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Hilton Worldwide Holdings, Inc. (HLT)

Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Hilton First Quarter 2021 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Jill Slattery, Senior Vice President, Investor Relations and Corporate Development. You may begin.

Jill Slattery

Senior Vice President-Investor Relations and Corporate Development, Hilton Worldwide Holdings, Inc.

Thank you, Chad. Welcome to Hilton's first quarter 2021 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 factors that could cause actual results to differ, please see the Risk Factors section of our most recently filed Form 10-K. In addition, we will refer to certain non-GAAP financial measures on this call. You can find reconciliations of non-GAAP to GAAP financial measures discussed in today's call in our earnings press release and on our website at ir.hilton.com.

This morning, Chris Nassetta, our President and Chief Executive Officer; will provide an overview of the current operating environment; Kevin Jacobs, our Chief Financial Officer and President, Global Development, will then review our first quarter 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. It has been a little over a year since the pandemic started. Over that time, we acted swiftly to address the challenges we face, so we could quickly turn our focus to best positioning ourselves towards recovery and beyond. I'm really proud of how we've set up the company for the future. And most importantly, I'm grateful to our team members who have continued to lead with hospitality and to all of our stakeholders for their ongoing support.

In the first quarter, system-wide RevPAR decreased 38% year-over-year and 53% versus 2019. Rising COVID cases and tightening travel restrictions, particularly across Europe and Asia Pacific, weighed on demand through January and most of February. However, March marked a turning point as we lapped the start of the US lockdowns, RevPAR turned positive up more than 23% year-over-year.

System-wide occupancy reached 55% by the end of the month, driven by strong leisure demand. As expected, recovery in group and corporate transient continued to lag, but both segments showed sequential improvement versus the fourth quarter. Overall, this positive momentum has continued into the second quarter. While recovery varies by region and country, we can see the light at the end of the tunnel.

In the US, more than 50% of adults have received at least one dose of a COVID-19 vaccine. As a result, we're seeing a significant lift in forward bookings and occupancy, which is now around 60% as well as lengthening booking windows. This mirrors trends in other countries around the world, for instance, China is running in the low 70s occupancy. We do expect this momentum to continue. Vaccine distribution, coupled with relaxed travel restrictions and increasing consumer confidence, should drive further RevPAR improvements in the coming months and quarters.

In fact, we are on pace to see record leisure demand in the US over the summer months, with April bookings for the summer exceeding 2019 peak levels by nearly 10%. We also expect continued corporate office re-openings to drive a meaningful pickup in business transient demand towards the back half of the year. Based on what we've seen in China and pockets of the US, once restrictions are lifted and offices reopen business travel returns.

In the first quarter, business transient revenue was roughly 75% of 2019 levels in states that were further along in their reopening process. Additionally, recent forecast for non-residential fixed investment are up more than three percentage points from prior projections to 7.8%, indicating even greater optimism around business spending.

On the group side, forward booking activity continues to improve month-over-month. Group bookings made in the first quarter for the back half of the year were roughly flat with 2019 booking activity, suggesting customers are increasingly optimistic about safety measures and loosening pandemic restrictions.

Near-term group bookings continue to be driven largely by social events and smaller group meetings, but we are seeing a slow shift back to a more normal mix of business with corporate group leads up more than 70% for future periods. Associations and trade shows have also started opening up housing and registration sites for events later this year, further signs of moving forward with in-person group meetings.

As we look out to next year, our group position is roughly 85% of peak 2019 levels with rate increases versus 2019. Group bookings were up in the mid-teens for 2023 versus 2019. In fact, last week, I was in Mexico to Chair the World Travel & Tourism Council's Global Summit where more than 800 participants from all over the world attended in person and thousands more attended virtually.

The conference demonstrated that it is possible to meet in a safe way and the hybrid events can be incredibly effective at expanding participation and enhancing collaboration. It was great to be in the same room with other hospitality and government leaders talking about the bright future that lies ahead for our industry. The event made me even more optimistic for our recovery and confident that we are beginning to see a new era of travel emerge.

Turning to development. During the quarter, we added 105 hotels totaling more than 16,500 rooms to our system and achieved net unit growth of 5.8%. We celebrated the openings of our 100th Curio and our 50th Tapestry hotel, demonstrating the strength of our conversion friendly brands. Overall conversions accounted for approximately 24% of additions in the quarter.

We also continued to enhance our resort footprint during the quarter with the openings of the 1,500 room Virgin Hotel Las Vegas, the Hilton Abu Dhabi Yas Island, the all-inclusive Yucatan Resort Playa Del Carmen and the six spectacular properties along the California Coast, customers have even more opportunities to stay with us as travel resumes.

Building on our already impressive portfolio in the world's most desirable locations, during the quarter, we signed agreements to bring our Waldorf Astoria and Canopy brands to the Seychelles. The properties are scheduled to open in 2023, joining the Mango House Seychelles LXR Hotel & Resort set to open later this summer.

In the quarter, we signed nearly 22,000 rooms, modestly ahead of our expectations. This included our first Signia hotel. Additionally, through our strategic partnership with Country Garden to introduce the Home2 Suites brand in China, we added more than 5,000 rooms to our pipeline. We're excited for the opportunities this partnership provides with one of our fastest-growing brands.

Home2 recently celebrated its 10th anniversary, marking the milestone with nearly 1,000 hotels open and in the pipeline. On Entrepreneur Magazine's Annual Franchise 500 list, which featured 11 of our 18 brands, Home2 was the number two hotel brand ranking only behind Hampton.

