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Hilton Worldwide Holdings, Inc. (HLT)

Q2 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Hilton Worldwide Second Quarter 2017 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] Please note this event is being recorded. At this time I would like to turn the conference over to Jill Slattery, Senior Director of Investor Relations. Please go ahead.

Jill Slattery

Head-Investor Relations, Hilton Worldwide Holdings, Inc.

Thank you, Denise. Welcome to Hilton's second quarter 2017 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 discussion of some of the factors that could cause actual results to differ, please see the risk factors section of our most recently filed Form 10-K. In addition, we will refer to certain non-GAAP financial measures on this call.

You can find reconciliations of non-GAAP to GAAP financial measures discussed in today's call in our earnings press release and on our website at IR.Hilton.com. Unless otherwise noted comparisons to the company's second quarter 2016 results assume that the spinoff transactions had occurred on January 1, 2016. Please see our earnings release for additional details.

This morning Chris Nassetta, our President and Chief Executive Officer, will provide an overview of the current operating environment and the company's outlook. Kevin Jacobs, our Executive Vice President and Chief Financial Officer, will then review our second quarter results and provide an update on our expectations for the year. Following their remarks, we'll be happy to take your questions. With that, I'm pleased to turn the call over to Chris.

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

Thank you, Jill, and good morning, everyone. We're pleased to report our second quarter as the new Hilton, and I think our results continue to demonstrate the strength of our fee-driven business model. It starts with the best performing portfolio of brands in the business, which are driving record organic unit growth with minimal investment. Add to that, solid same-store growth driven by positive industry fundamentals, and you end up with significant and growing free cash flow, all of which we intend to return to shareholders.

Turning specifically to results, we reported adjusted EBITDA and adjusted EPS above the high end of our guidance for the second quarter, and we're also raising our expectations for the full year including our outlook for capital return. We now expect to return \$1 billion to \$1.1 billion to shareholders this year, or over 5% of our market cap. Our RevPAR index premium increased 60 basis points in the quarter with positive growth in every brand segment and in every region. Top-line results in the quarter were generally as expected with system-wide RevPAR growth of 1.8%. Netting the benefit of July 4th and the downward pressure from Easter, calendar shifts weighed on results by approximately 70 basis points.

When you boil it all down, system-wide year-to-date transient and group growth have generally been consistent with our expectations with business transient and group towards the midpoint of our guidance range, and leisure

transient a bit above the high end. Looking forward, expectations for macro indicators such as GDP growth and non-residential fixed investment growth suggest continued improvement. But so far, we have not seen that translate into increased demand. As a result, our forecast would suggest the midpoint of our RevPAR range for the full year.

On unit growth, we continue to drive a disproportionate share of global development to our system. Nearly one in every four rooms under construction around the world are slated to be added to our system, and we continue to have more rooms under construction in Europe, the Middle East, and Asia Pacific than anyone. In the second quarter, we opened more than 13,000 net managed and franchised rooms, and remain on track to deliver roughly 6.5% net unit growth for the full year. We also approved over 27,000 rooms in the quarter, well on our way to achieving more than 100,000 rooms approved for the full year.

Our pipeline totals over 330,000 rooms, up roughly 15% year-over-year, and represents more than 40% of our existing supply. With over half of our pipeline under construction, we have good visibility into unit growth over the next several years.

We continue to make great progress on our luxury development strategy. We had a very positive response to the Waldorf Astoria Beverly Hills opening just last month. This opening marks Waldorf Astoria's West Coast expansion, offering global travelers a new standard of luxury in one of California's most prestigious ZIP Codes. We expect this spectacular property, along with other recent openings, like the Conrad Osaka, the Conrad Guangzhou, the Conrad San Luis Potosi, and upcoming openings like the Conrad Fort Lauderdale, the Waldorf Astoria Chengdu, and a soon to be announced luxury hotel in Midtown Manhattan to drive a nearly 15% increase in our luxury distribution in this year alone. And we expect to continue seeing double digit luxury growth for the next several years.

Our newest brands also continue to perform very well. Home2 Suites celebrated its 150th opening in the second quarter, with its 200th opening expected by year-end. With nearly 400 hotels in the pipeline, Home2 continues to have the largest pipeline of any suites brand. Guests love Home2's product and service offering, and owners love its performance. In the quarter, the brand increased its RevPAR index by over 500 basis points, and Home2, barely six years since launch, already runs RevPAR premiums well above our system average.

Tru by Hilton opened its first three hotels in the second quarter, with the first marking our 5,000th hotel. By year-end, we expect to have ten Tru hotels opened, with construction starts on an incremental 5,000 Tru rooms. We believe that Tru will attract new customers into our system and enable us to enter new markets. To-date, nearly one in five of our signed Tru deals are in cities where our current brands are not present.

In the quarter Tapestry Collection opened its first property, the Hotel Skyler. This unique eco-friendly hotel is a former temple located in the heart of Syracuse, New York, and is only one of 11 LEED Platinum certified hotels in the world. The property perfectly illustrates the spirit of our Collection brands, which allows hotels to maintain their unique identity while benefiting from the strength of our commercial engines.

Both of our Collection brands, Curio and now Tapestry, continue to gain momentum across the U.S. and globally. With nearly 150 hotels opened and in development, we are quickly growing our system without increasing overall industry supply. Curio celebrated some important developments over the last few months, including debuting properties in China, France, and Italy. We also welcomed the world renowned Hotel del Coronado to our Curio Collection. This iconic 130-year-old property is a great addition to our growing portfolio of unique hotels and resorts.

We look forward to unveiling additional Collection properties in Costa Rica, the Florida Keys, Paris, and London later this year.

On the innovation front, we've begun deploying our industry-leading digital key outside the United States, and remain on track to have over 2,500 hotels, or nearly half our system, equipped with this guest-centric capability by year-end. Hilton Honors members continue to set new records for usage and engagement through our app, with over 3.5 million digital check-ins and nearly 1 million room keys downloaded in the quarter alone. Guests love the choice and control that the Honors app enables, as seen in guest satisfaction scores that increase on average 400 basis points when guests use our digital key.

Innovations like the Hilton Honors app continue to drive growth in Honors. Year-to-date, 5.5 million people have joined the club, a 20% increase year-over-year, and we had our first month with over 1 million enrollments in the quarter. Hilton Honors occupancy increased 170 basis points versus the prior year, while paid member folio rose 9% year-over-year to \$5 billion in the quarter, a system record. With the most guest-centric loyalty program and the efficiency of our web direct channels, guests benefit from greater personalization and more choice and control and best value. At the same time, owners benefit from lower distribution costs and continued increases in system RevPAR premiums.

