Transcript of
Host Hotels & Resorts Inc
First Quarter 2021 Earnings Call
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Participants

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Sourav Ghosh, Executive Vice President, Chief Financial Officer and Treasurer

Analysts

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Chris Woronka – Deutsche Bank
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Presentation

OPERATOR: Good day, everyone, and welcome to the Host Hotels & Resorts First Quarter 2021 Earnings Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the call over to Tejal Engman, Senior Vice President of Investor Relations. Please go ahead.

TEJAL R. ENGMAN: Thank you, and good morning everyone. Before we begin, please note that many of the comments made today are considered to be forward looking statements under federal securities laws. As described in our filings with the SEC, these statements are subject to numerous risks and uncertainties that could cause future results to differ from those expressed, and we are not obligated to publicly update or revise these forward-looking statements. In addition, on today's call we will discuss certain non-GAAP financial information such as FFO, Adjusted EBITDAre, Cash Burn and hotel level results. You can find this information, together with reconciliations to the most directly comparable GAAP information, in yesterday's earnings press release; in our 8-K filed with the SEC; and in the supplemental financial information on our website at hosthotels.com.

Participating in today's call with me will be Jim Risoleo, President and Chief Executive Officer, and Sourav Ghosh, Executive Vice President, Chief Financial Officer and Treasurer.

And now, I'd like to turn the call over to Jim.

JAMES F. RISOLEO PRESIDENT & CEO:

2021 Year-to-date Achievements Summary

Thank you, Tejal, and thanks everyone for joining us this morning. Since our earnings call in February, we have made excellent progress on operations and investments and achieved key milestones that we believe will accelerate our EBITDA recovery. To begin with, we significantly outperformed expectations for the first quarter, which recorded a GAAP net loss but delivered positive Adjusted EBITDAre and hotel-level profitability for the first time since the onset of the pandemic. We grew first quarter total proforma revenues by 50% sequentially while holding hotel-level operating expense growth to only 15% quarter over quarter, as our operators successfully leveraged existing resources to meet a stronger-than-expected demand surge in March. As a result, we delivered $21 million of positive hotel EBITDA for the quarter, a significant improvement from the negative $62 million recorded in the fourth quarter on a proforma basis. In addition, we acquired the Hyatt Regency Austin, the Four Seasons Resort Orlando at Walt Disney World® Resort and nearly 300 acres of irreplaceable land adjacent to our Hyatt Regency in Maui, strategically investing approximately $800 million of capital at prices that are meaningfully below 2019 levels. Following these transactions, we have a substantial $1.5 billion of total available liquidity, including $131 million of FF&E reserves. Operations continue to improve with April RevPAR expected to exceed March as the vaccine-driven lodging recovery gains momentum. Finally, in addition to executing substantial strategic investments, we continued to focus on redefining our hotel operating model and positioning our renovated properties to gain market share, key long-term strategic objectives that we believe will position us to achieve best-in-class EBITDA growth through the lodging cycle.

Four Seasons Resort Orlando at Walt Disney World® Resort Acquisition

Beginning with our latest acquisition, the iconic and irreplaceable Four Seasons Resort Orlando at Walt Disney World® Resort. We completed this off-market acquisition on April 30th for approximately $610 million, $40 million less than the price quoted by Real Estate Alert. The 444-room resort is located on 289 acres within Disney World, which is one of the world's most visited destination resorts. For context, The Magic Kingdom at Disney World alone attracted nearly 21 million visitors in 2019 according to AECOM and Themed Entertainment Association data. The draw of this one theme park at Disney World is on par with the approximately 23 million visitors that Boston attracted in 2019 and close to the 24.2 million visitors Miami drew that year.

The Four Seasons Resort Orlando is the only fee-simple luxury resort within Disney World that's not owned by Disney. It provides complimentary transport to Disney World's theme parks and is the only AAA Five Diamond-rated hotel in Central Florida. Newly developed in 2014, this iconic resort is a market leader with a 2019 RevPAR index of over 215. It is now Host's highest-ranked property based on its 2019 RevPAR of $561 and Total RevPAR of $923. Moreover, it ranks fifth highest in our portfolio based on its 2019 EBITDA per key of $81,500.

As with all our strategic objectives, our capital allocation decisions are designed to grow our long-term EBITDA and we expect this acquisition to elevate the EBITDA growth profile of our existing portfolio. The Four Seasons Resort Orlando achieved 90% EBITDA growth from 2016 to 2019. The hotel was profitable in March and the first quarter, and we expect it to be profitable this year with the latest property forecasts indicating that the resort is likely to outperform our underwriting expectations for 2021.

In general, the resort is well positioned to benefit from a surge in travel and leisure demand as the pandemic subsides and the 18-month celebration of Disney World's 50th anniversary begins in October. We believe these demand catalysts will help the Four Seasons Resort Orlando surpass its 2019 EBITDA performance sooner than the rest of our portfolio.

