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Hilton Worldwide Holdings, Inc. (HLT)

Q1 2020 Earnings Call

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

Joseph Greff

Analyst, JPMorgan Securities LLC

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Harry C. Curtis

Analyst, Instinet LLC

Shaun C. Kelley

Analyst, Bank of America Merrill Lynch

Anthony F. Powell

Analyst, Barclays Capital, Inc.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

William A. Crow

Analyst, Raymond James & Associates, Inc.

Robin M. Farley

Analyst, UBS Securities LLC

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Hilton First Quarter 2020 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] Please also note today's event is being recorded.

And at this time, I'd like to turn the conference call over to Jill Slattery, Vice President, Investor Relations. Ma'am, please go ahead.

Jill Slattery

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

Thank you, Jamie. Welcome to Hilton's first quarter 2020 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 as supplemented by our Form 8-K filed on April 16, 2020. 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. Kevin Jacobs, our Executive Vice President and Chief Financial Officer, will then review our first quarter year results. 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. Good morning, everyone, and thanks for joining us today. As I think we can all agree, and certainly probably have all been saying a lot lately, these are truly unprecedented times. COVID-19 has created challenges that our industry has never encountered before. On behalf of Hilton's entire leadership team, I'd like to express our deepest sympathies to those who have lost loved ones during this devastating pandemic. I'd also like to extend our sincere gratitude to the millions of workers on the front lines across many industries and in many roles working selflessly to help keep us all safe.

I also want to thank our team members around the world for their remarkable dedication, hard work and sacrifice. Many of our own team members have been personally impacted by this crisis and yet through this adversity, they've continued to spread the light and warmth of hospitality.

Across every region, we've adapted quickly to provide hospitality in new ways in our communities. In London, several of our properties are hosting the National Health Service and other key workers. The Hilton Orlando has been hosting the National Guard and working to distribute essential items to community residents in need. And over 500 hotels around the world are being used for recovery efforts.

Our properties have also donated thousands of pounds of food and supplies to local food banks. Through the Hilton Effect Foundation, we are providing disaster response grants for organizations and communities fighting the spread of COVID-19. As part of this effort, our Hilton Honors members have donated more than 6.5 million points to these causes. In partnership with American Express and our ownership community, we committed to donating up to 1 million room nights to front line medical professionals in the United States to support those who are putting their lives on the line to protect us.

Since its launch just four weeks ago, tens of thousands of medical professionals have booked hundreds of thousands of rooms through the program. Further building on this initiative, just this week, we and American Express announced a partnership with World Central Kitchen to deliver freshly prepared meals at no charge from restaurants and local communities to front line responders staying at our hotels. Already active in three major markets, there are plans to expand this initiative in the coming weeks.

Turning to the business, to ensure we effectively navigate this challenging time, we've focused our priorities on three core areas: protect our people, protect our core business, and prepare for recovery. While our long-term goal remains the same, to drive loyalty across all of our stakeholders, the current situation requires greater levels of responsiveness and preparedness in the near-term. With this in mind, we've worked closely with industry associations and the administration to advocate on behalf of our team members and hotel owners and to help shape the broader recovery.

Given our leadership teams' extensive crisis management experience, coupled with the global nature of our business, we had a relatively early glimpse of the impact this pandemic started to have in the Asia Pacific region. In response, we took swift action to protect our business and ensure that we have sufficient liquidity to operate in these unprecedented times. With travel demand at record lows, we currently have suspended operations at approximately 950, or 16% of our hotels globally, including approximately 10% of our hotels in the Americas, 60% of our hotels in Europe, the Middle East and Africa and 15% of our hotels in Asia Pacific.

At the hotel level, we acted quickly at the beginning of the crisis to make decisions to help our owners respond, including suspending hotel operations, temporarily suspending brand and operating standards, deferring capital expenditure requirements, eliminating quality assurance audits and allowing the use of FF&E reserves for operating expenses. Going forward, we are working closely with our ownership community to define the hotel operating model of the future, with the goal of developing operating standards that will keep our customers safe and drive enhanced efficiency and profitability, while continuing to deliver products and service that customers will pay a premium for.

At the corporate level, we've reduced executive salaries, furloughed nearly two-thirds of our corporate workforce, eliminated other non-essential expenses, including capital expenditures and suspended share buybacks and dividends. Further as a precautionary measure, to preserve financial flexibility, we drew down on the remaining amount under our credit facility, presold Hilton Honors points to American Express and successfully executed a bond offering, all of which resulted in a pro forma cash position of \$3.8 billion at the end of the quarter, which we believe is more than adequate liquidity to get us through the crisis.

Turning to the quarter, RevPAR declined 23% with performance through February largely in line with our expectations excluding the Asia Pacific region. RevPAR in March dropped 57% as the virus spread across Europe and the US. Overall, we do not think our first quarter results provide clear insights into the current environment, as the timing of the pandemic – given the timing of the pandemic, and we expect a much more dramatic impact on our second quarter results. With travel at a virtual standstill, we expect system-wide RevPAR decline roughly 90% in April.

With that being said, we are starting to see glimmers of travel resuming and economies reopening. In China, nearly all 150 hotels that have been closed due to the pandemic have since reopened with occupancies reaching more than 50% during the May Day holiday this past weekend, up significantly from 9% in early February. Additionally, the majority of our previously halted construction projects in China have restarted. In the US and Europe, we're starting to see sensible and staged reopenings of economies. We think temporary hotel suspensions have plateaued and we are now seeing reopening requests. Our sales teams are engaged with customers on business for the back half of the year and into 2021 and beyond. In the last week alone, we booked tens of millions of dollars in group business in the Americas.

In addition, we are starting to see double-digit increases in digital traffic and booking activity across all segments. Global occupancy levels have gone from a low point of 13% to 23% currently. Assuming we start to see mobility and we don't have a significant recurrence, demand should slowly rebuild in the third quarter. These green shoots allow us to keep our eye on what the future of hospitality may look like, as we carefully consider what travelers needs will be in a post-COVID-19 world, we are proud to announce a partnership with Lysol and the Mayo Clinic last week to introduce Hilton CleanStay, a new program that will deliver an industry defining standard of cleanliness at all of our properties around the world.

