

03-May-2022

Hilton Worldwide Holdings, Inc. (HLT)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Hilton First Quarter 2022 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's prepared remarks, there will be a question-and-answer session. [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 & Corporate Development. You may begin.

Jill Slattery

Senior Vice President, Head of Investor Relations & Corporate Development, Hilton Worldwide Holdings, Inc.

Thank you, Chad. Welcome to Hilton's first quarter 2022 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 update or revise these statements.

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

This morning, Chris Nassetta, our President and Chief Executive Officer, will provide an overview of the current operating environment and the company's outlook. Kevin Jacobs, our Chief Financial Officer & President, Global Development, will then review our first quarter results and discuss our expectations for the year. Following their remarks, we'll 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. Good morning, everyone, and thanks for joining us today. Before we begin, I'd like to take a minute to express our sadness at the tragic events continuing to unfold in Ukraine. Our hotels have always been a part of the fabric of the communities we serve. And we take our promise to make those communities better places to live and work very seriously.

Along with the steps we've taken to protect our team members and guests, we've also partnered with American Express and our ownership community to donate up to 1 million room nights across Europe to support Ukrainian refugees and humanitarian relief efforts.

Additionally, the Hilton Global Foundation has contributed to World Central Kitchen and Project HOPE to further assist with the humanitarian aid. We are keeping our Hilton family and everyone impacted by these horrific events in our thoughts and hope for a peaceful resolution to this crisis.

Our Hilton values and purpose-led culture have led us through uncertainty as well as recovery. Our team members around the world have worked hard to effectively navigate the challenges over the last two years and, as a result, have positioned Hilton even stronger for the future.

As we look to the year ahead, we are optimistic that our industry-leading RevPAR premiums and fee-based capital-light business model, coupled with further demand recovery, will continue to drive strong performance and meaningful free cash flow, which will enable us to return significant capital to shareholders in a disciplined way.

With recent performance exceeding our expectation, we were pleased to have resumed our capital return program earlier than anticipated, beginning share repurchases in March. Through April, we have completed approximately \$265 million of buybacks. Additionally, we have declared a \$0.15 per share quarterly dividend, further highlighting the confidence in continued recovery and the strength of our model. For the year, we expect to return \$1.4 billion to \$1.8 billion to shareholders in the form of buybacks and dividends.

Turning to results, in the quarter, system-wide RevPAR increased more than 80% year-over-year, driving adjusted EBITDA up 126%. RevPAR was approximately 83% of 2019 levels with adjusted EBITDA at 90%. Despite a choppy start to the year, given Omicron-related demand pressures, trends picked up meaningfully month-over-month, with RevPAR declines versus 2019 improving approximately 17 percentage points from January to March, down only 9% to 2019, driven by acceleration across all segments.

In March, system-wide rates were up 3% compared to 2019. Strong leisure transient trends continued to boost weekend performance, with RevPAR in the quarter exceeding 2019 levels and rates up approximately 9% versus prior peaks. Acceleration in business transient and group trends drove meaningful improvement midweek. US business transient RevPAR increased sequentially versus the fourth quarter, with March down only 9% compared to 2019 levels. Improving trends from large accounts, along with continued strength from SMEs, boosted results.

In March, revenue from large accounts was just 12% below 2019. Overall business transient now comprises 45% of total segment mix, just 10 points shy of pre-pandemic levels. For April, overall US transient booked revenue for all future periods was up 17% versus 2019 levels, with rates up 10% and room nights up 7%. Weekday booked revenue was up 9% compared to 2019 and weekend booked revenue was up 38%, driven largely by strong rate gains.

On the group side, social and smaller events continue to lead recovery, while demand for company meetings and conventions improved meaningfully throughout the quarter. In March, total group RevPAR was more than 75% of 2019 levels, improving approximately 25 points versus January. Additionally, group revenue booked in the first quarter for all future periods was down just 4% relative to 2019 levels, and total lead volume for all future periods was up 3.5%. Compared to 2019, our tentative booking revenue is up significantly, with rate gains for company meetings up more than 13%. Additionally, rates on new group bookings for in-year arrivals are strong, up in the high single digits versus 2019.

As we look to the balance of the year, we remain optimistic. Positive momentum has continued into the second quarter, with April RevPAR tracking at roughly 95% of 2019 levels. While macro risks and uncertainty exists, forecast for economic growth remain healthy. Additionally, our ability to reprice rooms in real-time creates a natural inflation hedge. We think there is a good likelihood that we'll reach 2019 system-wide RevPAR levels during the third quarter.

For the full year, we expect leisure RevPAR to exceed 2019 peak levels, given excess consumer savings, a strong job market and pent-up demand. We expect business transient to be roughly back to 2019 levels by year-

end, with expectations supported by rising corporate profits, rebounding demand from big businesses, and loosening travel restrictions. On the group side, we expect RevPAR to be at approximately 90% of 2019 levels by year-end, as demand for company meetings and convention business accelerates into the back half of the year.

On the development front, our leading RevPAR index premiums and powerful commercial engines continued to drive out-performance. In the quarter, we added more than 13,000 rooms and achieved 5% net unit growth. We continue to deliver on our commitment to disciplined and strategic growth, celebrating important milestones across segments and geographies.

