

Q4 SYSTEMS – HILTON WORLDWIDE

Moderator: Christian Charnaux
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10:00 a.m. ET

Operator: Good morning and welcome to Hilton Worldwide Holdings first-quarter 2014 earnings conference call.

At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session and then instructions will follow at that time. If anyone should require operator assistance during the conference please press star then zero on your touchtone telephone. As a reminder today's call is being recorded. Thank you. I will now turn the call over to Mr. Christian Charnaux, Vice President of Investor Relations. You may begin, Mr. Charnaux.

Christian Charnaux: Thank you, Sharon. Welcome to the Hilton Worldwide first-quarter 2014 earnings call. Before we begin, we would like to remind you that our discussions this morning will include forward-looking statements. Actual results could differ materially from those indicated in the forward-looking statements, and forward-looking statements made today are effective only as of today. We undertake no obligation to publicly update or revise these statements. The factors that could cause actual results to differ are discussed in our SEC filings.

You can find a reconciliation of the non-GAAP financial measures discussed in today's call in our earnings press release and on our Web site at www.hiltonworldwide.com.

This morning, Chris Nassetta, our President and Chief Executive Officer, will

provide an overview of our first quarter results and will describe the current operating environment as well as the outlook for the remainder of 2014. Kevin Jacobs, our Executive Vice President and Chief Financial Officer will then provide greater detail on our results and outlook. Following their remarks we will be available to respond to your questions.

With that, I'm pleased to turn the call over to Chris.

Chris Nassetta: Thanks, Christian. Good morning, everyone. Thanks for joining us today.

Disciplined execution of the core strategies that we discussed on our last call and a clear focus on delivering long-term value for shareholders has resulted in another great quarter for the Company. Strong top-line revenue growth, flow through and time share performance lead to results that significantly exceeded our expectation. As a result, we've raised our RevPAR, EPS and adjusted EBITDA guidance for the year.

Clearly we continue to feel really good about the fundamentals in the business and our outlook for the remainder of the year. I'll spend a few minutes talking about that in just a bit.

First, let's talk more specifically about the first-quarter results. Our system-wide comp RevPAR growth for the quarter was 6.6 percent on a currency-neutral basis, driven by a 3.6 percent increase in average rate and a 1.9 percentage point increase in occupancy. In the quarter we saw strong growth in both the group and transient segments. In fact, for the first time in many quarters, system-wide group revenue growth in Q1 outpaced transient revenue growth. Consistent with our view that we're at the mid point of the cycle, group business continues to build, with system-wide group revenue growth in the quarter of 7.4 percent year over year.

We're also starting to see meaningful increases in group ancillary spend, especially food and beverage. Banqueting revenue was up over 12 percent in our U.S. owned and managed hotels. In our big eight hotels, group F&B spend per occupied room was up nearly 30 percent in the quarter and 13

percent in our U.S. owned and managed hotels. This helped drive an overall increase in food and beverage revenue of almost 10 percent over the same time period in our U.S. owned and managed hotels.

Transient revenue growth remained strong, as well, up over 6 percent across the system at comp hotels. This continued growth in transient demand combined with strengthening group business lead to accelerating RevPAR growth for the quarter.

Weather in the U.S. and the U.K. marginally affected Q1 RevPAR growth; however this was largely offset by the timing of Easter.

Our strong top-line performance combined with our disciplined approach to managing costs lead to strong improvement in operating margins in the quarter. Our U.S. owned and operated hotels grew operating margins 157 basis points year over year. Our owned and operated hotels outside the U.S. grew operating margins 191 basis points on a currency-neutral basis.

This operating margin performance in our hotels combined with overall management franchise fee growth of over 17 percent, strong growth in time share EBITDA and continued corporate cost discipline lead to strong growth in adjusted EBITDA and adjusted EBITDA margins for the quarter. Our adjusted EBITDA for the quarter was 544 million, an increase of 22 percent over the first quarter of 2013. Adjusted EBITDA margins increased 400 basis points versus first quarter of 2013.

We also continue to make great progress on mining value enhancement opportunities embedded in our own portfolio, such as the new time share tower at the Hilton Hawaiian Village that we announced last quarter. At the Hilton New York, we're planning a complete repositioning of the 6th Avenue frontage of the property, which will create a retail platform with over 10,000 square feet of prime, street-level space out of what today is a portico share. We expect construction of the retail platform to commence by the end of the year for completion in the first half of 2015.

We also plan to add additional time share inventory to the property including two floors plus some unused penthouse space. Subject to regulatory approvals, we expect interval sales to begin in the second half of the year with units complete in the first half of 2015. We will fund both projects within the range of our CapEx guidance and expect steady-state incremental \$6 million in annual EBITDA from the retail platform and a combined incremental NPV of the retail and time share projects of approximately \$165 million.

