

# Hilton Worldwide Holdings Inc

## Q3 2022 Earnings Call

### Company Participants

- Christopher J. Nassetta, President and Chief Executive Officer
- Jill Slattery, Senior Vice President, Investor Relations and Corporate Development
- Kevin Jacobs, Chief Financial Officer and President, Global Development

### Other Participants

- Brandt Montour, Analyst
- Carlo Santarelli, Analyst
- Chad Beynon, Analyst
- David Katz, Analyst
- Duane Pfennigwerth, Analyst
- Joseph R. Greff, Analyst
- Patrick Scholes, Analyst
- Robin M. Farley, Analyst
- Shaun C. Kelley, Analyst
- Smedes Rose, Analyst
- Stephen Grambling, Analyst

### Presentation

#### Operator

Good morning, and welcome to the Hilton Third 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 and Corporate Development. You may begin.

#### Jill Slattery

Thank you, Chad. Welcome to Hilton's third 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

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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 our 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 in today's call in our earnings press release and on our website at [ir.hilton.com](http://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 third 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**

Thank you Jill. Good morning everyone and thanks for joining us today. The third quarter marked a very important milestone in our continued recovery. For the first time since the pandemic began system-wide RevPAR surpassed 2019 levels. Additionally adjusted EBITDA and adjusted EPS exceeded the high-end of our guidance and 2019 levels. We achieved several notable development milestones in the quarter including reaching 100,000 rooms open across Europe and announced various strategic partnerships, further enhancing the guest experience and the strength of our global system. The quarter's strong performance coupled with our capital-light business model enabled us to continue returning meaningful capital to shareholders. Year-to-date we've returned more than \$1.3 billion and for the full year we're on track to return between \$1.5 billion and \$1.9 billion to shareholders.

Turning to the specific results in the quarter, occupancy reached more than 73%, only four points shy of 2019 levels. As expected strong travel demand continued through the summer months, primarily driven by robust leisure trends. Post Labor Day, demand remained strong as business transient and group demand improved significantly and leisure demand remained robust. Overall demand for the quarter peaked in September, nearly reaching 2019 levels with business transient demand only two points off 2019 level. ADR also continued to strengthen, improving quarter-over quarter and up 11% versus 2019. Rates across all segments surpassed 2019 levels with leisure transient rates up in the high teens and both business transient and group up in the mid single-digits.

All of this translated into third quarter system-wide RevPAR growth of approximately 30% year-over-year and 5% compared to 2019 levels, with each month surpassing prior peaks. Leisure transient RevPAR continued to lead the recovery exceeding 2019 levels by more than 11% for the quarter. Business transient RevPAR reached 2019 levels with notable acceleration in large corporate business. Our top 20 business accounts are now just 3% shy of 2019 levels with forward bookings trending above 2019. Small and medium-sized businesses remain ahead of 2019 levels.

Group RevPAR reached roughly 93% of prior peak levels for the quarter with company meetings improving significantly as a percentage of mix. We expect trends to remain strong for the balance of the year with system-wide RevPAR once again surpassing 2019 levels in the fourth quarter. Leisure transient RevPAR is expected to remain meaningfully above prior peaks, driven by solid consumer confidence and a continued eagerness and ability to travel. We expect business transient RevPAR to continue to see gradual recovery, primarily driven by rising demand as companies encouraged their people to get back on the road.

System-wide group position for the fourth quarter is approximately 5% above 2019 level, accelerating over the last several months, largely due to our robust demand pipeline. Additionally rates on new bookings are up in the mid-to-high teens versus 2019, with group mix continuing to normalize. Company meetings and convention business make up a larger percentage of forward bookings versus the same-period in 2019. As we look ahead, we remained very optimistic about the future of travel. Despite near-term macro headwinds we're not seeing any signs that fundamentals are weakening. Rising demand, coupled with historically low industry supply growth should continue to drive strong pricing power.

Consumers are shifting back to spending on experiences, international borders are reopening and pent-up demand is being released across all segments. Consumers still have an estimated \$2.4 trillion of excess savings accumulated during the pandemic or approximately 55% more in their checking and savings accounts than they did in 2019. Additionally according to a recent global Hilton study, 85% of business travelers hope to travel as much or more next year. And group position for 2023 is less than 10% shy of 2019 peak levels with a tentative pipeline up significantly. While the macro environment is more challenging, we are in the midst of a strong rebound with secular tailwinds that should support continued growth.