We opened our 500th Homewood in the US, our 50th Hilton Garden Inn in Asia Pacific, and debuted our largest hotel in the Asia Pacific region with the opening of the 1,080 room Hilton Singapore Orchard. With a contemporary design, innovative dining experiences and extensive meeting space, the property is a fantastic representation of our flagship brand and puts us in an even stronger position in Asia to usher in a new era of travel.

Building on last quarter's momentum, we also continued expanding our lifestyle portfolio with the openings of the Canopy Boston Downtown and the Canopy New Orleans. Even with strong openings, we grew our pipeline to more than 410,000 rooms, up year-over-year and versus the fourth quarter.

We continued to lead the industry in new development signings, with Home2 Suites surpassing all other competitor brands globally. We demonstrated our commitment to further expand our luxury and lifestyle portfolios in the world's most sought-after destinations with the signing of the Waldorf Astoria Sydney, the Conrad Austin Hotel & Residences, and Canopy Properties in Cannes and Downtown Nashville. We look forward to delivering world-class service and unforgettable experiences in these exciting destinations.

Conversion signings in the quarter were up 15% year-over-year and represented nearly 20% of overall signings. In recent months, we signed agreements to bring our conversion-friendly brands, Curio and Tapestry, to exciting destinations like the Galapagos Islands, San Sebastián Spain, Maui and Sonoma County, California.

DoubleTree has continued to lead the way for European upscale growth, with new conversion properties across France, Germany and the Netherlands.

While rising costs are pressuring construction starts, we are on track to deliver 5% net unit growth for the year and remain confident in our ability to return to a 6% to 7% growth rate over the next few years.

Reliable and friendly service are at the heart of our promise to our guests and we continue to leverage our direct channels to offer them even more personalized experiences. Direct bookings continued to grow in the quarter and represent roughly 75% of our total bookings, led by growth in Digital Direct. OTA mix continued to decline and is approaching pre-pandemic levels, as increases in business transient and group demand shifted customer mix.

In the quarter, Hilton Honors membership grew 15% to more than 133 million members. Honors members accounted for 60% of occupancy, flat versus the first quarter of 2019. And average nights per member were up 11% year-over-year, as engagement continued to grow.

As we continue recovering from the impacts of the pandemic, I am inspired every day by the dedication of our team members as we welcome more guests back to our hotels. It's because of them, and our culture of hospitality, that we continue to be recognized as a great place to work. In fact, Hilton was recently named the

number two best company to work for in the United States by Fortune and Great Place to Work, something I'm truly proud of.

And now, I'll turn the call over to Kevin for more details on our results in the quarter and our expectations for the year ahead. Kevin?

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 grew 80.5% versus the prior year on a comparable and currency-neutral basis. System-wide RevPAR was down 17% compared to 2019, impacted by the Omicron variant.

Following a seasonally slow start to the year, demand picked up across all segments and regions in March, driven by continued strength in leisure demand and loosening corporate travel restrictions. Performance was driven by both occupancy and rate growth.

Adjusted EBITDA was \$448 million in the first quarter. Results reflect the continued recovery in travel demand. Management and franchise fees grew 79%, driven by meaningful RevPAR improvement and strong Honors license fees. Continued cost control further benefited results.

Our ownership portfolio posted a loss for the quarter, due to the more challenging operating environment, particularly at the start of the year in Europe and Japan, where the portfolio is concentrated. Fixed rent payments at some of our leased properties also pressured results.

However, performance improved throughout the quarter, driven by strengthening demand across Europe in March. Rebounding fundamentals, coupled with cost discipline, should continue to drive significant growth in operating performance going forward. For the quarter, diluted earnings per share, adjusted for special items, was \$0.71.

Turning to our regional performance. First quarter comparable US RevPAR grew 77% year-over-year and was down 13% versus 2019. While the Omicron variant weighed on demand at the beginning of the year, RevPAR improved 17 percentage points over the course of the quarter, with March down less than 6% versus 2019.

Leisure travel continued to lead the recovery, with segment RevPAR exceeding 2019 levels for the quarter. Upticks in business transient and group travel, particularly in March, also contributed to solid performance in the quarter.

In the Americas outside of the US, first quarter RevPAR increased 137% year-over-year and was down 17% versus 2019. The Omicron variant suppressed demand in January and February, but rebounded in March led by strong leisure demand, particularly at resort properties during the spring break season.

In Europe, RevPAR grew 349% year-over-year and was down 30% to 2019. Travel demand accelerated following the Omicron outbreak, with March RevPAR down 13% compared to 2019. The region benefited from easing travel restrictions and an increase in cross-border travel.

In the Middle East & Africa region, RevPAR increased 121% year-over-year and was up 8% versus 2019. Performance continued to benefit from strong domestic leisure demand and greater international inbound travel, as travel restrictions across Europe loosened.

In the Asia Pacific region, first quarter RevPAR grew 11% year-over-year and was down 47% versus 2019. RevPAR in China was down 45% compared to 2019, as travel restrictions and reimposed lockdowns suppressed demand. The rest of the Asia Pacific region saw modest improvement in demand recovery, as more countries loosened border and arrival controls in March.

Turning to development. As Chris mentioned, in the first quarter, we grew net units 5%. Our pipeline grew sequentially, totaling over 410,000 rooms at the end of the quarter, with 60% of pipeline rooms located outside the US and roughly half under construction.

We continue to see robust demand for Hilton-branded properties, demonstrating owner and developer confidence in our strong commercial engines and industry-leading brands. For the full year, we expect signings to increase in the mid to high single-digit range year-over-year, and we expect net unit growth of approximately 5%.