To further Hilton Honors' ability to drive demand to our system, we recently announced our partnership with American Express, which we believe is a big win for both companies, and for all stakeholders. Effective January next year, Amex will launch and aggressively market a refreshed portfolio of Hilton Honors credit cards in the United States that will help grow our Hilton Honors membership and deepen member engagement.

We will also have the opportunity to grow transient and group market share at favorable economics through American Express and its travel assets, as well as provide owners a meaningful reduction in merchant fees. For Hilton, the growth of card spend in this partnership should benefit license fee growth. We expect all license fees, including co-brand and HGV, as a percentage of total fees to be around 11% this year and would expect for that to go up around 200 basis points in 2018 and grow in line to above core fee growth going forward.

Lastly, I'd like to share some recent news that we're very proud of, and to thank many of our team members whose efforts led to these achievements. Hilton was named the number one military friendly company for 2017 by both GI Jobs and Military Spouse magazines. We owe this honor in large part to our commitment to Operation: Opportunity. Through this initiative, we've hired more than 10,000 veterans and spouses over the last four years, and we just recently have committed to hiring another 20,000 by the end of 2020.

With that, I'm going to turn the call over to Kevin for further details on the results and our outlook. Kevin?

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

Thanks, Chris, and good morning, everyone. For the quarter, system-wide RevPAR grew 1.8% versus the prior year on a currency neutral basis due to strong leisure demand and international results. Year-to date, which largely neutralizes for holiday shifts, RevPAR growth is up 2.4% versus the prior year period. Adjusted EBITDA of \$519 million exceeded the high end of our guidance range by \$9 million, largely driven by better than expected fee growth and out-performance in owned and leased hotels.

Diluted earnings per share adjusted for special items was \$0.52, exceeding the high end of our guidance range and increasing 30% year-over-year on a pro forma basis. In the quarter, management franchise fees grew nearly 11% versus the prior year to \$513 million, well ahead of our 7% to 9% guidance range. In addition to timing

related items, greater license and incentive management fees drove outperformance in the fee segment, while transient occupancy gains in London and rate gains in Japan led to solid results in our owned and leased portfolio.

Turning to our regional performance and outlook, we believe our broad geographic diversity continues to lower the effects of volatility in individual markets. In the U.S. comparable RevPAR increased 50 basis points driven by good leisure transient trends and somewhat offset by softer group performance due to the Easter shift. Additionally, weakness in oil and gas markets pressured results in the quarter. For full year 2017, we continue to forecast U.S. RevPAR growth towards the lower half of our 1% to 3% system-wide range.

In the Americas outside the U.S., second quarter RevPAR grew a solid 6.5% versus the prior year due to strength in Mexico and Canada, which was driven by strong transient demand in both regions. Leisure transient in particular saw double digit RevPAR growth across the region. For full year 2017, we expect RevPAR growth in the region at the higher end of our guidance range. RevPAR in Europe also grew 6.5% in the quarter, ahead of expectations due to transient strength in London and Continental Europe, namely the Netherlands, Germany and Spain. Additionally, international inbound to the UK was up nearly 14% in the second quarter, helped by favorable exchange rates. Given the beat coupled with raised expectations for the balance of the year, we expect full year 2017 RevPAR growth in the region to be in the mid-single digits.

In Middle East and Africa, robust second quarter RevPAR growth of 10% benefited from stronger leisure volume largely due to holiday shifts which should reverse in the third quarter. We saw good group performance in Saudi Arabia, transient strength in the UAE and improving leisure business in Egypt. For full year 2017, we expect RevPAR growth in the region of flat to slightly positive.

In the Asia Pacific region, RevPAR increased 7% in the quarter led by strength in Japan and China. RevPAR in China was boosted by stronger transient volume at both established and maturing assets. For full year 2017, we expect RevPAR growth for the region to be mid-single digits with RevPAR in China up in the 8% to 9% range.

Moving on to capital return, we paid a quarterly cash dividend of \$0.15 per share during the quarter for a total of \$98 million in dividends paid year-to-date. Our Board also authorized a quarterly cash dividend of \$0.15 per share for the third quarter.

As Chris mentioned, we now expect to return between \$1 billion and \$1.1 billion to shareholders through buybacks and dividends this year. Since initiating buybacks in March, we have bought \$425 million of shares through July and expect to buy a similar incremental amount by year-end.

With the resiliency of our business model, a point of RevPAR growth is about a point of adjusted EBITDA growth, making it largely immaterial to our capital return potential.

For the third quarter of 2017, as expected, an unfavorable calendar shift in the days of week for July 4th and the timing of the Jewish holidays which fell in the fourth quarter last year should result in system-wide RevPAR growth of 0% to 2%.

We expect adjusted EBITDA of \$490 million to \$510 million, and diluted EPS adjusted for special items of \$0.47 to \$0.51. We are maintaining our full year 2017 RevPAR growth guidance of 1% to 3%. As Chris mentioned, we expect full year growth towards the midpoint of the range.

We are raising our adjusted EBITDA outlook by \$20 million to \$1.9 billion at the midpoint. Even with relatively modest same-store RevPAR growth, we expect to grow 2017 adjusted EBITDA by 7% to 9%, or roughly 4 times the midpoint of our RevPAR guidance, demonstrating the strength of our fee-based business model.

We are raising diluted EPS adjusted for special items to \$1.78 to \$1.85. Please do note that our full year EPS range does not incorporate incremental share repurchases.

Further details on our second quarter results as well as our latest guidance ranges can be found in the earnings release we issued earlier this morning.

Lastly, we were recently added to the S&P 500, an index widely regarded as the best gauge for high quality large cap U.S. equities. We view this as a great milestone for our company and are proud to be part of this prestigious group of companies.

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. Denise, can we have our first question, please?

QUESTION AND ANSWER SECTION

Operator: Thank you, Mr. Jacobs. [Operator Instructions] And your first question will be from Harry Curtis of Nomura Instinet. Please go ahead.

Harry Curtis

Analyst, Nomura Instinet

Hey. Good morning, everyone.

Q

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

Good morning, Harry.

A

Harry Curtis

Analyst, Nomura Instinet

Chris, good morning. Chris, based on your relationships at the highest levels with your key customers, what are the economic and political tea leaves that they need to see before dialing up spending on transient travel?

