Hilton Worldwide
Third Quarter 2014 Earnings
October 31, 2014

Operator: Good morning ladies and gentlemen and welcome to Hilton Worldwide Third Quarter 2014 Earnings Results Conference Call. All lines have been placed on mute to prevent any background noise. After the presentation, we will conduct a question and answer session. If you would like to queue for a question, please lift your phone receiver and press star, followed by the number one, on your telephone keypad. In order to withdraw your question, please press the pound sign. Please note that this call is being recorded today, Friday, October 31st, 2014 at 10 AM Eastern Time.

I will now turn the call over to your host Christian Charnaux, Vice President, Investor Relations. Mr. Charnaux, please go ahead.

Christian Charnaux: Thank you, Courtney. Welcome to the Hilton Worldwide Third 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 reconciliations 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 third quarter results and will describe the current operating environment as well as the Company's outlook for the remainder of 2014 and into 2015. 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 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 above the high end of our guidance on both the top and bottom line. The macro set up for the balance of the year and into next feels great and as result we have raised our full year RevPAR growth, Adjusted EBITDA and our EPS guidance.

In the third quarter we exceeded our guidance for system-wide comp RevPAR growth, up 8.4% on a currency neutral basis, posting our highest quarterly growth rate this cycle. Growth was driven by a 4.2% increase in average rate and a 3.1 percentage point increase in occupancy to 79%, and was led by the US with quarterly system-wide RevPAR growth of 8.8%. We're pleased to see continued increases in our global RevPAR Index across our brand portfolio, increasing 70 basis points year-to-date.

We saw very strong and balanced growth in both Transient and Group demand in the quarter. Transient revenue grew over 8% system-wide in the quarter. In the Americas, we saw particular strength with system-wide Transient growth increasing from 7.7% in Q2 to 8.8% in Q3. Group revenue growth in the quarter was also very strong, up 5% system-wide, primarily driven by volume. Performance was driven by strong results in both the Americas and Europe with the Americas benefiting from solid convention and company meeting volume. We remain on track to deliver mid to high single digit Group room revenue increases for the full year. We also remain positive on Group business going forward as our Group revenue position in the Americas system-wide is up in the mid to high single digits for the next four quarters.

In the quarter F&B revenue grew 8% at our owned and managed hotels in the Americas, on pace with RevPAR growth. We attribute the bulk of the growth to rebounding Group business and a more favorable Group mix.

Our Adjusted EBITDA for the quarter was 645 million, an increase of over 13% from the third quarter of 2013, and above the high end of our guidance. Adjusted EBITDA margins increased 160 basis points.

Let me spend a few minutes on Development highlights. We maintained our number one rankings in key categories according to Smith Travel Research, including rooms under globally, pipeline size and system-wide rooms. Even with the largest base of rooms in the industry, our growing pipeline represents three times our current share of global room supply. In the quarter we opened 70 hotels or over 12,000 rooms and 177 hotels and nearly 30,000 rooms year-to-date through the third quarter. As of quarter end, we had more than 705,000 rooms operating globally and with last week's opening of our first Hilton in Myanmar we've increased our global presence to 94 countries and territories.

We had 559 hotels and 109,000 rooms under construction at quarter end, representing more than 50% of our pipeline. Our pipeline continues to grow, now with 1,269 hotels and approximately 215,000 rooms in 74 countries and territories, all in our capital-light management and franchise segment. For comparability including all deals approved by not yet signed, our pipeline would have been approximately 230,000 rooms. In the third quarter we approved 123 hotels with over 20,000 rooms for development.

Two weeks ago, we gathered over 1,800 of our hotel owners at our Global Owners Conference in Orlando, Florida. At the conference we formally launched our 12th brand, Canopy by Hilton, an accessible lifestyle brand. We believe this brand will be a game-changer because it appeals to a much wider audience than the traditional lifestyle concepts. Instead of a small sliver of the luxury segment, accessible lifestyle opens up demand more broadly, thus giving us the ability to serve more customers and add meaningfully to our growth over time. Canopy takes lifestyle out of the dark ages with a light, organic and contemporary look and feel. It's designed to be welcoming and also reflect the local neighborhood flavor and culture where each hotel is located. And we've designed it in such a way that Canopy will be efficient to build or convert, driving a very compelling return on investment for our owners.

We launched Canopy with 11 signed deals from a select group of owners with hotels in key urban neighborhoods and vibrant secondary markets including Portland, San Diego, London, Nashville, Savannah, Indianapolis, Washington, DC and Miami. We also have another 15 Canopies in various stages of discussion.

Third party capital will drive Canopy's growth, just like it does for all of our brands. In our view, industry leading brands and revenue engines that resonate with customers and provide attractive returns to owners should not require meaningful amounts of our capital to either launch or grow.

We also continue to have extraordinary developer interest in Curio, our recently launched collection of unique 4- to 5-star hotels. We're in discussions on more than 90 properties and we've already opened three properties totaling over 2,800 rooms since the brand launched in June, including the SLS Las Vegas Hotel and Casino, the Highland in Dallas, and as of yesterday, the Diplomat in Hollywood, Florida. In total, Curio plans to open five hotels totaling almost 3,200 rooms by year end.

We believe that new brands such as Curio and Canopy help further our goal to serve any customer anywhere in the world for any lodging need they have. By doing so, we drive more customer loyalty, higher market share premiums, better returns for our hotel owners and that in turn drives faster net unit growth that should ultimately drive premium returns for our shareholders.