Moving to guidance, for the second quarter, we expect system-wide RevPAR growth to be between 45% and 50% year-over-year, or down 5% to 10% compared to second quarter 2019. We expect adjusted EBITDA of between \$590 million and \$610 million. And diluted EPS, adjusted for special items, to be between \$0.98 and \$1.03.

For the full year 2022, we expect RevPAR growth between 32% and 38%. Relative to 2019, we expect RevPAR growth to be down 5% to 9%. We forecast adjusted EBITDA of between \$2.25 billion and \$2.35 billion, representing a year-over-year increase of more than 40% at the midpoint, and essentially recovered to peak 2019 adjusted EBITDA. We forecast diluted EPS, adjusted for special items, of between \$3.77 and \$4.02. Please note that our guidance ranges do not incorporate future share repurchases.

As Chris mentioned, we reinstated our share repurchase program in March, which had been suspended during the pandemic. Year-to-date through April, we completed approximately \$265 million in buybacks. And our board also authorized a quarterly cash dividend of \$0.15 per share in the second quarter.

For the full year, we expect to return between \$1.4 billion and \$1.8 billion to shareholders in the form of buybacks and dividends, based on our adjusted EBITDA forecasts and assuming the high end of our target leverage range of 3 to 3.5 times. After demonstrating the strength and resiliency of our business model during the pandemic, we continue to evaluate the possibility of a modestly higher target leverage range in the future.

Overall, we are proud of how we navigated the pandemic and remain confident in our ability to continue generating substantial free cash flow and delivering meaningful shareholder returns through buybacks and dividends. Further details on our first quarter results 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 begin the question-and-answer session. [Operator Instructions] And the first question will be from Joe Greff from JPMorgan. Please go ahead.

Joseph Greff

Analyst, JPMorgan Securities LLC

Good morning, everyone.

Q

Christopher J. Nassetta

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

Morning, Joe.

A

Joseph Greff

Analyst, JPMorgan Securities LLC

Chris, how much of your second quarter and full year RevPAR guidance is occupancy-driven versus rate-driven? How does moderating growth in leisure volumes, just given the tough comparisons and relatively higher growth in business transient group volumes, impact the blend of ADR and ADR growth in the second half?

Q

Christopher J. Nassetta

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

Yes. I mean, we gave a lot of commentary on rate growth, in the sense of giving you as much visibility as we had to represent the strength that we're seeing. I mean, we're a wonderful – as I said in my prepared comments – inflation hedge because we can reprice every minute of every day.

A

And as demand has picked up, we have certainly been able to do that. We expect that we will continue to be able to do that. I think as the year goes on, we expect the largest part of RevPAR growth to come from rate growth. We obviously expect to see occupancy growth as well, but I think, net-net, it will be majority driven by rate.

In terms of the segments, leisure, broadly, remains quite strong. I mean, right now, I think the number is consumers still have \$2.5 trillion of excess savings that they accumulated during the pandemic in their pockets. While people have been out traveling a lot more than they had maybe a year ago, there's still a lot of people that haven't and a lot of people that really want to get out and have experiences. And so, people that – we have pretty full employment. People have a lot of money in their bank accounts and I think now feel quite safe broadly, certainly here in the US, not everywhere in the world; obviously, world's a big place, but in the Western world, feel safe going out. And so, we expect to see very strong leisure continue.

I mean, we think we'll probably have the biggest leisure summer we've ever had, only to surpass last summer, which was the biggest leisure summer we had ever seen, prior to what I think we'll see this summer. And then, as we get into the fall and as people go – are back more in the office, which we certainly are seeing now and expect to see more of, we're seeing, as I articulated and Kevin did as well, we're seeing a very nice uptick in return to business transient and return on the group side.

The group side lags a little bit, as we know. There's more planning involved in that, but we think the second half of the year is going to get stronger and stronger. And business transient, even over the last couple of months, we've

seen pick up. And notably, and something I commented on in my prepared remarks, we've even seen the large corporates start to come back, where March was only 12% down. And April, you can assume was better. We don't have all the data on the breakdown in April, but certainly broadly, business transient was even better in April.

So, businesses have a lot of pent-up demand, needs for travel. Balance sheets are very, very strong. Profits are very strong. Liquidity is very, very strong. And so I think the combination of that, with what's going on with the consumer, and then sort of the icing on the cake is the group side, where there's just so much new demand, but then pent-up demand, all of which I think will start to converge here in the second half of this year and into next year. I think puts us in a place where we feel really good about the short to intermediate term, and both the demand side, but particularly the rate side.

And again, the reason I gave the stats I did about forward-looking booking trends on the transient side, which obviously only is so far out. But on the group side, was that we really are seeing the ability to drive pricing power, like a lot of industries are, but certainly makes us – gives us the optimism that has led to our judgments on both giving guidance, but also on our return to capital program and the like.

Joseph Greff

Analyst, JPMorgan Securities LLC

Thank you.

Q

Operator: And the next question will be from Carlo Santarelli from Deutsche Bank. Please go ahead.

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Hey, everybody. Thank you. Chris, you talked a little bit about kind of business transient back at 45% versus, I believe, that was probably closer to 55% pre-pandemic. And obviously, group is probably a couple of hundred below its normal mix. As that stuff comes back and you think about maybe a full year 2023 and occupancy in general, what kind of pricing power do you think you have at occupancy levels that are kind of commensurate with 2019 levels, which I believe were kind of 143%, 144%-ish?

