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Hilton Worldwide Holdings, Inc. (HLT)

Q3 2017 Earnings Call

CORPORATE PARTICIPANTS

Jill Slattery

Head-Investor Relations, Hilton Worldwide Holdings, Inc.

Christopher J. Nassetta

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

Kevin J. Jacobs

Executive Vice President and Chief Financial Officer, Hilton Worldwide Holdings, Inc.

OTHER PARTICIPANTS

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Shaun C. Kelley

Analyst, Bank of America Merrill Lynch

Bill A. Crow

Analyst, Raymond James & Associates, Inc.

Felicia Hendrix

Analyst, Barclays Capital, Inc.

Brian H. Dobson

Analyst, Instinet LLC

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Jeff J. Donnelly

Analyst, Wells Fargo Securities LLC

Robin M. Farley

Analyst, UBS Securities LLC

Jared Shojaian

Analyst, Wolfe Research LLC

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Hilton Worldwide Third Quarter 2017 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions]

Please note this event is being recorded.

I would now 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 third 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 a 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 IR.Hilton.com.

Unless otherwise noted, comparisons to the company's third 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 third quarter results and provide an update on our expectations for the year. Following their remarks we will 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. Before I get to the specifics on the quarter, I'd like to briefly recognize all of those around the world who have been impacted by recent natural disasters. It's something that was brought into vivid reality as I recently visited our teams down in Puerto Rico and in Houston. It's been an incredibly challenging time for these communities and for our team members that serve them. At the same time, it's been really inspiring to see our teams come together to support one another in their communities, and I want to thank them for all of their extraordinary efforts.

Now turning to the quarter and our performance, this is our third quarter as the new simplified Hilton and our strong performance continued. We delivered bottom-line results above our guided ranges and are raising our outlook for the year. Our performance continues to demonstrate the resiliency of our fee-based business that can

drive adjusted EBITDA well ahead of RevPAR growth with minimal use of our capital, and generate meaningful free cash flow for shareholders.

The fundamentals we discussed last quarter are largely unchanged. Excluding the impact of holiday shifts and weather, overall RevPAR trends have been generally in line with our expectations this quarter and consistent with what we've seen all year. We continue to see steady business transient and group growth at the low to midpoint of our guidance range, and leisure transient at the high end. Group pace in the quarter was up, improving position for the balance of the year. Strength in international markets, particularly across Europe and Asia-Pacific, continues to boost system-wide results. Assuming a similar cadence for the remainder of the year, we expect system-wide RevPAR to come in at or slightly above the midpoint of our 1% to 3% guidance range. So far in October, which contributes approximately 40% of the quarter, system-wide RevPAR is slightly ahead of expectations. As we look to 2018, we feel good about the setup and even better about our ability to continue delivering value beyond what broader fundamentals give us.

Economic indicators point to a macro environment slightly better than this year, with growth in U.S. GDP and non-residential fixed investment forecasted to increase year-over-year. In the roughly 30% of our business where we have decent sightlines, we see 2018 group position ahead of this year and we expect corporate negotiated rate increases between 2% and 3%.

Supply remains modest, with U.S. supply growth forecasted at around its 30-year average. Given that setup, we should have a similar level of pricing power next year, leading to 2018 system-wide RevPAR growth guidance of 1% to 3%.

Turning to the development side, year-to-date, we've opened nearly 300 hotels with roughly 40,000 rooms and we remain on track to deliver net unit growth of approximately 6.5% for the full year. With over half our pipeline already under construction, we have very good visibility into our unit growth, and as a result, would expect net unit growth of around 6.5% again next year. We are committed to thoughtful and intentional organic growth that allows us to strategically expand our global footprint. We believe this approach will continue to enhance our network effect and ultimately grow our share of global development. This is evident in our growing pipeline, which reached a record 335,000 rooms in the quarter, up roughly 13% year-over-year and representing a market-leading 40% of our existing supply. With year-to-date pace ahead of expectations, we now forecast full-year 2017 approvals to exceed our record of 106,000 rooms that was achieved last year.

In the U.S., we continue to gain traction with conversions. We recently welcomed The London in New York City to our portfolio. We will oversee a full renovation of this property, after which the property will be re-flagged as the Conrad New York Midtown. This prestigious 562-key hotel will become the Conrad brand's second property in New York City and will set a new standard of smart luxury with a spacious all-suite product.

Speaking of London, I'm pleased to announce today that we are announcing the Waldorf Astoria brand is set to make its London debut in one of the capital's best-known monuments, the Admiralty Arch. Waldorf Astoria will be one of London's most prestigious addresses, literally at the entrance to The Mall and facing Buckingham Palace. Following an extensive refurbishment program, which will restore and protect this iconic landmark, the hotel plans to open with 96 luxurious hotel rooms and suites and three world-class restaurants.

The Asia-Pacific region represents our largest growth opportunity, with roughly 400 hotels totaling over 90,000 rooms, the region accounts for a quarter of our pipeline and we're opening more than one hotel per week there. In the third quarter, we opened the Waldorf Astoria Chengdu in China, our 200th hotel in the region and the latest in a fast-growing luxury portfolio. We also celebrated the arrival of our first Curio in China, our ninth brand in the

country. Located on Hainan Island, the 266-room resort demonstrates our ability to attract unique assets to our soft brands, given the favorable value proposition that our system offers. Overall, our global growth is driving increased loyalty from our guests, increasing our overall market share, and delivering strong returns for our owners.

