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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Hilton Second Quarter 2022 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 & 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 second 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 factors that could cause actual results to differ, please see the Risk Factors section of our most recently filed Form 10-K and first quarter 10-Q. 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 and President, Global Development, will then review our second results and discuss expectations for the year. Following their remarks, we'll be happy to take your questions.

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

Christopher J. Nassetta

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

Thank you, Jill. Good morning, everyone, and thanks for joining us today. As our second quarter results demonstrate we have a lot to be proud of. System-wide RevPAR achieved 98% of 2019 peak levels with all major regions except for Asia Pacific, exceeding 2019 RevPAR. We continued to execute on our strong development story reaching 7,000 hotels globally, and grew our industry-leading RevPAR premiums, all while maintaining good cost discipline.

Coupled with the resiliency of our asset-light, fee-based business model, these accomplishments enabled us to deliver EBITDA 10% higher than the second quarter of 2019, with margins of nearly 70%, up more than 800 basis points above 2019 levels. As a result, we continued returning meaningful capital to shareholders after resuming our capital return program last quarter.

Turning specifically to results, we reported RevPAR adjusted EBITDA and adjusted EPS above the high end of our guidance for the second quarter. System-wide RevPAR increased 54% year-over-year and was just 2% below 2019 levels, improving each month throughout the quarter, with June RevPAR surpassing prior peaks. All segments improved quarter-over-quarter, led by business transient and group.

Leisure transient trends remained robust as consumer spending continued to shift from goods to services, particularly travel and entertainment. Weekend RevPAR was up approximately 14% compared to 2019 driven by robust rate gains. In June, weekend ADR was up 20% versus prior peaks. Business transient demand continued to improve throughout the quarter driving weekday occupancy up 6 points from April to June. Weekday RevPAR was 95% of 2019 levels with ADR exceeding prior peaks. US business transient RevPAR surpassed prior peak levels in June with demand improving across nearly all industries.

On the group side, RevPAR in the quarter was roughly 85% of 2019 levels. Full year group position improved meaningfully throughout the quarter with strong forward bookings across all location types and nearly all major categories.

Group mix is beginning to normalize with the percentage of company meetings increasing. Bookings for company meetings strengthened each month of the quarter, with tentative pipeline for the year up materially versus 2019, boosted by high teens rate increases.

In the US, total group position is nearly at prior peak levels for the third quarter and exceeds prior peaks for the fourth quarter. With continued improvement in these segments and positive momentum across all regions, we remain optimistic for continued recovery throughout the balance of the year. As a result, we are raising our expectations for the full year to reflect the quarter's strong results and better anticipated trends in the back half, with RevPAR surpassing 2019 levels.

For the full year, we expect to deliver adjusted EBITDA above 2019 and to generate the highest level of free cash flow in our history. We expect to return between $1.5 billion and $1.9 billion to shareholders in the form of buybacks and dividends, or approximately 5% of our market cap at the midpoint.

Turning to unit growth, we continue to drive a disproportionate share of global development, with nearly one in every five rooms under construction around the world slated to join our system.

Additionally, our development market share is more than three times larger than our existing share, meaningfully higher than our peers, given our industry leading RevPAR premiums. This is reflected in the more than 14,000 rooms we opened in the quarter.

We signed more than 23,000 rooms, bringing our development pipeline to a record 413,000 rooms. With nearly half of our pipeline under construction, we remain on track to deliver approximately 5% net unit growth for the year.

According to STR, our year-to-date net additions are higher than all major branded competitors. Our conversion openings totaled more than 3,400 rooms in the quarter, representing roughly 24% of total openings.

One of the most notable conversion openings in the quarter was the Waldorf Astoria, Washington, D.C. Inspired by the legacy of the old post office building, the property brings Waldorf's iconic history, stunning design and unforgettable experiences to our nation's capital. Our disciplined development strategy continues to enhance our network effect, enabling us to serve more guests across more destinations for any stay occasion.

During the second quarter, we celebrated the opening of our 2,800th Hampton Hotel, 60,000 Embassy Rooms, and several key luxury announcements, including the openings of Conrad properties in Nashville and Sardinia, and the signings of the Waldorf Astoria Sydney and Waldorf Astoria Kuala Lumpur.

Earlier this month, we celebrated the highly anticipated opening of the Conrad Los Angeles, anchored within The Grand LA. The spectacular 305-room hotel marks the brand's debut in California and makes LA the second US city alongside Las Vegas to feature all three of our luxury brands.

The openings of the Hilton Maldives Amingiri Resort & Spa and the Hilton Tulum Riviera Maya, an all-inclusive resort, were two of the latest additions to our rapidly expanding portfolio of resort properties in prime beachfront destinations. With 400 unique hotels and resorts open and in the pipeline, our conversion-friendly brands, Curio and Tapestry, continue to provide an attractive value proposition for owners.

By providing authentic and curated experiences and drawing inspiration from their local communities, these brands enable owners to retain their own unique identities while also benefiting from the power of our commercial engines.

