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Hilton Worldwide Holdings, Inc. (HLT)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Hilton Fourth Quarter and Full Year 2020 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Jill Slattery, 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 2020 earnings call. Before we begin, we'd 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 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 10-Q filed on November 4, 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 Chief Financial Officer and President, Global Development, will then review our fourth quarter and full year results. Following their remarks, we will be happy to take your questions.

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

Christopher J. Nassetta

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

Thank you, Jill, and good morning, everyone. We certainly appreciate you all joining us today, and I hope everybody is staying well. I want to start with something difficult. I want to start by extending my most heartfelt condolences to the Sorenson family and the thousands of Marriott associates around the world following the heartbreaking news of Arne's passing. To say I'm deeply saddened by that loss would be an understatement.

I have, as many of you know, had the opportunity to work with Arne in a number of capacities throughout my career, including earlier on at Host. I think it's very fair to say he was an exceptional leader, but also an incredible person and a great friend. Our industry is better because of him and I am a better professional, and a better person because of him. On behalf of everyone at Hilton, Arne's family and the entire Marriott family are in our thoughts.

As we all know, this past year has presented unique challenges including a pandemic that devastated lives, communities and businesses across the world, widespread economic declines and acts of social injustice.

Due to the extraordinary levels of disruption, our industry experienced demand declines we've never seen before in our 101-year history. Guided by our founding purpose to make the world a better place through the light and warmth of hospitality, we acted quickly to ensure the safety and well-being of our people. We also took steps to

protect our business by rightsizing our cost structure and enhancing our liquidity position while continuing to drive net unit growth and increase our network effect.

As a result of these moves, we expect to recover from the pandemic as a stronger, higher-margin business that is even better positioned to deliver performance for our owners and strong free cash flow for our shareholders. While it's certainly been a very difficult year, we're proud of everything we've accomplished, but we certainly could not have done it without the support of all of our stakeholders.

For that, I'd like to extend a heartfelt thank you to: all of our loyal customers; our important owner partners; our communities, who supported us and enabled us to support them; our team members, who gave their hearts and souls to our business; and our shareholders, who stood by us. Because of our amazing people, we've been able to lean on our award-winning culture, which earned the number one Best Place to Work in the United States for the second consecutive year and the number three World's Best Workplace to help get us through these trying times.

Turning to results; for the full year, system-wide RevPAR declined 57%, with adjusted EBITDA down only modestly, more – illustrating the resiliency of our fee-based model. We also demonstrated the strength of our brands and power of our customer-centric strategy by achieving market share gains across every region, even in a distressed business environment.

For the quarter, system-wide RevPAR declined 59%, relatively in line with our expectations. The positive momentum in demand that we saw through the summer and early fall was disrupted in November, December by rising COVID cases, tightening travel restrictions and further hotel suspensions, particularly in Europe. Similar to the third quarter, drive-to leisure travel drove an outsized portion of demand. Business transient and group trends showed modest sequential improvement versus the prior quarter, but overall demand remained quite muted.

As we look to the year ahead, we remain optimistic that accelerating vaccine distribution will lead to easing government restrictions and unlock pent-up travel demand. For the first quarter, overall trends so far appear to be similar to the fourth quarter, with modest increases in demand in the US offsetting stalled recoveries in Europe and Asia Pacific. We expect improving fundamentals heading into spring, with essentially all system-wide rooms reopened by the end of the second quarter. We expect a more pronounced recovery in the back half of the year, driven by increased leisure demand and meaningful rebounds in corporate transient and group business.

Over the last year, the personal savings rate in the United States has nearly doubled, increasing by more than \$1.6 trillion to \$2.9 trillion, with the potential to go even higher given additional stimulus. We expect this to drive greater leisure demand as travel restrictions ease and markets reopen to tourism.

Additionally, conversations with our large corporate customers, along with sequential upticks in business transient booking pace year-to-date, indicate that there is pent-up demand for business travel that should drive a recovery in corporate transient trends as the year progresses.

On the group side, we saw a meaningful step-up in new group demand in January, with our back half group position showing significant sequential improvement versus the first half of the year. With roughly 70% of bookings made within a week of travel, overall visibility remains limited. However, we continue to see signs of optimism. In fact, the vast majority of our large corporate accounts agreed to extend 2020 negotiated rates into this year.

Despite the challenges in 2020, we opened more than 400 hotels, totaling nearly 56,000 rooms and achieved net unit growth of 5.1%, slightly ahead of guidance.

Fourth quarter openings were up nearly 30% year-over-year, largely driven by new development in China, where our focused service brands continue to command a disproportionate share of industry growth. We also celebrated our 1 millionth room milestone and the openings of our 300th hotel in China, our 600th DoubleTree hotel and our 900th Hilton Garden Inn. We ended up the year with 397,000 rooms in our development pipeline, up 3% year-over-year. While market disruption weighed on new development signings, conversion signings increased more than 30% versus the prior year.

As owners look to benefit from the strength of our network, we anticipate continued positive momentum in conversion activity, particularly through DoubleTree and our Collection brands. During the quarter, we signed agreements to expand our Curio Collection in Mexico and bring our Tapestry Collection to Portugal. This marks one of several new Tapestry hotels scheduled to open across Europe this year.

We also announced plans to debut LXR in the Seychelles with Mango House Seychelles. The property will deliver a truly unique hospitality experience with spacious guest rooms and suites and five world-class food and beverage venues. Scheduled to open in the coming months, the hotel underscores our commitment to further expanding our resort portfolio.