Q

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

That's the \$64,000 question. A good one. I'd say – I've been talking to a lot of our corporate customers actually in the last couple of months, and I would say people are, sort of, cautiously optimistic in the sense that they see the economy as continuing to show decent resiliency, obviously positive growth.

A

I think, everybody would like to see a little bit more clarity on public policy on some of the things that they care about the most to unleash a little bit more optimism in the hiring, spending and consequently demand for hotel room nights. I think, this – probably the single biggest thing that might help change the psychology with our

corporate customers is some positive movement in the area of tax reform. I mean, there's a whole bunch of stuff going on politically right now, and legislatively, all of which can matter, regulatory change certainly could matter. But I think tax reform is probably singly the thing that I hear about most from people, simply because I think people have wanted it a long time. The impact of it would be positive in the sense of driving more free cash flow into people's businesses, so they'd have more to play with to hire and invest. And so I'd say – I would say probably that, although not only that.

But generally as I talk to corporate customers as we think about the rest of this year, and particularly into next year, as I said, they're sort of cautiously optimistic. I'd say their attitude has been business is pretty good, growth is okay, we'd like it to be better. As they think about going into next year, their travel spend. I think, people generally view that their budgets are going to be going up, I think probably, with the U.S. as a surrogate for the moment, probably, you know, volumes that are relatively stable with rates that are going up some.

I think people, even though they're cautious, understand that they're going to have increases inflationary plus kind of increases next year. But at the moment, I'd say people generally are looking at travel budgets that, in the corporate side, that are going to be higher next year. The question is, how much higher, and I think that gets back to seeing what happens with the broader economy as a result of some of the things that are going on in the political world.

Harry Curtis

Analyst, Nomura Instinet

Okay. Thank you.

Q

Operator: The next question will be from Carlo Santarelli of Deutsche Bank. Please go ahead.

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Hey, good morning, everyone, and thanks for taking my questions. Chris, you talked a little bit about the partnership and the January 1, 2018 launch. I don't know if you guys could provide any color, but I believe there was at least some influence from this transaction that we saw in the 2Q. And I just wanted to maybe briefly cover that. And then if I could just get some clarity on the license fees? I think, you called out 11% of total fees in 2017 going to 13% in 2018. Is that off an assumed 2018 fee number, or is that kind of off of a stable base and the mix just goes up by 200 basis points?

Q

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

I mean, I think the way to – I'm taking the second one first, assume a sort of normalized rate of growth on fees. You can go back to what we gave you last year at the end of the year at the Analyst Day and then take the percentage of that. I mean, basically we're saying it's a 200 basis point increase. That's not all the co-brand relationship here or with other co-brand relationships we have around the world, it's some HGV as well. We sort of put it in the – all of it in the bucket together. But largely that – and the largest part of that increase that you'd see is being driven by the co-brand relationship.

A

In Q2, there was a modest benefit even though the deal really doesn't go fully live till January of next year with the new cards and all that. There are elements of it that did go retroactively live to the beginning of this year in terms of what they pay for points and things. And that – as a result of signing it in the second quarter, there was a bit of a catchup that did have a modest benefit in license fees in Q2.

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Q

Great. And then if I missed it, I apologize, but in terms of your outlook on group for the back half of the year and kind of pacing, is there anything notable that shifted from your commentary post the 1Q?

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

I wouldn't say anything meaningful. You did not miss it, we didn't talk about it. I was fairly confident we would get asked in Q&A, so I decided I'd leave the group commentary for Q&A. Here's how I would describe group overall, so that – to answer your question. It is weaker in the second half of the year than it was in the first half. That was fully expected from the beginning of when we started budgeting last year just for a whole bunch of reasons in terms of how the groups are cycling through.

That is almost entirely driven by Q3 being weaker. There are a couple – you know, a few things going on there. The 4th of July hurts a lot the beginning of the third quarter just because basically it became a week of no business, no group travel. The shift in the Jewish holidays between September and October, it has a big impact on group in the third quarter. The pace in Q2 into Q3 was a bit weaker. Having said that, the fourth quarter is quite strong on the group side. Actually, the pace in Q2 for Q4 was up. So it really is sort of a – from everything we're seeing sort of a Q3 phenomena that's driving the second half of the year.

If we look at sort of position this year and then look at position going into next year, position for group going into next year is still meaningfully above the position that we see for this year at this point.

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Q

Great, Chris. Thank you so much.

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

You bet.

Operator: The next question will be from Joe Greff of JPMorgan. Please go ahead.

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Q

Good morning, everybody.

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Good morning, Joe.

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Q

Chris, Kevin, do you think U.S. RevPAR grows in the 3Q similarly to what you experienced in the 2Q? Or does it take a little bit of a lay down just given some of the calendar shifts that you referred to?

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Yeah, that's a really good question, and we've got a bunch of incoming calls this morning on sort of Q2 being 0.5 in the U.S. I think, it requires some context before I answer, and that is there is a lot of crazy stuff going on with calendar, day of week and holiday shifts this year, more than the average. And so if you look at the numbers which we obviously have done and you sort of cleanse the whole year of all these holiday shifts between Easter, 4th of July, the Jewish holidays, and some other things that are lesser impactful, but nonetheless are impacting the results. What actually is happening is, first of all, first half versus second half is roughly the same, although believe it or not second half is better in the U.S. than the first half when you cleanse it for all those things. And if you look at it quarter-by-quarter, the weakest quarters are the first quarter and the third quarter, and the strongest are the second quarter and the fourth quarter.

So when you cleanse it for the holiday shift, Q2 was better than Q1. I mean, I gave you the number in my prepared comments that we had a 70 basis point sort of net impact of 4th of July and Easter. If you relate that to the U.S., call it a point, you know, a point impact means that roughly the U.S. would have been in Q2 net of all that. about 1.5 points. If you do the same sort of math in Q1, it's a bit less than a point.

So I think what's going on, when I net all of that out, when I look at the data, sort of, like – and this is what I would hope you guys would want to hear from me, sort of, is there anything like big movements that are going on? I think that all these holiday shifts are creating the appearance that there's a bunch of big stuff going on. I think, there isn't. In my opinion what's going on is sort of steady as she goes. That's what I said with our team. As you look at – I mean, there are some ups and downs quarter-by-quarter even when you cleanse it, but the bottom line on the business right now is you've got business transient that is growing, but not with as much strength as we would like. Sort of to the low to the midpoint of our guidance range. You have group that's sort of been towards the midpoint of the range, and you've had leisure transient that's been sort of at the high end. You've had relative strength there.