We can also serve more customers by intelligently deploying our existing brands in different regions around the world and optimizing those brands for local markets. For example, we believe that having a full portfolio of brands with hotels for every type of guest travel need will be as crucial in China as it is in the developed markets. As a result, we've recently launched our Hilton Garden Inn and Embassy brands in China, and just yesterday we announced plans to launch the Hampton brand in China. We plan to leverage the expertise of a new partner, Plateno Hotels Group, under an exclusive license agreement to develop the mid-scale 3- to 3.5-star hotel market in China with the Hampton brand. The intent of this agreement is to deliver over 400 hotels with the first expected to open by the end of next year.

We're thrilled to partner with Plateno, a proven hospitality leader in China, operating over 3,000 hotels in 300 cities across China under five brands including the highly successful 7 Days Inn brand. With over 80 million members, Plateno's loyalty program will serve as an important source of guests for Hampton in China and also provide Hilton an opportunity to link these consumers to Hilton HHonors and our full portfolio of brands. The partnership's a win-win for both companies where both sides will be able to leverage their considerable talents to make Hampton by Hilton in China a great success. Simply stated, we expect that this agreement will allow us to accelerate our efforts to gain broad geographic and chain-scale distribution in China, enabling us to access a large growing customer base for both in-country and outbound business and all on a capital-light basis.

We're also serving more guests than ever in our luxury brands with over 78 Waldorf Astoria and Conrad Hotels open or in the pipeline. We expect this momentum in luxury to continue, particularly with the sale and redevelopment of the Waldorf Astoria in New York announced earlier this month. We believe the announced deal is a home run for both our partner Anbang and for us, and we're on track to close the transaction as previously disclosed. We intend to unlock the significant embedded value in the Waldorf Astoria by using sale proceeds to acquire additional US hotels in a like kind exchange. We're making great progress identifying specific properties and are very confident in our ability to complete the exchange. The hotel will remain in our system beyond all of our lifetimes as it will continue to operate the property under a 100-year management agreement. The property will also undergo a major renovation funded by our partner that will restore the property to its historic grandeur, making it a true flagship for the Waldorf Astoria brand.

Now let me update you on the outlook for the remainder of the year and provide some preliminary guidance for 2015.

Overall, we remain very optimistic about fundamentals, especially as it relates to the US, which has remained a source of relative strength. In the US, we expect fundamentals to remain particularly healthy as economic growth and an improving job landscape continue to drive strong demand trends and supply growth remains muted. We are maintaining our high single digit RevPAR growth expectations in the US for 2014.

For the Americas regions outside the US, we also still expect high single digit RevPAR growth for the full year 2014 as strength in Mexico offsets a weakening Brazil.

Overall performance in Europe continues to be strong. We expect positive momentum in Western and Southern Europe to continue with lingering softness in France. Uncertainty in Russia and the Ukraine will likely weigh on Eastern European results through the remainder of the year. Overall, we maintain our mid single digit European RevPAR growth forecast for the full year 2014.

Middle East/Africa region is recovering nicely, overcoming uncertainty surrounding the situation in Syria and Iraq. We expect strength in Egypt to continue due to easy comparisons and what we hope is the beginning of a sustained recovery. We think RevPAR performance in the region will be up in the mid single digits as tailwinds from Egypt and Saudi Arabia offset headwinds in other parts of the region.

Finally, in Asia Pacific our expectations remain consistent with what we outlined in August. We continue to anticipate mid single digit RevPAR growth in the region for 2014. We expect growth in Japan to remain strong, although tempered by new consumption taxes, and performance in China to remain steady. Additionally, we think the uptick in trends in both India and Indonesia will continue, although challenges in Thailand will likely remain a regional drag.

Given our strong Q3 performance and continued solid fundamentals, we're raising our Adjusted EBITDA guidance 30 million at the midpoint to 2.47 to 2.49 billion and with our new midpoint above the upper end of our previous range. We're also raising our system-wide RevPAR growth guidance for the year to 6 to 7 and our diluted earnings per share guidance range for the year to $0.69 to $0.71. We continue to expect net unit growth of 35,000 to 40,000 rooms or a 5.5 to 6.5% increase in managed and franchise rooms.

Looking forward to next year, we continue to feel great about the fundamentals and the performance we can drive with our industry-leading brands and demand generation capabilities. As a result, we expect system-wide RevPAR to increase 5 to 7%. We also think our strong development pipeline will support unit growth acceleration in 2015. This should translate into global net rooms growth of approximately 40,000 to 45,000 rooms or 6 to 7% increase in managed and franchise rooms.

Finishing up, we obviously feel really good about the performance this quarter and about the set up in terms of fundamentals of the business for the rest of the year and into next. And with that, I'm happy to turn the call over to Kevin Jacobs to get into a little bit more detail on the quarter.

Kevin Jacobs: Thanks Chris and good morning everyone. As Chris mentioned we are very pleased with our results for the third quarter which significantly beat our expectations. Diluted earnings per share totaled $0.19, ahead of our guidance of $0.15 to $0.17, driven by our system-wide RevPAR and unit growth performance. Total management and franchise fees were $383 million in the third quarter, an increase of 16% over the third quarter of 2013, driven by both new unit and top line growth. We saw strong growth in both our base and incentive management fees. Incentive management fees were driven by increases in participation rates and growth outside the United States where those fees typically do not stand behind an owner's priority return and where we derive about three-quarters of our total fees. Adjusting for a $5 million reclassification from base to incentive fees made in the third quarter for a small number of hotels, base fees grew 14% and incentive fees grew 21% in the quarter. On a year-to-date basis, which is not impacted by the adjustment just described, base fee growth was 12% and incentive fee growth was 24%. Given the strength to date and our expectations for the remainder of the year, we are increasing our comparable management and franchise fee growth estimates by 200 basis points to 13 to 15%.