A couple of weeks ago, we hosted nearly 3,000 attendees at our Global Owners Conference in Dallas at the Hilton Anatole. The theme of the conference was the power of our network effect. This is created by bringing our industry-leading brands with global scale and chain-scale diversity together with a highly relevant loyalty program and the best commercial engines in the business to deliver increasing customer preference and ultimately leading returns for our owners.

Innovation is a critical driver of our network effect and our app is a key platform for that innovation. In addition to being our fastest-growing and lowest-cost distribution channel, our app also enables the deep integration of the on-property experience into the mobile devices of our guests, allowing a direct, differentiated customer experience. Our app currently enables digital check-in with room selection globally as well as digital key for Hilton Honors members. Our most recent enhancements enable members to upgrade a check-in much like airlines upsell preferred seats. Through a recently-launched live-chat function, members can also engage on-property team members directly for any requests they may have.

Coming soon is Connected Room, the first truly mobile-centric hotel room. Through the app, members will be able to seamlessly control their rooms lighting, HVAC and entertainment options, including preloaded and streaming content. Owners will also benefit from room and energy use that will support environmental and operational improvements. We're in beta testing in select hotels now and expect to formally launch Connected Room next year.

In summary, we're pleased with our performance this quarter and feel really good about the setup as we head into 2018, in which modest RevPAR growth can drive meaningful adjusted EBITDA growth and capital returns for shareholders. Our teams around the world in our purpose-led culture they bring to life each and every day are critical to this ongoing success. I'm pleased to announce that just this morning, we were once again selected as one of the world's best multi-national workplaces by Great Place to Work placing in the top 10 and joining a group of 25 elite global companies recognized for high-trust, high-performing workplace cultures in 2017.

With that, I'm going to turn the call over to Kevin to give you a little bit more detail on the quarter. Kevin?

Kevin J. Jacobs

Executive Vice President and Chief Financial Officer, Hilton Worldwide Holdings, Inc.

Thanks, Chris, and good morning, everyone. For the quarter, system-wide RevPAR grew 1.3% versus the prior year on a currency-neutral basis due to strong leisure demand and international results. Calendar shifts displaced business travel and group demand in the quarter, with the July 4 and Jewish holiday timing shifts weighing on July and September. System-wide, we estimate the RevPAR benefits from hurricanes Harvey and Irma largely offset these major calendar shifts.

Adjusted EBITDA of \$524 million was above the high end of our guidance range and exceeded the midpoint by \$24 million. The beat was largely driven by better hotel performance and non-RevPAR-driven fees and some benefit from FX and one-time items. Diluted earnings per share adjusted for special items was \$0.56, exceeding the high end of our guidance range and increasing 37% year-over-year on a pro forma basis.

In the quarter, management franchise fees grew 11% versus the prior year to \$512 million, well ahead of our 7% to 9% guidance range. Hotel performance and greater license fees drove outperformance in the fee segment, while continued strength in the UK and Japan led to better-than-expected results in our owned and leased portfolio.

Turning to our regional performance and outlook, comparable RevPAR in the U.S. was roughly flat, with calendar-driven group underperformance, particularly in convention business, offset by continued strength in leisure. We estimate that the two major calendar shifts negatively weighed on U.S. RevPAR by approximately 70 basis points in the quarter, partially offset by a lift in business from the aftermath of the hurricanes. We estimate that our hurricane-related benefit was less than the overall U.S. industry due to our meaningful occupancy-share premiums in those markets. 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., third quarter RevPAR grew 3.4% versus the prior year due to strength in Mexico, which was driven by strong transient demand. Leisure transient in particular saw high single-digit room-night growth for the quarter. For full-year 2017, we expect RevPAR growth in the region at the higher end of our guidance range. RevPAR in Europe grew a solid 8% in the quarter ahead of expectations due to transient strength in the UK, Turkey and Spain. Additionally, international inbound to Europe was up nearly 11% in the quarter. We continue to expect full-year 2017 RevPAR growth in the region to be in the mid to high-single digits. In the Middle East and Africa, RevPAR growth was up 20 basis points and significantly ahead of our expectations as the reversal of the holiday shifts that benefited the second quarter were less of a drag than we anticipated. We saw strong group performance in Saudi Arabia and improving leisure business in Egypt. For full-year 2017 we now expect RevPAR growth in the region to be at the higher end of our guidance range.

In the Asia-Pacific region, RevPAR increased 8.3% in the quarter, led by strength in greater China, which was up over 13%. RevPAR in China showed continued transient strength in both established and maturing assets. For full-year 2017, we expect RevPAR growth for the region to be mid to high single digits with RevPAR in China up in the 9% range.

Moving onto capital return, we paid a quarterly cash dividend of \$0.15 per share during the quarter for a total of \$147 million in dividends paid year-to-date. Our board also authorized a quarterly cash dividend of \$0.15 per share in the fourth quarter. We expect to return between \$1 billion and \$1.1 billion to shareholders or about 5% of our market cap through buybacks and dividends this year. Since initiating buybacks in March, we have purchased \$693 million of shares at an average price per share of \$63.17.