During the quarter, we opened the Royal Palm Galapagos, marking the first international hotel brand in the Galapagos Islands and making Ecuador the 30th country in Curio's growing portfolio. Tapestry opened its 10,000th room in the quarter, including the Hotel Marcel New Haven, which is anticipated to be the first net zero hotel in the US and one of less than a dozen LEED Platinum-certified hotels in the country. All of these openings continue to expand the offerings available to our Hilton Honors members.

In the quarter, Honors membership grew 17% to 139 million members and accounted for approximately 62% of occupancy, up 350 basis points year-over-year and roughly in line with 2019. To address the evolving needs of guests who want to travel with their pets, we have expanded our partnership with Mars Petcare to now include seven of our brands, including all our focused service and all-suites brands as well as Canopy.

Through this expanded partnerships (sic) [partnership], guests will have access to virtual support from the Mars Pet expert team and have more than 4,600 pet-friendly hotels to choose from. We continue to double down on the importance of the guest experience and their stay. Earlier this week, we launched our first ever global platform to focus on what has been missing from hotel advertising, the stay.

Hilton. For The Stay places the hotel front and center. It goes without saying that our team members continue to be at the heart of that stay experience. I'm extremely proud that earlier in the quarter, Hilton was inducted in DiversityInc's Hall of Fame for our continued commitment to building an inclusive and welcoming environment.

And now I'll turn the call to Kevin for a few more details on the quarter and the expectations for the rest of the year.

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 54.3% versus the prior year on a comparable and currency-neutral basis. System-wide RevPAR was down 2.1% compared to 2019. Growth was driven by continued strength in leisure demand through the start of the summer travel season as well as stronger-than-expected recovery in business transient and group travel. Performance was driven by both occupancy and rate growth.

Adjusted EBITDA was $679 million in the second quarter, exceeding the high end of our guidance range and up 70% year-over-year. The outperformance was driven by better-than-expected fee growth, particularly across the Americas and EMEA regions. Management and franchise fees grew 54%, driven by meaningful RevPAR improvement and strong Honors license fees. Cost control further benefited results. For the quarter, diluted earnings per share adjusted for special items was $1.29, exceeding the high end of our guidance range and increasing 130% year-over-year.

Turning to our regional performance. Second quarter comparable US RevPAR grew 47% year-over-year and was up 1% versus 2019. Performance continued to be led by robust leisure trends and was further boosted by significant RevPAR recovery in business transient and group, up 16 percentage points and 20 percentage points respectively from the first quarter.

In the Americas outside of the US, second quarter RevPAR increased 140% year-over-year and was up nearly 5% versus 2019. Performance was driven by strong leisure demand, particularly at resort properties. In Europe, RevPAR grew 283% year-over-year and was up 1% versus 2019. Performance benefited from reduced travel restrictions and greater-than-expected international inbound arrivals. In the Middle East and Africa region, RevPAR increased 68% year-over-year and was up 4% versus 2019. The region continued to benefit from robust domestic leisure demand and strong international inbound travel, particularly from Europe.

In the Asia Pacific region, second quarter RevPAR was down 5% year-over-year and down 39% versus 2019. RevPAR in China was down 47% compared to 2019 as strict COVID policies and lockdowns in Shanghai and Beijing continue to weigh on travel demand early in the quarter. Demand recovered quickly once restrictions eased with occupancy in China recovering from 37% in April to approximately 60% in June, less than 6 points shy of 2019 levels.

The rest of the Asia Pacific region saw improvement, as countries outside of China benefited from border re-openings. RevPAR for Asia Pacific ex-China improved 12 percentage points throughout the second quarter with April down 29% versus 2019 and June down 17%. We remain optimistic about continued recovery across the entire APAC region, including China, as COVID-related policies continue to ease and additional countries open their borders for international travel.

Turning to development. Our pipeline grew year-over-year and sequentially, totaling over 413,000 rooms at the end of the quarter with 60% of pipeline rooms located outside the US and roughly half under construction. While macroeconomic uncertainty and variability across regions persists, owner and developer interest remains healthy. The development community continues to preference our industry-leading brands and strong commercial engines. For the full year, we still expect net unit growth of approximately 5% and signings to exceed 100,000 rooms.

Moving to guidance. For the third quarter, we expect system-wide RevPAR growth to be between 25% and 30% year-over-year or up 1% to 5% compared to third quarter 2019. We expect adjusted EBITDA of between $660 million and $690 million and diluted EPS adjusted for special items to be between $1.16 and $1.24.

For full-year 2022, we expect RevPAR growth between 37% and 43%. Relative to 2019, we expect RevPAR to be down 1% to 5%. We forecast adjusted EBITDA of between $2.4 billion and $2.5 billion, with margins for the full year more than 600 basis points higher than 2019 levels. Our adjusted EBITDA forecast represents a year-over-year increase of more than 50% at the midpoint and exceeds 2019 adjusted EBITDA. We forecast diluted EPS adjusted for special items of between $4.21 and $4.46. Please note that our guidance ranges do not incorporate future share repurchases.

Moving on to capital return. We paid a cash dividend of $0.15 per share during the second quarter for a total of $41 million. Our Board also authorized a quarterly dividend of $0.15 per share in the third quarter. Year-to-date, we have returned more than $800 million to shareholders in the form of buybacks and dividends.