We believe this program is the first of many steps we can take to build on the trust and loyalty of our more than 106 million Hilton Honors members as they begin to travel again. A full recovery will take time, and it could take several years to return to the hotel demand levels we experienced in 2019. But as we shift our focus to the future, we are incredibly confident about the long-term prospects of the business and our model. Our industry leading brands, powerful commercial engine and innovative technology platform should enable us to continue delivering incremental value to guests, owners and shareholders for years to come.

With that, I'll turn the call over to Kevin for details on the first quarter.

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 23% versus the prior year on a comparable and currency neutral basis. RevPAR was down across all regions with the weakest results in Asia Pacific. Decreases were primarily driven by occupancy declines with rate pressure from the lower rated business further impacting results.

Adjusted EBITDA was \$363 million in the first quarter, declining 27% year-over-year. Results reflect significant reductions in travel demand and the temporary suspension of operations in a number of hotels across the world. While the decline was somewhat mitigated by greater cost control, more significant measures were largely implemented after quarter-end. Management and franchise fees decreased 18% to \$422 million driven by RevPAR declines and roughly flat license fees. Given the extremely challenging operating environment, which included the suspension of operations at 35 of our leased hotels during the quarter, our ownership segment posted a loss due to higher levels of operating leverage and fixed rent structures at some of our leased properties. Diluted earnings per share adjusted for special items was \$0.74.

During the quarter, we opened nearly 9,000 rooms meaningfully lower than prior expectations due to postponed openings driven by COVID-19. Approvals and construction starts increased ahead of our expectations, largely due to the signing of our largest development deal to-date, an agreement with Resorts World for a 3,500-room tri-branded hotel resort on the Las Vegas Strip. Much like the rest of our business, development activity for the balance of the year will depend on a number of factors. However, we do expect that our ultimate rate of net unit

growth for the year will be significantly lower than our pre-crisis expectations, likely around half the rate or a bit better.

Turning to liquidity, as Chris mentioned earlier, we have taken a number of actions to enhance our position and increase our financial flexibility including executing on the bond transaction that Chris referenced earlier. We were very pleased with the outcome of that transaction through which we issued two \$500 million tranches of senior notes at pricing that was very attractive relative to other transactions executed in the same timeframe. At the time it also marked the first eight-year high-yield financing done since the crisis, which allowed us to continue to enhance our maturity schedule. We continue to have no debt maturities prior to 2024 and a well staggered maturity ladder thereafter.

Factoring for the senior note issuance as well as the \$1 billion Hilton Honors points presale, we ended the quarter with cash and cash equivalents of \$3.8 billion on a pro forma basis, which we think should provide us with ample liquidity to navigate the current environment and prepare for recovery. Further details on our first quarter 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.

Jamie, can we have our first question please?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question today comes from Joe Greff from JPMorgan. Please go ahead with your question.

Joseph Greff

Analyst, JPMorgan Securities LLC

Good morning, Chris, Kevin and Jill. Good to hear your voices.

Q

Christopher J. Nassetta

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

Yeah, someday we'll see you again.

A

Kevin J. Jacobs

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

Same here, Joe.

A

Joseph Greff

Analyst, JPMorgan Securities LLC

I was hoping to get a better understanding of your operating sensitivities in this environment. And as we kind of look at these unbelievable to me to be talking about the magnitude of these RevPAR declines. But given these pretty steep RevPAR declines, how do you see the relationship to base and franchise fees, how do you see that relationship, which I can guess on intensive management fee side, how are you thinking about your run rate G&A from here? And if you give us some sort of some points on understanding the components of your monthly cash burn, I think that would be helpful to us.

Q

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

A

Wow. That's about 20 questions in there, Joe. Good job.

Joseph Greff*Analyst, JPMorgan Securities LLC*

Q

Don't ask me to repeat it. I can't remember all the questions.

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

A

I can't either. So, I'll take some of it...

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

A

You want the whole model, Joe?

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

A

Yeah, yeah. Yeah, we can't – as we said, we're not giving guidance, so we'll answer what we can, but happy to talk about the sensitivities at a high level. I would say as we look at what I think would be helpful is sort of RevPAR to EBITDA relationship. The way I would think about it in terms of sensitivities and there's thousands of assumptions as you would guess that go into this, is if you had RevPAR declines and we're not giving guidance, so we're not going to suggest what we think they are for the year. I think you guys have views. I would say the model is such that up to around 30% RevPAR declines is the whole company RevPAR to EBITDA is a bit better than one to one. And when it goes over 30%, it's a bit worse than one to one, but not materially so.

The base fee business throughout that continuum is better than one to one and what obviously hurts it the higher you go is a certain level of negative operating leverage because no matter how much you cut corporate costs, which we've done a lot of, there's a limit to how far you can go and keep the system going.

And then the real estate, the lower the RevPAR is given that these are leased assets with some degree of fixed rent structure that creates a tailwind. But again, that's a very small part of the business overall and has been. So, it keeps us even – I've seen the industry sort of numbers I've seen from a bunch of folks I think including you, were sort of minus 50 for the year. Sort of funny to hear myself say that, but I've been doing this for 35 plus years, but that's what the industry thinks I think, as I said our ratio EBITDA – overall ratio would be a little bit, a touch above one to one. The base fee business would be better even at those levels.

On G&A, on sort of the G&A as we see it on a GAAP basis, given the mitigation that we have done with an assumption that as you get into the third and fourth quarter, you will have some sort of – you will start to see recovery. I mean, the truth is while it's slow, we're starting to see it now. We've gone from 13% to 23% already, not a lot to be thankful for, but we do believe once you get through the epicenter of the crisis, which it feels like from a health point of view, we are and you get into reopening parts of the world that haven't reopened, including the United States, you'll start to improve in the third and fourth quarter. I think when you net all that out, probably G&A is 25% to 30% lower.

Remembering for us and it's a point worth making, our G&A for the last three years has basically been flat. We are we believe always very disciplined about our G&A. And coming into the year, we were actually guiding before

pre-COVID-19 to a modest decline in G&A. Obviously that decline given the mitigation that we have gone through to sort of right size the business for the operating environment will be much greater than what we would have suggested pre-COVID-19, but sort of in the ranges that I talked about.