In our Ownership segment, Adjusted EBITDA for the quarter of $260 million. Adjusted for a non-comp increase in affiliate fees ownership Adjusted EBITDA was 16% higher year-over-year and this performance was driven by RevPAR growth for the segment of 7.3% and strong margin growth at owned hotels globally which grew 160 basis points.

Our Timeshare segment Adjusted EBITDA of 78 million in the quarter was 9% lower than prior year. This was primarily driven by unfavorable revenue recognition timing. Segment EBITDA is up 13% year-to-date compared to last year and we continue to see our full year Timeshare segment Adjusted EBITDA guidance in the range of 315 million to 330 million.

In addition to recently announced timeshare projects at Hilton Hawaiian Village and Hilton New York, we recently signed a sales and marketing agreement with a third party for our first timeshare project in Maui, which will consist of over 20,000 intervals and is expected to begin sales in 2016. In total, our inventory now includes over 130,000 intervals or about six years of inventory at our current sales pace. That is a year-over-year increase in inventory of 58%, over 80% of which is capital-light.

Corporate expense and other was 76 million in the third quarter compared to 73 million during the prior year. We continue to expect growth for the segment of 3% to 5% for the full year.

Our regional results were marked by strong growth in the Americas, ongoing recovery in Europe, stable growth in the Asia Pacific market and improvement in the Middle East and Africa region, which benefited from solid performance in Egypt and Saudi Arabia given easier year-over-year comparisons as Chris described.

RevPAR growth in the US accelerate in Q3, increasing 8.8% with 55% of that growth driven by rate. While favorable supply-demand dynamics supported solid industry fundamentals, we believe our chain scale diversity together with our brand strength contributed to our outperformance.

RevPAR at our US owned hotels rose 9.5% in the quarter driven by strong Group performance in San Francisco, New Orleans and Chicago. Furthermore, we saw results in Washington, DC up meaningfully, mostly due to an uptick in leisure activity and company meetings.

Results in the Americas outside the US were strong with RevPAR up 8.3% as out hotels in Brazil benefited from World Cup games (inaudible) for instance, ADR in Brazil increased over 70%. Puerto Rico was also helped by strong transient demand.

In Asia Pacific, RevPAR grew 3.4% boosted by solid increases in greater China was up 7% in the quarter. RevPAR growth in Guangzhou was up nearly 18% while Shanghai rose 11% and Hong Kong rose 10% despite the recent protests. Fundamentals in Japan and Korea remain solid although growth was tempered by a typhoon and softening trade conditions, respectively. Political unrest in Thailand continued to weigh on results for the region.

In Europe, fundamentals continued to rebound. Overall occupancy rose 250 basis points while average daily rate increased 3.3%, resulting in a 6.6% RevPAR gain for our European portfolio above the 5.2% gain we experienced in the first half of the year. Our Southern and Mediterranean hotels continued to outperform with Greece and Portugal posting particularly healthy demand during the summer season. Northern and Central Europe posted meaningful gains as strong event calendars aided German and UK regional hotel performance. Our owned and operated hotels in Eastern Europe were virtually flat as weakness stemming from geopolitical conflicts offset gains from a strong Middle East travel season. As expected, economic uncertainty weighed on hotels in France.

Lastly, Middle East and Africa RevPAR rebounded up 15.5% in Q3 versus a 2% decline in the first half of ’14. The growth was driven entirely by occupancy gains and as noted earlier was largely the result of good performance in Egypt and Saudi Arabia.

Turning to our balance sheet, we ended the quarter with cash and cash equivalents of $831 million including 288 million of restricted cash and had no borrowings outstanding under our $1 billion revolving credit facility.

We continue to work towards our objective of achieving investment grade status by using substantially all of our free cash flow to repay debt and in turn build equity value for our shareholders. In the quarter, we made voluntary prepayment of $250 million on our term loan with an additional payment of $100 million in October, which brought our total voluntary debt prepayment to $800 million year-to-date. As a result of our continued strong performance, we are again increasing our expected term loan debt prepayment range by $100 million at the low end and $900 million to $1 billion for the full year.

Finally, let's turn to our outlook for 2014 for the full year. As Chris mentioned, we are raising our system-wide RevPAR guidance to between 6% and 7% on a comp currency neutral basis. Ownership segment RevPAR is expected to increase between 5% and 6% on the same basis.

We are increasing our guidance for diluted EPS adjusted for special items to between $0.69 and $0.71 for the full year, and for Adjusted EBITDA we are expecting a range of between $2.47 billion and $2.49 billion.

Capital spending excluding Timeshare inventories expected to total approximately $350 million including about $250 million to $260 million in hotel cap ex, which represents roughly 6% of ownership revenue.

For the fourth quarter of 2014 we expect system-wide RevPAR to increase between 6% and 7% on a comparable currency neutral basis. We expect fourth quarter Adjusted EBITDA of between $630 million and $650 million, and diluted EPS of $0.16 to $0.18.

Further detail on our third 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 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.

Courtney, could we have our first question please?

Operator: At this time I would like to remind everyone in order to ask a question, press star then the number one on your telephone keypad. We'll pause for just a moment to compile our Q&A roster.

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

Felicia Hendrix: Hi, good morning and thank you for taking my question.

Chris Nassetta: Good morning, Felicia.