For the full year, we expect to return between $1.5 billion and $1.9 billion to shareholders in the form of buybacks and dividends. Further details on our second 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 to 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: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And our first question comes from the line of Carlo Santarelli with Deutsche Bank. Please go ahead.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.

Q

Hey, Chris, Kevin, Jill, everyone. Chris, maybe this one is best for you. Just in terms of how you're thinking about the rest of the year, what is it that you guys see here at the end of July? I'm sure you have a pretty good look into August. But clearly, the September, October, busier business travel season, group season, et cetera, what is it that you see in this period that kind of gives you the confidence in the guidance raise for the rest of the year? And how do you kind of think about or feel when you look out to 2023?

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

A

Carlo, thanks for the question. That obviously is the prime question, I think, on everybody's mind. And I think, it would be sort of best to start by saying, as everybody on this call knows, that there's certainly a lot of uncertainty in the world. And I think we have to sort of be mindful of that, as everybody has. I mean, we have been as much as we see what's going on and we're watching the broader environment and lots of talk of slowdown and seeing it in certain industries, certainly, I think predominantly industries that had reached high watermarks that were – had favorable impacts from COVID. But nonetheless, starting to see slowdown. We've been looking very carefully at our business, as you would guess, at all the segments, sort of, any forward-looking trends that we can see.

And I would say what we're seeing still is very positive. We see, as Kevin and I both said in our prepared comments, continued strength in leisure. We expect to see that continue into the fall at higher rates than normal. I mean, lower rates than summer like always, but higher rates than you would have typically seen pre-COVID. Just because of increased leisure business, business transient continues to recover, led by recovery in the big corporates, which are not back to where they are, but they're back to sort of 80% of where they were and the SMB side of the business that has been quite robust. I mean, in the second half of the year based on the trends we've been seeing, our expectation is business transient is going to be sort of on a revenue basis equal to 2019 levels.

And then when we think about the group side, while we don't think in the second half, we'll get all the way back to where we were in 2019, we're going to get awfully close. And as I said in my prepared comments, if we look at the booking position in third and fourth quarter, second half of the year, it's over 2019 levels. And our sales teams tell – keep telling me they can hardly keep up with the demand.

Now reality is, again, we're in an uncertain world. The booking windows are short, so our visibility is limited certainly on transient business. We can't really look too deeply into the fall on transient. Again, we can on the group side and those stats are good. But the current trajectory is good. Looking at July, June, as we said, was over 2019 levels. July is trending in a very good way, and it will be over 2019 and improve over and above what we saw in June. So we – everything we're seeing, sort of, real time, everything we have in terms of sight lines into the future, all feel pretty good, recognizing it's – there's a lot of macro uncertainty and recognizing that our booking windows and sight lines are not that far out.

I think, what is causing it, like sort of as you see other industries being impacted every day, including today is a big reporting day. Again, I think, a lot of what you see coming, sort of, going the wrong way are industries that were at crazy peaks because they were huge beneficiaries, many of them of COVID and the pandemic. We were, obviously, not a big beneficiary. I think that's a fairly nice way of putting it. Our industry got hammered.

And so what we're benefiting from, I think, is a handful of things. One, there's a lot of pent-up demand; we hear it all the time. I mean, while I don't have tremendous sight lines in the sense of real transient booking data to give you this because it doesn't exist, we talk to our customers all the time, not just the group customers. We're talking to all of our customers, and we're in a regular dialogue with our SMBs with the big corporates, and the anecdotal feedback that we're getting as we go into the fall is people have to travel more.

More offices are open, more people are back in the office, while people are worried about where the macro environment is going, they've got to run the businesses. And in fact, the more worried they are, the more they realize they got to get out there and make sure they're hustling. So there is an element of pent-up demand. There is clearly – and I'm not going to say I was right, but I've been right. There's clearly a massive shift in spending patterns, right, away from goods into services.

I said it in my prepared comments; I've been saying since the beginning of the pandemic that the world is not going to go upside down; that it may go upside down for a while, but it will normalize, and that's exactly what we're seeing. And so not only do you have pent-up demand, but you just have new demand that's coming as people are shifting their spending patterns. That means leisure, business group, the people are shifting back to a more normalized lifestyle. Maybe it's not exactly the way it was, but it's more like it was than it was – it's more like it was pre-COVID than it is during COVID. And so we're the beneficiary of that.

You have infrastructure, like, people don't talk about it, we passed a nearly $1 trillion infrastructure package last year. Very little of that has been spent. Traditionally you would start to see spending in the second, third and fourth year. So we're just coming into the zone over the next two or three years on $1 trillion of spending. I've said this so many times you guys are tired of hearing it. The highest R-squared correlation to demand growth in hotel rooms is NRFI, non-residential fixed investment, AKA infrastructure.

So I think – we think we feel good about that being sort of a underpinning broadly. Asia recovery, Kevin talked about it. Asia's been way behind. It's not recovering as quickly as we would have thought, particularly China, but it is recovering. And I think that provides some benefit, not just the rest of this year, but into next year.

And then probably last but not least, if we look at our customers, certainly, like our Honors base, which are driving the disproportionate share of our system-wide revenues, at the moment, they're still in pretty good shape. I mean, the median income of our higher-end Honors members is significantly over $100,000 median income. And so at the moment, they're still in pretty good shape, and we haven't really yet seen any real cracks in the armor in terms of their spending patterns.

