Hilton Worldwide
Second Quarter 2014 Earnings
August 1, 2014

Operator: Good morning and welcome to Hilton Worldwide Holding's Second Quarter 2014 Earnings Conference Call and Webcast. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session and instructions will follow at that time. If anyone should require operator assistance during the conference, please press star, then the zero, on your touch-tone 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, Sally. Welcome to the Hilton Worldwide Second Quarter 2014 Earnings Call.

Before we begin, we'd 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 website at www.hiltonworldwide.com.

This morning, Chris Nassetta, our President and Chief Executive Officer, will provide an overview of our second quarter results and will describe the current operating environment as well as the Company's outlook for 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 am pleased to turn the call over to Chris.

Chris Nassetta: Thanks Chris and good morning everyone and thanks for joining us today. We're pleased to report another quarter of great results highlighted by strong top line revenue growth, fee growth and Ownership segment performance which led to results at the top end of our guidance range. We continue to feel very good about the macro set up for the remainder of the year and as result we have raised our full year Adjusted EBITDA and EPS guidance.

In the second quarter we exceeded the high end of our guidance on system-wide comp RevPAR growth, up 6.7% on a currency neutral basis. Growth was driven by a 4% increase in average rate and a 2 percentage point increase in occupancy to 78%.

Strong growth in transient demand combined with continued Group performance delivered solid RevPAR growth for the quarter. Transient revenue grew over 7% system-wide. In the US we saw particular strength with rack RevPAR in the quarter up 14%. Government business also stabilized up over 3% year-over-year in the US after five consecutive quarters of declines. Group revenue in the quarter was in line with expectations, up 5% system-wide in the Americas and we continue to expect pick up in the back half of the year based on strong Group revenue position at both our Big 8 and the larger set of US managed hotels. Our Group revenue position for both the third and fourth quarter is up in the mid to high single digits. In Europe, strong Group performance in the UK, Italy and Portugal continue to drive positive momentum. As we look to the first half of 2015, we're seeing a similarly positive story with Group revenue position up 8% across all US full service and luxury properties.

Ancillary revenue growth continued as expected in the quarter with F&B at our owned and managed hotels on track to grow at roughly the same rate as RevPAR for the full year. We saw continued growth in Group spend with ancillary revenues per Group room up 14% in the quarter for the Big 8 and over 12% across all of our owned hotels in the Americas.

Our Adjusted EBITDA for the quarter was 651 million, an increase of over 10% from the second quarter of 2013, and at the upper end of our guidance range. Adjusted EBITDA margins increased 110 basis points versus the second quarter of 2013.

Now turning to Development highlights, we maintained our number one ranking in key categories according the Smith Travel Research, including rooms under construction in every major region of the world, pipeline size and system-wide rooms. We continue to have great success in growing our system off the largest base of rooms in the industry. In the quarter we opened 56 hotels and over 8000 rooms and 107 hotels and 17,000 rooms through Q2. As of quarter end, we had 694,000 rooms operating globally and with the opening of the Hilton Garden Inn Astana in Kazakhstan we've increased our global presence to 93 countries and territories.

In terms of rooms under construction, we had 542 hotels and 106,000 rooms at quarter end that will soon be added to our system, all of which are in our capital light management and franchise segment. This gives us an 18% share of all rooms under construction globally or approximately four times our share of existing supply.

Our industry-leading pipeline continues to grow, increasing by 18% over the 12 months ended June 30, now with 1230 hotels and approximately 210,000 rooms in 75 countries and territories. For comparability including all deals approved but not signed, our pipeline would have been over 230,000 rooms. In the second quarter we approved 135 hotels with over 21,000 rooms for development.

In what we believe will add significantly to our growth over time, we recently launched our newest brand, Curio - A Collection by Hilton. We believe that Curio will further enhance our ability to serve existing customers and attract new ones through a collection of unique 4- to 5-star hotels. For owners, affiliation with our commercial engine should drive significant market share premiums and distribution cost efficiencies. For Hilton, we see a market opportunity of over 1200 hotels globally and expect eventually to have hundreds of Curios in the portfolio. We expect our first Curio to open this fall.

The developer response to Curio has been extraordinary. We've already reached agreements on nine properties comprising more than 4100 rooms including the SOS Las Vegas Hotel and Casino and a project in Doha, Qatar and we have more than 75 Curios globally in various stages of discussion.

Clearly Curio, our 11th brand, is off to a strong start and we're still on track to launch our 12th brand in a space we call accessible lifestyle by the end of the year. Owner interest continues to be very strong with this new brand as well.

These new brands will add further momentum to the opening of fee-paying rooms. We increased our system size in the quarter by over 7000 net rooms or over 15,000 net rooms in the first half of the year, all with de minimis amounts of capital investment by us and without any acquisitions.

Brand strength is the key driver our asset-light strategy and we continue to believe we have the strongest brand portfolio in the industry, and our portfolio is getting even stronger as we grew our global RevPAR index 100 basis points year-over-year for the quarter, 70% of which was driven from rate. In fact, every one of our brands grew their global RevPAR index this quarter.

Our leading brand strength is also evident in the annual JD Power 2014 North America Hotel Guest Satisfaction Index Study where Homewood and Hilton Garden Inn brands placed first in their segments, their 11th and 10th wins, respectively. Our brands have earned 34 first place awards since 1999, significantly more than any multibrand lodging company.