And while I can pick month-to-month, a little bit here and there, you know, when you really sort of look through it all, that's what's going on. That sort of shouldn't be surprising to anybody given what's going on with the broader economy, certainly here in the U.S. I mean, out around the world, we – Kevin covered a bunch of the stats. Very different setup. But still, 72% of our business is here in the U.S. so it's driving the bulk of the result. It's pretty much steady as she goes, and it's a consequence of broader economic growth that is positive, but not particularly robust.

And so my expectation as I – we sifted through data, studying every number known to man, obviously getting ready for today, is you're sort of in that range. We targeted the midpoint of our range because that's what our forecast is. I feel pretty confident of that. But you're sort of in that 1% to 3% range until something happens, a la Harry Curtis's first question about what has to happen to make corporates feel better. There needs to be something else to happen to sort of get you out of that range. And until then, we're in that range.

Now, the good news story for us is we can be in the middle of that range at 2%, you can add 6% to 7% new unit growth, and we're driving bottom line growth of 7% to 9% in what is, from a same store point of view, fine and good and stable. By the way as I said, I don't – I wouldn't read too much into these quarter-to-quarter shifts because I view it as pretty stable, but we're taking a relatively sort of modest growth environment and creating, I think, a darn good result on the bottom line in terms of growing EBITDA and growing cash flow as a consequence of the resiliency of this model.

But, I think, it's important – that's a longer answer than I know you wanted, but I think it's important context because I think it's easy to get – and you only have the data that you get, it's easy to get caught up in these big shifts that are going on quarter to quarter. If you cleanse it, there's really not that much going on quarter to quarter.

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Q

Great. Thank you. And then one quick question for Kevin. You increased your guidance for cash available for capital return. What – I mean, I know it's not an enormous change, but what drove that upward move?

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Yeah. Sure. There's a little bit – obviously a little bit...

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

10%.

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Yeah. 10% is pretty good. A little bit of it, of course, was the upward revision of the EBITDA guide, Joe. Of course, a little bit of it is just refining our forecast as we're halfway through the year and we're thinking about our cash uses for the balance of the year. A little bit of lower cash taxes, and there was a little bit of – there was a modest incentive baked into the co-brand card deal that we signed that came through in the second quarter, which helped in that \$100 million.

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Q

Yeah. And the 3Q and 4Q, do you have incrementally more license fees coming from the credit card deal, or is it – what's in the full year is just related to the 2Q?

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

No. We had a bit of a catch up. It's built into the numbers we've given you. We had a bit of a catch-up in Q2 which I talked about because it went retro to January 1, and then we built – everything else is built into Q3 and Q4 guidance – or Q3 and full year guidance that we gave you.

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Q

Got it. Thank you so much, guys.

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Yeah.

Operator: The next question will be from Shaun Kelley of Bank of America. Please go ahead.

Shaun C. Kelley

Analyst, Bank of America Merrill Lynch

Hi. Good morning, everyone.

Q

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

Good morning, Shaun.

A

Shaun C. Kelley

Analyst, Bank of America Merrill Lynch

Chris, maybe just stick with the same thing on the U.S. RevPAR performances. Kind of a two-part question, but I guess, the first one, because I think – a number of investors are just wondering directly, do you think there's any chance or risk that Q3 RevPAR in the U.S. could dip to negative? Or do you think we still stick in positive territory despite all the calendar shifts? Not to hold you to a specific number, but I think people are a little bit worried about the headline there. And then maybe...

Q

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

Well, okay. You want me to...

A

Shaun C. Kelley

Analyst, Bank of America Merrill Lynch

Sorry, go ahead.

Q

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

I'll tackle that one, and then you can keep going. I'd say Q3 as reported, I think, will be positive, although it will be in the – it will be low. If you cleanse it again for the holiday shift things that I'm saying, in my opinion, it's clearly positive.

A

Shaun C. Kelley

Analyst, Bank of America Merrill Lynch

Thank you for that. I think that's helpful for folks. And then the second part would just be, when we look at the brand breakdown a little bit, it doesn't look like some of the more midscale and upscale brands were some of the contributors to that lower RevPAR performance. And again, we're not getting those brands domestically, so it's not going to be a perfect comp for us. But can you just give us a sense of any fears or question marks you might have around new supply growth that you're seeing in some of those chain scales in particular? And could that be dragging down our RevPAR performance? Or do you not think that that's a particular impact right now?

Q

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

That's – it's a good question. The honest answer, I mean, we've obviously looked – the honest answer is there is more supply coming there than you are seeing in the other segments. So logically, there has to be a bit of impact there. Although that, I would say – we've studied it like all these things quite carefully, and I don't think that's the

A

majority of what has caused the RevPAR growth in some of those brands to be at the lower end of what we're reporting.

I think it has a lot to do with some other things. First, keep in perspective that all of those brands are category killers. So they start life at a much higher absolute RevPAR level than almost all their competition. So when you look at absolute growth in RevPAR, not relative percentage growth, they're performing just fine. They're just starting in some of these cases over 120% market share to begin with, competing against a lot of brands that are a lot lower than that. So it is a mathematic – sort of, a math thing.

There's also honestly some oil patch issues, if you look at those brands. In the first quarter, you saw a little bit better performance in the oil patch than you did in the second quarter, a little bit more impact again in the oil patches, which are not just a couple of places. And those brands would be disproportionately a little bit more hit by that.

And then probably last, again it's sort of a combo platter of all these things. In the first half of the year, particularly in the second quarter really, it was driven by a lot of leisure strength. Just given what was going on with the shift in the 4th of July and the Easter holidays meant that it was much more leisure-dependent. And some of those brands, particularly like a Hilton Garden Inn in its segment is not as much a leisure brand as it is business travel, serving business travelers. So in an environment where it's heavy leisure orientation because of those holiday shifts and otherwise, it will have some impact on the performance.

So, again, those brands are – each of those that you're looking at are category killers. If you went out and talked to the development community, they lead their respective segments, or are way above any of the competition. And so I think, they're performing, they're performing just fine. Q2 a bunch of things, as I just described, sort of, causing it.

Shaun C. Kelley

Analyst, Bank of America Merrill Lynch

Thank you.

Q

Operator: The next question will come from Stephen Grambling of Goldman Sachs. Please go ahead.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Hey. Good morning. Thanks.

Q

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

Good morning.