So I know that's a filibuster of sorts. But I think, it gives – to answer the question, it gives you color for as we sat in the very room we're sitting in and thought about how do we feel about the rest of this year, that's how we came up with our forecast and our outlook. And as we think about next year, listen, I'd be silly to say I know because nobody knows. We're in pretty much uncharted waters. The smartest economists I talk to are saying the same thing.

So, I don't know. But I think a bunch of those things that I described are pretty good wind in our sails against what is obviously going to be a slowing US and global economy because that's what central banks are going to do. But we have some things that I think sort of are winds blowing the other way. And so I think as we get into the first half of next year, we're feeling like that is going to be helpful to us. How we think the whole year will play out. Obviously, it's premature for us to judge. And when we get a little bit closer to it, we'll have a little bit more precise view.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.
Q

Great. Chris, that's very helpful. And then I want to be courteous to everyone on the call. But just quickly to clarify some of the comments from earlier. As you guys talked about group and 4Q being greater or being up year-over-year I should say, was that a revenue position comment you were making?

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

Revenue, revenue. Yeah, revenue.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. Could you talk about from an occupancy or occupied room night perspective how group compares?

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

Yeah. I think system-wide second half of the year, we think will be in the 90s. It'll probably be five points off with the difference being made up in rate.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.
Q

Got it. Thank you, sir. Take care.

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

Yeah. Thank you.

Operator: And the next question is from Shaun Kelley from Bank of America. Please go ahead.

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

Hey, good morning, everyone. Chris, maybe just to dig in, I mean, obviously, you covered sort of most of the subjects in that last answer. So maybe to go a slight layer deeper, if we just think about the acceleration between kind of what you're implying for the third quarter and what you actually saw in the second, what are some of the biggest variances that are going to drive that? Things that come to mind are obviously international and then the continued improvement you probably saw sequentially on business transient. But could you help unpack that a little bit?

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

A

Yeah. I mean, sorry, I did give a bit of a filibuster, but just wanted to give the whole thing context and not have it be chopped up. So, my apologies for answering what are probably a bunch of your questions. But I do think I sort of covered that. We certainly expect international travel to pick up. We don't think that's going to move the needle necessarily in a huge way in the second half of the year. It really is what we described, what I already described, which is continuing strength in leisure because weekend business, we think is still going to remain strong. Consumers still have desire and capacity to do it. They are traveling more from combination leisure business of business and leisure. So we think that will mean leisure business will ultimately be at elevated levels relative to what we saw in pre-pandemic times. And we do think from a revenue point of view, business transient is on track, largely because of the success we've had in SMB in the second half of the year to sort of on a revenue basis, be back to 2019 levels.

Now that depends. We don't have all those bookings that are confirmed at this point. But if you look again at June and July, you talk to the customers, we look at detailed data on sort of how they're behaving right now, we feel good about that. And group I covered. I mean, we think group will not recover to where we were in 2019. There's just not enough time, but we think it's going to get awfully close – and we think there's a lot of momentum in the group side going into next year.

So I think net-net, Shaun, probably repeating myself, what it depends on is more of what we've been seeing. Just grinding up on business, I mean, we were at – for the whole quarter, we were at 95% on business transient, so we're getting awfully close. In June in the US, we hit 2019 levels. So – it doesn't – the rest of the year doesn't – it's sort of what the rest of the year suggests is the strengthening in group based on our real position of group room nights on the books – and similar to what we've seen in June and July, in business transient and normal strength on weekends for leisure, but normal pattern of leisure backing off during the midweek as you go into the fall.

Shaun C. Kelley
Analyst, BofA Securities, Inc.

Q

Thank you very much.

Operator: The next question will come from Joe Greff from JPMorgan. Please go ahead.

Joseph Greff
Analyst, JPMorgan Securities LLC

Q

Good morning, everybody.

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

A

Good morning, Greff.

Joseph Greff
Analyst, JPMorgan Securities LLC

Q

If you go back and you look at the last two and half years, it's been remarkable that your same-store RevPAR growth rate and your management and franchise fee growth rate have mirrored each other almost to a one-to-one relationship. And over that timeframe, you've grown your room count north of 10%. Does the relationship between RevPAR growth and say, fee growth or that sensitivity change going forward, where maybe there's if RevPAR were to experience a decline that sensitivity to the downside is maybe more favorable than what it would have been the last couple of years just because of the growth in the room cap?

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

A

I think, the – well, I think the answer is yes. And what largely would drive it is what you're saying the non-RevPAR-related fees are growing as a percentage of the fee base. And then the impact on the downside was accentuated because of the extremes. So in a normal like – sort of, normal recessionary environment, you don't see those sort of extreme impacts in terms of declines RevPAR to EBITDA. So, we think in a normal kind of environment, yeah, it would be more one for one, and we get the benefit of the things you described.

Joseph Greff
Analyst, JPMorgan Securities LLC

Q

Great. Thank you.