On cash burn, we have already as part of the bond deal and otherwise put out public information on that. I think the way to think about it is in the environment we're sort of in, in the second quarter, which I said I don't believe we will maintain that level of performance. I think the third quarter will be the worst of it, even at those levels that are sort of circa 80% to 90% off, we think we have at least 24 months of liquidity. And if you take sort of industry, the industry view that I'm seeing broadly that I discussed earlier, actually at that level of performance, we are better than cash flow positive. So that hopefully gives you sort of a bit of a range again, recognizing we're not giving specific guidance, but just trying to give you general trajectory. Kevin, what did I miss out of his laundry list?

Kevin J. Jacobs

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

A

I think you covered most of it. I think overall, embedded in that cash burn, those cash burn guidance is obviously an assumption of pretty extensive mitigation on our gross controllable expenses outside of G&A. And I'd say on an overall basis, we think we can over the course of the year mitigate about 60% of the gross controllable expenses, but that's all embedded in the cash burn assumption. And I think you actually said the third quarter was going to be the worst, but we think the second quarter...

Christopher J. Nassetta

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

A

Second quarter, I did say that? Yeah, second quarter, I've already skipped a quarter, yeah, second quarter, with a fourth quarter recovery to a degree.

Joseph Greff

Analyst, JPMorgan Securities LLC

Q

That's helpful, guys. Great. Thank you.

Kevin J. Jacobs

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

A

Thanks, Joe.

Operator: Our next question comes from Carlo Santarelli from Deutsche Bank. Please go ahead with your question.

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Q

Hey, guys, thank you very much for your prepared remarks and obviously the color you just provided. Kevin, acknowledging that you mentioned kind of NUG half of the 6% to 7% you were previously looking for, for this year, how much of that, call it, 300 basis points to 350 basis points of NUG erosion for this year relates to just delays in the pipeline that we will see come through presumably next year? And how much of that is just stuff that maybe was early and has a lower likelihood at this point of getting finished? So, more or less even if you want to take a bigger picture approach, when you think about the opportunities for conversions and whatnot, looking out to 2021, 2022, 2023, et cetera, are you still reasonably comfortable in kind of a mid-single digit net unit growth baseline for those years?

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

A

Yeah, so here's what I would say, Carlo, and obviously a good question, virtually, all of the decline in our outlook for NUG for this year is due to delays related to COVID-19. Meaning, we do have in our guidance is always an embedded assumption for conversions. And I'll come back to that, I know that's part of your question. But the decline is really entirely related to delays because going into the year even for a limited service hotel, if something's expected to open this year, it's going to be under construction this year, right?

So, as of about a third of the hotels that we had under construction, that we expected to open this year went into some form of suspension over the last month or so as part of the crisis. About half of those that went under suspension are already back under construction, but they're going to be somewhat delayed, right, obviously, because they're suspended. And about half of them, the other half we think will resume construction, largely, every project, we think, will resume construction over the balance of the year. There certainly will be onesies, twosies of things where a deal might not make sense, but generally, once a hotel starts construction, it opens, right.

And so what that means is almost all of it will push into next year. So as a result, we think that whatever this year ends up being will be the bottom and then we'll climb back from there. And yeah, on a run rate basis, once we get back to normal, we're more than comfortable with a mid-single-digit NUG growth rate. And we think that conversions – there'll be some period of time where obviously at the moment, although we are working on some conversions – as we speak, we're working on a bunch of them actually, but at the moment, transaction activity is relatively limited. But in general, we think the crisis will probably create more opportunities than it hurts and so hopefully that covers...

Carlo Santarelli*Analyst, Deutsche Bank Securities, Inc.*

Q

Yeah, that did, Kevin. Thank you very much. Guys, if I could just one quick follow-up. What will you guys think about the financial crisis and the resumption? Obviously, it was a different circumstances and whatnot, but speaking specifically to the group elements of the business, when you think about the recovery in that era on the group side relative to now and based on obviously the positive traction you guys have had with rebookings and some sales progress on future periods et cetera, what are you hearing or what do you view as being kind of the key differentiators between that group recovery and getting kind of adequate pricing back on the books, et cetera in this period relative to that period?

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

A

There are going to be a lot of similarities, Carlo, and then some differences, as you might guess. I mean, I think the economic fallout we'll see. I mean, I think the economic fallout here is likely to be greater and then you put on top of that a mobility issue, and a health and hygiene issue, which is – people not wanting to – for a period of time until maybe there's a vaccine or therapeutics or we get past this not wanting to congregate in large groups. So, I think being pragmatic about it and straightforward about it, I think group always is the last to recover in the 30 whatever years I've been doing this and going through these ups and downs, group is the last to recover for no other reason than it's longer lead business, right. So, it's sort of logical.

I think here it will be a little longer than normal because of those factors. I think the economic impact is going to be greater than most of what we've seen in my time, and we have to get – people are going to have to sort of not only just come out of their foxholes, but ultimately get comfortable congregating again. All of that I think will

happen. By the way I think the business when you get two or three years out, will look a lot more like it did 90 days ago than it looks right now. I think it will look very, very similar to it. But I think it's going to take time and progression. It's going to depend on what happens with reopening. It's going to depend on what happens with how we fight COVID-19. It's going to depend on things that are unknowns today, which is where we end up with vaccines and therapeutics.

I'm super optimistic based on the people I'm talking to about those things, but I'm not a health expert and I'm not in the pharma business and I don't know. But those things are all sort of variables that it's just too early to judge. So, the simple answer would be I think what – the contours of this recovery like prior recoveries to a degree with a little bit of nuance will be leisure transient first, business transient second and group third. I think they're all going to be a little bit different in contour than prior cycles for obvious reasons of the impact of COVID-19 being different in terms of the impact that it has on people and business, but I think that is the progression.

And while you didn't ask it, I'll say it. I do think as we get into – thank you for correcting me Kevin, I do think Q2 is going to be very bad because we know that. I do think you will start, as you get reopenings around the world and in the Americas moving again if the federal government and state governments are responsible, I've been on the council for reopening and so, I think there's a sensible dialogue going on there, you will start to see a recovery as you get into Q3, in my opinion in Q4. I think that the initial stages of that just given how very low Q2 is will look like a pretty decent snapback. But trying to – but I don't want to be pollyannaish. Getting back to sort of the levels of occupancy, like for us they were in the low mid-70s in 2019, which were all time highs and that's going to take time.