Turning to some development highlights, as evidenced by the opening of over 9,000 rooms in the quarter, we continue to have great success in growing our system off the largest base of rooms, now with more than 68 6,000 rooms operating globally in 92 countries and territories. We also approved 107 hotels with over 15,000 rooms for development in the first quarter.

We continue to be number one in rooms under construction in every major region of the world, according to Smith Travel Research, with over an 18 percent share of all rooms under construction globally. Today we have 510 hotels and approximately 101,000 rooms under construction that will soon be added to our system.

We have also maintained our Number 1 Pipeline ranking according to STR, with 1,165 hotels and approximately 200,000 rooms in 76 countries and territories. On a rooms basis, we have increased our pipeline by 13 percent over the last 12 months.

One signing I'd like to highlight is the new Waldorf Astoria Beverly Hills, which is adjacent to the Beverly Hilton on the corner of Wilshire and Santa Monica Boulevards. This 170-room luxury hotel will be the brand's first new-build hotel on the West Coast. Our luxury brands continue their industry leading growth with stunning purpose-built properties in marquee locations such as the recently opened Waldorf Astoria Beijing, the Waldorf Astoria Amsterdam, the Conrad in Dubai and the Waldorf Astoria in Jerusalem.

Most importantly, we continue to outpace our primary competitors in opening fee-paying rooms, increasing our system size in the quarter by 8,000 net

rooms. It's important to note that we continue to achieve this high level of growth with de minimis amounts of capital investment by us and without any acquisitions. Our capital-light premium growth is built on the strength of our brands, and we firmly believe that we have industry leading brands that are a meaningful strategic advantage.

Our portfolio brands is diverse enough to meet most customers and owners needs in most regions, but we're always looking to enhance our ability to serve customers and owners globally. That on, occasion, includes creating new brands. We are hard at work preparing to launch two new brands later this year.

Our existing portfolio of industry-leading brands continues to outperform. The key stat we focus on to measure brand strength, system-wide comp RevPAR index, grew nearly 50 basis points year over year for the quarter.

Each year, thousands of consumer brands are rated by over 5,000 entrepreneurs and readers of Entrepreneur Magazine resulting in lists of the Top 120 Most Trusted Brands. I'm pleased to share that six of our brands have been named on Entrepreneur's lists. Hilton Worldwide has more brands appearing on this highly influential list than any other hotel company.

Now, let me spend a minute and update you on the remainder of 2014. Looking forward, our group-booking position for the remainder of the year is very strong with meaningful increases in both volume and rate. Our 2014 group-revenue position at our big eight hotels and the larger group of U.S. managed hotels is up in the high-single digits compared to the same time last year. Corporate meetings, our highest-rated group segment, is outperforming previous full-year revenue position by 12 percent in U.S. own and managed.

As we look at the macroeconomic picture and outlook for lodging performance around the world, we see generally improving conditions and are very optimistic for the remainder of 2014. In the U.S., we continue to expect strong fundamentals with reasonable GDP growth driving demand that we expect to be paired with muted supply growth for some time to come. This

should result in modestly better RevPAR growth than last year. The Asia-Pacific region should continue to lead RevPAR growth globally, with significant growth in Japan driven by the ongoing effects of their easing monetary policy. Strong and stable RevPAR growth in China in the 6 percent to 7 percent range overcoming some regional weakness in Thailand.

In Europe, we continue to see improving performance and expect continued strong RevPAR growth lead by the U.K. and Turkey, both areas where we have a large presence, compensating for relative sluggishness in France. Overall, we continue to expect Europe RevPAR growth to be up in the mid-single digits for the full year 2014.

In the Middle East and Africa region continued weakness in Egypt and slower growth in the Arabian Peninsula and the Kingdom of Saudi Arabia will weigh on results a bit, which is being mitigated by very solid growth in Africa.

As a result of these positive regional dynamics we continued to be very optimistic for the remainder of the year. Therefore, we're raising the lower end of our full-year comp RevPAR guidance 50 basis points, so that it will now be 5.5 percent to 7 percent. Our guidance for diluted earnings per share for the year is increasing to between \$0.64 and \$0.67. Our guidance for adjusted EBITDA is increasing to \$2.415 billion to \$2.465 billion. As a result, the new mid point of our full-year 2014 adjusted EBITDA guidance is above the top end of our previous guidance. We continue to expect net unit growth of 35,000 to 40,000 rooms to our managed and franchised segment, which would represent 5.5 percent to 6.5 percent unit growth in that segment.

In closing we had a very strong quarter, beating our EPS and adjusted EBITDA guidance and outperforming on the top line, margins, bottom line, and net-unit growth. We continue to execute on value enhancement opportunities in our real estate portfolio and to aggressively deploy free cash flow to pre-pay debt and build equity value. We feel great about the fundamentals of the business and the set up for the remainder of the year.

I will now turn it over to Kevin Jacobs, our CFO, who will discuss the

quarter's financial performance in a bit more detail. Kevin?

