



**Hilton Worldwide**

**Q1 2015 Earnings Call**

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**Bill Crow**, *Raymond James & Associates*

**Shawn Kelly**, *Bank of America*

**Carlo Santarelli**, *Deutsche Bank*

**Steven Kent**, *Goldman Sachs*

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**Jeff Donnelly**, *Wells Fargo Securities*

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## PRESENTATION

**Operator:**

Good morning ladies and gentlemen. My name is Sally and I will be your Conference Operator today. At this time, I would like to welcome everyone to the Hilton Worldwide First Quarter 2015 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key.

I would now like to turn the call over to Christian Charnaux, Vice-President of Investor Relations. Please go ahead, Mr. Charnaux.

**Christian Charnaux:**

Thank you, Sally. Welcome to the Hilton Worldwide First Quarter 2015 Earnings Call. Before we begin, we would like to remind you that our discussions this morning will include forward-looking statements. Actual results could differ materially from those indicated in the forward-looking statements and forward-looking statements made today are effective only as of today. We undertake no obligation to publicly update or revise these statements. For a discussion of some of the factors that could cause actual results to differ, please refer to our SEC filings. In addition, we will refer to certain non-GAAP measures on this call. You can find reconciliations of non-GAAP to GAAP measures discussed in today's call in our press release and SEC filings, which have been provided on our website at [www.hiltonworldwide.com](http://www.hiltonworldwide.com).

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

**Christopher Nassetta:**

Thank you, Christian. Good morning everyone and thanks for joining us today. We're pleased to report a great start to the year with strong first quarter results driven by top line RevPAR growth near the high end of our guidance and strong fee growth and Ownership segment performance, all that resulted in Adjusted EBITDA exceeding our guidance. We continue to feel great about the fundamentals in our setup going forward and have raised our guidance for the full year.

We grew system-wide comp RevPAR 6.6% on a currency-neutral basis in the quarter, exceeding comparable RevPAR growth in Q1 2014 by 1.2 percentage points. With the added impact of weather in the quarter of about a half a point worse than last year, underlying RevPAR performance this quarter was clearly stronger year-over-year.

Rate growth accounted for a little more than half of system-wide RevPAR growth, while occupancy continues to show strength, up 210 basis points to 71% in the first quarter. Positive demand trends in both the Group and Transient segments along with revenue management strategies targeting shoulder periods should continue to drive ongoing occupancy growth.

System-wide Group Room revenue rose 6.8% in the first quarter supported by strong demand, especially from small groups and company meetings. Performance was modestly ahead of system-wide Transient growth of 6.3% which benefitted from strong US corporate negotiated and rack-rated business, increasing by 9% and nearly 10%, respectively.

In Group, we're seeing strong growth at the top end of the demand funnel, with prospective Group business up significantly in the quarter year-over-year. We expect Group business strength will continue, particularly in the seasonally stronger second quarter, which is also showing solid growth. Group position continued to track up in the mid-single-digits for the full year.

F&B revenue at system-wide owned and managed hotels grew in the mid-single-digits in the quarter; great banquet and catering business, especially in the Americas and Europe, coupled with robust outlet performance, particularly in Japan, drove the majority of the gains.

As discussed last quarter, we're extremely pleased with the successful execution of the Waldorf Astoria New York sale and 1031 exchange. To complete the exchange, we plan to deploy the last portion of the Waldorf sale proceeds to acquire what is currently the Cypress Hotel in Cupertino, California for \$112 million. We expect to close on the transaction sometime in the second quarter.

To recap, we sold the Waldorf at a multiple of 32 times Adjusted EBITDA, retained a 100-year Management contract, obtained a commitment from the buyer to renovate the property and use the net proceeds to acquire high-quality assets in some of the fastest-growing and highest barrier-to-entry domestic market at an aggregate multiple of just over 13 times Adjusted EBITDA, more than doubling the Adjusted EBITDA contribution to the Company.

Also in the real estate area, this morning we announced the sale of the Hilton Sydney, capitalizing on favorable market conditions to sell the asset at attractive pricing in a tax-efficient manner. The AUD\$442 million sale price represents approximately 15 times Adjusted EBITDA multiple and is subject to a 50-year Management agreement. Upon closing, we expect to use the proceeds of the sale, net of transaction cost, to further deleverage the Company through an incremental debt prepayment.

On the development front we continue to see tremendous momentum. During the first quarter, we opened 53 hotels with more than 8,000 rooms. We approved more than 23,000 rooms globally, totaling our highest number of deals in a quarter this cycle. Our 240,000 room pipeline is the largest in the business according to Smith Travel, and including all approved deals our pipeline stands at nearly 255,000 rooms. According to Smith Travel, we also maintain the largest share of rooms under construction globally with nearly a 20% share, representing more than 126,000 rooms.

We're thrilled with the continued success of our newest brands. Curio, a collection by Hilton, has been a homerun for us with nearly 40 properties and 11,000 rooms open or in various stages of development. We continue expanding into new urban and resort markets and are very excited by the brand's international debut with several deals across Europe, including Istanbul, Hamburg, and the historic Astor hotel in Paris. We also signed agreements to add two Curio properties in Jamaica which are slated to join the collection later this year and will mark the brand's debut in the Caribbean.

We also continue to see tremendous interest from owners in Canopy, our accessible Lifestyle brand. Canopy has a total of 15 hotels either in the pipeline or with signed letters of intent. Curio and Canopy are off to a great start and we continue to have great success in growing all of the brands in our portfolio. Recently, our Hampton and flagship Hilton brands each passed the 200,000 room milestone with another combined 100,000 rooms in the pipeline.

DoubleTree by Hilton recently reached the 100,000 room milestone with another 40,000 rooms in the pipeline. Additionally, just last week we announced the first Hilton Garden Inn will open in Hawaii early next year, bringing the powerhouse brand to all 50 states and increasing its distribution to nearly 100,000 rooms globally.

Now let me update you on our outlook around the world for the remainder of the year. Overall, the fundamentals of the cycle remain strong. In the US, where we generate nearly 80% of our Adjusted EBITDA, we maintain our mid to high single-digit RevPAR growth forecast for the full year 2015. Continuing demand growth driven by an improving economy, combined with historically low supply

growth, should continue delivering solid fundamentals. New York is the notable exception, where strong demand is being tempered by supply growth many times greater than the US average. For the Americas region outside the US, we anticipate mid-single-digit RevPAR growth for the full year, with positive momentum in Mexico, somewhat muted by weaker trends in Argentina and Brazil.

We maintain our mid-single-digit RevPAR growth expectation for Europe, expecting mixed performance across the region. Positive trends should continue throughout Germany, while southern Europe should benefit from accelerating leisure demands. This will be tempered by anticipated economic and geopolitical challenges weighing on results in France and Eastern Europe, respectively.

For the Middle East/Africa region, we forecast mid-single-digit RevPAR growth for the year. While improvements in Egypt appear sustainable, softening demand from Russia continues to be an overhang on fundamentals in the Arabian Peninsula.