Felicia Hendrix: Regarding the Waldorf sale—I'm having problems speaking this morning—regarding the sale of the Waldorf and the 1031 exchange, just wondering what type of hotel assets are you looking to buy with the proceeds? Are you focused more domestic, international? Are you focused on buying hotels that are currently Hilton branded? Would you consider buying other hotels and converting them? And then, what's your view on finding hotels that may need significant cap ex?

Chris Nassetta: That's a great question and we're obviously—we've been hard at work on the 1031 and since we announced it, but honestly before we announced it well we couldn't be out actively in the market prior to the announcement, we were tracking everything that was available very closely and have now been very, very actively engaged in the market.

I think the—first of all, simply stated, to do the 1031 it all has to be domestic US assets in order to qualify as a 1031. So it will not be any component of international, and I think in terms of the types of assets it wouldn't surprise you to know that we're looking at sort of institutional grade assets in the best urban and resort destinations. We're looking at large single assets and some portfolios that would be in those types of locations generally. It's not exclusively in the upper upscale and above, so upper upscale and luxury segments of the business, and a mixture of assets that are pre-existing in our portfolio—within our portfolio brands today and those that are not, with the objective ideally being to have a blend of those things so that as we put this money to work we put it to work in great assets in great markets and do it at a great price to create sort of—firm up the very significant arbitrage between what we're selling for and what we're buying for, and to the extent we can do all those things and grow the system, that's a very positive thing and so that is what we're trying to accomplish.

As I said, we're making very good progress. We're very confident in getting it done probably—given the timeframes, over the next 60 to 90 days, really probably in the next 60 days we'll be giving you more specific detail on what assets, markets, et cetera.

Felicia Hendrix: Thank you. Just as a follow up, on your development pipeline outside of the US, I'm just wondering, you know, you guys sound very bullish but how have international things trended this versus your expectations? I'm sure you've heard some of the comments that your peers have made on similar calls, and specifically some of them have talked about seeing some developers in China having financial difficulties. Wondering why that shouldn't be a concern for us.

Chris Nassetta: Yes. I mean the good news story—the reason we're optimistic is what we've been talking about, frankly as part of the IPO and since, which is the objective we have from a development strategy point of view and a brand strategy point of view is to win everywhere, meaning it's a big world, things ebb and flow and we feel like if we have the right brands, both existing and we launch the right brands and we adapt those brands intelligently for different market conditions that we can continue to grow in good times and bad and that growth may ebb and flow and be higher or lower in various places around the world but nonetheless we can continue to grow, which is why not only is our pipeline growing but you see in our preliminary guidance for net unit growth next year that we're stepping up our expectations of new unit openings.

So we are still very, very confident in our ability to do that. We are continuing to see healthy growth really in all regions of the world. We have had I think good strategies in Europe where we needed to that was more focused early on for value proposition, limited service and conversions, and in China I would say we have—we just opened our 50th hotel. We have 150 hotels in the pipeline. I know others have commented that some of the progress has slowed. I think that's right. Over 70% of 150 hotels in the pipeline in China are under construction so I'm confident that those hotels are going to open. It might take a little bit longer. So I think there's no question things have slowed a bit in China but what's really happening in China in my opinion is something that frankly I've been—we've been talking about for the last couple of years which the complexion of what's going to happen there is going change, that like other parts of the world China—what is going to get developed is going to change and it's going to be changing based on overall demand patterns and overall demand patterns suggest that the greatest demand's going to be in the midmarket. Reality is the big international companies have captured the high end pretty well and the local companies like Plateno and 7 Days have captured the low end, and we think that there is a huge opportunity in the midmarket, both because nobody's really captured the flag, so to speak, but also that's where the greatest amount of demand is going to be. So it's a great example of how we are adapting. This year alone without even the launch of Hampton, just with Garden Inn, 30% of the deals that we've signed year-to-date, which is about 6,600 or 6,700 rooms in China, which is about consistent with last year, but what's different about it is 30% of it's limited service and that's just Garden Inn. Now with the Hampton launch in our relationship with Plateno, I think what you're going to see is tremendous opportunity for an uptick over time in the volume of what we're doing in China. I just think the complexion of it is going to be different and it's going to be reflective of what I think the bulk of the demand growth is going to be in that market.

So, that's longwinded but the point of it is, you know, really trying to be very strategic about the deployment of our brands around the world, right brands at the right time in the right markets.

Felicia Hendrix: Thank you.

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

Joe Greff: Good morning all.

Chris Nassetta: Morning.

Joe Greff: A couple of quick questions on your 2015 outlook. One, of your 40,000 to 45,000 net rooms growth, how is that split between managed and franchise rooms? How is that split between US and International? Then my follow up is, a couple of quarters ago, Chris, you'd mentioned that you'd expected incentive management fees to grow next year somewhere in the neighborhood of 20% plus. Is that still a fair view or a conservative view, given what is presumably a more rate-driven RevPAR growth next year? Thanks.

Chris Nassetta: Joe, I think on the first question it's 60/40 probably 60% International openings. You know, 55%, 60% the rest US next year, and about the same management franchise. I mean it's going to be probably 5 ticks off of an even split one way or another.

IMF, year-to-date we're obviously doing really well. We do think that as we've been saying that IMF is going to tick up, so while we obviously have not given and we are not giving guidance on segments or parts of segments from an EBITDA point of view at this call because we're in the budget process, I do expect that trends on IMF to continue to move upward.

Joe Greff: Thank you.

Operator: Your next question comes from the line of Sean Kelley with Bank of America Merrill Lynch. Your line is open.