Hyatt Regency Austin Acquisition

Shifting to the Hyatt Regency Austin, we opportunistically acquired this 448-room Sunbelt market hotel on March 15th for $161 million. Acquired off-market at a 10% cap rate and an 8.8 times multiple on 2019 EBITDA, the Hyatt Regency Austin's purchase price represents a 20% to 25% discount to estimated pre-COVID pricing and a 40% discount to replacement cost. The hotel was profitable in the first quarter of 2021 and is expected to outperform our underwriting expectations into the second quarter. Longer term, we expect the Hyatt Regency Austin to exceed its 2019 EBITDA on a stabilized basis, with profitability to be enhanced by complexing synergies, incremental expense reductions, productivity improvements and ROI investment opportunities.

Turning to our strategic acquisition of nearly 300 acres of land adjacent to the Hyatt Regency Maui. We acquired the Royal Kaanapali and Kaanapali Kai Golf Courses for $28 million or approximately $95,000 an acre, which represented a discount to pre-COVID values. We are evaluating numerous long-term value-enhancing opportunities for this land, which also provides the near-term potential to generate synergies with the Hyatt Regency Maui.

Acquiring Early Cycle

To conclude on acquisitions, we have successfully invested $800 million in the first four months of 2021, at meaningful discounts to 2019 pricing levels. This is despite a highly competitive investments landscape with an abundance of capital seeking hotel deals. Our success is testament to the depth of our industry relationships and the strength of our reputation, which is based on decades of best-in-class execution. We believe this is an opportune time to strategically grow our portfolio's exposure to markets with high expected growth and to superior quality hotels. These early cycle investments have historically provided years of elevated EBITDA growth when timed with a period of strong economic recovery.

First Quarter 2021 Performance Summary

Turning to operations, business volumes grew in each month of the first quarter with March achieving a RevPAR of $84.10, which was 115% higher than our December RevPAR of $39. Moreover, we outperformed the industry's luxury and upper upscale hotel RevPAR performance in our markets by over two points in March. Our leisure markets, such as Miami, Phoenix and Hawaii as well as some urban markets including Washington DC, Northern Virginia, Atlanta and Philadelphia, outperformed the industry over the first quarter. Our hotel EBITDA turned positive in March, allowing us to achieve $21 million of positive pro forma hotel EBITDA for the first quarter.

First Quarter 2021 Revenue Drivers

First quarter revenues were primarily driven by strong leisure demand for our resorts and hotels in the Sunbelt markets and Hawaii as well as by special group business at several of our urban hotels. As vaccine deployment accelerated through the first quarter, occupancy in our Sunbelt markets and Hawaii rose from an average of 20% in the first week of January to 57.4% in the last week of March. Compared to 2019, rate declines improved from negative 12.4% for the month of January to negative 6.5% for March on a portfolio-wide basis. Strong leisure demand over Spring break resulted in the portfolio achieving a 12.2% increase in transient rate over Spring break

2019. Eight resorts located in Miami, the Florida Gulf Coast, Jacksonville, Phoenix and Maui delivered almost 24% ADR growth over 2019 for the first quarter, with average occupancies of approximately 50%.

Overall, our luxury hotels have increased their RevPAR index by 23.1% over 2019, with the increase in market share driven by occupancy gains. The 1 Hotel South Beach and The Ritz-Carlton Naples were notable outperformers in the quarter with occupancies ranging between 60% and 70% and transient ADR above $1,000.

As mentioned last quarter, our hotels in Washington DC benefited from government agency group demand around inauguration, making DC one of our highest performing markets based on sequential RevPAR growth. Other urban hotels also benefited from special group business, which included film production crews and sports groups that collectively drove urban weekday occupancy 8 and a half percentage points higher quarter over quarter. In addition, an uptick in leisure transient, business transient and contract demand supported sequential RevPAR growth in multiple urban markets including Chicago, Seattle, New York, Boston and Philadelphia.

Leisure Demand

In terms of business mix, leisure drove 90% of our first quarter transient room nights. Our operators drove most of our leisure business through direct bookings with loyalty redemptions increasing 33% sequentially driven by our resort portfolio.

The much talked about pent-up leisure demand is evidenced in current holiday travel trends, which reflect lengthening booking windows and progressively higher levels of demand. For instance, at our Marriott-managed leisure market hotels, occupancy on the books improved by 8 percentage points nine weeks out from Memorial Day compared to where those hotels were nine weeks out from President's Day. Similarly, holiday travel trends for July 4th weekend are expected to progressively strengthen relative to Memorial Day, after which many of our hotels are likely to revert to pre-pandemic cancellation policies for leisure bookings.

We expect some of our Sunbelt markets, particularly in Florida and Phoenix, to hold occupancy while rates weaken over the summer. In Hawaii, our Maui resorts are demonstrating continued strength with occupancy on the books ranging from the mid-80s to the low-90s for June and low to high 70's for July. Remarkably, June ADRs on the books in Maui are nearly 28% higher compared to June 2019 while July ADR's are approximately 15% higher than July 2019. Moreover, we have now completed the development of 19 new luxury two-bedroom villas at the Andaz Maui. The villas already have 45% occupancy on the books at an ADR of 1700 for the remainder of the year and bookings continue to grow.

