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Hilton Worldwide Holdings, Inc. (HLT)

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Hilton Fourth Quarter and Full-Year 2017 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [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, ma'am.

Jill Slattery

Senior Director, Investor Relations, Hilton Worldwide Holdings, Inc.

Thank you, Denise. Welcome to Hilton's Fourth Quarter and Full-Year 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 speak only to our expectations as of today. We undertake no obligation to publicly update or revise these statements.

For a discussion of some of the risk 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 fourth quarter and full-year 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 fourth quarter and full-year results and provide an update on our expectations for the year ahead. Following their remarks, we will be happy to take your questions.

And 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 happy to report fourth quarter results with top-line and bottom-line performance exceeding the high-end of our guidance. As a result, our full-year adjusted EBITDA and EPS also beat expectations and we returned nearly \$1.1 billion, or more than 5% of our average market cap to shareholders.

Specifically in the quarter, RevPAR grew 3.8% with all brand segments exceeding our expectations. U.S. RevPAR increased 3.2% largely driven by strong group and corporate transient business. Holiday shifts and

weather impacts further helped results. We expect this positive momentum to continue and are optimistic about the year ahead.

Looking at macro indicators, forecasts call for accelerating growth in GDP, non-residential fixed investment and corporate profits, which all bode well for continued demand growth. Forward group booking trends also support continued optimism. For the full-year 2018, group position is up in the mid-single digits with particular strength in company meetings and nearly 80% of group business is already on the books. Booking pace in the quarter, for all future periods, was up in the mid-teens given increased demand and improved conversion.

On the supply side, we think growth in 2018 will likely be at or below the long-term average. As a result, we're maintaining our full-year RevPAR guidance of 1% to 3% but would expect results to end-up between the mid-point and the high-end of the range.

Additionally, we should continue to benefit from great traction on the development side of the business as we continue to outperform on share of global supply growth. For the full-year, we expect to sign, again, more than 100,000 rooms and deliver net unit growth of approximately 6.5%.

The strength of our brand portfolio and commercial engines are evident in our industry-leading and growing RevPAR index premiums, which continue to help us drive strong unit growth. Meanwhile, the broad diversification of our pipeline helps mitigate the impacts of development cycles around the world.

In 2017, we opened more than a hotel a day. We also reached record approvals of roughly 108,000 rooms and record construction starts, both of which exceeded expectations. In fact, we finished 2017 with the most rooms under construction in the industry, which account for 21% of rooms under construction globally.

At year-end, our pipeline totaled nearly 2,300 hotels and 345,000 rooms, representing an increase of 8% in our U.S. pipeline and 15% internationally. We estimate our pipeline will generate nearly \$700 million of stabilized annual adjusted EBITDA.

Internationally, we're actively pursuing additional growth opportunities by expanding into new markets and introducing new brands to existing markets. As a percentage of our total pipeline, the Asia-Pacific region accounts for nearly 30%, EMEA accounts for roughly 20%, and the Americas/non-U.S. about 5%.

In total, we have a strong international pipeline of 900 hotels and more than 180,000 rooms including our recently-signed 200 Hampton Hotel in China. For 2018, we estimate roughly 40% of our net unit growth will be located in international markets. Assuming the build-out of our entire pipeline, our international exposure increases from roughly 25% of rooms today to nearly 35%.

We also have a great development story in the U.S., led by conversion opportunities in our recently-launched Tru brand. Curio and our newest brand, Tapestry, which launched just last year, are particularly well-positioned for conversions. Combined, these two brands have more than 50 hotels opened and 80 in the pipeline with each brand expected to double its presence within the next two years.

Following the addition of several world-class Curios, including the Hotel del Coronado and The Statler Dallas, we look forward to converting other impressive properties in the coming year with anticipated openings in cities like Washington, DC and Paris, and resort destinations in Japan and Costa Rica.

We're also benefiting from the fantastic traction with our Tru brand. Following the brand's debut in Oklahoma City last April, we opened eight more properties in 2017, spanning the U.S. from Las Vegas, Nevada to Portland, Maine.

We now have over 500 hotels opened and in various stages of development, including signed deals for three hotels in Canada with the first expected to open this year, marking an exciting milestone as the first international Tru by Hilton.

In 2017, we added over 11 million members to our loyalty program for a total of over 71 million members at year-end, up nearly 20% including a record number of enrollments in Asia-Pacific, which doubled our membership in the region.

To kick off 2018, we're enhancing our Hilton Honors program to give our members even more value when they stay with us. Soon we'll start rolling out new perks, especially for members of our highest tiers. These benefits include gifting Elite status to another member, receiving bonus points for nights beyond a certain milestone, and rolling over nights to jumpstart earning status for the next year, all increasing the value and flexibility of our program.

We're also excited to share that our new portfolio of Hilton Honors American Express co-brand cards are available to our members and cardholders. The new card portfolio will give our customers and small businesses even greater choices and more benefits, making these the most rewarding Honors credit cards to-date. We expect these cards to drive meaningful increases in loyalty and overall card spend, not only benefiting customers, but also our total system.

Moving on to technology, we now have digital key available in more than 350,000 hotel rooms in more than 2,500 hotels worldwide, with hundreds more coming this year. In December, we officially debuted Connected Room, a first of its kind, high-tech room, that enables guests to personalize and control every aspect of their stay from the Hilton Honors app. Trends like digital globalization and automation are, of course, changing how all of us do business. With all of this change, we see tremendous opportunity for us to help redefine the future of hospitality.