For the fourth quarter of 2017, we expect system-wide RevPAR growth between 1% and 3%. We expect adjusted EBITDA of \$453 million to \$473 million, and diluted EPS adjusted for special items of \$0.41 to \$0.45. We are maintaining our full-year 2017 RevPAR growth guidance of 1% to 3%.

As Chris mentioned, we expect full-year growth at or slightly above the midpoint of the range. We are raising our adjusted EBITDA outlook by \$30 million at the midpoint to \$1.93 billion, an increase of more than 9% year-over-year. We're also raising diluted EPS adjusted for special items to \$1.87 to \$1.91. Please note that our full-year EPS range does not incorporate incremental share repurchase.

Further details on third quarter results as well as our latest guidance ranges can be found in the earnings release we issued earlier this morning. This completes our prepared remarks. We would now like to open the line for any questions you may have. We would like to speak with all of you this morning, so please limit yourself to one question and one related follow up. Denise, can we have our first question please.

QUESTION AND ANSWER SECTION

Operator: Absolutely, Mr. Jacobs. [Operator Instructions] And your first question this morning will come from Joe Greff of JPMorgan. Please go ahead.

Joseph R. Greff
Analyst, JPMorgan Securities LLC

Good morning everybody.

Q

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

Good morning, Joe.

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Joseph R. Greff
Analyst, JPMorgan Securities LLC

I know it's early days here, Chris, and so we appreciate your comments on the early read for 2018. Can you just talk about the same-store RevPAR guidance for 2018 and how much of it is rolled up at corporate versus from the regions? And then how do you think about it from a geographic and from a segmentation perspective relative to 2017?

Q

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

Yeah. Good question. And I know, Joe, probably number one question on people's mind is what's in front of us. So, as we do every year, we're sort of in the middle of budget season now. We are, to be honest, not complete with that, but towards the later stages of it. Certainly we have a very good sense on the top line which is why we're happy to give some level of guidance there. And so what I would describe it as is the case every year, we do it on a very granular basis. Every hotel in every region of the world has worked on a budget and those are all rolled up to aggregate to a global budget – a regional, and then a global budget. So this is not in any way top-down. I mean we certainly have used top-down but this all happens bottoms up.

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And the guidance that you would typically get from us is about what you'd expect, which is we are aggregating it up, we have a budget and we're trying to create an upside and a downside to that. So said another way, the expectation should be we are generally going to have budgets that are somewhere circa the midpoint of that guidance range.

And the basis for that is as I described in my introductory comments, which is

a demand growth environment that we think is going to be steady to a little bit better. I mean the optimistic side of me says everybody still thinks GDP growth around the world and in the U.S. is going to tick up. Everybody still believes, and we're seeing it in non-residential fixed investment, numbers are going to be generally picking up, particularly here in the U.S., and that should lead to some incremental demand growth. The supply side, as I covered, is fairly stable. I mean various numbers are out there, but it's generally somewhere at two or a little bit below, which is not too terribly different than what we're seeing this year.

So you put those two things together, I think our best assessment is that we're going to have a year next year, at least as we look at it right now, we look at budgets and we look at all regions of the world, we're going to have a

year next year much like we're seeing this year. In terms of the geographic representation, again, I think it's similar to this year. I would sort of, at a high-level, say that top-line growth is going to be, here in the U.S., probably at the low to the midpoint of the range, and we would expect international growth to be greater, so probably at the midpoint to the high end of the range.

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Thank you.

Christopher J. Nassetta

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

Sure.

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

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Hey, guys. Thanks for taking my question. So Chris, as you kind of expanded on your thoughts on 2018, when you think about the 1 to 3 and you think about the obviously a lot of proposals currently being thrown around right now, but if you were to get some form of tax reform, A, kind of how long until you think you start to see that show up in the operating results? And B, what kind of impact do you guys kind of foresee that having from at least a business transient perspective?

Christopher J. Nassetta

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

Yes. Another good question. I wish I knew the answer to that. I've been spending, given that I'm inside the Beltway, you get a heavy dose of politics here when you live inside the Beltway in Washington. We obviously care a lot about tax reform for a whole bunch of reasons. So I have definitely personally, as well as others in the organization, been very engaged with our industry and very directly with Congress as they're – and the administration as they're trying to figure out what path it will take. There are different forms of tax reform that are sort of coming together. There are some general themes that I think are now becoming pretty consistent. Rather than get into those individually, those'll, I think, become clear over the next week or two because the things are moving quite rapidly, particularly in the House, and then will flow over into the Senate. I think in the next week or so, you're going to start to see tax reform with much more specificity than the high-level dialogue.

And I would say rather than get into details, I think generally it's headed in a good direction. I would say, just my personal opinion, that there is a real opportunity that this gets done. I think that that is – time will tell, but I'd say if you ask me last quarter versus this quarter, I would say much more optimistic this quarter that something will get done just based on the state of play. Knowing exactly what gets done is the trick. And I'd say we're slightly premature on that, but from the standpoint of the industry, and then I'll talk about Hilton in a very high-level way, again it depends what happens, but I think generally for the industry, I think it's good. I think, like anything, there's a lag effect to good things happening and those flowing through the business. I can't tell you what that lag would be. I know there is a lag, but I think it happens in two forms, honestly. One is psychology, which matters and that is the business community and others feeling better about where the economy is going. I think that can happen, if tax reform gets done, I think that starts to flow through pretty quickly.