Group Demand

Moving on to group, we achieved 264 thousand group room nights in the first quarter with one highlight being a corporate group of over 4 and a half thousand room nights at the Orlando World Center Marriott. The lead for this group came from last October's Connect 2020 conference held at that hotel, which demonstrated how a group event of over a thousand in person attendees could be held safely.

We currently have approximately 1 and a half million definite room nights on the books for full year 2021, with approximately a million of those in the second half of the year. Cancellations remain above 2019 trends, but continue to decline week over week. Encouragingly, our Marriott managed properties booked a total of approximately 144 thousand new room nights across the second, third and fourth quarters of 2021 with strong lead conversion rates compared to 2019. Group room nights currently on the books represent approximately 11% of total available rooms in the third quarter and 13% in the fourth quarter.

Booking momentum was strong in the first quarter, with nearly 165 thousand and 154 thousand new group room nights booked for 2022 and 2023 respectively. Importantly, our operators have continued to hold future group rates. Compared to 2019, ADR for definite rooms on the books is flat in 2022 and 1.5% higher in 2023.

Business Transient Demand

Turning to business transient, demand continues to make steady progress and first quarter bookings were 21% higher than the fourth quarter of 2020 driven by steady month over month progression. Our hotels in San Francisco/San Jose accounted for approximately 30% of the sequential increase in room nights while ADR rose 17% or $26 over last quarter due to increases from high rated markets such as Miami, Florida Gulf Coast, and Phoenix. Most of the special corporate business in the quarter was driven by consulting, project business, and government accounts.

Upcoming Hotel Reopenings

To conclude on operations, there were 76 hotels open for the full first quarter. We reopened Hyatt Regency Capitol Hill on May 1 and expect to reopen the Westin Chicago River North and the Ibis Rio de Janeiro later this month. By the end of May, we expect only the Sheraton Boston to remain under suspended operations.

Potential Growth from Three Strategic Objectives

Reflecting on the last 12 months, which have been the most difficult in Host's history, I am proud of all that we have accomplished and excited by the clarity of our mission, which is to position the company to deliver best-in-class EBITDA growth through the new lodging cycle. To achieve that goal, our three strategic objectives remain:

- to redefine our operating model with our managers
- to position our renovated hotels to gain market share, and
- to allocate our capital strategically through acquisitions as well as through development projects.

We have quantified the potential returns expected from these investments in the past and I am going to put all the numbers together for you now. From redefining our operating model with our managers, we expect to generate **$100 to $150 million** of potential long-term cost savings based on 2019 revenues. From our goal of gaining 3 to 5 points of weighted index growth at the 16 Marriott Transformational Capital Program hotels as well as five other hotels where major renovations have been recently completed or are underway, we expect to generate **$21 to $35 million** of incremental EBITDA over time on a stabilized annual basis. And finally, from recently completed and ongoing ROI development projects we expect to generate **$25 to $35 million** of incremental EBITDA on a stabilized annual basis. It typically takes renovation and development projects two to three years to stabilize. As these projects are at different stages of renovation and development, stabilization will occur over several years. As a reminder, our recently completed and ongoing development projects include:

- the ground-up development of the 165 key AC Hotel Scottsdale North
- 19 new luxury villas at the Andaz Maui
- Repositioning and expanding the Ritz Carlton Naples and
- 60 thousand square feet of additional meeting space as well as an aquatics park at the Orlando World Center Marriott

Our acquisitions of the Four Seasons Resort Orlando and the Hyatt Regency Austin provide us a proforma 2019 hotel EBITDA base of $1.547 billion. While it makes sense to think of 2019 as the base year, the timing of a return to 2019 levels of hotel EBITDA remains highly uncertain, particularly given the unprecedented, pandemic-driven nature of the downturn. The recovery may span several years, and our portfolio is likely to continue to evolve over that time. However, our goal is for the initiatives and projects underlying our strategic objectives to add a potential **$145 to $220 million** of incremental EBITDA over time, on a stabilized annual basis.

Conclusion

With the lodging industry's supply-demand fundamentals continuing to improve, we remain focused on long-term growth and on building a business that is stronger than it was in 2019. We are pleased with our execution to date and feel optimistic about our future as the pandemic recedes and travel continues to rebound.

With that, I will now turn the call over to Sourav.

SOURAV GHOSH, CFO & TREASURER:

Thank you, Jim. Good morning everyone. Building on Jim's comments, I'll provide more color on how we achieved breakeven in the first quarter and how we expect revenue and expense trends to evolve through the course of the year.

First Quarter 2021 Hotel EBITDA Drivers

We achieved positive hotel EBITDA and positive Adjusted EBITDAre for the quarter due to three main drivers:

- a stronger than expected increase in demand throughout the quarter, particularly in March,
- our managers' ability to sequentially increase average room rates by 18%, and
- continued expense control at the property level.

