

**Hilton Worldwide Holdings,
Inc.**

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Q4 2019 Earnings Call
Event Type▲Feb. 11, 2020
Date▲— **PARTICIPANTS****Corporate Participants**

Jill Slattery – Vice President & 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 & Chief Financial Officer, Hilton Worldwide Holdings, Inc.

Other Participants

Shaun C. Kelley – Analyst, Bank of America Merrill Lynch
Stephen Grambling – Analyst, Goldman Sachs & Co. LLC
Carlo Santarelli – Analyst, Deutsche Bank Securities, Inc.
Harry C. Curtis – Analyst, Nomura/Instinet
Joseph Greff – Analyst, JPMorgan Securities LLC
Smedes Rose – Analyst, Citigroup Global Markets, Inc.
Robin M. Farley – Analyst, UBS Securities LLC
Patrick Scholes – Analyst, SunTrust Robinson Humphrey, Inc.
William A. Crow – Analyst, Raymond James & Associates, Inc.
Thomas G. Allen – Analyst, Morgan Stanley & Co. LLC
Jared Shojaian – Analyst, Wolfe Research LLC

— **MANAGEMENT DISCUSSION SECTION**

Operator: Good morning and welcome to the Hilton Fourth Quarter and Full Year 2019 Earnings Conference Call. All participants will be in a 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.

I would now like to turn the conference over to Jill Slattery, Vice President, Investor Relations. Please go ahead.

Jill Slattery, Vice President & Head-Investor Relations, Hilton Worldwide Holdings, Inc.

Thank you, Chad. Welcome to Hilton's fourth quarter and full year 2019 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.

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

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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'll be happy to take your questions.

With that, I'm pleased to turn the call over to Chris.

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

Thank you, Jill, and good morning everyone. Thanks for joining us today. We're happy to report that our 100th year of hospitality was one of our strongest yet. We delivered record growth and industry leading innovations, while further strengthening the positive impact we're having in the communities we serve all around the world.

For the full year, we grew Adjusted EBITDA 10% and adjusted EPS 14%, both ahead of our expectations. System-wide RevPAR growth grew nearly 1% for the year, largely consistent with our recent guidance. Our brands continue to perform well, achieving the strongest market share gains we've seen in a decade, despite a more challenging environment that weighed on our top line. We also demonstrated the power of our business model and disciplined capital allocation strategy by returning more than \$1.7 billion or 8% of our market cap to shareholders in the form of buybacks and dividends.

Turning to results for the quarter. Adjusted EBITDA and adjusted EPS grew in the high-single-digit range, exceeding our expectations. RevPAR declined 1% in the quarter as weaker-than-expected business transient performance offset leisure gains. Softer business investment trends pressured results in the US and slowing economic growth in China, trade tensions and ongoing protests in Hong Kong weighed on performance across Asia Pacific.

As we look to the year ahead, excluding the potential impact of the coronavirus, which I'll discuss in a minute, we expect 2020 top line growth to be similar to modestly softer than 2019. Consumer sentiment remains strong, but macro forecasts continue to call for positive, but decelerating GDP and non-residential fixed investment growth.

Forward group bookings remain up in the low single digits, consistent with our prior quarter's commentary. With that backdrop, we expect leisure and group growth to continue to outperform business transient. On the supply side in the US, the growth forecast is slightly below the long-term average of 2% and is expected to modestly exceed demand growth for the year, which could pressure occupancy and limit rate growth.

Given these macro trends before the impact of the coronavirus, we would expect flat to 1% RevPAR growth for the full year. Now, as it relates to the coronavirus, it goes without saying that the safety and well-being of our team members and our guests remain a paramount priority, as we continue to carefully monitor the situation. We're working with local governments and health authorities globally to best support our operations and our communities in impacted areas.

While it is still early days drawing on the industry's experience with SARS and other similar situations, we've tried to estimate the potential impact on our business. Assuming the outbreak lasts around three to six months with an additional three- to six-month recovery period, for the full year, we would estimate a potential 100 basis point impact to comp system-wide RevPAR growth, assuming closed hotels ultimately wind up being non-comp. We would expect roughly a half a point impact to net unit growth, which would be largely within our guidance range, and a \$25 million to \$50 million impact to full year Adjusted EBITDA. At this point, roughly 150 of our hotels in China totaling approximately 33,000 rooms are closed.

Turning to development, we continue to deliver on our commitment to capital-light growth. 2019 marked our fifth consecutive year of record approvals, construction starts and openings. For the full year, we achieved net unit growth of 6.6%, also marking five consecutive years of net unit growth of approximately 6.5%. We opened more than a hotel a day, totaling approximately 470 properties and 65,000 rooms, growing our portfolio to more than 6,100 properties and 970,000 rooms across 119 countries and territories.

Even with strong openings, we increased our pipeline 6% year-over-year to more than 387,000 rooms or roughly 40% of our existing base, driven by record approvals of more than 116,000 rooms. As a further testament to the high quality of our pipeline, we had record construction starts of nearly 87,000 rooms.

In the US, starts increased 13% year-over-year. With half of our global pipeline under construction, we remain confident in our ability to deliver at least 6% net unit growth for the next several years. We feel good about our future growth opportunities and ability to achieve our development goals, given our strong track record over the last decade.

Since our go private transaction, we have doubled the size of our system with rooms in the US up roughly 80%. Internationally, we've increased our portfolio size more than three times. Additionally, more than 70% of our current rooms under construction are located in international markets. We have added nine new brands to our system, doubling our portfolio of brands.

Our disciplined global development strategy has allowed us to reach more guests for more stay occasions and better leverage the power of our network effect. Last month, we launched our newest brand Tempo by Hilton, the latest example of our ability to anticipate guests' needs and deliver unmatched value for our customers and our owners.