Additionally, in the 2014 Customer Service Hall of Fame survey sponsored by USA Today, Hilton Worldwide was voted the top rated hotel company in the United States for customer service, and the number two company in customer service across all industries surveyed.

Technology is of course a key enabler of superior guest experiences and our guests' expectations have been evolving very quickly in this area. Earlier this week we introduced a significant technological milestone for the Company, one that is representative of our depth, talent and agility. For the first time in the industry, our guests can check in using their Hilton Honors account on a mobile device, tablet or computer and choose their exact room from digital floor plans before arriving at their hotel. Guests will also be able to customize their stay by purchasing upgrades, by making special requests for items to be delivered to their room, and even by checking out of the hotel, all using their personal technology devices. These capabilities will be available at US-based Hilton Worldwide properties across six of our brands by the end of this summer, and by the end of 2014 guests at more than 4000 properties in 80 plus countries can experience this new technology. Based on data and feedback from our customers, we know that they want this level of control over their travel experiences. Moving forward, we will give guests even more choice and control with the ability to use their smartphones as a room key. We've spent the last few years testing and developing proprietary technology and we're pleased to announce that by the end of 2015 all US hotels across four brands will have this capability with the entire global portfolio of brands following soon thereafter. We believe this will revolutionize the hotel experience for our guests and will deliver significant return on investment for our owners as we execute this initiative at scale.

Now let me update you on the outlook for the remainder of 2014. As we look at the macro economic picture and outlook for lodging performance around the world, we see very favorable conditions in the majority of our markets with uncertainty in some regions only moderately weighing on overall results. In the US, we continue to expect moderate GDP growth coupled with historically low levels of supply to continue to drive very strong fundamentals. Given such favorable backdrop, we're maintaining our high single-digit RevPAR growth expectations for 2014.

For the Americas region outside the US, we expect continued growth in Mexico and South America to support high single-digit RevPAR increases for the full year 2014.

Europe continues to benefit from strong Group performance and steady transient gains, particularly as rebounding fundamentals in the southern region and easy year-over-year comparisons in Turkey offset softness in France. While we continue to monitor the ongoing uncertainty in Eastern Europe, our relatively limited exposure to the region should mitigate near-term risk. We remain confident in our mid single-digit European RevPAR growth expectations for the full year 2014.

Moving on to the Middle East/Africa region, we expect geopolitical tensions to continue to weigh on travel demand. Our outlook largely assumes a steady state and we anticipate flat RevPAR in the region for 2014 as a positive booking pace and easy comparisons in Egypt somewhat mitigate challenges elsewhere in the region.

Lastly, Asia Pacific continues to benefit from the strength in Japan and China. With second quarter GDP growth in China of 7.5% coming in modestly above expectations, and stimulus measures supporting Beijing's commitment to growth within this range, we're confident that solid performance will continue to offset challenges, such as weakness in Thailand, leading to mid single-digit RevPAR growth for the overall region.

Given strength in the Americas and APAC and the continued rebound in Europe, we remain optimistic heading into the back half of the year. We're confident that our award-winning brand and industry-leading commercial services platform will enable our global portfolio to deliver RevPAR in the 5.5 to 7% range for the full year. Furthermore, we continue to forecast net unit growth of 5.5 to 6.5% in the Management and Franchise segment, equating to 35,000 to 40,000 rooms.

In light of our positive outlook, we're raising our Adjusted EBITDA to $2.425 billion to $2.475 billion, an increase of $10 million at the midpoint. Our diluted earnings per share guidance for the year increases to a range of $0.67 to $0.70 or an increase of $0.03 a share.

In summary, we had an excellent quarter, posting results at the top end of our guidance range and outperforming our primary competitors on the top line, margins, bottom line and capital-light net unit growth. We also continue to deploy free cash flow to prepay debt and build equity value with total prepayments of $600 million year-to-date. We feel great about the fundamentals of the business and our positioning for the remainder of this year and for next year.

Now, let me turn the call over to Kevin who will discuss the quarter's financial performance in a bit more detail.

Kevin Jacobs: Thanks Chris and good morning everyone. As Chris mentioned we are very pleased with our results for the second quarter which came in at the high end of our expectations. For the second quarter 2014 diluted earnings per share totaled $0.21, ahead of our guidance of $0.18 to $0.20. Total management and franchise fees were $371 million in the second quarter, an increase of 14% over the second quarter of 2013, driven by both new unit and top line growth. Franchise fees continued to perform strongly, up 15% in the quarter. Given the strength to date and our expectations for the remainder of the year, we are increasing our comparable management and franchise fees growth estimates by 100 basis points to 11 to 13%.

In our Ownership segment, Adjusted EBITDA for the second quarter of $291 million was 8% higher year-over-year, adjusted for a non-comp increase in affiliate fees. This performance was driven by US RevPAR growth for the segment of 6.4% and strong operating margin growth at owned hotels globally which grew nearly 150 basis points excluding non-comp affiliate fees.

Our Timeshare segment continues its transition to a more capital-light business with third-party developed intervals comprising 57% of sales in the quarter and representing about 82% of our total supply at quarter end. Second quarter Adjusted EBITDA of $69 million was 15% better than prior year, driven by favorable transient rental and club revenue in margin growth, higher sales and marketing and G&A contribution and higher owned and fee-for-service sales.