And then the second form of benefit to the industry is just all of what tax reform means, which means businesses have more free cash flow to play with. That means that they hire more people, they invest more in plant and equipment, non-residential fixed investments should go up. It means if it's done the way that I'm hearing it's going to get done, you're going to have huge amounts of repatriation of money that's been trapped overseas coming home. Some portion of that is obviously going to get put to use in those same ways, and those things may take a little bit of time to trickle through because it takes time for those benefits to flow through to businesses. But clearly those are benefits and clearly I think for the industry incrementally, that helps drive positive demand.

So I think if they get it done, and as I say, I think there's a reasonable probability that something gets done, I think net-net it's good for the industry. I think for us, again, it just depends on the nuance of thousands of moving parts. We've looked at all of the various proposals. It could change, so I want a full disclosure. We don't know exactly where it will come out. We're deep in the dialogue and have a reasonable sense. I think the things that we're hearing being talked about, I would say, the net of it should be beneficial to us.

Now trying to scale how good it is for us, I won't do. Just because it's too early, too many moving parts, but certainly nothing that I've seen that's on the table right now. Let me put it in the positive. Everything I've seen that's on the table right now would be beneficial to us, like a lot of other businesses. Because the whole point of this is to stimulate economic growth and give more cash in the hands of businesses to make more investments and hire more people. And I think we would be a net beneficiary of it.

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Great, Chris. Thank you very much.

Q

Christopher J. Nassetta

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

Yes.

A

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

Shaun C. Kelley

Analyst, Bank of America Merrill Lynch

Hey, good morning, everyone. Just wanted to talk a little bit about the select service brands again this quarter, I mean I think we all expected that the U.S. was going to be a little light given all the calendar shifts that were going on for the quarter. But when we sort of look and do the decomposition, your select service brands underperformed some of the broader portfolio as we look at it, particularly some of the big flagships like HGI and Hampton. So I guess the question is, I think you mentioned in the prepared remarks a little bit about occupancy premiums there. And is there a place in as we progress through the balance of this year into 2018 where we might be able to get some price at those brands? Or what's the competitive landscape look and outlook look for that side of the portfolio as we head out to next year?

Q

Kevin J. Jacobs

Executive Vice President and Chief Financial Officer, Hilton Worldwide Holdings, Inc.

Yeah, Shaun, it's obviously a good question and those brands on absolute RevPAR growth basis, were at the lower end of our spectrum of brands this quarter. I think I'll hit the occupancy premium or I guess rate part of it second. But the first part, those brands are very high RevPAR index brands, right? They perform really well. They start out ahead of the competition, right? So their absolute RevPAR growth in the quarter is still higher than their

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competitors, but the other competitors are coming up, partially because they do have such high occupancy premiums.

You also had the effect in the quarter of a benefit from the storms, which didn't enure to those brands as much because they are already so far ahead in occupancy so the other hotels were filling up more quickly, or I guess incrementally more than they were.

In terms of the rate side, what you're seeing in those brands, I think is what you're seeing overall, which is that their recovery has not been as strong, and GDP growth has not been as strong. And, as a result, their inflationary environment has been quite low, so you haven't seen as much rate growth.

You should see – continue to see rate contribute more to RevPAR growth in the U.S. this year. It's almost 100% of our RevPAR growth is from rate, less so outside the U.S. So it's a bit of a mixed bag with those brands, but at the end of the day those brands are really strong brands. They're still preferred by owners and lenders in a big way, and they should continue to perform really well for us.

Shaun C. Kelley

Analyst, Bank of America Merrill Lynch

Thank you very much.

Q

Christopher J. Nassetta

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

Sure

A

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

Bill A. Crow

Analyst, Raymond James & Associates, Inc.

Good morning, folks.

Q

Christopher J. Nassetta

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

Good morning, Bill.

A

Bill A. Crow

Analyst, Raymond James & Associates, Inc.

Chris. Good morning. We're not that far away from hitting kind of a three-year anniversary of the time at which we identified weaker corporate demand. And we're all still trying to figure out exactly why. I know economic growth hasn't been that good, but confidence is up, corporate profit is up. You've highlighted many of those things. So I'm just wondering in your discussions with your clients, in your special corporate negotiated rates, is there anything you're uncovering that helps to explain this weakness at this point in the cycle? Maybe growth is coming from small companies, not big companies, or something like that, but anything that you can give us?

Q

Christopher J. Nassetta

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

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Yes. I mean, it's really good, it is the question, right, in terms of going forward. What is going to change to get the business transient moving at a faster pace. And we've studied it like crazy, I've talk personally, as our teams, extensively to all of our corporate clients big, small, medium, everything and I don't – I'd love to tell you I have some brilliant new insight, but I don't. I think it's really a consequence of even though you see broader economic indicators and non-residential fixed investments and those things sort of improving, I think it's just been – I've used this before, I think, on prior calls certainly as I've talked to folks, it's still been a little bit of a cautionary flag out there. So whether you're a big, small, or medium-size business, even though there is some optimism out there and maybe certainly tax reform would, as I said, improve that psychology, there is enough stuff going on politically and globally that we all are reading about and we all know about that I think it's holding people back from that incremental decision to spend, and that includes incremental spending in travel.