Q

Christopher J. Nassetta

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

Yes. Well, let me – first, in terms of the mix, it's probably worth stating because I commented a teeny bit in my prepared comments. You're right. Business transit – sort of the mix pre-COVID, was plus or minus 55% business transient, 25% leisure transient and 20% group. If you look at sort of what I would sort of call the bottom of the recession driven by the pandemic, it went to 35% business transient, 55% leisure and 10% group. Now, it's 45% business transient, 39% leisure and 16% group.

A

And I've been saying this so pretty much for two years. In the beginning, people maybe thought I was crazy, but that when we wake up and this sort of flushes through the system and we get fully on the other side of it, that business mix is going to look an awful lot like it did pre-COVID. And I think we're on our way to that. And so I think when we look – maybe not – I think leisure transient will probably remain elevated for a while. But I think it'll – it is regressing to the mean. And it will look more like it did than like it has looked, in 2023 and certainly in 2024.

In terms of broader pricing pressure, as all that comes back, not to be pedantic about it, but it's sort of the laws of supply and demand, the law – economics, which is, if we have a product that's in high demand and increasing demand, and there's not a lot more, there's not enough supply and not a lot's being added, which is sort of the

case in terms of what's going on with all of our segments increasingly, so in midweek and that's only going to increase and then you compound that with getting a decent group base starting in the second half of the year and the next year, I think we'll have meaningful pricing power next year, just because the laws of supply and demand suggest we should. And I think they're alive and well.

Carlo Santarelli

Analyst, Deutsche Bank Securities, Inc.

Fair enough. Thank you.

Q

Operator: The next question comes from Shaun Kelley from Bank of America.

Shaun C. Kelley

Analyst, BofA Securities, Inc.

Hi, good morning, everyone. Not to probably overly dig into this, but, Chris, I think in the prepared comments, you mentioned that April was running down only about 5%. That's obviously already kind of at the top end of the guidance you provided for the second quarter. So I think we all get that the background sounds pretty optimistic. But could you just help us kind of reconcile that? And maybe just some of the puts and takes around what it would take for things to be better than – a little bit better than maybe what you've laid out in the guidance and/or what factors might have led you to be a little bit more conservative?

Q

Christopher J. Nassetta

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

Yeah. Well, I mean, the guidance we gave is the guidance we gave, first of all. I mean I think, Shaun, there are – it's a good question. I think there are some comp issues in certain months. But honestly, if you listen – if you replay what I just said in response to Carlo's question, we believe that we're going to continue to see a very strong leisure demand base and an increasingly strong business transient and group base, as we march through the next few quarters of this year and into next year. So we're not trying to signal in our guidance that we think there's something going on from a weakening point of view. We think things are strengthening.

A

Shaun C. Kelley

Analyst, BofA Securities, Inc.

Thank you. And sorry to split hairs there. And maybe just as a quick follow-up, probably for Kevin. But could you just talk a little bit about – obviously, the capital return guidance is super encouraging. Does that have you holding a specific leverage target? Or you've mentioned a couple times in the past about possibly revisiting what that target would be, but what's sort of implied in the \$1.4 billion to \$1.8 billion that we're getting here, and does that leave you a little bit of room to go even higher still, should you reevaluate it?

Q

Kevin J. Jacobs

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

Yeah, Shaun. I mentioned this in my prepared remarks. That may have been a little garbled, but it implies at high end of the range, it implies 3.5 times. So embedded in that, yeah, we've said and I said it in my prepared remarks, that we continue to think about potentially increasing leverage modestly over time.

A

We think the balance sheet has shown that it can handle a higher level of leverage and the business can handle a higher level of leverage, given what we just went through. But there's still a lot of uncertainty in the world. And so

we're starting with effectively a 0.25 times increase at the midpoint by saying we're at the high end of the range, and we'll take it from there.

Shaun C. Kelley

Analyst, BofA Securities, Inc.

Thank you very much.

Q

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

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

Thank you and good morning.

Q

Christopher J. Nassetta

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

Morning, Tom.

A

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

Just a couple of follow-up questions on NUG growth. What's your level of confidence in the 5% guide this year? Any updated thoughts on timing of getting back to 6% to 7%? And just how are developments in China going? Thank you.

Q

Kevin J. Jacobs

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

Yeah. Sure. No problem. Look, we're giving you the guidance. So we're highly confident that we can achieve it. Obviously, a lot of the stuff that's going on and that's going to deliver this year is construction in progress, and we have a pretty good handle on that. I mean, getting back to where we were before, I mean Chris said it in his prepared remarks, over the next few years, getting back to 6% to 7% is going to mean that starts need to start getting back to where they were. Now starts this year, we think, will be about flat, maybe slightly down. That will be down in the US, up in international, which is consistent with what we've been saying. We're still going to start 66,000 rooms for construction this year, which we think is still a pretty good rate of conversions.

A

And then, we think that on a run rate basis – and some of that's going to be filled in by conversions. I mean, we mentioned some of that in our prepared remarks. Conversions, we think, are going to be up – were up 35% in the first quarter. Year-over-year, we think they're going to be up around 25% or – to about 25% or higher of our deliveries this year, so that will help fill in. And then, we think we'll get back to that run rate, on a run rate basis, sometime in 2024 we think we'll be back to the 6% to 7%.

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

And then, sorry, Kevin, just China?

