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As of December 31, 2021, Hyatt represented 4.8% of the Lingleaf Partners Fund, 4.8% of the Lingleaf Partners Small-Cap Fund and 2.6% of the Lingleaf Partners Global Fund.

Gwin Myerberg:	00:00:00	Hello, and welcome to the Price-to-Value podcast with Southeastern Asset Management, where our global investment team discuss the topics that are most top of mind for our clients, from a business, people, price point of view. We at Southeastern are long term, concentrated, engaged value investors, and we seek to own high quality businesses run by capable people at a discounted price to intrinsic value or P/V.
Gwin Myerberg:	00:00:29	I'm Gwin Myerberg, Global Head of Client Relations and Communications, and on today's podcast, Southeastern CEO and Head of Research, Ross Glotzbach, interviews Mark Hoplamazian, CEO and President of Hyatt Hotels, which we own in our U.S. and global strategies. Among

other topics, they discuss the global optimization of Hyatt as a brand under Mark's leadership, the impact of COVID on the hospitality industry and the innovation that it's inspired at Hyatt, and both Hyatt and Mark's personal focus on wellbeing, diversity, equity, and inclusion, and giving back. We hope that you enjoy the discussion.

Ross Glotzbach: 00:01:06 Our guest today is Mark Hoplamazian. Mark became CEO of Hyatt in 2006, but he had been familiar with the company for many years before that, since he previously had served as president of The Pritzker Organization, a Chicago-based private holding company which remains the key owner of Hyatt. Before that, he worked in international M&A at First Boston in New York. In addition to his work at Hyatt, Mark has previously been the Chair of the American Hotel Lodging Association, and he is currently involved in multiple nonprofit efforts, both in Chicago and the broader world. We at Southeastern got to meet Mark when we first, too briefly, owned Hyatt in 2016, but we've gotten to know him even better after we began purchasing Hyatt shares in the depths of COVID in 2020. He is proving to be a great partner who has guided Hyatt very well through incredibly challenging times. So, welcome Mark.

Mark Hoplamazian: 00:02:03 Thank you so much, Ross.

Ross Glotzbach: 00:02:06 I promise, for you and all of our listeners, that this first question will be the longest one with the biggest preamble, and they won't all be like this. But, when you officially joined Hyatt in 2006, it was so significant and unique at the time because it was a real global brand but it was still working towards optimization. Nobody wants to hear from some other guy on a podcast with a theory, but I do have this theory that truly great brand value takes much, much longer than you'd expect to build, and it's very hard to model this out on a spreadsheet because if it were easy like that, there'd be billion dollar brands all over the place. So, what are your thoughts on that statement/question as it relates to your Hyatt journey so far?

Mark Hoplamazian: 00:02:55 Well, thanks for that Ross, and that does take me back a while, as many as 15 years ago. I remember it because it was a really important decision in my life. I had my own observation about Hyatt having been around the company. Working for the Pritzker family as the owner of the company, I had observed that the company had this tremendous halo with respect to brand perception and brand quality. It had a cache to it that I think differentiated it in many people's minds, especially customers' minds, but it did not have the growth or the momentum that some of the other brands, larger brands, in the industry had. And for the first time, in 2005, the company had been brought together so that all the various pieces of the business, the international business, which was vibrant, and the North American business, and then the asset ownership of hotels, all came together in one place at the same time.

Mark Hoplamazian: 00:03:55 So, as a professional, as a business person, I looked at it and I said, "Okay. I sit here at the beginning of this new chapter of a 50-year-old company, and it is a fundamental departure from how it has operated before. There's no integrated strategy. It's got really no significant growth momentum, but it's got this amazing brand," and I just pinched myself and thought, "Wow, not many people in their careers get a chance to actually step into a leadership role in that way," but I agree with you.

Mark Hoplamazian: 00:04:29 It takes many years to build brand value and also the kind of momentum that enlists all of the stakeholders to make the business really vibrant and durable, which is what we've done. Warren Buffett famously said reputation takes decades to generate and minutes to destroy if you're not careful, and I think brand value is sort of similar to that. It takes a long time to really build, and if you act responsibly over the long term, you can continue to do that and compound over time, which was really how I thought about my role and what I was supposed to be doing in the company.

Ross Glotzbach: 00:05:14 It seems like two very important parts of these 15 years have been both increasing Hyatt's brand presence in

key cities around the world, while also going towards a more asset-light strategy. How do you balance those often conflicting but very important goals?

Mark Hoplamazian: 00:05:35

I guess what I would first distinguish is to say that the first part of what you just mentioned, which is really expanding Hyatt's presence and representation, that was the primary goal because we were the brand with the most awareness, but the most under-penetration. We were unrepresented or underrepresented everywhere in every major market. The reason why I think we were perceived to be of some equal size or similar size to the other major brands is because we had very, very, very similar, if not identical, representation in every major city around the world, the top 25 markets. 24, actually, because we were not present in Mexico City at the time, were places where we had really great representation, so people just assumed that we are of similar size, but that really wasn't the case. My clear goal was brand clarity, continued brand differentiation relative to the other brands, and to build out a representation that I thought was actually appropriate for our brand reputation and our brand performance.

Mark Hoplamazian: 00:06:40

That was it. That was the goal. The asset-light, asset-heavy piece is actually... People refer to it as a strategy. I look at it as a choice with respect to how you manage your balance sheet, and we were very asset-heavy at the time. I looked at that as a tremendous asset because I felt like we could actually utilize capital to accelerate our growth, especially in key markets where it's really hard to gain a presence unless you're prepared to put capital to work. I also was a student of the industry for more than 15 years before I joined Hyatt because I was around the company. Every major company in the industry, when I first joined The Pritzker Organization in 1989, Marriott had more real estate than Hyatt did, by a lot. So, too, did Hilton. So all the major brands had all this real estate and all the companies looked quite similar at the time and they used their capital base to grow their businesses. That was commonplace.