I think you will see – the down, you'll see a bit of a snapback as you get mobility off of very low levels. And then I think you're going to sort of slowly recover as people get more comfort and businesses start to get back, and business start to think about hiring and investing and all those fun things, and that – as I said in my prepared comments, that's going to take two or three years to get back in my opinion to those levels. And that's my honest view.

The truth is, this thing is moving really fast so and there are a lot of unknowns as I just said. So that's my view based on what I see, and I've seen a lot and talked to a lot of people. But time will tell which is exactly why we haven't given guidance because it's just too early to know. But everybody on this call knows I'm a born optimist and that will never change. So, I feel spectacularly good about the long term for the industry. I feel spectacularly good about our model and the long-term opportunities for Hilton, and we just sort of have to go through a period of time to rebuild and get back on our feet as an industry and a company to get back to where we were.

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

That's great to hear, thank you, Chris.

Q

Operator: And our next question comes from Harry Curtis from Instinet. Please go ahead with your question.

Harry C. Curtis

Analyst, Instinet LLC

Hi, Chris, given your vast experience through prior recessions, let's go back to 2008 and 2009 where there was a significant amount of handwringing about the impact of videoconferencing on corporate travel and it didn't really pan out. Do you think it pans out in the recovery? I know it's anybody's guess, but is it different this time do you think?

Q

Christopher J. Nassetta

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

A

Yeah, I mean, it's anybody's guess. I mean, certainly I have done more Webex meetings and Zoom than I'd ever want to do in my life. I don't know about all you, maybe it's now I'm an old curmudgeon. I'm tired of it. The lasting thing I'm going to want to do when I get done with this is do another video conference. And I'm by the way hearing that from a lot of people. So, the honest answer is I don't know. I would say on the margin, yeah, there's going to be certain trip occasions where maybe because people have become more accustomed to this out of necessity to sort of be able to function that they'll think well, I can do that I don't have to do a trip.

But I think much like the debate that I've been part of for the last 20 or 30 years as this has evolved, I think it is an unstoppable force that people want to travel and see each other and need to, to build relationships, whether that is personal or related to business. I don't think that will change. I don't think globalization is going to stop. I don't think the need for people to travel the world is going to stop, and I am highly confident we can all wake up in two or three years and you can tell me I was right or wrong. But I'm highly confident as I said, when you wake up in two or three years, the world is going to, it's hard to see it now, the world is going to look an awful lot like it did 90 days ago in terms of customer behavior and demand patterns and the like. There will be some differences. As I said, maybe on the margins there's some business transient where people do it, but I think they're going to want to see people. There are going to be other things that happen that change, but it's going to be things I think that we're sort of forming where it will accelerate other things. Like our digital key/ digital check-in, which we've had great adoption, I think we'll have massive adoption.

Connected room, where you enter a room you don't have to mess with the remote control or touch switches. I think people will sort of adopt those things. So I think the digital world was already very important to us. I think it's going to get more important because some of those trends are going to be accelerated. But I do not – I wake up at night thinking about a lot of things these days. I do sleep but I get up awfully early, as I told Kevin, but I do not worry that people are not going to want to see each other, meet with each other and ultimately congregate. I think that is the human condition and I think there is an argument that on the margin, I described, it could take some time. There's also I think an even better argument that people are going to want to see people more than ever. They just need to feel safe, right? And I think when they feel safe, they will go back largely to their own patterns and behaviors.

Looking at prior activities, I think 9/11 is probably the most instructive. While it's not the same because none of this – this is unprecedented as we keep saying, there were some lessons that were learned there like basically everybody said well, after 9/11 nobody travels. Videoconferencing wasn't as good but they figured out other ways to do things because they were afraid to get on planes and travel and go out. You fast forwarded it two or three years, we had figured out how to manage the world, the world had figured out how to not get rid of terrorism but manage it. And people went back largely to their prior behaviors with – it did accelerate a few things that were not frankly, I would argue harmful that were probably helpful.

I think the same thing is going to happen here. I think as we get through this and we realize that COVID-19 and these types of viruses are part of our future, they have been. We have dealt with the seasonal flu. There was a time when dealing with the seasonal flu felt like this – that we will figure out as a global community how to deal with this. We will hopefully have a vaccine, time will tell. We will certainly have more therapeutics. We will certainly have better practices and procedures to make sure that we protect the very small part of the global population that is really truly most impacted by this. And I think as people then start to feel like this is a safe environment they are going to go back largely to their old behaviors. I would bet a lot of money on it. And that's what history would tell you.

Harry C. Curtis*Analyst, Instinet LLC*

Q

I appreciate that and as a quick follow-up, what are your peers in the airline industry telling you about the pace of their restart?

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

A

I would say, I have been talking to a lot of my peers but looking at the data to be honest, at least in the last couple of weeks – in these days it's like every week makes a difference. But based on the conversations I have had over the last month or two, and then just looking at the data, I think, while we're not – let's be clear, we're not showing robust recovery trends right now. We're, as I said we are like teeny tiny – in China we are, but the rest of the world it's like teeny tiny steps forward. I think the airlines are way behind. And if you just look at the passenger mile data, how many enplanements, they're just way behind. And here's the thing that's because people are – those that are willing to travel are only willing to go so far from home.

And so as I think about our teams, you didn't ask but I'll answer because we're spending an immense amount of time on recovery, I had all 500 of our commercial leaders around the world on a Zoom call yesterday. And talking about how we're retooling our approach to go-to-market over the next 6, 12, whatever it takes, 18 months. And that is going to be really much more about local business, and a lot more in the beginning about drive-to business. So if you think about it, I mean, sort of the natural human reaction is like I want to move. I want to get out. I'm starting to feel safe. I'm going to get out of my house. I'm going to go to my neighborhood. Maybe I'll sort of move around the region. Maybe I'll go to the region next door, eventually I'm going to cross the country. I'm going to get on a plane and go around the world. But I think it's in that progression. So if you think about it that way while we've seen a little bit of pickup, I would argue almost all of it has been in drive to.