Q

Kevin J. Jacobs

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

A

Oh, yeah. Sorry, China, sorry. Yeah. Look, China, what's going on now is that's very much in that part of the world, a face-to-face culture, right? So the fact that they're locked down in Shanghai, a little bit in Beijing and other places, is stopping signings temporarily, but we still think we're going to be up slightly in terms of construction starts.

And we think we're going to open about 20% more rooms in China this year than we did last year. And so we think that once you get past kind of what's going on there on the ground, that there's plenty of pent-up demand for the product. And once people can start moving around, we'll be back to sort of business as usual in China.

Thomas G. Allen

Analyst, Morgan Stanley & Co. LLC

All right. Thank you very much.

Q

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

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Hi. Thank you. On the contract acquisition cost side, it looks like in your guidance it maybe ticked up a bit versus pre-pandemic levels. How should we think about this level versus a normalized run rate over the next few years? And is that investment coming in the form of loans and mezzanine equity or is it just straight investment in the deals without a future interest? Thanks.

Q

Kevin J. Jacobs

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

Yeah. Sure. I think, look, this year's guidance implies a little bit lower than last year, for start. It is up over 2019. It's largely a good news story, as we've talked about on prior calls, right? I mean – and it's almost entirely key money. It's not to say that, we never do a little bit of credit support or a little bit of a handful of mezz loans here and there, but it's almost entirely key money that has that elevated from pre-pandemic levels. There's some great deals last year like Monarch Beach and our all-inclusive in Tulum and deals like that. Resorts World Las Vegas was one of the big ones. And so those are great deals to win. Some of them are – sometimes, they're conversions, as in Monarch Beach. And so they're in the year for the year deals, and they get a little bit of expensive at the high end, as we've talked about.

A

This year's guidance implies a little bit lower than last year. And we'd like to think it'll be around there for the next couple of years, because we'd like to think we continue to win more than our fair share of these great deals. And I think what I'd say overall in closing is, I think it's still only 10% of our deals, 90% of our deals require no capital support from us whatsoever. And I think that our contract acquisition cost still holds up pretty well versus our competitors.

Stephen Grambling

Analyst, Goldman Sachs & Co. LLC

Great. Thanks. I'll jump back in the queue.

Q

Christopher J. Nassetta

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

Sure.

A

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

David Katz

Analyst, Jefferies LLC

Hi. Good morning.

Christopher J. Nassetta

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

Morning.

David Katz

Analyst, Jefferies LLC

I just wanted to go back to the notion of NUG and construction starts, et cetera, because we do continue to hear bits and pieces around supply chain and availability and cost of materials. Can you just elaborate maybe a bit more on what you're baking into your guide and your thoughts from that perspective?

Kevin J. Jacobs

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

Yeah. Happy to, David. I think that, look, the factors are well known, right? Input costs are up. You've got tightness in the labor markets. You've got input prices in terms of commodities. You've got financing. All of which has been the case for a while and believe it or not, despite what you read, it's actually easing a little bit at the moment, but it's still elevated. And that's all baked into the guidance, right? That's why construction starts will be flat to slightly down this year. Otherwise, they would probably be up materially. They're down 25% roughly to where they were in 2019.

Demand for the product, based on the optimism in the outlook, demand for the product is actually up. I mean, we think our signings will be up in the mid to high single digits this year. And there's that same level of optimism in terms of people wanting to get the projects started. It's just being held back by the factors that you're talking about.

So those factors are there. They'll probably be there for some period of time. And we think, like all things that are cyclical, they will ease over time. And then the fact that our signings are up is what gives us the confidence to believe that our starts will go back to where they were roughly in 2019 and that our NUG will go back to 6% to 7%.

David Katz

Analyst, Jefferies LLC

And then – go ahead.

Christopher J. Nassetta

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

I think that's right. The only thing I'd sort of add to that, and Kevin said it earlier in his comment is inflation is our friend and it's our owners' friend. So if you look at what we've done in the system during COVID as a result of sort of going through every granular standard for every single brand, we've been able to drive a lot of efficiency at the hotel level.

At the same time, obviously, labor costs have been going up. But when you put all of it into the gunkulator, so to speak, with the savings we've created with the inflationary pressures, which are driving their rate up, and obviously expenses aren't 100% of revenues, so they've got positive leverage there. Even in the face of increased labor costs, we are very confident that across all of our brands on a sort of comparable basis, margins are higher. So, the enthusiasm in our owner community and why, as Kevin rightly pointed out, we think signings are going to be up, is that our brands are doing great. They're driving great share and people are optimistic with the recovery, but they're also looking at an equation where they're going to be able to drive higher margins on the other side.

Now, we have to have the financing market sort of continue to ease, input costs, all that, which will take a little bit of time. And in the meantime, we're having great success in the conversion world. We're going to probably, as Kevin said, increase conversions this year relative to last by 600 basis points of total NUG delivery. So we feel pretty good about where we are.

David Katz*Analyst, Jefferies LLC*

Q

Okay. If I may just follow up quickly and use your gunkulator one more time. The owned and leased aspect of the model looks like it really has two sides to it: one, which is kind of a friend in this recovery; and the other, that strikes me as a bit more challenging. Are there potential ways in the future that you can deal with the more challenging aspects of it and turn them into a positive in some way?