Mark Hoplamazian: 00:07:38 I don't know of any successful hotel company that's actually been started up - maybe in history, I certainly can't think of any during my last 15 years - that started without applying capital to get going. Capital is an essential ingredient to create physical assets that are representing your brands and so forth, so I looked at it and I said, we need to use our balance sheet to continue to grow in a very deliberate way, get into key markets.

Mark Hoplamazian: 00:08:06 But over time, I, from the very beginning, in my first sort of true strategic plan process in 2007, I had mapped out a time when we would be able to sell down assets and lighten up the balance sheet even as we grew the whole company. So that was always in my mind. Of course, the great recession, the great financial crisis and the great recession really threw a wrench in that, and that put me off by about four or five years, so we didn't get around to doing that until 2017 when we formally said, we are now going to start to lighten up the balance sheet in a significant plan. We've been very successful at doing that since then, but it just took a little longer than I had initially expected because we had to build the pipeline, put the infrastructure in place to do that, and then finally get to a point where the asset value picture was favorable to selling down some assets.

Ross Glotzbach: 00:08:58 As you've become more of this franchise managed fee driven company, and you're trying to get other hotel owners to come join you, why do they pick Hyatt over Marriott and Hilton? As you said earlier, you've got this in-the-same-ballpark brand recognition, but a much smaller number of rooms around the world. We think that's a pretty unique thing that almost mathematically guarantees superior growth long term. Can you talk about that a little bit too?

Mark Hoplamazian: 00:09:27 I sort of agree with what you just said. A lot of people declare victory and say, "Wow, look, you're growing so much faster than anywhere else." My answer is if we weren't, then there would be a problem because we have so many markets in which we remain underrepresented, so we need to be growing faster. I

would say, though, that I think it's just given us an unusual opportunity to really grow in a very deliberate way, we call it intentional growth, to make sure that we're growing in places where it's going to make the biggest difference to our guests and therefore attract the right kind of revenue and the right kind of guests to those properties to maximize the value of those properties and to also provide great hotel experiences to our guests. So we've been thinking about it that way as opposed to maximizing the number of flags that we want to plant around the world.

Mark Hoplamazian: 00:10:19

The difference is that we could grow faster than we already do, but we feel like if we want to maintain really strict brand quality and brand standards, we can still grow faster than anybody else and grow at a very robust pace. We opened a record number of hotels this past year, but do it with tremendous quality, and that I think that's actually the key to us.

Mark Hoplamazian: 00:10:44

Why do owners do business with us? Operating performance has been very strong. Our penetration with respect to our loyalty guest base has been growing at a very rapid pace, at least for the last five or six years and still has great momentum going for it. That's the world of Hyatt. Third, we are big enough to be able to put the money behind digital resources which are required to be successful in today's world, but not so big that our owner relationships become institutionalized or removed. There's still relationships that we cherish and that matter, and I would say are our accessibility, the practice of empathy and really understanding what our owners need and how we can customize what we're doing for them makes an enormous difference to them.

Mark Hoplamazian: 00:11:36

And, finally, in almost every market that I can think of, maybe there's one or two market tracks where this is not true, we're not running into ourselves. We're not planning hotels right next to existing Hyatt properties, and so owners who are coming to us and saying, "Well, I could add the 40th version of that other brand family's property," or "I could add the third one of yours," that's

a very different proposition, and I think that their confidence in being able to continue to attract our attention and our business, our guests, is a big factor.

Ross Glotzbach: 00:12:11 A lot of good stuff in there I want to get back to, but maybe to bring it up to the present day a little bit. You've probably been asked before the question when you felt everything was changing at the start of COVID, but how about once we've been living with COVID for a little while, when did you really start to feel that, you know what? People are going to travel again, people want to stay at hotels again, and you saw light at the end of that.

Mark Hoplamazian: 00:12:35 The way you asked the question, I wouldn't say that I felt it until probably the fall of 2020, and the reason I say that that way, instead of "thought it" is because, from the very beginning of the COVID crisis, I always believed (left brain) - I thought that people, of course, would inevitably travel again because there's this enormous human motivation to be with people, to create a sense of community and to connect. So that's the intellectual side, but the emotional side took a while, and the reason is because we took some extraordinarily difficult decisions in April and May and reduced our staff, corporate staff and our field staff, enormously. We let go more than a third of our total colleague base at the corporate level in May of 2020, super painful.

Mark Hoplamazian: 00:13:36 Immediately following that, George Floyd was murdered, and we lived through a summer of what I would describe as a lot of torment and a lot of learning. So I would say just as a matter of feeling confident, we were mostly managing tumult and some emotional pain and the uncertainties that come with a very volatile environment. I can't tell you that I felt that confidence until probably October, November, of 2020. And then when I saw the demand for travel over the holidays, and then we got whacked again in January when there was a big surge in the US and China shut down, and the UK shut down, I can tell you that by the end of January, I thought, "Wow, this year's going to be different than I

thought," but I still had confidence. I still felt confidence that we were going to see a better year, and we certainly did. That maybe is a nuanced way to answer the question, but that's the truth.

Ross Glotzbach: 00:14:37

There's certainly been this big difference between leisure travel and business/group travel. I think it's not debatable anymore that people are already doing leisure/travel business, which is an important part of Hyatt's business group as well. What are some data points you're seeing in real time there? How do you think that that recovery will play out?