Kevin Jacobs: Thanks, Chris. Good morning, everyone. As Chris mentioned, we are very pleased with our results for the first quarter, which exceeded our expectations. For the first quarter of 2014, diluted earnings per share, adjusted for special items, totaled \$0.13, ahead of our guidance of \$0.08 to \$0.10. Special items that have been adjusted in our first-quarter results are related to share-based compensation expenses in connection with our IPO last December.

Total Management franchise fees were \$331 million in the first quarter, an increase of 17 percent over the first quarter of 2013, driven by top-line growth, new units, and non-comp base fees. Franchise fees, in particular, exceeded our expectations largely due to strong performance among our focused service hotels in the United States. As new units enter the system and existing contracts rollover to our published franchise rates, our system-wide effective franchise rate continues to increase, now at 4.6 percent for the quarter.

In our ownership segment, adjusted EBITDA for the first quarter of 2014 of \$179 million was 13 percent higher year over year, adjusted for a one-time gain on a lease we were bought out of in the first quarter of last year and a non-comp increase in affiliate fees. This performance was driven by segment adjusted EBITDA margin growth of 172 basis points, adjusted on the same basis, as well as comparable year-over-year RevPAR growth of 5.1 percent.

Our time share segment first-quarter adjusted EBITDA of \$85 million was 44 percent better than the prior year, driven by transient rental, lower corporate support costs, favorable timing from the recognition of revenue and favorable adjustments and expected sale prices. Although a portion of this performance benefited from favorable timing, the segment results this quarter speak to the underlying strength of our time share business.

Corporate and expense and other totaled \$51 million in the first quarter compared to \$68 million in the prior year. This decline was largely driven by a one-time credit of \$18 million related to the conversion of our cash-based

long-term incentive program into a stock-based program. This credit will reverse itself over the balance of the year and was built into our previous guidance. The expenses associated with our new share-based compensation program flow through our G&A expenses and are included in our adjusted EBITDA.

In terms of our regional performance. In the U.S., continued economic recovery drove comparable system-wide RevPAR growth of 6.5 percent and comparable U.S. owned and operated hotels were up 6 percent. Great performance in rack-rated business, with revenue in the quarter up 11 percent and U.S. corporate transient business up 6.2 percent for the quarter and over 12 percent for the month of March year over year, contributed to strong growth in transient business.

The Los Angeles and Florida markets had a strong quarter with RevPAR growth of 10 percent and over 8 percent respectively. San Francisco and Hawaii also remain strong markets for us, largely driven by strong transient demand. The New York market softened, with increased supply and weather impacting transient demand. Chicago and Washington DC were also soft, driven by rate pressures and also weather.

Our hotels in the Americas outside of the U.S. had a very strong quarter, with comparable year-over-year RevPAR up 12 percent for owned and operated hotels, driven by strength in Canada, Argentina, Mexico and Jamaica. In the Middle East and Africa, comparable currency-neutral RevPAR declined less than 1 percent for the quarter, with continued political unrest in Egypt and weakness on the Arabian Peninsula offset by strong performance in our African hotels. In the Asia-Pacific region we continued to outperform, with strong demand in Japan and China driving comparable currency-neutral RevPAR growth of 8.7 percent for the quarter, primarily driven by rate. Japan, where we have a significant presence, continues to be extremely strong, growing RevPAR by over 25 percent in the quarter, while Greater China grew 7.5 percent.

Finally in Europe, we had a very strong quarter with comparable RevPAR

growth up 6.5 percent, driven equally by occupancy and rate. We increased our market share premiums by 140 basis points and saw strength across all segments, with group revenue increases in Europe as 17 percent in the quarter driven by company meetings and conventions. Rack-revenue growth of 7 percent and corporate-revenue growth of over 11 percent also contributed to the European strength. Regional strength in the U.K. and Turkey as well as key markets in Continental Europe compensated for a weak France.

Turning to our balance sheet, we continued to reduce our leverage working towards our objective to achieve investment-grade status by using substantially all of our free cash flow to prepaid debt and in turn build equity value for our shareholders. In the quarter, we made voluntary prepayments totaling \$200 million on our term loan. In fact, today, we are making another \$100 million repayment on that loan.

Also, per the terms of our debt agreements, we have further reduced our term-loan interest rate by 25 basis points by achieving certain leverage thresholds. Along with the 25 basis point reduction we achieved at the completion of our IPO, we have now reduced the rate on this loan by a total of 50 basis points to LIBOR plus 250 basis points.

We ended the quarter with cash and cash equivalents of \$722 million, including \$287 million of restricted cash. We had no borrowings outstanding under our \$1 billion revolving credit facility.

Finally, let's turn to our outlook for 2014. For the full year, as Chris mentioned, we are increasing our system-wide RevPAR guidance, expecting an increase of between 5.5 percent and 7 percent on a comparable currency-neutral basis with 60 percent to 70 percent of that growth expected to be driven by rate. Ownership segment RevPAR is expected to increase between 4.5 percent and 6.5 percent on the same basis.