Tempo is a thoughtfully designed mid-market lifestyle brand that empowers guests to prioritize well-being and personal growth while traveling – all powered by an efficient service model. As with all of our organically developed brands, we created Tempo based on feedback from literally thousands of customers, owners and team members. We're excited to have 60 deals in various stages of development at this point.

In the fourth quarter, our award-winning loyalty program reached 100 million members and ended the year with more than 103 million members. Honors members accounted for more than 64% of occupancy in the quarter, up nearly 150 basis points year-over-year. With features like Digital Key now live in the majority of our properties around the world and our industry leading Connected Room offering, we are using technology to deliver reliable, friendly and memorable guest experiences.

We also continue to hear great feedback from members on our partnerships, which enhance the utility of their points, strengthen our system, and offer guests experiences that money can't buy. We recently expanded our partnership with Live Nation, the world's leading live entertainment company, to offer Hilton Honors members even greater access to tickets and live music experiences. Additionally, our loyalty members can now earn and redeem Honors points when they ride with Lyft through our first of a kind partnership with a leading rideshare company.

Looking beyond our industry leading brands and loyalty system, we're also proud to contribute to the communities we serve and lead our industry in corporate responsibility. In the fourth quarter, we achieved our Operation: Opportunity goal to hire 30,000 veterans, military spouses, and caregivers and expanded that commitment to hire an additional 25,000 by 2025. During the year, we were named the 2019 Global Industry Leader on the Dow Jones Sustainability Index (sic) [Indices], the global standard for measuring and advancing corporate ESG practices.

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We were also the only hospitality company on Fortune's 2019 Change the World list for a second year in a row. Overall, 2019 was a remarkable year for us. We achieved record development growth, hit the 100 million Honors member milestone, were named the #1 Great Place to Work in the United States, and continue to deliver on our commitment to serve any guest, anywhere in the world, for any travel need they have. As we look to the year ahead, we're confident in our ability to continue delivering for all of our Hilton stakeholders.

With that, I'll turn the call over to Kevin for a few more details on our results and our outlook for the future.

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

Thanks, Chris, and good morning everyone. In the quarter, system-wide RevPAR declined 1.0% versus the prior year on a comparable and currency neutral basis, as weaker-than-expected business transient demand and a soft group calendar offset moderate leisure growth. We estimate that calendar shifts and one-time events tempered system-wide RevPAR growth by roughly 90 basis points.

Adjusted EBITDA of \$586 million exceeded the high end of our guidance range, increasing 8% year-over-year. Our performance was largely driven by better-than-expected license fees and greater cost control, as well as roughly \$10 million of timing and unique items that offset the impact of lower-than-expected RevPAR. In the quarter, management and franchise fees increased 5% to \$558 million, achieving the high end of our expected range, as strong net unit growth and better performance from our co-brand program offset softer top line performance. Diluted earnings per share, adjusted for special items, of \$1.00 also beat expectations.

Turning to our regional performance and outlook; fourth quarter comparable US RevPAR fell 80 basis points, as softer corporate spending pressured business transient. For full year 2019, US RevPAR grew 70 basis points, as solid market share gains and good group performance were somewhat tempered by weak business transient trends in the latter half of the year. For full year 2020, we forecast US RevPAR growth consistent with our system-wide guidance, given the expectation for relatively steady macro trends.

In the Americas outside the US, fourth quarter RevPAR fell 3.2% versus the prior year, largely driven by business transient weakness across Canada and Mexico. For full year 2019, RevPAR grew 1.0%, driven by solid trends across South America and strong tourism in Jamaica and the Dominican Republic. For full year 2020, we expect RevPAR in the region to increase in the low to mid-single-digit range, largely driven by better expected economic growth in Mexico and solid trends in Canada.

RevPAR in Europe grew 1.4% in the quarter, led by continued growth across Continental Europe, with particular strength in Turkey, but somewhat moderated by softer transient demand in the UK. For the full year, RevPAR in Europe grew in line with our expectations, increasing 3.0%, largely driven by solid group and leisure transient gains across Continental Europe and good international inbound to London. We expect full year 2020 RevPAR growth in Europe to be in the low single-digit range, with steady trends across Continental Europe, partially offset by lingering uncertainties surrounding the next phase of Brexit.

In the Middle East and Africa region, RevPAR was down 4.3% in the quarter, as political tensions in Lebanon and supply growth in the UAE continued to pressure rate. For the full year, RevPAR was

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down 3.0% in the region, largely due to outsized supply growth. For full year 2020, we expect RevPAR in the region to increase in the low single-digit range.

In the Asia Pacific region, RevPAR fell 3.8% in the quarter, with RevPAR in China declining 7.8% due to the continued slowdown in leisure travel and ongoing protests in Hong Kong. For full year 2019, RevPAR in the Asia Pacific region was down 0.9%, driven by softening economic trends in China, trade tensions and the Hong Kong protests.

RevPAR in China fell 3.2% for full year 2019. For full year 2020, unaffected by the coronavirus, our RevPAR growth expectations for the Asia Pacific region would be in line with our system-wide guidance, with the benefit from the Summer Olympics in Tokyo offsetting continued weakness in China. As the coronavirus situation continues to play out, we will try to give you more specific details of its effect on regional performance. But for now, we'll stick to giving you our preliminary enterprise-wide thoughts based on the assumptions that Chris laid out earlier.