Overall, we are very happy with our development progress and excited for additional growth opportunities. With more than half of our 399,000 room pipeline under construction, we're confident in our ability to grow net units in the mid-single digit range for the next several years and continue to expect growth in the 4.5% to 5% range in 2021.

In an environment where safety and cleanliness are top priorities for travelers, we continue to create more opportunities for our guests to enjoy a contactless experience from pre-arrival to post checkout. Our digital key feature, which enables guests to bypass the front desk and go straight to their rooms is now available in the vast majority of our hotels worldwide.

Additionally, we've joined forces with Lyft to mobilize Honors members to contribute to the Lyft Vaccine Access initiative, which funds rides for those in need of reliable transportation to their vaccine appointment. We're excited to continue the momentum of our partnership with Lyft by supporting this important cause.

During the quarter, we also launched two new co-branded credit cards in Japan, building on our 25-year partnership with American Express and marking the first time our co-branded cards have been made available to customers outside the United States. These cards are designed with both frequent and occasional travelers in mind and offer customers the opportunity to earn Hilton Honors bonus points on everyday spending, as well as at our properties worldwide.

As a result of our strong partnerships, industry-leading brands, and unmatched value proposition, our loyalty program continues attracting new members. We ended the first quarter with more than 115 million Honors members, up roughly 8% year-over-year with membership increasing across every major region despite lower demand due to the pandemic.

As I reflect on the quarter and the past year, I'm very proud of the determination, creativity and hospitality that our Hilton team members have demonstrated. This earned us recognition by Fortune and Great Place to Work as the number one Best Big Company to Work For and number three Best Company to Work For in the United States.

Overall, I'm pleased with our first quarter results and feel very good about the momentum for the remainder of the year. I'm optimistic for the future of travel and for Hilton as we emerge stronger and better positioned continuing to drive value for our guests, our owners, our communities and, of course, our shareholders.

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

Kevin J. Jacobs

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

Thanks, Chris, and good morning, everyone. During the quarter, system-wide RevPAR declined 38.4% versus the prior year on a comparable and currency-neutral basis as rising COVID cases and reinstated travel restrictions and lockdowns disrupted the demand environment, especially across Europe and Asia Pacific. However, occupancy improved sequentially throughout the quarter, increasing more than 20 points.

Adjusted EBITDA was \$198 million in the first quarter, down 45% 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 34%, less than RevPAR decreased as franchise fee declines were somewhat mitigated by better-than-expected license fees and development fees. Additionally, results were helped by continued cost control at both the corporate and property levels.

Our ownership portfolio posted a loss for the quarter due to the challenged demand environment. Reinstated lockdowns and travel restrictions in Europe and Japan, coupled with temporary hotel closures and fixed operating costs, including fixed rent payments at some of our leased properties weighed on our performance. Continued cost control mitigated segment losses. For the quarter, diluted earnings per share adjusted for special items was \$0.02.

Turning to our regional performance. First quarter comparable US RevPAR declined nearly 37% year-over-year and 50% versus 2019. Demand improved sequentially throughout the quarter with March occupancy 62% higher than January and ending at 55%, the highest level since the pandemic began. Leisure travel continued to lead the recovery, particularly on weekends, with warm weather destinations benefiting the most.

In the Americas outside the US, first quarter RevPAR declined 55% year-over-year and 63% versus 2019. Performance recovered in March but lagged the broader system due to the region's greater dependence on international travel, which remain constrained by tightened travel restrictions.

In Europe, RevPAR fell 76% year-over-year and 82% versus 2019. Declines were driven by increasing COVID cases and reinstated lockdowns across both the United Kingdom and Continental Europe. Delays in vaccination distribution also disrupted recovery. In the Middle East and Africa region, RevPAR was down 32% year-over-year and 46% versus 2019. Performance in the region benefited from strong domestic demand and easing restrictions.

In the Asia Pacific region, first quarter RevPAR fell 7% year-over-year and 49% versus 2019, as rising infections, lockdowns and border closures weighed on performance early in the quarter. RevPAR in China increased 64% year-over-year with occupancy levels increasing from roughly 35% to roughly 65% during the quarter. Both leisure and business transient demand rebounded quickly as restrictions eased with March occupancy in China exceeding 2019 levels.

Turning to development. As Chris mentioned, in the first quarter, we grew net units 5.8%, driven primarily by the Americas and Asia Pacific. Tightening restrictions and lockdowns across Europe delayed openings in the region. However, we expect an uptick in development activity as countries continue to reopen.

For the full year, we continue to expect net unit growth of 4.5% to 5%. Signings in the quarter decreased year-over-year due to pre-pandemic comparisons, but exceeded our expectations due to greater-than-expected signings in China, particularly for our Home2 Suites brand. For the year, we expect signings to increase mid-single digits versus 2020.

Turning to the balance sheet. During the quarter, we took steps to further enhance our liquidity position and preserve financial flexibility. We repaid \$500 million of the outstanding balance under our \$1.75 billion revolving

credit facility and opportunistically executed a favorable debt refinancing transaction to extend our maturities at lower rates.

As we look ahead, we remain confident in our balance sheet and liquidity positions as we continue to focus on 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. 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?

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now move to our question-and-answer session. [Operator Instructions] And the first question will come from Carlo Santarelli with Deutsche Bank. Please go ahead.