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

A

Well, sure. I mean, look, first of all, I'll start out with – I implied this or I said this in my remarks, that portfolio – the performance in that portfolio is improving. That is starting to turn around. It's been concentrated in parts of the world that have been a little bit behind from a COVID recovery perspective, Central Europe and Japan, in particular. As that portfolio recovers, it will contribute meaningfully to our growth rate, meaning the EBITDA in that portfolio is going to grow at a much higher rate over the next couple of years than the overall fee business is. And so it's going to contribute positively to our growth. So finding a positive there, to your question. And we think that from an EBITDA perspective, over the course of this year, it's going to turn positive, and then we actually think it will be positive – slightly positive as an EBITDA contributor this year.

And then, I think what we can do is what we've been doing, right? I mean, we have quite a large portfolio of leased assets when we inherited the company. We've chipped away at it, such that it used to be 9% or 10% of the EBITDA of the business. On a stabilized basis, it is going to be sub 5% of the – even when it recovers over the next few years at a higher rate than the overall business, the fee business continues to grow. We shrink the lease portfolio over time. It's going to be less than 5% of the business over time. We got out of seven leases last year. We allowed four of them to expire and then – because we couldn't come to terms with the landlord on renewing them or we didn't want to be there. And we converted three of them to management or franchise agreements, so they stayed in the system and they moved from the capital-heavy part of the business to the capital-light part of the business. So we'll continue to take those opportunities over time. And that'll end up being a positive as we shrink that business and grow the rest of the business over time.

David Katz*Analyst, Jefferies LLC*

Q

Got it. Thank you very much. Appreciate it.

Kevin J. Jacobs

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

Sure.

A

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

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Hi. Thanks. I wanted to just ask you, when you think about your guidance for the year, and it's great that you have the visibility to provide that, kind of how are you thinking specifically about which is actually in China and Europe over the balance of the year? You touched on that a little bit with Europe, I guess, with your O&L comments, but maybe just a little – some more color on how you think that could shape up.

Q

Christopher J. Nassetta

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

Yes. I think at a high level, Smedes, the way I think about Europe is, Europe is recovering quite nicely, not Eastern Europe, but the bulk of our business in Europe is driven by Western Europe. And Europe is not quite as far along as the United States, but has been motoring along. Kevin gave you a few of the stats that I think support that.

A

So we expect, like the US, Europe, Western Europe to continue to recover. Our expectation is Eastern Europe, for the foreseeable future, is going to be quite challenged, but again, a very, very small insignificant part of the portfolio being impacted by that.

And China, obviously, a more complex situation. We have a view, we have forecasts, which is why we can build it in and give guidance. I think our expectation is in the second half of the year, as China goes through a process of locking down some of the major cities and then reopening them, that China is going to reopen for China, at a minimum, not necessarily China opening for international arrivals.

But as we saw in the early stages of the pandemic when China got way ahead of the rest of the world, when China opens for China in China business, our business does quite well and can recover very, very rapidly. So our expectation is second half of the year, you will see China start to reopen, really with more benefit in the fourth quarter and into next year than in the third quarter.

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Thank you.

Q

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

Robin M. Farley

Analyst, UBS Securities LLC

Great. Yeah. Just some quick ones. One is can you talk a little bit about the booking window? I feel like last fall, it was down to sort of less than a week, and maybe pre-pandemic had been more like 30 days. Just kind of where are we now with that visibility?

Q

Christopher J. Nassetta

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

A

Booking windows are extending, as you might guess. I think within seven days, it's now – it had gotten to be a vast majority at the worst of COVID was booked within seven days. I think we're approaching in April 50-50, plus or minus, like 50% of the business within seven days, 50% longer. So huge, huge improvement from where we were.

Robin M. Farley

Analyst, UBS Securities LLC

Q

Great. And then on the OTA business, the distribution mix. You mentioned it was down, which makes sense as business transient comes back. Was that 15% – you mentioned 85% direct, which I assume includes, I guess...

Kevin J. Jacobs

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

A

...75% direct. We didn't give an OTA percentage. We typically wouldn't. But we're in sort of the pre-pandemic, we were in the very low teens, which is what we sort of believe the efficient frontier is for the business to be able to drive the best results for our ownership community. And I would say in the quarter, we're basically there, plus or minus.

Robin M. Farley

Analyst, UBS Securities LLC

Q

Okay, great. And then, I guess the last thing on group. And you kind of – you addressed a lot of it in your opening remarks. I think you said you expected that by the end of the year, to be at 90% of 2019 levels. Fair to say that you expect 2023 to be kind of back at 2019 levels? And then also, I don't know if you gave a pacing for like what percent of 2023 room nights are booked compared to like what was booked at this time, pre-pandemic. Just to think about...

Christopher J. Nassetta

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

A

We didn't. I think the answer to the first question is, yes. I do think 2023 will be back at – for group, will be back at 2019 levels. We did not give a stat. I think the stat, from the best of my memory, is about 15% down versus 2019, at the moment, for 2023. But as I articulated in the prepared comments, our sales folks can hardly keep up with all the leads that are coming in for the second half of this year and particularly into next year. And so I think, just given the trajectory of how this recovery has occurred and what we've seen sort of in the year for the year business, I wouldn't read a whole lot into being 15% down for next year. We have plenty of time to book that.