Turning to development, we opened 80 properties totaling nearly 13,000 rooms in the quarter and achieved several important milestones, including reaching 100,000 rooms in Europe, 25,000 Curio rooms globally, and 600 Hilton Hotels & Resorts. All of our brands continued growing at a healthy pace, given their distinct identities and compelling value propositions for both owners and guests. According to STR, our year-to-date net additions remain higher than all major branded competitors, demonstrating the power of our disciplined development strategy and the strength of our industry leading RevPAR index premium.

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During the quarter we signed approximately 20,000 rooms, bringing our pipeline to a record 416,000 rooms, half of which are under construction, signings were boosted by strong RevPAR performance in the US, which drove greater owner optimism around the recovery. While macro factors tempered international signings, we were thrilled to announce nine landmark agreements to expand our luxury presence across seven countries in the Asia-Pacific region including the Conrad Singapore Orchard. We also signed agreements to grow our flagship Hilton brand in Malaysia, Waldorf in Morocco and what will become our first system-wide Tempo property in Times Square.

Construction starts outperformed expectations in the quarter, largely due to better activity in the US as the cost of materials stabilized and demand for residential construction declined. According to STR, Hilton is the only major hotel company to deliver year-to-date growth in its under construction pipeline. For the full year we continue to expect net unit growth of approximately 5%, and we expect mid single-digit growth for the next couple of years before returning to our historical growth rate of 6% to 7%. With even more exciting destinations to enjoy, we continued strengthening our value proposition for Hilton Honors members. In the quarter, Honors membership grew 19% year-over-year to a 146 million, and members accounted for more than 61% of occupancy up 200 basis points year-over-year and roughly in line with 2019. We also continue to invest in new innovations focused on ensuring we deliver reliable friendly stays that meet guests evolving needs. An overwhelming 98% of guests in a recent survey said they are prioritizing wellness activities while on the road.

During the quarter we announced an industry-first partnership with Peloton, to add Peloton bikes in every fitness center across all of our 5,400 US properties by year-end. Our extremely talented team works tirelessly to execute on a great strategy. And we continue to be recognized for our award-winning culture. Hilton was recently named the number-one Best Workplace for Women in the US, and the number two on the World's Best Workplaces by Fortune and Great Place to Work, our seventh consecutive year on the list and the only hospitality company on the list. As we begin a new golden age of travel, I think we're better-positioned than ever, our brands are performing at their highest levels, we're running our highest margins in our company's history and we're on track to generate our highest levels of free cash flow yet.

Now, I'll turn the call over to Kevin to give you a bit more details on the quarter and our expectations for the full year.

#### **Kevin Jacobs**

Thanks, Chris and good morning everyone. During the quarter system-wide RevPAR grew 29.9% versus the prior year on a comparable and currency-neutral basis and increased 5% compared to 2019. Growth was driven by continued strength in leisure demand as well as steady recovery in business transient and

group travel. Adjusted EBITDA was \$732 million in the quarter exceeding the high-end of our guidance range and up 41% year-over-year. Our performance was driven by better-than-expected fee growth, particularly across the Americas and Europe. Results also benefited from further recovery in our European ownership portfolio. Management and franchise fees grew 33%, driven by continued RevPAR improvement and strong Honors license fees. Good cost control continued to benefit results. For the quarter diluted earnings per share adjusted for special items was \$1.31, exceeding the high-end of our guidance range and increasing 68% year-over-year.

Turning to our regional performance, third quarter comparable US RevPAR grew 22% year-over-year and was up 6% versus 2019. Performance continued to be led by strong leisure demand over the summer travel season with continued recovery in business transient and group travel further benefiting results. Total US business transient reached 2019 levels for the quarter, with US group RevPAR up 7 percentage points quarter-over-quarter to 95% of 2019 peak levels. In the Americas outside the US, third quarter RevPAR increased 74% year-over-year and was up 17% versus 2019. Performance was driven by continued strength in leisure demand, particularly across resort properties where ADR was up more than 20%.

In Europe RevPAR grew 92% year-over-year and was up 20% versus 2019. Performance benefited from strong leisure demand and international inbound travel throughout the summer. In the Middle-East and Africa region, RevPAR increased 45% year-over-year and was up 6% versus 2019. The region continued to benefit from strong leisure demand and international inbound travel, particularly from Europe.