We are also increasing our guidance for full-year adjusted EBITDA and diluted EPS, expecting a range of between \$2.415 billion and \$2.465 billion, and EPS adjusted for special items of between \$0.64 and \$0.67 for the full

year.

We continue to expect management franchise fees to increase between 10 percent and 12 percent for the year. We are increasing our full-year time share segment adjusted EBITDA guidance to \$315 million to \$330 million for the year. CapEx spending, excluding time share inventory, will total approximately \$350 million, which includes about \$250 million to \$260 million in hotel CapEx, which represents roughly 6 percent of ownership revenue.

We will remain disciplined in our approach to capital allocation and still expect to prepay \$700 million to \$900 million in debt for the year, devoting substantially all of our free cash flow to building equity value. We expect corporate expense and other to increase between 3 percent and 5 percent, which includes incremental public-company costs.

For the second quarter of 2014 we expect system-wide RevPAR to increase between 5.5 percent and 6.5 percent on a comparable currency-neutral basis, as we benefit from strong seasonal occupancy and further room-rate improvement. We expect second-quarter diluted EPS adjusted for special items will total \$0.18 to \$0.20. We expect second-quarter adjusted EBITDA of between \$635 million and \$655 million.

Further detail on our first-quarter results and updated guidance can be found in the earnings release we distributed earlier this morning.

This completes our prepared remarks and we're now interested answering any questions you may have. So that we may hear from as many of you as possible, we ask that you limit yourself to one question and one follow up. Sharon, could we have our first question please?

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question please press star then the number one key on your touchtone telephone. If your question is answered or you wish to remove yourself from the queue you may press the pound key and we will wait just a moment for anyone to queue.

And our first question comes from the line of Harry Curtis with Nomura.

Harry Curtis: Those are really strong results for the first of the year. I'm wondering, Chris, you talked about them continuing into the second half. What kind of data do you have that might give you confidence that this strength actually should last further into 2015?

Chris Nassetta: Yes, great question. I said a couple times we remain very optimistic, because I think we do and I do. That is really based on, as we look at the overall business in the bigger segments, transient strength that we saw in the first quarter that we continue to see in the second quarter and based on everything we see going on economically in our biggest markets, we think will continue. That's matched with significant upticks in the groups space. As I mentioned in my prepared comments, for the first quarter in a long time we saw system-wide group revenues growing faster than transient. Not that transient was bad; transient were quite good. It's this group is picking up steam, which gives us confidence.

If you look at our big hotels in the second half of the year, they're up nearly 20 percent in terms of position on the group side. Gives us a great deal of confidence, along with the fact that we are starting to see, in part because of where we are in the cycle, in part because of some real hard work that our sales force is doing, we're starting to see the benefits of the ancillary spend focus and increases there. It feels like the business is really hitting on all cylinders and playing out the way we had thought it would. We feel great about what's going to play out the rest of the year. Obviously, we hope we will and think we will continue to outperform.

Harry Curtis: OK. That's great. The second question is, on the call you mentioned you've got two new brands coming. Can you talk about what segment of the market they will address? Do you need much CapEx to launch the brands?

Chris Nassetta: On the first, let me be clear, because I know a lot of people had a question. We do not think we need any real capital. We don't intend to build in any of our new brands any of this on our balance sheet. We have a terrific group of

owners, 10,000 owner relationships around the world that are dying to do more with us because I think they believe in the strength of our brands and the market share of our brands. We're driving great profitability for them, so in the two brands that I will briefly describe that we're working on, we do not intend to do any of the building on our balance sheet. We do think we will be able to grow these at a very nice clip.

The two brands are, first, the one that will probably come first, I describe as a brand that will be a four plus star brand that will aggregate iconic urban and resort hotels that don't really fit in the box of the specified standards of any of our other brands. What we find is increasingly some of our existing customers, as well as other customers we want to attain, are interested those types of locations and staying in these unique iconic hotels. We think we could better serve our customers by offering that type of product. It offers us a great way to serve them better, but also grow the Company at a faster pace, because not only will it not require CapEx but it is very conversion friendly as a brand.

The second brand, which we've talked a lot about, is Lifestyle. I think, by the way, the first brand probably is a launch some time this summer. The Lifestyle brand we're way down the road on, probably more in the fall. We are currently working on deals, by the way in, both brands.

The Lifestyle brand, which we'll talk a lot more about in the next call or two and give you a great amount of detail, our approach there is a little bit different than some of our competitors. Most of the competition has a access lifestyle at a luxury price point. We believe that there's a much broader base of demand at the upper end of upper, upscale. We are coining the phrase, accessible lifestyle from a price point of view. We think being at that price point in a product, and service delivery that matches with that, is going to allow us to serve more customers better and build a brand that is much bigger than what we've seen others be able to do.