Mark Hoplamazian: 00:15:00

I think you're absolutely right. Leisure is asked and answered. The demand is very high and I think will remain very high. The questions around group and business travel, there is an intersection there. I think about our group business as having two components. One is serving large associations that sell out whole cities that are known as citywide conventions, and then corporate group, which is sometimes held at resorts, sometimes held at convention hotels, but there's a business purpose to that is really commercial. It's a product launch. It's a sales meeting. It's a celebration of great performance among sales people or amongst executives, and I would say that body of corporate group business and what is referred to as business transient travel, which is individual business travelers or a small number of business travelers traveling together, that whole body of demand, I look at together and say, that's a reflection of corporate activity and engagement.

Mark Hoplamazian: 00:16:03

I personally believe that that core combined "corporate group and business travel" together is going to be recovered at a rate in excess of 2019 within a couple of years. What the exact timing of that is a little hard to say. I think the group side is going to front run the transient side, but in the aggregate, I think it will be not just back to pre-pandemic levels, but above that, and the reason why I describe it that way is because I see use cases changing. I don't see the same kind of business travel on an individual basis as we saw pre-pandemic, and I think that some of those individual

trips will give way to a hybrid meeting or a virtual meeting. Some of them will actually get aggregated up and you will end up having a regional group meeting or another sort of corporate group meeting of some kind. And so the use cases will start to blur, but the aggregate level of demand for travel is going to remain at least as high as it was before.

Mark Hoplamazian: 00:17:09

And then the association side of the business and the other affiliation groups that we serve, I think are extremely durable. You asked for what data we see. Well, we saw a lot of people who came to us - corporations, our top 10 customer base are technology companies, consulting companies, and systems integration companies - they're all concerned about maintaining culture. They want to get their people together again.

Mark Hoplamazian: 00:17:37

We also serve associations who have now booked their meetings that they've put off for two years into 2022, and so their commitment to hold meetings on both sides, the top 10 customers that I described and those associations is extraordinary. So anytime we've seen cancellations, the preponderance of those people, those firms, or those associations are saying, and by the way, we are now rebooking, "We want to get another date on the calendar because we are going to have this meeting." So there's a commitment and a dedication into holding those meetings that gives me growing confidence that we're going to see significant recovery on the group side.

Mark Hoplamazian: 00:18:17

We came into this year at about 80% of the level that we came into 2020, from 2019 to 2020, from a pre-booking perspective. I think that's really telling, but the rapidity with which people are rebooking when they've been "forced to" or made the decision to cancel is very, very clear, and I think that that's just a byproduct of the commitment and the value that people see in actually getting together and holding meetings.

Ross Glotzbach: 00:18:51

Gotcha. Another thing that we've heard from many other companies, different industries is that, I mean, as

you said, the initial stages of COVID were this just horrible wrenching experience, but it did lead to a lot of people taking a new look at how they operate their business. We wonder how much some of those changes will stick or not stick, so as you think about that, what do you see? Different, same, operationally and what could that mean if, say, demand does come back and revenue levels are similar, could margin levels be higher, lower, as a result of this reset, rethink?

Mark Hoplamazian: 00:19:29

There are some interesting dynamics there that will take it just a second to unpack because some of the net impact on margins has to do also with factor costs, so wage rates and supply costs. But let me leave that aside for just one second. Let me just talk about what's going on at the hotel level, and then let me talk about corporate. At the hotel level, our hotel teams have had to innovate and adapt real time every day for the last two years, and they have discovered and uncovered ways to go after demand that never existed before. We started using data two years ago that we never turned to before. We didn't pay that much attention to TSA statistics. We didn't stay in weekly contact with airline partners to understand what their route schedules were looking like going forward.

Mark Hoplamazian: 00:20:26

We weren't tracking mobility data and footfall traffic data from Google. That became our lifeline. Those are the kinds of data sources that we turned to at least discover and uncover where demand was and how to go after it. Second thing we did is, because we had shut down so many hotels in March, April and May, when we started to reopen over the summer, we fundamentally changed pretty much everything about how we operate. Anything that was physical and provided to customers was digitized. QR codes became commonplace as they are in many businesses, including a lot of restaurants. We significantly expanded the services that you can get through your digital app. We combined a lot of departments and we combined a lot of responsibilities, so we shrunk the number of managers in our hotels. We clustered different functional areas across hotels. Those changes are fundamental to how you operate,

who's got responsibility for doing what and then, finally, maybe the most prominent, most observed one, has to do with how we operate our restaurants and our food and beverage outlets.

Mark Hoplamazian: 00:21:44

We had such variable and low demand in many cases, we simply couldn't keep restaurants open, but we could provide grab-and-go alternatives. We could provide takeaway where people could drive through the porte cochere and pick up a dinner that they ordered ahead of time. And we even, in many cases, invited local chefs who had lost their restaurants to utilize our kitchens to be able to at least maintain some level of business for themselves as a delivery business. That was more of a community service than it was a Hyatt specific thing, but those are pretty fundamental changes, and I would say that that spirit of constant adaptation and observation is continuing, so those kinds of structural changes have led to really remarkable levels of flow-through from revenue down to earnings, especially at these lower levels of occupancy.

Mark Hoplamazian: 00:22:42

I'll just give you one reference point. We thought that breakeven for some of our larger hotels on the owned side would be, once we got to 40 or 45% occupancies. We were making money in many of our hotels at half of that occupancy level, so that just gives you a sense of the magnitude. A lot of what I just described is actually maintained and going to continue on. Absolutely, we're going to have to add back capacity where guest services are related and a lot of our open positions are in housekeeping, for example, because as occupancies go up, you need more housekeepers, but at the manager level, we have continued to maintain this very agile and clustered approach to how we are operating our hotels. A lot of that will stay in place and a lot of that's critical to stay in place because it combats the inflation that we're seeing in wages and other costs.