Building on that momentum, we kicked off 2021 with an agreement to bring LXR to Bali. Additionally, we celebrated the openings of Oceana Santa Monica, which marked LXR's US debut, as well as the Waldorf Astoria Monarch Beach Resort and the Hilton Vancouver Downtown, which was converted from a competitor brand. With these notable openings and many exciting development opportunities in front of us, we are confident in our ability to continue delivering solid growth over the next several years.

The pandemic rapidly changed guest behaviors, priorities and concerns. We listened to our customers and moved quickly to launch modifications to our Honors loyalty program, deliver industry-leading standards of cleanliness and hygiene with Hilton CleanStay and provide flexible distraction-free environments for remote work with WorkSpaces by Hilton. Additionally, with an even stronger focus on recovery, last month, we implemented Hilton EventReady Hybrid Solutions, an expanded set of resources to help event planners address the dramatic shift towards hybrid meetings as group business rebounds.

Our flexibility and innovation drove continued growth in our Honors network, ending the year with more than 112 million members who accounted for approximately 60% of system-wide occupancy. Throughout 2020, we also remained focused on our corporate responsibility and our commitment to our ESG initiatives. We're proud to contribute to our communities, and we're honored to be named the global industry leader in the Dow Jones Sustainability Index for the second year in a row.

In a year marked by challenge and change, we effectively executed our crisis response strategy, carefully managed key stakeholder relationships and continued to press forward on strategic opportunities. I'm confident that there are brighter days ahead and that we are in a stronger, more resilient – and we are better positioned than ever before.

With that, I'm going to turn the call over to Kevin for a few more details on the fourth quarter and the full year.

Kevin J. Jacobs

Chief Financial Officer & President, Global Development, Hilton Worldwide Holdings, Inc.

Thanks, Chris, and good morning, everyone. Before I begin, I'd like to echo Chris' sentiments about Arne. My thoughts are certainly with his family and with my many friends at Marriott, who I know are hurting this morning.

During the quarter, system-wide RevPAR declined 59.2% versus the prior year on a comparable and currency-neutral basis as the pandemic continued to disrupt the demand environment. Relative to the third quarter, occupancy was modestly lower, partially due to seasonality and further tempered by rising COVID cases and associated travel restrictions.

Adjusted EBITDA was \$204 million in the fourth quarter, down 65% year-over-year. Results reflected the continued impact of the pandemic on global travel demand, including temporary suspensions at some of our hotels during the quarter. Management and franchise fees decreased 50%, less than RevPAR decreased, as franchise fee declines were somewhat mitigated by better than expected Honors license fees and development fees.

Overall, revenue declines were mitigated by continued cost control at both the corporate and property levels. For the full year, our corporate G&A expenses were down nearly 30% year-over-year, at the high end of our expectations.

Our ownership portfolio posted a loss for the quarter due to the challenging demand environment, temporary closures in Europe and fixed operating costs, including fixed rent payments at some of our leased properties.

Continued cost control measures, coupled with one-time items mitigated segment losses. For the quarter, diluted loss per share adjusted for special items was \$0.10.

Turning to our balance sheet, we continued to enhance our liquidity position and preserve our financial flexibility. Over the last few months, we opportunistically refinanced \$3.4 billion of senior notes to extend our maturities at lower rates. In January, we also repaid \$250 million of the outstanding balance under our \$1.75 billion revolving credit facility.

On a pro forma basis, taking these transactions into effect as of year-end 2020, we've lowered our weighted average cost of debt to 3.6% and extended our weighted average maturity to 7.2 years. We have no major debt maturities until 2024 and maintain a well-staggered maturity ladder thereafter.

Further details on our fourth quarter and full year can be found in the earnings release we issued earlier this morning. This completes our prepared remarks. We would now like to open the line for any questions you may have. We would like to speak with all of you this morning, so we ask that you limit yourself to one question.

Chad, can we have our first question, please?

QUESTION AND ANSWER SECTION

Operator: Certainly. We will now begin our question-and-answer session. [Operator Instructions] And the first question will come from Joe Greff with JPMorgan. Please go ahead.

Joseph Greff
Analyst, JPMorgan Securities LLC

Q

Good morning guys. Nice to hear your voices.

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

A

Morning, Joe.

Joseph Greff
Analyst, JPMorgan Securities LLC

Q

Chris, I just want to start off with a big picture question. I'm sure you'll get a lot of questions about 2021 net rooms growth and how you're thinking about pipeline growth from here. But Chris, I'd love to hear your thoughts on how you're thinking about your business three years out post vaccine. What's different about your business in terms of individual business, transient travel, group travel, leisure travel relative to pre-COVID? What's different do you think about full service and limited service development in the future relative to pre-COVID?

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

A

Yeah, it's a great question, and so a lot to unpack there. But I think, Joe, when you go out – and obviously, you could debate this and I've debated it ad nauseam with a lot of people. I think if you go out three years, whatever, three or four years, I think demand is going to look a lot like it did in 2017, 2018 and 2019. And meaning the makeup of the business heads between business transient, leisure transient and group at that point in time, I think, will look quite similar.

Now certain of the types of – if you get underneath the demand, particularly in business transient and the group side, might be for different reasons than then. I mean, there'll be a substitution effect, clearly, and certain types of travel being substituted with sort of the new – the Zoom calls and digital opportunities. But they'll be replaced with other forms of travel.

And we've seen this throughout history. I mean, if you go back – and I wasn't really around, but the telephone and the Internet and telepresence and voicemail. There were always the arguments that this is going to truncate the need to travel and congregate. And the reality is what it typically does is it accelerates it, right, because it just gives more efficiency. It speeds – it ultimately speeds things up. It ultimately continues to connect the world and speed up globalization.