Corporate expense and other was $80 million in the second quarter compared to $67 million in the prior year. The majority of this increase in net expense relates to incremental public company costs including stock compensation expense, which as we discussed last quarter are not evenly distributed throughout the year. We continue to expect growth for the segment of 3 to 5% for the full year.

In terms of our regional performance, strong performance in the Americas was slightly muted by weakness in Egypt, Saudi Arabia, Singapore and Thailand. In the US continued economic strength drove comparable RevPAR growth of 7.3% with rate accounting for nearly two-thirds of the increase. We saw this strong growth despite the Easter shift which negatively affected growth by more than a point.

US-focused service brands were particularly strong with 7.9% RevPAR growth in the quarter, up from 6.7% in Q1. We attribute these solid US results to continued strong fundamentals and robust demand, particularly in California and the Pacific Northwest where we saw RevPAR increases of over 10%. Additionally, Florida benefitted from both strong transient and group demand which drove RevPAR gains of nearly 12%, and Boston performed well, especially over Marathon Weekend in April.

US owned hotels grew RevPAR 6.4%, boosted by strong performance in San Francisco and Hawaii. Conversely, our owned hotels in Chicago and New Orleans were adversely affected by softer group volumes given fewer city-wides in those markets.

Our hotels in the Americas outside the US posted a very strong quarter with comparable year-over-year RevPAR up over 8%. Results were driven by strength in Mexico and Brazil.

In Asia Pacific, RevPAR increased nearly 5% driven almost equally by occupancy and rate gains. Similar to Q1, results were boosted by a strong performance in our hotels in Japan and Korea where comp owned and operated RevPAR increased over 16%. Greater China grew RevPAR over 7%, due in part to solid performance in Hong Kong. APAC results were tempered however by softness in Thailand and Singapore.

In Europe, RevPAR increased 4.4%, primarily due to increased occupancy. With the exception of strong performance at certain group hotels in the UK, northern countries remained challenged throughout the quarter and France continued to struggle. However, rebounding fundamentals in the southern and Mediterranean hotels largely offset these challenges. Athens, for instance, was up more than 18%. Portugal increased RevPAR an impressive 57% as its corporate meeting business saw robust growth.

Additionally, we improved our RevPAR index by 170 basis points in Europe versus the second quarter of 2013.

Finally, in the Middle East and Africa, RevPAR declined 3.4% for the quarter as political strains, visa restrictions in Saudi Arabia and a resurgence of the MERS virus fear—of MERS virus fears continued to negatively affect travel demand.

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 prepay debt and in turn build equity value for our shareholders. In the quarter, we made voluntary prepayments of $250 million on our term loan with an additional payment of $150 million in July, which brought our total debt prepayments to $600 million year-to-date.

As a result of continued strong performance, we are increasing our expected debt prepayment range by $100 million to $800 million to $1 billion for the year.

We also priced a second timeshare ABS transaction during the quarter with the majority of the proceeds being used to repay our Timeshare warehouse facility. We believe that the market reacted very well to the offering which was significantly upsized to $350 million and priced at an all-in fixed rate of 1.81%. In fact, the transaction price had the tightest weighted average pricing spread and the highest advance rate of any timeshare offering done since the financial crisis, which we think is another strong endorsement of the quality of our timeshare customer and platform.

We ended the quarter with cash and cash equivalents of $829 million, including $284 million of restricted cash, and had no borrowings outstanding under our $1 billion revolving credit facility.

We also executed a successful secondary equity offering of 103.5 million shares during the quarter, generating a total of more than $2.3 billion of gross proceeds for Blackstone. For Hilton, the offering had the dual benefit of diversifying our shareholder base and increasing our float, which roughly doubled as a result of the offering.

Finally, let's turn to our outlook for 2014. For the full year, as Chris mentioned, we are maintaining our system-wide RevPAR guidance of between 5.5% and 7% on a comparable currency neutral basis. Ownership segment RevPAR is expected to increase between 4.5 and 6.5% on the same basis.

We are increasing our guidance for full year Adjusted EBITDA and diluted EPS, expecting a range of between $2.425 billion and $2.475 billion, and EPS adjusted for special items of between $0.67 and $0.70 for the full year.

As noted, we expect management franchise fees to increase between 11 and 13%.

We are maintaining our full year Timeshare segment Adjusted EBITDA guidance of $315 million to $330 million, and cap ex spending excluding timeshare inventory will total approximately $350 million, including about $250 million to $260 million in hotel cap ex which represents roughly 6% of Ownership revenue.

For the third quarter of 2014, we expect system-wide RevPAR to increase between 5.5 and 7% on a comparable currency neutral basis. We expect third quarter Adjusted EBITDA of between $610 million and $630 million, and diluted EPS of $0.15 to $0.17.

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

This completes our prepared remarks and we're now interested in answering any questions you may have. So that we may speak to as many of you as possible, we ask that you limit yourself to one question and one follow up.

Sally, could we have our first question please?

Operator: Thank you. If you would like to ask a question, please press star, then the number one, on your telephone keypad.

Your first question comes from the line of Shaun Kelley with Bank of America. Your line is open.

Shaun Kelley: Hi. Good morning everyone.

Chris Nassetta: Morning, Sean.