Before I turn the call over to Kevin, I want to touch briefly on the recent tax policy changes. Overall, we think this will be good for the broader economy, be good for the lodging industry, and will be good for Hilton, and believe it will ultimately drive incremental demand and free cash flow. Consistent with our previously-articulated capital allocation strategy, the bulk of our tax reform benefits will be returned to shareholders.

To finish up, we're really pleased with our performance in 2017, where we continue to lead in organic net-unit growth, we delivered game-changing innovations and strong financial performance and generated significant returns for shareholders. I'd be remiss in not recognizing and thanking our 380,000 team members around the world who deliver the exceptional experiences that drive this continued success.

With that, I'm going to turn the call over to Kevin, to give you more details on our results and the outlook.

Kevin J. Jacobs

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

Thanks, Chris, and good morning, everyone. In the quarter, system-wide RevPAR grew 3.8% versus the prior year on a currency-neutral basis, exceeding the high-end of our guidance range. Our results were driven by better-than-expected group and corporate transient demand and we estimate that holiday shifts and hurricane displacement also benefited system-wide RevPAR by roughly 100 basis points.

Adjusted EBITDA of \$498 million also exceeded the high-end of our guidance range, increasing 10% year-over-year. Results benefited from better-than-expected performance across the board with solid RevPAR flow-through and greater corporate cost control. We estimate roughly \$15 million of the beat versus the mid-point of guidance came from one-time items that we do not expect to repeat this year.

In the quarter, management and franchise fees grew 13% to \$486 million, well ahead of our 8%-to-10% guidance range. In addition to strong RevPAR, growth in license and application fees outpaced our expectations. Our owned and leased portfolio also posted better-than-expected performance, given increased transient business across Europe and healthy group demand in Japan. As a result, diluted earnings per share adjusted for special items of \$0.54 also beat expectations.

Turning to our regional performance and outlook; fourth quarter comparable U.S. RevPAR grew 3.2%, meaningfully higher than our expectations, given solid corporate transient and group performance, coupled with benefits from holiday shifts and weather, which boosted U.S. RevPAR growth by an estimated 140 basis points in the quarter. For full-year 2018, we forecast U.S. RevPAR growth around the mid-point of our 1%-to-3% system-wide range.

In the Americas outside the U.S., fourth quarter RevPAR grew a solid 6.2% versus the prior year, due to strong leisure demand in Canada and hurricane-related business in Puerto Rico. For full-year 2018, we expect RevPAR growth in the region at the high-end of our guidance range.

RevPAR growth in Europe grew 3.9% in the quarter, driven by rebounding demand in Turkey, partially offset by softness in London. We expect full-year 2018 RevPAR growth in Europe to be at-to-slightly above the high-end of our range. In the Middle East and Africa region, RevPAR growth was up 6.1%, in line with our expectations, as continued strength in Egypt offset softer demand in Saudi Arabia, given political instability and visa restrictions. For full-year 2018, we expect RevPAR growth in the region to be at the higher end of our guidance range.

In the Asia-Pacific region, RevPAR increased 7.6% in the quarter, led by China where RevPAR grew 9% helped by ramping hotels. We expect the country to continue benefiting from occupancy upticks as both transient and group segments improve. For full-year 2018, we expect RevPAR for the Asia-Pacific region to grow in the mid-single digits with RevPAR growth in China of 6% to 7%.

Moving on to guidance, for full-year 2018, we expect RevPAR growth of 1% to 3% and assume international markets will continue to outperform the U.S. We expect adjusted EBITDA of \$2.03 billion to \$2.08 billion, representing a year-over-year increase of nearly 8% at the mid-point. We forecast diluted EPS adjusted for special items of \$2.49 to \$2.60.

For the first quarter, we expect system-wide RevPAR growth of 1% to 3% including a 100-basis-points drag from the Easter calendar shift. We expect adjusted EBITDA of \$410 million to \$430 million and diluted EPS adjusted for special items of \$0.43 to \$0.47. Please note that our guidance ranges do not incorporate incremental share repurchases, and include our adoption of the new revenue recognition accounting standard.

The new standard will affect the way we recognize revenues. There will be changes to several line items across the P&L, but the most meaningful will be the deferral of up-front fees. Going forward, we will recognize up-front fees over the life of the contract instead of at the time we execute the contract. Importantly, the accounting changes do not affect cash flow or cash available for capital return, but we estimate they would lower 2017

reported adjusted EBITDA by \$55 million to \$60 million and expect a similar reduction to our 2018 adjusted EBITDA.

Moving on to capital return. We paid a cash dividend of \$0.15 per share during the fourth quarter for a total of \$195 million in dividends and \$1.1 billion in total capital returns during 2017. Our board also authorized a quarterly cash dividend of \$0.15 per share in the first quarter.

For 2018, inclusive of cash tax savings of \$125 million to \$150 million, we expect to return between \$1.2 billion and \$1.6 billion to shareholders, or roughly 5% to 6% of our market cap in the form of buybacks and dividends. We expect quarterly dividends to remain at the same level as 2017. Further details on our fourth quarter and full-year 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 we ask that you limit yourself to one question.

Denise, can we have our first question, please?