In the Asia-Pacific region, third quarter RevPAR was up 46% year-over-year and down 16% versus 2019. RevPAR in China was down 14% compared to 2019, improving 33 percentage points quarter-over-quarter, as leisure demand picked up over the school holidays and COVID lockdowns in Shanghai and Beijing were lifted in July. Travel demand remains volatile in China as a result of strict COVID policies and restrictions to contain new outbreaks. The rest of the Asia-Pacific region saw continued improvement with RevPAR, excluding China up 10 points quarter-over-quarter with September RevPAR down just 8% to 2019. We remain optimistic about further recovery across the entire Asia-Pacific region as travel restrictions continued to ease and borders reopened to international travel. For example our recent booking pace in Japan has already started to increase following the recent government stimulus announcement and border openings.

Turning to development, our pipeline grew year-over-year and sequentially, totaling nearly 416,000 rooms at the end of the quarter with nearly 60% of pipeline rooms located outside the US and roughly half under construction. For the full year we still expect net unit growth of approximately 5% and signings of approximately 100,000 rooms globally, with US signings exceeding 2019 levels. Despite the near-term macroeconomic challenges, we remained confident in our ability to deliver net unit growth in the mid single digit range for the next couple of years.

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Moving to guidance, for the fourth quarter we expect system-wide RevPAR growth to be between 19% and 23% year-over-year, or up 2% to 6% compared to fourth quarter 2019. We expect adjusted EBITDA of between \$641 million and \$671 million, and adjusted EPS, adjusted for special items -- I'm sorry, diluted EPS adjusted for special items to be between \$1.15 and \$1.23. For full year 2022 we expect RevPAR growth between 40% and 43%. Relative to 2019 we expect RevPAR to be down 1% to 3%. We forecast adjusted EBITDA of between \$2.5 billion and \$2.53 billion. Our adjusted EBITDA forecast represents a year-over-year increase of more than 50% at the midpoint and exceeds 2019 adjusted EBITDA by nearly 10%. We forecast diluted EPS adjusted for special items of between \$4.46 and \$4.54. 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 third quarter for a total of \$41 million year-to-date. Our Board also authorized a quarterly dividend of \$0.15 per share in the fourth quarter. Year-to-date we have returned more than \$1.3 billion 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 third 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 as many of you as possible, so we ask that you limit yourself to one question. Chad, can we have our first question please?

## **Questions And Answers**

### **Operator**

Thank you. We will now begin the question-and-answer session. (Operator Instructions). Our first question will come from Joe Greff with JPMorgan. Please go ahead.

### **Q - Joseph R. Greff**

Good morning, Chris, Kevin, Jill, Jensen.

### **A - Christopher J. Nassetta**

Yeah. Good morning Joe.

### **Q - Joseph R. Greff**

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I wanted to talk about your corporate negotiated rates. Can you give us some perspective on how important or what percentage of your room nights, pre pandemic room nights associated with corporate rate negotiations accounted for as a percentage of the total? And then as you think about those negotiations that are ongoing now for next year, do you get the sense that more companies that were traditionally part of the corporate rate negotiations are opting to go to a more dynamic, less contractual rate type of model?

**A - Christopher J. Nassetta**

I'll take it in the order you gave it. Just by way of background you asked, where was it in 2019? It was about 10% of our overall business in 2019. At the moment, it's about 7% of our overall business. And that is largely at this point given the big accounts are coming back by choice because we have chosen to pivot our mix as we've been talking about for the last several quarters a little bit more heavily towards SMB, small-medium sized enterprises, simply because they are higher-rated and more resilient through ups and downs.

Having said that, our big corporate customers have been customers of ours a long-time, and they're important. But we have weighted that down. I think as they -- I mentioned that we were most recently only really about 3% off with our top 20, my guess is that, 7% will go up a bit. But you know our objective is to keep it a bit lower than 2019. We're early in that negotiation season, and what I would say -- what I can say at this point in talking to our teams is the vast majority of those accounts are going to dynamic pricing, that's something that we've been doing over a very long period of time even pre-COVID. We didn't have the majority of the accounts dynamic, but we had a decent chunk. I wanted to say 25% or 30% pre-COVID. And through the last few years, we've moved very aggressively to get more people to dynamics. So at this point the majority of them are dynamic.