Shaun Kelley: I just wanted—Chris or Kevin, I just wanted to ask about the outlook for the back half here. So when we look at your 5.5 to 7, that's actually below what we're seeing for some of the peers out there and so I just wanted a little bit of color since you did come end at the high end of everyone, I think, across the global hotel peer set for the C corps for the second quarter. Just what are you guys seeing in that? Is that, you know, brand mix and group in terms of the outlook, or do you think that's just overall conservatism?

Chris Nassetta: No, I think—Sean, good question. I mean if you look at our guidance for the full year, I believe we're at the midpoint, the highest in the industry, which we think is reflective of our performance which, if you look at the last couple quarters and including second quarter numbers we just gave you, are beating the competition. So I think we feel really good about the second half of the year. Transient business, as we discussed, in Q2 was great. We see no reason why it's not going to continue. I described sort of the Group position in both the big hotels and the broader group of managed hotels in the back half, both third and fourth quarter being strong. So we feel good about the second half of the year performance and obviously with our midpoint the highest in the industry we feel good about that and obviously our objective is trying to—would be to try and outperform that and try and perform at the higher levels of what we've given you.

Shaun Kelley: Great. Thank you very much.

Operator: Your next question comes from the line of Joe Greff with JP Morgan. Your line is open.

Joe Greff: Good morning guys.

Chris Nassetta: Morning, Joe.

Joe Greff: Chris, you had mentioned that the pipeline increased 18% year-over-year and we actually saw a nice sequential growth 2Q and versus

1Q. Can you talk at a high level view what brands or geographies you're seeing incremental interest in and that represents that year-over-year or sequential change? Then on the topic of—my second question, my follow up is on the topic of net rooms growth which you guys outpaced both your larger cap lodging (inaudible) peers on, when you think about next year and you're thinking about the pipeline build—I'm not sure if you want to get into sort of a guidancy-related question for 2015—but directionally it would be intuitive that your net rooms growth or your net room addition would accelerate, and I guess how are you just broadly thinking about that at this point as well? Thank you.

Chris Nassetta: Yes. I'm happy to handle both. In terms of pipeline and where we're seeing the growth, I think it's generally across the globe. You know we continue to have good—to see great progress in all the major regions around the world. The US has picked up probably as a percentage manner a little bit more than the rest of the world for us. You know that's because the US story right now is almost entirely a limited service story. We think we have the best limited service brands in the business so we're getting far more than our fair share. I mean we're getting 20 plus percent of the deals and we're 10% of the market, so—in terms of rooms under construction. So the US has picked up a little bit more but we've talked about it many times. The strategy is really with this great geographic distribution that we have and this great chain scale distribution that we have is to really be strategic about how we deploy brands around the world, the right brand at the right time based on conditions in the market and customer demands. So we are continuing to see broad pick up across the world in all the major regions. As I said, a little bit heavier percentage-wise in the US.

I think you're right in that I don't want to get into giving guidance for 2015 while I'm sitting here in the middle of this year, having just reported the second quarter, but I think your assumption's right, Joe, and that is to say we're having great success converting a pipeline into rooms under construction. We have more rooms under construction than anybody in the business and in every major region of the world, which I mentioned in my comments. Those rooms once they're under construction, obviously we'll—highly likely to deliver. It's very unusual once under construction that they would not deliver. So I think we still believe that last year was really the nadir. We had a big pick up from last year to this year, you know, sort of mid 4s to 6% or at the midpoint of our range in terms of net unit growth, and while I don't have the exact number because this year is still playing out in terms of rooms we'll get under construction, it is certainly our belief that that will continue to accelerate.

Joe Greff: Thank you very much.

Chris Nassetta: Yes.

Operator: Your next question comes from the line of Carlo Santarelli with Deutsche Bank. Your line is open.

Carlo Santarelli: Thank you and good morning. Just if I could ask a question on the Owned Hotel segment. Obviously you guys will start to lap some easier occupancy and you've already been seeing rate contributing north of 60% of the RevPAR growth in that segment. Obviously some margins pick up a little bit within the segment this quarter, but how do you guys foresee the cadence for the back half of the year of margin acceleration within that segment specifically?

Chris Nassetta: Well, I think if you look at the guidance for the full year which I think is as good as anything out there, we're at 150 basis points. We had a very strong margin growth in the first quarter because we were lapping some easier comps but also we still had some of our ops effectiveness things rolling out. In this quarter we were sort of on the higher end of the target of the range for the year. So by definition, you know, we're going to see margin growth more in line with the overall expectations for the year through the rest of the year. That's not because anything's going wrong. We're—it's just the comps get harder as it relates to certain initiatives that we had going on in the hotels. So, you know, in the last couple of years we've had outsized margin growth because we had some opportunities to do things quite efficiently that built a much stronger base to leverage off of in terms of our cost structure and now we are getting very healthy margin growth, I think industry-leading margin growth, but will temper into that, this year into that 100 to 150 basis point range.

We feel very good about what's going on in the cost side and the margin side, as well as overall performance on the top line for the rest of the year. The big hotels will have an uptick from the second quarter in the second half of the year driven by group position, which is quite strong as I said. In the big hotels, group position in this third and fourth quarter is in the high single digits, low double digits.