It, also, by the nature of what it is will, incorporate new builds. None of ours on our balance sheet, but will be very conversion friendly. These are going to

be able to incrementally add significantly to the growth of the Company long term as well as short term. Neither will have a particularly meaningful impact on this year's net-unit growth, just given the sequence of when they're being launched. Might have a little bit of impact, but not significant impact, but we'll start to have some good impact starting next year.

Harry Curtis: That's great. Thanks, Chris.

Operator: And our next question in the queue comes from the line of Carlo Santarelli with Deutsche Bank.

Carlo Santarelli: I have two questions. First, I just wanted to touch on some of the New York impacts that you guys are seeing, clearly not manifesting in the numbers here. Have the market-wide New York results given you guys any pause with respect to your guidance as you look towards the back half of this year?

Chris Nassetta: No. I mean, New York was impacted in the first quarter and pretty soft, I'd say it's really impacted by three things. One, that a lot of people have talked about is supply. New York does have more supply than frankly any of the other major markets, but that was compounded. I think what was more impactful was the year-over-year impact on the Super storm Sandy business and then weather, of course, throughout the Northeast corridor. New York was particularly hard hit. As New York was softer, we think, in the first quarter than it will be for the remainder of the year, but it will, probably, as a result of some of the supply issues, be a little bit softer overall than some of the other markets that growing faster in the U.S..

Long term, we think New York is going to be fantastic as it always is. The demand levels are growing. We think, over time, very easily absorbed, this new supply. To get to the specific answer, we do not, I mean we have factored that into all of our thinking in terms of our guidance. We do not see a meaningful risk related to New York and the guidance we're giving you.

Carlo Santarelli: Great, thanks. Then, just one quick follow up. If you, obviously, look at where you guided 1Q and what you ultimately delivered in the 1Q, and I

know some of which was chalked up to timing and some corporate expense, but when you think about the back half of the year and the raise of overall guidance, it looks as though that there could be a bit of conservatism in there. Is there anything that I could potentially be missing?

Chris Nassetta: No, I think you've got it right. We essentially flowed through the beat for the first quarter and the increase in our guidance. We beat the mid point by about \$53 million. We increased guidance to the mid point by \$40 million. Plus or minus \$13 million of that was sort of timing within the year, so we flowed through the full amount of the beat that wasn't timing, which we feel comfortable with. That implies, as you've suggested, that we've maintained the rest of the year. We feel comfortable that, frankly, that there probably is a bit of conservatism built in that. We would certainly hope we would do better.

Carlo Santarelli: Great. Thanks, Chris. Thanks, guys.

Operator: And our next question in the queue comes from the line of Robin Farle with UBS.

Robin Farley: First, as a follow up on your comment about the second brand that you may launch this summer. Is that more of a subtitle where you're just putting hotels that are not currently in your system in there rather than actually any rebranding of those hotels or managing those hotels?

Chris Nassetta: No, it is. That's not to say there may be opportunities to re-brand parts of our portfolio, but I think that would be very modest. Both the brands are focused on new units that are not in the system. Again, there may be a very small amount of things that could move around over time, but the deals that we are working on, and we are working on a meaningful number of deals in both new brands, are new units outside of our system. Some new builds, particularly with Lifestyle, but a significant number of conversions.

Robin Farley: Great. Then for my second question, just looking at the guidance raise, how EBITDA is raised more than the RevPAR was raised and fee growth is

unchanged, but EBITDA up. What's been primarily the driver there? Is it that you owned property margins or what should we think about that?

Chris Nassetta: Yes, it's a little bit of flow through, basically margin's better all around. A little bit of revenue, a little bit of margins, a little bit of time share.

Kevin Jacobs: Right, and some in fees, Robin obviously – . There's some in fees, but 10 percent to 12 percent is a wide range in the fees, so we feel better about fees but not quite better enough just yet to raise it to 11 percent to 13 percent.

Robin Farley: OK, great, thank you very much.

Operator: And our next question in the queue comes from the line of Steven Kent with Goldman Sachs.

Steven Kent: Couple questions. First, on time share, the sales were up 13 percent, very strong in the first quarter. Can you just give us a sense for how much of those are coming from your asset-light strategy and how much more growth opportunities do you have there? Then the G&A costs, even after adjusting for one-time benefits, they were lower than we were forecasting, and I think you've done a very good job on there. Can you just give us a sense for where that goes over the next couple of years? Does G&A flatten out or does it have to grow as you increase some of these brands, the number of brands?

Chris Nassetta: Sure, on the first in the first quarter, we were a little less than 60 percent of our sales were in the asset light. If you look at all of 2013, I think we're were around 50 percent, so it ticked up in the first quarter. It will bounce around a little bit depending on what inventory is getting sold when. If you just look at the trajectory, 80 percent of the existing inventory, which is roughly five years of inventory that we have is capital light, so over time, that number should be growing. Just naturally as a result of the majority of our inventory being capital-light inventory.