As we've talk to our corporate clients, it's been interesting, not particularly new, and I've talked to a bunch of them. I think what they're saying, and you heard it in our prepared comments, we think we'll have sort of 2% to 3% growth with them. That's all rate. Okay? You want to – somebody asked where is the rate. Well, there it is. That's all-rate sort of a quasi-inflationary increase, simply because I think when you talk to them, they say, hey, we're reasonably optimistic about our business and the world, but my gosh, a lot of things going on. We need to see things stabilize a little bit. I think people's expectation at this moment as we're talking to them pre-tax reform, et cetera, is I'm willing to accept the rate increase, not a big one but sort of inflationary, and my expectation is, and I'm aggregating a whole bunch of different people in a bunch of different categories obviously, but that I think volumes will be relatively constant.

And so that's sort of what we've built in as I described a bit earlier in my answer to the prior question, that's sort of what we've built into our expectations for next year. To get them moving a little bit faster, I think one, it's having a real – continuing to see an uptick in the broader economic environment. I think posting some wins on the board. I think, honestly, I don't want to put everything on the shoulders of tax reform, but I think that is the one where you have the highest probability and where you can have the most significant impact to sort of change the psychology a little bit to make people feel like, hey, we're getting some things done, it's going to be really good for me, my business is going to benefit from it, and so I can loosen the purse strings a little bit.

I think, having said that, we're growing. I mean special corporates are growing, you see business transient this year sort of growing overall in the 1% to 2% range. So it's not flat or going backwards. It's still positive, but not nearly what we would like or what you would typically see at this stage of a cycle. But I think this is different just because of the noise that's in the system and the overall caution.

And I'm an optimist by nature, everybody on the call knows that, but I am optimistic that particularly tax reform and other, you start to see things settle down and I think it'll be helpful to the business. But we haven't really – I can't say that I can look at data. I mean I can look at – if I wanted to sort of be super optimistic, I can look at certain weeks and a little bit of a trend that it's getting a little bit better, but I would say I'm getting ahead of myself to say that. I'd say the data, the bulk of the data, which has been somewhat choppy, still suggests it's been positive but relatively stable. We haven't really seen any kind of material uptick.

Bill A. Crow

Analyst, Raymond James & Associates, Inc.

All right. I always appreciate your insights. Thank you.

Christopher J. Nassetta

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

Yes.

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

Felicia Hendrix

Analyst, Barclays Capital, Inc.

Hi. Good morning and thank you.

Q

Christopher J. Nassetta

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

Good morning.

A

Felicia Hendrix

Analyst, Barclays Capital, Inc.

Hi. Chris, in an industry that doesn't have a lot of visibility, right, and we rely on metrics like GDP and corporate demand to kind of try to form the forecasts, and you talk about those a lot, and I'm just curious because it seems like the corporate demand – I'm sorry, I meant to say non-residential fixed income, and it seems like corporate demand this year has lagged non-residential fixed investments. So I'm just wondering why you think it wasn't as correlated this year. Is there a lag? Or is it maybe not the best metric to look at?

Q

Christopher J. Nassetta

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

It's a really good question, and I've been pushing our teams on that and we've studied – the best analysis that we've come up with is the correlation is still very, very strong, but it's a longer lag in a low-inflationary environment, and that's the environment that we have been in, and likely will be in for a while. So I do think it will flow through, correlation in a low inflationary environment will mean it probably will be a lower correlation and a longer lag. So, if you keep seeing growth in non-residential fixed investment, eventually you're going to see some benefit going through the hotel demand.

A

Felicia Hendrix

Analyst, Barclays Capital, Inc.

Looks like a good basis and then combined with GDP...

Q

Christopher J. Nassetta

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

It's still the best, I mean when you do the math and look at the R-squared, not to be too nerdy about it, but that's how our guys – I mean it's still, those are still the best ways we can find. You're right, it has detached a bit. And so I was – Kevin and I were pushing the teams, and when you do the analysis, it really has a lot – if you look at it over 30 or 40 years against different inflationary environments that's as best we can tell where it starts to break apart, at least in terms of creating greater lags.

A

Felicia Hendrix

Analyst, Barclays Capital, Inc.

Okay. Helpful. Thank you.

Q

Christopher J. Nassetta

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

A

Yes.

Operator: The next question will come from Brian Dobson of Nomura Instinet. Please go ahead

Brian H. Dobson

Analyst, Instinet LLC

Q

Hi, good morning.

Christopher J. Nassetta

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

A

Good morning.

Brian H. Dobson

Analyst, Instinet LLC

Q

So when you're looking at supply growth, is there any sign that that might be slowing in urban markets where supply has been high, and pricing has been weak? And then in terms of your own growth out over the next two years, which of your brands are driving that growth? And how have developers received your new brands?

Kevin J. Jacobs

Executive Vice President and Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Yes. Thanks, Brian. So the first one is I think you are seeing indications that – well certainly new projects getting signed up in urban environments are more difficult to finance and you've had a bunch of markets where supply has become a little bit of a problem, so obviously developers are looking elsewhere. You're still seeing deliveries in some of those markets, right? New York, Chicago, the oil patch, you're still delivering some of that. So on a lag, you're still going to see actual supply deliveries continue a little bit.

But I think if you look at projections more broadly outside of urban, you're starting to see the forecasters or the forecasts are starting to level off. So I think what the industry consultants would predict is that 2019 is going to be the peak year. And I'd probably personally take the under on that a little bit meaning I think 2018 and 2019 will be about the same. And then you'll sort of see them be collective peak going forward.