And as a result, people need to congregate, they need to travel, they need to build relationships, they need to build cultures, they need to innovate. And those things really cannot be done as well without face-to-face opportunities, both in group setting as well as individual business travel type needs.

And so I – having done it longer than I'd like to admit, 35, 40 years, we've been debating this, I don't – again, I think there'll be some substitution effect. But I think it will look a lot like it did.

And then our business, a couple of comments since you asked, our business is going to be a better business and a stronger business and a faster growing, higher-margin business. Why? Because, listen, throughout the next three years, we're going to continue to grow 4% or 5% unit growth. So we're going to be a bigger company.

The units that we had pre-COVID, if you believe what I believe, which is you'll have similar demand levels, we'll be producing like they were. You'll have all these new units that are then going to also be producing and you have a lower cost structure, because we've taken a significant amount of cost out on a cash basis. Sort of if you look at on a run rate in this year, sort of on a cash basis in the mid-teens, something like that, maybe a little bit better.

And we're going to be incredibly disciplined as we always have been. I think we've been on a G&A basis, at the low end of spending in the industry, but we got even better last year. And that's going to – when you put all the same flows of fees through the system with more units and a lower cost structure, it's simple math. It's a higher margin business.

And so I know it's sort of an odd time to be pounding the table with optimism, and so I probably shouldn't. But as we sit around this table, I'm at our board table and we talk about it, it's been a hard year, the hardest any of us have ever endured. But as a result of it, we put ourselves in about the best position we could have. And honestly, I think the business is going to be better for it. And I think it's going to produce higher margins and more free cash flow, which we're going to be – which is going to allow us to return even more capital than we were pre-COVID to our shareholders, which we think over the very long term is going to drive incredible returns.

The last point was on limited service, full service and I'm not – I'm covering a lot of territory I know, but you asked these things. And I think it's an important note because it's something I talked a lot about pre-COVID that, frankly, I don't think got enough attention, which is the mega trend in our – in the industry in every market in the world, there is not an exception, is the mid-market, right?

That's – why is that? Because that's where the bulk of the population is. That's where the bulk of the population growth is, particularly in the emerging markets. And so what can those people afford, mid-market brands. I would say, I know I'm sort of padding us now, we have the best mid-market brands in the world. I mean it's being proven out in the growth of those brands in – both in the US, but outside the US, outstripping the competition in Europe, outstripping the competition in Asia Pacific, particularly China.

And that's not by luck. We've been very purposeful over the last 10 years in making sure that we take the best brands here, and we adapt those and refine those from a product and service point of view. We picked great development partners, like we've done in China, to make sure that these are adapted to those environments, what the customers want, what the development community, in those environments, in those regions want that it has allowed us to show really strong growth and continue to.

So the mega trend, which was before COVID, and I would say as a result of the economic distress that this has caused, only gets sort of accentuated in a post-COVID world is the mid-market. And I feel really, really good about the work that we've done to put ourselves in a good position. And I think it's showing up in the numbers of our unit growth, right, because the bulk of that unit – I mean, we have lots of great things going on in luxury. We're making tremendous progress there, lots of great things going on in the upper upscale and all that. But the bulk of – you see, particularly in this environment, the bulk of the growth all over the world is really coming in limited service.

And I've been saying it for years. If you wake up in 20 years and you look back and say, where was the bulk of the growth in demand, and thus, the bulk of the growth in rooms, it's going to be in the mid-market. And that's why we've been focused on everything, but so intensely focused on that because in the end, that's what's going to drive higher growth rate. That is what – having the best brands in that space that we adapt to the local market conditions is what's going to deliver alpha for us, the real alpha, over the next 10 or 20 years.

Joseph Greff

Analyst, JPMorgan Securities LLC

Great. That's helpful. Appreciate it, Chris. Thank you.

Christopher J. Nassetta

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

Yes.

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

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Hey, guys. Good morning, and thanks for taking my question.

Christopher J. Nassetta

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

Hey, Carlo.

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

[indiscernible] (22:39).

Christopher J. Nassetta

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

Carlo, we can't hear you very well. Can you speak up a little? Sorry.

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

I'm sorry, guys. Can you hear me a little better?

Christopher J. Nassetta

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

Yeah. Yeah, yeah, yeah. Sorry.

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

I appreciate you taking my questions. If you spent some time, obviously, talking about how you're thinking about the pipeline. And I guess [indiscernible] (23:03) this year, 2020 so to speak. How do you see conversion activity

representing the growth algorithm over the next, call it, 12 to 24 months? Obviously, they will be used to augment. Where could you kind of see that X conversion percentage as a percentage of your gross unit adds kind of peaking out over the next two years?

Christopher J. Nassetta

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

A

I think I got all that. You are kind of cutting in and out. So I'll answer what I think I heard. And if I miss something, come back and remind me. So in terms of NUG, we feel the same way we have felt over the last couple of quarters. We obviously delivered a little bit better at 5.1%, because we had a huge fourth quarter in terms of deliveries. But we've said over the next few years, we think we'll deliver 4% to 5%. And I still feel really good about that. I think this year, it will probably be more the midpoint to the high end of that, similar to last year. But I think over the next few years, we feel comfortable with that.

And, in part, leading to what I heard is the second part of your question, is success that we're having on the conversion side. We've always been focused on conversions and in downturns, as everybody knows, that's very fertile ground. Over the past five or six years, we've gone from having essentially one conversion brand, really, that was the big engine, which was DoubleTree, to now having four between our three soft brands and DoubleTree, all of which are producing for us and I think will continue to escalate.