On the G&A side, thank you for your comment. Yes, we're actually quite proud of the fact that we're very efficient in the G&A side of things. I think

part of what, even netting out for the comp stuff that you're seeing, is there are some timing things going on in the first quarter that allowed it to be even better than what you might have been forecasting. Some of those things, obviously, as the year plays out will reverse themselves and occur in different quarters. Having said that, as I say, we are very proud of the fact that we are very focused, very lean and mean in terms of our cost structure. We are not going to lose our cost discipline.

As Kevin described, we said we would have a 3 percent to 5 percent increase in G&A and other year over year. That's incorporating public-company costs. Our objective would be to be in that same sort of range next year, even including the incremental step up in public-company costs. We do have, as you know, being public requires certain cost structures in the accounting and the legal and tax as well as having public-company compensation, which in our case is flowing through and impacting is being taken out of our EBITDA. When you factor for those things, we will have some increases but what we believe are very modest increases.

Steven Kent: OK, thank you.

Operator: And our next question in the queue comes from the line of Bill Crow with Raymond James.

Bill Crow: It really was a good quarter.

Chris Nassetta: Thank you.

Bill Crow: It might be a little bit nit picking here, but as I look at owned hotel RevPAR growth of 5.7 percent and I look at owned hotel revenue growth of 3 percentish, you've got some FX drag and from what we gather maybe the joint venture hotels delivered very good results, which did not flow through to revenue in that line item. My question is, what did the big eight hotels do in the quarter? You mentioned the food and beverage and outside the room spend, but what was RevPAR growth at the big eight?

- Chris Nassetta: The big eight RevPAR growth was 5.1 percent, I think, and revenue growth was I think a little bit better than that.
- Bill Crow: Is 5.1 percent, are you surprised at all with that given the shift in the holidays and the way the group is ramping up?
- Chris Nassetta: No, we expected pretty much, in fact that outperformed what our expectation was. In the big eight, because it's just eight hotels, it ends up being largely a function of when the groups are cycling through year over year and the comps of them. We had big groups in the year before, so that was actually better than our expectations. The big eight are performing really well. They are going to have a great year. As I said, the big eight, the group position for the second half of the year is almost – it's 19 percent and change, almost 20 percent up. The second half of the year is going to be, from a RevPAR growth point of view much stronger for the big eight than the first half of the year. Second quarter will be better, but the second half much better. Again, that's just a function of individual hotels and group business they had last year and groups they have on the books this year.
- Kevin Jacobs: Bill, I think for the overall segment it was 5.1 percent for the quarter, so the difference between the RevPAR and the revenue wasn't as extreme. As you said there were some FX in there and some non-comp stuff, particularly outside the U.S..
- Bill Crow: Right, the 5.1 percent was post FX, I think, right?
- Kevin Jacobs: Yes.
- Bill Crow: Anyhow, I think you nailed it. The follow-up question was, do you have any commentary, Chris, on the group trends as we look into 2015? I know it's early, but would love to get whatever you have on that?
- Chris Nassetta: Yes, it's early but the sight lines we have feel pretty good. The second half of the year is very good momentum and I think very indicative of what's going on. If I talked our guys, which I do all the time on the sales side, they feel

very good about the momentum that's building in terms of pace and position into next year and, frankly, into 2016. I think good things are on the way.

Bill Crow: Thank you.

Operator: And our next question in the queue comes from the line of Felicia Hendrix with Barclays.

Felicia Hendrix: Chris, on the time share side of your business, I'm just wondering if you think the market is valuing your time share business appropriately, I mean Marriott's obviously spun off and now we have the Hyatt announcement this week. Just wondering would you consider spinning off the unit set to perhaps get some more value?

Chris Nassetta: You'd have to tell me or our investors would have to tell me how they're valuing it. I don't know the answer in terms of whether individually people are valuing it the right way. We are very committed to the business, Marriott spun there's as you point out, Hyatt sold there's this week. We really like the time share business for, I think, some really obvious reasons. Number one, it is a great business. The customers in our time share business are our most loyal customers in the hotel side of our business. The day after they buy a time-share unit, they spend 40 percent more with us in the hotel business. We like the ability to take care of those customers that have become so loyal.

We have a very focused strategy, as you know, which has driven great results, even through the downturn, in terms of growing revenue, growing margin, growing EBITDA. On top of all of that, as we talked about answering Steve's question, we've been converting the model to be much like the hotel model where now 80 percent of our inventory is for third parties where the returns in the business are going up astronomically as we depend, not on our own balance sheet, but on other's balance sheet. The combination of these customers being so valuable, very good margins, very good growth and not demanding the kind of capital that it has with other companies or what we had been using historically, we are committed to the business.

We think it's a great business. Ultimately, we think, as we continue to tell the story and we transform the business to being more and more capital light, we certainly are hopeful and believe that the markets will reflect it in our value.

Felicia Hendrix: Thank you, very helpful. For my follow up, regarding asset monetization, you talked about the retail build out at the Hilton in New York. Just wondering if you had thoughts in terms of partnering on that project or if there will be any partners? Then, any thoughts you might have or updates on plans for the Waldorf?