Mark Hoplamazian: 00:23:38

At the corporate level, this is where you have to be very careful and a little bit more precise. A lot of people in many different businesses, not just in travel, but across travel, for sure, they cut capacity. That's different than

re-engineering your business. If all we end up doing is adding back people as total demand comes back so that we look like we did in 2019... If in 2023 we look like we did in 2019 from a top line revenue perspective and our corporate organization looks the same, we will have gained nothing. You have to fundamentally change how you do business if you want to hold onto those efficiencies and be more effective as an organization. And to us, what that was about was applying the same types of agility practices that we see in software development, agile software development, or the same sort of agility and adaptation or adaptability that we saw in the hotel level and pull it into corporate functions.

Mark Hoplamazian: 00:24:46

We have spent a significant amount of time this past year going through how we are re-engineering how we do business and I don't mean how we develop new digital products through agile software development. I'm talking about how we operate finance, how we operate development, how we operate HR, how we're operating legal, and we're doing two things.

Mark Hoplamazian: 00:25:10

We are streamlining or eliminating every corporate process and procedure and fundamentally revisiting every committee structure that we've got and pushing decision making down as far possible through the organization as we can. The second thing we're doing is in every case where we have multiple handoffs or multiple functions involved, we're creating agile work teams who are cross-functional, fundamentally, that are not staffed by executive committee or senior leadership team members, but are staffed by people who are closest to the business. They're the people who are charged with making those decisions, and that's the re-engineering that we think is going to provide durable, significant, shift in how effective and how efficient we are. So we have every expectation that we will be operating at a lower total cost of operation corporately with a larger and growing enterprise.

Ross Glotzbach: 00:26:13

Gotcha. That all makes a lot of sense. Let's talk about the brand footprint for a little bit. You've said you want

to get bigger in leisure. For us at Southeastern, as contrarian value investors, since leisure is such a hot area, that makes us a little nervous, but we also know that the company cares deeply about growing value per share, and it seems to us like the Apple Leisure deal is a good way of doing both of those things. Maybe could you talk about that a little bit?

Mark Hoplamazian: 00:26:46

Yes. You're right. We care deeply about growing value per share. That has to be the outcome, otherwise we're not doing the right thing. What I would say about Apple Leisure Group, it's served many purposes for us. First, it's an asset-light platform, so we didn't buy any hotels in the course of doing this. It is an excellent operating model. It generates very high customer satisfaction levels and very high margins for owners. Finally, it's growing at a significant pace, so the popularity of high-end five star all-inclusive resorts is growing significantly, and the thing we like about that is it serves a different type of experience for many of our existing World of Hyatt members who have some exposure to all-inclusive resorts through Ziva and Zilara, two preexisting brands that we created back in 2013.

Mark Hoplamazian: 00:27:45

We've just doubled our total resort portfolio. We've added a hundred resorts around the world, so they have a dramatic step up in options and new brand experiences through the AMR collection. The second dimension of AMR is, and something that I have to be honest with you, I underappreciated when we bought the company or when we agreed to buy the company, is that the ALG Vacations business, which is the largest tour operator in the United States, has vast resources with respect to how they package travel, how they engage with travel agencies and advisors, and how they interact with other suppliers like airlines and excursion companies. We also own the largest destination management company that is the core on-the-ground delivery mechanism for transportation and excursions in Mexico and in the Dominican Republic. It's called AMSTAR. We all of a sudden have those assets and those capabilities, and by the way, a data flow of who's doing what, of course, at a high level and anonymized,

I'm not talking about individual travelers now, that numbers between \$2.5 and \$3 million passengers a year.

Mark Hoplamazian: 00:29:02

So we now have a capability set that looks more robust than it did before. But I would say that, in the same way that when we bought Two Roads Hospitality, we were very focused on making sure we were buying great brands and that the customer base looked similar to Hyatt's because we wanted to stay focused on the high-end traveler. Both of those are true for AMR. The brands are strong, the demographics are very, very similar. And the other thing that's true about both portfolios that we bought is that they're both high growth. We have accelerated the growth mostly of the Thompson brand and the Joie de Vivre brand. Destination and Alila are coming along, but those two brands are growing at a faster pace than anything else. And with respect to AMR, they've got embedded growth. They have over 25 hotels in the pipeline, and up to 40 in total that are in various stages of letters of intent. So we have a lot of growth on the way, and we haven't even yet scratched the surface of the Middle East and Asia, which is where we're going to take the concept going forward.

Mark Hoplamazian: 00:30:12

So as we look forward, this is a growth platform that's got a lot of very positive attributes, and we did it without adding to our real estate portfolio. So across the board, we feel like all of that will yield a re-rating of our stock because we'll be more asset-light in the future, because we've committed concurrently to a \$2 billion sell down of assets. It will lead to a higher penetration of resorts, which helps to power our World of Hyatt program. A lot of our corporate clients are looking for resort destinations to hold meetings, and we've now just enabled the group side of our business in a way that we didn't have as many options before. So it does actually interface with the group corporate side of our business in a really important way.

Ross Glotzbach: 00:31:05

You touched on the asset sale program that you've committed to. One thing that we've really thought Hyatt

has done a great job of have been these asset sales, often at very good prices for shareholders. How different of a skillset is that than buying and building assets?

Mark Hoplamazian: 00:31:26

Well buying and selling are cousins. Building is a whole different species. We're formally out of the building business. We continue to be partners in some building projects, but only with great developers who we have a great relationship in the past. We will not be building any new hotels in the future. It's a super painful process for people like us who don't do it as a primary business, and it's a very local business, but the buying and selling part are things that our first cousins to one another. When we're in the market as a regular matter, we have extremely close relationships with all the major brokers that serve our industry.

Mark Hoplamazian: 00:32:17

We have purchased and sold, I don't know, my guess is something approaching \$10 or \$11 billion worth of hotels over the last 15 years. We've net sold, over the last five years, over \$3 billion worth of assets at very, very high multiples, almost 18 times across that portfolio. We really feel like we've got a great skillset in being able to evaluate and execute deals, and oftentimes we're executing deals that are designed and structured in a way that are purposely suited to the kinds of sellers that we want, the kinds of buyers, rather, that we would like to sell to, the buyers with whom we can grow in the future, buyers who we think are really good stewards of assets and will invest in those assets.