Sean Kelley: Hi. Good morning everyone. I just wanted to ask about RevPAR growth and kind of the composition across some of the chain scales. This year we've seen a big rebound particularly in the second half of this year in some of the limited service kind of brand really outperforming. You guys are obviously very well positioned for that. Can you help us think about the outlook for next year and some of the drivers that you think about? Kind of the higher end parts of the chain scale versus what you're seeing and what you think is driving some of the outperformance in limited service?

Chris Nassetta: Yes, great question and we have seen limited service franchise growth, particularly in July and August. We're leading the charge and we're quite strong. I think that that has to do with the fact that Transient has been so, so strong and I think in a number of those cases it's been—sort of the limited service has been catching up. I think as you look at—I think as we think about next year's growth, I think its going to be more balanced. I do have every expectation that both Transient and Group are going to both remain very strong but I would reason a guess that you're going to see a more balancing effect as the Group business continues to sort of pick up momentum and that's going to have a more dramatic impact on upscale but particularly upper upscale that I think will drive greater growth there than you've seen this year.

Sean Kelley: That's really helpful. My follow up would just be kind of back to the unit growth. You talked about some of the mix in the portfolio there but just curious on what you're hearing from developers as it relates to is the interest, particularly for your brands, coming from existing owners or is that coming from new developers, or kind of what are you hearing right now from the development community? Because you guys are obviously very active there.

Chris Nassetta: I think what we're hearing from the development community—I mean it's a little bit different as you travel around the world; the world's a big place. But I think it's generally quite positive. The mix of what we're doing, if you think about it, sort of US and everything else, in the US the majority of the deals we are doing are with existing developers, even with our new brands, which is not surprising. I'd say it's 75% plus or minus the last number I saw was existing owners which we love. I think it's reflective of the fact that they like our brands and our engines and we're driving great results by having very high market shares. If you go to the rest of the world, by definition because it's a less mature business for us, those ratios aren't quite as high. I mean I think it doesn't quite flip around but the majority of the deals we're doing outside the US are with new partners which is great, just because we don't have as big a base out there.

I would say—again, the world's a big place but generally the development community is quite positive. I'd say in the US incrementally more positive. The US fundamentals continue to tick up. You know, the economy is getting a bit better and so I think the development community is feeling better. I think in Europe, again, more recently I think there's a view that the European economy is sort of stabilizing, maybe getting a decent foundation to start to show a little bit more growth, not terribly robust growth but a little bit more growth. So I'd say most recently developers have been getting more optimistic, not less. The Middle East has remained optimistic is what I would say. Non-US Americas I would say fairly consistently consistent and remain optimistic, and Asia Pacific's a big place but broadly I'd say there continues to be nice optimism there. So I'd—you know, as I say, it's changing in different—the different parts of the world, I think probably China being the most dramatic in my opinion, in a good way for us because I think we think it's the right thing to do. We've anticipated it. We've been working on this Plateno thing for the better part of a year and figuring out the limited service space with an intense focus for the last couple of years.

A longwinded answer but I'd say as it—from a sort of quarter-over-quarter or year-over-year point of view, I would say incrementally the development community, if I average the world, is slightly more upbeat.

Sean Kelley: Thank you very much.

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

Steven Kent: Hey, good morning.

Chris Nassetta: Morning.

Steven Kent: Two questions. First, just on the incentive fees which were strong, just a little bit more detail. Are more hotels now paying in the US because they've met owners priority and is there some point where those will click on more? Or is it that you're seeing incentive fees go up because you're doing more international managed properties?

Chris Nassetta: It is more the latter than the former. If you look at the breakdown of our incentive management fees, 75% of it, as I think Kevin said, is international. If you look at the components of growth of incentive management fees, 65% of the growth in the quarter was international, so the majority of that, and you know those do not generally sit behind owner returns.

We had nice growth in the US, don't get me wrong; 35% of the overall incentive fee management growth was US. Participations have moved up in the US probably by about 10 points but it's still the minority of the growth.

If you look at sort of what's organic, you know, growth, same store growth versus new unit growth, about 65% of it is coming from same store, again, predominantly international, strong international hotels and results, and about 35% of it is coming from the new units, almost all of which would be international in terms of new units that would have incentive management fee contracts, because most of the growth at the moment in the US is franchise growth and limited service which wouldn't have incentive management fee contracts.

Steven Kent: Chris, just to be clear, is there any point where there's a bogey they hit and they start to click on in a more material way, and then just one secondary question which is, the Hilton brand itself just lagged a little bit in RevPAR growth across all of your brands. Is it more international and that's what weighed that down? Is it harder to drive rate in the Hilton brand at this point? I mean it's still up 7.4%, terrific number, but a little bit different from the rest of the…

Chris Nassetta: I think it was international assets in a couple—in the lease portfolio in particular, so I don't think there's anything anomalistic about it. I think it's just this quarter leased…

Kevin Jacobs: Yes, there's more core, larger core Hiltons that are leased in some of the parts of the world where there's stuff going on and I don't think it's much more than that.

Chris Nassetta: In terms of the incentive management fees, I view as a real positive which is, again, the bulk of our IMF and thus the bulk of our growth is in the international state. It's a linear equation in the sense that we don't sit behind prep. So as different markets around the world get stronger and we see profitability grow, we get to share in our fair share or it without stepping up (inaudible). I mean we're showing very good, healthy growth; year-to-date 24% IMF growth, we feel pretty good about that. We expect to have about 20% for the full year and as we've said many times, we do think over time as we both see operating performance continue to improve around the world and we add a lot of new units with these types of contracts outside the US, you're going to continue to see the IMF growth rate move up. But there are some, to be specific, in the US that—where we don't have participation where the switch will go on but the US is in aggregate only 25% of our overall incentive management fees.