Carlo Santarelli: Great. Thank you, Chris. Then if I could just ask one follow up, as you guys obviously think about your balance sheet and positioning of your balance sheet and think about the cash flow obviously that you'll be generating for debt paydown and obviously assuming an EBITDA growth next year on top of this year's guidance, it looks as if you'll be somewhere in the mid to low 3 times leverage range by year end next year. So I guess the more or less is how do you think about your capital return strategy at that point in time? I know investment grade is the primary focus but where do you feel you need to be to be comfortable there before you start kind of pursuing other measures of capital returns.

Chris Nassetta: Yes, great question. I think your math is directionally right. We're going to end this year, based on the guidance we've given you, in the low 4s. If you fast forward and make some assumptions, we're in the zone of being 3 to 4 which is our target. Our target is to get to a range where we can be a low grade investment grade rating and we do believe it's in that range. Obviously the rating agencies will have a lot to say about that, but that's based on a lot of work that we did as part of getting our initial ratings. Once we get to that sort of level of lower grade investment grade, our belief remains that we're not in the business of hoarding capital. We are perfectly comfortable at that level of leverage that we—or we have a balance sheet that is bulletproof and can deal with anything that might come at us, and so we would be very much looking at that point to take our free cash flow and give it back to shareholders. And the way we would do that I would say is first we would probably make sure that we can appeal to yield masters to have some dividends that it would likely synch up with where our competitive set is, and then whatever remaining cash flow was available after that, it would be very simple; we would give it back to shareholders in the way we think that they want it back and that would either be through buybacks or dividends and I think we would make that judgment based on what our view is at the time that shareholders are looking for. You know, the owners of the Company, if we have excess cash flow, we think are entitled to get that cash back the way that they want it and as we I think have proven, we are able to perform at the top end of the industry both from a operating point of view but also from a unit growth point of view without the need for a lot of capital, so we don't see that changing. We do think that, you know, once we get through the deleveraging that we'll have a significant amount of free cash flow to be able to return to investors.

Carlo Santarelli: Thanks a lot, Chris.

Chris Nassetta: Yes.

Operator: Your next question comes from the line of Harry Curtis with Nomura. Your line is open.

Harry Curtis: Thanks and good morning.

Chris Nassetta: Hey Harry.

Harry Curtis: Good morning. I have a broader question then a more narrow question. The broader one is that you, Chris, you've seen a number of lodging cycles and as you look into 2015, what if anything versus say 2013 and into the first half of 2014, what if anything has changed that you note that will continue to drive occupancy pricing margins forward? Are you more encouraged by any one or two factors?

Chris Nassetta: I think, Harry, that the answer would be exactly what you and most everybody on the phone would expect. I think we're getting—I do believe we're sort of right at the mid-cycle. We have very strong real-time indications that the things that you would typically experience at this part of the cycle are occurring. You're getting back to very high occupancy levels. You have an ability because of the return of group business to really start to get more aggressive on your mix of business and because of the overall strength in the transient business and return of group business you're able to move rates up in an absolute sense. So I think 2015 is going to be another very, very good year, simply because you've got a lot more business coming in the funnel to manage. You're going to get—we're going to be able to be much more aggressive on mix. We're going to be able to be more aggressive on moving rates up and all of that's going to be good for top line and all of that should flow through to the bottom line, should create a higher flow through situation.

So we're sitting here as we look to the rest of the year, of course as I already described, feeling quite good and it's too early to give guidance so I'm not going to do that. But the set up for next year feels terrific, really, really strong.

Harry Curtis: Okay, very good. Then my follow up question was on the Hilton brand, which from a top line perspective did lag the other brands and just though it'd be useful to have you discuss what the factors may be behind that and is that an opportunity for you?

Chris Nassetta: I don't—I mean having looked at it pretty carefully, I think the simple answer is just geography, specific geography of the brand. You can take out—you know, if we play around with it and take and sort of adjust for a few geographies and it's right in line with everybody else. So we don't believe there's any issue with it. I think you'll see as those geographies sort of stabilize you'll see the Hilton brand back where it should be.

Kevin Jacobs: Yes, Harry. The system-wide stats are revenue weighted, right? So the bigger hotels in a couple of the markets as I mentioned in my comments that had just softer city-wide, those drive more because they're bigger revenue hotels.

Chris Nassetta: You know, Chicago, New Orleans in the quarter, you know, those have a huge impact just because they're really big hotels.

Kevin Jacobs: Then we've got some big—we have some big hotels with a fair amount of revenue in the Middle East as well.

Chris Nassetta: Yes, Egypt, Saudi Arabia.

Kevin Jacobs: And that's all historically because of the way the business grew in those parts of the world more Hilton.

Harry Curtis: Great, that does it for me. Thanks guys.

Chris Nassetta: Okay. Thanks, Harry.

Operator: Your next question comes from the line of Steven Kent with Goldman Sachs. Your line is open.

Steven Kent: Hi. Good morning.

Chris Nassetta: Good morning.

Steven Kent: Could you just talk a little bit about your real estate value maximization programs or some of the ideas you've talked about in the past? Hilton New York in particular and the Waldorf. I know Hilton New York you've made quite a bit of progress. Any commentary on Waldorf or any of the others?