A

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

On the credit, morning. On the credit card program, can you remind us if you can what will ultimately drive the growth in the fees from this going forward? Is that the number of members signing up for it? Is it the usage? The profitability? And did that change versus the prior agreement?

Q

Christopher J. Nassetta*President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.*

A

It's a little, it's – you're going to get tired of hearing me say this, I guess, but it's a little bit everything. It's – if you think about the system that we had before, we had a dual-branded system. We had two major providers. It meant that it was far from optimized in terms of spend. We think there's a huge amount of upside in getting not only more people in, but honestly, just incremental spend in the system. And that's going to drive a lot of it. Obviously, the margins that we can't get into in detail for reasons of our agreements with Amex, but we negotiated better margins, obviously that benefit license fees, that obviously predominantly benefits the system. The largest part of the economic benefit of this transaction is going back into the system in a whole bunch of different ways that benefit customers and that benefit our ownership community. But it's all, it's a combo of those. We're going to get people – more people in. They're going to spend more. And we've got a better margin in our negotiations with Amex.

Stephen Grambling*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. Thanks. And then changing gears a bit. We've seen more press releases on the changes to the cancellation policies from some of your peers. And I know you've been testing various things there. Where are you in fine-tuning the cancellation policy? And how do you think about the potential financial ramifications?

Christopher J. Nassetta*President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.*

A

Yeah. You obviously saw it because it became public that we went to a 48-hour policy that will get instituted – that will get rolled out next week. We announced it to our owners a month ago. And in select markets, 10 or 20 markets around the country, we'll go to 72 hours where we think it's appropriate. The reasons I think are obvious for why we're doing that. Not just because of new technologies, but just because customers, many of them, ultimately have been trained to do multiple bookings and do things that have created a scenario where cancellations have, in some markets, skyrocketed. They've got, they've gone way up.

And it makes it – it's not good for anybody. It makes it very hard for us to manage inventory, particularly close-in inventory in a way that makes sense. And the net result of that is it costs everybody, because if we can't manage inventory, there is ultimately a cost to that, that at some point gets borne by the consumer. And so the idea is we got to be able to understand what people want to do a little bit earlier, a little bit closer in. We have – we can't have it be within 24 hours, just because we can't manage that last minute inventory. It's just not – it's very difficult to do. And so that's why we're doing it. We've had generally talked to a lot of our corporate customers and otherwise, and I think, people understand it. The reception has been perfectly fine. We are, to your comment, testing some other things. I'm not going to get into it in detail because we're deep in the middle of it. But hopefully sometime in the second half of the year we will layer some incremental opportunities on top of that, that would really start to bifurcate. Then really thinking about from the 48 hour, 72-hour mark out to seven days, creating fully flexible pricing structures and semi-flexible pricing structures that would require potentially even cancel seven days, within seven days. Again, with the effort being to be able to manage inventory more intelligently, what we find as we're testing it is the large majority of our customers actually do know within those time frames whether they need to cancel or not. It's just they haven't had to do anything about it. So they haven't. But if you can create the right incentive system where you give them an incentive to let you know earlier, it's good for them because they ultimately probably can get a little bit better deal. It's much better for us because we can manage that close-in inventory more intelligently to make sure that we both price it right, but more importantly, we fill as much as we can and don't leave rooms unoccupied.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

That's helpful. Thanks so much. I'll jump back in the queue.

Q

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

Yeah.

A

Operator: The next question will come from Felicia Hendrix of Barclays. Please go ahead.

Felicia Hendrix

Analyst, Barclays Capital, Inc.

Hi. Good morning.

Q

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

Good morning.

A

Felicia Hendrix

Analyst, Barclays Capital, Inc.

Good morning. Chris, in your prepared remarks, you talked about your RevPAR index increasing 60 basis points in the quarter, and increased every – in every brand in every region. I was just hoping if you could reconcile that with your U.S. RevPAR results. Your RevPAR growth in the quarter was in line with – was in line with upper upscale and upscale industry growth, and I know you're in other segments. But if you were just kind of looking at it kind of just not having the deep information that you would have, it might have been a little bit difficult to assume that you did grow RevPAR index in the quarter.

Q

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

Right. I think, it gets down, Felicia, to the weighting. In the second quarter, if you look at where our brands are focused, it's not as much in leisure proportionately as some of the other brands that were driving the more significant increases in the star data. So, again, when you sort of weight it, it's comparable, but where we're getting more lift is in the brand. The brands that have more leisure orientation were driving more of the star result, and we're just not as present or present at all like in the economy segment as an example.

A

Felicia Hendrix

Analyst, Barclays Capital, Inc.

Helpful. And so – and you've been pretty clear about the success of Hampton, but can you just get maybe a little bit more granular where you might be seeing some pleasant surprises in your RevPAR index improvement?

Q

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

Well, I think, the pleasant surprise I covered, and you did a nice job of covering it again, so thank you. Which is all of our segments went up, all of our geographies saw market share gains, which is important. Hampton, you know, I've said this many times before, I'm sure some would debate, I think, it is probably the most – objectively the

A

most successful hotel brand in the world if you just look at market share, which it not just leads its category, it annihilates the competition at over 120% average market share. If you look at customer satisfaction scores, which we see. If you look at the demand from the development community here and around the world. You know, Hampton is one of the wonderful gifts that keeps giving.

But we have lots of those gifts, I mean, if you go across the portfolio of brands. One of the things that I've said many times, and certainly on a couple of prior calls which is as a consequence of a very much a focus on this approach is we want all of our brands to lead or be category killers in their segments. We do not want brands that are substandard because we don't want our customers playing a game of Russian roulette where, you know, some of the brands that they stay with are good and some of them aren't. So it's why we've chosen a path to be very focused on organic growth, both our existing brands, but also as we add new brands because we really feel like we can develop those brands in a way that really resonate from our product and service point of view with customers, better than taking on other problems.

So Hampton is one example, there are many of them. The good news story, as I say is, all of our brands are – have market share premiums, some more than others. On average 114%, which is the highest as far as I know in the industry, and I think there is more upside potential, but they're doing well, and we continue to focus on moving the needle, and have had good success doing that.

Felicia Hendrix

Analyst, Barclays Capital, Inc.

Q

Thanks. And then just to switch gears for a second, there's been – obviously there's been a lot of focus on U.S. RevPAR. But just switching to international which did beat our expectations by a bit. I'm just wondering, and I don't even know if you can look at it this way, but how early are we in the cycle in Europe and Asia Pacific? And do you think we could see a few years of growth at these levels? And what customer segments are driving growth in those regions?