Moving to guidance for full year 2020 on an unaffected basis, we expect RevPAR growth of 0% to 1% and Adjusted EBITDA of \$2.42 billion to \$2.47 billion. We forecast diluted EPS, adjusted for special items, of \$4.08 to \$4.21. For the first quarter, on an unaffected basis, we expect system-wide RevPAR growth to be roughly flat. We expect Adjusted EBITDA of \$520 million to \$540 million and diluted EPS, adjusted for special items, of \$0.85 to \$0.91.

Our preliminary view of the potential impact of the coronavirus in the first quarter, again assuming our closed hotels are ultimately non-comp, is that there could be a roughly 100 to 150 basis point drag on system-wide RevPAR growth and a \$10 million to \$20 million impact to Adjusted EBITDA in the quarter. Please note that our guidance ranges do not incorporate future share repurchases.

Moving on to capital return; we paid a cash dividend of \$0.15 per share during the fourth quarter for a total of \$172 million in dividends for the year. For the full year 2019, we returned over \$1.7 billion to shareholders in the form of buybacks and dividends.

In the first quarter, our board authorized a quarterly cash dividend of \$0.15 per share. For 2020, we expect to return between \$1.6 billion and \$2.0 billion to shareholders in the form of buybacks and dividends. Further details on our fourth quarter and full year results and 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.

Chad, can we have our first question, please?

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Operator: Certainly. We will now begin the question-and-answer session. [Operator Instructions] And our first question will come from Shaun Kelley with Bank of America. Please go ahead.

<Q – Shaun Kelley – Bank of America Merrill Lynch>: Hi. Good morning, everyone.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Good morning.

<Q – Shaun Kelley – Bank of America Merrill Lynch>: Thank you, Chris. So, thank you for all the color on sort of the coronavirus and sort of your expectations. We understand it's very, very early there. But maybe you could just help us unpack, I think as we've received some questions about it, I think people are just sort of looking for some of the color on maybe each of the components. I think you were very clear on RevPAR.

But could you help us understand maybe what you're just seeing on the ground as it relates to the development delays? It sounds like you think you can stay within the 6% to 7% guidance on NUG, even possibly including some of those delays, but maybe just talk a little bit about that assumption a little bit more.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yeah. Maybe to take the last part of the question first, yeah, so that was what I said in my prepared comments. I mean in terms of net unit growth, I mean obviously early days. But if we think about it this way, a half a point which is what we've sort of said we think the impact will be would be roughly half our deliveries in China.

If you took 100% of the deliveries out, put it in perspective it would be a point, we do not think that will happen. We've already delivered 1,500-plus rooms in China this year. We opened a hotel yesterday. There are parts of China that are still business as usual in terms of deliveries. So, we do think that the half a point is reasonable to maybe conservative and is largely within the bounds of our 6% to 7%.

In terms of the broader assumptions, again, I can't stress enough that this is really preliminary, that this is a sort of evolving situation. We're reporting at a time where we know a bunch, but not that much relative to where this thing is going. But we thought the only responsible thing to do was to sort of look at historical perspective and give everybody the best sense that we have and use science around the data that we have.

So, as we said briefly in the comments, what we looked at is sort of in a range of outcomes three to six months of escalation and impact from the outbreak. And then these things don't turn around typically overnight, another three to six months on recovery; so, essentially a 6- to 12-month period of time. And if you look at SARS and other things, again, this may play out entirely differently and we don't know. But if you look at prior history in the industry and impact, those seem to be sort of reasonable guardrails for how we see it today and that's how we develop those.

And that is a holistic view when we gave you those numbers. It involves the impact that would ripple through from NUG. As I've talked about, it involves the impact in China, both for closures and lesser business. It involves outbound business leaving China and it incorporates all of that, again as scientifically as we can into the outputs.

I mean, keeping in mind a couple of other stats and then I'll park it and I'm sure there'll be other questions that China represents China – in China for us 2.7% of the overall EBITDA of the company. If you look at system-wide revenues outside of China, it represents about 0.7% of system-wide revenues. In the United States, it represents about 0.2% of US system-wide revenues, just to give context and perspective.

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<Q – Shaun Kelley – Bank of America Merrill Lynch>: Thank you for the extra color.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Sure.

Operator: Our next question comes from Stephen Grambling with Goldman Sachs. Please go ahead.

<Q – Steve Grambling – Goldman Sachs & Co. LLC>: Thanks. Maybe changing gears to something a little bit more long term or strategic. Can you talk about your thought process as you build out some of the partnerships in the loyalty program and perhaps also provide a bit more color on how you're currently leveraging the customer data that you have from the program, as you think about marketing, personalization, et cetera?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yeah. I think, without diving too deeply into things that are competitive, I would say at a high level and much of this I've talked about, what we're trying to do is build a program where we can not only get membership up, but get a higher level of engagement. And that level of engagement as we look at it and I look at it, it's not just about our highest tier members which, of course, we want to keep super engaged, but getting engagement throughout the entire ecosystem.

Because, in the end, what we're trying to do across the entire ecosystem is build direct relationships, because ultimately we know that it's a better experience for our customers and it's better for our owners, because it lowers our distribution cost. And so, we've had a bunch of different things. These partnerships are part of it.

But, I think, if you start at the top of the order, it first has been and this was done a few years ago about creating the best value. So, when you're an Honors member, you get the best price. When you're an Honors member, you get the best value, meaning that your points have real value. Whether you're a Gold or a Diamond at the highest levels, they obviously have value, but making sure that we have lower-tier members engaged as well.

And when you think about our Amazon deal, which I didn't talk about today, but we have in the past, about the Lyft earn and burn, about Live Nation, being able to buy tickets on Ticketmaster, suddenly you have things that – you have relationships that allow all members to be engaged with us. And when they're buying things using our points, whether it's nail clippers or diapers on Amazon, or a ticket to go to a concert, it reminds them of why the relationship with Hilton matters and we know that it drives more loyalty and repeat business.