Chris Nassetta: On the New York Hilton, it's a pretty straightforward project. We certainly will be working with others as it relates to how we end up merchandising it and how we end up finding the right tenants to maximize the opportunity. In terms of actually doing the construction and the like, it's pretty straightforward. We think that our team can do it working in conjunction with some consultants, so we do not intend to have a partner on that.

On the Waldorf, obviously, it's a great deal of interest in it, and we understand why. Trust me, we spend a significant amount of time focused on the Waldorf. As I mentioned on the last call, we are deep into the weeds in figuring out the best way to maximize the value of the Waldorf. We think there is a huge amount of value there that is untapped. We are way down the path in figuring that out and figuring out the way to execute against it. We are not yet in a position, and I'm not being coy, just being honest. We aren't in a position to really be able to articulate what that is because we aren't far enough down the path. I said on the last call, it would be our objective to be able to lay that out in a great amount of detail by the end of the year. I think we're on a good path to be able to do that.

Felicia Hendrix: Great, thank you so much. I'll look forward to that.

Operator: And our next question in the queue comes from the line of Shaun Kelley with Bank of America.

Shaun Kelley: Kevin, I think in one of the previous answers you gave you mentioned you weren't yet prepared to bump up the fee guidance range. As we looked at it, 17 percent or so growth year on year on the management franchise fees is one of the bigger surprises to us in the quarter. Was wondering, could you give us just like a little bit more of a sense of where you are in terms of raising the royalty rates, and how that lapsed versus last year? Because I think that that was one of the big growth drivers that we saw in this quarter?

Kevin Jacobs: Yes, it wasn't as much, but raising the royalty rates we're on track. Every new deal we rollover, the new deals we rolled over in the first quarter, we're at a full point higher than they were before. The big reason you're seeing a difference between the 17 percent we showed and we achieved in the first Quarter and the full year, is we had some non-comp affiliate fees that were higher in the first quarter that didn't exist – or that were lower in the first quarter of last year. Then, we had some timing of some change-of-ownership fees that were expected in the second quarter and the deals happened more quickly and they ended up in the first quarter. The difference is a little bit of non-comp fees and a little bit of timing, which bridges you between the two.

Chris Nassetta: I any Kevin is right. We would hope to be at the higher end of that guidance. That's certainly from standpoint of how we're driving the business. In the first quarter and how we feel ability where RevPARs are going, we would like to be at the better end of that.

Shaun Kelley: Sure, that it makes sense. Second question, is just big picture, Chris. Give us just your thoughts about not specific value opportunities but more just broadly about asset sales and the right time in the cycle to sell? We do see a lot more private-equity hotel activity starting to pick up, and it does seem like a number of your assets might be attractive to that type of buyer as we move through the cycle here.

Chris Nassetta: That's a really good question and a topic we address a lot both on calls and in meetings. I think we've been pretty consistent, so we'll try and remain consistent, which is we think in terms of the assets that we own, there is tremendous potential in those assets. We are, in our view, as described by

being mid cycle and what's going on with the group and these hotels are largely driven by that. We think there is tremendous operating upside in the bulk of these assets. We, also, as I think we've proven with Hawaii and now New York Hilton and we talked about what's coming on the Waldorf and there are other things we're working on, we think there's tremendous value enhancement opportunity. We're very focused on that.

To the extent – when we think about whether we should be more asset light? Whether we should hold these? Again, we think there's, from a growth point of view, a lot of reasons to have these assets and benefit from that growth. I've said, I think many, many times, having said that and all those opportunities, we're not in love with having to own real estate. We're in love and committed to creating shareholder value. Creating shareholder value as it relates to our assets, particularly the big ones that really drive the value, is about the after-tax benefits to all of our shareholders.

When we think about the real estate and doing individual asset sales, at least on much of the major real estate, it doesn't make as much sense as potentially looking, over time, at the real estate as part of more of a structured transaction or a series of structured transactions. Then, it's a little bit different equation, obviously, than what the market is and PE firms buying. It really becomes more an equation on where our relative valuations and multiples of op cos and prop cos. When we look at that today, and we're happy to get any feedback anybody wants to give, when we look at that today we don't see a meaningful arbitrage that says that op co that incents you, on the behalf of the whole shareholder base, to want to do something, because we don't think there's a value play.

If we thought there was, or when and if there is, we won't be shy about it. The idea of doing large-scale, individual asset sales, I'm not going to say we would do none. We are always exploring, and there may be, on a very limited basis, an opportunity to do something of that. Any kind of large scale movement in the real estate, really wants to be done in a efficient, structured context.

Shaun Kelley: Thanks, I think that's really clear. Appreciate that.

Operator: And our next question in the queue comes from the line of Joe Greff with JPMorgan.

Joe Greff: Most of my questions have been answered. Your development pipeline continues to grow, nice sequential growth since that you reported last in February. Are you getting more requests from developers on capital from Hilton to contribute to new deals, or has it been relatively steady?