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Hey, good morning, guys. Thank you.

Q

Christopher J. Nassetta

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

Hi, Carlo.

A

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

So, Chris, Kevin, you guys gave some helpful data points around kind of the acceleration that you saw throughout the first quarter. And speaking more maybe on the US front, could you guys maybe talk a little bit about March and maybe to the extent you're willing to April and how kind of not only RevPAR trends, I know you gave some data points on occupancy with the 55% exit rate coming out of March, kind of what you've seen from a fee generation on the US side as it pertains to the occupancy gains? And then perhaps, how you're thinking about beyond people coming back into the office. The aspect of pent-up demand within the business and corporate traveler as we get maybe probably a 4Q event, I think most of us would assume at this point. But how do you guys think about that?

Q

Christopher J. Nassetta

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

Boy, that's a lot of questions all embedded in one. But that is probably the most important. I'll cover parts of it. Maybe Kevin will throw some things in, and we'll save a little bit maybe for later because I'm sure others will have similar questions. But, thank you, and I do think that is the question de jure. Obviously, as both Kevin and I covered, Carlo, we saw pretty marked improvement as we marched through the quarter, and that continued into April. In terms of the global data, I think, the best way to look at it is against a 2019 comparison because looking at it against 2020, particularly right now as you are in the early stages of the pandemic is relatively useless. And so, if you look at January and February, you were globally – and the US was similar.

A

If you look at it, you were sort of in the 55% to 60% down from a RevPAR point of view. And you picked up about 10 points going down into sort of the mid 40s down in March. And then in April, we – you had another step-up into the low 40s. Obviously, May, it's a little early to say, but I would say the trajectory in our mind continues as we look at forward bookings, both on the leisure transient side, which is what's going to dominate the second quarter, it feels like we're going to continue marching on.

If you look at it by segments, which I obviously have spent a lot of time, and this will sort of get to some of our views on business transient and the group side. If you look at – you break down room nights by segments relative to 2019, again, I'm focusing on room nights to sort of take rate for the moment out of it. Leisure in the first quarter was already close to 90% of 2019. By the way, on a – for what it's worth, much lower based on lower rated business, but just again, room nights. And business was about 50% in the first quarter. Again, lower if you look at it on a RevPAR basis. And group was about 35% to 40%.

As you march through our expectations for the year, our belief is globally and every region will be a little bit different, and I'll save a regional question for somebody else because I don't want to do too much of a filibuster on one question. But if you march through the year, my expectation is you're going to have an incredibly robust leisure-driven summer. So, we're going to continue to see good progress. We believe the summer will be meaningfully over 2019 peak levels of leisure demand.

As we get into the fall and every day, you're reading the same things I'm reading, but I'm also, as I'm sure you are talking to a lot of CEOs of large companies that we deal with or that are friends of mine. And I think clearly, as you get into the summer, many people are starting to bring folks back in the office, certainly, as you get into the fall, all things sort of being equal in terms of trajectory vaccination. Most businesses are going to be bringing folks back, maybe not fully – probably not fully, but on some flexible basis, but a whole lot different than what we've been experiencing.

We do believe that – and we do see it both in China, as I said in my prepared comments, we do see it in parts of the United States where restrictions have been lifted earlier. I mentioned in my prepared comments; business travel volumes are already 75% of what they were in 2019 in those markets. So I think it is – even though not fully through it, not fully open anywhere, I think it is really good evidence that as people get back to work, as kids in the fall go back to school, which at this point, I think, is very highly likely, you're going to see a step change into the third and fourth quarter in business transient.

I also see it in our booking pace on the group side that you will see a pretty good step change in the group side, I gave you some stats, so I won't repeat them. At the moment, it is more SMERF kind of related business and small meetings in the second half of this year, with the bigger meetings really some happening, but really those getting booked more into next year at a high volume. But we do believe that we will have a lot of realized group business, a lot more of it than we've been experiencing in the second half of the year.

So, if you sort of jump to the fourth quarter, recognizing Q2 is going to be largely leisure. Q3 is going to sort of be a transition. On a room night basis, our forecasting which is all it is, but it's based on a lot of data and based on sort of the current trajectory that we're on. We think room nights in leisure will be at 2019 levels. We don't think rate will be back to 2019 levels. So, sort of RevPAR levels in the leisure, sort of in the 80%, low 80s sort of percent. We think business transient, by the time you get to the fourth quarter based on what we're seeing in markets that are recovering on a room night basis, we'll be about 70%-ish.

I'm being reasonably precise obviously, but these are sort of our sense of estimates. And obviously, lower than that, on a RevPAR basis, because we're still not going to have the high – all the highest-rated business travel

back. That's why it takes time to sort of get back to 2019 levels. And we think group from a volume point of view, could be halfway back to 2019 levels. Again, it won't be the highest rated groups. Those will start coming next year when we get to a place where we have the larger groups, association, et cetera, that are typically are paying. So, that's sort of – that's how we think the year is going to play out. We think that as a result, RevPAR levels every sort of month as we go versus 2019 are going to get better.

By the time we end the year, I think we could be back somewhere around 70% or something -ish of 2019 levels on a run rate basis, which isn't all the way home. But it's a heck of a lot better than where we were. And what I would say, not to be pollyannish about it. What I would say is the recovery of late, certainly, since we had our last call, the recovery – the slope of the recovery has been steeper than what we would have thought.