As Jim covered the first two drivers in his remarks, I will focus on the third.

First Quarter Hotel Operating Expense Growth - Variable and Fixed

First quarter hotel-level operating costs rose by only 15% compared to the fourth quarter of 2020, despite an approximately 50% increase in total revenues over the same period. As demand suddenly surged in March, our operators didn't have the time to adjust staffing and other controllable costs from contingency levels implemented since the onset of the pandemic. As a result, March variable expenses declined by 70% on total revenue declines of only 62% compared to March 2019. Most of the resulting savings were due to cross-utilizing hotel employees across various job functions. For the first quarter, variable expenses declined by 74% on total revenue declines of 70% compared to the first quarter of 2019. In future quarters, we expect staffing and other controllable costs to adjust to more normalized levels as demand continues to grow.

Fixed expenses were 41% lower than the first quarter of 2019. This is a remarkable achievement considering that nearly 20% of the remaining fixed costs are below GOP and consist mainly of expenses such as property taxes and insurance, which don't change with business volumes. As part of our goal to redefine the operating model, both Hyatt and Marriott have restructured a number of above-property shared service and allocated costs which were historically completely fixed. Additionally, we have worked with the brands to achieve greater flexibility to opt-in to shared services on an as-needed basis, further reducing our fixed costs.

The Property-Level Expense Reduction Ratio

Last quarter, we introduced the expense reduction ratio to measure the change in property-level expenses against the change in total revenue over a comparable pro forma time period in 2019. The expense reduction ratio in the second through fourth quarters of 2020 was fairly stable at 0.8; that is, for every 10% decline in hotel revenue, hotel expenses declined 8%.

In the first quarter, our expense reduction ratio came in at 0.84 – much higher than the 0.65 to 0.7 that we expected on our last call for full-year 2021 and the highest achieved at any point during the recovery.

The outsized expense reduction ratio combined with ADR being down only 9% to the first quarter of 2019 enabled our portfolio to achieve positive hotel-level EBITDA at 26.6% occupancy, much better than our previously estimated break-even range of 35% to 45% with ADRs down 15 to 30% compared to 2019. Positive hotel EBITDA for the quarter resulted in positive Adjusted EBITDAre for the quarter for the first time since the onset of the pandemic. 30 hotels, representing 30% of total rooms within our portfolio, achieved break-even or positive hotel EBITDA for the full first quarter. 38 hotels, representing 42% of rooms, achieved positive hotel EBITDA in March. March saw additional hotels achieve positive EBITDA in Atlanta, our Texas markets, San Diego & LA, as well as Philadelphia and Hawaii. In fact, all four of our Hawaii hotels achieved break-even or positive hotel EBITDA in March.

The Property-Level Expense Reduction Ratio Full Year Outlook

As I just mentioned, in the first quarter, revenue came back quicker than expenses, which didn't grow commensurately, particularly in March. Going forward, our operators are expected to increase staffing and controllable spending more in-line with higher levels of demand. In addition, other departmental and support expenses such as sales and marketing as well as maintenance and other support costs will need to ramp up relative to the first quarter while remaining well-below 2019 levels. Therefore, on a full-year basis, we continue to expect the expense reduction ratio to be closer to 0.7.

Topline Outlook

Shifting to our topline outlook, while we are not providing guidance at this time, I'd like to share how we are thinking about our topline trajectory for the rest of the year.

We expect RevPAR to continue increasing sequentially throughout the year, but we expect growth to be driven by occupancy in the second and third quarters. We think rate could sequentially decline as we move out of peak season in some of our high-rated leisure markets. Seasonality, in tandem with a normal demand shift toward lower-rated markets, could also lead to lower rate in the second and third quarters, as we have seen historically. Additionally, rate could come under pressure as suspended hotels reopen in urban markets.

Moving to business mix, we think business transient will continue to make slow and steady progress during the year, with the anticipated return-to-office late in the third quarter driving a ramp up in business transient demand after Labor Day.

While we have benefitted from non-traditional group demand during the pandemic, we expect traditional groups – corporate and associations – to begin ramping up meaningfully in the fourth quarter following the expected return-to-office after Labor Day.

Finally, we believe leisure will continue driving total RevPAR at our properties, particularly through the summer. We expect our urban hotels to increasingly benefit from leisure demand growth as restrictions in those markets continue to lift and key demand drivers reopen.

Cash Burn ex-Capital Expenditures

As it relates to cash burn for the quarter, our cash burn excluding capital expenditures, which deducts corporate level expenses and interest payments decreased to $45 million, or $138 million including capex. These amounts are down meaningfully from the fourth quarter of 2020 driven by the strong first quarter operating performance.

We maintain a strong liquidity position with $1.5 billion of cash including $131 million of FF&E reserves after adjusting for the Four Seasons Disney acquisition announced today, and we have no debt maturities until 2023.