I mentioned in my prepared comments, our signings for conversions were up 30% last year. Our starts, which I did not mention, probably should have, were up 40%. And our fourth quarter, our opens, we're up about 44%. So what you see happening is sort of natural, like it takes a little bit of time to ramp. You're right. We were circa 20% of overall NUG and conversions that was up 300 or 400 basis points versus the prior year. And I think what you'll see over the next few years is that will become a larger and larger component of overall NUG.

How high will it go, which maybe would be the next question, so I'll answer it. Unclear. I mean, in the Great Recession, it went into the 40s. I don't think it will go that high because I honestly think we have so many other engines firing, particularly in China with all of our limited service growth as compared to the Great Recession that I don't think it will go that high. But I think it could clearly go into the upper 20s, low 30s over the next few years.

And so we have tremendous amount of focus on it, as you would guess, and the development teams are aligned around those goals. And I think you are starting to see, with some of the numbers that I described, the natural ramp-up in that and very, very good progress there. So I think things are coming along really nicely.

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Q

Thanks.

Christopher J. Nassetta

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

A

Did I miss anything in your question?

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Q

No, sir, you answered it all. Thank you very much.

Christopher J. Nassetta

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

A

Great. Thanks, Carlo.

Operator: The next question is from Shaun Kelley with Bank of America. Please go ahead.

Shaun C. Kelley

Analyst, BofA Securities, Inc.

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Hi, good morning, everyone, and thanks for all the remarks. Chris or Kevin, maybe sort of going down the same path as you just did for net units on digging in on the G&A cadence a little bit more, obviously, I think there's some noise with stock-based comp. But, Chris, I think you referred to overall kind of cash expense savings and a higher margin profile restructure looking out a few years. Could you just help us kind of build on that a little bit as you kind of look out a little further, what's either the right run rate to think about relative to 2019 levels for 2021 or just maybe even more strategically, how much more efficient do you think we are a few years out from now versus where we ended 2019?

Kevin J. Jacobs

Chief Financial Officer & President, Global Development, Hilton Worldwide Holdings, Inc.

A

Yeah, Shaun, I'll take that one. I think you sort of pointed out some of it, right, on the GAAP G&A side, includes stock comp that's noncash, right? So over the course of last year, we wrote down our plans, and then we put in a new plan in place in the fourth quarter. So you saw some things bounce around and then overall it ended up at 30%. On a cash basis, we ended up, I can't remember if, Chris, you said this in your first answer. But on a cash basis, we ended up about 20% better 2020 over 2019. And then I know Chris did say this, we think 2021 versus 2019 will be down in the mid-teens on a cash basis.

And so, how can that trend going forward? I think, look, overall, wages and benefits have been growing in excess of core inflation; over time, that's probably not going to trend. But, look, we're adding no new heads in the business this year. And so we think for several years, we're going to remain disciplined, as we always have. And there's no reason to think that we can't grow cash overhead at sort of slightly ahead of inflation, or slightly more than inflation, because that's probably what wages and benefits wants to grow over the next few years. And there's nothing that we see in the future that says we can't continue to get back to scaling the business without having step changes in growth in overhead.

Shaun C. Kelley

Analyst, BofA Securities, Inc.

Q

Thank you very much.

Kevin J. Jacobs

Chief Financial Officer & President, Global Development, Hilton Worldwide Holdings, Inc.

A

Sure.

Operator: The next question comes from David Katz with Jefferies. Please go ahead.

David Katz

Analyst, Jefferies LLC

Q

Hi. Good morning, everyone.

Christopher J. Nassetta

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

Morning.

David Katz

Analyst, Jefferies LLC

Good to hear everyone's voices.

Christopher J. Nassetta

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

Thanks. You too, David.

David Katz

Analyst, Jefferies LLC

Thank you. Chris, in your comments, you talked about pent-up demand for corporate travel, and you made some comments around group. And I'm hoping that you might be able to go just a little bit further and talk about how broad-based that might be, any industries, et cetera? It's obviously quite intuitive that leisure would have a lot of pent-up demand, but we spend a lot of time debating those other segments and would just love a little more depth, if you have it available.

Christopher J. Nassetta

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

Yeah. I can give you – I'll give you what I do have. I mean, I talked about in my prepared comments, David, the leisure side, and I think we all – I think we can all kind of stipulate that people want to get out of their basements and they want to travel. And while people have been starting to do that, not that many have. And certainly, the higher end leisure business has not really been out and about.

And so I think as you get through what is going to be a mass vaccination period of time over the next 90 days, I think when you get to late spring and summer, everything I'm hearing, talking to the Biden administration, which you're now reading in the papers, too, but we're having pretty direct conversations. I think maybe even sooner, I think – the President said last night, I heard that by the end of July every American will be able to be vaccinated.

My own belief based – if you look at the manufacturing curve and expectation of J&J getting approved probably by the end of this month that, that could be much – that could be sooner than the middle of the summer. So I think once you get there, I think people have a lot of savings, even though they've been buying stuff like crazy as we know because a lot of the retail and car business and homes and all that have been doing well. They want to get out. They want to get out more than ever. Talk to anybody, talk to any of your friends and you get the answer. And so I think the trend line there will be quite good when you get a bit of the all-clear sign, which I think will be, hopefully, by spring, certainly no worse than summer.

On the business transient, there are data points. I mean, but a lot of it is admittedly anecdotal in the sense of just discussions that we're having with our big customers and trends that we're seeing. As we're having discussions with our customers, as we have been renegotiating all of our corporate negotiated accounts, I mean, clearly, there is massive pent-up demand. I mean, they may – by the way, obviously in businesses that are hurting, they're going to have cutbacks for maybe their run rate numbers of 2018 and 2019.