And we thankfully, we have a big portfolio. We have a lot of brands but we have a lot of drive – we have in the world 2600 or 2700 Hampton Inns and we have thousands I think limited service hotels in the US. We have almost 4000 of them and they are very well set up for that sort of local, street corner type business and drive-to business. So I think there's a little bit of a disconnect and there will be for a period of time, where I think we will likely show, I think, recovery at a faster pace because we can accommodate types of demand that don't require air travel.

Ultimately, we need the airlines. We need people to get on planes to get to the nirvana, which is back to more normal patterns of demand. Obviously, that has to happen, but in the short term I think it's going to be a little bit more local, a little bit more drive to. And our industry, if you can accommodate that business, is going to be ahead of the airlines.

Harry C. Curtis*Analyst, Instinet LLC*

Q

I appreciate the thoughts. Thanks.

Operator: Our next question comes from Shaun Kelley from Bank of America. Please go ahead with your question.

Shaun C. Kelley*Analyst, Bank of America Merrill Lynch*

Q

Hi. Good morning, everyone and it's good to hear everybody's voices again. To Chris, I wanted to switch the subject a little bit to kind of the franchisee side of the world here. I was just wondering if you could give us a little bit more color on how some of those conversations are going with your franchise partners? If it's possible and I appreciate it's both early stage and it may be hard to give these numbers, but any sort of sense of magnitude of either asks of how many of your franchisees are looking for any form of fee relief or what that dialogue is kind of looking like right now?

Christopher J. Nassetta

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

A

Sure. So this is something I commented on for good reason in my prepared comments because we're spending, as you would guess, a huge amount of time with our franchise and broader ownership community because they are the engine of our growth. And they're our most important partners in business. And times are difficult for everybody, but times are more difficult for them given the situation, which is no, essentially no demand or very little demand. Yet even with furloughs and all those things, they still have to pay debt service. They still have to pay for insurance and real estate taxes and utilities and all that fun stuff.

So we've had a multi-tiered approach. I'd say first and foremost and I talked about a little bit – a very little bit, we and I have been deeply involved in what's been going on with the federal government, both with the administration and on the Hill to try and get liquidity relief for the industry, which is our ownership community and frankly trying to get relief for our frontline team members that have been furloughed, and not in any way relief for Hilton. We don't need it. We have not asked for it in any way, shape or form, but we have been pushing really hard with the administration, Treasury. I've had lots of conversations with all the right people including the President, Secretary Mnuchin, throughout the PPP. The reality is I could go on a long time. You don't want me to. PPP is a really good program and Congress and the administration should be given a lot of credit for moving that fast and getting that much money into the system that will help owners and small business folks and ultimately employees stay on the payroll. The reality is for our industry it hasn't been, just because of the complexity of the ownership structures and the like it has not been that helpful.

The second wave hopefully is more helpful but the Fed is getting ready to launch a Main Street lending program, which we're working very hard on to make sure that there is more access. And so, a bunch of our owners, by the way, lots and lots, dozens and dozens have had access to PPP. We're hoping that a much larger set of them get access to the Main Street lending program. And so, that is an important part of what we're doing because they need a bridge, right. I mean, ultimately, we're also working with the administration on stimulus for the industry when we get to the other side to get demand going, and people reemployed. But right now, our owners need a bridge. So we've been working very hard in that regard.

We also, as I mentioned in my prepared comments, have done tons of things in terms of by the way suspending operations at 950 hotels. We've never done that, right, in the 100 years we've been around other than closing a hotel to tear it down or whatever, we've never done that. We've suspended massive amounts of our brand standards, operating standards, capital programs and a whole bunch of other things to sort of really take, give them huge flexibility in how they operate, which I think they have appreciated. As I also mentioned one of the most important things that we're doing right now, which I'm spending and our team is spending an immense amount of time on, which I mentioned very lightly is the hotel operating model of the future.

We're working with all of our owners, franchisees across every brand, every category to figure out both, we've already done the short term but intermediate and long term, how do we use this time, necessity as I like to say does become the mother of invention. To think about things that we've been exploring or thinking about and that we think makes sense to create more efficiency. What better time to sort of think about our standards and sort of

put them all in the bucket and really, really put a bright light on them. And so we're doing that with deep involvement of our owner advisory councils. We kicked this off a couple weeks ago and we're in full swing. And that's incredibly important work as we again get to the other side, and hopefully get stimulus from the government, which I think we will. And that we create an opportunity in the intermediate term for them to be able to operate at lower demand levels and still have profitability. And then longer term as we get back to normal have even greater levels of profitability than when we went into it.

In terms of fee relief, I would say you wouldn't be surprised to hear that there have been owners that have asked for fee relief but not hand over fist. And the reality is I think there's a real simple reason. Our fee structures, as you know, which is different for different players in the industry, all of our fee structures, whether it's the franchise fee or management fee or the system charges, they're all based on a percentage of revenue. So we have given the ultimate fee relief, meaning when you're 90% off, there really aren't many fees because there is not much revenue. And so I think most of the owners – everybody would like every bit of help that they can get. I think most of the owners that I have talked to sort of understand that the fees have been right sized with the demand in the business that they're not at the moment, sadly for us, paying, and sadly for them they're not paying us a lot of fees in any event.

So we will continue to look at all options with our owner community. As I said, there is no more important partner and stakeholder that we have. They are the engine of opportunity for us. They're investing all the capital. They have been, and I believe they will, as Kevin noted with the pipeline and NUG numbers, they will continue to do so. And so we are literally and personally having daily conversations with huge numbers of them. And I think you can ask them yourself and while we're never going to be perfect, so far, the feedback I get from our owner community and you can validate it, is very high marks. That we were there earlier than most understanding the severity of this, we took very decisive and bold actions to provide relief early. And again, while we're not perfect, my impression and the owners I'm talking to and I'm talking to hundreds of them, is while they're hurting, they are certainly appreciating the partnership that we have provided.