In Asia-Pacific, we continue to expect high single-digit RevPAR growth, supported by robust demand in Japan, recovery in Thailand, and positive momentum in Shanghai and Beijing. The strength of these trends should more than offset modest weakness in Hong Kong and softening business Transient demand in Singapore. We continue to forecast 6% to 8% RevPAR growth in China for the year, given our significant market share gains and market mix.

In closing, we're very pleased with our performance in the first quarter and remain optimistic regarding fundamentals for the balance of the year and the foreseeable future. I believe that with our Company's unique attributes, we're in an excellent position to continue outperforming in a very favorable environment.

With that, I'm happy to turn the call over to Kevin who will give you greater detail on our results and the outlook for the rest of the year.

**Kevin Jacobs:**

Thanks, Chris, and good morning everyone. During the quarter, our RevPAR growth of 6.6% was driven by a 3.5% increase in average rate and a 2.1 percentage point increase in occupancy. In actual dollars, system-wide RevPAR increased 4.6%.

Diluted earnings per share totaled \$0.15, an increase of 25% versus the prior year period. After adjusting for special items, EPS was \$0.12 which was at the high end of our guidance.

We exceeded our guidance for Adjusted EBITDA by approximately \$25 million, driven by top line and fee growth, as well as Ownership segment performance. We attribute roughly \$15 million of the beat to favorable timing that will normalize over the balance of the year.

Management and Franchise fees were \$391 million in the quarter, up 18% over the first quarter of 2014, driven by strong top line growth, new unit growth, and a rising effect of Franchise rate, which increased 10 basis points to 4.7% versus the year-ago period. Additionally, incentive fees rose 16% on a currency-neutral basis in the quarter. For the full year, we expect incentive fee growth in the high teens, adjusting for currency and some one-time items.

The Ownership segment outperformed our expectations in the quarter with particular strength in Chicago, San Francisco, and Orlando with driving great top line growth. Adjusted EBITDA for the quarter was \$190 million, up approximately 9% versus the prior year, given better than expected Group performance coupled with operating margin expansion of 130 basis points, as lower cost boosted flow-through.

Our Timeshare Adjusted EBITDA was \$74 million in the quarter, a 10% decline versus the prior-year period. Results met our expectations, given the accelerated timing of sales posted in the fourth quarter of

2014, partially offset by higher fee-for-service sales and improved sales efficiency. We continue to expect Timeshare Adjusted EBITDA of \$335 million to \$350 million for the full year.

We continue to make progress on transitioning our Timeshare business to a capital-light business, with 78% of intervals sold during the quarter developed by third parties. We remain extremely pleased with the success of our fee-for-service deals, particularly The Grand Islander, which brought its four month sales total to over \$160 million, making it our best launch by a significant margin.

Our current supply of Timeshare includes approximately 128,000 intervals, or over five years of inventory at the current sales pace, over 80% of which is capital-light. We continue to expand our overall supply through capital-light deals and are in discussions regarding several new capital-efficient projects which we expect to announce in the coming months.

Finally, our Corporate and Other segment was \$56 million for the quarter, which was in line with our expectations.

Moving onto regional results; strong performance across the globe contributed to our success this quarter. US RevPAR grew 6.5% versus the prior-year period, driven by strong Group business in our own hotels in gateway cities, particularly Chicago and San Francisco. Overall performance was somewhat tempered, however, by severe weather, which we estimate negatively affected RevPAR growth by 50 basis points in January and 300 basis points in February. Overall for the quarter, weather negatively affected US RevPAR growth by about a point.

In the Americas outside the US, RevPAR grew 6.7% for the quarter, as strong results in Mexico more than offset challenges in Buenos Aires and São Paulo.

In Europe, RevPAR increased 5.5%, despite the first quarter being seasonally slow for the region. Performance benefited from strong city-wide business across Germany and Group business in markets like Prague, Copenhagen, and throughout Ireland. These positive trends offset weakness in France. London had a difficult start to the year as well, with lower than expected Group business and soft Transient demand.

The Middle East and Africa region posted RevPAR gains of 5.4% for the quarter, driven primarily by double-digit growth in Group business. Gains were predominantly owing to great convention calendars in Dubai, Doha, and Mecca. Additionally, the region continues to get a boost from improvements in Egypt, which are offsetting softness in the Arabian Peninsula, as that area struggles with a reduction in Russian demand.

Finally, in our Asia-Pacific region, RevPAR improved 10% year-over-year, driven by double-digit occupancy increases in Japan and Thailand, and a RevPAR gain of 12% in China. We attribute outperformance in China to our exposure to faster-growing markets, newer hotels ramping up, and strong market share gains.

Turning to our balance sheet; as of March 31 we had total cash and cash equivalents of \$816 million, of which \$269 million is restricted. During the quarter we reduced long-term debt by \$225 million, including \$150 million voluntary prepayment on our term loan and \$75 million in debt reduction from the Waldorf sale and 1031 exchange. We ended the quarter at 3.9 times net debt to Adjusted EBITDA, and we prepaid an additional \$100 million on our term loan this month, bringing total debt reduction year-to-date to \$325 million.

After completing the Hilton Sydney sale, we expect to prepay approximately \$325 million of our term loan with the net proceeds, and for the full year, cash available for debt prepayments or capital return to stockholders should range from \$1.1 billion to \$1.3 billion.

Given our progress year-to-date, we remain well on our way to achieving our targeted leverage goals for the second half of the year. At that point, we intend to begin returning capital to stockholders, starting with the introduction of a dividend. We intend to outline more specifics during our second quarter earnings call.

Turning to guidance; as Chris mentioned, we had a strong start to the year, feel great about the fundamentals, and as a result, have increased our full-year outlook. Our system-wide RevPAR guidance is between 5% and 7% on a comparable currency-neutral basis. We maintain Ownership segment 2015 RevPAR growth guidance of 4% to 6% on a currency-neutral basis.

We forecast Adjusted EBITDA to range from \$2.81 billion to \$2.87 billion for 2015, an increase of \$10 million at the mid-point. The announced Hilton Sydney sale would reduce this range to \$10 million to \$14 million on closing. As a reminder, our initial 2015 guidance had already assumed EBITDA contribution from the full deployment of proceeds from the Waldorf sale and 1031 exchange.

We expect diluted EPS adjusted for special items to be between \$0.79 and \$0.83 for the full year. We expect Management and Franchise fee growth of 11% to 13% and are maintaining our net unit growth forecast of 40,000 to 45,000 rooms, representing 6% to 7% room growth in our Management and Franchise segment for the year. We expect the Corporate and Other segment to be roughly flat for 2015.

Cap ex spending excluding timeshare inventory is forecast to remain approximately \$350 million to \$400 million including about \$265 million to \$285 million in hotel cap ex, which represents roughly 6% of Ownership revenue.

For the second quarter of 2015, we expect system-wide RevPAR to increase between 5% and 7% on a currency-neutral basis, driving Management and Franchise fee growth of 11% to 13%. We expect second quarter Adjusted EBITDA of between \$740 million and \$760 million and diluted EPS adjusted for special items of \$0.21 to \$0.23. Further detail on our first quarter results and updated guidance can be found in the earnings release we distributed earlier this morning.

This completes our prepared remarks; we would now like to open the line for any questions you may have. In order to 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:**

Certainly. 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.