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Hey, Felicia, it's Kevin. I'll take this one. I think, it's hard to say exactly where we are in the cycle. I think, Europe in terms of its economic cycle is behind where the U.S. has been and they're doing things like quantitative easing, and they have a lot of things to figure out whether it be around Brexit or otherwise that's driving a lot of business activity. Exactly where we are in the cycle, who knows?

I think, for a large – for the most part, our international markets are driven by transient. Growth has been very steady in all regions, and it's sort of coming from everywhere. And so there's no reason to think that we can't continue to grow RevPAR in those markets for a while, and how long, who knows?

Felicia Hendrix

Analyst, Barclays Capital, Inc.

Q

Okay. Thanks.

Operator: The next question will come from Robin Farley of UBS. Please go ahead.

Robin M. Farley

Analyst, UBS Securities LLC

Q

Great. Thanks. You answered a lot of the questions. I guess, maybe just one to clarify the credit card branding fees. The guidance you gave about the basis point increase on the growth rate and all of that, can you just sort of help us ballpark? Is that like \$60 million incremental to next year? And maybe it's just because part of it ended up falling in this year after all. So how much should we think about being the incremental from the credit card, the new agreement, on an annualized basis what that adds versus the old agreement?

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Good question, Robin. I think, that again there are limits on what we're – we've given you what we can give you. I think, if you're good with math, if you back into it, I think, you can get pretty close to the number. I mean, we're saying 200 basis points essentially on our overall fee base. I mean, that's a simple way to look at it. So take your model times 2%.

Robin M. Farley

Analyst, UBS Securities LLC

Q

But, I guess, I'm also trying to think about some of that falling in 2017, some of it doesn't start till January of 2018. So, the...

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

We're giving you the incremental for 2018 in that number. Whatever is in 2017, we've baked into what we've – it's relatively modest, and we've baked that into the guidance we've given you.

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Right.

Robin M. Farley

Analyst, UBS Securities LLC

Q

So, maybe it's \$60 million...

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

So the 200 basis points, it's baked into the 11%.

Kevin J. Jacobs

Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

The 11% factors for the catch-up.

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

200 basis points. The 200 basis points is incremental.

Robin M. Farley

Analyst, UBS Securities LLC

Q

So the \$60 million is incremental, but the total credit card range may be higher than that because that's maybe some of the 2017 increase that you bumped up today, right? So combining those to get to an annual? Is that the right way to think about it?

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

I'm not – maybe you take it offline with Chris and the team. I think, there's a modest amount of it in 2017. The bigger increment is going into 2018, and we've given you pretty much the number, 2%. So that's as far as we can go.

Robin M. Farley

Analyst, UBS Securities LLC

Q

Okay. Thank you.

Operator: The next question will come from Jeff Donnelly of Wells Fargo. Please go ahead.

Jeff J. Donnelly

Analyst, Wells Fargo Securities LLC

Q

Good morning. Just a first-off question, Chris. If I could follow up on Harry's question, it sounds like you feel, I guess, I'll say old fashioned, cyclical supply and demand is the main reason behind the stubborn re-acceleration in RevPAR. But could secular factors be the culprit here? Like maybe just continuing penetration of pricing transparency that fuels a new level of, I guess, I'll call it corporate frugality? Do you think there's some other factors that might be driving this?

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

I don't think so in a significant way. Again, I always want to be completely intellectually honest. You can't say when you sit where I sit that when the factors you just described, transparency – or heaven forbid I talk about the other things I know that are on your mind for fear of going into the black hole of Airbnb, but that some of those things don't have some impact.

But here's the thing, Jeff. Nothing that we're looking at suggests any of those things are having a material impact. It really is the economy. It really is that you've got growth, but it's fairly anemic broader growth. And you have an environment sadly where nobody can get along here in my hometown, and it creates caution.

I've said it a bunch of times. When I was at NYU, I think, I said it on stage or somewhere, but there's sort of caution flags out. If you're a business and thinking about hiring, spending, plant, equipment, it's not that they're not doing it. They are. It's just, I think, there's a little bit of caution in the air, and so they're holding back a bit.

Which is, again, why – we're seeing growth. It's positive. Business transient is positive. It can be more positive, I think, if people felt they had a little more certainty around what was going to happen with some of these big things that are swirling about legislatively.

And I think that's it more than anything. As I look at the data, as I talk to customers, I think the air of the – the balloon has just not got a lot of compression in it, or as much compression as we would like. And that's a little bit of a lack of confidence within that community.

Jeff J. Donnelly

Analyst, Wells Fargo Securities LLC

Q

And just a question on maybe the outlook for distribution costs. And hopefully Kevin can maybe help you stay out of the black hole of Airbnb on this. Some of the OTAs have been emphasizing home rental business maybe as a way to thwart – like a flanking maneuver, if you will, by Airbnb that, out of fear they evolve into an OTA. Do you have a view on what can happen between the OTAs and home rental? And ultimately, do you think that's a battle? I guess, where I'm going is, do you think that's a battle that has a beneficial outcome for hotels? Maybe lower distribution costs?

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Yes. You know I'm usually very long-winded. I think, the answer is yes. Here is the thing. Competition is a good thing. And there being more competition in the home-sharing business and more – by the way, you know my fundamental belief, it's just a different travel occasion, trip occasion. We are not directly competitive with what they're doing. So more competition, I think is good there. More competition – them morphing in whatever ways to feeling more like an OTA is a good – whether they do that or not, I don't know, not for me to say. But the more competition there is in any space, the better off we are, I think, because more competition in theory would help have the impact of driving pricing down and distribution costs down. So I view that as a long game. Lots is going to go on over the next 2 years, 5 years, 10 years, 20 years. But as the competitive environment heats up, I think, the net result is good.

Jeff J. Donnelly

Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

Operator: The next question will come from Thomas Allen of Morgan Stanley. Please go ahead.

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good morning.

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Good morning.

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

Q

Can you give us a breakdown of monthly RevPAR in the U.S. in the quarter? And sorry for such a myopic question. But I think, the concern is June RevPAR slowed versus May, despite getting the July 4th benefit. And so – and that kind of coincided with some issues in and on the Hill or in D.C. So maybe there's just been a slowdown in demand.

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Hold on a second. You're getting very granular. So June was, in the U.S., up about a point. July in the U.S. up – would be adjusted up a bit. Thomas, why don't we get the data and we'll maybe get back with you.