Chris Nassetta: Yes, we're making good progress in the things that we've talked with you guys about in the last couple of quarters. So we broke ground, or I should say our partner Blackstone broke ground at the Hilton Hawaiian Village to start our newest timeshare tower. We're in registration. We believe that we'll be actually selling units by the end of the year, so we're off and running and everything is progressing as planned. At the Hilton New York, terrific progress on the design work for the retail platform. I think we're in good shape to get that under construction early next year and get that in process and delivering EBITDA in the year next year because it can be done relatively quickly.

On the timeshare at the New York Hilton again, quite good progress. We're in for registration at the moment and believe we will obtain that registration by year end.

We haven't talked about it but we are way down the road on a process of getting incremental entitlement at the Hilton Waikoloa Village to do incremental timeshare in one or more of the towers. We do believe that long-term maximization of that asset, given it's a very large hotel in a market that does not have enough airlift for a very large hotel, is to convert one or more towers over time to timeshare. We had to go through an entitlement process. We're largely done with that and the reason we have not talked much about it is simply because we have other inventory that we're selling in that market so it's not going to occur—in terms of getting into the conversion and sale, it will not occur in the short term because it doesn't make sense at this exact moment, but over the intermediate term, over the next couple of years we will move forward with that and we do believe there's a very significant value arbitrage on that.

Then on the Waldorf, of course the big one, there's nothing new to report. We are making really good progress as we talked about last time. We have very good understanding of what the various uses to maximize the opportunity are. We have a very good understanding of the tax structuring opportunities to make sure that whatever we're doing is maximizing the sort of after-tax value accretion benefits to shareholders, and we are now out officially sort of in a process trying to find a counterparty to make this all happen. It is still our objective that, as I said on the last couple of calls, to be able to lay that all out in detail by the end of the year, and we're making good progress against that.

Steven Kent: Great. Thanks for the detail.

Chris Nassetta: Yes.

Operator: Your next question comes from the line of Felicia Hendrix with Barclays. Your line is open.

Felicia Hendrix: Hi, good morning. Thank you. Chris, unlike your closest peers you were able to grow RevPAR sequentially in the quarter. I'm just wondering, do you attribute that more to—I mean you talked about a lot of the highlights behind how—your quarter, but I mean do you think that that is attributable more to geographic mix or RevPAR index gains?

Chris Nassetta: I think it's more to do with RevPAR index gains. We had gains, as I said, over 100 bps for the whole system. Every single brand gained share. We have a bunch of different initiatives going on on the revenue management side that have been very helpful, particularly in the limited service space where we've been deploying a whole new revenue management technology base. So I do believe it has almost everything to do. I mean let me put it this way. If you compare our RevPAR against one of our primary competitors, we overlap pretty much perfectly and our performance was significantly better than theirs. So I think it is not—that in and of itself I think suggests it has a lot more to do with market share gains than in things that we were doing versus a geography.

We are very much of the belief, and I haven't been shy about saying it, that we have something reasonably unique which is we have very large scale, very large geographic diversification, very significant chain scale diversification and if you have great brand strategies, you connect those dots with great commercial strategies, we believe that it is a very powerful thing in terms of driving customer loyalty because we can serve all of customers' needs no matter they are wherever they want to be in the world and they are able to stay loyal to us. Now obviously you've got to have good brand, you've got to have good strategies on the revenue side, but the make-up of what we have properly managed I think really does allow us to drive great results. Hopefully job, and we plan to, to continue to drive increasing market share premiums.

By the way, those market share premiums then are the reasons why we can drive these huge pipeline numbers and rooms under construction and that unit growth because in the end it's all third-party capital. We're not buying rooms. We're not investing any major money. It's third-party money that's investing with us and they're investing with us because they're looking at these market share premiums I'm describing and they're making the judgment that they're going to make more money by working with us than their other options.

Felicia Hendrix: That's really helpful, thank you. Then just to talk about your pipeline for a second, in light of your Curio and then the newest accessible lifestyle brand, is there any way to help us think through when we look at your pipeline growth for 2015 how much of a driver those two new brands could be?

Chris Nassetta: Not yet. I mean we tried to give you a sense of what obviously we've done in Curio to date and how many deals we have in motion. Curio is going to take off, you know, I think at a pretty good clip. Our lifestyle brand, the gestation period will be a little longer just because the—it will be a little bit heavier proportion of new build and major renovation versus Curio which is almost immediate conversion opportunity of great independent hotels, so that will take a little bit longer.

What I would be—we're not giving guidance. Obviously we talked about net unit growth. The way I think it all sort of boils down to expectations on how many rooms are we going to deliver on a net basis into they system over time, as I said. We'll give in the next—you know, sometime before the year is out obviously a little bit more visibility into next year when we have it, but I do believe, as I said to I think Joe's question, that last year was the nadir and that net unit growth is going to continue to pick up. Part of that pick up is going to be contributions from Curio and our lifestyle brand.

Felicia Hendrix: Okay. Perfect, thank you.

Chris Nassetta: Okay.

Operator: Your next question comes from the line of David Loeb with Baird. Your line is open.

David Loeb: Hi. Chris, first, thanks for that very clear explanation of capital allocation strategy. That's helpful. To follow up on Curio and the lifestyle brand, can you talk a little bit about your willingness to commit capital and how much capital you think you might need in order to jump start those two brands?