Your first question comes from the line of Bill Crow with Raymond James & Associates. Your line is open.

**Bill Crow:**

Hey, good morning, guys. Nice start to 2015.

**Christopher Nassetta:**

Thank you, Bill.

**Bill Crow:**

Chris, as of 6:59 this morning I wanted to ask your opinion of something that occurred on the Pebblebrook call when Jon Bortz last week suggested that RevPAR growth could accelerate the US next year, relative to 2015 levels. But now, as of 7:00 and with one of your peers' announcements, I've got to ask you about M&A and your thoughts about the sector M&A, Hilton's potential appetite for participating in the M&A, just kind of broad open-ended question here. Let me hear your thoughts on that.

**Christopher Nassetta:**

Yes, I—based on what I read in the press this morning I figured somebody would ask me. Bill, thank you for being the one to do it and being first. For obvious reasons, you know, I'm not going to comment on anything specifically that we might or might not be doing, but in terms of broader thoughts on industry consolidation and our participation—and I'm happy to talk about it and I think you will find it is very consistent with everything I've said a thousand times over the last couple years—in terms of broader industry consolidation, I think when you get to this stage in the cycle you typically see more of it, generally. I have every expectation that over the next 12, 24 months, you're going to see more of it and it will follow a typical pattern. Exactly who does what is impossible to know. We all have views, I have views of who can do—be part of consolidating and on what side, but time will tell. But I do think you'll see, you know, an uptick in what exactly our competitor that made that announcement this morning does is really hard to know. I thought it was interesting, honestly not particularly surprising when I read it.

In terms of how we might participate in it, I think, again consistent with what I've said, the way I look at the world is, we're in a really good place. You can see our first quarter results, you know, are really good in every regard. In my opinion, top line margin, bottom line new unit growth, our expectations for the year are quite strong. We had a great year last year. We think we have everything we need to lead the industry in all regards, top line, bottom line and unit growth, and I think we're doing a pretty good job of proving that in terms of the results that we're delivering, you know, since we've been public and our objective, obviously, is to continue to do it and I think we will. I think we have amazing opportunities with the brands that we have in our portfolio today and the opportunities we have to add to that portfolio of brands to drive industry-leading organic net unit growth, which in my opinion is the best way to drive the highest value for all of our shareholders going forward.

Having said that, and consistent with everything I've ever said as a CEO, it would be silly to say we would never participate in M&A activity because you never know what opportunities might present themselves that could make a tremendous amount of sense. So I think we always want to remain open-minded. We think we have everything we need to deliver—you know, to continue to deliver industry-leading results but if there are opportunities over time that presented themselves that made it through the following two filters, we would have to be thoughtful about it. Those two filters are the obvious ones. One, that whatever it is is a thoughtful, strategic fit in terms of the meshing of whatever it might be with what we have, and that the economic drivers are such that you can see significant value accretion as a result of whatever it might be.

So if there are things that present themselves that get through those big filters then obviously we're going to be thoughtful about it. There's a lot of complexity to any of those things that might happen over time, but we would be thoughtful. But our primary job, which I think we're proving out, is to grind it out and really drive industry-leading results so that we have—and I think we have an amazing setup between the scale of what we have, the breadth and diversity of our geography, the breadth and diversity of our brand in terms of chain scale that gives us a really unique advantage to be able to continue to grow and at an accelerating pace.

**Bill Crow:**

That's very helpful, Chris. Would you care to opine on the prospect or potential of a reversal in the second derivative of RevPAR growth in the US industry-wide because of better Group bookings and better performance in a couple of big markets that are laggards this year. Is that something...?

**Christopher Nassetta:**

I said it in my prepared comments about being thoughtful about making sure we give time for other questions. I think we feel good about what's going on in RevPAR growth. I think the best way to look at RevPAR growth is, you know, quarter-to-quarter. One year versus the next versus the last quarter which—because every quarter, as you know, in our business cycles through different Group patterns and other things. You know, when I look at it—and I made the comment in my prepared comments for a reason because I'm trying to make the point that what we're seeing is acceleration. On a comp basis, our first quarter this year picked up over our first quarter of last year, not insignificantly, particularly when factoring for somewhat worse weather patterns in '15 than '14.

All I'm going to say is—you know, from a cycle point of view, I think the fundamentals are as good as I've ever seen them. I know that everybody wants to debate it, and I think that's fair because that is a really important point to understand. But from where I sit, having been doing this for 30 years and lots of lots of cycles, it's hard not to feel exceptionally good about what's going on in the sense that Transient business is good and continues to stay good if not get a little bit better; Group is rebounding exactly the way that we would think, with the ancillary spend coming along with it; the patterns looking forward feel very good; supply is still at historically low levels and everything that you see going into the next two or three years suggests it's going to be significantly below 30-year averages.

I'm going to just say we feel really good about where we are in the cycle. We feel really good about RevPAR growth, where it is, and where it's going.

**Bill Crow:**

Thanks, Chris.

**Operator:**

Your next question comes from the line of Shawn Kelly with Bank of America. Your line is open.

**Shawn Kelly:**

Hey, good morning, everyone.

**Christopher Nassetta:**

Morning, Shawn.

**Shawn Kelly:**

Maybe just to stick with what is undoubtedly going to be the theme of the day, on M&A, Chris, could you just give us maybe a little bit more detail on your—you know, kind of the opportunity in your own portfolio? Obviously you're doing a ton on the organic growth and particularly internationally as it relates to—you know, I think, different brand profiles. So the question is, you know, is there any area, and particularly when we look at Hilton I think we always kind of come back to the luxury component of the chain scale. Is there any area that you think you really could benefit from materially in terms of distribution power, when you think about M&A? How would you answer that or think about that?

**Christopher Nassetta:**

Yes, I would answer it probably the same way I already answered it when Bill asked it. But look, let me add a little bit—kidding aside, let me add a little bit more color. You know, as I look at our opportunity for organic growth, I think it's a combination of layering our existing brand intelligently around the world. This is one of the benefits of having the chain scale diversity that we do, is that if we're really intelligent, and

I've said this many times, you know, that we can lean in and lean out around the world as market conditions change around the world and allow ourselves to grow following the demand patterns in the various regions of the world.

So what we're doing in China I think is a wonderful example of that. What we're doing in Europe is a wonderful example of that. What we're doing in the US is a wonderful example of that, where if you think about it, all of those are somewhat different stories. We have the chain scale diversity, we've been thoughtful about how we adapt our products and the service delivery for the particular regions, and it's allowed us to grow even when some of our competitors are not or they're growing at a much slower pace. I think our objective and strategy is to continue to do that.

Anticipating what might happen in China, as we've done with the limited service business, same thing in Europe, and we'll continue to do that. This—it is always, from an organic growth point of view, in terms of numbers of rooms and hotels, the most significant opportunity is taking what we already have and deploying it really strategically and intelligently around the world. We think that is a massive opportunity for growth.

In addition to that, there are opportunities to—you know, we added two brands last year which I talked about in my comments. We have some other opportunities and I have talked about those publicly. I think particularly an entry-level brand that would replace what space Hampton, with all of its amazing success, has exited as it's moved up. I think we could stand to have a slightly lower price point brand in the mid-scale segment and price point that would allow us to capture customers, you know, earlier in their lifecycle and garner their loyalty, to allow them to grow up with us in our system and shop in and around our system with our other brands.