Chris Nassetta: I'd say it's been relatively steady. I was, in fact, looking at the numbers a couple weeks ago with our development teams, because we're altogether. If you look at the deals we're doing by number, that are in the pipeline, it's less than 5 percent of the overall deals that have any contribution from us. When you look at it statistically, which is the best way to answer this, that has been pretty consistent over the last three or four years. Statistically, no. In terms of anecdotally, when we sit around the table approving every deal we do, which we do, around this very table we're sitting at, no, it feels about the same. It's very rare that we are contributing. Obviously, 95 percent plus of the time we are contributing no capital, and it feels about the same as it has.

Joe Greff: Great, thank you guys.

Operator: And our next question in the queue comes from the line of Patrick Scholes of SunTrust.

Patrick Scholes: My questions have been asked thank you.

Operator: And our next question in the queue comes from the line of Thomas Allen with Morgan Stanley.

Thomas Allen: There was concern heading into the quarter around your New York exposure. Can you just give us what your out-sized geographic EBITDA exposure is by city, so like New York, Hawaii? I know you have big exposure and a lot of

people want to focus on DC and any other markets you can call out? Thanks.

Chris Nassetta: I could do it at a high-level summary. In New York, our existing supply is about consistent with what we have across the U.S., so we're not really over indexed. We have 10.5 percent 11 percent of the U.S. market, and we're about 10 percent to 11 percent of New York. In terms of EBITDA, it's roughly about, with the owned assets there, really driving it at about 8 percent of EBITDA. Hawaii, almost an identical, coincidentally, identical story.

We are in Hawaii about at the market for what we have across the U.S., 10 percent to 11 percent in U.S. share, 10 percent to 11 percent of the Hawaiian market. It is also about, given we have two large assets, about 8 percent of EBITDA. In DC we over indexed, in terms of what our level of supply is, so we are about 15 percent, if you look at DC and I'm giving DC everything, Maryland, Virginia, and DC, sort of the broader radius around DC. It only is about 2.7 percent, so that's less than 3 percent of EBITDA. That is, obviously, in part driven by we don't have any major real estate. It is predominantly, in DC, a management franchise-fee business.

Thomas Allen: That's helpful, thank you. If I heard this correctly, it sounds like you're expecting to get about \$600 a square foot for your New York Hilton retail that you're repositioning? Are there opportunities (inaudible), is that right or no?

Chris Nassetta: Yes, that's in the directionally right.

Thomas Allen: I mean, that's a very high number. Are there other properties that you think you could do that high a rent? Can you just talk about the retail opportunity in general? Thanks.

Chris Nassetta: That's pretty unique. There's probably one other that is reasonably unique in that same city, that we talked about earlier, if not before. The Waldorf, while we have retail at the Waldorf, I would say to you, clearly, one of the opportunities – and I don't want to go – obviously, we're not ready to display the whole thing. Clearly, I can say one of the opportunities of the Waldorf is not only to do the retail more intelligently but more of it. If you just take a

gander and walk the full-city block that we own on Park Avenue and sort of take it in and think about retail, I think you would very quickly conclude they are big retail opportunities there. We, as part of the overall Waldorf plan, are very, very focused on enhancing the whole retail platform.

Thomas Allen: I hear you, thank you.

Operator: And our next question in the queue comes from the line of Jeff Donnelly with Wells Fargo.

Jeff Donnelly: First question, actually this is for you, Kevin. I might have missed it, but what's the implicit adjusted EBITDA margin growth for your full-year 2014 guidance? Is it about 250 basis points for the Company?

Kevin Jacobs: It is about, sorry, I don't have –

Chris Nassetta: 150 to 200.

Jeff Donnelly: Chris, just back on time share. Stepping back, can you talk about what the consumer appetite is for time share today compared to the prior peak? Some, I'll call them discretionary products are just a shadow of their former selves and others have been fairly robust. I'd be interested hearing how you think it's doing versus that prior peak level? What's changed in the industry since the 2000s in terms of whose buying or where that demand is coming from?

Chris Nassetta: I think the story is very simple. Consumers may not want a lot of other products, but they want time share more than they did at the prior peak. If you look at the best indication that is where our sales are versus prior peak and where it is versus our competition for that matter, but we see increasing velocity of demand in time share. The product really resonates with the customer. Thus, the strength of the results that you see. It's certainly not seeing any waning appetite, to the contrary increasing appetite for the product.

Jeff Donnelly: Great, thanks.

Operator: We have no further questions at this time. I'll turn the call over to the presenters.

Chris Nassetta: Thanks, everybody. We appreciate the time today. We're obviously quite pleased with the first quarter. As we've said many times, both focused on the rest of the year and the coming years as well as very optimistic about what the rest offer this year and the next few years are going to be like. We look forward to catching up with everybody after our second quarter. Thanks and have a great weekend.

Operator: This concludes today's conference call. You may now disconnect.

END