The other things that we're trying to do with Live Nation and others is once in a lifetime experiences, particularly for our most loyal members, things that they just – money can't buy. And then technology, when we think about Digital Key digital check-in, room selection, Connected Room and a whole bunch of other things that we're doing on the innovation side on technology, it's about not only just giving them the best price, the best value, but then making sure that our Honors members are getting the best experience. And that we're using – to answer your question, we're using all of the data that we're getting in how we interact with them in every element of their stay to personalize and customize what they want, the room types they want, where they want to be in a building, what their preferences are in food and beverage, how they interact with the outside environment – how they interact with the inside environment of the hotel and the outside environment of the hotel.

So, we're broadly starting to really harness all of the data to ultimately personalize at mass scale experiences that we think will continue to build loyalty. So, again, the thing that we've been really crazy focused on really over the last five years, in particular, is engagement across the whole

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ecosystem. And so, when you look at our 100-plus million members, over half of those members and growing are engaged. So, that means by definition, we have a whole bunch of lower-tier members that are engaged with us, meaning they are buying rooms from us. And we know when they become an Honors member that it's high-90s percent of the time that they buy directly through us and thus help us keep distribution costs as efficient as possible.

<Q – Steve Grambling – Goldman Sachs & Co. LLC>: That's great color. As an unrelated follow-up on the pipeline, I think one of the consistent concerns that comes up in investor conversations has been is there a point where RevPAR softening leads to software development and unit growth. As you have conversations and see underlying financials of your owners, how do you assess the stability and strength of their financial returns both relative to history and perhaps also to other forms of real estate?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: I feel pretty good about it. I mean here's the thing. This is where having the best brands in the business matter. We talk a lot about market share. What matters most to developers is absolute market share, because that's what drives revenues for them when they build a new property, and we have the highest by a long stretch average market share of anybody in the industry. So, what's happening is we are getting a disproportionate amount of development even when it is difficult in an environment like the US where costs have gone up, cost of financing, cost to build, RevPARs are tepid, we are still ultimately doing pretty well.

I mean our starts – while signings have continued since 2016 to go down, starts actually had been going down and flipped around in the US using that as an example. We were up about 13% in starts in the US, which I think is a testament to the fact that our brands are performing well enough where we're getting a disproportionate. Even though it's a smaller pool, we're getting a bigger piece of a smaller pool.

The other thing I'd say that's a really important note is, the world is a big place. I mean the reason we gave the stats on what we've done over 10 years and what we've done over 5 years is to give sort of a little context for the fact that during that timeframe, we went through the Great Recession. We've had all sorts of good and bad things happening over that timeframe. Yet, we have always been able to sort of pivot and find the pockets of demand and where capital is available to continue to grow and grow in a way that our owners are profiting. But also we're continuing to build our network effect so that we're continuing to strengthen our overall ecosystem for our customers.

And so, the world is a big place. The US has been in a slowing mode in development. We've been doing fine, but it has been slowing. And I suspect in a low growth environment, that will continue to happen. I suspect we'll continue to get at a disproportionate share of it, if we do our job and we intend to. But the world is a big place and we continue every year. That's why we point out sign more deals, start more deals, and ultimately deliver more deals because we have an ability we being a big global business and with brands that are performing equally well around the world and relationships that are very deep around the world to pivot and be strategic about where we're going and who we're growing with.

<Q – Steve Grambling – Goldman Sachs & Co. LLC>: Thanks so much.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yeah.

Operator: Our next question comes from Joe Greff with JPMorgan. Go ahead, Mr. Greff. Perhaps your line is muted on your end. We're still unable to hear you. We'll move on to our next question and that's from Carlo Santarelli with Deutsche Bank. Please go ahead.

<Q – Carlo Santarelli – Deutsche Bank Securities, Inc.>: Hey guys. Thank you.

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<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Good morning, Carlo.

<Q – Carlo Santarelli – Deutsche Bank Securities, Inc.>: Good morning. Kevin, maybe you'd be able to discuss a little bit. Could you talk a little bit about the lower expectations for G&A as we look out to 2020 kind of what's driving that? If I recall, 2019 was flattish on that line.

<A – Kevin Jacobs – Hilton Worldwide Holdings, Inc.>: Yeah. I think, Carlo, if you look at – I mean, I think about it as sort of midpoint of prior guidance relative to midpoint of future. So, first of all, it's just I think better cost control. We do a pretty good job in the business of being disciplined about costs. And at its core, next year versus this year is about better cost control. And we did have some – a couple of – a few unique items that pushed 2019 up to the high end of our previously reported guidance range. And those are non-cash and non-recurring, so they're not going to repeat next year which gives us a bit of a headwind. It's not that much more complicated than that.

<Q – Carlo Santarelli – Deutsche Bank Securities, Inc.>: Great. Thank you for that. And then, just one other on kind of the pipeline or the net unit growth in 2019, are you guys able to provide any color on kind of the split between new units relative to conversions both in the US – or primarily in the US?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: I mean, the way I would look at it is most of the conversions occur in the US not all, but most. And it was roughly 80/20 new units versus conversions, which is what it's been for the last few years.

<Q – Carlo Santarelli – Deutsche Bank Securities, Inc.>: Great. Thank you very much guys.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yeah.

Operator: The next question is from Harry Curtis with Instinet.

<Q – Harry Curtis – Nomura/Instinet>: Good morning, everybody.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Good morning, Harry.