For us in terms of our brands, you still have the core Hilton brand in Hampton that are the largest part of the pipeline, and thus will be the largest deliveries. But of course we have new brands that are ramping quickly with Tru and Home2, and some of our conversion brands. So I think you'll continue to see our supply growth and our deliveries be more of the same, the trends will continue.

Brian H. Dobson

Analyst, Instinet LLC

Q

All right. Great. Thanks very much.

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

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Okay. Thanks. Good morning.

Q

Christopher J. Nassetta

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

Good morning.

A

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

This is somewhat a bigger picture question, but given all the efforts on the connected room and app, how do you think about the right amount, or even general benchmarking of technology spend and could you provide any additional detail on kind of the major CapEx buckets this year, and how that could evolve going forward? Thanks.

Q

Christopher J. Nassetta

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

Sure. Technology makes up a huge component of how we want to differentiate ourselves broadly. I mean I think it's a combination obviously of making sure our physical products existing and new are exactly what customers want. And we're either launching or adapting to their needs. The physicals combined with service that is differentiated and very consistent and very high quality that our loyalty as we continue to evolve, Honors becomes increasingly more relevant that we're interacting with customers in a deeper, more frequent way.

A

And last but not least, using technology is a differentiator recognizing that we can use technology in ways we talked about today in our prepared comments in the on-property experience to make it more seamless, better, more fun, more efficient. But also we have unique opportunities to talk to our customers in ways we never have been able to before, before-and-after they're with us. And technology obviously offers us a way not only to talk to them, but to engage them in different ways on a more frequent basis so we're front of mind.

Obviously, all with an objective of being able to continue to drive more market share, more profitability for owners, and in so doing attracting more capital into our system to accelerate our growth. So, you're going to continue to see us make very large investments in technology, the bulk of those investments in terms of the dollars are really coming out of all of our program and technology funds that come from contributions that are made by all of our owners on a global basis and not as much is what you see in the pure CapEx number that you see in the \$150 million to \$200 million CapEx number that you're seeing. Then when we talk about our CapEx fees, that's the amount in technology there is probably \$20 million to \$40 million, I'm looking at Kevin, something like that, and that's really more corporate systems of all sorts, HR, financial systems, et cetera, that are really Hilton investments.

I think you'll continue to see that level of investment there. The big investments, which honestly are 10 to 15 times or more of that number, that we're making in terms of the innovation and what we're doing with technology in the hotels is happening in the funded side of the business. And I think you're going to continue to – we have a huge amount of resources to play with. I think you're going to continue to see us increase spending their somewhat, but really just make sure that how we're allocating dollars, and what we spend it on, and how we prioritize it is appropriate for what we're trying to get done to deliver great experiences for customers. We got plenty of money in that bucket to do the right things. It really is making sure we just focus on the right things and prioritize properly.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Super helpful. Thank you so much.

Q

Christopher J. Nassetta

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

Yes.

A

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

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

Hey. Good morning. Congrats on another strong quarter. So, two more questions on 2018. First, Chris, you were at the Skift conference recently and you talked about some potential new brand launches. Can you just tell us your expectations for 2018 and potential size of new brands? And then can you talk about capital returns for 2018, just the gives and takes of what will drive capital return size? Thank you.

Q

Christopher J. Nassetta

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

Yes. Thanks. I'll take the first, maybe ask Kevin to talk about the second. New brands, nothing new from what we've talked about on prior calls. We're always working on lots of different ideas. I'd say we have four new brand ideas that are sort of in the skunk works and under heavy development. We've talked about those, what I'll affectionately call our Hilton+, sort of a Hilton+ brand, a urban micro brand, which I did talk about at Skift, a luxury collection brand, and I think that's all. Oh sorry, luxury lifestyle. I was saying I have three or four. So like luxury lifestyle. I'd say three of the four of those, the first three, the luxury lifestyle being the fourth, we're way down the development path. On luxury lifestyle, we're not rushing as much because we have a number of different things going on in the other three that are keeping us busy.

A

I would expect, and it's not a hard commitment, but I would expect probably the launch of two or three of those four during 2018, and it sort of depends. It's hard to put a hard date on it because we've just launched Tru. I mean, we've launched it a couple of years ago, but we have the first openings that are going on this year. Just launched Tapestry this year, have our first openings. We're still cranking up with Curio and even Home2, which is doing incredibly well.

We've had five new brands over a relatively short period of time, two effectively this year. So we want to make sure, I'd say pretty consistently, that we give them a proper birth. They're doing well but we want to give them a little bit more room, finish the development on these others. So, I would say two or three of the four I think are highly likely at some point next year. And as we get into the beginning of next year, I think we can give you a little bit more specificity around that.

Kevin J. Jacobs

Executive Vice President and Chief Financial Officer, Hilton Worldwide Holdings, Inc.

Yes. And then, Thomas, on capital return, as Chris mentioned earlier, we haven't finished our budgeting process, so it's a little bit premature. And we're certainly not giving guidance, but I think if you look at what we're saying about RevPAR growth and NUG combined for next year, I'd say it's safe to say that EBITDA will grow next year based on our outlook and thus free cash flow would grow. We expect our return on capital next year to be

A

directionally comparable with this year, and I think the thing to remember about that, and the reason it will probably be directionally comparable even with growth, is that we had some excess cash at the beginning of this year left over from the spins that is part of our capital return for this year.