And I think that all customers understand because of what they're dealing with in every aspect of their life, that it's at least at the moment inflation is a real thing, and that their expectation is that they're going to have to pay more. And the best -- it's early days the best we think at this point is, high single-digit, very low double-digit sort of in 9 to 10 range is best we can figure at this moment.

**Q - Joseph R. Greff**

Great. Thanks, Chris.

**Operator**

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

**Q - Shaun C. Kelley**

Hi good morning everyone. Chris, historically the third quarter is kind of when we get a little bit of a taste of kind of a 2023 RevPAR outlook. And I think knowing all of the macro turmoil that's out there, it makes all the sense in the world to not maybe provide something specific. But can you just help us walk us through your thinking here, big picture, you obviously see a lot, speak with a lot of people out there. So based on kind of what you know right now, maybe give us a little bit of directional color. And specifically what can accelerate further from the trend lines that we're seeing in the third and early fourth quarter? And just how do you see it moving through the year in 2023?

**A - Christopher J. Nassetta**

Yeah, I think you're right. There is a lot of macro uncertainty, and as a result it's a little bit early for us to prognosticate on what we think for next year. Not only that, but we're just at the early stages of our budget process, which we'll be going through over the next 60 days or so to complete by year-end. And so, it is premature. Having said that, directionally I'm happy to comment on sort of how we and I think about it at the moment on a forward-looking basis. You know what we're obviously looking at as I said in my prepared comments is fundamentals that are currently pretty strong. And while again we're not naive to what's going on with the Fed here and central banks and other parts of the world in the sense of trying to tame inflation by slowing economies, we do think we have a reasonably unique setup that is maybe different than some other industries for a period of time that is going to benefit us not just in the fourth quarter, but into next year.

One of those things, not to be too redundant because I covered them briefly, the laws of economics are alive and well, supply and demand. Supply is at historically low levels and it's going to stay there for a while, right, just given everything that's going on from COVID, and now into the macro concerns. Demand is picking up as I covered relative to the third quarter, our expectation that it's going to continue to pick up into the fourth quarter. Why is it picking up? It's picking up because the segments remained strong, I mean, leisure I covered it, people still have desire and a lot of disposable income and savings to spend and more flexibility and time. Business transient where you have a huge amount of pent-up demand that's accrued, as well as in the meetings and events segment, you have the international markets opening up. And you have a broader trend of just a secular shift or maybe cyclical shift back to the more normalized spending patterns of everybody is spending less on things and spending more on experiences.

And so, that's what we're benefiting from. We obviously got hammered during COVID, unlike other industries. But now we're in this recovery. And those -- I sort of describe it here, you know, with our team and with our Board is like you have headwinds and tailwinds. The headwinds are the macro, the world is slowing down, right, and it has to and they're going to accomplish their goal. But we have tailwinds, okay, we have these tailwinds of like spending more on experiences, international travel, pent-up demand and then just incremental demand associated with people having to run their

businesses, gather and meetings and events of all sorts whether it's social or business. And at the moment, those tailwinds are stronger than the headwinds. And I would say meaningfully stronger, which is why we will continue to recover, we continue to have pricing power. My own belief is, we have enough wind in our sails to go for a while.

Now I know it depends on the macro and like what happens in the economy and how long does it slow for, how much does it slow, I mean those are things, I don't know. I'm not an economist and everybody can judge for themselves. But my view is, for the next few quarters at least, those are pretty powerful tailwinds. And we're talking to customers, we're seeing daily data, we're putting our finger on as many places -- pulses as we can to understand it. So that's a long-winded way of saying, I don't know what the answer is for next year, but my view is, RevPAR is definitely going to be up in my opinion. Year-over-year it will definitely be over 2019 levels and what we're going to figure out from now to the end-of-the year as part of the budget process and watching the macro, I mean, watching those tailwinds and headwinds fight each other, how much we think it's going to be up. But our view is that it is definitely going to be up.

We did give you some sense quickly on that, being in the mid-single-digits. So similar to this year in an expectation for next year, so if you listened super carefully, that was in my prepared comments. So we are trying to give a little bit more visibility there because we have obviously more visibility ourselves into sort of those things tracking through pipeline and under construction and delivery schedules.

**Q - Shaun C. Kelley**

Thank you very much.

**A - Christopher J. Nassetta**

Sure.

**Operator**

The next question is from Carlo Santarelli with Deutsche Bank. Please go ahead.