<Q – Harry Curtis – Nomura/Instinet>: Just a quick follow-up on the domestic development pipeline. As you travel around the country and look at the age and relevance and competitiveness of some of the older hotels in the bigger markets, what I'm wondering is the 70% of your pipeline being international, in the US, is it not an opportunity to – given the age of these competitive hotels to begin focusing on that as a development opportunity? What are the returns there to the owners?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yeah. That's a great question and the answer is yes. And that is not something that we have missed. We've been focused on it, I'd say, in a couple of primary ways and a bunch of other ancillary ways. The first is in conversions which, as the operating environment gets more difficult, as I've said lots of different times, I think it provides a bigger and bigger opportunity for people to want to come into our system because they get higher market share. They can reduce costs because we have ability with our system, size, and strength to drive better distribution costs and the like. So, that is one way where we can continue to grow, even when there may be lesser new construction.

The other that involves new construction – the other major way are some of the new brands that we've developed, that I think are, in a sense, category killers. I think Tru being the greatest example of that, where we launched it a couple of years ago, we have over 100 hotels open, another 350, 400 in the pipeline. It is like a rocket ship. And the answer to the question of why is because of what

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you're saying, it is competing in a category where the bulk of the product, with all respect to its comp set, are older hotels that are not relevant to today's customers' needs.

And so, that, to a degree, by the way, we are trying to do in a whole bunch of different segments. I think if you look at Tempo, to a degree, there is a bit of that. We think that product is something that is very unique to the market. I think Tru, in terms of the scale of opportunity and the cost of entry and how – its disproportionate market share to the competition in this environment, which is a tougher environment, provide, certainly in the US context, the biggest opportunity.

<Q – Harry Curtis – Nomura/Instinet>: That's helpful. A quick follow-up, going back to your business transient demand, particularly domestically, what do you think is holding back CEOs at this point? Now that we're looking at least the early innings of a trade deal, eventually the coronavirus is going to recede from the CNN and Fox headlines, do you think it's concern about the election, where we are in the economic cycle? Is there some scenario that you can think of that lifts this business transient demand?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yeah. I think it's a bunch of things. First of all, I'd say, the way most things work is people make budgets in the fall of prior year on how much they're going to spend in CapEx and how much hiring they're going to do and how much travel sort of as a knock-on effect that will occur. And it's not that they never change those, and it's not that travel is their biggest line in the expense category. But it is a line.

But they traditionally don't change them quickly, and they certainly don't change it that typically early in the year – very early in the year. So, I think to a degree, if you think about when things got budgeted, right, the things that you described were not resolved, right? You were in the middle of a trade war, election uncertainty, global uncertainty generally, et cetera, et cetera, et cetera. So, I think it takes a little time to sort of work its way through. There are obviously – not to pick on the negatives, there are some other uncertainties.

We're in an election cycle. And the outcomes are broad. And I think there's some concern about that. And coronavirus, well, our belief is that most – the countries around the world, including China, are being quite responsible and it will be managed. It is a risk. And so, I think you take sort of the combination of budget seasons, where it was greater risk, things stabilized, but a few other risk. And I think it has made for sort of the business transient growth to be tepid.

Now, here's the thing and I want to be really clear that I don't want to get ahead of myself, right, in the sense that it's early in the year. And it's hard to know. But, I would say, even over the last few weeks, like as I sat here yesterday getting my weekly update at our Executive Committee meeting, over the last two or three weeks, we have started to see in terms of advanced bookings, which are in business transient, are all short term. But real time, we have finally started to see those come back to life. They were very anemic. And we've now started to see advanced booking growth come back. That's a few weeks of data.

Again, I want to emphasize that, but that might be a consequence, again on a lag effect people starting to settle down a bit. I think when you look at the segments for the year, Harry, and others, I mean, I think we still would believe, as I said in my prepared comments, that given where group position is and given the strength of the consumer, that those will lead the charge and be above business transient. But we do think all segments – it will be at a low rate, but all segments will grow. And we have a little – we're hopeful that business transient, we're seeing some early signs and we are hopeful that those are sustained.

<Q – Harry Curtis – Nomura/Instinet>: It's always insightful. Thanks.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Thank you.

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Operator: The next question we'll move back to Joe Greff with JPMorgan. Please go ahead.

<Q – Joe Greff – JPMorgan Securities LLC>: Morning, guys. Can you hear me now?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yeah.

<A – Kevin Jacobs – Hilton Worldwide Holdings, Inc.>: Yeah. You're there.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Welcome.

<Q – Joe Greff – JPMorgan Securities LLC>: Great. Thank you. I was going to ask you, Chris, about how you view US corporate transient, but I think you just answered it there, but I did hear you that you would expect that to post some positive growth in 2020.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: We would, yeah. Modest. And then, again hopeful that we're at the beginning stages of a little bit more pickup. But I don't want to get ahead of myself and we'll obviously update you as the year goes on.

<Q – Joe Greff – JPMorgan Securities LLC>: Yes. I appreciate that. And then, when you look at last year, what percentage of your new signings were hotels in China?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: I would – that's a good question. I would say 20 – in the 20s.

<A – Kevin Jacobs – Hilton Worldwide Holdings, Inc.>: High teens.

<Q – Joe Greff – JPMorgan Securities LLC>: Okay.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yeah, yeah.

<Q – Joe Greff – JPMorgan Securities LLC>: And I know Hilton back in the SARS days was a different company with different management running it. When you go back and maybe look at SARS as maybe some sort of, I don't know, case study and this is more from the development side, did you – to the extent you've done this, was the rebound in signs coterminous with the rebound in operating demand trends? Or was there some sort of lead or lag one versus the other?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yeah, it was pretty consistent; again, different world, different time. China was an entirely different sort of marketplace. But they all sort of coincident at the same time started to recover and they recovered reasonably rapidly.

<Q – Joe Greff – JPMorgan Securities LLC>: Yes. Got it. Thank you, guys.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Thanks, Joe.