In all regards, now a lot of it is to come on the business transient, although we're seeing some, as I described, it's not like we have none, and we're seeing a pretty decent uptick. But that is sort of a fall expectation. But I would say broadly, as you can probably tell from my comments, there's a bunch of data to support it. We think the slope of the recovery has steepened since the last time we talked. And thus, our reason for optimism that things are on a good path.

You asked about fee generation that will follow. I mean, I don't think there's a whole lot more to say that as the business recovers, so go our fees, we get – that's how we get paid. And I do think sort of built into my expectations that I gave is sort of my view and our view of pent-up demand. I think, there's a huge amount of pent-up demand. And my guess is every single person that you guys talk to, whether they run a business, whether you talk to them, they're friend of yours. You see them on the beach or wherever you are that they're talking about needing to and wanting to get out both for leisure, but increasingly needing to and wanting to get out for business and to congregate in groups. There are a lot of important work that gets done in these group settings that I think after a while, people realized that it's not possible to keep going without it.

So, I do think there's a – I think we're on a real – on a very good slope. We need the vaccination trends and the infection rates and all of the fun stuff that we're all looking at every minute of every day because that's all the media is covering obviously, we need all that to progress. But our view is we're on a solid – a very solid road to recovery. Did I get most of what you wanted?

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Yeah.

Q

Christopher J. Nassetta

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

I left a few nuggets for somebody else to ask about.

A

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Yeah. I hope so, I have carpal tunnel from writing. So, I appreciate the response. Thank you very much.

Q

Christopher J. Nassetta

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

All right, Carlo.

A

Operator: And the next question will be from Joe Greff with JPMorgan. Please go ahead.

Joseph Greff

Analyst, JPMorgan Securities LLC

Good morning, guys.

Christopher J. Nassetta

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

Good morning, Joe.

Joseph Greff

Analyst, JPMorgan Securities LLC

Thanks for taking my question. I think most of my demand related, recovery related questions were sufficiently answered before. So, I'd just like to talk about the development pipeline. Nice to see that up sequentially on a quarter-over-quarter basis. What we've been seeing for a while now is that the non-US component is becoming a bigger percentage of the pipeline. How much of the non-US is limited service? And how did that composition, how did that compare to maybe a year ago? And maybe where I'm going with this question is when you look at the average fee per room in your development pipeline now versus a year ago, is that average fee per room up or down?

Kevin J. Jacobs

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

Yeah. Listen, good question. I think those trends are not changing dramatically in the short term, right? They sort of stay – we've got a pretty good development pipeline, both in full-service and limited service. You have seen growth, I mean, primarily through our master limited partnerships in China with Hampton and Home2, but also as we deploy Hilton Garden Inn and other brands around the world, you are seeing slightly faster growth in limited service. So, for it to change the overall trajectory of fees per room, it will take a really long time. And so that has been pretty steady, as has the mix between full service and limited service generally speaking in both the pipeline and rooms under construction. I think it's about 60/40, full-service/limited service. And that stayed pretty constant. Oh, the other way, sorry, 40/60.

Joseph Greff

Analyst, JPMorgan Securities LLC

Thank you.

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

Shaun C. Kelley

Analyst, BofA Securities, Inc.

Hi. Good morning, everybody. Chris or Kevin, maybe to stick with the same development topic, inflation has become a big theme around all of the markets recently. And I just want to get your thoughts on specifically what this could mean for the hotel development side. Are you seeing or hearing about any changes or delays that could be out there as a result of things like materials inflation? Is this a particular concern to you at all in how you're underwriting or what you're starting to hear back from your development teams?

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

A

Yeah. I mean, of course it's a concern. I mean, we have sort of inflation going on, not just in the input cost, but labor as well. So, when they ultimately when people need to operate – open and operate, the costs are higher. Now we've done a bunch of things and are doing a bunch of things to bring costs down inside the hotels by creating really good efficiencies that I think will more than offset that component of it. But costs to build are going up and financing is not particularly readily available. For the best owners, it is, and people are starting new build projects in the US and around the world. But I suspect and sort of built in, Shaun, to our expectations on unit growth is that the US, you will see a cycle where particularly in the US the new construction numbers are going to be much, much lower. That's obviously long-term healthy for the industry. But the good news for us is the world is a big place. And the pressures are not the same in all places in the world, particularly recognizing that the place where we get the second biggest chunk of our growth is Asia Pacific and China in particular and those pressures are very different in the sense that they're less and there's a lot more financing available, et cetera, et cetera.

And so not unlike coming out of the great recession, our job is to be really resilient. This is the benefit of an investment in a big global company. I think we're really good at this and sort of anticipating and adapting to the trends. And like after the Great Recession, the same thing happened in the US. There wasn't so much an inflationary issue, there was just a dearth of capital, and new construction starts went way down. That's what's happening here. That will be healthy for the industry. And what did we do? We pivoted then the same way we're pivoting now just with more tools in the toolkit, meaning conversions become a much larger part of what we're doing. And we are much further along in terms of the relationships we have around the world in the areas of the world that are continuing to not only motor along, but pick up steam. I mean, I think in China, as an example, our second biggest market, we're going to sign more, start more and open more deals than I think we ever have this year, right? And so, diversification is a powerful thing. Ultimately, I do believe the pressures on the cost to build will abate over a period of time, and I don't think it will be that long a period of time.