But the reality is they just – in the short term, they have so many things that they need to do when you talk to them about collecting their people, innovation, just team meetings, getting out with clients and customers and the like that it's just – it's been over a year. By the time they're out a little bit, 15 months, and forget the fact they want to see people, they need to see people. And so you're starting to see that even though we're in the – you see the infection rate coming down. I mean, we're still not through the crisis, for sure. And you're starting to see it in the booking trends.

I mean, the business transient trends are clearly – sort of week-by-week are marching up even in the middle of all this, even though we don't have an all-clear sign. So not tons of data other than what real booking data suggests short term, it's moving in the right direction, but lots of conversations with customers are saying that. And lots of surveying that we're doing is suggesting like it was – that people are more interested in travel for leisure and business. As our polling goes, like over 80% of them say they've got to get back out on the road, which is the highest number, obviously, we've seen since this mess began. So that's good.

On the group side, that's going to take longer, but the trend lines are good. If you look at like our lead volume, sort of fourth quarter versus January, January was up 35%. If you look at it, January versus December, it was up 50%. I'd give you the quarter because normally, January would step up from December because of the holidays. So I want to – I think a better number would probably be sort of the average over the whole fourth quarter. But that's up by more than a third.

A stat that I – as I go through with the team that I thought was very encouraging on the group side was that our first half position for 2021 versus 2019. So let's forget 2020, because it was a washout. I mean the comparability is not relevant. If you look at it versus a stabilized year of 2019, first half position on the group side system-wide is down 80%.

The second half of the year versus the second half of 2019 is down by 32%. So again, it's still off, but by a lot lesser margin. And that's a result of people saying, I've got to get out, I want to get out, I want to – I've got to have team meetings, I've got to have small group, medium-sized group, conventions are starting to book again because they're going to go out of business if they don't get booking again. With an expectation, obviously, by the time you get to the second half of the year that it's safe and they can do it from a health point of view. And so we need this – my belief is we will get there, but we need this vaccination effort between now and June, July to really ramp up. And it feels like day by day that's happening. So that's a little bit of color.

Obviously, we've got to play out the next few months and have the right things fall into place. But I think there is a – I think there's a real opportunity for the – I said this publicly, I think on Bloomberg or somewhere, but I do think there is a great opportunity for the second half of the year to be better than any of us think. Because when – it's like everything. When you're at the top of the cycle, you always think everything is going to stay good forever and it's the new norm. And when you're looking from the bottom, the depths of doom, you're sort of trend lining off a lot of negativity.

And eventually, this thing is going to flip and people want to get out, no matter what anybody says, they want to travel. And when the all-clear sign is sort of given, which is the light at the end of the tunnel and I think coming soon, I think there is a huge amount of pent-up demand. And I think we could all like what we see in the second half of the year.

David Katz

Analyst, Jefferies LLC

Q

Appreciate it. And if I may for just a very quick follow-up, on the subject of hybrid segment or bleisure.

Christopher J. Nassetta

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

Yeah.

David Katz

Analyst, Jefferies LLC

Any thoughts, strategies or marketing efforts to that end?

Christopher J. Nassetta

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

Yes. I mean, all of our efforts on the marketing side, I mean, to keep it short and simple, so we can let other folks ask questions, all of our efforts have been focused on fishing where the fish are. And right now, where the fish are at the moment is in sort of value-based leisure and bleisure business. So and it's really – the bleisure part of it is small businesses that really don't have the choice, but to travel to keep their businesses going and they are sort of mixing it with leisure opportunities because they have more mobility, in a sense, they're not locked into – their kids aren't locked into necessarily being in schools and they're not locked into being in an office.

So all of our efforts across what we're doing with Honors, what we're doing with promotions, what we're doing with our marketing spend have been focused on that. Now, that's all going to obviously shift. If all goes well, and I'm right, you'll – and we're obviously working on the plans to not go immediately back to where we were, but to start to migrate back to sort of a more normal approach as demand patterns become more normalized.

David Katz

Analyst, Jefferies LLC

Thanks very much. Good luck.

Christopher J. Nassetta

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

Yeah.

Operator: Your next question is from Stephen Grambling with Goldman Sachs. Please go ahead.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Good morning. Thanks for the taking the questions.

Christopher J. Nassetta

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

Morning.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

On your comments on the second half 2021 trends, those are all helpful, but perhaps coming at it from another angle, how did leisure, business and group segments fare in China in the fourth quarter before incremental lockdowns? And how would you compare and contrast that market to the US as you think about how it may inform the trajectory of a recovery once cases are reined in? And perhaps as a related follow-up, are you seeing any signs of that substitution of trips that you're referencing in that market?

Christopher J. Nassetta

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

A

In that – yeah, China, as you implied in your question, is sort of backed up with what's going on, particularly in the north of China more than the south of China in the first quarter. In the fourth quarter, I would say – I don't have all the data in front of me, but I would say anecdotally from lots of conversations with our Asia Pac and our China team, it was very rapidly sort of approaching normalcy, meaning we weren't fully back with – there was still a little bit heavier leisure component, but there always is in China, by the way, I mean it's a heavier leisure market broadly. But we weren't too terribly far off of our business transient and our group trends, but it was following the same pattern I would expect here.

Leisure leads, business transient is a close second. And the groups just because they're, by nature of group business, it's a little bit longer lead time, there's a little bit more planning, was lagging a bit. But they – China, we were running like 10 points off, something like that. So we were getting – before they backed up, we were getting to, I think, very normalized levels of demand. We were not seeing any material, as far as we could tell, with the data we had, any sort of substitution effect.