Operator: The next question comes from Smedes Rose with Citi. Please go ahead.

<Q – Smedes Rose – Citigroup Global Markets, Inc.>: Hi, thanks. I wanted to ask you two quick questions. The first is when you look at the gap in Tru and Hampton, it stands at about \$15, but we continue to see outsized growth in Tru and kind of flattish for Hampton. And how much compression do you think between those brands you will see? And does it have longer-term ramifications for Hampton Inn owners? Is there cannibalization going on? Or are there other factors just driving a different [ph] performance (38:47)?

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<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: I mean, I'm sure there's a market where you could find an owner that would say, we're competing – they're competing with – between Tru and Hampton. But when we look at the aggregate data and literally look at every market because Tru is not so big that we can, I don't think we're seeing any cannibalization.

The price point between them is still 15% to 20% when you look at it. When you look at the growth rate, what's happening is you have Hampton that is a very high market share. It's just at a point where it's very – you're talking about 120. And Tru is performing unbelievably well, but it's still ramping up. I mean, it only has 113 hotels. It's a very new brand. And while it's way outperforming the competition, it is not performing at that level.

And so, that's what's going on. There's still a good spread. We think there will continue to be a good spread. These are attracting some similar customers, but the bulk of the customers that are being attracted are as intended that those that want a little bit bigger room and are willing to pay a little bit more are back – are in the Hampton and a little – pay a little bit less, a little bit smaller room and a different sort of design need, those are headed to the Tru.

So, we look at it super carefully, because keeping these 18 brands in their swim lanes is a very important thing. And as I said, you're never going to be able to argue that they don't occasionally compete, because to a degree they all do around the edges, but they have to perform sort of in their main swim lane and ultimately attract demand from that main swim lane and we're obsessive about looking at that. We think Tru and Hampton are both doing great.

Hampton is still the best hotel brand in the world. I think if you look at it by market share growth in units, customer satisfaction, owner returns and satisfaction, it's still the best brand in the world. Tru is going to do incredibly well at a lower price point and I think eventually be equivalent in terms of its strength, but it's something different.

<Q – Smedes Rose – Citigroup Global Markets, Inc.>: Okay. Thanks. I mean I just...

<A – Kevin Jacobs – Hilton Worldwide Holdings, Inc.>: Smedes, I'd just add, Chris alluded to this, but the difference in the sample sizes of the two in terms of just the number of comp hotels and then the percentage in each group of comp hotels that are ramping hotels, it's sort of night and day for those two brands. So, just keep that in mind when you're looking at comp RevPAR growth.

<Q – Smedes Rose – Citigroup Global Markets, Inc.>: Okay. Yeah. That's helpful. Thank you. And I just wanted to ask you, I mean, obviously there's been a lot of media around whether or not Hilton Grand Vacations has sold. I wanted to ask you technicality, I guess. If it were sold, does your licensing fee – the fee arrangement transfer automatically? Or is that an opportunity to renegotiate? And maybe sort of broadly, what are the parameters of an entity that you would be willing to license those brands to?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yeah. We're not – I'm not going to comment much on that. First, anything related to anything HGV may do or not do, you should talk to them about. As it relates to Hilton, I think, which is a matter of public disclosure, when we spun the company, we were incredibly thoughtful about our contractual arrangements, which we think give us all of the things that we need to make sure that we're protecting the two things that we care about, which is our brand and our fee stream. And beyond that, I'm not going to comment.

<Q – Smedes Rose – Citigroup Global Markets, Inc.>: Okay. Thank you.

Operator: The next question is from Robin Farley with UBS. Please go ahead.

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<Q – Robin Farley – UBS Securities LLC>: Great. Thank you. Two questions. First is on – I'm sorry, if I missed this in the opening remarks, but I don't know if you said your RevPAR index in Q4. And then, my other question just on share repo, your remaining authorization looks like sort of less than a quarter's worth of – like based on what you've done the last year, less than a quarter's worth remaining. And the board, I guess, did authorize some things related to the dividend in February, but it looks like they did not authorize any additional share repurchase. And so, it looks like you're close to running out. Just wondering how to interpret that. Thanks.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yeah. I don't think we've mentioned fourth quarter. For full year, we said it was up, the biggest increase we've seen was 140 basis point system-wide increase for the year. Fourth quarter was relatively flat to slightly up as we expected, given the comparability issues and the group positioning in the various quarters throughout the year. So, no surprises there. And again, a full year share gain that's the best that I've seen in my going on 13 years with the company.

<A – Kevin Jacobs – Hilton Worldwide Holdings, Inc.>: And, Robin, I'll take the repurchase one. I think while you are factually correct and, of course, any incremental reauthorization would be up to our board of directors. But I think you should not read into anything related to the timing and you should just think about our capital allocation strategy, as we've articulated it continuing to live on.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Right. And we gave you guidance for what we're going to do, so assume that we will live up to the guidance perimeters.

<Q – Robin Farley – UBS Securities LLC>: Okay, sounds good. And then, just last clarification, I think in your introductory remarks when you were recapping Q4, I think you said that the calendar hurt by 90 bps or I just wanted to clarify that because it seemed like the month of December got a huge boost from the calendar. And so, I didn't know if that was – just any color around it.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: December is a very small month relative to the other months and the impact of the Jewish holidays and otherwise greatly outweighed the benefit.

<A – Kevin Jacobs – Hilton Worldwide Holdings, Inc.>: Yeah. Plus day of week shifts throughout the rest of the quarter. So, yes, we did say that it was about a 90 basis point impact on the quarter.

<Q – Robin Farley – UBS Securities LLC>: Okay. Great. Thank you very much.