So we're very hard at work, whether it's this year or early next—sometime, I would say, in the next 12 months for sure, you're going to see us do something in that category. We think that could be a mass-scale brand globally. It'll start likely in the US, but given the scale of the Hampton brand as an example, we have 2,000 hotels—over 2,000 hotels open. This could be amongst the largest brands by hotel count that we have, and I think will be a very powerful driver of bringing new customers in and continuing to build loyalty.

On luxury specifically, I think we—you know, we have made amazing progress from where we were six or seven years ago with Waldorf and Conrad. We have tremendous momentum, from a system that has had time with, you know, 20 hotels. So what's opening in the pipeline today, 80-ish hotels and some of the best hotels that are opening and the fastest-growing luxury brands in the world. I think we have great momentum in that space and I think organically we can accomplish our objective in the luxury space in addition to every other segment I think that is represented in the industry.

I feel like—as I said sort of answering Bill's question, we have what we need to be successful. I do not—I will be very clear, I do not think we have a strategic gap that we cannot deal with ourselves. I don't feel like, you know—there's nothing we can't accomplish organically. There are others out there that we compete with that might not be in that same position, but I think we have everything it takes to be successful, I'll stop (phon).

That doesn't mean that we're perfect. That doesn't mean that there aren't things that we could do in luxury or, frankly, in any of our segments that could make us stronger and better, and I go back to what I said before, whether it's luxury, whether it's upscale, mid-scale, upper upscale, whatever we would do, whatever brand or whatever portfolio brand that might be out there in play, we're going to look at it through the lenses I describe: does it fit strategically and make us better than where we are? Does it allow us to ultimately accelerate our growth over time, and ultimately as a result of that and other factors, could we create significant value? Because we all know whatever it is, big or small, there are always risks in doing things that are inorganic versus organic.

So those are the filters that we would look through, and I know everybody's looking for more (inaudible) I'd say, you know, we're in a nice position where we don't have to do anything. I think we can be very, very successful and create a huge amount of value doing what we do organically, but we always are going to be thoughtful about broader opportunities.

**Shawn Kelly:**

Well, thanks for beating the dead horse for me. I appreciate it.

**Christopher Nassetta:**

You're welcome. I suspect that may not be the last time I beat that horse, so I'll get my whip out.

**Operator:**

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

**Carlo Santarelli:**

Hey guys, thanks for taking my question. Chris, you've always been pretty forthright with your view of the cycle and maybe the cadence of the cycle more specifically as it pertains to an elongated stable mid-single-digit RevPAR growth. When you think about, in the context of your peers and thinking about it along the lines of clearly different views of the cycle sometimes lead to a little bit more activity in the space. As you speak to some of your peers, to the extent that you do, are you starting to hear more differentiated opinions as to where we are or how this cycle will proceed from here?

**Christopher Nassetta:**

That's an interesting question. I mean, you could probably answer it better than I could, in the sense that—well, I talk to my peers, my guess is you're talking more directly about this topic to my peers—than I am to my peers. But Carlo, interesting and good question.

I say no, I do not—I can't think of a conversation—I mean, they're always degrees. But I'd say that there is not, you know, really anybody that I'm talking to that's in the industry that is viewing the cycle a whole heck of a lot differently than what I described. I mean, I know the—I've kidded people about this, everybody wants to do it, particularly when it's baseball season—you know, what inning are you in. People might have differing views within an inning, you know, that I've sort of gotten out of the business of talking about what inning we're in because I don't think it matters.

I think what matters is what's in front of us, not what's behind us. In my prior response I gave my views of that which is, I think what's in front of us is—for as long as I think you could sort of try and be intelligent about it, which is the next two or three years, I think you've got an amazing setup. There are certainly things that could disrupt it, there are things that happen in the world that could cause reductions in demand and the like. But I'm saying, all things being equal in the environment we're in from a macro point of view, matched with what's going on on the supply side, it's really hard for me—and I think others, and certainly I'm talking to—have a view that's different than that. I mean, they're just—the truth is, as hard as I look, there is nothing in our business, there is no pattern, there is no metric, there's nothing that suggests there's a problem.

It's very rare I've heard those words come out of my mouth. I think I've been a real straight shooter for the time I've been in the industry, but it is good and until something really major changes which I don't see on the horizon, for what I can see it's going to stay good.

**Carlo Santarelli:**

Okay, that's very helpful. If I could ask just one quick follow-up, I believe on the last call you guys had referenced Management Franchise RevPAR growth 5 to 7, less 100 basis points for FX. Has that assumption changed at all? I assume based on the guidance there's a little bit more built in for FX, but could you clarify from a RevPAR perspective?

**Kevin Jacobs:**

Yes, I think...

**Christopher Nassetta:**

I'll have Kevin do this.

**Kevin Jacobs:**

Yes, Carlo, I think we'd still give the same range. I think if you do the math it's a little bit worse because the outlook is getting a little bit worse, but I'd still probably give the same range plus or minus, for the differential.

**Carlo Santarelli:**

Kevin, just to clarify—the outlook you're referring to the FX outlook, correct?

**Kevin Jacobs:**

Yes.

**Carlo Santarelli:**

Yes, thank you. Okay. Thanks, guys, thank you very much.

**Christopher Nassetta:**

Yes.

**Operator:**

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

**Steven Kent:**

Hi, good morning.

**Christopher Nassetta:**

Morning, Steve.

**Steven Kent:**

Good morning. Can you talk about the competition for newly-launched brands Curio, Canopy, following similar brand launches from Hyatt, Starwood, Marriott, et cetera. Are you finding that you need key money debt financing or more attractive terms to get people to sign with Curio?

Then as a follow-on, and I'm not sure if these two are linked, you noted that conversions were 40% of room additions in first quarter of '15, how does that compare to history? What are franchisees typically converting from and are they converting to some of the softer brands, Curio in particular?

**Christopher Nassetta:**

All right, there's a lot in that. I'd say, in short form, obviously there are competitive brands being launched. You guys are aware of them, reading about them and thus the question. I gave some of the stats in my prepared comments. It's a competitive world but I'd say we are faring very well. If you look at what's going on with Curio, five open, 11 in the pipeline, 23 under a letter of intent. We have over 11,000 rooms already sort of teed up and ready to go, and I'm not saying that we don't have some competition occasionally but we don't have, I'd say, really stiff competition on the specific deals that we're working on. We are not seeing any sort of pattern of having to buy the business in the form of key money or other things.

I think—Steve, I mean, it's self-serving to say but it happens to be in my humble opinion true, we have a unique competitive advantage. We have the highest average market share of any of the players with our system producing an average market share of over 115%. If you look at Curio, you look at any new brand launch, what owners are trying to do is make a decision to put their money with whoever they think is going to drive the best economic result at—with the highest average market share and with the great scale and diversification geographically in chain scale that creates this loyalty effect which I've talked a lot about, which is what's helping drive that market share. I think owners are looking at that saying, I want to be part of that because it's going to help me drive more revenue and profitability into my hotel.