Steven Kent: Okay, thank you.

Chris Nassetta: Yes.

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

Harry Curtis: Good morning guys.

Chris Nassetta: Hey Harry.

Kevin Jacobs: Harry.

Harry Curtis: A quick question—hi. Just a quick question. The gains that you're still seeing in occupancy at this point in the cycle, it's—they're surprisingly strong, and Chris, if you could talk about how much more do you think is realistic to expect there? And are we at the point where your managers can really start driving rate?

Chris Nassetta: Yes, that's a great question and we've spent a lot of time on it over the last year or so. I view—I think there's—obviously this year we would have going into the year probably thought more of our growth would be in the form of rate than it has been, and I view it as a real positive that it's not, in terms of sort of a tell-tale sign of where we are in the cycle, meaning sort of mid cycle with a long runway in front of us, and what's really happening is while we are driving rate, we are—and while we are above prior high level occupancy marks, we are continuing to just get smarter about the revenue management side of the business I think as an industry but obviously I'm partial to us. I think we've been doing a good job. What that really has meant—I mean there are a lot of things but it's really looking at weekends particularly and off-peak times. I think we have just gotten much, much better about driving business on Friday, Saturday, Sunday, and if you think about it, we always have capacity in most of our hotels because the bulk of our hotels are sort of driven by the business side. So you always on Friday, Saturday, Sunday have capacity and if you can fill it, even though you're driving more occupancy than the rate, you want to take it all day long at a reasonable rate because you're just driving incremental profitability and that's what's been happening. If I look at our occupancy numbers on weekends they've been moving up. If I look at our market share on weekends it's been moving up and that's what's sort of taking us over the prior peaks of occupancy that people have gotten used to thinking about.

So I think it's in part because they've done a good job. I think it's sort of the new norm and I don't think we're done. I think next year—we're in the middle of budget season so I don't have the answer in front of me but I can tell you directionally we're definitely going to see more rate growth than occupancy. The mix is going to be more rate than occupancy than you saw this year. When we finish this year it's probably going to be 55/45 because of the phenomena that I described.

Again, that's all driving profitability and great for the business. I don't think it's something to worry about. I think it's something to revel in. Next year you'll see more of it but we'll have some more occupancy because I still think there's more to do by being intelligent about weekends and sort of off-peak times and how we revenue manage.

Harry Curtis: That does it for me. Thanks Chris.

Chris Nassetta: Thanks.

Operator: Your next question comes from the line of Bob Lafleur with JMP. Your line is open.

Bob Lafleur: Hi Chris.

Chris Nassetta: Hey Bob.

Bob Lafleur: Kevin. How are you today?

Kevin Jacobs: Hey Bob.

Bob Lafleur: A couple of questions on the Waldorf transaction. As you're looking to deploy $2 billion, obviously you're a very willing buyer. How do you manage your price discipline? What are you seeing in terms of cap rates or multiples for assets out there? Then a second Waldorf question unrelated: how disruptive a renovation do you anticipate from the project after the new owners take over? Are you going to close the hotel and start from scratch? Are you going to do it in phases? Just give us a little bit of information on that, if you don't mind.

Chris Nassetta: Yes, sure. I'll give you what I can in terms of what we know at the moment.

So you're right, $2 billion is a lot of money to put out there. Obviously I've spent a lot of years of my life in that side of the business so I think it's something we're comfortable doing. I think yes, we're a willing buyer but thankfully we're in a part of the stage in the cycle where there are plenty of willing sellers. We're relatively unique in that we have $2 billion of cash that is going to get placed. Not everybody is sitting around with $2 billion, let alone all in cash. The way the 1031 rules work as you probably know, we have a period of time after closing in which to identify properties. We can identify two times the amount, so we can identify $4 billion of properties to ultimately acquire half of that. So it gives us the ability to put a lot in the funnel and decide based on quality and pricing and other considerations what we want to do.

From a multiples point of view, I'll comment when we've done something but I think you can see sort of where things have been trading that have occurred this year in the REIT world or private equity world and I think you can get a pretty good bead on where multiples are. In the end we sold the Waldorf at 32 times and I think we view a buy at something much closer to our own multiple, which I think is—you can do the math—creates a huge arbitrage meaning we're going to take what was $61 million of EBITDA that the Waldorf produced trailing 12 and it's going to turn into—I'll let you do the math. It's going to turn into a lot more EBITDA than that if we do our job well and we fully intend to do so.

In terms of renovation, it's unclear. We did a lot of work and we've talked about some of that on prior calls to understand the various options on how to redevelop the Waldorf. Anbang is a relationship that actually we've been building over the last year but the relationship in terms of their acquisition of the Waldorf was relatively recent and obviously we're all very busy getting the transaction negotiated. We have now entered the process with Anbang of sharing all of the various work that we've done in a more detailed way and I would say we'll probably take the next six to nine months with them to review those alternatives that we've come up with, make sure we've sort of figured out what thoughts they have before we lay out the exact plan for the Waldorf. So we're—there's a lot of work being done but it's going to take—it's a major investment they're making to buy it and it's another very significant investment they're going to make to renovate. We all want to get it right so we're going to spend the next six months or so making sure we pin it down properly.

Bob Lafleur: Okay. I'm going to count those as one question and then ask a follow up. How effective is your system at capturing demand that you're not able to accommodate at a customer's first choice? Because as we talk about peak occupancies and lots of nights of sell-outs, you're going to have customers that are looking to book in your hotels that can't get into the first choice. How effectively do you channel them through the rest of the system to capture them?