**Q - Carlo Santarelli**

Hey everybody, good morning. Chris, obviously you guys have been -- have gotten back to returning capital much in the way you did prior to the pandemic with buybacks. But now since kind of coming public again, this is the first time where you've operated in an environment where interest rates were something greater than where they've been. So, I was just wondering, as you think about your capital

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return strategy, you think about your cost of funding, obviously your debt -- there isn't a ton, that's really rate sensitive, and you have some time before you have any bonds due. How does the new interest rate environment kind of factor into your capital plans?

#### **A - Christopher J. Nassetta**

Yeah, I mean, obviously it factors into it. I'd say first of all, background, we're returning more capital than we ever have historically and that's because we're producing more free cash flow than we ever have historically. And we intend to continue to do that, we have from a balance sheet point of view, said we want to be at 3 times to 3.5 times leverage. We still want to be in that zone, we have said we want to be towards the higher-end of that, which would imply incremental borrowing that might increase our buyback. And at some point, there will be a time I suspect that we want to do that.

At this moment with where the capital markets are, we probably are not in a rush to go out and take on more debt to do that. But at the right time and right place there we might be, and there are obviously other ways of our raising capital in the form of shorter, you know, our credit facilities and other facilities that we have. But at the moment, we are still of the mind 3 times to 3.5 times, we're probably, honestly going to end the year a little bit lower than we might have guessed because of where the capital markets are. But we think those things will stabilize. And again, if there are opportunities that present themselves to do more than we're doing, we'll certainly look to take advantage of those opportunities.

From a balance sheet point of view and maturity we're in fabulous shape. Kevin, you can add-on if you want, but we don't really have any meaningful maturities until '26. We took great advantage just -- both pre-COVID and then during COVID when the Fed leaned in so hard to be so helpful to those markets to refinance and push-out maturities. So we feel really good about the profile of our maturities, which is we have done for a number of years of any meaning and about what our current rate structure is.

So, I've been doing this a long-time. These things go up and down, the Fed is doing what they have to do to harness demand ultimately, but my guess is, if history is any indicator of the future, they may overdo it a little and at some point in the next couple of years they will go the other way. And as I said, we have a number of ways to raise debt. The bond markets are one, which we don't honestly really like right now for obvious reasons and wouldn't look to enter those markets at the moment. But we have other forms of credit in the forms of our credit facility and other facilities that are shorter term, and as a result lower cost.

So hopefully that gives you a sense of it. The answer is yes, but yes and no, I mean, yes it impacts us, but it doesn't in any way change our trajectory of still returning significant, the most capital that we ever

have. And we're going to continue -- we fully plan to continue doing that on the basis that we're going to be producing more free cash flow this year. And by the way if I'm right on RevPAR and going up, we're going to just produce more free cash flow next year, that is the -- that gives us the ability to keep returning very large amounts of capital without having to necessarily borrow in a market we don't like.

**Q - Carlo Santarelli**

Thanks, Chris.

**A - Christopher J. Nassetta**

Yeah.

**Operator**

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

**Q - Smedes Rose**

Hi, thanks. I wanted to ask you a little bit more about what you're seeing in China and maybe kind of what the development pipeline looks like there. And with rooms I guess opening just into very depressed demand, would you expect developers to pull back there or kind of how are you thinking that plays out over the next year or so?

**A - Kevin Jacobs**

Yes, Smedes, what I would say is, it's sort of similar to, it's kind of microcosm of what Chris was saying on the macro, I mean, you've got some headwinds and you've got some tailwinds, right. You definitely have macroeconomic disruption there, that's been well-publicized. It's also, I think we've talked about this in prior quarters, the actual way development gets done on the ground in China is still very much a face-to-face environment and a face-to-face culture. So that's affecting our level of signings at the moment. Interestingly enough we've had really strong signings over the last couple of years. And so starts are up in China this year, pretty -- in third quarter pretty materially and we will be up for the year, deliveries will be up for the year. And as you know we're pivoting to more of a limited service strategy in China, that's ultimately going to be less sensitive to the macro-environment over time.

And so, so that's all sort of a mixed view and what we would say is developer optimism remains really strong. There is a lot of demand for our brands, particularly Hampton and Hampton and Home2 that are

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just getting started and then we're rolling out Hilton Garden Inn franchising. So that's sort of a long way of saying we think the trajectory is up over time in a material way, but in the short-term you do have some choppiness.