QUESTION AND ANSWER SECTION

Operator: Certainly Mr. Jacobs. We will now begin the question-and-answer session. [Operator Instructions] Your first question this morning will come from Carlo Santarelli of Deutsche Bank. Please go ahead.

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Hey, guys. Thanks, and good morning.

Christopher J. Nassetta

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

Good morning.

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

I have a two-part question. Both aspects of it, I would say, are related to tax reform to an extent. But if you guys could comment on kind of post-tax reform, what have you seen with respect to the business transient corporate negotiated rate discussions, as well as any impact on your discussions with developers for the implications that would have for them on future developments?

Christopher J. Nassetta

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

Yes. Carlo, I'll take that and Kevin, you can jump in with whatever you might want to add. I'd say, obviously, it got done at the very end of last year, so it's still reasonably early to begin to judge it. But I'd say sort of anecdotally, having talk to a bunch of our customers and been at a bunch of different events where we host large numbers of them, it's viewed as very positive. Most of the – if I think about where we are this year and the conversations I was having versus where we were last year, I would say, it is a very, very different tone. Much more positive. I think

that's being driven to your question by tax reform. I think it's also being driven, certainly in the U.S. by the regulatory environment being easier on companies. So I'd say broadly as it relates to business transient, I would say, there's reasons to be optimistic. We started to see that show up in numbers at the end of last year.

I think we've seen that continue into this year. I would say, it's still early days in the sense that it's not consistently better, it's been a bit choppy, but my expectation is if forecasts are right, that this is going to help move GDP growth up a little bit, and given the optimism that I'm sensing from a lot of our big customers and broadly across a bunch of different industries, that it's going to help drive better corporate transient growth than we had last year, which as you will recall looking at the numbers, was very anemic.

So, I think tax reform – I think everything going on right now – globally in terms of global growth picking up a little bit of steam and certainly in the U.S. with the expectations of growth picking up as a result of tax reform and regulatory change, are going to be good.

In terms of our development community, I think, again, it's early days. I'd say, it's hard to find somebody that's not – that is in business that's not more optimistic right now than they might've been a year ago, or even for that matter, six months ago. And given that our development community are eternal optimists, they were reasonably optimistic before, they're even more optimistic now. So I'd say that all bodes well for what's going on on the development side.

Having said that, what's going on in the lending environment, I'd say that's stable. You had a lot of tightening going on in the development environment throughout last year. If you look at the fourth quarter, that started to really stabilize. Whether more financing availability comes to the market as a consequence of a rebound in the economy, I think time will tell. We haven't seen that yet, but time will tell.

But I'd say broadly, the business community including our development community are more optimistic because, I think, they think the changes that have been going on over the last few quarters are going to ultimately drive broader growth in the economy, growth will pick up in the economy, and it's going to translate into more demand growth for hotel rooms, which I think stands to reason.

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you. That's very helpful. And Kevin, just a clarification. You said the cash tax impact \$125 million to \$150 million, correct?

Kevin J. Jacobs

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

A

Yes, that's right, Carlo.

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

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

Felicia Hendrix

Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. Thank you.

Christopher J. Nassetta

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

Morning.

Felicia Hendrix

Analyst, Barclays Capital, Inc.

Hi. So, Chris, following tax reform, a pick-up in corporate transient travel, which you've talked about, possibly supported by your prepared remarks. There's been optimism by some in the investment community that U.S. RevPAR growth could exceed 3% this year, again, for the industry. You're guiding to about 2% for Hilton. So just maybe wondering first, if you agree with this bullish view? So if you had to put out like a bull case on U.S. RevPAR growth for the industry for 2018, what would it be? And why? And maybe you could just talk a little bit about the implied U.S. RevPAR guidance that's out there now?

Christopher J. Nassetta

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

Yes. Great question. I think, it's the question. First of all, I think technically, Felicia, if you go back and listen to my comments, we really guided to 2.5% in the sense that we're not moving to 1% to 3%, but I said the likely outcome would be from the mid to the high. So I would sort of view that as 2.5%. And that is consistent pretty much identical to what we delivered in 2017.

And so if you take the bull case, and remember, everybody that knows me knows I'm an optimist by nature, but I think there are reasons to be optimistic right now. I think if you take the bull case, it would sort of be the following: you delivered 2.5% last year in an environment where group was sort of relatively weak, leisure transient relatively strong, business transient sort of relatively weak, and you had a big – you had a bunch of help from the international markets, which were very strong that delivered 2.5%.

You fast-forward to 2018, I think international markets – by the way, is sort of take that off the table, are going to be strong again. Our estimation is – between Europe and APAC, well, they will be both better than what we think the U.S. will deliver. They won't be quite as robust. They're still going to be really good; won't be quite as robust as last year. So maybe that creates a teeny bit of drag.

But then, I think, potentially more than offsetting that for the bull case would be leisure transient looks to be sort of good again, right? You have consumer confidence, if anything, picking up; not declining. So you would argue that that's a good leading indicator of what's going to happen with leisure transient. We talked about business transient. While it's early and it's a bit choppy, if the economy really is doing what we think, and most people think it is doing, that will lead to, I think, a little bit better result in business transient than we got last year.

And group, if it plays out as sort of set up for the year where we're at a mid-single digit system-wide position with pretty good momentum, it should be better than what was a relatively weak year in group last year.

You aggregate that all together, and I think you could certainly conclude that we should do better than last year which was 2.5%. And so that would be the bull case.