Reality is China was sort of going back to the normal trends that it had very rapidly before COVID. And so I think, well, China is different in lots of ways. I think, humans are humans. And I think that's why my belief is that as we sort of come out of this, leisure will lead business streams, it will be a fast follow; group will take a little bit longer to develop because of the lead times. But the demand patterns will, over a couple of years, return and look a lot like they did pre-COVID.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Q

And one very quick follow-up. Just can you remind us what percentage of the China business is normally international inbound, which I imagine you'd have to overcome to get to that 10 points off?

Christopher J. Nassetta

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

A

Yeah. It's about 10 points, 10%.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Q

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

Christopher J. Nassetta

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

A

Yeah.

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

William A. Crow

Analyst, Raymond James & Associates, Inc.

Good morning, Chris and Kevin.

Q

Christopher J. Nassetta

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

Morning, Bill.

A

Kevin J. Jacobs

Chief Financial Officer & President, Global Development, Hilton Worldwide Holdings, Inc.

Hey, Bill.

A

William A. Crow

Analyst, Raymond James & Associates, Inc.

I've got a two-parter on unit growth, if I might. The first part of it is simply, are there economic differences to Hilton between adding a conversion DoubleTree or, say, opening a Hampton Inn that is newly built – and maybe that's a year 1 versus year 3 question?

Q

Christopher J. Nassetta

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

Yeah. I mean the difference is – I think you already answered it sort of in place. It's just timing. I mean conversions just happen faster, most – and not always in the year for the year, but typically, between signing and getting them in the system and paying fees, it happens very rapidly, usually within 6 to 12 months. And signing of new builds, depending on where in the world you are, takes anywhere from 12 to 48 months. And so conversions produce faster.

A

I'd say in terms of ramps and underlying economics, I mean, I'm looking at Kevin, he runs development, not a material difference as I think about it. I don't have the data in front of me, but anecdotally, we're involved with all that.

Kevin J. Jacobs

Chief Financial Officer & President, Global Development, Hilton Worldwide Holdings, Inc.

Yeah.

A

Christopher J. Nassetta

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

Yeah, and we're involved in all these deals. I don't think there's any real difference in terms of – I think it just comes faster. I think the basic fee structures are quite similar.

A

Kevin J. Jacobs

Chief Financial Officer & President, Global Development, Hilton Worldwide Holdings, Inc.

Yeah, that's right. I just think, look, DoubleTree's a full-service hotel. So it's market specific, but the absolute level of fees tends to be a little bit higher.

A

Christopher J. Nassetta

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

It's great.

A

Kevin J. Jacobs

Chief Financial Officer & President, Global Development, Hilton Worldwide Holdings, Inc.

But generally speaking, the return profile is very similar.

A

William A. Crow

Analyst, Raymond James & Associates, Inc.

Perfect. Perfect. The follow-up or the second part is, whether you think the \$15 national minimum wage would impact development economics for select service, say, your Tru Hotels, which tend to be in smaller markets where maybe the labor rate is much lower?

Q

Christopher J. Nassetta

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

It could. You've been talking to lots of folks about this issue. And broadly, I think, many, including me, are supportive over time that the minimum wage needs to move up. But as I've said to a number of people in the administration time and place, sort of how you do it and when you do it matters. And so I think the likely outcome is – I don't know that it will end up in this first bill.

A

I do think that they're – I think that is probably not highly likely, based on what I'm hearing, possible but not highly likely. But it will not be an issue that goes away. And I think that the how and the when then become important. And so how being that, first of all, even in what's being proposed now, it's not all to \$15. It's staged in over basically five years. And so I think that creates a ramp that allows people to adjust and create. We're obviously working with our owners on creating even more efficiencies. So it's not like overnight you go across the country to \$15. By the way, there are a whole bunch of markets that are already \$15, and so they've been dealing with it.

I would also like to think that if people really spend the time figuring out that not every market is the same, that living in Poughkeepsie is not the same as living in New York City and that these can be indexed. And then when do you start to sort of move it up, I think, is a big issue. My personal worry and concern is the hospitality industry has been more impacted from a jobs point of view than any industry in the country. And it's the slowest in recovery in terms of bringing jobs back. And I don't think raising the minimum wage, no matter how you look at the analysis, is going to help. I think it will slow the rehiring of people in the industry.

I am hopeful that in the end, that people will be rational. Rational thinking will prevail. And as a result, this will not be a major issue, certainly in the short to intermediate term. I think we should all assume that the minimum wage is going to be going up over time. In fact, because it needs to, but, again, I think it – I am hopeful that it will be done in a staged way and there'll be other mechanisms built into the timing and the geographical approach that will make it make sense on all sides. That's the long answer, Bill. The short answer is I don't think, in the short to intermediate term, there's any meaningful impact as a result of it.

William A. Crow

Analyst, Raymond James & Associates, Inc.

Good.

Q

Kevin J. Jacobs

Chief Financial Officer & President, Global Development, Hilton Worldwide Holdings, Inc.

A

And, Bill, I'll just add, I mean, that obviously covers the ground on the issue really well. I'll just add as a quick plug for our products, right? And so our products, on a relative basis, if you start with revenue premiums and then our more modern prototypical, particularly you referenced Tru, that even though if wage and benefits costs go up, that does make it more expensive for developers. But on a relative basis, our products are more efficient.

Christopher J. Nassetta

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

A

Yeah, and there...

Kevin J. Jacobs

Chief Financial Officer & President, Global Development, Hilton Worldwide Holdings, Inc.

A

So it should continue to give us an opportunity to differentiate ourselves from a product perspective.

Christopher J. Nassetta

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

A

And the last point, not to hit it too hard, is that the work we're doing right now in every one of our brands, including Tru and Hampton and everything else, is about making them higher-margin businesses and creating more labor efficiencies, particularly in the areas of housekeeping, food and beverage and other areas. So they're going to – when we get out of the crisis, those businesses will be higher margin and require less labor than they did pre-COVID.