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

David Katz
Analyst, Jefferies LLC

Q

Hi. Good morning, everyone. Thanks for taking my question. Congrats on the quarter. I wanted to just touch on the owned and leased portion of the model, which, I think, swung to positive this quarter, it was a little earlier than what we anticipated. Can you just talk about what's driving that? Is there a strong business component to that? And give us some help with the rest of the year and sort of what's in there and how we might think about that?

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

A

Yes, David, I think, the – well, look, first of all, I would say, yeah, you're right, it did swing to a profit. We've been saying for a while that the growth rate would be more than the overall portfolio. In fact, that was the case when the numbers were still negative. It was – in a weird way, it was still growing faster and improving the growth rate of the company. It's all fundamentals though.

I mean, if you look at where the portfolio is located – in this particular quarter, the real strength regions were UK, particularly London and Central Europe, Japan still a little bit further behind. So as APAC recovers, you have even a little bit more of a tailwind there from that part of the portfolio, but the RevPAR growth in the quarter was significantly ahead of even where I gave the Europe, the EMEA – I gave, the Europe number in my prepared remarks. The RevPAR for this portfolio was even further ahead of that. And so that's where it's coming from. And we expect those trends to continue.

Again, particularly as Japan is a little bit further behind on recovery. So, we expect going forward that, that portfolio, while remember it's a small part of the business, and over time will continue to be a smaller part of the business, but it will be a tailwind to our growth rate for a while as those regions recover.

David Katz
Analyst, Jefferies LLC

Q

Can I – if I may, not to overstay my welcome, but should we perhaps look at the 2019 levels or any past levels of profitability? And how might those guide us as we think about the future?

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

A

Yeah. I think, it's – there's no reason why it won't get back to or even exceed prior levels. You got to remember the portfolio does get a little bit smaller over time. We exited seven of those assets last year, three of which came into the system and shifted over to paying fees, but four of which went away altogether. That's not going to make a huge difference on that. But I would – so I would say keeping in mind that the portfolio continues to get smaller, I would say that recovering to where it was on a lag is a good way to think about it.

David Katz
Analyst, Jefferies LLC

Q

Excellent. Thanks.

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

A

Sure.

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

Smedes Rose
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Thanks. I just wanted to ask you just a little bit on the pipeline, you continue to see sequential growth there and significant signings. And it just seems a little bit kind of a lot of cross currents going on, keep hearing about developer challenges.

And I'm just wondering if you could speak to where you're seeing the growth? I know you've spoken about China, but how is it looking in the US? And what, sort of, challenges maybe are developers facing? And is Hilton helping at all in terms of lend loans or anything of that sort?

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

A

Yeah, a really good question. And I mean, what's going on essentially – and let me just – sort of everywhere, but China is that demand on the – from owners to sign new deals has actually moved up pretty nicely and you would say, why with all the swirling winds and all the uncertainty.

Well, I mean, look at – like they own assets and they're at – look at the results we're delivering and what we think will deliver for the year and where we are relative to 2019, you think about margins, not our margins, but all the changes we've made in the hotels, I mean, the reality is not every single – in every single case, but in many, many cases, the hotels that our owners own are performing extraordinarily well. They're at high RevPARs with higher margins than they had pre-COVID. And so, listen this is what they do for a living. They're seeing great success. They're seeing tremendous flow through. They're seeing incredible rate in sort of pressure and that makes them want to do more of what they do. And so, as Kevin said, we'll sign – we won't get to our peak in signings, but we'll get – we're getting closer. We'll get over 100,000 rooms. And again, I think, it's just positive sentiment. Now what – that's without China.

China actually, we will open more rooms in China this year, but we won't sign as many simply because they're – with the way they're addressing COVID with the lockdowns and the like have slowed development activity there. We have every confidence that when they reopen, it will pick up at a fast pace. But from a cultural point of view, they really – you really don't get signings done when things are closed. It's just not, not the way things happen, and it's been a little delayed.

So, I think, the reality is when you – with the demand in the rest of the world when you get that part of the engine firing as well, the numbers are going to feel pretty good. And then it has to translate and I think that will translate overtime as sort of the world settles down a bit and people have a little bit more visibility on what's going on.

But the demand is there, market share, I shouldn't – we're not going to be – we're out of the business of describing exactly what our market share is for a whole bunch of competitive reasons. But I will say, our market share is up, again, in a meaningful way significantly above 2019 levels, significantly above where all our competitors are and that's helping drive disproportionate interest, not only do people want to build more, but I think they want to – I think they want to build more with us because we're doing a better job in terms of driving share to help them drive profitability.

Smedes Rose
Analyst, Citigroup Global Markets, Inc.

Q

Thanks. And then just quickly, I saw you guys are announcing a new ad campaign with a different kind of focus. But I'm just wondering, I should know this, but is that essentially supported by – or funded by owners or is there corporate implications, as well for that?

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

A

That is funded by the system, which means essentially, it's funded by owners. We have – I mean, the grossly simplified explanation is, people will either pay us a management fee or a franchise fee, and then we have corporate expenses and then they pay system fees for a bunch of things, marketing, technology, essentially system charges and those that we manage on a dollar – on a not-for-profit basis, if you will on their behalf. And all of the marketing dollars that we're talking about in our campaign come out of that, they're not corporate dollars. They're for the benefit of the system.