Accounting Item

There is one accounting item I would like to bring to your attention. Neither we nor our operators expect any furlough accruals, employee retention credits, or timing adjustments for these items moving forward, as COBRA benefits provided in accordance with the American Rescue Plan from April 1 to September 30 are free to the furloughed associates of our operators and are fully reimbursable to our operators via a credit against their quarterly payroll tax liability. Therefore, there is ultimately no cost to the company for providing COBRA benefits and it will not have any P&L impact through the third quarter of this year.

Conclusion

To conclude, we are very encouraged by the momentum of the lodging recovery, which has driven better-than-expected sequential revenue growth and resulted in positive first quarter Hotel EBITDA and Adjusted EBITDAre. We are seeing increased demand across all parts of our business alongside strong rate integrity. We view an expected increase in expenses favorably too, as that indicates business volumes are ramping back up to normal levels. Combining that with a strong balance sheet and a focus on our three strategic objectives: redefining the operating model, gaining market share at our renovated hotels, and strategically allocating capital; we believe we are well-positioned to deliver best-in-class EBITDA growth that we expect will continue to be further augmented by external growth opportunities throughout this lodging cycle.

And with that, we will be happy to take any questions. To ensure we have time to address questions from as many of you as possible, please limit yourself to one question.

Q&A

OPERATOR: (Operator Instructions). Thank you. Our first question is coming from Bill Crow of Raymond James. Please go ahead.

BILL CROW, RAYMOND JAMES: Good morning, Thanks. Jim, I hesitate to congratulate anybody given the state of the industry, but congratulations. It was much better than expected quarter. I wanted to ask you a question about acquisitions. It feels like three months ago, four months ago, the bid-ask spread on deals was fairly significant, and there wasn't a lot of movement. And it seems like that bid-ask spread has narrowed dramatically, and it's not the seller that's moving down. Is that the right way to think about what's going on with the transaction market? Is it that the buyers have gotten much more aggressive and maybe much more confident in the outlook?

JIM RISOLEO: Yes, Bill, well, thank you for the congratulations. Even though we have a ways to go to get back to 2019 levels of RevPAR and EBITDA and exceed those levels. We really like the trajectory that we're on at this point in time. So I will take the congratulations in a tough environment. With respect to acquisitions, I think we all agreed that, let's call it a year ago, we believe that there was going to be a lot of distress in the marketplace. And I would point to our Hyatt Regency Austin acquisition as an asset that was under distress. The ownership, the borrower in that deal was staring down a UCC foreclosure action that was going to occur at the beginning of April, as you know, we bought the hotel in mid-March or thereabouts. We saved that borrower and paid off all of the debt associated with the hotel and acquired a really good asset at a significant discount to pre-COVID valuations.

I think that a couple of things are happening now. There is a lot of equity in the marketplace, chasing deals. Good deals are going to price at close to where they would have priced in 2019. There's no question about it. Solid resorts like the Four Seasons Disney, which are truly iconic and irreplaceable assets are going to be fully fairly priced. I am not seeing generally a lot of distress in the marketplace today, particularly for the better-quality assets. And we are not really seeing a lot of distress across the system right now. So, I do think that there is a lot of capital out there. I think as you compete more in auction processes, pricing is going to going to be aggressive.

However, we're coming out of the worst downturn that we've ever experienced in the lodging industry and the pandemic induced recession in the United States as well. We're turning the corner, and we are firm believers that for the right assets at this stage of the cycle, it's the time to acquire. It's a time to continue to shape the quality of the portfolio that we have. We were fortunate that coming into 2020 on a number of different metrics, the company had never been in better shape. We talk a lot about the balance sheet and the firepower that, that's given us to deploy $800 million of capital today. What we don't talk about a lot, but I think it's really important that investors understand it is our RevPAR metrics as of January 1, 2020, and our EBITDA per key performance as well as the fact that over the last several years, over the last 5 years, we have consistently tightened up margins year-over-year. We had margin improvement going forward. So, we are just delighted with where we are. And we hope that we're going to have the opportunity to acquire additional assets early in this cycle so that we can ride the economic wave.

ROBIN FARLEY, UBS: A question on a similar; topic, which is just looking at how asset values have been, as you said, a lot of capital out there. Does that change your expectation about whether you would use? I think you said you have $1.5 billion still remaining for acquisitions, whether you would actually be able to use that budget here in the next 12 months? And then just a little sort of side question. I'm curious with the Four Seasons Orlando, you talked about a lot of the acreage there. Is there opportunity to add anything there given its special location, kind of the only thing not Disney owned, where you can kind of monetize that acreage? Or are there limits on what else you might be able to add to that acreage?

JIM RISOLEO: Sure, Robin. With respect to deploying the remaining capital that we have, the cash that's on the balance sheet obviously has some restrictions in connection with our bank waiver agreement today.
We're looking forward to the time whenever we're going to come out of that the waiver amendment, and as operations improve, we're hoping that's going to be sooner rather than later.

It's very difficult to hypothetically answer the question of whether or not we're going to be investing additional capital because it's really transaction specific, and we are evaluating a number of opportunities now, we've evaluated a number of opportunities over the course of this year that we've let out because we didn't think they were the right fit for host for 1 reason or another.