So I think it, you know, you can play with key money, you can invest (phon) but when you have that advantage which we are not just planning to maintain in the hands in terms of growing market share, it gives you a unique competitive advantage, in my opinion. Thus, I think the success that we're seeing in Curios and Canopy, and I can assure you with a new brand that I mentioned that we're working on launching. We have tons and tons of interest from our existing—particularly ours, because that would be almost entirely a Franchise brand from our existing Franchise Ownership community.

For the very same reason, these are the same people that have built, you know, tons and tons of Hampton Inns that have an average market share of 124%, 125% and they know we have the skills to replicate that, a system to drive the result.

I think there is something different about us, in my humble opinion, which is the system is unbelievably powerful which allows us to get these brands up and running faster and deliver better commercial results for Owners, get better economic turns for us, and do it with little or no capital. Okay? That's our story, that's our strategy, it's as simple as that.

In terms of conversions, we had great conversion activity in the first quarter, probably a little higher than the full year. If you look at the last, you know, I'd say three years on average, it's been about a third of our growth. It bounces up and down a little bit. It's a little bit higher than that in the first quarter. I think for the full year, it's probably about a third. You know, that's what we see, and it will—you know, if you look at where it's coming from, I mean the brand, it's largely DoubleTree and Curio, that's where we'll see the conversion activity. Curio obviously was part of that strategy. DoubleTree many years ago, six years ago as we sort of re-envisioned DoubleTree and transformed it. It was all about being a great conversion brand and we've had amazing success, far more conversions—far more rooms converted than any other of our competitors. It's coming from a host of places. You know, if we look at DoubleTree, coming from some of our competitor brands, a little bit of independence, if you look at Curio, a little bit of our competitor brands largely end up coming from independent hotels.

**Steven Kent:**

Okay, thank you.

**Christopher Nassetta:**

Yes.

**Operator:**

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

**Harry Curtis:**

Good morning guys, I think the horse has just a little bit more life in it.

**Christopher Nassetta:**

Oh my God, really? Okay. Here, let me—I'll get the whip out.

**Harry Curtis:**

It's still twitching. Two quick questions; first of all, do you think it's reasonable to believe that you've looked at most potential combinations, you know, not just in the last six months but over the last four years?

Then the second question, and this is one that might be more politically difficult to answer, but is it necessarily the case that Blackstone can do something separate from Hilton if they wish?

**Christopher Nassetta:**

On the first one—you know, I'm not going to comment on what we've looked at, what we haven't looked at. I mean, I think the broader thing here—you can assume that we are living, breathing, sentient human beings that sort of are aware of what's going on in the market. As a result, if nothing else, our intellectual curiosity takes us all over the place. So yes, we're—yes, I've been doing this a long time, we're always noodling everything as you would hope we would. It doesn't mean we do everything. Obviously we're very thoughtful on that, but we're always sort of noodling about everything.

In terms of BX, I think you need to ask BX. BX, you know, is the separate entity. They happen to own, at the moment, the majority of the Company, but what they do with their independent separate funds is really their business.

**Harry Curtis:**

Okay, let me then, in my second question, move onto a fundamental one. As you speak with your corporate customers, what are they indicating about their hotel needs over the next 12 months, given the relatively flat corporate profits in the first quarter? Is there any indication that they're likely to cut their travel budgets over the next 12 months?

**Christopher Nassetta:**

Really good question, and interesting. I think the answer is that, you know, both sort of broadly talking to our sales teams but also more specifically, because I'm constantly talking to some of our larger customers in various settings, I don't—no. Not only do I not get a sense of them cutting back, I get a sense of them increasing volumes and being more willing to pay higher rates—and knowing, in a sense, that they have to pay higher rates given what's going on both in the broader economy as well as in the industry.

**Harry Curtis:**

That's perfect. Thanks, Chris.

**Christopher Nassetta:**

Mm-hmm.

**Operator:**

Your next question comes from the line of Vince Ciepiel with Cleveland Research. Your line is open.

**Vince Ciepiel:**

Great, thanks for taking my question.

**Christopher Nassetta:**

You bet.

**Vince Ciepiel:**

Wanted to focus a little bit on the stronger US dollar and the potential impact on international stays. Have you guys seen anything year-to-date, and are you seeing anything kind of impact bookings for this summer?

**Christopher Nassetta:**

Yes, another great question. You know, it's interesting when we look at all the data, intellectually, given the strength of the dollar you have to believe that it's impacting business at least somewhat. As we, you know, in the beginning of the year talked to our GMs in the big markets, they were not really indicating any material shift, other than maybe in New York where you have a little bit heavier component where I think they were feeling a little bit—so anecdotally, I would say people didn't think there was much.

When you get the hard data at the end of the quarter which we now have—actually, ironically, international business was up in the quarter by about a half a point—so not meaningfully, but it was up. So what's really been going on—you know, New York down, but across the US, recognizing for background that it's only 5% of our business across the US to begin with, but that the world's a big place. I don't have to tell you, and there are places where it is more impacted than other places. So what we saw in the first quarter, and I expect it to continue, is that business out of Europe, a little bit out of Canada, but mostly out of Europe was declining, particularly out of Germany and France. Ironically—I don't know exactly why, to be honest—Spain was up.

But what was up in a meaningful way was China, because a number of us have worked really hard in the industry to work with the US government and the Chinese government to make it easier and more efficient to get visas, and that is having a dramatic positive impact on, you know, what has been the largest outbound customer base, which is now China, in the world.

So those are sort of offsetting. I think as we get into the summer months, I think you got another dynamic which is, I do believe with the strengthening dollar you'll continue to see some impact of European business coming to the US, meaning it will be weaker. I think China business is going to continue to be strong. I think US business in the US for the drive-to market given cheap gas prices, is going to better. I think Europe is a bit on sale, not an insignificant 9% or 10% of our business. I do believe, and we're starting to see the early patterns of summer bookings. They're reflective of the fact that a lot of people are going to go to Europe that might not have otherwise gone, and that's going to give us a boost there.

The net result of all that is we are not—we did not change our view on RevPAR growth, and the simple reason is we think that with all the puts and takes, they sort of flush out.

**Vince Ciepiel:**

Great, thanks. Then, currency has moved against you guys a bit since the 4Q call. I think last time you noted the \$40 million full-year headwind, of which about 25 hits the fee business. Any updated thoughts there? Then I guess, you know, when you think about the EBITDA raise, despite the FX, is it fair to say you're feeling a big better about core fee growth out of that change?

**Kevin Jacobs:**

Yes, Vince, it's Kevin. That's exactly the way to think about it. So if RV was 25 million and we said about \$15 million of it was timing so we had \$10 million beating the first quarter and we raised \$10 million for the year, we've got about \$15 million to \$20 million of incremental FX for the year so it's really a \$25 million to \$30 million FX adjusted raise at the midpoint.

**Vince Ciepiel:**

Great, thanks for the explanation.

**Operator:**

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

**Felicia Hendrix:**

Hi, thanks for taking my question.

**Christopher Nassetta:**

Sure.