Smedes Rose
Analyst, Citigroup Global Markets, Inc.

Q

Okay, great. Thanks a lot. Appreciate it.

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

A

Yeah.

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

Robin M. Farley
Analyst, UBS Securities LLC

Q

Great. Thanks. Just one follow-up on your comments on the demand from owners and kind of record level of signings. Some others in the industry have talked about getting record signings, but that construction starts been matching the signings. And I know your rooms under construction currently are ahead of 2019, which is a great achievement.

I'm wondering if you're seeing though new construction starts which would not impact your unit growth this year, but might have implications for 2023 or 2024. Just kind of what you're seeing on the construction start front. Thanks.

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

A

Yeah, happy to answer that and then Kevin can jump in if he wants to add anything. First of all, just to be clear, I didn't say we're hitting records on signings, I said, we're over 100,000. I think, our peak was 1.16 – 1.15, 1.16, something like that. So we're getting closer and we're getting over 100,000 without as much help as we'd like from China.

On the start side, we do believe starts will go down again, this year, given all of the things that are going on in the world with supply chain, labor, financial markets, fears over the macro and recession. We think they will ebb down.

Having said that, our best estimates at this point, we've talked about this on prior calls, is that we will probably have hit the floor in starts in the US last year. We think we'll be up modestly this year and probably hit the floor outside the US this year. And our expectation is, given what I described before in terms of just where we are with RevPAR, where we are with margins, owner desire to do things that all things being equal, we are of the mind that next year – that this year would be the low point in starts and that they would start moving back up. And that puts us in a position to do as we have been expecting and suggesting we would do, which is for the next couple years, deliver in the mid-single-digit NUG.

Robin M. Farley
Analyst, UBS Securities LLC

Q

Okay, great. Thank you. And then just one quick follow-up on the margin performance of 600 basis points. I think that you have guided before that you would hold on to [ph] 400 basis points to (00:41:18) 600 basis points of that. Do you think it's looking like you're at the higher end or maybe even above that at this point?

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

A

We're doing better on margins, faster recovery, even better cost discipline than we assumed. So, we're doing better on margins than we had suggested before.

Robin M. Farley
Analyst, UBS Securities LLC

Q

But I mean in terms of holding on to that into 2023?

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

A

Actually, if you recall, we thought just because of the recovery in the real estate because at lower margins it would help EBITDA growth, but it might just – the arithmetic would hurt margins – and we had thought that we might be flat or even a little bit down as we got through that this year. Obviously with the guidance we gave you, we're 100, 150 basis points above what we did last year, which was meaningfully above 2019, which is getting us to the higher end of the 600 basis points. And we think we're going to be able to continue to drive margin growth from there.

Robin M. Farley
Analyst, UBS Securities LLC

Q

Great. Thanks.

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

A

Yeah. I think that last thing that Chris said is important in the sense that when we gave you that number, that was just helping people model a recovery and where it was going to go. It was not meant to be a stopping point between the mix continuing to grow over time towards these non-RevPAR driven fees and cost control. We think margins will continue to grow over time.

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

A

Yeah. On average, if you just do the math in your model, my guess is it will be similar to ours. It's a 50 to 100 basis point natural accretion in margin every year just based on the business model.

Robin M. Farley
Analyst, UBS Securities LLC

Q

Great. Thanks very much.

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

Richard J. Clarke
Analyst, AB Bernstein

Q

Hi, good morning. Thanks for taking my question. Just maybe I'm picking a bit too much here, but if I look at your Q3 and then your full year RevPAR guidance and maybe some of your commentary, it looks to me that you're saying that Q3 is going to be better than Q2. And then maybe Q4 will be a slight pullback, that you're only expecting leisure demand to run through the fall. And obviously, with group being stronger in Q4, are you expecting some elements maybe just to step back a little bit in Q4? Or am I reading a little bit too much into your guidance there?

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

A

I think you're reading a little too much into it. I think at this point, we sort of view the second half of the year, third and fourth quarter, in a very similar way. Obviously, the third quarter is a much, much bigger, more important quarter in the sense of all forms of travel. So you have sort of seasonal things going on. But in terms of the basic breakdown of what we think in performance of the segments, we are not forecasting any difference, any meaningful difference.

Richard J. Clarke
Analyst, AB Bernstein

Q

Thanks. And maybe just a quick follow-up to the last question. I think at the full year results, you specifically guided you were hoping for 66,000 construction starts this year. I don't think you gave a number in response to that. Is that still what you're looking to get to this year?

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

A

No. I think we had said that in the past on prior calls. I think Chris said we expect starts to be down a little bit this year. There's a lot of year left, so we're not sure exactly where it's going to play out, but probably be a little bit less than that.

Richard J. Clarke
Analyst, AB Bernstein

Q

Okay. Thanks very much.

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

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

Q

Good morning. Thanks for taking my question. When you think about some of the restrictions with flight capacity that we hear about in the US and in Europe, not being able to keep up with consumer demand, do you believe any of this presents a risk to any parts of your recovery, or is it negligible and just more of kind of a sound bite for the airline industry? Thanks.