So, we have teams that are back on the road. I'm back on the road looking at assets. We have people on the road today as we speak, looking at assets, and we're hopeful that we're going to be able to get some additional capital smartly deployed.

With respect to the Four Seasons Orlando, the resort sits on roughly 289 acres. And the short answer is that on the acreage that we have today, we do not see a current opportunity to redevelop any of that property. Iif you haven't seen this property, I encourage you to look on the website or better yet, go visit it because it is really a fantastic, truly iconic and irreplaceable asset. It has an 18-hole golf course, it has 444 rooms, 55,000 square feet of meeting space, a 13,000 square foot spa, it has a 5-acre water park and tennis courts and 6 food and beverage outlets. So, while the 289-acre sounds like a lot of acreage, it is being fully utilized today in a very, very efficient and a very useful manner.

NEIL MALKIN, CAPITAL ONE SECURITIES: Hey, everyone. Good morning and great quarter. I'm slow clapping for you over here. My question is on the group side, which sort of is the big mystery here, that's the biggest unknown. I think everything else is well understood and leisure is going to be fantastic for you guys. Just, Jim, if you could – or Sourav, if you could put some color or maybe what you're underwriting for this year in terms of group, I think in the first quarter, you were at about, I don't know, 20% or 25% of 2019 levels for group. How do you see that shaping up maybe through 2022? And more specifically, what are you underwriting for the fourth quarter of this year? You said things are coming back or you're more bullish on that quarter. I mean, can you kind of just benchmark or couch what you see as the performance relative to 2019 in the fourth quarter and more specifically into 2022 as well?

JIM RISOLEO: So, Neil, I'll start and maybe I can have Sourav chime in as well. For the second half of 2021, we had 1 million group room nights on the books. And we have – in our Marriott managed properties, we booked 144,000 new room nights this year or 2Q for the second quarter through the fourth quarter of the year. Of those 144,000 new room nights, about 70% of those were for the second half of the year. So, that 1 million room nights that we have on the books for the second half of 2021 equates to 50% of the room nights we had in the same time in 2019.

So, the split between the bookings is really leaning fourth quarter a little bit, not a lot, call it, 54% in the fourth quarter. And the other thing I'd like to add is that we have a high degree of confidence that those groups are going to show up because our managers have just scrubbed all the bookings and to make certain that people aren't just hanging in there and are going to cancel at some point in time. So, it's not great, but it's good. The fact that 1 million room nights are still there and holding up is encouraging.

As we look out to 2022, it is – we have what, about 2 million room nights on the books in 2022,. And it is very dependent at this point in time on when restrictions are going to be lifted in key markets. To just put some fact around it, some of the markets – Chicago, I think, just announced yesterday when they're going to reopen. California is expecting to fully reopen on June 15. Boston, August 1. New York, July 1.

And I think that as markets reopen, that's the first thing that has to happen. But more importantly, what has to happen for the business transient traveler to return and groups to start booking into next year in a more meaningful way is we have to continue to get the pace of vaccines out there, get to herd immunity in the country, and very importantly get our children back to school. And I think that we're hopeful that that's all going to happen come September. I don't know. Sourav, do you have anything you want to add on this point?

SOURAV GHOSH: The only thing I would add to that is in terms of booking activity. Our properties booked 440,000 room nights for the next three years. So that's 2022 through 2024. And to put that into perspective, that's 17% better than 2019 levels. So, we are certainly encouraged by the booking activity that's taking place. And hope that continues as we go into the second and third quarters for future years as well.

THOMAS ALLEN, MORGAN STANLEY: Thank you. On The Four Seasons Orlando acquisition, having stayed there, I'll agree that's a really special property. Just can you talk a little bit more about where you see opportunities? Like, do you see the opportunity to make changes to that property to grow EBITDA longer term? And you bought it at a 4.7% 2019 cap rate or 16.8 times EBITDA multiple. Do you have a view on where stabilized returns will be? Thank you.

JIM RISOLEO: Sure, Thomas. We do have a view obviously in our underwriting. We put a lot of thought into it as we do in every acquisition. Let me start by saying that this is the type of hotel that we have a lot of experience with and that we have in the past delivered a lot of value to our shareholders through our asset management in enterprise analytics capabilities.

As we look at this property out of the box, it's profitable as we speak and we're optimistic that the performance of the asset is going to exceed our underwriting expectations for 2021 for sure, the way it's going. Sourav and I will kind of tag-team this a little bit in a moment. But as we look at what's happening in Disney and in the country, we're very optimistic that we're going to see strong performance at this hotel going forward. We believe that this property is in a position to perform better from an EBITDA growth profile than the rest of our portfolio and to recover to 2019 levels of EBITDA and beyond sooner than the rest of our portfolio does.