Chris Nassetta: I think we do a very good job. I always think we can do better so I—our cross-sell capabilities I think are quite good. I'm not sure anybody has any better but, you know, it's one of the things that I and we have focused on making sure that we get even better at that, that that can also help drive system-wide occupancy and ultimately system-wide RevPAR growth.

Bob Lafleur: Great, thanks.

Chris Nassetta: Thanks Bob.

Operator: Your next question comes from the line of Joel Simkins with Credit Suisse. Your line is open.

Joel Simkins: Hey, good morning guys. Happy Halloween.

Chris Nassetta: Morning Joel. Happy Halloween. We have a lot of people in orange sweaters in here if you could see us.

Joel Simkins: I'm dressed up as a sell-side analyst today, but in terms of your discussions with the rating agencies, I just wanted to find out sort of how they're tracking, and sort of with that in mind as you guys continue to delever, how do you think you can ultimately sort of balance getting to low investment grade but also starting to think about a capital return strategy?

Kevin Jacobs: It's a good question, Joel. I think Moody's just upgraded us one notch recently, so you can look at the press release they put out. The way we think about it is we still think that three to four times is the right target leverage for the company. We think that will get us to investment grade. You could see points in the cycle where they have a different view of what investment grade means and if we get to three times leverage and we're not exactly investment grade, we'll evaluate it at that time. We've been pretty consistent that that's our target and once we reach our target we won't overcook it and we'll start thinking about the traditional forms of capital return.

Joel Simkins: Sure. Then I'm just following up on the Waldorf. Obviously that was a very significant transaction. It certainly highlights there are folks out there willing to pay for iconic properties. With that in mind, I guess you still own some pretty significant big box hotels. I mean are you guys willing sellers if someone comes around for the right asset at the right price? Or are you going to continue to sort of hold on to sort of the Big 8 assets.

Chris Nassetta: I think as it relates to the Big 8 for the moment we're going to hold onto those. I don't see anything like a Waldorf transaction in the offing. As we've talked about many times, we're not in love with the real estate for the sake of feeling like we have to own it. We're really just trying to maximize value for the whole shareholder base. At the moment, the Waldorf deal made a lot of sense for the reasons I think I've articulated and that are obvious by virtue of the math. I think the way to maximize the value of that other real estate at the moment, given the conditions specific to those assets, is to keep it inside the Company. If at any point we think that is not the case, we'll be the first ones to want to do something about it. As I've been pretty consistent saying, the likely option for that would be to do some sort of structured transaction to make sure that we have tax efficiency. The Waldorf, we're getting tax efficiency with a 1031. As was pointed out, that's a lot of money to place. In theory, we're accomplishing a lot of objectives including getting a massive reinvestment done without the use of our capital. That was sort of unique in the Big 8 portfolio.

I think the way to think about the real estate for us, on a go-forward basis and the bulk of those Big 8 is if there was a time at which it made sense to bifurcate the business and that that would drive a greater value for the shareholder base, we'd be interested in doing that. As we look at it, as I've said in the last couple of calls, we constantly are looking at this. We just don't think that's the case at the moment net of cost breakage, et cetera. We think the best value equation is to keep the rest of it together.

Joel Simkins: Thanks a lot, guys.

Chris Nassetta: Yes.

Operator: Your next question comes from the line of Patrick Scholes with SunTrust. Your line is open.

Patrick Scholes: Hi. Good morning.

Chris Nassetta: Morning.

Patrick Scholes: Two questions for you. You mentioned in your prepared remarks about six years of inventory in the Timeshare business. How do you feel about what is the right amount? When I think about other companies, it's typically they have two to four years; six seems definitely at the high end there. Then secondly, any public comments you care to make about the US United Nations inquiring about the Waldorf sale.

Chris Nassetta: Yes, I'll take them one at a time. On the six years of inventory, you're right. I mean that's more significant than what you'd find with most of our competition and we like that. It makes us feel good that in a business that we're really converting to be heavily capital-light, much like the hotel business, that we've got a lot of running room, which, you know, we think is testament to the strength of the brand and testament to the business model, which is to say by virtue of the fact we can build six years' inventory very quickly that this is a very sustainable business and business model.

I think that the right range is generally somewhere in the four to six years is how we would think about it. I think we're at the upper end of that. The higher the better, right? But four to six years is how we would look at that.

As it relates to the inquiry on the Waldorf, I don't want to get into a lot of detail other than to say we actually went to the US government unilaterally as part of the announcement of the deal. We have had discussions which have been informal discussions and I am confident, as I said in my prepared remarks, that we'll be able to close the transaction in the timeframes that have been previously disclosed.

Patrick Scholes: Great. Thank you.

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

Robin Farley: Great, thanks. Looking at the results, RevPAR growth was so strong. It was 150 to 200 basis points higher growth rate than you've had the last seven or eight quarters, but I'm just curious on the flow throughout the growth profit margin, with that 150 to 200 basis points higher RevPAR, was that kind of the same level of gross profit margin growth? So just wondering if there's anything going on, you know, property level expenses or that kind of thing that maybe happened in the quarter.

Chris Nassetta: No, I don't think so. I mean we actually tracked from a margin point—I mean there are always sort of nuances of what goes on both property and enterprise-wide quarter-to-quarter, year-over-year comp issues that get complicated that I won't try and handle in a call in the limited time I have other than to say we felt great about the margins. Actually from the standpoint of how we came up at the property level and the managed portfolio and how that translated into enterprise-wide margin growth at 160 bps and 210 bps year-to-date, it all tracked frankly above what our expectations were. So I think the best way to look at it is sort of where we are in margins year-to-date and where we are in terms of our forecast for the year versus our initial guidance expectations, and I think in all those regards we're sort of trending a bit better than we thought.