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

I mean, I guess did anything stand out to you?

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

What's the question you're trying to get at? I don't want to use the call to get into monthly data, all right?

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

No. No. No. Exactly. So the question is, did it feel like, as we went through the quarter and into July, that because of kind of the headlines that were coming out of D.C. with the lack of healthcare reform playing out, and maybe some other – with the issues in Russia or with Russia...

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

Yeah, that...

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

Did it feel like those impacted the math?

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

That's a better question. Not to pick on you. That's a better question. So the answer is, yeah. I mean, July is an odd month both because there's all the swirl in the air, which is clearly not helping. But it also started out with a bang with 4th of July week basically being a non – the whole week was off travel, particularly business travel, which is the largest part of our system. So, again, I think when you holiday adjust it, it's a different story. Or day of the week adjust the holiday, it's a different story. But July, July is going to be weak.

Now, August, as we look at the data going into August, it reverses that trend. August is back, our expectation is and with the business we have on the books, is both August and then September when you cleanse it for the Jewish holidays, back on track. So a large part of what's going on in July, the best data we have was kicking off with a really bad week that people didn't travel. And then going into the next week they were in summer mode. And that made it a painful start to July. So I don't see between May, June, July, August, if I put it all together, I don't think there's any real trend in July. When we get through August – obviously we haven't gotten through August. But with what's on the books, I think we'll find that August was back on track.

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

Helpful. And then I saw a press release out, I think it was this week, that you're going to do a Hilton Garden Inn refresh. Can you just talk about the thought process behind that?

Christopher J. Nassetta*President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.*

A

Yeah. I mean, we're constantly looking at every one of these brands, as I've talked a little bit about it before, both our new brands, but our existing brands to make sure that both from a product service point of view, profitability point of view, they resonate with customers, and with owners. And so this is the next turn of the wheel for Garden Inn and just coming up with the next iteration of design that makes sure that it appeals to customers. A bunch of changes, you know, modest changes in the rooms. Bunch of changes in approach to the public spaces and food and beverage, that gets rolled out over a pretty extended period of time, that ultimately we think is going to be better for customers, and will drive greater profitability. More efficient to build, more efficient to operate, more revenue generating opportunities in the public spaces.

So I think, this is sort of business as usual for us. I mean, we do, you know, sometimes they get headlines, it's funny when they do. Sometimes they don't. But we're – all of our existing brands are in a constant state of motion in terms of trying to figure out how to make sure that they remain relevant.

Thomas G. Allen*Analyst, Morgan Stanley & Co. LLC*

Q

Great. Thank you.

Operator: Your next question will come from Jared Shojaian of Wolfe Research. Please go ahead.

Jared Shojaian*Analyst, Wolfe Research LLC*

Q

Hey, good morning. Thanks for taking my question.

Christopher J. Nassetta*President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.*

A

Good morning.

Jared Shojaian*Analyst, Wolfe Research LLC*

Q

So sorry to beat a dead horse here on demand trends, but earlier in the year you had suggested that if some of the early trends continue, you could be at the high end of the RevPAR range. I know now you're saying the forecast would suggest the midpoint of the range. Am I reading too much into that comment? Or has demand softened because of some of these D.C. issues that you talked about? And is that entirely attributed to business transient, or have you seen changes in the leisure and group side as well?

Christopher J. Nassetta*President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.*

A

No. I think in the main what I'd say is – what I tried to say, hopefully, I did say it this way on earlier calls, that if we had a 1% to 3% range, you should always assume when we give a range that our forecast is somewhere around the middle of it. We try and be very disciplined about that. I think what I was trying to indicate is if we do get – I had some optimism, as did many, that if we do get some of this legislative stuff going, that it would unlock a little bit more optimism in the business community, which would drive hiring, spending, investment, et cetera, that I thought could translate on a lag into the business, and could propel us above the midpoint or somewhere between the midpoint to high point.

As I sit here today and I sort of covered in my prepared comments, it's not that I don't think that that can happen. I'm still sort of hopeful that eventually we are going to get to tax reform and we're going to get past healthcare and some of the noise that's out there. The difference between now and then is we're more than halfway through the year. We all know that if these things happen, the trickle through to benefit us is on a lag, and given we're halfway through the year and they haven't done it, and they're getting ready to go on summer recess, it just stands to reason that by the time, if they get it done, they do get it done, we're not going to have enough time for it to trickle through and really benefit this year.

So that puts us in the midpoint of our guidance and plus or minus that's where we've been. I would say, over the last couple quarters our forecasting has been within 20 bps of the midpoint one way or another. So, I would say our forecasting hasn't changed materially. My view of it of getting any of that incremental benefit this year has just because the year is running out on us.

Now, hopefully things happen towards the end of the year, tax reform and otherwise, and that will give us some opportunities next year. But it just seems, I would say, just realism setting in where we are in the year suggests it's a little bit harder to make that assumption right now.

Jared Shojaian

Analyst, Wolfe Research LLC

Got it. Thank you very much.

Q

Operator: The next question will be from Bill Crow of Raymond James. Please go ahead.

William A. Crow

Analyst, Raymond James & Associates, Inc.

Hi, good morning, guys.

Q

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

Hey, good morning, Bill.

A

William A. Crow

Analyst, Raymond James & Associates, Inc.

Chris, I wanted to limit my focus on Chinese investors and they've been in the news quite a bit. I'm not sure how much you can tell me about what you're hearing from HNA and their future plans, and their stake in your company. But also Anbang and the Waldorf in New York, if you can give us an update there. You said you're going to open a new luxury hotel. I didn't know if that might be the new flagship Waldorf. And kind of what's happening to your fee income from the Waldorf that I think at one point was thought to be as much as \$10 million a year. What's happening while the hotel is closed?

Q

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

Yeah. And I thought that it was odd that I might make it to this call and not talk about our Chinese partners. So, Bill, thank you for making sure we got to that.

A

William A. Crow

Analyst, Raymond James & Associates, Inc.

You're welcome.

Q

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

I am three minutes out, and I almost got through, no.

A

Hey. So here's the thing. Obviously both Anbang and HNA have been in the press along with some other major Chinese conglomerates lately, and we've obviously had discussions with both groups.