Additionally, and I'll let Sourav, put some color on this. We feel that the asset has multiple asset management opportunities to advance margin and operational improvement. One other point I'd like to make is that October 1 of this year is the 50th anniversary of Walt Disney World of the Magic Kingdom, and Disney is planning an 18- month celebration starting October 1. So, we expect that we're going to see incredible demand flowing to this hotel.
One of the things that we looked at is the performance of ultra-luxury assets. And if you look at ultra-luxury assets over the last 20 years from 1990 to 2019, and those are defined as hotels with a RevPAR of $500 or greater, the CAGR was 6.2%. If you look at the top 25 markets over that timeframe, the CAGR was 3.2%.

So, we think that there is incredible demand out there for this. The resort is becoming a destination unto itself, not only a destination for people who want to stay at Disney, but a vacation destination given the amenities that are on property. I've heard from some people that they take their family to stay at The Four Seasons and the kids don't even want to go to Magic Kingdom. So, all good stuff as we see it going forward. And I'll let Sourav talk a little bit about some of the things we're looking at.

SOURAV GHOSH: Yeah. So, like with any asset management acquisition, we have best practices that we will share with the property and then work collaboratively with the management team to implement those best practices.

For example, we have a best-in-class functional space management strategy to maximize revenue per available space. The meeting space that exists on property, we've obviously done a lot with our existing luxury resorts in Florida as well as across our portfolio.

Additionally, given that this is a resort and it has a ton of ancillary income as well, it's going to be all about maximizing total RevPAR which we have again successfully done in implementing at whether it's the 1 South Beach, our most – one of our recent acquisitions or it's The Ritz, Naples in Florida as well. So, a lot will be – a lot of focus on total RevPAR and driving ancillary income.

We will also work – and The Four Seasons actually has a very experienced management team, work with them to identify any operating model opportunities as we have successfully again done across our luxury resorts and implement them as soon as possible. So, we look forward to working with the team. The other piece is obviously we're evaluating multiple ROI opportunities, particularly as it relates to food and beverage which we're excited to move forward on as well.

SMEDES ROSE, CITIGROUP: Hi. Thanks. So, I just wanted to – first, I just wanted to clarify something. Did you say you have 2 million group room nights on the books now for 2022?

JIM RISOLEO: Correct, Smedes. Yes.

SMEDES ROSE, CITIGROUP: Okay. So, is that running at about a third of what you would have done in 2019, or is it running at a higher pace? I'm just trying to get a sense of what its potential upside would be there?

SOURAV GHOSH: Yeah, sure, Smedes. So relative to 2019, when you think about it at this point in time, we would have about 60% on the books for the following year. We have approximately 45% on the books for 2022.

SMEDES ROSE, CITIGROUP: Okay, okay. And then I just wanted to ask you. You mentioned the $100 million to $150 million in cost savings, and you've talked a lot about just being more efficient at the property level in order to achieve some of those savings. But has there been any more thought I guess coming out of the brand around the way that housekeeping will be executed going forward and is that another potential opportunity for significant savings, or would you not expect to see any kind of meaningful changes in that cost item?

SOURAV GHOSH: It is certainly an ongoing dialogue, and it is going to be on a case-by-case basis, as you can imagine. At resort properties, it's going to be somewhat different than with urban hotels. And also, it is very dependent on business mix. So, it's something that we are having conversations with our managers to see how that brand standard will evolve as we get into more stabilized operations.
So it's a continuing dialogue, and it definitely is going to be on a market-by-market basis. But there certainly is opportunity to modify housekeeping relative to what it was pre-pandemic.

LUKAS HARTWITCH, GREEN STREET: Thanks. Good morning. Can you talk a little bit more about the long-term optionality with the 300 acres acquired in Maui?

JIM RISOLEO: Sure, Lukas. Again, 95,000 acres are currently being utilized for two golf courses and a couple of restaurants on that site. It's immediately adjacent to the Hyatt Regency, Maui, an asset that we have just completely repositioned. It was one of the assets that was under a multiyear repositioning program. And when COVID hit, we were able to go back to our general contractor and renegotiate the contract. This should give you context and accelerate the renovation and repositioning of that asset.
So, it was completed in November of last year as opposed to a year later plus or minus. We see opportunities going forward subject to zoning and doing an additional development in Maui takes time. There's a long process, but we have experience with that given what we were able to do at the Andaz with the addition of our villa units. And there are opportunities on that land to add rooms to the existing hotel to build another hotel, to build a select serve hotel as we think about it and use Phoenician as the playbook and blueprint where we took 27 holes of golf and shrunk it to 18 holes. Those are things that we're going to think about going forward in Maui.

CHRIS WORONKA, DEUTSCHE BANK: Hey. Good morning, guys. I think back in the prepared comments, you mentioned that as part of the long-term EBITDA improvement plan, you're looking at $21 million to $35 million coming from 3 points to 5 points of index growth at some of your recently renovated Marriott Hotels. Can you kind of give us a sense as for – is that 3 points to 5 points of index growth relative to 2019 or pre-renovation? And just where do you think that lift comes from? Is it from other Marriott properties in the market or is it from other brands? Just any additional details you can give us on that would be terrific.