Chris Nassetta: I think the answer is very simple, David, and a good question. Limited, de minimis amounts of capital. We don't view those brands as any different than any of the others in the sense that we will occasionally, you know, on a strategic deal make a minor contribution, most typically, almost exclusively in the form of key money. We would look at those two brands, particularly as they get started, in that same way but I think when you look at the aggregate of what that means, it's a de minimis amount of capital. If you look at our entire pipeline, less than 5% by number of deals have had any contribution of key money. So that means more than 95% of the number of deals that we're doing are what we would call dry deals where there's no investment from us.

We think of these two brands as sort of a similar phenomena. We believe with the strength that I described of the overall system and our commercial engines that we have a lot to offer to owners and that we should not have to deploy our balance sheet to make these things happen in any material way.

David Loeb: So just to follow up on that, would you consider lower franchise fees as an incentive for Curio in particular? Have you done some of that already?

Chris Nassetta: Well, I think all of us in the business on strategic deals will look at ramp ups on franchise fees and things, and so yes, we would look at those, particularly as new brands in that same way. But, you know, that's pretty typical in the business and that's very short lived generally. I mean it's not long-term discounts. It's basically sort of as hotels are coming into the system giving—new or conversion, giving them a chance to sort of ramp up. So we would consider that in some cases.

Again, we view that as an investment just like key money, so if we're going to discount fees we look at it relative to do we need to do it? Is this a strategic deal? All of the same things we look at when we invest key money. One way or another, that's an investment as well. So on occasion we will do that just as everybody has and just as we've done with other brands.

David Loeb: Great, thank you.

Chris Nassetta: Yes.

Operator: Your next question comes from the line Robin Farley with UBS. Your line is open.

Robin Farley: Great, thanks. I have one question and one follow up. I guess in the cycle, where would you say you start to get interested in monetizing real estate in the form of a potential REIT (inaudible). We're half way through the cycle now or in the second half of the cycle. Is this where you start to think about timing for that?

Then my follow up question was really just clarifying. It sounded like in your opening remarks that maybe there was a slight lowering of guidance in the Asia Pacific region. I think you said in the single digit and that sounded like you were saying that for your full year guidance for Asia Pacific, which is just a tad lower I guess than sort of saying it would be the fastest growing RevPAR globally for you, which would have suggested, you know, kind of 7% or higher. So just wanted to clarify if that's what the kind of subtlety in guidance is? Thanks.

Chris Nassetta: Sure. Both good questions. On the real estate side, I believe it came up on the last call as well. I think the way that we look at that is less to do with exactly where we are in the cycle and more to do with just wanting to make sure whatever we do with the real estate that it's a value creation exercise. As relates to the bulk of our real estate given the tax attributes, the way that we would want to do any transaction is really to do it in a tax efficient way and so thus it would in a structured transaction either for all or large parts of it. And for us to do that, factoring for the cost of doing it and the cost of duplicative G&A and those things, what we really would need to see is some divergence in multiples that would suggest that a bifurcation of the business in that way would create value. The reason we have not been rushing to do it is we have not seen those conditions, and so doing it now we think would be treading water at best, probably going under water slightly because there are costs of doing it, as I say, and costs of duplicative G&A.

So I think what we would be looking for has less to do with exactly where we are in the cycle since we wouldn't really be taking these major assets and selling them outright because the friction in that would be too great. We look at more—or at any point in time wherever we are in the cycle, do relative valuations and multiples suggest that a separation of the business would—that the parts separated would be worth more than the pieces together? And at least the way we look at it today, we just don't see that.

The APAC question is a great question and I apologize; we weren't trying to be subtle. We did probably bring the guidance down just a smidgeon. It had really to do with some of the things Kevin did reference relative to Thailand and Singapore being a little bit lighter. The core areas that drive our Asia Pac business which are Japan and China, we still feel good about. We're going to have a great year in Japan, very high RevPAR growth. In China we still think we're in the 6 to 7 range which is what we thought. But just because of some disruption that you've seen in Thailand and Singapore being a little weaker, it has weighted the full year down a little bit to sort of mid or a little bit better single digits.

Robin Farley: Thank you.

Chris Nassetta: Yes.

Operator: Your next question comes from the line of Jeff Donnelly with Wells Fargo. Your line is open.

Jeff Donnelly: Good morning guys. Chris, back on I think Steve's question about the Waldorf, have you reached a point where you can say it is more or less likely that you'll execute a transaction where you can pull cash out of the Waldorf versus finding a partner to recapitalize the development or redevelopment? And second, can you maybe discuss what your priorities are there? I mean I know you'd like to end up with a flagship hotel on a smaller footprint, but are there other priorities such as cash or a carry the equity interest or even a timeshare venue that you put importance on?

Chris Nassetta: I think the priority—starting maybe with the second and coming back to the first, both good questions. I think the priority for us in the end is to have a fully renovated, repositioned product on the full city block that the—on Park Avenue that the Waldorf Astoria represents, and as part of that a very high quality, five-star minimum—I would say plus or minus 400 room Waldorf Astoria that would be the flagship for the Waldorf Astoria brand. Now, there are a lot of different ways to look at the uses where that hotel could be bigger than that. There are many I think that it could be smaller. A lot of it has to do with, honestly, what various counterparties might want. From our point of view, if we end up with the Waldorf at its size today, we can—obviously that would be very pleasing. We can have a smaller hotel and be quite satisfied with that.

Getting timeshare use into it is an option. It is not necessarily a priority in terms of something that we have to have done.