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

Helpful. Thank you.

Q

Christopher J. Nassetta

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

Thanks, Thomas.

A

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

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Hi. Thanks. I was just wondering if you could update us on the bookings channels given all the efforts you've made around the loyalty programs and the apps and the technology which you touched on earlier. Are you seeing a movement to more customers booking direct through your Hilton.com and away from, say, OTAs or other channels? And if you can, could you quantify the move?

Q

Christopher J. Nassetta

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

Yes. I don't have all the most recent data in front of me, but I would say directionally, things are going really well with our book direct campaign. We continue to see tremendous growth coming in through Honors, which is the way to get it started. We've been doing more than 1 million new members a month. We're up to about 70 million members. We're almost up 30%, I think it's 26% to 27% year-to-date growth in Honors, and that obviously, as we get people into the system, gives us an opportunity to talk to them and engage with them in a very different way, which we are, including them making sure they understand that they get the best value with discounts, with points, with all of the technological advantages that we've talked about in terms of digital check-in, room selection, digital key, all of those things that are offered to Honors members. And I think it's going really well.

A

If you look at the channel shift over the last couple of years, it continues apace. The highest growth that we're seeing on a year-to-date basis continues to be in our direct channels. And I think we'll continue to see that if we do our job. As I've said lots of different times over the last couple of years, this is not going to – we're happy to talk about it quarter-to-quarter and totally appropriate to get the question and answer it, but we'll be talking about this for years and years to come. This will never end. It wasn't a sort of a one-time surge. It's about making sure that we're always offering our customers the best value and delivering the best experience and, as much as we can, as I said, engaging in a deeper, more frequent way with them to have a very direct relationship. We think that's important.

That doesn't mean we don't want to have relationships with distribution partners. We do. We have literally hundreds of them around the world, and we have good relationships with them, and there is a certain segment of our business where it's very helpful to us to work with them as long as we have reasonable economic terms and we'll continue to do so. But the more that we can have those direct relationships, the better, not just because of the cost of distribution that's obviously an element of it, but just the experience for our customer that we can have much more control over the experience. So you're going to see us – you're going to see lots of new things coming

from us on our marketing campaigns, on what we're doing on the digital side, overall technology, we talked about some of them today, things that we're doing with Honors like connecting to Amazon and points pulling, all of these things are really all part of that equation of giving our customers more reasons to want to engage more often more deeply with us and to have – all the more reason to have a direct relationship with us, and we think it will ultimately drive distribution cost down and is driving distribution cost down. To be clear, it is, but it will also ultimately drive share up because it will drive more loyalty.

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Great. Thank you.

Q

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

Jeff J. Donnelly

Analyst, Wells Fargo Securities LLC

Good morning, guys.

Q

Christopher J. Nassetta

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

Good morning.

A

Jeff J. Donnelly

Analyst, Wells Fargo Securities LLC

Hilton and other brands certainly have a few initiatives in progress such as revamping cancellation policies. I guess you call them nonrefundable reservations. And I've heard that you and maybe other folks are revamping like the rewards redemption programs out there that make it a little more favorable to owners. I'm just curious, for Hilton, do you expect these programs will be adopted system-wide effectively at some point in 2018? And I guess, which of them do you think ultimately could be the most beneficial to room rates or RevPAR?

Q

Kevin J. Jacobs

Executive Vice President and Chief Financial Officer, Hilton Worldwide Holdings, Inc.

Well, Jeff, I'll take the cancellation policy first. We did institute a new cancellation policy this year. We're actually in the third quarter where we're now at a combination of 48 and 72 hours, depending on the market. And it's early days, but the early returns are that those are working. Those are helping stem the tide of really short-term cancellations. So you're seeing sort of one-day-out cancellations down a few points as we get into that. We're also working on – I'm not exactly sure what you're referring to – you're hearing, but we're working on and testing, I think Chris has spoken about this before on calls, testing a new way to price where maybe the customer is paying a little bit more, or a little bit less in advance for different levels of flexibility.

A

And then on the Honors side, we've made changes in recent years on the redemption formula to make it more fair to all owners, whether they are in high occupancy markets or otherwise. I don't know if you want to elaborate more on that.

Christopher J. Nassetta

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

A

No. I don't think there's any major changes in the redemption side of Honors to speak at about – at this point, and I think Kevin covered the others. Is there anything else, Jeff, that you were trying to get at?

Jeff J. Donnelly

Analyst, Wells Fargo Securities LLC

Q

No. I think that's the large part of it. I was curious, I know it's early, but I'm meaning the cancelation policies have been successful in kind of lengthening booking window. I mean how do you guys kind of think about it, the desired goal?

Christopher J. Nassetta

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

A

It's really early days, okay, meaning months. But it's definitely working, and I think that as Kevin said in concert with rolling out next year, changes in sort of how we price all our products, sort of taking it from the 48 or 72 hours to seven days, and then seven days and beyond with a flexible or semi-flexible product pricing approach, I think is going to help accelerate – help benefit us and deal with this issue in a more meaningful way. And ultimately, in a way that I think drives higher growth. Just because as we look at the behavior of customers as we're testing it, as we're doing it at a fairly large scale throughout different pockets of the portfolio, we like what we see. And I think that net it as an opportunity to incrementally make customers happier by giving them choice and drive a better RevPAR growth.