And you would say legitimately, so why aren't you giving us the bull case in your outlook? And the reason that we're not is real simple. It's February. There's a lot of year to play out, and we want to sort of see these things, we want to make sure – we're very optimistic, confident about group, but we want to see it play out.

I mean as we said, 80% of it is on the books, but we want to see it play out. And importantly, we want to continue to see firming up on the business transient side. If those things happen throughout the year, I think you'll see us sort of adjust our expectations, but given it's our first call, it's early in the year, we thought being down the middle at this point was the right place to be.

Felicia Hendrix

Analyst, Barclays Capital, Inc.

Okay. Helpful. Thank you.

Q

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

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Good morning, everybody. Chris, you started off the call by talking about particular strength in company group meetings or corporate group meetings. Can you talk about how much of a leading or maybe coincident indicator that is for individual corporate transient travel at least in the past?

Q

Christopher J. Nassetta

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

In the past, Joe, I would say that the group is typically a lagging indicator. And so, it is a little bit of an anomaly that you're seeing it pick up. Well, I would say that's the way it usually works. We did see it pick up. At the same time, we saw our corporate group pick up, we saw our corporate transient pick-up. So in that way they're happening at the same time, but I'd say corporate group is a bit ahead of it and the pick-up is more stable. Corporate transient pick-up has been a little choppy, but nonetheless, I think the trend line is headed in a good direction.

A

I can't honestly – I'm looking at Kevin, I can't explain why it's a little bit different this time other than the fact that, I think, in corporate – I still think in corporate group, the industry is running at such high occupancy levels, overall that the corporate procurement offices are figuring out if they don't get ahead of it a little bit, they're not going to be able to have their meetings, where on the transient side, I think there's still a belief that it can be a little bit more last-minute.

I think that's probably what's driving, what I would say is not a major anomaly but a little bit of an anomaly where they're either coincident or they slipped around a little bit in terms of what's leading and what's lagging.

Joseph R. Greff

Analyst, JPMorgan Securities LLC

Helpful. Thank you.

Q

Christopher J. Nassetta

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

Yes.

A

Operator: The next question will come from Harry Curtis of Nomura Instinet. Please go ahead.

Harry C. Curtis

Analyst, Instinet LLC

Good morning.

Q

Christopher J. Nassetta

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

Good morning, Harry.

A

Harry C. Curtis

Analyst, Instinet LLC

Good morning. If you could touch on what's your leverage ratio ended the year at – your net debt leverage ratio and the math that you were using to get to the \$1.2 billion to \$1.6 billion? And basically ending up at the middle of the 3 times to 3.5 times leverage ratio target? Thanks.

Q

Kevin J. Jacobs

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

Yes. Harry, we ended the year at about 3.1 times, the very low threes, and our \$1.2 billion to \$1.6 billion total capital return assumes, call it, 3 times to 3.25 times leverage in that range.

A

Harry C. Curtis

Analyst, Instinet LLC

Okay. So that was such a short question and answer, I think I get part B.

Q

Kevin J. Jacobs

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

You're breaking the rules, Harry.

A

Harry C. Curtis

Analyst, Instinet LLC

I know. I'm sorry. Could you just talk about the impact of higher interest rates, so the potential impact on higher rates on your construction or development pipeline? And whether or not it's been locked in for the next couple of years?

Q

Kevin J. Jacobs

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

Yes. It's a good question, Harry. You sort of partially answered it yourself. I mean in the next couple of years – the way this construction cycle plays out, the next couple of years is pretty well locked in. And then in terms of longer term than that, if rates continue to go up, that's probably going to mean the economy is getting better, and as Chris said, our developers are an optimistic bunch. And so even though the capital might get a little bit expensive, what their underwriting gets looks a little bit better on paper. So definitely not a big short-term impact and probably doesn't really have that big of a long-term impact either.

A

Harry C. Curtis

Analyst, Instinet LLC

Perfect. Thanks.

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.

Q

Kevin J. Jacobs

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

Morning.

A

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

You mentioned the addition of 11 million members to a total of, I think, it was 71 million at year-end for the loyalty program. Can you talk to how engagement within your loyalty base is potentially changing? And maybe provide an update on your direct booking efforts, and how that may be growing and changing consumer behavior? Thanks.

Q

Christopher J. Nassetta

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

Well, yes. I'd say engagement is up pretty materially. I don't have the percentage sitting in front of me, but clearly we have – the percentage of active members is up pretty materially year-over-year and not surprising related to the second part of your question.

A

We've been working very hard on strategies to have more direct relationships with customers, which I know sometimes can get interpreted as like a marketing campaign like stop clicking around or whatever, but it has, obviously – it is a much more complex and holistic approach, which has to do with making sure what we're doing with product, what we're doing with service, importantly, what we're doing with technology, what we're doing with very specific parts of the Honors program to drive more – not only deeper engagement, but more frequent engagement with customers is all, I would say, working and getting more people in the program, higher percentage of them engaged, and more of them booking directly with us.

We know that once they come into the program, the vast majority, 90-plus, I think it's 95% – close to 95% of customers when they become an Honors member start booking directly through us, which is obviously a much more efficient channel. And so I think we're having really good success, but as I've said on lots of prior calls, this is going to be something we'll be talking about forever. And as I said, it's a very comprehensive approach to having deeper more frequent engagement with customers.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Maybe as a quick follow-up, what percentage of bookings are going through your mobile app at this point?