**Felicia Hendrix:**

Kevin, maybe you thought you were going to get off the hook on this call, but you're not. So, you know, this is obviously the closest you've gotten to discussing a dividend. You said you were going to give us more color on the quarter, just wondering does that mean...

**Kevin Jacobs:**

I did.

**Felicia Hendrix:**

You did? Does it mean it's going to be a second quarter announcement or are you going to discuss it further then and then, just wanted to know in light of that if you could discuss your commitment to your investment-grade rating and timing on that.

**Kevin Jacobs:**

Yes, sure. Thanks, Felicia. Yes, we did say we'll give you—I think what we'll do is outline a plan on the second quarter call. We've got to spend a little bit of time talking to our Board about what we want our strategy to be and looking at our forecast. Obviously, ultimately they're the ones that will decide but we

would intend to be able to outline the plan on the second quarter call, you know, the Sydney transaction incrementally helps get us a little bit closer and we've been saying, I think for a while now, that we thought we'd be in the zone in the back half of the year.

We have not wavered on our commitment to investment-grade. We think that our—the range that we've outlined would get us consistent with our peers and our peers in investment-grade companies. We will be balanced about it and work with the agency, so we have not wavered on that commitment.

**Felicia Hendrix:**

Great. Then just, also a follow-up for you, Kevin. You mentioned in your prepared remarks, the increase your effective franchise rate in the quarter.

**Kevin Jacobs:**

Yes.

**Felicia Hendrix:**

I was just wondering how much your—those rates can move up over the next few years and how much that could add in fees.

**Kevin Jacobs:**

Yes, I think they ought to move up consistently with the way they have been. So it's been kind of around 10 basis points for the quarter. It's gone from 4 flat to 47 (phon) over the course of the last five years or so, and we would think that we could consistently—not only continue to get closer to our published rate which is 5.4%, 5.5% but if we do our jobs right and continue to grow this—strengthen the brands, we ought to be able to increase our published rates over time. So I think you'll continue to see it grow at a similar pace.

**Felicia Hendrix:**

Great, thank you.

**Kevin Jacobs:**

Yes, sure.

**Operator:**

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

**David Loeb:**

Don't worry Chris, I'm not going there.

**Christopher Nassetta:**

Thank you. I have nothing more I can say on it, but I could try another way to say it. Go ahead, sorry David.

**David Loeb:**

It's okay. I just—at the risk of asking the "what have you done for me lately?" question. You've made a lot of progress in asset monetization this year, clearly, but can you talk a little bit about what you're looking at in the future for additional monetization opportunities?

**Christopher Nassetta:**

Yes, we've been, I think, pretty consistent, and I know very consistent on the point which is we had an opportunity in the Waldorf, we said that we may have others. Obviously Sydney is one of those others. There may be other, you know, asset sales, I would say, that would be quite modest that we could pursue. Nothing around the corner. The bulk of the remaining real estate, certainly from a value point of view, David, really because of the tax attributes, if and when we wanted to do something would really need to be done more in a structured transaction than kind of an asset monetization of the type we've been doing.

**David Loeb:**

Okay, and then just to follow that, on the Cypress. What's the brand planning for that? What's your expectation of what brand that hotel will become?

**Christopher Nassetta:**

It ultimately will become a Curio, we think is the appropriate branding.

**David Loeb:**

Thank you.

**Christopher Nassetta:**

Yes.

**Operator:**

Your next question comes from the line of Joseph Greff with JP Morgan. Your line is open.

**Joseph Greff:**

Good morning all.

**Christopher Nassetta:**

Morning, Jeff.

**Joseph Greff:**

Can you share with us your outlook for the New York City market for the balance of the year, and if you think it is still a negative RevPAR growth market?

**Christopher Nassetta:**

You know, I don't. For the first quarter it was obviously negative for us, the market was down in the sixes. Now that probably exacerbated by a lot of work going on at our largest hotel. We had a big renovation of rooms plus retail space going on at the New York Hilton and, you know, it's comp but it's driving part of it. But it was down in the first quarter as I think most—sort of the industry stats are.

For the full year, Joe, we think it's actually going to flip around. We don't think it's going to be, you know, leading the charge in terms of growth in the US but we're in the low to mid-single-digits, you know, 3% to 5% growth is what we would forecast for the New York market overall.

Early leads on April sort of feel pretty good. Feels like, you know, after the first quarter with weather, with Super Bowl overlap, with renovation disruption, that we had all of those things sort of hurt the first quarter. When we're getting into April and we look at the booking pace for May and June, it supports what I'm saying.

So I think, you know, we've pushed really hard and dug really deep into these forecasts and we're pretty confident we're going to show positive growth for the market.

**Joseph Greff:**

Great, thank you. Then, in your earlier remarks, Chris, you had mentioned in the first quarter, the Group growth outpaced the Transient growth. Do you see that performing more in balance—in the balance of the year? How do you see that trending forward?

**Christopher Nassetta:**

Yes, I think they're bouncing around in the similar place. They're both—been thinking about the last couple quarters, I don't have the numbers all in my head, but anecdotally—I mean, I think they're—you know, this year we think they're going to both be in the 6 to 7 range. One might be a little higher or lower depending on the quarter, because as we all know Group sort of cycles differently in the quarters depending on the big groups and the big hotels. But we feel like it's going to—they're both going to be in that range, which is why I sort of say I've never felt—I've never seen it feel better when you've got sort of all the cylinders hitting at the same time.

**Joseph Greff:**

All for me, thank you.

**Christopher Nassetta:**

Yes.

**Operator:**

Your next question comes from the line of Smedes Rose from Citigroup. Your line is open.

**Smedes Rose:**

Hi, thanks. I wanted to ask you just about the mid-scale segment, just a couple of question. We continue to see pricing in this lower price points looks to be better, better gains year-over-year. Do you still kind of think that we'll see more convergence there? I think you had talked about that on the fourth quarter call, given the Group trends that you're seeing.

Also, you know, I know supply remains pretty low but we are seeing, kind of, it seems like a pretty rapid pickup in the number of upper mid-scale hotels in the pipeline. When you talk to developers, do you see like, kind of a market difference in the ability to access financing and lower equity needs, or kind of—how—what are you sort of seeing in that area?

**Christopher Nassetta:**

I think the—maybe I'll take the last part. I think the reason you're seeing, you know, more of the development getting done there is that the economic model works there. So I think in the end, markets are efficient, people are able to drive better results, higher margins and as a result can raise the capital to do it. So I don't think it's a problematic setup. I think it's—you know, I mean, you stated the fact. You're seeing the highest RevPAR growth in that segment and supply is higher in that segment. Not crazy high, but of the segments it's higher. I think it's cause and effect. I mean, you know, it's just the economic model is driving that. We don't see that there is a mounting problem. Performance continues to be very good even as supplies come in because there's—it's just healthier. There's more demand and the money is following that demand.

In terms of convergence, we saw a little bit of the convergence I talked about in the first quarter. If we look at the Focused Service versus everything else and we still think for the full year both those broad categories are going to perform well and we do think that they are going to continue to converge.

**Smedes Rose:**

Thanks. Just on the Cypress hotel that you're acquiring, do you—does Hilton have to pay a termination fee to get out of that Kimpton contract or is that something that the seller would pay?