I think as it relates to HNA, I don't have a lot to add to what you're reading about in the sense that we continue to have a dialogue with them. We continue to work on the things that I have described in the past to you, and we continue to work on the process of onboarding a couple of board members, all as planned. And what happens with them? Ultimately, obviously, I don't know, but it appears to us sort of business as usual. And so I don't think that there's anything much more to say about that. I'm happy to answer any other sort of questions on that.

On Anbang, we've had lots of discussion with those guys. As far as we know, their intentions are to continue at a rapid pace to enter into the major redevelopment of the Waldorf later this year. We continue to work on all the design and planning, and the intention is later this fall we'll get into the heavy demolition. And it will probably be, honestly, three years of work when that starts to get it up and operating. So as far as we know, they are moving forward. In every conversation that we've had with them, they have suggested that to be the case. So time will tell.

As it relates to our fees, I think I can tell you. I mean we disclosed it. It's a little over \$7 million in fees that we earned on it last year. I think \$7.3 million is what I remember, but call it \$7 million, that went away this year that when it reopens we'll come back, and we think when it reopens it will be higher than what it was when it left the system, that's built into our numbers. That's already out of the numbers that we're giving you because obviously we knew the Waldorf was going to be closing. So it's been out of the numbers.

In terms of the new hotel that's opening in midtown, that is not the Waldorf. It would be a miracle for them to be able to get it open by the end of the year since it's going to take about three years to renovate it. It's another deal that I had hoped that we'd be able to talk about specifically. We can't.

We're very close to signing another deal that will be with – hopefully, if all gets done, it would be done with the Conrad brand, not the Waldorf brand given what we're doing with the Waldorf Astoria. And hopefully by next quarter, we'll have it at a place where we can disclose the specific assets.

William A. Crow

Analyst, Raymond James & Associates, Inc.

Chris, two very quick follow-ups on that. Can you remind us the lockup period for the HNA investment? And then number two, to the best of your knowledge, has Anbang gotten – have they secured the financing for the redevelopment?

Q

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

On the second one, I do not know. They certainly represented to us that they have the financial capacity to do the renovation. Exactly where they're getting that money, I do not know and probably will never know, I mean, in the sense that they have a lot of resources given the size of their business.

On the HNA lockup, what was the question? It's a 24-month lockup. They closed in March. So they've got, whatever, 20 months left on that lockup.

William A. Crow

Analyst, Raymond James & Associates, Inc.

Okay. That's it for me. Thank you.

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

Okay.

Operator: The next question will be from Patrick Scholes of SunTrust. Please go ahead.

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

Hi. Good morning.

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

Morning.

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

A big picture, cyclical type of question here. Given the trajectory of your signings and what you know about that, this cycle – where would you think the peak growth rate in openings for you will occur? And is it 2018? 2019? 2020? Where might you peg that at?

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

Gosh. I hope it is way out in the future. I don't know. I mean, if you look at it now in terms of openings, obviously we're picking up this year over last year. We will have a record year in construction starts this year. Over 80,000 rooms we'll start construction. So that would suggest that the peak is somewhere two or three years out, but that makes the assumption that somehow everything tails off which I think it's hard to assume at this point.

If we do our job, we're going to find ways in this big world we live in to keep deploying resources and brands and following demand patterns that are different in different places of the world. It's not this year. It's not next year, just given what's going on in construction, it's probably a few years out.

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

Okay. Thank you.

Operator: And the next question will come from Smedes Rose of Citi. Please go ahead.

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Q

Hi. Thanks. I wanted to ask, you mentioned that with HNA it's really just business as usual at this point. But given the financial concerns that have been described in the press, I guess, at what point would you become more concerned about your relationship with them. And I think the shares are on margin right now, and is there some point where that could start to impact the relationship with you?

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Well, I am always concerned. I mean, if investors are concerned, then it makes me concerned. But I'm probably less concerned not to diminish the issue, but I'm probably less concerned than investors are simply because as it relates to the strategic opportunities, we were very clear in saying that we thought that was good strategic potential. But then it wasn't like something we were building into numbers. It was just long term we thought there were a bunch of things we could do together that would be beneficial and I still think that. And it wasn't like we were counting on in our numbers this year or next year, the following year that something was going to happen.

So there's no downside to that. As it relates to their share ownership, of course, I would worry about that if I thought there was something to worry about. At the moment, I don't think there's something to worry about in the sense that they bought the position. I'm going to use round numbers for \$6.5 billion. The current position in three companies is worth \$7.5 billion. They've margined \$3 billion. So there's \$4.5 billion of equity. Call me old fashioned, but that's a lot of equity and a lot of margin for error. So I guess if you said to me it was much more highly leveraged or margined then, I guess, it would stand to reason I should worry more. But given that under their loan agreements, as I understand it, and then they're publicly filed, they're capped at \$3 billion. They have pledged the stock against \$3 billion from four big global money center banks. I think, again, it doesn't keep me up at night. I think everything – that's why I say business as usual. They own it. They've got a lot of margin, low leverage, lot of margin. And I think strategically the things that we'll do are super long-term anyway, and we'll keep chugging along.

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thanks. And can I just ask you one other quick one? You had mentioned earlier about maybe some of the supply in the U.S. potentially weighing on mid-scale and upper mid-scale. I'm just curious. Do you think this current kind of supply growth in the U.S. might peak in 2018 or do you see that continuing to build a little bit into 2019 and the out years as well?

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

I think it likely peaks next year, maybe a little bit into the first half of 2019. Just if you look at the stats on what's going on and what's getting under construction in the U.S. I think you are past the peak in deal signings. And you are sort of approaching the peak, given that the financing environment has become more difficult for things getting under construction. And so, I'd say you're sort of subject to things sort of staying as is. You're sort of into the gestation period than of delivering what's there. Once that's done, the pipe isn't getting as full.

Now the good news for us is our brands do disproportionately well because they're more financeable. We've added new brands and I think intelligently at the right time and for where we are in the cycle with Tru and Tapestry and Curio. And so, we've been able to bend the arc of the curve a bit relative to what's going on in the industry. So our growth has continued to chug along. But I think it's 2018, early 2019, all things being equal.

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Great. Thanks, Chris.

Q

Operator: And ladies and gentlemen, this will conclude our question-and-answer session. I would like to hand the conference back over to Chris Nassetta for his closing remarks.

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

Well, thank you, everybody, for the time today. We appreciate it. We covered a lot of territory. I'm glad we got to all the topics on your mind. I look forward to talking to you after the third quarter. I hope everybody enjoys the end of summer, gets a break to spend some time with family and friends.

Operator: Thank you. Ladies and gentlemen, the conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.

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