Q

Christopher J. Nassetta

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

It's about 10% and growing.

A

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

All right. Thanks so much. I'll jump back in the queue.

Q

Christopher J. Nassetta

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

Yes. 10% and that's about a third – close to a third are Web – either Web, direct or mobile. So make sure we add that, you've got to add the Web in that.

A

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. So, Chris, I think you alluded to this a little bit in your answer to Harry's question, but just kind of going back to the supply growth side, one change that we're noticing as we move through 2017 is that supply growth for the industry overall is starting to peak out.

Q

And so my question is just how long do you guys think you can maintain sort of where you're at on that very significant 6.5% kind of net unit growth? And is there – may be in the next two to three years are we going to see some shift where you're going to move from a little bit of the majority of that? Or the slight majority of that coming from domestic, is that going to shift to international? Or what are some of the puts and takes as we get out in 2019, 2020 to maintain the growth rates that you're seeing?

Christopher J. Nassetta

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

I mean, clearly, to your comment or question Shaun, the U.S. is sort of past its peak. Now, we've extended it, the peak in the U.S., because of the success we're having with conversions in particularly Tru, but I think either in 2016 or 2017 that's where you saw the peak in deal signings in the U.S. for the industry.

A

Having said that, for us, we extended it. And in terms of delivering 6% to 7% NUG over the next few years, I would say, I feel really good about it. I mean, not only is it a big world, where we have lots of opportunities around the world and clearly, as the U.S. has slowed down a bit, you've seen the international side pick-up. We were in the low-30s% in terms of representation on international in NUG.

In 2017, we're going to be probably in the low-40s%, 40%, or low-40s%. In 2018, I would tell you that trend line will continue, because not just what's going on in the U.S., but the success we're having and the opportunities we have offshore are only growing.

It's a big world. It doesn't all move in lockstep. And I think if we do our job, which I think we've proven, we've been able to do for a decade, and being thoughtful about how we layer existing brands in various markets, add new brands to some of our existing markets like Tru that we're going to be able to keep that growth going.

Now, here's the other thing. When you look four, five, six years, a lot of things can happen in the world. I mean, if we do our job, we're going to keep growing at a better pace. As you look at the next two or three, I'm not going to say nothing fully in the bag, but half of our pipeline is under construction, okay?

So that's 160,000, 170,000 rooms are under construction right now. If you add up what we're going to deliver over the next two or three years, those numbers aren't that far off. You add a spattering of 20% to 30% conversions into that number, which we think we have consistently delivered at that level or above. And I think I would say to you, we feel confident that what we laid out at our Analyst Day over a year ago of being in that 6% to 7% range over the next few years is readily achievable, and I would argue sort of a lot of it is already in gestation.

Shaun C. Kelley

Analyst, Bank of America Merrill Lynch

Q

Great. Maybe just one clarification, Chris. The 20% to 30% conversion is that the annual rate, so kind of the annual number that you're -- of the deliveries that you're receiving? Or is it that much actually coming out of conversion [ph] room (34:16)?

Christopher J. Nassetta

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

A

Yes. If you average it, every year is a little different. Things cycle through depending on deals and things we're working on. But if you look at it over the last five or six years, it's averaged in that range. My guess is so, yes, I'm confident we'll continue to deliver in that range, particularly with having newer brands, Curio being newer, Tapestry being very new. We've talked a bunch about what we're thinking about doing in the development of our third soft brand, which is in the luxury space, that's not too far off. So that will be another conversion brand opportunity, then DoubleTree continues to be a fantastic brand for conversion opportunities, and we've had great success there.

So I think we can definitely deliver in that 20% to 30% range. You add that to what is already under construction around the world, and again, it takes a lot -- I don't want to minimize the hard work because our team listens to these calls and they're thinking we've got three years of really hard work, boss, to do all this stuff, and they do. But the reality is we've got good momentum and if we do our jobs we can deliver that growth.

Shaun C. Kelley

Analyst, Bank of America Merrill Lynch

Q

Thank you very much.

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

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good morning. It's been about, I think, around six months since you announced the new credit card agreements. What has kind of been the biggest surprises to date? And how are you thinking about it going forward? Thank you.

Kevin J. Jacobs

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

A

Yes, Thomas, I don't think it's funny. I don't think there have been too many surprises to date, in terms of we've laid out what we thought the incremental economics were going to be. And so far those have been, frankly, maybe even a little bit better, but generally consistent with what we've seen. The new cards just launched, and so it's early days in terms of economic outcomes. It's probably too early to opine. But you know, so far consumers are receiving the cards really well, and we're getting great feedback. So we're excited about the program, but so far I wouldn't say there have been any surprises.

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then if I could just ask a quick clarification question. What was group RevPAR in 2017? You're talking about kind of mid-single digit for 2018?

Kevin J. Jacobs

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

A

In 2017, it was up 1.6%.

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

Q

Okay. Perfect. Thank you.

Kevin J. Jacobs

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

A

System-wide, it was up 1.6%, right now system-wide position is up 5%, mid-single digits. [ph] Five and change (36:43).

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

Q

Perfect. Thank you.

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

Robin M. Farley

Analyst, UBS Securities LLC

Q

Great. Thank you. Maybe I'll put in my two questions, are also just one question.

Christopher J. Nassetta

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

A

Now people are getting really good at this.