**Christopher Nassetta:**

Now, we—as part of the deal we do, but it's a very modest term fee.

**Smedes Rose:**

Okay. Thank you.

**Operator:**

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

**Joel Simkins:**

Yes, hey, good morning guys.

**Christopher Nassetta:**

Morning.

**Joel Simkins:**

I just wanted to touch on Timeshare real quickly. Obviously your results continue to look very strong there. One of your big competitors, I would say, was a bit mixed yesterday. So what's the secret to success there right now? Are you seeing anything different from the consumer in terms of willingness to buy more product, to be a bit more aggressive with financing? Then just to follow up with that, I mean, how do you continue to think about Timeshare as sort of core to your business and the current platform?

**Kevin Jacobs:**

Yes, Joel, it's Kevin. I'll take the first part and then maybe Chris will jump in on the second part. I think, the consumer demand for the product remains strong. I think we've seen—our results have been—in fact, our VPG for the quarter was up over 20%. Now, that's being partially driven by, we opened a really strong, high-priced product at The Grand Island, they're in Hawaii, so that's driving VPG. For the full year we still think it's going to be strong, you know, at 10%-plus growth in VPG with high single-digit growth in

tours. So we continue to see a high demand for the product but a lot of it is driven by great projects in strong markets and our ability to sell it well.

**Christopher Nassetta:**

Yes, on the second part of the question, it goes without saying. We're very happy with the results in Timeshare that Kevin just described. We're very happy with the transformation and the progress we're making towards making it a very high percentage of capital-light business. Our customers love it, the results are good, we're changing the return profile of the business to be much like the hotel business. So it's good on all fronts, but we—you know, I will say very simplistically, as you would hope we're always looking at ways to maximize the long-term value of the Company. As part of that, we're looking at all the options on all segments of the business including Timeshare and trying to be thoughtful about—notwithstanding how successful it is, you know, is there another format that we should be considering, structurally, that might create even greater value for the shareholder base.

So we've made some good progress in thinking about that, both from a technical and structural point of view. Not to any conclusion by a long stretch, so if and when we get to a point where we have some judgments on that, we'll obviously get back with you and let you know, but we want to be very open-minded and we will always remain focused on maximizing value. If there's a different approach then we would pursue it.

**Joel Simkins:**

That's very helpful, thank you.

**Operator:**

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

**Thomas Allen:**

Hey, good morning. So two quick questions on China. First, last call you mentioned that F&B business looked like it was picking up a little bit. Now that you have the hard data for the first quarter, do you still feel confident in that?

The second question, can—is there any way to quantify or think through how the association you did with Plateno Group of Hampton to kind of help your greater portfolio, just as we see a kind of increase in outbound travel outside of China? Thanks.

**Christopher Nassetta:**

Yes, the first one, the simple answer is yes, we continue to see benefits of rebounding food and beverage. It's not skyrocketing, okay, but from a pattern of seeing significant declines quarter-over-quarter, you know, we've started to see stabilization and recovery and we think it's the beginning, hopefully, of a good trend.

On Plateno, as we outlined when we announced the deal, that is a—you know, one of the primary drivers for why we entered into a relationship with those guys was that what we saw is, you know, the development opportunities in China were changing. They're going to go up and down and be different over different periods of time, but ultimately the economics sort of are going to drive—not unlike what I described is going on with the upscale here in the US. In China, with rising labor costs, rising cost of construction, you know, the thing—the type of product that is going to make, I think, more sense broadly throughout China on a mass basis is going to be at that price point. We looked at lots of ways to do it, and ourselves and with various partners we picked Plateno because after a long process and a lot of

work, we felt like given their success seven days and their scale and their ability to drive the commercial side of the business, they were clearly far and away the best partner.

It was obviously driven by us making money and adding rooms, and I think it's going—I know it's going to do that, but it was also sort of part of the underlying thesis that I keep describing, which is this loyalty effect. It works, we know it works. It works where we end up with scale and price point diversity and geographic diversity. We need those same things in China. The only way to get those things broadly in China, from a geographic point of view, is at this price point, and we think they're the best partner to do it. We win in China and we create that loyalty effect, the 100 million going to 200 million travelers that are leaving China, we think, are going to—if we do our job right—be more loyal to us everywhere else in the world when they travel.

So we—that is a very significant part of the underpinning for the strategy with Plateno.

**Thomas Allen:**

Great, thank you.

**Christopher Nassetta:**

Yes.

**Operator:**

Your next question comes from the line of Rich Hightower with Evercore ISI. Your line is open.

**Richard Hightower:**

Hi, good morning everyone.

**Christopher Nassetta:**

Morning.

**Richard Hightower:**

So just one quick twist on the dead horse we've all been talking about. Sorry to ask you another question on this, but as I think about the organic versus non-organic kind of growth argument that you sort of laid out previously, you know, given your existing platform and infrastructure at Hilton, what is the cost to build a ground-up brand internally versus going externally? Then maybe you can help answer that by, you know, telling what you have spent to-date on Curio and Canopy and what you—you know, sort of pinpoint (phon) the returns for those initiatives?

**Christopher Nassetta:**

I can do it pretty easily. De minimis investment, infinite return. How's that for a quick answer?

**Richard Hightower:**

Yes, that was pretty quick.

**Christopher Nassetta:**

We invest—I mean, it's mostly, honestly, our time. I'm being a little cute in the sense that I'm not allocating the time or the people that are here, but it's mostly our—you know, given the size of our system

and infrastructure that we have on a global business and the relationships that we have with owners, et cetera, it is really, for the size of our operation, relatively de minimis. It's not—it's in the millions of dollars, not tens of millions, which I view as pretty much immaterial for us, and the return—when I say infinite, maybe not quite infinite, are exceptionally high because we invest very little and we build great platforms.

So in Curio, it might be in the single of millions of dollars, and we have 11,000 rooms open and that are in the pipeline. So the math is unbelievably compelling which is why, when we look at other individual brand opportunities—I'm not going to pick on any, but there've been a bunch that have been done recently over the last two or three or four years. We have looked at those and in those cases said we're better off doing it organically. We're going to drive better returns for our shareholders because it's not just the growth they can get out of it, it's the incremental growth that they can give us over what we could do on our own because we could do it on our own without making any investment.

When we've looked at the returns on that basis, the returns—and we're very disciplined about looking at when we invest capital, any kind of capital, getting an adequate return. When we look at the returns on the basis—at least historically over the last few years, you know, we have not seen returns that justify taking action. That doesn't mean that there are not opportunities in front of us where that equation changes, but it gives you a sense that, you know, there is a really unique advantage when you get to be as big and when you have average market share that is this strong and 44 million honors members and you're everywhere in a hundred countries around the world and all these price points, with 10,000 developer relationships, there is a—you know, that's got a lot of value. There's a lot of value in that, and our job is always to say, all right, what are our competitive strengths and how do we optimize our competitive strengths to create value for all of us as shareholders.

**Richard Hightower:**

Okay, great. Thanks, Chris.

**Christopher Nassetta:**

Yes.