We would love to get cash out of the Waldorf. I think the more likely efficient way of maximizing the value of the Waldorf is not going to involve getting a lot of cash out. I think it's going to be trying to get a great value for the Waldorf. Get the capital put in by a third party and be in some way either doing it in a joint venture where we continue to have an ownership and maybe a major ownership stake in the hotel, or using in some way the proceeds of that to trade into other real estate on an efficient basis. We have not gotten to the bottom of all of it because we're out in the world of counterparties trying to figure out how third parties are going to look at it, but the reason that it is not highly likely that there's a huge amount of cash to come out of it isn't that there's not a huge amount of value, there is. I'm not going to give it to you because I don't know it yet but it's worth a lot more than what the multiple times the EBIT is. It's that we want to do that on a very tax-efficient basis and I think you as the shareholder base should want us to do that as well because there'd be a lot of friction. The Waldorf was acquired in I think 1949, so you can imagine it does not have a significant amount of basis. The good news is that it has a huge amount of value and there are some very efficient ways in the world of real estate to be able to capture that value and effectively take advantage of that without ultimately having a lot of friction. Exactly how we're going to do that—I'm not being coy—we don't know. We know the various options which prototypically would sort of be either a JV structure or a 10-31 structure. We just have to sort of finish the process on the counterparty side to be able to judge which direction it's going to go.

Jeff Donnelly: Thanks.

Operator: Your next question comes from the line of Smedes Rose with Evercore. Your line is open.

Smedes Rose: Thanks. I just wanted to get back to your Big 8 hotels and could you just maybe remind us kind of where they were in the last peak in terms of the percentage of group mix and where they are now and kind of—I know you don't want to talk about 2015 too much, but I mean is it fair to assume that the group will continue to strengthen there into next year? Is that what you're seeing on pace now? Maybe just a little more color around that?

Kevin Jacobs: Yes, in terms of—Smedes, in terms of where they are versus the last cycle, they're actually about where they were before but that doesn't mean we don't think that we can layer groups in more effectively as group demand strengthens to increase it. So I think we've said publicly in the past that the target there is sort of 40% and they're in the high 30s. So if we are successful, as demand strengthens and the top of the funnels in layering groups into non-peak periods, we ought to be able to continue to drive it a little bit higher.

Chris Nassetta: I think just—and it's implied in what Kevin said, just quality of group. It's also taking groups that are lower rated, lower quality groups and lower—importantly, lower spend groups that were sort of filler in a more challenging group environment and replacing them with higher class quality, higher paying groups that spend more, a lot more ancillary spend. So there's plenty of upside in sort of the transition of group going forward.

Smedes Rose: Great. Okay, thank you.

Operator: Your next question comes from the line of Thomas Allen with Morgan Stanley. Your line is open.

Thomas Allen: Hey guys, good morning. So there's hope then, so I'd imagine for you the closer to an inflection point here. Your IMF has increased 15% this quarter, 17% last quarter. How should we think about the trajectory going forward?

Chris Nassetta: I think the trajectory of sort of what we saw in the quarter in sort of the full year trajectory. It probably would have been a little bit quarter to the first quarter trajectory but for what's going on in the Middle East. We have, you know, a handful of incentive management fee contracts that are pretty lucrative there and the Middle East has got a few issues, as you can read, going on, so it weighted it down a little bit. But we feel great about, you know, that trajectory.

I mean notably if you look at our IMF—which I think is a little bit different—is 80% of our overall IMF is outside the US; only 20% is inside the US and why does that matter? That matters because the structure of incentive management fees is different. We don't—it's a much lower rate of structure. We don't sit behind a press to owners like the sort of traditional approach inside the US. So you're going to continue to see a good—I think this year is going to be fine sort of in the mid teens or maybe inching up a little past that, but as we get in the next couple of years, both because of improvement in performance but importantly because we're—the majority of the pipeline is international, the majority of those have incentive management fees because they're full service and they have these incentive management fees that don't sit behind priority. As those continue to enter the system, you're going to see incentive management growth go into the 20+% range over the next couple of years.

So we feel good about this year's trajectory, feel very good about it.

Thomas Allen: Thank you. And just as my follow up, as you gave some detail on the Waldorf, I think I'll just try and push it a little more. Do you know the approximate square footage of the room base? Just trying to think if you were to lower the room count from 1413 now to 400 to 500, how much available square feet would there be for other stuff. Thanks.

Kevin Jacobs: Yes. Thomas, it's a 1.6 million square foot building, so it really can vary quite a bit depending on how a counterparty would want to break it up between residential and hotel. So the overall square footage is about 1.6 million.

Thomas Allen: Great, thank you.

Operator: There are no further questions at this time. Mr. Nassetta, I turn the call back over to you.

Chris Nassetta: Great. Thanks everybody. We appreciate the time here on a Friday in the middle of the summer. We'll try and find a better day, but as a new public company Fridays seem to be the only days that we could get. We're going to do a little better next year.

Anyway, we're very pleased, as I think you could tell, with both the second quarter results, but more importantly how we feel about the second half of this year and how we feel about the broader set up going into next year. We'll look forward to catching up with you after the third quarter and I hope everybody enjoys the rest of your summer.

Operator: Ladies and gentlemen, thank you for your participation. This concludes today's conference call. You may now disconnect.