So that will – also sort of factored for in my commentary. But I think that, hopefully, the net of it is, as it goes up, it's done over a longer period of time and it's done in a sort of thoughtful way.

William A. Crow

Analyst, Raymond James & Associates, Inc.

Q

Thank you for your time. Appreciate it.

Operator: Next question comes from Patrick Scholes with Truist Securities. Please go ahead.

Patrick Scholes

Analyst, Truist Securities, Inc.

Q

Hi. Good morning, everyone.

Christopher J. Nassetta

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

A

Morning, Patrick.

Patrick Scholes

Analyst, Truist Securities, Inc.

Q

My question – morning, morning. Curious as to your interest at the moment in tuck-in brand acquisitions today versus sort of your historical normal strategy of building brands from scratch, specifically interest in perhaps buying international brands or international private brands? Thank you.

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

A

Yeah. Thanks, Patrick. And good question and one we certainly – we get frequently. I don't think my view's changed at all. I mean, I think I've been saying for 13 years, since we bought nothing, we've gone from a family of 9 brands to 18 brands. So we've doubled it in the time I've been here and we haven't bought one of them. We've organically developed every single one of them.

So for my entire time here, I've been saying – never say never, right? You've heard my speech. If it passes all the right filters, we'd consider it, but nothing has and so I think not necessarily the path is indicative of the future, but it sort of tells you our predisposition. And so I would say, never say never. But the filter is a very tight filtration system, which is we think we've got the best brand portfolio in the business. We think that can be proven scientifically by the fact that every one of our brands is a market share leader. Every one that we've developed, we think, is purpose-built around exactly what customers want, and we like that.

And so anything that we would look to acquire would have to sort of meet that profile, like we don't want to go backwards because we don't have to. We have pretty much every category covered, if something is not covered, we could launch it. I don't think you'll see us launch a whole lot of new brands in the short term. But why would we do that? We have all the segments generally covered that we want to cover. We have the best brands. Why would we pick up something that wasn't superb in the same way that we then have to be distracted trying to fix and that we paid a lot of money for, which leads me to the next filter, which is economics.

If you do simple math, we're developing these brands for nothing, not to make it – and so we have an infinite yield every time we do it, every time we do a Tru or a Home2 and these things become mega brands, they become multibillion-dollar businesses over time. It's an infinite return because we've effectively invested just sweat equity, so something, but not much. So when we look at buying stuff, we haven't found anything that was perfect that doesn't require a lot of elbow grease, and you're paying a lot of money for it. So we just – again, never say never, but that's sort of how we think about it.

Now your question also implied like region – sort of regional process. That's where maybe – I hate to say this and have it become a headline, because I think the likelihood is we're not going to do that. But there are sort of smaller regional brands and places where maybe we want a stronger foothold that that don't show up a whole lot in the radar, but for what they are, are very, very good. And so we've looked at a bunch of those over time. And we'll continue to do that. The net result has been, while we've looked at a bunch of them, we haven't done any.

And again, I would say – I would condition everybody to say, we like what we've got. We think we've got the – no offense to our competitors, we think we have the best setup for the future in the industry. And the last thing we want to do is botch it by either bringing brands that, like my father used to say, you hang with the dogs, you get the fleas. We don't want to bring stuff in that messes up the portfolio. And we're intensely focused on good capital allocation. I was – those are my origins in business, being a good capital allocator. And so when you put it together, I think, not high likelihood, but never impossible.

Patrick Scholes*Analyst, Truist Securities, Inc.*

Q

Okay. Thank you.

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

Robin M. Farley*Analyst, UBS Securities LLC*

Q

Great. Thank you. I actually have two half questions, since they both are follow-ups. One is just on the group commentary and you talked about how much better the second half looks. I've got to think that for 2022, there will be group events that haven't, at that point, taken place in three years. I've got to think your volume for 2022 would be better than 2019. Is it just too early to see that on yourself?

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

A

It's too early. I think when we get into the second half of this year, that my own belief, I should hardly say this, but it's like I said to our team the other day, do not give away space in 2022 too cheap, like – because I think there's going to be gargantuan demand and as a result, more pricing power than people think just because you – people have accumulated all sorts of needs that are going to get released and it takes time to plan.

So what you're going to see in the second half of this year is, I think, the big uptick will be in the SMERF business, because those are smaller groups. They can have – the planning is not as time-consuming, the lead times aren't. The big stuff, it takes time when you're doing 1,000 person or multi-thousand-person conventions. Even if you're doing it hybrid, it takes a lot of planning. And so that's really almost, at this point, got to start to fall into next year.

So yes, I think if all goes according to plan in the first half of this year with vaccinations and there is a reality that people feel like they can start to congregate again, being intelligent about it, but do it in a safe way, I think you'll – in the second half of this year, you'll see a bunch of demand that will dump into next year on stuff that requires planning.

Robin M. Farley*Analyst, UBS Securities LLC*

Q

Oh great no, super helpful. And then my other follow-up was on the unit growth comments. And I think your comments about next year were maybe better than what some had worried about. Maybe 2021 is benefiting from some of the construction in 2020 that had been delayed. So, I guess, when you talked about 4% to 5% for the next few years and this year being at the higher end of that, does that sound like that maybe 2022 would be at the lower end, I mean, that there is maybe going to be a little bit of an air pocket for new development that would have started in the last 12 months? Is that how we should kind of think about those...

[indiscernible] (53:31)?