Operator: The next question is from Patrick Scholes with SunTrust.

<Q – Pat Scholes – SunTrust Robinson Humphrey, Inc.>: Hi. Good morning, Chris and Kevin. Just a follow-up question here or perhaps a point of clarification, when you talked about the possible RevPAR declines due to the virus and the EBITDA, that is just mainland China, correct? And have you thought about what the potential impact might be outside of China such as in other countries in Asia Pacific? And are you seeing any domestic cancellations from domestic travelers who are not Asian bound at this point?

<A – Kevin Jacobs – Hilton Worldwide Holdings, Inc.>: Yeah. No, Patrick, those estimates are system-wide. So, obviously, the lion's share of the impact will be felt on the ground in China and in Asia, but those are system-wide estimates. And if you think about overall US – China inbound to the US on an overall system-wide basis is still quite small. It's about 20 basis points. And then, China inbound on a system-wide basis outside of China is about 70 basis points. So, those estimates do factor for the whole business.

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<Q – Pat Scholes – SunTrust Robinson Humphrey, Inc.>: Okay. A follow-up question here shifting gears, how concerned are you today about owner pushback on dilution issues when you open or add any new hotels that are competitive with your existing Hilton branded products in the same market, certainly, at the ALIS conference talking to owners, definitely sense some frustration about the proliferation of brands coming in in their markets?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yeah. I mean, it's something – when I talked about the process briefly in my prepared comments about how we launched Tempo similar to how we launch every brand, our owner community is deeply involved. Like in the Tempo launch, we had an owner committee that worked with us throughout the process over the last year. And we're part of the launch and we're super supportive. I can't say that, that we're perfect. Occasionally, we're going to have owners that have issues with it.

But back to my earlier comments about Tru – and answering the prior question about Tru and Hampton, we're always incredibly focused on trying to develop brands that we think really are a unique demand base and customer segment, now they may around the edges compete, but that they have a demand base that can ultimately drive their success without cannibalizing our existing brands. And so, given that we are obsessive about that, given that we involve a broad base of owners with us in the development of these brands, I am not ultimately, particularly worried about it.

And we have a lot of brands at 18. We have a lot fewer than some of our competitors. And so, while I'm not going to say I've never had a discussion with an owner that has had concerns, my honest and objective view is I have not had a lot of pushback from owners, particularly given so many of them are so deeply involved in helping us develop these brands.

<Q – Pat Scholes – SunTrust Robinson Humphrey, Inc.>: Okay. Thank you for the color.

Operator: The next question is from Bill Crow with Raymond James.

<Q – Bill Crow – Raymond James & Associates, Inc.>: Thanks. Good morning, guys.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Good morning, Bill.

<Q – Bill Crow – Raymond James & Associates, Inc.>: Good morning. The first question on coronavirus and, Kevin, I appreciate the details on the percentage contribution in the US and elsewhere. But certainly every market is different. And I'm just wondering whether you're seeing a bigger impact or a material impact at this point on some of the West Coast markets or New York or say a Paris and whether you've started to see any cancellations in Tokyo related to the Olympics.

<A – Kevin Jacobs – Hilton Worldwide Holdings, Inc.>: So, first – well, second part is a little bit easier. No, we are not seeing any cancellations related to the Olympics, in fact, pre-Olympics activity is gearing up as we speak. And we expect that to be business as usual. Of course, again, if something changes in terms of the breadth and the reach of the virus that we'd have to update our guidance if things were that bad. So, that one's easy.

On the second point, you're obviously correct. There are markets that have a higher concentration of Chinese inbound. We're trying to size it for us. So, others that would be more concentrated in those markets might size it differently. But just to give you a little bit more context, I mean on an overall basis, our overall international inbound is about 5% and it only gets up to about 20% in key gateway cities like New York and West Coast cities. And that's all inbound, not just China. So, China on a relative basis, while an important outbound market and one that we've been all working really hard to cultivate, is not so impactful that it's going to change the answer beyond what we've said.

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<Q – Bill Crow – Raymond James & Associates, Inc.>: All right. That's helpful. And then, my follow-up is on the pipeline. And I think we all understand what's going on with cost inflation and construction in the US and what's going on with labor cost inflation in the US. Are you seeing similar trends globally? And I know that's a hard thing to categorize, but your major areas of focus, are you seeing that sort of inflation?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: No. I mean, you're right. And implied in your question is the world's a big place and it's different sort of story everywhere you go. But I would say that broadly the answer is no. The biggest pressure that we've seen in terms of cost increases on input costs for development have been in the US, in terms of our larger markets around the world. Now, importantly, those have moderated. They're not going down, but they're still growing.

But if you look at the last two to four years, I would say, our view was those input costs were going up in high single digits, low double-digit. If you look at what we see right now, that's sort of a little bit above inflation. It's sort of like 3% versus 8% to 10%. So, again, they're going up. RevPARs aren't going up that much. All the pressure that has been implied in a bunch of questions exists, but the pace at which it's going up is less.

And again having a industry leading market share across the entire brand portfolio and with each individual brand, means that what is getting done is more what we – our brands are more financeable and we're getting an unfair share, if you will, of that development activity. But this is the market – the US has been, of the big markets, the most impacted by that phenomenon.

<Q – Bill Crow – Raymond James & Associates, Inc.>: Thanks for your time.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes. Thanks, Bill.

Operator: The next question is from Thomas Allen of Morgan Stanley.