Robin M. Farley

Analyst, UBS Securities LLC

Q

So first, just on your fee growth guidance of the 8% to 10%. It seems like you can get there just from the unit growth you've talked about and from your RevPAR guidance. So could it potentially be a higher growth rate given your non-RevPAR fees in there as well?

And then my other question is on a different topic. Just if you've had any conversations or just have any thoughts about one of your large shareholders that has been talked about maybe revisiting some of their investments? And whether you have any color from them or thoughts on what they might do with their stake?

Kevin J. Jacobs

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

A

Yes. Thanks, Robin, I'll take your two questions, one at a time. As for the fee growth guidance, I think what you're alluding to is our algorithm of RevPAR plus NUG, if you think about what, Chris, has said about RevPAR 2.5% and NUG at 6.5% that gets you to 9% which is the midpoint of our fee guidance.

As we've talked about, license fees are growing at ahead of that algorithm rate, but you also have some of the fees in there, the non-RevPAR driven fees like change of ownership and app fees that are growing a little bit below the algorithm rate. So that sort of 8% to 10% is a wide range, and that sort of plays out. The other thing that's going on is we had a good year this year at IMF with growth of about 10% in incentive fees. And so we're creating a little bit – and some of that was due to some one-time and timing items, and so we've created a little bit of a headwind there in IMF. And even though that's only 10% of the fee segment, it's sort of all averaging up to about 9%.

And of course, we ended up higher this year than our guidance range. And we'd like to think we can get to the high-end of the range or better this year, but given it's early in the year, we felt like 8% to 10% was the right guidance.

And then on the next one, I assume you're alluding to HNA who's been in the press with your second question, and I'd say like we don't comment on the dealings of any of our individual shareholders, we're not going to comment on what agent A might or might not do with their shares or what might or might not be going on at their company. As you know, we have a shareholder agreement with them that contains protections for shareholders and that's probably all we'll say for now.

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

Bill A. Crow

Analyst, Raymond James & Associates, Inc.

Q

Great. Good morning.

Kevin J. Jacobs

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

A

Morning.

Bill A. Crow

Analyst, Raymond James & Associates, Inc.

Q

Chris, you talked about some of the gives and takes on fundamentals 2017 versus 2018, you didn't touch at all on the inbound international travel and I think, the U.S. lost significant market share last year. The dollar has come down. I'm wondering if you're seeing any rebound in inbound travel or if you feel like you're making any headway in DC and kind of changing the message and maybe some of the barriers to inbound travel?

Christopher J. Nassetta

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

A

Yes, I didn't. That's a good question, Bill. I didn't mean to exclude it. It isn't a huge part of our business system-wide. It's circa 5% of the business. So I don't tend to think of it as a segment unto itself. I kind of break it down into the three mega segments. But it's a good question. International inbound revenues were down for us, circa – and I think the industry maybe have been a little bit worse, circa 4% last year.

I think our expectation for this year is, while it would be on a little bit of a lag with what's going on with the dollar, that isn't an immediate impact as people have planning time for travel. But our expectation is, and certainly what the early signs that we're seeing and talking to our teams around the world, is that it's going to be better this year than last, meaning we don't think -- we think it will be flat to modestly up is sort of what our worst case is.

I think that has to do with the dollar, and I hope it has to do with some of the work that we're doing as an industry to work with the administration to sort of soften the edges of some of what's being said, not in any way to diminish the profile of security being sort of a top-priority, but to make sure that we soften the rhetoric so that those that are interested in coming to the United States, the vast majority want to do no harm to the United States, feel a bit more welcome.

And so we've been having, the industry through our trade associations and a bunch of us individually have been having lots of conversations. And, yes, I'd like to think we're making some progress there. We'll keep working on that and the dollar, I think, will help us and give us a little bit of a tailwind as well.

Bill A. Crow

Analyst, Raymond James & Associates, Inc.

Q

Thanks. Chris, if I could just ask, I think I missed the answer to this but the Tru brand, how many do you actually expect to open in 2018?

Christopher J. Nassetta

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

A

I think we're going to open about 40 to 50 this year, and then based on what's happening, that should be double that in 2019. We would hope – we're hoping to get, let's say 50 this year open and 100 next year.

Bill A. Crow

Analyst, Raymond James & Associates, Inc.

Q

That's it for me. Thank you for your help.

Christopher J. Nassetta

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

A

Great, Bill. Thanks.

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

Jeffrey J. Donnelly

Analyst, Wells Fargo Securities LLC

Q

I'll try and squeezed in a – maybe a two-parter here as well. Just first one, Chris...

Christopher J. Nassetta

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

A

We've got a new system and I love it.

Jeffrey J. Donnelly

Analyst, Wells Fargo Securities LLC

Q

Chris, you mentioned in your remarks just some of the, I guess, benefits that you're giving to some of your best loyalty members. It's just that it feels like we're at a point where net room demand is beginning to improve and frankly, the competitive field is becoming more like an oligopoly. So I guess the first question is why increase loyalty concessions at this point?

And the second question on a different topic, I guess relates to consolidation. I'm just curious how do you respond to investor views that you could use your premium valuation to acquire another platform and maybe make Hilton an even more lucrative enterprise to use that greater scale to access revenue and expense synergies that maybe you can access today even though you are already a very significant platform?