I'm highly confident that the financing markets have been easing up and will continue to ease up and the US in terms of new development – or new constructions starts will be a huge engine of opportunity for us as it always has been and pick up a lot of steam. And I'm sure other things around the world will happen over time where they slow down.

But we're very quick on our feet, not to pat us on the back too much, but I think we've been able for 15 years to continue to drive really good growth while lots of crazy things are going on around the world, because there are different conditions and there's ways to continue to grow.

And so, while we do starting – finishing with where I started, we do worry about it. I think we have a plan to address it. I think we've built that into the expectations that we've provided to you guys in terms of where we think growth will be.

Shaun C. Kelley*Analyst, BofA Securities, Inc.*

Q

Thank you very much.

Operator: Next question will be from Stephen Grambling from Goldman Sachs. Please go ahead.

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

Q

Hey, good morning. Thanks for taking the question and all the color.

Christopher J. Nassetta

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

Yeah. Good morning, Stephen.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

On capital allocation, what are the key factors you're considering in bringing back dividend and/or buyback and thinking through just capital allocation priorities more broadly?

Kevin J. Jacobs

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

Yeah. I think, look, the second part maybe is a little more straightforward. Our overall view on capital allocation hasn't changed. Obviously, we've suspended dividend and buyback to preserve liquidity during the pandemic. But the way we think about it broadly hasn't changed. And I think the way we think about it more specifically on the first part of your question is, we want to get a little further into the recovery, a little bit further into reliably generating free cash – positive free cash flow and having our leverage level start to come down.

And so that – unless something crazy happens, we think that happens over the course of the year. We'll talk to our Board about it sort of in the second half of the year as the recovery takes shape. And we'd say it's highly likely that starting next year, we get back into the capital return business.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Helpful. Thanks so much.

Kevin J. Jacobs

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

Sure.

Operator: And the next question is from Thomas Allen from Morgan Stanley. Please go ahead.

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

Hearing your earlier comments, the slope of recovery has been better than expected. Chris, what's your latest thinking on when RevPAR gets back to 2019 levels?

Christopher J. Nassetta

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

Yeah. That's a great question actually, Thomas, thanks for asking it. It is one that we were debating over the last few days ourselves. And there are varying opinions on it even inside our own shop. I mean, I've been saying 2023 or 2024, as you know, on these calls publicly. And I still believe that. I think from a – I think with the slope of the recovery, I'd probably be on the earlier end of that rather than the later as we have a little bit more visibility. I think, there is a chance from a room night point of view, certainly on a run rate basis that we get back next year.

But I think to get both room nights and rate and the compression we need requires certainly in the US, but broadly requires the bigger groups to be back. And while I think they're coming back and certainly, they want to be back, the planning and all of that – it's on a lag. So, I think that'd take some time next year. So, I'd still say 2023, 2024, but I'd probably err towards the earlier end of that.

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

Perfect. Thank you.

Christopher J. Nassetta

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

Yeah.

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

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Hi, thanks. I – kind of along the same line, when you see this acceleration in RevPAR, in your conversation, is it really on the corporate side for groups, less on the association side. Do you sense any hesitancy on the part of corporates to move back in terms of having enjoyed a year of essentially no travel budgets? Any kind of push back on the – that you think in terms of the amount of people they put on the road or the amount of people they put into groups? Or is that not really an issue? And is it sort of pegging off this idea of impairment to business travel.

Christopher J. Nassetta

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

Yeah, I do. It's another reason I think it takes time to get back to 2019 levels, sort of picking up my earlier answer, is because I do think not only have people cut budgets, not everybody was Amazon or whatever, and that has really benefited during this time. A lot of – most businesses, by number, have been really negatively impacted by the pandemic, and they need to cut expenses. And so, I'm highly confident, as is the case with any cyclical downturn in recovery when this happens that those budgets will build back, but it will take some time.

Now I think in the second half of this year, I think, number one, there's a huge amount of pent-up demand. And by definition, they only have half a year to spend whatever they have anyway because nobody has been doing a ton of traveling in the first half of the year. So, I think ironically, I think there's plenty of budget capacity. I look at our own budget. There's plenty of budget capacity when you talk to businesses for the rest of this year.

I think as you go into next year, we're in a full-scale recovery while people are going to for a period of time, want to be thrifty. I think in the end; it will just be what the opportunity set is. And if we're in a robust recovery, what I have seen, again, I can't prove it, but I've seen it in every other cycle as you get into that – the rope gets – they let – businesses let the rope through their hands because they have to, they have to deliver alpha. They have to compete against other businesses that are trying to do the same thing.

And so, they have to – their people have to get out on the road. They have to have meetings. They have to build their culture, innovate, collaborate, get out to, and they get their sales forces out and do all the things they do. So, the steeper the slope of the recovery – like in every other cyclical recovery and that's when we get through the

pandemic, we're done largely with the health and you're in a cyclical economic recovery. The steeper the slope, the faster it comes back. That's just the way it's always worked. I don't think it'll be any different here.

But it will – that's why I said 2023, 2024, again, I said probably I'd take the earlier of that rather than the later given the current slope of what we're seeing. But that's why it takes longer. We will get back to room nights, I think, faster because we'll still find room nights that are lower-rated business because we've gotten really good at that. But we're going to want to shift the mix out over the next couple of years to the higher-rated business, get more compression from groups to ultimately get back there. So, I think budgets will normalize, sort of between now and 2023 if the slope of the recovery is what we think – is what we're seeing.

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Thank you.