Mark Hoplamazian: 00:33:12

It's led to other growth opportunities, actually, with a number of the buyers that we've sold to. And in every case, the piece of the math equation that we love to focus on that's not as sharply understood by the investing public is every single time that we sell an asset, we retain a long term management or franchise agreement that itself has significant value. For example, we acquired the Ventana Big Sur in 2021 for \$148 million. We turned around and sold it for \$150 million, and we earned a significant return because the hotel

was generating lots of cashflow while we owned it for four months.

Mark Hoplamazian: 00:33:57 You could look at that and say, "Oh, I guess you earned a good return from the cashflow and you made a couple of million dollars." Actually, that completely misses the point. We actually sold it and retained a very long term, very valuable management agreement, in addition to having earned the other return. So the equation that we look at is, what are we retaining and does it guarantee our presence in that market, assuming that we continue to perform, and how does that factor into our overall underwriting? Those are the other things that we think about when we are buying and selling properties.

Ross Glotzbach: 00:34:33 When we're valuing your company, we try to go down the list of all of your owned assets. For each of those, and it's pretty amazing, we have yet to see you sell one for less than we had had a number on it. So let's keep that going.

Mark Hoplamazian: 00:34:47 We're going to try to keep that record perfect.

Ross Glotzbach: 00:34:51 And so then, as you start thinking more about how you're going to grow in Europe and in Asia, how do you think those two will be different and the same?

Mark Hoplamazian: 00:35:02 Well, Asia, for sure we will continue to... The predominant model in Asia has been to manage hotels. We do have franchise relationships with a couple of parties, two in particular, in China that have been very productive. In one case, it's a group that we got to know well. They're based in Chengdu. We have been primarily doing Hyatt House and Hyatt Place development with them. That's called the Minyoun Group. The second group is Homeinns, which is part of the Beijing travel group, and we have joint ventured a new brand there called our UrCove by Hyatt, and they are the developer of those hotels, as well as the manager of those hotels. In both cases, high quality properties in great locations that are performing extremely well. The UrCove numbers are really impressive because the ramp up of

those properties has been very, very fast and as a consequence, the pipeline development has been significant and they're great partners.

Mark Hoplamazian: 00:36:07

So we have special relationships there, but fundamentally for virtually the vast majority of the remaining hotels throughout Australasia and across Asia, north Asia, south Asia, Southeast Asia, you name it, it's primarily management agreements, and that's the way we're going to continue to grow there. We would like to continue to grow our resort presence in Asia because it will further power our World of Hyatt member base there, so we are constantly looking for opportunities in that area. We do have organic growth in resorts, but if we could accelerate that, that would be great. In the Middle East, same thing. No capital deployed and no plans to deploy capital.

Mark Hoplamazian: 00:36:53

In Europe, we are not going to be building hotels, for sure. We have partnered in some cases, we have wholly owned hotels in some cases, but that dates back some time. I mean, the Park Hyatt Paris was developed well before my time, probably 25 years ago, and the reason why Hyatt at that time did it is because there was really no other great way, effective way, to get it into that kind of location with the quality of the asset that we wanted and executed exactly the way we wanted it, unless we owned it. Same is probably true in Zurich, London, same.

Mark Hoplamazian: 00:37:34

We don't believe we're going to need to be buying hotels. Part of the problem with Europe is that one of the ownership models of choice among institutional owners is leases, and we really dislike leases a lot. We're not interested in being a lessee of hotels. So we're going to continue to work on, really, two things. One is just organic growth of signing management agreements and franchise agreements. And the second is where it makes sense to partner with other owners to maybe co-own some assets for a brief period of time until we can monetize as a means of rebranding assets. So that's how we think about the approach, and I would say use of capital remains the lever of last resort. We've done it

effectively in the past. We would consider it in the future, but we're really disciplined about how we underwrite these things.

Ross Glotzbach: 00:38:36 Shifting gears a little bit, has the popularity of these, stay at a house type things like Airbnb, VRBO, etc., how has that surprised you, not surprised you, over the last five, ten years?

Mark Hoplamazian: 00:38:54 I think one surprise is the growth, I guess, in mind share that Airbnb has secured. I think they did that through a vast budget for brand awareness and a lot of digital engagement and also because they built a very, very good front end. The app is very powerful and I think it works very effectively. I've been ultimately not surprised. I'm maybe surprised that it took as long as it did, but not surprised to see that there's an adage that when you are looking at a growth company, you oftentimes have to be reminded that trees do not grow to the sky. You can't just extrapolate growth indefinitely. I think that was what I was observing happening at Airbnb, that somehow people thought that there was an indefinite growth rate, but I didn't understand the math of how you got to a size and scale that would sort of back your way into an valuation that was huge.

Mark Hoplamazian: 00:40:04 And what has come to pass is that their actual supply in many of their formerly biggest markets like San Francisco and Paris are down significantly. If you look at the number of listings that they've got in the major markets that they started with, they're down. They're down because of legislation around limitations on how owners can actually behave, and there's some tax issues that have recently arisen that might actually shrink that base even further. So what did Airbnb do?

Mark Hoplamazian: 00:40:35 They turned to two things. One is they started to look to rural areas as a means of growth, and they looked to experiences as another avenue of business line because, to date, they still haven't leaned heavily into being an OTA, which if they became a more pronounced OTA, I would sign up immediately because more competition in the OTA world is great for us, but those

rural representations and those more remote locations, great experiences for people who want to do them. We're not competing there.