<Q – Thomas Allen – Morgan Stanley & Co. LLC>: Thank you. Good morning. Chris, following up on your earlier comments about seeing some strengthening in bookings over the past few weeks, is there any way to quantify it? Or maybe qualitatively, does it kind of feel like we're back to the bookings you were seeing when RevPAR in the US was more like 2% versus 1%? Any color would be helpful.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yeah. Thomas, I don't want to be evasive, but I led into that with saying it's really early, a couple of weeks, two or three weeks of data. So, no, I can't give you a whole lot more color, other than to say it's gone from like flat to wanting to – sort of flat to wanting to be negative to showing positive growth. So, I can't gauge it whether it feels like 1% or 2%. It's too early.

The good news is, like every quarter, we'll be back. We'll report. And we'll have a little bit more data to give you and have a better sense of it, because we're just getting into the business transient travel season, because you know how that works. In the first part of the year, January, the first part of January is sort of a wash because nobody wants to travel. So, I'd love to give you more. I just don't have more. That's the most sort of color I can give at the moment.

<Q – Thomas Allen – Morgan Stanley & Co. LLC>: Helpful. And then, just on the NUG growth, two detailed questions. Just how has attrition or closings tracked? And then, any update on timelines of construction? Thank you.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Attrition has been tracking about the same. No difference over the last few years when we look at it. And in terms of delays pre-

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coronavirus, that will obviously likely cause – it will cause some amount of delay, which is why we gave the overlay on that. Outside of that, we have not really seen it. I mean we – if you look at it over the last five years, have we seen things take a little longer to get done, a few more months of construction and the like, yeah, I think the technical data says yes. But in terms of our NUG guidance over the last few years, we've sort of baked all of that into our thinking and continue to. So, nothing material that we see there and no big trend on attrition. Steady as it goes.

<Q – Thomas Allen – Morgan Stanley & Co. LLC>: Helpful. Thank you.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes.

Operator: And our next question will be from Jared Shojaian with Wolfe Research. Please go ahead.

<Q – Jared Shojaian – Wolfe Research LLC>: Hi, good morning, everyone.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Good morning.

<Q – Jared Shojaian – Wolfe Research LLC>: Thanks for taking my question. So, unit growth and RevPAR guidance for 2020 together is slightly higher than the M&F fee guidance. Would you say that's coming more from license fees or maybe incentive fees with just a lighter RevPAR environment? Or is there something else that you would call out?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: A little – first of all, license fees is included in the fee guidance. So, again, it's a little bit of the cost control that I was talking about earlier and nothing more than that, Jared.

<Q – Jared Shojaian – Wolfe Research LLC>: Okay. Great. Thank you. And then, can you just talk about what's next on the brand introduction front, now that you've announced Tempo? And then, I guess related to this idea, you've talked about how strong Tru has been. Do you think there's any opportunity to introduce anything at a price point even further below where Tru is at right now?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: I'll answer the second first. I don't think so. We're not – I mean, first of all, I've been pretty consistent in saying pre-Tempo, we were working on two different brands. Tempo was one of them, upscale lifestyle. I've also said we have been lightly working on a luxury lifestyle. And so, at some point, we will launch a luxury lifestyle brand. We're not in a rush to do it, honestly. We launched three brands basically last year. We've launched one this year. I want to give them all their proper birthright and make sure they're really working. 18 brands to the earlier commentary, we think, is enough to be able to accomplish what we want to accomplish with our network effect.

And so, we're going to take a little bit of a break and get the ones we've got out there working and working really well. And someday, we'll do something in luxury lifestyle. In the environment we're in, it's not going to be – in any environment, it's not going to be a gargantuan brand by number of units. And in today's environment, the opportunity set is less anyway. So, I want our teams focused on what we have launched and to get it going.

As it relates to Tru, I don't think so. I mean, it took the better part of, I'd say, seven years in thinking and engineering to launch Tru. And the reason it took so long is we had a lot of other things going on, but it was like, we were trying to figure out how do you engineer a cost to build a product, a cost to operate clean and the like OpEx and CapEx that would deliver a return based on a rate that we would get that would be 15% to 20% lower than Hampton, but still deliver Hampton-like returns, which I would say is sort of an unleveraged return on total cost of 11% or 12% at stabilization,

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because that's where we know you can attract the owner capital to make the magic. And we spent a lot of time doing it. It's hard. The lower the price point, the harder it gets to be able to engineer it in a way where you can get those returns.

And importantly, it's really hard to be able to do it sustainably. So, the problem – you've got to be able to build it at a cost, you've got to be able to operate it efficiently. And you got to be able to renovate it in terms of percentage of revenue that can go towards keeping it up over 20 or 30 years and deliver those returns. And the lower you go in absolute RevPAR or ADR, the harder it gets because the higher percentage you are having to reserve in order to keep these things fresh over a longer period of time. We figured it out in Tru, but it took a lot of work and engineering and it's working.

I believe going to a price point lower than that, it would be very hard for us or anybody, if not impossible. And so, we are not in any way working on that. And never say never, but I think it's very hard to go much lower in price point and ultimately deliver a product that over a long span of time, the arc of time of 20 and 30 years, these brands – we're 100 years old, these brands got to last a long time that you can maintain a brand like we have over 30-plus years with Hampton that still is a category killer because you can force – you have returns that are high enough to force the investment in over time to make sure they stay relevant. So, it's a long-winded way of saying no. I do not see us doing that.

<Q – Jared Shojaian – Wolfe Research LLC>: Great. Thank you very much.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Happy to.

Operator: Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the conference back over 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. We covered a lot of territory. Obviously, there's some moving parts out there, particularly in APAC and with coronavirus. We try to do our best to give you some contours or guardrails to how to think about it. We hope it was helpful. Obviously, as the year plays out, we will keep up with you and give you more information. As I said in my comments, we're super excited about what we accomplished in 2019, and 2020 is off to a great start and we'll talk with you after the first quarter. Thanks again for the time.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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