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

A

We've been watching that, as you would guess, really carefully and studying our data along with the airline data. And we haven't seen any real impact. We just can't find it. So, we feel pretty good about it. I mean, talking to the – not just listening, but I know most of the CEOs in the airline space and talking to them, I think they are making pretty darn good progress in terms of getting capacity back, getting the teams that they need in terms of pilots, flight attendants, maintenance crew, getting them trained. So, I mean, it's not done by any means, but I think every day it gets a little better.

And so, I think, we feel like we'll be fine. I mean, if you look at the patterns like in the second quarter, I was actually surprised, and it's directional. I'm not going to tell you like we have perfect data on this. But it's pretty good directional and it's consistent with what – the same way we would have analyzed it pre-COVID. In a normal world, like 60% of our business was fly to and 40% of it was drive to.

In the second quarter, we think it was two-thirds drive to, one-third fly to. So part of what's going on is people are, with restricted capacity, they're just driving more. They're driving longer distances and they're staying in a tighter – they may be driving further, but they're not going cross-country or whatever. It's more regional and local business, but that works. So at the moment, while the airlines are sort of working their issues out, I think people are acting sort of accordingly in terms of how they're getting places. And we're not seeing any impact. We don't – talking to customers, we don't think that it's going to impair the rest of the year.

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

Q

Thanks, Chris. Appreciate it.

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

A

Yeah.

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

Vince Ciepiel
Analyst, Cleveland Research Co. LLC

Q

Great. Thanks for taking my question. I'm curious how you're thinking about planning the business over the course of the next 12 months. It clearly sounds like the trend lines in corporate and group are getting better. Obviously, you believe leisure is continuing to fetch healthy ADRs and remain pretty stable at high levels. As you think about like an efficient mix within those three buckets of demands, how are you approaching that? And how are you handling pricing out the corporate and the group business as it comes back?

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

A

Yeah, I mean, the truth is we're doing it with a lot of flexibility because while we have a belief which we've articulated in a bunch of different ways on this call, we know that we may not be perfectly right. So, as we, I think, proven during COVID, our teams, including our sales teams, our commercial teams are unbelievably quick on their feet. We retooled everything when we had during COVID. We've retooled a dozen times through COVID as demand patterns have sort of been normalizing.

So, I think, what we will be set up for and then ready to pivot is a world that I described, which is a world that is getting reasonably close to pre-COVID normalization. I mean just like in Q2, by way of example, if you look at the segments compared to 2019, in 2019, 55% of our overall system revenue came from business transient, 25% from leisure transient and 20% from group.

Now if you look at the depths of COVID, at probably the most extreme times, it went to like 35% business, 55% leisure, and 10% group. In the second quarter, it was almost 50% business transient. It was like 34%, 35% leisure and 16% or 17% group.

So, as I said before, we've sort of expected that as much as everybody wants to think everything is different. We sort of have been planning throughout and taking it in steps for a normalization to maybe not be exactly where we were pre-pandemic, but more looking like that than where we were, and that's what's happening. And so that's what we'll be set up for. But as I said, the key here always is flexibility and be prepared to pivot.

On the margin, I do think we will continue to have higher levels of leisure than we had pre-pandemic. My guess is we will have potentially a surge in group just because of so much pent-up demand as well. And so what are we doing? We're making sure we're staying super aggressive on leisure strategies, making sure that we're staying super aggressive on – with our group sales team and they were all over every opportunity and that we are focused on that.

And then on the business transient side, while we love our big corporates, and we continue to work with them, we've had a lot of success with the SMBs. In the end, we think that when we normalize, we will have lower big corporates and the higher SMB at a higher rate. And so we have deployed accordingly in our sales teams across the board to make sure that we're working those SMB accounts, that we're covering a lot more of those in a very thoughtful way to continue to build that business.

So, those will – at a high level, that's sort of when we are sitting at this table, talking about how we're going to deploy over the next 12 months, that's how we're thinking about it. But if the world pivots, we'll pivot very quickly with it. But my guess is that's how the world's going to play out. A little bit more leisure, a lot more group, a bunch more business transient, and for us with a real focus on the SMBs.

Vince Ciepiel
Analyst, Cleveland Research Co. LLC

Q

That's some helpful high-level color there. And maybe just a little bit more specifically on that larger corporate, I would imagine a lot of that falls under the corporate negotiated rates. Can you remind us where those have been through COVID, are they flattish with 2019 levels?

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

A

They've been flat, they've been – almost all of our large corporate clients during COVID agreed to keep rates flat to 2019 levels. And now in those negotiations, again, keeping it in perspective, it's like 7% of the business right now, maybe 7 and a little bit of change. So like just keep that in perspective. But I think what we're indicating is probably mid single-digit kind of increases for those accounts. And again, in a lot of hotels – the reason we want that, even though SMB is maybe at higher rate is it provides a base of business, just like we put a basic group business on the books. It's another way to put a base of business on.

So, it's hotel – it will be hotel-by-hotel. There'll be some hotels that won't take any of it, there'll be some hotels that will take some of it because they need the base. But I would suspect, while it's way early to judge, it's sort of mid single-digit, the goals would be to have dynamic pricing with all those accounts and that the end result will be somewhere in the mid single-digits, and that when we're all said and done, it will be 6% to 8% of the business, where it used to be 10%.