Christopher J. Nassetta

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

A

Yes, we do. I'll take them as you gave them. In terms of loyalty, I don't view what we're doing in loyalty as in any way as sort of a space race. Like, I mean we're not out there looking at what everybody else is doing and saying, if they do this we've got to one up it and do that. I mean, obviously, our teams are cognizant of what's going on in the competitive marketplace. That's not at all what's driving it. What's driving it is talking to our customers and figuring out what I said earlier, how do we get them to have a – how do we create a deeper connection with them and get them more frequently engaged with us so that in the end, they're more loyal to us and they buy more of our products?

And so the response that you're seeing in some of these things that I highlighted, which are not big-money items, are things that our customers are saying would make a difference. They don't cost our system much, but it would create greater engagement, greater loyalty, more frequent engagement, which we think ultimately will drive share.

So, everything we're doing is not about space race, spend more money. Many of these things that we're doing don't cost much of anything. I mean, giving them more utility on points and things, there's a theoretical cost to some of these, but a whole bunch of them are not particularly costly. It's not like owners are bearing the burden of incremental costs. It doesn't work that way. They're paying in and we may allocate the cost in a different way. And part of this has also been about taking other things away.

So we had – I'll give you a great example that we've had historically where you earn points and miles, right? And we were one of the few that did it. There's a long history to it; long before my time; super expensive program. Well, we've sort of weaned our customers off of that and then reallocated that into a whole bunch of other things that we think will drive more engagement with our customers.

So, it's not just sort of a, you know, add, add, incremental add. It is always about what do we need to do to get people more engaged, and wanting to come directly to us? Because that will drive more loyalty, more share, and more profitable share in the sense of lowering distribution costs.

On consolidation, I mean, I probably answered this a thousand or maybe more times. Here's the thing. I think from our point of view, you're right. We do have a good platform. I think if you look at the numbers that we just reported

for last year on growth and across the board, I would say, we're pretty proud of those results. If you look at what we're giving you and the expectations for this year on unit growth and the next few years as I described in my earlier comments, we feel really good about that. So, we have been very focused on an organic growth strategy because ultimately we think it helps us deliver better products that resonate more with customers and delivers better returns for you guys. And so that has been the approach. And we think that it's working.

And now if we didn't have scale or if we were missing segments and we had big strategic gaps, I would understand the argument. But we don't, meaning we have plenty of scale, we have great representation across the globe and in the most important geographies, and we have all of the major segments covered. So we don't have strategic gaps. We have the ability to grow both our existing brands, add new brands and do it in an organic way where it's effectively an infinite yield because there's really no cost or meaningful cost associated with that growth. So the math is pretty easy, and that's why the focus. And I think the numbers speak for themselves in terms of success.

Now having said that, I've said this a thousand times, too. We would never say never. That is a dumb thing for any CEO to say. We've looked at tons of things over the years. You guys know that. Pretty much everything that's been out there when we were private, when we were – since we've been public. We looked at it. We have a team that works with us to analyze these things. To date, we have not found things that really met the standard, which is that it's something that is very strategically important and a good fit strategically and economically advances the ball in terms of creating material value for shareholders.

And so – but having said that, it doesn't mean that we would never find something that would meet that criteria. We just haven't to date, and so we've been very focused on organic growth. And I think, we'll continue to do so and continue to deliver what I think are great results with that focus. And if something ever presents itself that meets the test, then we'd consider it.

Jeffrey J. Donnelly

Analyst, Wells Fargo Securities LLC

Thanks.

Q

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

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

Hi. Good morning. Just a question on your G&A guidance, and I want to, I guess, ask if I'm looking at this apples-to-apples. It calls for a deceleration in cost in 2018 versus 2017. Is that looking at it apples-to-apples? And secondly, what may be driving that?

Q

Kevin J. Jacobs

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

Yes, Patrick, you are looking at it apples-to-apples. Our guidance does call for G&A to go down. It's pretty simple. It's the transaction expenses for the most part that we incurred last year in doing the spins.

A

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

Okay. If I may ask a quick second question here.

Q

Christopher J. Nassetta

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

A

Hard to stop this second question. I guess we've got a problem.

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Blame Harry Curtis here for that one.

Christopher J. Nassetta

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

A

Thanks, Harry.

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thanks. On your corporate rate negotiations, I'd heard there'd been some pushback on sort of the extended cancellation policies. How did that end up for you as far as rate negotiations?

Christopher J. Nassetta

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

A

It ended up in the low 2s%, which is consistent with what we expected, and remember that was all done pre-tax reform, and sort of before the economy started to get a little bit of this incremental momentum. So that's what we thought, that's where it ended up. We did have a little kickback on that, but not material. I mean I talked to a lot of customers, I'll put it this way, not one of them raised it with me. I know when I talk to our sales teams, they said that it came up, a few people grouched about it, but when you explained why we were doing it, I think people understood it and dealt with it.

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Thank you. That's it.

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

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Q

Hi. Thanks. I just wanted to ask you, you talked about around the 2% RevPAR growth for the U.S. this year. And how do you think that – how do you think about your owners' margins in that environment given there are a lot of costs coming through the system? And does that have any impact on your kind of incentive fees? I know most maybe aren't driven by U.S. results, but any kind of thoughts around that?