And importantly, the rates are basically low double digits at the moment. The booked business is low double-digit higher than 2019. And so part of what we're obviously trying to do is maximize the outcome rate flows really nicely for our ownership community. So we're not – we really don't want to rush too much in this kind of inflationary environment, because we know the business is going to be there, and we want to put it on the books at the highest rates possible. And so we're sort of taking our time and metering it out. I suspect, as I said, next year, we will be at volumes similar to 2019 when we're done with 2023 and at rates much higher than 2019.

Robin M. Farley

Analyst, UBS Securities LLC

Q

Okay. Great. That's it for me. Thanks.

Operator: The next question is from Patrick Scholes from Truist Securities. Please go ahead.

Patrick Scholes

Analyst, Truist Securities, Inc.

Hi. Thank you. Good morning, everyone.

Christopher J. Nassetta

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

Morning.

Patrick Scholes

Analyst, Truist Securities, Inc.

For your net unit growth guidance of approximately 5%, how do those percentages break down by global region? Or basically, what are those percentages by growth rates by different regions? Thank you.

Kevin J. Jacobs

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

Yes. It should be – Patrick, it should be pretty similar to – the rooms under construction are about 80% international. I don't have the sub-breakdown in front of me right now for where it breaks out. But it ought to deliver about, plus or minus, what the rooms under construction are, 20% in the US, about 80% outside the US.

Patrick Scholes

Analyst, Truist Securities, Inc.

Okay. Do you happen to have handy what the expectation is for the China growth rate?

Kevin J. Jacobs

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

Yeah. Well, for openings, I think I said in one of my earlier answers, we think that openings – rooms opened in China this year are going to be 20% up year-over-year.

Patrick Scholes

Analyst, Truist Securities, Inc.

Okay. Okay. Thank you.

Kevin J. Jacobs

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

Sure.

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

William A. Crow

Analyst, Raymond James & Associates, Inc.

Hey, thanks. Good morning. Thanks.

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, I continue to be – good morning. I continue to be really fascinated by this interplay between the brands and the owners at a time when occupancy and rates are ramping up, but labor continues to be kind of short. And I'm just wondering what you're seeing with guest satisfaction scores and if you have any concerns about that as we head into the busy summer months.

Christopher J. Nassetta

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

A

We – yeah, I mean, I'd say, first on the labor front, there are still significant issues that we're seeing, both in what we manage and as we talk to our franchise community, what they're seeing. Over the last six months, we've seen a very significant increase in labor coming back into the labor force and our ability to get folks in the hotels, which obviously are needed, given the demand profile and the increases in demand across all segments, as I already described.

So we're not all the way anywhere near where we want to be, but the issues are not – they're not as extreme as they had been at other points in the pandemic, including recently. In terms of customer satisfaction, I think, listen, I think all service industries have suffered. And we're right there along with the rest of them. We've been intensely monitoring, and we have all sorts of ways to do that, both through social, but our own tracking systems that we call SALT satisfaction and loyalty tracking. And what I've seen is those numbers that had sort of bottomed out in the middle of the pandemic have started to come back and go the other way, as we've been able to get labor and bring some of the services back. Our social scores, I think lead – the last I saw, lead the industry and have been moving up in a positive way.

So we have – we're not satisfied with what we're doing right now. I think the team sitting at this table would say I've been pounding the table a lot. We like what we're doing. We're on a good trajectory. We need to get more labor back in. We need to restore more services, get food and beverage back on track and other services.

And we're obviously sensitive, very sensitive, as you sort of implied in your question, to the cost structure for our owner community. But the reality is the demand is there, and we're charging for it. So we have to deliver the experience or ultimately we're going to impair our ability to continue to drive rate, if we don't deliver the basic experience. So I'm confident we will.

Our owner community broadly, you talk to a lot of them, but I talk to tons of them. They're broadly understanding of it. They're supportive. They're seeing the pricing pressure and they realize that we have to work together to get there. We have been, as I mentioned in my earlier response, we have been super crazy focused on making sure that when we get to the other side of this, this is a better setup for our owner community than what we had before the pandemic.

And we continue to work really hard on that, and we're confident, on a comparable basis, that they will be in a better place and that inflation is their friend. It's our friend and the cost savings and initiatives that we pursued and implemented during COVID are going to pay dividends for a long time to come.

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

Great. Thank you.

Q

Operator: The next question is from Chad Beynon from Macquarie. Please go ahead.

Chad Beynon*Analyst, Macquarie Capital (USA), Inc.*

Hi. Thanks. Good morning. We've heard a lot about airline price increases recently in, I guess, upcoming in the next couple of months. Seems like the operators are pushing through the fuel increases to the consumer. And I know in your prepared remarks, you noted that March and spring break were strong for the leisure customer, so it doesn't sound like there's been any pushback at this point. But can you talk about, I guess, what you've seen during different cycles as gas prices have remained elevated and if you think that could impact kind of the mindset of the leisure customer for the rest of 2022? Thanks.

Q

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

Yeah. I've been doing this a long time. And we've been studying this a long time. And, in fact, got our team to update R-squared on this, just so we could be technically accurate. I like numbers. And the reality is if you go back over long periods of history, there is not a very high R-square. There is not a very high correlation. In fact, there's a very low correlation between what's going on with fuel prices and demand in our business. You can go back to like the 2008, 2009, when oil hit \$150-plus a barrel. And we went, looked at all those periods, and there's not a very high correlation.

A

I think it has a lot to do with the consumer psychology, which, at the moment, there are certainly lots of fears and uncertainty about where the world goes. But at the moment, as I said, the consumer has an abundant amount of savings, as do businesses, and a burning desire to sort of get out there and do business and/or experience the world, having been locked up a lot more than they would have liked to. So we're not really seeing any of it.