Shaun C. Kelley

Analyst, Bank of America Merrill Lynch

Q

Great. Thanks for all the detail, Chris. And then maybe a little bit more of a specific one for Kevin, I guess. Kevin, could you outline for us a little bit more on maybe just this kind of point in time working capital drag that we could potentially see as it relates to mismatching on the reimbursed cost? Primarily, I think it's the system fund but anything else that maybe investors should be aware of, just given the situation we're in when the music stops and drops as much as it is, kind of where cash could be trapped for a period of time and then how you expect to recover that down the road?

Kevin J. Jacobs

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

A

Yeah, sure, obviously it's a question that's on a lot of people's minds. So it's a good one. I think to take a step back, if you think about, there's really three buckets of receivables that we have, right. In hotels that we manage, which is a minority of the system, right, roughly 70% of the system is franchise. But in hotels that we manage, the owner is responsible for the working capital and all the obligations, and some of those ultimately are paid by us and then reimbursed by owners. So there's an opportunity there. Then you have license fees and then system charges, as Chris mentioned in his build up. So those are the three primary buckets.

What I would say in terms of sizing it, first of all, it's really early, right. So we're just – if you think about the crisis really starting in March, you don't even build these things until the following month and then you give people 30 days to pay. And so we're sort of just getting into it. So anything we would say there would be speculative. But

that said, embedded I think it's probably obvious, but we're saying embedded in the discussion that we've given you both publicly and in some of Chris's commentary earlier, is a working capital drag.

Whereas we've said if things stay the way they are, meaning circa 90% down in revenue and in this environment, we have at least 24 months of liquidity. And you've got our cash balance and so you can sort of just do the math and realize that if things stay the where they are there is an embedded cash drag in there that could be in the hundreds of millions of dollars ultimately. And so – but, of course, it depends on duration of the cycle, how it plays out. And ultimately, we believe as Chris just got done explaining, that the business is healthy. It's going to come back, and when it comes back we think we're going to get paid.

Shaun C. Kelley

Analyst, Bank of America Merrill Lynch

Thank you very much.

Q

Kevin J. Jacobs

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

Sure.

A

Operator: And our next question comes from Anthony Powell from Barclays. Please go ahead with your question.

Anthony F. Powell

Analyst, Barclays Capital, Inc.

Hi. Hello. Good morning, everyone.

Q

Christopher J. Nassetta

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

Hi.

A

Anthony F. Powell

Analyst, Barclays Capital, Inc.

Good morning. So longer term, how do you think this changes the financing market for new hotel construction? Do you think lenders may require higher equity contributions or higher cash reserves? And could this be a headwind for construction and your net unit growth over the medium to longer term?

Q

Kevin J. Jacobs

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

Yeah, it's a good question, Anthony, and the reality is, is we don't really know. But what I think is that generally when you come out of these crises, lenders get appropriately more cautious, although I would say that even pre-COVID we were pretty deep into an economic cycle. And so you were starting to see caution. That said, over the long term, I would say for construction most of the hotels that get built in our system are not actually even financed aggressively. When you're talking about like big full-service hotels and luxury hotels, sometimes they use more leverage, but the lion's share of the hotels that get built in our system are not actually financed all that aggressively. You're talking about like 50% loan to cost.

A

And I would say personally I think that when the business recovers, the lending community will be there. And as long as hotels are productive and profitable investments that they'll be able to be financed and then I think the last thing I'd add is, you have to remember the amount of liquidity that is in the system. Pre-COVID, you're talking about like tripling plus over the money supply from quantitative easing and even more capital being injected into systems globally. There's going to be plenty of capital looking for productive yields and I would say for some period of time it will be a distressed environment and then it will – and as it always does it will recover back to normal.

Anthony F. Powell*Analyst, Barclays Capital, Inc.*

Got it and maybe just one more. You mentioned that you've relaxed brand standards across the board to help owners. How do you manage that with customer expectations as you start to see recovery? Hilton Honors has been known for a very consistent experience across the board. Customers are going to be returning to...

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

Yeah.

Anthony F. Powell*Analyst, Barclays Capital, Inc.*

...no breakfast buffets or whatnot. How do you manage that going forward?

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

Yeah. It's a really good question. I think in the short term as we've been talking to customers and serving customers, everybody gets what's going on in the world, so they're incredibly lenient and so we have not – we're not serving sadly that many customers, but those that we are – who are mostly on the frontlines of recovery efforts, have been fine with all of the standard changes in suspension of certain elements of the service. The work that I described that we're doing is sort of in the intermediate and long-term and making sure that we, one, create the most efficient operating model and, two, obviously, continue as you implied, as implied to your question, to drive premium market share. I mean we're not – we continue to have the premium market share in the industry, we have no plans to give that up.

The trick is as we transition from the intermediate to the longer term, what are the things that you basically put back in to the standards, and what do you take – what do you leave out and/or change? And that sort of I can't give you the answer not because I don't want to. I don't have it yet. I mean, that's the work that we are doing right now. I suspect that what we will do is test a whole bunch of different things. I know we will, as will others during the intermediate timeframe, when customers are very forgiving and what we're going to do is iterate, with the objective of making sure that we are delivering premium product and service always to get our market share premium but we want to drive efficiency.

So short-term is easy. Intermediate-term I think will be a significant opportunity for testing when you're still in a relatively low demand environment, where customers are still quite sort of accepting of things that are different. And then I think what we learn in that intermediate timeframe, we will sort of institute as our longer-range standards. And we're working through all of that. I think there will be a whole bunch of things that we'll do that will be more efficient long-term and they're going to be some that we're going to, some standards, that we are going to – that our customers are going to want in a more normalized environment and we're going to reinstitute.

Anthony F. Powell*Analyst, Barclays Capital, Inc.*

Thank you.

Q

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

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

Thanks. Good morning, everyone. Two related follow-ups. First, on the working capital drag you cited in the hundreds of millions of dollars potentially, you mentioned it depends on how long this will last. So on the cash burn and months of liquidity you provided in the debt deal, I think you were assuming that this is – or maybe you can elaborate on whether you're assuming this is a consistent drag each quarter or if that would potentially moderate even if things remain weak? And then second, can you talk a little bit more about what you're seeing from consumers as it relates to the loyalty program via some of the partnerships you have, and how that may impact the model both during this period and then also how you ensure customer engagement to position yourselves to use this asset and take share in eventual recovery?