Mark Hoplamazian: 00:41:12

We are competing in those primary markets where their inventory has come down dramatically, and the use cases that can be served in the kinds of representation that they've got in New York, in San Francisco, and Paris today don't look like our hotels. They don't look like those same locations. They don't look like they can serve the same purpose of visit. So I would say all these things have evolved over time. I think that home sharing has been around for centuries and will continue to be around for a long time. There's a lot of competition, which I think is great. I do think the platform is very powerful. The platforms are very powerful, and that's great.

Mark Hoplamazian: 00:41:52

We do have some residential business within our own network. When we bought Two Roads Hospitality, it came with something called Destination Residential Management. We have 3000 units, half in Hawaii and half in ski destinations in the United States. These are wholly owned condos that we manage the inventory for, and so there's a place for this. I don't know that it will ever be a material part of our business. It will be a part of it, nor do I think that it's an existential threat for hotel companies.

Ross Glotzbach: 00:42:25

We're going to ask a few questions just about you. When we've done our research talking to people who actually know you very well, it really comes through how much you actually, deeply, care about people and how much people who really know you like you. That is very good and encouraging to us. At the corporate level, you talk about how Hyatt is a purpose-driven company with the focus on wellbeing. Tell us how you got there, and why you chose those words for Hyatt's purpose.

Mark Hoplamazian: 00:43:02

Our purpose is to care for people so they can be their best. I'll tell you a very short story that sets the backdrop, and that is when I was hiring my first Chief Human Resources Officer, at the end of the interview,

this is early 2007, he said to me, "What's on your mind most? You're still new, so what is the thing that you go to sleep every night thinking about?" And I said, "There's something really special about this company and about the people who are in this company, the Hyatt family. I can't quite put my hands on exactly what it is, and it's driving me crazy." And he said, "Can you tell me a little bit more about what you mean?" and I said, "It's like that apocryphal story of NASA. The news crew shows up in the early sixties, and they go to Houston control center and they stop a janitor and ask the person what he's doing there, and he says, I'm here to put a man on the moon. It's like that clarity of purpose."

Mark Hoplamazian: 00:44:03

And I said, "There is something like that at Hyatt. I don't know what it is yet, but I'm going to find it because that's why I joined the company. I just can't articulate it." That's really where it started. Because it was a feeling. It was an emotional experience. It wasn't an intellectual one. All these years later, I mean, Larry Fink has now written, I don't know how many letters serially about purpose, which I feel we were maybe too early to the party, but we started this journey six, seven years ago.

Mark Hoplamazian: 00:44:34

So I feel like we were early and, by the way, being early is not always fun because people are like, "Why are you spending all this time on this purpose thing? I don't understand." Now, Larry Fink will get after you if you're not focused on purpose. So I feel like, we were there early, but that was only because it was really authentic and really meant something to being able to attract and retain the great people.

Mark Hoplamazian: 00:44:59

The wellbeing part was really, it was born out of two things. One was, and this was the dominant one, we saw it as a consumer trend that we felt was going to explode. Again, we were early. We bought Miraval back in 2017 or 2018, so that's already five years ago, four or five years ago.

Mark Hoplamazian: 00:45:21

Now you talk about wellbeing and spending on wellbeing, personal self-care, and wellbeing travel, and

the sky's the limit. I mean, everyone's talking about these dynamics, and we've got a lot of experience under our belts and we're looking to extend and expand what we're doing in the wellbeing space. So first it was commercial.

Mark Hoplamazian: 00:45:42

The second is caring for someone so they can be their best has to begin with their wellbeing. By the way, it has to begin with your own wellbeing because if you're not taking care of yourself, you can't help someone else. You can't help care for someone else so that they can be their best. I always tell my colleagues, especially during COVID, you got to pay attention to what's going on with you. A lot of people went through really hard times. A lot of people lost family members through this COVID situation and lived through tremendous strain, whether that was childcare or job insecurity, or actually getting laid off at our hands, in some cases.

Mark Hoplamazian: 00:46:24

That's really, really difficult stuff. So my feeling was always let's pay attention here. Let's not make any assumptions that everyone's fine. This is not pre COVID levels, and make sure we're practicing self-care so that we can extend that care to others. So the wellbeing focus extends as much to our own colleague base as it does to outside customers. But I'm thrilled with what we've done. The Miraval brand has blossomed. The demand for Miraval is stratospheric at this point.

Mark Hoplamazian: 00:46:52

The Alila brand that we purchased through the Two Roads Hospitality acquisition is also very wellbeing-focused. We launched a hybrid meetings platform called Together by Hyatt. We integrated intention setting, which is a practice that we use every day at Miraval into the product itself and supported by Miraval, and it has been the number one thing that corporations want to use. They say it used to be that wellbeing practices as part of a meeting agenda was yoga in the morning. Forget the yoga. Setting intention, helping people get focused on what they're there to do and being present and being in a good mind space has huge value. So count me in, and that's been a really elegant and, I think powerful, way to integrate all the wellbeing investments

that we've made into something that's got great commercial value for our corporate customers. That's just a couple of examples.

Ross Glotzbach: 00:47:57 Another thing we can tell you care deeply about on both the personal and the Hyatt level is diversity, equity and inclusion. How does Hyatt corporate embrace DEI initiatives across the firm, examples like your goals to hire 10,000 opportunity youth with Rise? And then how about you personally? I mean, this resonates with us and some of the things we're trying to do here in Memphis, more broadly, education initiatives. I know you're chairman of the Skills for Chicagoland's Future. Talk about both of those things, and I'm sure they cross over sometimes, too.