Now there's also a phenomenon that is – will shift around, but if you looked at our business pre-pandemic, sort of roughly two-thirds of the business, 60% to two-thirds, were fly to and the rest were drive to. That's flipped around during the pandemic. And it's still disproportionately. The majority right now, even with where we are in recovery, are people driving. So part of this is there's – now, gas prices are going up, too, but maybe not proportionately as much as the airline ticket is.

So, there is a little bit of a substitution effect that I suspect is going on with people deciding they'll drive a little further, right? They kind of got used to COVID like, hey, it might have been a two- or three-hour sort of limit before. And now, it's a five-, six-, seven-hour limit for what they're willing to endure to drive. And so, it's a long-winded way of saying, we have not seen resistance. And we do not, in looking at very detailed analysis of R-squares, we do not historically see a lot of – a high correlation.

Chad Beynon*Analyst, Macquarie Capital (USA), Inc.*

Helpful. Appreciate it. Thanks.

Q

Operator: The next question comes from Richard Clarke from Bernstein. Please go ahead.

Richard J. Clarke*Analyst, AB Bernstein*

Q

Good morning. Yeah. Thanks for taking my question. Just one thing I noticed is the number of managed rooms has actually come down quarter-on-quarter by over 2,000, which is the biggest drop I can find, and some quite big drops by brand, DoubleTree, Waldorf Astoria. Is this a strategy? Are you moving away from franchise towards – from managed towards more franchise? And if that's the case, maybe why are you leaning away from the incentive fees in the recovery? Or is this more an owner-led shift?

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

A

Yeah. Look, Richard, it's a good question. I don't have quarter-over-quarter shifts in front of me. You're probably right, if you're looking at it, that it's a relatively big shift. Some of that is things converting to franchise, right? They're staying in the system. They're not necessarily coming out. And it's not strategic. We still – our rooms under construction, like I said earlier, 80% outside the US, that's 50-50 managed versus franchise outside the US.

So the reality is, is we go where the demand is. In the developed world, there's a little bit more demand at the lower end right now for new construction, right, and new deliveries. And so we fish where the fish are, right? And so the market takes us there. There's more customer demand and more owner demand a little bit and, again, in the developed world, towards franchising. And in the developing world, it's about 50-50.

Richard J. Clarke*Analyst, AB Bernstein*

Q

And just you just mentioned there that you've seen some shift from managed to franchise. Why does that process take place?

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

A

Where does it take place? It's...

Richard J. Clarke*Analyst, AB Bernstein*

Q

No, why. Why does it take place?

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

A

Oh, why?

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

A

It's owner demand.

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

A

Owner demand – I mean customer demand for the product at the lower end and owner demand for franchising. So it's...

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

A

And if you look at the regions of the world, I mean, the US has always been a predominantly sort of franchise-oriented environment. If you look at our makeup here, it's a majority – vast majority of it's franchised. 10 years ago, there was no franchising going on in Europe. Today, there is.

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

A

Right.

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

A

So we have a much more sort of blended approach. It's like 50-50. If you went to Asia Pacific, five years ago, seven years ago, it was zero franchise.

Now, franchising is, particularly in China, is growing, and it's an opportunity for us, particularly with mid-market brands, to be able to create a network effect much, much faster. And we feel super confident in our ability to manage a franchise system. I don't think there's anybody better in terms of delivering great product and great service to customers. So, it's driven a lot by sort of the owner desires and sort of the evolution of the business around the world as different parts of the world mature.

Richard J. Clarke*Analyst, AB Bernstein*

Q

Thanks very much.

Operator: The next question is from Vince Ciepiel with Cleveland Research. Please go ahead.

Vince Ciepiel*Analyst, Cleveland Research Co. LLC*

Q

Thanks. I had a question on cross-border. Could you remind us like how much international arrivals is as a percentage of your US room nights? I think it's pretty small, but kind of how that business is performing today versus pre-COVID, if you've seen recent progress there? And then kind of the other way around, when you look at, say, your European business and North American guests heading there for this summer, can you describe kind of what you've seen with booking behavior in the last few months?

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

A

Yeah.

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

A

Go ahead.

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

A

Yeah, sure, on a normalized basis and you pre-COVID the US is about 95:5, right? About 95% of the customers comes from inside the US, 5% outside. Now in big cities like New York, San Francisco, L.A., that could be up to 20% for cross-border. That obviously plummeted during COVID, right, to near zero and now is actually approaching pretty close to normalized mix, both in the US and Europe. Europe is more about two-thirds, one-thirds within the region and outside of the region. And again, that's actually back to approaching levels where it was pre-COVID as the world is opening up.

Vince Ciepiel

Analyst, Cleveland Research Co. LLC

Great. Thank you.

Kevin J. Jacobs

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

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 additional or closing remarks.

Christopher J. Nassetta

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

Thank you, Chad, and thank you all for joining us today. I think you could probably hear the enthusiasm in our voice. It's been quite a couple of years, but I do believe that the decisions we made, the actions we took during the pandemic have put Hilton in the best position it's ever been in from the standpoint of driving performance, margins, driving free cash flow and returning capital to shareholders in the years to come. We're super excited about what we think is going to play out for the rest of the year, and we'll look forward after the second quarter to updating you on that progress. Thanks again for the time today.

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

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