Q

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

Yeah. So on the working capital, Stephen, I would say, look, the assumptions that we gave publicly which again just to make sure everyone's clear as part of the bond deal we said 18 to 24 months, that was pre-money for the bond deal and we ended up upsizing that deal so that's sort of how you get to the longer end of that range. I would say that, again, when the crisis is new, things are a little sharper. So the way I'd characterize it is, the first month, second quarter of this year probably would be the worst on that front and then it would moderate from there. But again, the assumptions in that analysis are...

A

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

The assumptions to get to the 24 months or at least 24 months are, basically you have little or...

A

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

So you stay that way for that long.

A

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

Yeah, that you stay that way...

A

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

And from that perspective, again, I said it would be a little bit harsher at the beginning and then it would be relatively flat. Again, in that – under those assumptions, with any kind of recovery curve, it gets better from there.

A

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

Q

And then on the loyalty program side, just any color you can provide on that.

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

A

Yeah, we have done a bunch of things. If you look at it, I'd say, first of all, not that we have a lot of business, but our Honors occupancy with the modest business we have has skyrocketed. So it was already very high, and now it's a lot higher because, seemingly, they are more willing to travel than I guess non-Honors members. But what we've been focused on during this timeframe and you could see it in a lot of the things I talked about, and that you would see publicly, is people aren't traveling that much. So what can we do to build loyalty? We can give them flexibility. So in the industry, we were the first ones, I believe.

Certainly, we were very early to come out and give very significant cancellation flexibility. We were definitely the first to come out and give status, allow people to remain – keep their status. We were definitely the first to come out and say we weren't going to – we're not going to have points expire. We did a bunch of things to say to our Honors members, no fault of your own, you can't travel and we're not going to hold that against you.

We've been communicating with them regularly. And so far, I'd say that's going well. The work that we're doing in the community, we're doing that because we want to be a part of the solution not part of the problem. So our million room nights with Amex to first responders for free, our world central kitchen work. All of the other work that we're doing is about sort of continuing to build our brand, the Honors brand with consumers, who are sitting around and can't move but are watching a lot of TV and reading a lot, doing a lot of social media and they're seeing these things.

The net result is in terms of our numbers, our marketing team has been looking at it, like intends to consider purchase of our product Net Promoter Score or whatever. Those numbers have gone way up through the crisis. And as a result, people realizing we're doing the right things.

And so my attitude, which is the way I think about life when you go into this, just like the way I thought about it when we went into the great recession, which was different but similar is, when everything is good, it's really hard to differentiate yourselves. I mean, I think we have – I think we've done a great job, but you get caught up in an arms race.

When everything is bad, people peel-off and go different directions and you have a real opportunity to differentiate yourself. And so what I've said from the day we got in this crisis is as much as we need to solidify the core and deal with liquidity, which Kevin and the team have done an amazing job on and protect the – and deal with the cost structure and all those things.

We have been crazy focused on making sure we are listening to customers, particularly Honors members, and doing the right thing for them. That we are crazy focused on our owners as I've already talked a lot about to do everything we can for them. That we're crazy involved in our communities, so that people remember that we were part of the solution because that will continue to build loyalty.

And, obviously, as impactful as it's been to our team members that we're – as we're impacting them, we're doing it the right way in a way that is really taking care of them as best we can. And so my attitude is while this is all painful, there's no other way to describe it.

What we do now will determine our future and we are absolutely committed as a team and a company to continue to differentiate ourselves with all of our stakeholders, and to come out the other side of it stronger, including with our Honors members. And so far we're I think, doing a very good job doing that.

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

That's great. Thank so much.

Q

Operator: Our next question comes from Bill Crow from Raymond James. Please go ahead with your question.

William A. Crow*Analyst, Raymond James & Associates, Inc.*

Hey. Good morning, folks.

Q

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

Good morning, Bill.

A

William A. Crow*Analyst, Raymond James & Associates, Inc.*

Chris, based on your discussions, I think it was with Harry earlier, it sounds like your view is that the primary gating factor for travel is not the hotel, it's the airplane, the airline. And if that's the case, is it fair to suggest that no matter how much they discount fares, it's probably not going to be as stimulative as it would've been in prior downturns?

Q

And then, the second part of that is does that also mean that larger coastal gateway markets come back far later than the rest of the country?

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

Well, to a degree, yes. But let me reframe it a little bit. But what I was saying, which is you're right, that to get back to full recovery I think the airlines are a gating issue. People have to be comfortable to get on planes, planes have to be flying, there's a bunch of the business, particularly in the big – in the major markets that it's fly-to. And so to get the full recovery, you have to have that. I absolutely believe you can get a significant amount of recovery before you get there.

A

I think it's – Bill, I wish I had all the answers. I think it's wrapped up in a whole bunch of different things that relate to what's going on with vaccines, therapeutics, human nature and just the comfort factor. My own belief is as you continue to get more testing, which is what I've been reinforcing with the White House and everybody that will listen including antibody testing, that you are going to understand that because the data is pretty clear, that while this is a terrible virus, and it's affecting people's lives and is killing people, which is horrific and every life is important, when you get down to it, it has infected a lot more people than we know. And the mortality rate is much, much lower than people have thought. And the real data suggests there is a very small part of the population that is really at risk.

I think the more of the testing data that comes out even without a vaccine or a therapeutic, the more people are going, particularly those that are not as at risk, the more comfort that they are going to have. With a vaccine and/or a therapeutic, I think it's game changing. And so I'm not trying to be evasive. I just think it's going to be iterative. I think you're going to have drive-to business. You're going to have some fly-to business. People are going to socially space, wear masks and all that. And there will be people that go out. The more they understand the real mortality rate, the more therapeutics and/or vaccine progress we have, I think it will, as I said two or three different times, I think when you wake up in a couple of years it will feel a lot more like it did 90 days ago than it does now.

And the path depends on a whole bunch of variables that are not particularly well known. But I think it will progress. We will recover first with more drive-to, some fly-to and that will happen. I mean, people are – you're going to – this summer, you start looking at the airline numbers and you're going to see a big shift up. It's not going to be anywhere near where it was, but in my opinion this summer you will see a heck of a lot more people getting on planes and in airports than you see right now. So I think it's just going to be a progression.