Kevin J. Jacobs

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

A

Yes. Smedes, I mean, you're right – you sort of touched on a dynamic that has been existing, frankly, for both our owners in the U.S. and for us. In our ownership portfolio, which is at those levels of RevPAR growth given the way the cost base is growing, it gets difficult to grow margins, and so margins have been pretty stable. Overall owned and operated margins for us actually for 2017 were up, but most of that was driven by results outside the U.S.

And for us in terms of IMF, it shouldn't be a meaningful impact. You've recognized, and in fact frankly, most of our IMF comes from outside the U.S., and over 85% or 90% of the IMF does not stand behind owners' priority return, and participates at the house profit level, which of course that is margins affect house profit as well. But it's not a meaningful driver of IMF for us.

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Q

Okay. And just to also make a mockery of your one question policy. I did want to ask your Blackstone has been – the links in the media as a potential buyer of the Waldorf. And I'm just curious since that's such a flagship property for you. Would you look to get involved with whomever would potentially buy that asset? Or could you make any kind of economic investment? How do you think about the timing and sort of the scope of that project, which seems to have sort of not really moved from the time that Anbang initially purchased it?

Christopher J. Nassetta

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

A

Well, that's a complicated one, but I'll take it on. First of all, there is activity going on at the Waldorf. If you were to walk in that building you would see that heavy demolition is going on and on Anbang has been moving forward. We've had...

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Q

So, is it on schedule with what you had initially thought though? Or.

Christopher J. Nassetta

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

A

Generally, yes. The planning of it is all done, and they're in heavy demolition. And as far as what they're telling us, they intend to move forward with that. They are – it is rumored out there that they're going to sell a bunch of stuff. My understanding is that is accurate. I do not at least at this moment, I mean things can change, believe that that does include the Waldorf Astoria, at least as they have said it to us. I can't comment on what Blackstone is doing. We're not affiliated with them. If you have a question for what they're going to do, you can ask them.

But my understanding from Anbang notwithstanding them, trying to sell a bunch of different assets around the world that at the moment the Waldorf is not one of those, and they tell us that they're moving forward, and in fact as I said, work is going on.

We are in a very well protected position there for the record in the sense of the agreements that we have with whoever. If it's Anbang, that'll be with them. If it ends up with somebody else, we have very strong agreements that will run with the property.

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thanks. I appreciate it.

Operator: The next question will come from Michael Bellisario of Baird. Please go ahead.

Michael Bellisario

Analyst, Robert W. Baird & Co., Inc.

Morning, everyone.

Q

Christopher J. Nassetta

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

Morning.

A

Michael Bellisario

Analyst, Robert W. Baird & Co., Inc.

Chris, just want to go back to kind of size and scale topic, and maybe how you think about balancing that net unit growth which, obviously, is a big driver for you, and investors are focused on, but also being cognizant of existing owners, their profitability and not diluting them with new supply in today's tough operating environment. How do you think about that balancing act?

Q

Christopher J. Nassetta

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

Yes, I mean, it's one that we take awfully seriously, as you might imagine, given that particularly in a capital-light world, but in a real estate timeshare, pretty much 100% of our growth is coming from the ownership community around the world. So we work – I'm not going to say we're perfect, okay? Nobody is, but we work really hard and are really thoughtful about each individual project in whatever market it is in and making sure that we don't think it's going to create any sort of meaningful lasting impact to an existing owner.

A

And we have a whole process that we work with owners on where we are adding product in markets where they are there. Thankfully, in many of those markets we have owners that are very present in that market and, if we're doing incremental work, it's with them. And so they're adding to their own inventory in that market. But where it is in conflict in different owners. We do a whole bunch of work to really analyze and understand theoretical impact, and if we think that it's not going to be good for them and it's going to have a lasting detrimental impact, then we walk away from deals. And we do it all the time. I mean we have debates around this very table I'm sitting at with our development teams. We do a whole bunch of analysis, and we do walk away from deals on a regular basis.

Michael Bellisario

Analyst, Robert W. Baird & Co., Inc.

That's helpful. Thank you.

Q

Operator: The next question will be from Vince Ciepiel of Cleveland Research Company. Please go ahead.

Vince Ciepiel

Analyst, Cleveland Research Co. LLC

Great. Thanks. So last year domestic RevPAR benefited from inauguration, hurricane and a couple of other big events. I think on prior calls, you maybe had mentioned that you didn't see as much lift as maybe the industry as a whole from those one-time events due to exposures. So I guess my question, is in your 1.5% last year, can you take a stab at maybe quantifying those tailwinds? And then, as you move into 2018, I mean, do you think that you'll have a lingering benefit from the hurricane? And then, I guess, early in January, based on what you saw, how was lapping the inauguration?

Q

Kevin J. Jacobs

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

A

Yes, Vince, I'll take this. It's Kevin. I mean, last year in the U.S. – I think I mentioned in my prepared remarks that there was 140 basis points in the quarter related to events. I think for the overall year, it was 100 basis points or maybe even a little bit less of a tailwind. Early in the – the inauguration over January last year will certainly affect DC, but on a macro basis, it's not going to have that big of an impact overall, and that's all baked into our guidance.

And so we do have, we did mention that some of our brands are not able to drive occupancy as much when these events go on because they're already full, right? So that has an effect of causing us to underperform on a RevPAR growth basis a little bit versus the industry versus STR. So that's all baked into our guidance for this year.

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

Christopher J. Nassetta

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

Thanks, everybody, for the time today. I look forward to catching up with you after the first quarter and give you an update on how we think about the rest of the year. Take care.

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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