Q

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

David Katz

Analyst, Jefferies LLC

Hi, good morning.

Q

Christopher J. Nassetta

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

Good morning.

A

David Katz

Analyst, Jefferies LLC

Covered a lot of territory already. But I wanted to just talk about the development in general. And we have not talked much about the degree to which the interactions with owners have maybe changed either temporarily or permanently. We've been so focused on the demand recovery, which obviously is worthy of consuming our attention. But is there any semi-permanent or permanent change in the manner in which you deal with the development community and sort of how those monies and risks are managed long term?

Q

Christopher J. Nassetta

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

It's a complicated answer. I think, when you boil it down, I don't think there is going to be any material shift. I do believe in the obviously, short to intermediate term, there's a shift because like everybody, not all of our owners, but most of our owners are dealing with a very difficult situation. I would say the 99.9%.

A

Now some of them are much further along in recovery because their portfolios are in markets that have had rapid recovery, resort markets, Southern US, and they're doing pretty well. But broadly, the owner community obviously has been hurting as have we, as has the whole industry. There's not – it's not like it's been easy on any of us. We obviously have deployed a whole host of things to be supportive of the owner community, and those are still fully deployed in the sense of working very hard with a lot of folks on behalf of the industry for government support in the right areas, and we don't – we have not stopped those efforts. And I do believe as we get to a real recovery, there's opportunities to help – get help with real stimulus to get people moving again.

And so, we continue to work day and night on those efforts as things evolve. And obviously, we've done a whole bunch of work in the short term to provide massive amounts of relief from standards across the board, so that owners could make – manage their way. We could all manage our way to the other side. I've mentioned it in passing, but it's worth mentioning again, we call it our hotel of the future work. We're looking in a very granular way across every one of our brands. We're not done with the work, but we're done with a lot of the work to figure out when we get to the other side, how do we deliver the incredible experience for the customer that continues to drive the premiums that we've had, by the way, which are at the highest levels in our history at this moment. But also, do it in a way that's more cost efficient for our ownership community.

And I'm highly confident, as I said, even with the labor pressures that we are going to experience here in the US, particularly that when it's all said and done, we're going to be able to drive higher margins. So on a like-for-like basis, if you believe, which I do that when you get out a couple years, you're going to have similar demand levels to 2018 or 2019, even with the cost pressures, we believe that we have engineered a way to be able to drive even greater returns.

So our owners – while it's difficult now when we get to the other side, both their existing assets and their opportunity set for doing new development, we think are going to be better than what we had pre-pandemic because we think we're just doing – we're going to do – we are and will continue to do a better job.

And so that's a long-winded way of getting to the answer, which I gave you at the beginning. So, as a result of that, I don't think there'll be a meaningful difference. I mean with some owners, there may be. But I would say in the main, I don't think so. I think, the owner community that we deal with, which is an immensely diversified community. We have 10,000 owners around the world that we deal with. The vast majority of them, this is their business. This is what they do, own and operate on a franchise basis, and it's all they do. It's not the case across all 10,000 owners, but the bulk of our system, this is what people do. And I don't think if we can deliver for them, the premiums we've delivered, which have only gone up and do it in a way where they can get more to the bottom line that they're going to abandon their business model, I think, they're going to want to carry on.

But it takes some time, right, just being pragmatic because this has been really difficult, and which is why we've worked so hard to sort of help create the bridges, both in what we could do, what the government could do to get them to the other side. And why I said in my – honestly, in my earlier comments, particularly in the US, where why I think the new development side, all of these pressures and just the pressures of owners broadly is going to mean it's going to take a little time for the new construction side of development to pick up the – what it was pre-pandemic. But that will happen in my opinion. And I think the relationship will be much more similar than different to what it was, and as I said before. In the meantime, it's a big world. And we've pivoted and we're doing some really cool things around the world to make sure that we continue to enhance our network effect and deliver more hotels and more fees.

David Katz

Analyst, Jefferies LLC

Appreciate it. Thanks for taking my question.

Operator: The next question is from Richard Clarke with Bernstein. Please so ahead.

Richard J. Clarke

Analyst, Sanford C. Bernstein & Co. LLC

Good morning. Thanks very much for taking my question. Just a quick question on the owned and leased portfolio, obviously, that seems to have driven the most volatility in the quarter. Where do your ambitions with that particular division stand? Are you looking to transition that more rapidly towards an asset light now and where do you think the cost savings in that segment can land in the longer-term?

Kevin J. Jacobs*Chief Financial Officer & President, Global Development, Hilton Worldwide Holdings, Inc.*

A

Well, the cost savings, look, it's everything across the board just like any hotel owner would be doing in times like this, we're looking for cost savings in sort of literally every aspect of the operations. I think our ambitions in that portfolio, we are pretty capital-light, right? So even in normal times, that ownership was down to 7% to 8% of our overall EBITDA, something like that in 2019. And we've been saying for a long time that if we think about our portfolio, it's about 60 hotels primarily leases, about 20 of them are strategic, we'll be in those leases no matter what over time. They have good coverage. They're important hotels. We've got 20 at the bottom where they're sort of legacy – they are legacy deals that we inherited, fixed lease payments in markets that aren't as robust. Those we will exit no matter what when the leases are up. And then there's about 20 that are in the middle where when the leases roll, we sit down with the landlord and if we can work out an arrangement that we think makes sense for us to continue, we continue, if we don't, we get out.