Mark Hoplamazian: 00:48:32 Yeah, they sure do. A few things. First, just as a personal commentary, I have for a very long time, this dates back to the early two thousands, believed that the gaps that we see in society, whether that's wealth gap or opportunity gap or income gaps, and in the stark reality is life expectancy gaps, which are stark in some places. I think the zip code in which Englewood exists about four miles from here has life expectancy that's 20 years lower than it is where I'm sitting right now, in Chicago, which is just staggering. When I thought about that, this is right after No Child Left Behind legislation was implemented. I thought education is really a critical factor. We've got to lean into education and we've got to elevate the equity and access to education.

Mark Hoplamazian: 00:49:35 The more I spent time in that area, the more discouraged I got because I felt like I was combating systemic change of school districts as opposed to helping kids. So as I came into Hyatt, my eyes were opened to the transformative nature of actually getting a job, and getting a job that's not, unfortunately, the alternative in Chicago, in many cases, if you ask Arne Duncan and others who are involved in this, is joining a gang or doing something that is not very career focused. If you come into our industry, you need no skills to start with, but you can grow through learning and you can have a really robust career. There are a lot

of colleagues I've got at senior levels of the company who started off at entry level jobs.

Mark Hoplamazian: 00:50:26

I was really turned on by this, and in 2017, this is way before George Floyd was murdered and a lot of new initiatives were launched in DEI. We said, "Look, we're spreading the peanut butter too thin across all of our philanthropic and community engagement efforts. What's the one thing that we can do that's going to really move the needle in?" And we said, "This is it. We can bring people from disadvantaged backgrounds in, from disadvantaged areas, into the workforce." Hospitality's got a unique position to do that.

Mark Hoplamazian: 00:51:01

We can make a difference in the world and, by the way, we can also expand the supply of colleagues coming into our industry, which we need desperately. That's, when we launched our initiative called RiseHY to hire 10,000 opportunity youth. Of course the COVID situation really knocked us back by a couple years, but we're still committed to it, and I think we can still get there. It's a 2025 commitment.

Mark Hoplamazian: 00:51:27

My work with Skills for Chicagoland's Future is entirely dedicated to elevating economic prosperity for people who are living in disadvantaged conditions right now, and not by way of handing them money or facilitating federal subsidies or anything like that. It's actually creating pathways to jobs and entry level jobs that can lead to growth and career paths is really what we're most focused on, so we work a lot in healthcare sector. This healthcare, you can start off with very low skill levels and have really robust careers. The same is true for service industries. We have Walgreens, and McDonald's, and Hyatt all headquartered here in Chicago that hire thousands upon thousands of entry level workers every year, and we're pulling them into those businesses.

Mark Hoplamazian: 00:52:27

Those companies are great partners of Skills to actually get people on track to actually have careers. So this really does matter a lot, and if you want to talk about caring for people so they can be their best, there are

very few ways in which you can care for someone more than giving them a real opportunity to have their own career and to grow and to be a part of the workforce. We have such a contorted labor market right now. It's a confused mess, but there are a lot of people out there that do need jobs and that are prepared to work and that we need to find, and we need to guide them, make sure we provide the right training and pull them into the workforce. These are all things that have come together.

Mark Hoplamazian: 00:53:13

Now, following George Floyd's murder, we reevaluated where we stood on our DE&I efforts, and we made some very bold commitments to double representation of people of color and female leaders in the company over the next five years. I would say that this started off with tremendous focus. The good news is this is not proving to be a flash in the pan and a moment that came and went. We've really built it into how we're approaching, where we go to recruit, how we are trying to develop our existing colleagues to get into leadership positions.

Mark Hoplamazian: 00:53:59

I have to admit that it was absolutely crystallized out of the crisis of the moment after George Floyd's murder, but I've seen the value of diversity and inclusion in the broadest sense possible. It's not just racial, it's not just religious, it's not just by background or country of origin. It's across everything. It's across mindset. The mindset diversity is so important, too.

Mark Hoplamazian: 00:54:26

We're hiring a lot of people to do things in data analytics and in digital who have very non-traditional backgrounds. They didn't get a four year degree, or they've been doing things that you might consider to be way off the beaten track. That's a form of welcoming diversity and inclusion, as well. I'm very excited about it. I seem the economic and the value of it. It's very much focused on satisfying another major issue, which I referenced before, which is we're short of people. We have thousands of open positions, and this can be a very effective way to elevate diversity within Hyatt, put

people on track to be future leaders of Hyatt, and get people hired when we most desperately need to.

Ross Glotzbach: 00:55:15 We know that you've worked with the Pritzker family in various capacities through most of your career. Can you tell us what's that's been like and what it's most like today? We know that there's this two share class voting at Hyatt and many off the shelf ESG ratings, things will knock you for that, sometimes. We think you need to also look at what you're getting in terms of a long term perspective from something like that. Can you talk about that for a bit?

Mark Hoplamazian: 00:55:44 I worked at The Pritzker Organization for a long time, but when I joined Hyatt that went to zero. I don't do anything in The Pritzker Organization any longer. I haven't for a long time. I'm a fan from afar rooting them on, but that's about it. The major point of contact is with Tom Pritzker. His son Jason's on our board. Tom's been involved in Hyatt's business forever. I mean, he was under 10 years old when Hyatt was founded, so he's been in the company pretty much his entire life, but what's come from that is relationships. He's got relationships with key families and developers around the world, especially in Asia, where continuity and family relationships matter a lot in how people do business. He knows these people personally, he gets involved with them on business trips, and when it comes to expansion, expanding our activities with them and doing more deals in places like Japan and China and India, Thailand, these are relationships that really are tremendously valuable.

Mark Hoplamazian: 00:56:58 Because he's been in the business and seen the evolution of the business for so long, he is an excellent thought partner in mapping out strategy, so those are the key ways in which we work together. Of course I've worked either for or directly with him for over 30 years, so we also know each other extremely well. I think that that sense of stability and knowing owners and developers around the world, knowing that there's still a family connection, someone who cares deeply about the ongoing reputation... We started off the

conversation talking about brand value and reputation. Well, having a family member, a member of the founding family, still engaged as Chairman of the company matters to a lot of people who think, "Wow, this is not just a commercial deal. This is something that they're going to care about going forward," and I think that that's absolutely the case.