Operator: Thank you. And the next question will be from Patrick Scholes from Truist Securities. Please go ahead.

Patrick Scholes
Analyst, Truist Securities, Inc.

Q

Hey, 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

Kind of following up on that question on corporate rates. We're starting to get into negotiation season. And I know you'd like to tell me, you're going to see corporate rates up 50% next year, but how do you think about group and corporate rates increasing next year as it relates to negotiated rates – and I keep that in mind with inflation next year, probably 20% higher than where it was in 2019?

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

A

Yeah. I mean – yeah, it's hard to say, and we're not here giving guidance on next year. There's a long way...

Patrick Scholes
Analyst, Truist Securities, Inc.

Q

Sure.

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

A

... [indiscernible] (00:54:04) here and there, and there's a lot of uncertainty in the world. But I mean – probably the best, I gave you a little bit of sense, although we're not in those negotiations in earnest yet with the big corporates where that would be.

I think the way we would think about unmanaged business transient business would be somewhere in the 5% to 10% range to keep pace with inflation. And I think, we would think about the group – our group bookings the same way. In fact, all the group bookings at like we were doing generally new group bookings that we did in the second quarter for 2023 were in the high single-digit rate increases. I mean, as a data point.

Patrick Scholes
Analyst, Truist Securities, Inc.

Q

Okay. And thoughts on Airbnb supply. Certainly, we're seeing some of those really hot leisure markets, whether it's Vail, Aspen, Miami, a ton of Airbnb supply with everybody realizing how high the room rates are that they're going to rent out their units. So what sort of impact are you seeing, if any, in those markets?

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

A

None. Now in some of those markets, we may not be in them. But as you can see...

Patrick Scholes
Analyst, Truist Securities, Inc.

Q

Okay.

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

A

...from the numbers that we're posting, at least, what we're forecasting, what we're seeing in booking patterns, we're not seeing any impact.

I mean, I think, what they do is they serve a certain customer need, and we serve another customer need. I've said it for a long time, there's plenty of room for us to coexist, given what we're delivering is very different, and it's generally for a different type of stay occasion. So, we are not – there is zero discernible impact from any Airbnb supply.

Patrick Scholes
Analyst, Truist Securities, Inc.

Q

Okay. Thank you for the color.

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

A

Yeah.

Operator: And the next question is from Duane Pfennigwerth from Evercore ISI. Please, go ahead.

Duane Pfennigwerth
Analyst, Evercore ISI

Q

Hey. Thanks for the time.

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

A

Yeah.

Duane Pfennigwerth
Analyst, Evercore ISI

Q

Maybe a short term and a longer term. Short term, which international geographies surprised you the most in 2Q? And then longer term, how do you think about the pacing of China reopen 2023 and beyond? What is your planning assumption at this point?

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

A

Yeah. I'll offer an answer. Maybe Kevin will come over the top and offer a different one. But I would say, Europe was the big surprise for me. Europe's on fire. Huge surge in business. I mean, the big cities, London, everything are raging this summer, in Q2 and they're raging in Q3.

So that's been – and Europe is now trending above 2019. I think, for the full year, Europe will be not just for the second half – Europe was above in Q2. I think, Europe will be ahead for the full year of 2019 in terms of RevPAR. So, that's been a pleasant surprise.

In China, the honest answer is, we don't know. I would have thought – I mean, we are making progress. Kevin gave the data points. I mean, we've moved from in the 30s to 60, and I think we're probably above that now. You have things ebbing and flowing. I saw this morning they're locking down part of Wuhan, 1 million people.

So, we're hopeful by the – and I've been saying this and I've been consistent by the time they have the Party Congress, which is in October, that they're at a different place. I think, that is – as we talk to our teams there, I think there is a lot of belief that as we get to the fall, things are going to normalize rapidly there.

I do think it will be a while, and what do I know, for the record, for anybody listening is. I do think it will be a while before we have a ton of Chinese travelers traveling internationally or any of us are going to China. I'm hopeful that, that would be next year. I haven't been since the end of 2019, and I'm dying to go.

But the reality is, as we saw in the early recovery of COVID where they led the world, when China opens up, China – in China, for China, just Chinese travelers moving around China. The business can boom in a very big way, because if they're not leaving, they're staying and they love the travel within China and see they're at the destinations there.

So I think, as we get into October and the rest of the year, I would hope and I do think, and our teams think that you're going to see a lot of activity in terms of what's going on in opening and travel within China. And I do think that will then start to restart in a big way the development engine, that wants to go and people want to do it, it's just – it's been kind of hard to get it chugging again.

Duane Pfennigwerth
Analyst, Evercore ISI

Q

Thank you.

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

A

Yeah.

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

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

As always, we appreciate you guys taking an hour out of your life to join us. We're obviously really pleased with the results in the second quarter. We see the recovery not just happening, but happening at an even faster pace than we thought. We know the world's got a lot going on, but as I said in a bunch of different ways, as did Kevin, we feel quite good.

We are cautiously optimistic. We feel quite good about the momentum we have and the wind we have in our sails through the rest of this year and into the first part of next year. And we look forward to giving you an update after we finish the third quarter. Thanks, and have a great day.

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