And we're sort of enrolling our way out of three to four of them a year. We think it's actually probably more like six to eight of them this year that will transition out of either transitioning them to management agreements or franchise agreements or just getting out. And over time, you'll wake up years – a few years from now and it will be something like less than 5% of our overall EBITDA and that will remain the trajectory.

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

A

Having said that, in the next – starting in the second half of the year and into the next couple of years, this will accelerate our overall growth, just because sadly, the ownership segment given a lot of the fixed rent nature of it and where it's been which has been concentrated in UK, Europe and Japan, which have been impacted dramatically, more impacted if you look at the RevPAR numbers in those markets and in the segment are twice as bad in the first quarter as the overall. As you get those markets open, you're going to take – those numbers which have been terrible will become a significant contributor to growth.

Kevin J. Jacobs*Chief Financial Officer & President, Global Development, Hilton Worldwide Holdings, Inc.*

A

Yeah, and we think that happens over the course of the second half of the year.

Richard J. Clarke*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Right. Thank you very much.

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

Robin M. Farley*Analyst, UBS Securities LLC*

Q

Great. I had a question going back to the unit growth topic. One is I wonder if you have thoughts about 2022 unit growth. The rate, you mentioned US new construction obviously would be lower, kind of how that would compare

to this year's 4.5% to 5%. And then also on that topic, the conversions in this quarter I think were 20-some percent of openings, do you see that moving higher? In other words, are you in the early stages of a bunch of conversions that maybe will come out later this year? I know you've talked in the past about how types of pressures in the business can lead to a greater rate of conversion, so wondering if that's teeing up for later this year. And then, could that offset the lower new construction growth next year? Thanks.

Kevin J. Jacobs

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

A

Yeah, sure, Robin, good questions. I think, look, in the first part, I think we've said several times publicly that we think over the next several years it'll be between 4% and 5% and sort of the range there is meant to capture all of the things we've been talking about, right, the timing of openings, the timing of conversions, the timing of removals, the trajectory that we're seeing in new construction. So, we still think 4% to 5% and it'll be within that range for the next few years.

And then the second half on conversions, yeah, we do think conversions will pick up over time. In the last cycle it got to something in the 40% range of overall deliveries. Probably doesn't get – and we've said this publicly as well – probably doesn't get back to that level this cycle just because the denominator likely won't contract that dramatically but we do think conversions will continue to be a bigger contributor. It'll be a little bit lumpy, a lot of them are larger hotels, some of the things we're working on now are bigger deals, either portfolio deals or larger individual hotels that sort of require a transaction to happen for the conversion to happen. So I don't know if that happens later this year or next year, but it definitely will pick up over time.

Robin M. Farley

Analyst, UBS Securities LLC

Q

Okay, great. Thank you.

Operator: The next question is from Bill Crow from Raymond James. Please go ahead.

William A. Crow

Analyst, Raymond James & Associates, Inc.

Q

Good morning.

Christopher J. Nassetta

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

A

Good morning, Bill.

William A. Crow

Analyst, Raymond James & Associates, Inc.

Q

Chris, looking – good morning. Looking globally, how important is outbound Chinese travel to the recovery in Europe? And are there any comments you can make on the trends about on Chinese travel to that?

Christopher J. Nassetta

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

A

Yeah, I mean, we've been having a lot of discussion within the industry and within China. In fact, I participated in a meeting with Premier Li of China just a couple of weeks ago and this is one of the topics that we talked about. If you look at our business using some metrics in our business like in the US, international inbound is only about 4%

of the business. If you look at our business globally, it's about 10%, and it does weigh obviously more heavily inbound business in other parts of the world, particularly in Europe which depends on it more. So, it would be higher than 10%.

A large feeder market is China. I mean, it's other parts of the world as well, but it is China. And so I think as Europe opens up, obviously they're going to be like the rest of the world. I think they're going to be doing – within region travel, which given all the pent-up demand has actually I think been reasonably good just like we're seeing in the US. Even though we don't have much inbound travel going on, we don't have any outbound going on.

And so I think, in the end, Europe's opportunity for the early stages of recovery are robust. For the same reason, while they're not going to have inbound from China or other markets, they're not going to have any outbound. And Europeans like to travel, and particularly in summer like to go on vacations and when it's open and they can, they will, and they'll stay within the confines of either their countries or the region. So, I think it's going to be fine.

Obviously longer term, as you get to a more stabilized world you want to open up these travel corridors. I had a meeting with the White House last week, maybe the week before, as I said, with Premier Li of China the week before that. And we were talking about a lot of topics, but that was a primary topic both with the Chinese administration and the US administration on trying to figure out how do we figure out as the world is getting vaccinated, and it's a little uneven, but as certain countries are getting heavily vaccinated and getting to a reasonable level of herd immunity, how do we open up safe travel corridors.

Europe is doing the same thing. Those discussions are ongoing we're trying to get those discussions going with the US they're obviously, already starting to have those discussions with China. And so that will take some time. I think you will start to see some bilateral agreements or multilateral agreements in the second half of this year. I think we're at a stage right now where everybody is still focused on vaccination to get their herd immunity. But with the overwhelming amount of supply of vaccines, which aren't all distributed perfectly around the world or even around our country at this point, but the numbers are becoming overwhelming, the surpluses are going to become as we get into the summer, my sense is, overwhelming and we're going to be able to have a shifting of those resources around the world to the markets most in need as we get into June, July, August, September and into the latter part of the year, that is going to allow for a reasonably – hopefully a reasonable trajectory in terms of some of these economies getting to a better place.

