if you're looking at the long-term trends, that's a normal sort of growth rate for a normal year.

We'll give our guidance when we get to February.

But I step back and as I mentioned, I look at the macro that generally correlates well and that RevPAR to GDP correlation usually has a lag effect.

So when GDP grows, you see the RevPAR pickup, not immediately, but in the coming months.

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So the fact that the last two quarters for GDP have grown is important because the economy is growing. That means business travel is going to grow.

We mentioned some of the other key drivers, the infrastructure bill, this reshoring of American manufacturing, which is continuing to drive both construction projects and then ultimately long-term business in certain markets. That's really helping the extended-stay segment, and I do think it's going to be a long-term demand driver for that as well.

So those are the macro things we look at that tend to correlate well with RevPAR. And as I said, we'll give our guidance for 2025 in February.

Operator^ We have no further questions. I will turn the call back over to Pat Pacious for closing comments.

Patrick Pacious^ Great. Thank you, Operator. Thanks, everyone, again for your time this morning.

We will talk to you again in February when we announce our fourth quarter and our full year 2024 results. Have a great rest of your day.

Operator^ Ladies and gentlemen. this concludes your conference for today.

We thank you for participating.

We ask that you please disconnect your lines.