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

A

Yeah. I don't think it would be that low. I think we are definitely – I mean, we had 5.1% last year. We delivered a lot more than we thought. This is – we look at this year, there's a lot of stuff in production. We think, again, we have really good momentum on conversions, which is going to help us more this year than last. It will help again even more so in 2022. And then there's just stuff that's moving through that was under construction or was put under construction that's going to help us.

I think next year, I mean, we still – we put 75,000 rooms under construction last year. And most of that is not going to deliver this year. It's going to deliver in the next. And as I said, we're ramping on conversions. So I do think that 2022 could be lower than 2021, but not by the degree that you're suggesting. I still think that ultimately our goal is to be sort of in that 4% to 5% range in all those years.

Robin M. Farley*Analyst, UBS Securities LLC*

Okay, great. Thanks very much.

Q

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

Yes.

A

Operator: Next question will be from Richard Clarke with Bernstein. Please go ahead.

Richard J. Clarke*Analyst, Sanford C. Bernstein Ltd.*

Thanks. Thanks for taking my questions. Just a couple of questions on your conversations with owners. You used to talk about some upside on the take rate as you sort of rolled contracts over. I'm just wondering, as we've gone through this pandemic, are you able to enact on that and push the sort of fee percentages up? And also, you gave them some CapEx holidays. How urgent is it that they kind of begin that renovation process and when would you expect that to restart?

Q

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

Both good questions. So on the first, our published rates, you would say, if you average all our brands, is about 5.6% in license fees. We're about 5% right now in terms of effective rate, in terms of where people are in the cycle. We're not going to, anytime soon, be increasing those rates in an absolute sense. But by definition, every time a contract turns, it goes to the new rate.

A

And I think – I'm not saying anybody likes it, but that's sort of the standard within the industry. It's certainly what we've always done and we'll continue to do that. So you'll see that sort of grind up about 10, 15 basis points a year. And then when we get to the other side of this, depending on the economics and ultimate market share and all those things, obviously, we can look at what we do with our fee structures. But we're going to sort of keep – we think that they are good where they are, and we'll keep – our effective rates will keep grinding up as you have natural rollover.

On the CapEx side, it's really important. It's a delicate balance. The obvious one, which is you've got to keep the portfolio – we have the market share leaders in every one of these categories. Part of that is obviously service, a part of it's product. And part of that product is about having fresh product, consistent, high quality product. We're very religious about it. We have given a lot of relief.

Thankfully, we went into the crisis in a really good position because we've been unbelievably diligent and disciplined, and our owner community over time has recognized that to get those premiums, they have to keep their assets up. And so we went into the crisis a year ago in a good place. We have the ability, we think, to give them a bit of grace for a period of time and not have a significant impact with our customer base.

But as we get to the other side of this, yes, we're going to have to get back to having that kind of discipline, which is not just in our interest, it's in our owners' interest if they want to continue to drive results. I suspect that that's going to be next year and not this year, just in the sense that while I think the second half we're going to be in a very different world, we're going to have to let folks get back on their feet. And I think given, again, the quality of,

on average, of our brands and the upkeep of the brands and the individual hotels going into this, I think we can do that without it being harmful.

Richard J. Clarke

Analyst, Sanford C. Bernstein Ltd.

Wonderful. Thanks very much.

Q

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

Christopher J. Nassetta

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

Morning, Smedes.

A

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Hi. Thanks. Hi. I wanted to just follow up on – you talked about some of the group bookings improving sequentially, and I know it's too early to talk about 2022. But on your patterns that you're seeing, is there anything just from a geographic perspective in the US that's showing up so far in terms of maybe shifting away from higher cost cities that had already been underperforming from a RevPAR perspective in the pandemic into lower cost?

Q

Christopher J. Nassetta

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

Yeah, the geography is exactly what I think you're implying in the question and what you would think. It right now is less in the primary markets and more in the secondary and tertiary, just because of what's been going on in a lot of the big cities and the greater density of population. And reality is, as I said, a lot of the uptick that we're seeing into the second half of the year is SMERF business. And the nature of that business lends itself more to those geographies.

A

I fully expect, as I said, when we sort of get a bit of the all-clear and people start to think about group in a very different way, and I hope that's in the second half of the year, you'll start to see those patterns normalize. But given that it is more in the SMERF segment, it by definition, ends up being more – disproportionately outside of the big urban centers as compared to normal demand patterns at the moment.

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Okay. Thank you. And then just a very quick follow-up. I'm sorry if I missed this, but what was the impairment charge that you took in the quarter that was an add-back? I just wondered what that was related to.

Q

Kevin J. Jacobs

Chief Financial Officer & President, Global Development, Hilton Worldwide Holdings, Inc.

Yes, mostly in – almost entirely in the ownership segment, Smedes, this was announced in the pre-announcement for the bond deal as well...

A

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Got you.

Q

Kevin J. Jacobs

Chief Financial Officer & President, Global Development, Hilton Worldwide Holdings, Inc.

A

...on what we thought it was going to be. But it was mostly goodwill related to the ownership segment that – just having to do with the duration of the crisis and the recoverability of those assets and [indiscernible] (1:00:02) cash.

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Q

Got you. Thank you.

Kevin J. Jacobs

Chief Financial Officer & President, Global Development, Hilton Worldwide Holdings, Inc.

A

Sure.

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.

Again, thank you guys for joining us today. 2020 will go in the record books, for sure, not the greatest year for our company in our 101-year history or the industry certainly. But as I said in my prepared comments, we are proud of what we were able to accomplish. We think the business is in a terrific position. We are certainly of the mind and hopeful, as I've described in many ways, that as we get to spring/summer, and certainly in the second half of the year, we're going to be in a very different place. And we'll look forward after the first quarter, which will get us to the early spring to hopefully be able to comment on those positive trends. Thanks again, and everybody stay well.

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

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