JIM RISOLEO: Yeah. It is 3 points to 5 points of yield index growth relative to where the asset was performing pre-renovation. And the assets that we're talking about are not only the 16 Marriott Transformational Capital Program assets, but other assets where we've invested ROI money such as the Don CeSar and what we're going to be doing at The Ritz in Naples and other hotels across the portfolio.
Where does it come from? It's tough to say, Chris. We think that the – in the middle of the pandemic, the one asset that we can point to that has really captured a lot of incremental market share is the Coronado Island Resort and

Spa in San Diego. I think the yield index came for well over 9 points at that hotel. So, it's going to be case-by- case. And I don't want to promise anything. But as we are putting money in our hotels, and renovating our properties, and repositioning them, we're going to have a distinct advantage as business gets back to normal.
And I personally believe that we should be able to achieve more than 3 points to 5 points of yield index growth because we're going to be competing with hotels that haven't been renovated, that are going to have to be renovated going forward, and there's going to be incremental disruption associated with those renovations when they do occur. And it's going to have to happen, or we're just going to be competing with a tired property.
So, we are very fortunate to have had the ability to continue to invest in our assets over the course of 2020. And we're doing the same thing this year going forward.

ARI KLEIN, BMO: Thank you. ADR at resorts have been incredibly strong through the pandemic. Do you view this as the new normal and a run rate maybe moving forward, I guess, when you look ahead over next year or two? Can this be sustainable and that we build off of this year?

JIM RISOLEO: Yeah. I don't know that it's going to be sustainable, Ari. I think that this year was a unique point in time with businesses closed, and people working from home, and people being in a position where they can work from anywhere. As children get back into schools and as offices open, I think you're going to see a return of business transient traveler, a return of group business and we are just very fortunate that our resort portfolio and our assets in the Sunbelt have carried us through in a material way. We never thought that we would be profitable in the first quarter. We had 30 hotels that were profitable for the entire quarter and I don't know that we talked about this before, but we had 38 hotels, 42% of our rooms that were profitable for the month of March.

So, do we think that we're going to continue to see this outsized performance? I think for the near term, the answer is yes. And when I say near-term, we're talking about another year or so. Because there's so much pent- up demand out there, there is so much money in savings. There is $6 trillion that individuals have in their bank accounts today. They want to spend it for sure. They want experiences. They're happy to get on an airplane and go.

One of the other interesting data points that we look at is air capacity. And surprisingly, for Maui, our three resorts, I gave you some numbers on how they're trending for June and July which I don't think anybody would have believed that sitting here a year ago that we'd be seeing 80s to 90% occupancy at an ADR up 28% at our three resorts on Maui.
Maui the only market in the country – the only market in the country that has more capacity right now than it did in 2019. Air capacity for Maui is up 4%. So for the near term, I think you're going to see incredible pent- up demand, revenge travel. We are seeing it. That's going to continue. But is it sustainable over the next three to five years? It's hard to say but I doubt it. At that point in time, we are really going to be able to compress rates as we have group business, and business – transient business back in the hotels.

OPERATOR: We're showing time for 1 last question. Our last question will be coming from Anthony Powell of Barclays.

ANTHONY POWELL, BARCLAYS: Hi. Good afternoon. You talked a lot about the strength in ultra-luxury property over the past several years in that cycle. Is that shift – is that taking away shift for you to focus more on those properties and buying more of those over the cycle, or would you prefer or even try to do more deals like the Austin property which is more of a discounted group convention hotel in a kind of a rolling market?

JIM RISOLEO: Anthony, I think that we are very open-minded to investing in both types of assets. We're comfortable with a hotel like Austin that fits the profile of assets we own today, that we know how to effectively asset manage. As I've talked earlier on this call, we're very comfortable with an asset like The Four Seasons, Orlando. And it really comes down to what I said in my prepared remarks regarding improving the EBITDA growth profile of

the company. So that's where you're going to see us putting capital and into assets where we feel that we can improve the overall EBITDA growth profile.
As I mentioned on our fourth quarter call, we're prepared to look beyond the top 25 markets. We did that with Austin. We're continuing to do that today. The demographic trends are changing in this nation. And a lot of people and a lot of businesses are relocating to cities in Sunbelt states and we're going to follow the demand. So, I think you can expect to see us invest in a myriad array of properties so long as they're all going to improve the overall gross profile of host.

OPERATOR: Thank you. Ladies and gentlemen, this concludes the question-and-answer session. At this time, I'd like to turn the floor back over to Mr. Risoleo for closing comments.

JIM RISOLEO: Well, everyone, thank you for joining us on the call today. We really appreciate the opportunity to discuss our first quarter results with you. I look forward to talking with many of you over the coming weeks and at NAREIT in June and at REITworld in person at the Wynn Hotel in November. I'm just going to ask you to just do a couple of things. If you haven't gotten vaccinated, please get vaccinated. Enjoy your summer travels and go out and visit some of our hotels. Lastly, be well and stay healthy. Thank you very much.