Robin Farley: Okay. Then for the Canopy brand, are those 11 new builds or conversions, and how do you expect that over the longer term that that brand will be more likely to be developed?

Chris Nassetta: It's a mix of both. Interestingly, I think over time you will have a pretty even split. I would even guess the majority will be conversions or adaptive reuse. It may be conversions of independent hotels. It may be conversions of older office buildings or buildings that have character in a particular location. I would expect the majority would be made up of those types of transactions. As it turns out, in the first 11 the majority are actually new build opportunities but I think that is just you're dealing with comp set of 11 hotels. I think it's going to be, as I said in my comments, I think what we've tried to do is engineer the DNA of this so that either new build or conversion are very, very cost efficient to drive, obviously, brand integrity at the top that drives a lot of revenue but cost efficiency to build and to operate that will drive great owner returns. So I think both ways, both new build and conversion, it works. But I would think over time the majority will be conversion.

Robin Farley: Okay, great. Thank you.

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

David Loeb: Good morning gentlemen.

Chris Nassetta: Good morning.

Kevin Jacobs: Good morning David.

David Loeb: I want to beat the dead horse of the Waldorf just a little bit more on the 1031.

Chris Nassetta: Feel free.

David Loeb: Strategically, are you thinking about seeding Curio, Canopy or Conrad or Waldorf with the stuff that you buy and are you counting the things that you buy and convert into the brand in your assumptions about new unit growth for next year?

Chris Nassetta: The answer is to number one, yes to the extent we can seed any of our brands. So it's anything in the upper upscale and above, so it's all of the ones you noted plus others. Conrad, Waldorf, Hilton, you know and Canopy and Curio, so anything we can do to increase the distribution of those brands is definitely at the forefront, and we have some opportunities to do that and then the deals that are in the funnel that we're working on we also, as I said, have deals that are already in the system, not surprisingly, that are terrific assets and great urban or resort destinations.

We are not counting in the NUG, as we call it, net unit growth numbers that we gave you, we are not counting those conversions.

David Loeb: Okay. So just to follow up on that kind of an indirect one.

Chris Nassetta: Because the NUG numbers we're giving you are really for the managed franchise segment, our capital-light segment. So this is trading assets within the Ownership segment. So the 40 to 45 is pure management franchise.

David Loeb: Okay. So sort of an indirect follow up, Blackstone owns a bunch of hotels, some of which are on the market. Do any of those like the Boulders or some of the Hiltons or Doubletrees that they own, are those able to be sold unencumbered of brand?

Chris Nassetta: Any of the ones we have with them?

David Loeb: Yes.

Chris Nassetta: The answer is some are and some are not. Blackstone is probably, if not the, one of the top two or three owners of hotel real estate in the world and they happen to—we happen to manage and franchise a bunch of hotels with them. So in terms of our consideration set of deals, Blackstone, a number of their assets would definitely be in our funnel.

David Loeb: Perfect. Great. Thank you very much.

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

Thomas Allen: Hey, good morning guys.

Chris Nassetta: Good morning Tom.

Thomas Allen: Morning. On your 2015 RevPAR outlook, can you give us any more color around your expectations for domestic versus international growth? Thanks.

Chris Nassetta: Yes. Five to seven—I mean in an oversimplified way, Thomas, I'd say sort of US towards the higher end, the rest of the world maybe middle, lower end of that range and that's sort of how you get sort of to a 5 to 7 range. Said another way, we think US will sort of lead the charge as it is this year and the rest of the world will be a little bit lighter than the US, not materially but a little bit.

Thomas Allen: Okay. Similar to commentary from other companies. Then just my follow up, just on Plateno, I found it interesting that it's an exclusive license agreement. How's that typically structured? Do you have a lot of those deals? How do you think about doing those kinds of deals versus kind of going it alone? Thanks.

Chris Nassetta: Yes. We do not have a lot of them. We have some of them. I mean they take different forms but we do have a number of what I'd say sort of multi-asset franchise relationships, which is what this really is. This is different in the sense that I think the volume's going to be bigger than some others but we have some others that are sizeable. So it is not abnormal other than we think it's going to produce significantly higher results in the terms of the goal of doing 400 hotels. I don't think there's a better partner. We spent, honestly, the better part of two years figuring out how we would go about really penetrating the 3 to 3.5-star space. Given my earlier comments, we think that is mission-critical to success in China for business in China and outbound business coming out of China. We considered, you know, lots of different options and joint ventures and go-it-alone and finding a partner and one of the issues is just finding a good partner. Plateno, we started talking to frankly about a year ago. This has been—we've been working on this a long time and given their track record and given the relationship we've built with them we have a very high degree of confidence in their ability to execute with us. We've done some amazing things with the design work for what we're going to do and the commercial set up for what we're going to do with Hampton, and I am 100% confident that doing it with them is going to accelerate our ability to penetrate the 3- to 3.5-star versus doing it on our own by multiples.

Thomas Allen: Very helpful, thank you.

Chris Nassetta: Yes.

Operator: Thank you, and with no further questions I would like to turn the conference over for any additional or closing remarks.

Chris Nassetta: Thanks everybody. We appreciate the time. We are obviously very happy with the results for the third quarter. We're excited about the momentum we have going into the fourth quarter more importantly; great momentum I think going into next year. Feel great about where we are in this cycle. Appreciate your time and attention today on a Friday and Halloween, and look forward to catching up with you after we finish out the year. Take care and have a great weekend.

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