Ross Glotzbach: 00:57:54 All right, well, just two more. This is the Price-to-Value podcast, so we've got to ask the question, getting back to value per share a little bit. When we first invested, we assumed share repurchases which the company had done previously would be maybe not for a while, given what was going on with COVID. As you think about share repurchase today and what that could look like for the future of the company, how do you think about that?

Mark Hoplamazian: 00:58:24 Right now, as you pointed out, it's gone to zero and it will stay there for the foreseeable future just because our current revolver and our debt arrangements don't permit us to be buying back stock. We will be paying down debt with a lot of the sale proceeds of our asset sales, but we are also cash generative and will be more cash generative in the future because as we sell down assets, but more assets over time, our capital expenditures are going to also decrease even as our fee-based earnings go up. So I expect the company to be much more free cash flow generative over time. We've always looked at a return of capital to shareholders in two dimensions. One is repurchasing shares, so I think we bought more than \$4.4 billion worth of stock back since we became public, by the way, all at prices below where we are today.

Ross Glotzbach: 00:59:24 Yes.

Mark Hoplamazian: 00:59:25 And we've paid out, I don't know, less than \$200 million, \$160 or \$70 million worth of dividends before we stopped paying dividends during COVID. But we do see returning to a point where we are paying a dividend and we are buying back stock again. Buying back stock is, you know, we, we don't do it by rote. It's not autonomic.

It's thoughtfully. I mean, we think about intrinsic value and we believe that every moment at every point that we repurchased a share that the value of the company was in excess of where we were buying the stock. As we sit here today, of course, pick a day and I'll tell you whether it's true or not. But as we sit today, that's been true and we're going to remain disciplined about that, but I have to say we're really extraordinarily well-positioned to continue to grow the asset-light part of our business, the management franchise part of our business.

- Mark Hoplamazian: 01:00:23 And as we shrink our owned asset base down, I think we're going to get back to a point where we can be back in the position to return capital to shareholders and make that a durable part of the investment equation going forward. We will not be bashful about retaining capital when we think that there's a big opportunity for us to expand in a value additive way, but hopefully we'll be able to manage that through borrowings from time to time so that we don't have to shut down share repurchase or dividends. The reason we did those things is because of the severity of the COVID downturn.
- Ross Glotzbach: 01:01:03 Well said. So it was great getting to actually see you in person last year.
- Mark Hoplamazian: 01:01:08 Yeah, it was wonderful. I love that.
- Ross Glotzbach: 01:01:10 Downtown Memphis at the Hyatt Centric. I know this is a favorite child type question...
- Mark Hoplamazian: 01:01:15 Oh, God. Ross.
- Ross Glotzbach: 01:01:20 Hopefully, it's a chance for you to give some shoutouts, but as I hopefully get on the road a bit more here in 2022, what are some new Hyatt's I should check out there?
- Mark Hoplamazian: 01:01:31 Well, look, first and foremost, I think there's a brand in our portfolio that very few people, Americans, have experienced called Alila. We have three magnificent

Alilas on the west coast, one in Napa Valley in St. Helena, one in Big Sur, Ventana, and one in Encinitas called Marea Beach, and they couldn't be more different.

Mark Hoplamazian: 01:01:56

One is wine country through and through with a vineyard literally on property. The other is literally nestled in the most magnificent Redwood forest you've ever seen. And the other one is on the Pacific Coast, on the Pacific Ocean, west of the highway. You don't have to cross the highway to get to the beach. So three extremely different experiences, but a really unique experience with phenomenal food and beverage and a sense of peace and place that is really special. So I would say just as a matter of exploration of a new brand, those are three amazing options that I would recommend to you on the West Coast.

Mark Hoplamazian: 01:02:38

I think you have to go and experience some of the AMR Collection hotels, and if you're taking kids with you, there are many Dreams that are fantastic hotels. I stayed at the Dreams Playa Mujeres, which is just north of the downtown area of Cancun, maybe a 15-minute drive north, magnificent beach, great location. There's a beautiful Dreams on the West Coast, also in Costa Rica, west coast of Mexico that is in Vallarta, Bahia Mita, actually, is just north of Vallarta. So those are great.

Mark Hoplamazian: 01:03:15

And then I would say, really, because I care about your wellbeing too, Ross, you should try out one of our Miravals. I took my own family to the Berkshires in Massachusetts and we spent Thanksgiving there and to a person, it was meaningful to each of my three kids and my wife and I. So I would say there's always room in your life for a little self-care, so I recommend you to a Miraval as soon as you can.

Ross Glotzbach: 01:03:48

That sounds good. Maybe this will be how I actually get my family to listen to this podcast. I'll say, wait till the end. We've got some ideas. Well, thank you so much for all the time today. This has been great. We're thrilled to be your partner and excited for the years to come.

Mark Hoplamazian: 01:04:06 It's very mutual, Ross. I just want to thank you. The input and the candor with which we've gotten feedback from you and Staley - all constructive - has been really valuable to us. We not only have a lot of time for you, but we are keen to learn more and hear more, so let's keep the dialogue going.

Ross Glotzbach: 01:04:25 Will do.

Mark Hoplamazian: 01:04:26 All right.

Ross Glotzbach: 01:04:27 Yes. Thank you.

Gwin Myerberg: 01:04:31 Many thanks to Mark for joining us today and to Ross for the interesting conversation, and thank you, as always, to all our listeners for tuning into the Price-to-Value podcast with Southeastern Asset Management. If you have any questions or would like to share topics you'd like to see us cover in future episodes, please feel free to send us an email at podcast@SEasset.com.