William A. Crow

Analyst, Raymond James & Associates, Inc.

Q

I hope you're right. Chris, if I could just follow up with one other question that I'm not sure you can answer. But as you look out you're talking about two, three, four years out using this period for innovation and whatnot. Do you think the operating cost or cost per occupied room will be lower or higher as we start to stabilize this industry?

Christopher J. Nassetta

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

A

Lower, for sure. Lower. I mean, just because all the things that we're working on I can't tell you how much lower because I don't know the answer yet. But clearly – I mean, there are a few things, Bill, as you might guess that are going to cost a little bit more like our clean stay standard, working with Lysol and Mayo. Yeah. I mean, Lysol products may be a little more expensive than some of the products we use. That's relatively insignificant. The other things that we're thinking about in terms of garnering efficiencies vastly outweigh that. So I think when we wake up on a stabilized basis operating costs are going to go down.

William A. Crow

Analyst, Raymond James & Associates, Inc.

Q

Thank you. Wish we could see you in person real soon but...

Christopher J. Nassetta

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

A

I know. It won't be long.

William A. Crow

Analyst, Raymond James & Associates, Inc.

Q

All right. Thanks, Chris.

Christopher J. Nassetta

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

A

Thanks.

Operator: Our next question comes from Robin Farley from UBS. Please go ahead with your question.

Robin M. Farley

Analyst, UBS Securities LLC

Great. Thank you. Most of my questions have been asked. But I did want to follow up on the unit growth question and I appreciate how difficult it is to have visibility on this. And you were talking about financing that there will be capital available. But I guess just thinking about it from a perspective of owner appetite and when you kind of look at historic downturns anything under construction as you've pointed out would open, and the decline or I guess slower rate of growth typically in supply would usually come a year or two later because of those new projects.

So I wonder if you could talk about kind of owner appetite. It seems like given even what you're saying about how it could take a couple of years to get back to 2019 levels, that maybe an owner or developer that hasn't put a shovel in the ground yet would be rethinking anything that's not under construction, then we would see something much lower than mid single-digit growth in terms of pipeline kind of a year or so out from now?

Christopher J. Nassetta

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

Yeah, I think, listen, it's a good point, Robin, and certainly that is generally how it worked last time, although not really. I mean, I think the first year after the great financial crisis was the low point and then it sort of started building from there. There was another year in 2012 where it was sort of stayed low/went down a touch because of what you're describing. The difference this time is it's delayed, right. I mean it's a different crisis, and you've just got construction that's being suspended. Things are going to take longer and it's going to push.

And then the other thing is you've had, this is coming at the end of a cycle. So you just had – you had a bunch of deliveries in their existing hotels, and there's going to be a little bit less demand for a while and more – we think more demand for our engine. So we do think we'll drive a higher level of conversions going forward, and thus, we think a growing trajectory from here. We'll see what happens, but that's we think.

Robin M. Farley

Analyst, UBS Securities LLC

Okay. No, great. That's helpful. And then one other sort of point on the same topic is, we've looked at all the data historically for hotel removals, right, hotels that close and never reopen in previous downturns. And like interestingly, that doesn't go up a lot. Even in 2009 that wasn't really that much above average. I would assume that you don't expect removals to be at a higher rate this year with this issue as well. Or I mean – but tell me if that's not accurate.

Christopher J. Nassetta

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

No. That's accurate. That's accurate.

Kevin J. Jacobs

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

That's accurate.

Christopher J. Nassetta

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

We think removals will be very normal.

Robin M. Farley

Analyst, UBS Securities LLC

Great. Thank you very much.

Q

Operator: And our next question comes from Thomas Allen from Morgan Stanley. Please go ahead with your question.

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

Hey. Good morning. Just in terms of buybacks, just want to be – so in the prepared remarks or in the press release it said Hilton formally suspended your buyback program. The program remains authorized, and you may resume share repurchases in the future at any time. How are you thinking about the buyback program? How are you thinking about the right leverage levels? Any clarity there would be helpful. Thank you.

Q

Christopher J. Nassetta

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

Yeah. A really good question. And I'd say a little bit early given where we are to have sort of be dispositive about it. But I don't think long-term we have a – in the short term, we're not going to be doing dividends and buybacks. We've made that pretty clear. As we get back to recovery and a more normalized environment, I don't think our capital allocation strategy has really changed. One might argue, even though I think from a liquidity point of view we find ourselves in a really good position, and we did the right things not just post-crisis but pre-crisis in terms of having credit available, a maturity schedule that was very attractive, those weren't lucky.

A

I mean we knew we were at the end of a business cycle, and those are things that we planned out to make sure that we had all the financial flexibility we would need. Now did we know we would have COVID-19? Of course not. But we knew we were at the end of a business cycle and we wanted to be really set up well for it. And so we are. And so I'd say this should hopefully be the greatest test of all time for our balance sheet. It's hard to believe another one could be worse given what's happened. And I think we feel like we're in a really good position to sort of pass that test and have the liquidity and the credit profile to get through it.

So I don't think when we get back to a normalized environment, we have a too much of a different view. What I was going to say is you could argue about would you be a little bit lower leverage than you might have been? I'm sure we will debate that, and this isn't the time to conclude that. But more broadly, we will definitely resume at some point when we get to a normalized environment. I believe our intention would be to resume sort of where we left off in terms of our capital allocation strategy.

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

Thank you.

Q

Christopher J. Nassetta

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

Okay. I think that's it. Well, it's an interesting call and interesting times. We appreciate everybody's time. I know we've been talking with lots of people sort of as this has been going on. Obviously happy to continue doing that as

we work our way through this. As we said in our comments, second quarter will not be pretty. But hopefully third quarter and fourth we'll be back on the road to recovery. So everybody stay safe, stay well, and we're going to keep working awfully hard to do the right things here. And we'll look forward to catching up with you and updating you on where we are after the second quarter.

Operator: Ladies and gentlemen, with that, we'll conclude today's conference. We do thank you for joining. You may now disconnect your lines.

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