China is obviously already in a reasonably good place so as the US, sort of, has a few more months in Europe. I think, the real opportunity is to start opening travel corridors, I do think, it'll – it'll happen that way. Just based on the discussions I'm having with multiple administrations and then our teams are having. I don't think it's going to be like one day the world's open, like, yeah, everybody I think it's going to be agreements between like the US and the UK, the EU and China, the US and China that will, that will allow for – for those quarters to open up. Make sure that there's flight capacity, that the regime for vaccination testing and all that is sort of is bolted down. So that's a long answer, because it needs to be, it's complicated. I think in the second half of the year, my hope is and belief is that you're going to start to see some of those corridors open up. We're pushing everybody really hard, but in the meantime I think we're fine, just because if the corridors not open as I said people are restrained and leaving their country or their territory and they're going to – they're going to start traveling when they feel safe and you're going to keep all that pent-up demand in your local market.

William A. Crow

Analyst, Raymond James & Associates, Inc.

Okay. Thank you.

Q

Christopher J. Nassetta

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

A

Yeah.

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

Good morning.

Patrick Scholes

Analyst, Truist Securities, Inc.

Q

One of the hot issues of the moment in the – at the property level is with staffing and wages. I'm wondering your thoughts on this; do you see that as a temporary issue that hotels can perhaps get by this summer without having to raise wages to attract employees? Or, do you see wage inflation inevitable to meet the staffing challenges? Thank you.

Christopher J. Nassetta

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

A

Yeah, it's a difficult issue. As I'm sure if you're talking to the ownership community, you're hearing and listen we talk to them every day and we operate a lot of properties. It is singularly at the moment, I wouldn't say the only issue when you're in a global pandemic, there's lots of issues, but it's one of the most important issues because it is very difficult particularly here in the US to get labor, and it is constraining recovery on a – at certain times, because you just can't get enough people to service the properties.

I do think in the short-term, I've already said it, and it's implied in earlier questions, there's going to be wage pressure, wage inflation. I do think it will stabilize and work itself out as we get later into the year. It's a complex issue that is at the intersection of people being concerned about their health still, particularly in some of the communities that we need to get focused back and coming back to work. And that that's going to take some time, both vaccination and marketing to a number of those communities, to get vaccinated and getting it done and getting them to a place where they feel safe being in a workplace. So, that's part of it.

And then the other part of it is getting kids back in school, because a lot of people in the workforce are taking care of kids. They don't – there's no daycare, school becomes daycare, and the federal government, and for all the right reasons, way back when did a top up of unemployment insurance, and on top of the state unemployment insurance and obviously sent out \$1,400 checks and they did all these things to support people who are in harm's way, all of which made sense at the time, maybe some of it makes a little bit less sense now in the sense that the demand is there, and the jobs are there. Yet, people don't have as much of a need to come back to it so.

But that in theory on September, whatever, 6, this federal top-up expires, I guess, it could be extended. My impression is it will not be, my hope is it will not be, not because I don't care about the people. I think, there's just enough jobs, we literally I think and there's 3 million of our not Hilton, but industry folks, a lot of work I think by the

time you get to September, October, I think, the vast majority of those could easily be reemployed given what I think demand will be in the business and that's best for everybody, right? It's best for the country. It's best for the individual team members to, but it's at the convergence of all of that. So, I think, it's going to be tough. I have been talking to a tons of our owners, I think, it'll be tough between now and September, I think when we, by the time you get to September, mass vaccination will hopefully be behind us, kids will be back in school. And people will feel safe, that it's safe to go back and they want to get back and be earning a paycheck. And so, I think, it will then stabilize as we get into the latter part of the year.

Patrick Scholes*Analyst, Truist Securities, Inc.*

Thank you, Chris, for your complex and evolving answers. Thank you.

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

Trust me, we're spending a lot of, there's no silver bullet in the short term, we're spending a lot of time on it. I think, this is one of those you just have to sort of, you just have to work through it. It will work out, because all of those things are going to be changing. And so, the conditions are going to change pretty materially, as we get to the fall but between here and there, it's going to be incremental, then I think it'll be a sea change in the fall.

Patrick Scholes*Analyst, Truist Securities, Inc.*

Thank you.

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

Yeah.

Operator: Ladies and gentlemen, this concludes our question-and-answer session. I would now like to turn the call back to Chris Nassetta for any additional or closing remarks.

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

Chad, thank you, and to everybody that joined us today, we appreciate the time as always. It's hard to say, we're really pleased with where things are given what we've been through over this last year, and that we're still, in the middle or towards hopefully the end of a pandemic, but we are pleased. I've always had confidence in the business model of ours. I've always had confidence in people's desire to travel for all the reasons they have always wanted to travel. I think, the evidence is pretty clear.

One that, the thing – the decisions that we made, as a result of the crisis have made our business stronger, it will – we're driving higher market shares, higher margins, on a lower cost structure, and that as we see the telltale signs of getting past the health crisis, we're starting to see the world come back to life and all the reasons I thought people wanted to travel are I think playing out, the way I and we had hoped for. We have a ways to go, so I don't want to be a Pollyanna about it, but we feel good about where we are and definitely incrementally better than we did over the last couple quarters. So, thanks again, and we'll look forward to reporting back after we finish our second quarter.

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

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