Now, you're going to say, give me more details, but I'm going to say, I'm not yet because we are deep into the testing. I think we're going to completed it in the next 30 or 45 days, and if all goes well it's something we'll describe in far greater detail because we will be rolling it out next year.

Jeff J. Donnelly

Analyst, Wells Fargo Securities LLC

Q

Thanks for answering my third question. Thanks, guys.

Christopher J. Nassetta

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

A

Sure.

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

Robin M. Farley

Analyst, UBS Securities LLC

Q

Great. Two things, one is I wanted to just understand the group pace a little bit better. I think it was up during the quarter. I'm wondering how much of that may just be benefiting from the holiday shift that makes Q4 a better group quarter than last years? Can you talk about what bookings that came in during Q3 were for 2018 versus last year and Q3 for the forward year?

Kevin J. Jacobs

Executive Vice President and Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Yes. Robin, I don't have the exact breakdown in front of me, pace was up in the quarter both into the fourth quarter and for all future periods. And as far as 2018 how it's looking right now, it's actually 2018 position is up

more so than 2017 position, and we think is going to end up on the whole. So up sort of low-single digits, but up better than it is this year.

Robin M. Farley

Analyst, UBS Securities LLC

Q

Okay. That's great. And then lastly some of the upside in your guidance rates since your RevPAR ratings didn't change to sort of non-RevPAR related fees. Should we think of that as recurring? Or is that just sort of one time benefit to the upside in your guidance today?

Kevin J. Jacobs

Executive Vice President and Chief Financial Officer, Hilton Worldwide Holdings, Inc.

A

Overall, there were a little bit of unique items, a little bit of FX and a little bit of timing. But largely as I think I said in my prepared remarks, largely performance driven. And then the reference to non-RevPAR driven fees, we have a bunch of non-RevPAR driven fees including franchise sales and license fees, and you saw a little bit of benefit in the quarter, particularly from license fees.

Robin M. Farley

Analyst, UBS Securities LLC

Q

Okay. Great. Thank you.

Operator: The next question will come from Jared Shojaian of Wolfe research. Please go ahead.

Jared Shojaian

Analyst, Wolfe Research LLC

Q

Hey, good morning, everybody. 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 we've seen the industry pipeline, the growth rate start to decelerate a bit year-to-date, and then your number today is sort of in line with that. What do you make of this trend? And how should we think about your unit growth beyond next year?

Christopher J. Nassetta

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

A

If I look at our numbers we didn't really see any meaningful deceleration. I think we were pipeline growth 13%, and I think last quarter maybe 15%. So I guess technically that's a decel, but I don't really – I think that's just quarter-to-quarter nuance of things going on. I don't think that's happening. My expectation is that you will continue to see our pipeline grow over time, obviously it has a lot to do with what's going on in the various regions of the world, but I think you'll continue to see us add to the pipeline at a rate that is somewhere in that zone.

In terms of our net unit growth, as I talked about in the prepared comments, we have pretty good sightlines just because, if you think about it, everything that we're going to deliver next year and a whole bunch of stuff that

we're going to deliver into 2019 is either under construction or financed and getting ready to go under construction, with the meaningful gap being conversions. We've been doing roughly 20% to 25% conversions a year. We've done that or more reliably. We have new conversion brands that are working, with Curio, with Tapestry, with, soon a luxury collection conversion brand. So I'm pretty confident, based on our track record, based on the sort of weapons in our arsenal, we'll be able to get the conversions that we need. So I think looking at 2018, 2019, I think looking, as we said at our Analyst Day this time last year, I think we have pretty good sightlines. I think being in that 6% to 7% zone for the next few years I think is readily achievable.

Jared Shojanian

Analyst, Wolfe Research LLC

Great. Thank you very much.

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

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

Thanks. Most of my questions have been answered, but I do have one on the Waldorf Astoria in New York City, I wonder if you have any idea when that might be reopening? I walk by it every day and I don't see a lot of activity going on. Any rough idea?

Christopher J. Nassetta

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

Yes. I mean a lot of work is going on, not in the hotel but behind the scenes on all of the planning, and a bunch of us of been deeply involved with Anbang in figuring out the programming, and I think we're sort of at the very final stages of that. They've done a bit of demolition, sort of what I'd say is demolition to figure out what's behind all those walls in a building that's, whatever, 100 years old, which gets tricky. And what they have said to us is their expectation is they'll open in very late part of this year, very early part of next year that they're going to be prepared to start heavy demolition elements, which obviously are the beginning of real construction.

So I'm hopeful that the next three to six months that we're starting to get underway. The program that we've worked on with them is, I think, spectacular. I mean I personally spent a bunch of time on it, as have tons of people on our team, and I think the direction it's going will make us proud to have the Waldorf Astoria New York back to its former glory.

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

Well said. Thank you.

Christopher J. Nassetta

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

Yes.

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.

Thanks, everybody, for the time today. Obviously, I'm pleased with our third quarter. I think the rest of the year I think we're in really good shape and going into next, as we talked about, steady as she goes. We'll keep churning the numbers out, and appreciate everybody spending the time with us, and look forward to talking to you after our next quarter.

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

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