**Richard Hightower:**

Then one quick follow-up. I'm just wondering, to the extent that you guys are familiar with Blackstone's thinking, why do you think we haven't seen any recent secondaries?

**Christopher Nassetta:**

I'm—that you'd have to ask them. We know that they started a process and they've done a couple of transactions. We know that the business therein is one that ultimately requires the recycling of capital. I do think that that is the pattern, that is the trajectory they're on. Exactly when they decide to do it I can honestly tell you is not my decision, and so I can't give you color other than to say I do think that, you know, the pattern that they established last year will continue at some point.

**Richard Hightower:**

Okay, that's all for me. Thanks, Chris.

**Christopher Nassetta:**

Yes.

**Operator:**

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

**Robin Farley:**

Great, thanks. Two questions, one is, you know, you've talked about getting to investment-grade and potentially instituting a dividend sometime in the second half of the year. I guess I just wanted to get a sense of how much of a priority is that commitment to investment-grade and returning capital versus, you know, you talked about potentially, you know, at the right price you might do something—you could do something if it worked strategically and all of those qualifications that you added. Just with—is being investment-grade and paying a dividend something that would also be a filtering issue if you were going to do something?

**Christopher Nassetta:**

Let me address—I think I get the question. You know, I'll be clear. Kevin stated it, we do want to become investment-grade and we do think that the range in Adjusted EBITDA that we've outlined consistently of 3 to 4 times, you know, probably in the middle-ish or a little bit lower than that is probably where it takes to get there. We are very comfortable with the balance sheet with or without the investment grade status and I want to be clear because we are not trying to be cute. We are prepared to institute a return to capital program starting with a dividend in the second half of the year subject to our Board making final decisions on that in advance of an investment-grade status.

We are not saying that has to precede the beginning of a return to capital program. If it does, great. I suspect, honestly, it will not, but that—my view is we'll be on a path to getting there and we can get there and at the same time, given the trajectory of the deleveraging, we can return capital as well.

**Robin Farley:**

Thanks. Similarly, there is—if you did a potential transaction, you talked about all the reasons why you might or wouldn't have to, is paying a dividend something that would be the priority for—that that's something you would want to be able to do even if you did a transaction?

**Christopher Nassetta:**

Well, I think that would get—you know, it's all hypothetical. I mean, we're in the business of creating value so that would—any transaction would sort of be—it would be one of many, many factors, I think, that would be involved. Certainly don't view it as a driver, but we are committed to returning capital. I do believe that it would be a consideration, meaning anything that would stop us from returning capital would not be a positive because we're interested, I think the shareholder base is interested in our returning capital and we are as well.

**Robin Farley:**

Okay, great. Then actually, just an easy question on your guidance in Q1. Your Management fee growth rate didn't move for the full year even though Q1 was up 18%. Is that because of FX, is that mostly...?

**Christopher Nassetta:**

Yes, it's pretty much all FX.

**Robin Farley:**

Okay, great. Thank you.

**Operator:**

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

**Jeff Donnelly:**

Good morning, guys.

**Christopher Nassetta:**

Morning.

**Jeff Donnelly:**

Just wanted to come back to the cycle question. Just, I'm curious, rather than asking where we're at, I'm curious, Chris, what are the metrics you look at to conclude whether we're at the peak of the cycle or not? Or is the edge only determinable once you've crossed over it?

**Christopher Nassetta:**

It's hard to say. I mean, one of the things that gives me comfort that we're not at the peak or particularly close, if you look at any kind of historical perspective, is what's going on with occupancy gains. Really, in my personal experience, when I go back and think about when you're getting to peaks of cycles, it's when you really are seasoning rate growth to a point where it's, in many cases, over 100% of your RevPAR growth. We're just nowhere near that. Right? We're still getting very—we're going to have lower occupancy gains this year, I think, system-wide, than last year. Last year we were 2.5 points in occupancy; this year will be less, but we're still going to be close to 2 points of occupancy. It's not the only metric, but I think it's a very healthy metric that your demand base is growing at the same time you're gaining pricing power. It's certainly, to me, one of the great indicators that there's—that you're in a very healthy part of the cycle.

**Jeff Donnelly:**

Maybe just my angle on the Starwood question. Maybe it's a two-parter but, are the goals of diluting down Blackstone's ownership and improving Hilton's balance sheet strategic enough to warrant consideration, other than the means to an end? I guess maybe a follow-up is what concern do you have that their review leads to an existing competitor becoming a more formidable threat to you guys?

**Christopher Nassetta:**

I don't think Blackstone or balance sheet—I mean, you don't do big M&A, whatever it is, to solve those issues. It's got to be strategically and economically driven or you'll screw up something. You'll screw up a good ~~C~~company taking any other perspective than that.

Second question, the second part was?

**Jeff Donnelly:**

Oh, just whether or not you thought it might be an opportunity for a competitor that makes them more formidable?

**Christopher Nassetta:**

Yes, I mean no. I don't wake up in the middle of the night losing sleep over that, and simply because what I've described probably more than you guys wanted to hear it today, I think we've got a—you know, I

don't want to say we're perfect and we have lots of things that I wake up every day and all night long worrying about that I want us to do better and we're working on, and we will do better.

But I like our setup. I like what we have, I like the momentum, I like the makeup of the Company, I think, gives us lots of advantages. So, you know, I could see why others might want to do something to sort of look and feel more like that, and that ultimately they might be a more worthy competitor but I think what we've got is really, really good and if we execute—which I will promise you we will, and we're disciplined about how we manage the business, you know, we've got tremendous potential. So I can't—I certainly don't do deals and I don't think you'd ever want us to be doing deals defensively. I think we're in a great place. If we do our job we're going to stay in a great place. If we can incrementally add to that with whatever is out there, we should be thoughtful and consider those options and we should not do it in a defensive way, ever.

**Jeff Donnelly:**

Great, thank you.

**Christopher Nassetta:**

Yes.

**Operator:**

Your next question comes from the line of Wes Golladay with RBC Capital Markets. Your line is open.

**Wes Golladay:**

Hey, good morning, everyone. A quick question on China, what is your expectations for ADR growth this year, and what is leading it? Would it be the tier one and tier two cities outpacing the low-tier cities, or vice-versa?

**Christopher Nassetta:**

I think the tier one cities—you know, Shanghai and Beijing are going to have pretty good years, particularly Beijing because it's had some tougher years so it's coming back. I think the blended growth is still pretty balanced between rate and occupancy for the full year.

**Wes Golladay:**

Okay, thanks a lot.

**Christopher Nassetta:**

You bet.

**Operator:**

Thank you, ladies and gentlemen. I'll now turn the call back over to Mr. Chris Nassetta.

**Christopher Nassetta:**

Well, thank you everybody. That was a good robust call. We're happy to have the time to catch up, obviously very pleased with not just the first quarter, but the momentum that we have, I think, going into what's going to be another fantastic year for the industry and importantly, a fantastic year for Hilton Worldwide.

We appreciate the time, look forward to getting back together with you after Q2 where we can update you on our progress, update you with more specific plans on return to capital. Hope everybody has a great day and talk soon.

**Operator:**

This concludes Hilton Worldwide's First Quarter 2015 Earnings Call. You may now disconnect.