**Q - Smedes Rose**

Okay. Thank you.

**A - Kevin Jacobs**

Sure.

**Operator**

The next question comes from David Kat's from Jefferies. Please go ahead.

**Q - David Katz**

Hi, good morning everyone. Thanks for taking my questions. You've given a ton of fundamental information I get the puts and takes with all of it. I wonder if you could talk about the non-RevPAR fees to some degree as they become just an important part. And how we might expect those to behave and the puts and takes around those as well. As well as the opportunities to grow them into other areas et cetera longer-term? Thanks

**A - Kevin Jacobs**

Yeah, sure, it's a good question. I think you've heard, David, you've heard us say in prior quarters that those fees, during COVID they were less volatile, right. They sort of went down a lot less when the world blew up, and then our expectation was that they'd go up not quite at the pace of other fees, RevPAR driven fees during recovery. Interestingly enough in the near-term, those fees are actually growing almost at the rate of our overall fee growth, right. So we've had very strong, I mean, our two primary ways that we generate fees of course are credit card fees, which have been bolstered by one, changes we've made to the program. I think the programs are strong as it's ever been. Obviously consumer spending has been pretty strong, so that fuels the spend and the issuance of points and fuels, remuneration.

HGV is doing quite well, their fee growth has been really strong so far this year. They are public, so you can look at their numbers. I don't have to tell you how they're doing. But you should assume that we grow kind of in lockstep with them as they recover and they grow fees. And so over time, I would say they'll continue to be a more meaningful contributor. It's hard to say, in a more normalized RevPAR environment, they probably do grow at or slightly above the level of RevPAR if trends continue. And then we'll be looking for ways to continue to grow those over time. And so, we're not going to get into specifics on things that haven't happened. But you should assume that the co-brand credit card product is one that can be taken outside of the primary countries that we're in now, we're getting good growth with our new products in Japan. And we'll be looking to bring that to other countries. HGV just did an acquisition right, so they're doing quite well. And then we're always thinking about ways we talked to you guys in the past about how to commercialize our customer base further and how to drive more revenue. So more to come on that, but that's sort of generally the story.

**Q - David Katz**

Understood. And I don't want to break the rules, but there was just one, SG&A came down a little bit. And I hope this is helpful to everyone, I was just curious what the driver of the SG&A guide coming in a little bit was. And if it's sustainable in '23. And then I'll stop. Thank you.

**A - Kevin Jacobs**

Yeah, that's okay, we'll let you break the rules a little bit. Look, it's a fair question, I'd say generally it's a really good story, right. And we continue to do a good job of containing costs, as you know we're very disciplined about spending money. There is a little bit of timing stuff in the GAAP numbers. And I know we give you the GAAP, and we think about it more in cash, and it's a little bit unfair. There is a little bit of noise in the GAAP numbers, but it's still a really good story, there's still legit savings on the GAAP side. And then we, think about it more on the cash side, right, what are we actually spending on overhead. And our cash G&A this year for the full-year is going to be sort of down in the low to mid teens relative to 2019.

That's not to say there aren't some headwinds in terms of as the business recovers and people move around a little bit more, cost of labor, inflation is a real thing. But we still think that over time we'll be able to grow our G&A base sort of around the level of inflation going forward. And so you'll see sort of permanent, that's part of what's driving the margin improvement that Chris was talking about earlier in the call.

**Q - David Katz**

Thanks very much.

**A - Kevin Jacobs**

Sure.

**Operator**

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

**Q - Robin M. Farley**

Great. Yeah, circling back to, you having more rooms under construction than you did a quarter ago. I know you talked a bit about China and that starts are up there. Can you talk about what's going with US rooms under construction. And it's just what we hear from others is that it's been so much more challenging to get developers to put shovels in the ground right outside of the signings actually putting a shovel in the ground. And so is what you saw here in Q3 an anomaly in terms of having more rooms under construction sequentially or is that something that you think you'll continue to see? Thanks.

**A - Christopher J. Nassetta**

Yeah, well we certainly hope we continue to see it. It is definitely an inflection point in the third quarter, which we think continues into the fourth quarter. While it certainly relative to normal times, if there is such a thing, is more difficult in terms of cost to build, financing availability. The other thing that's happened is the recovery has been much, much steeper than anybody thought. And obviously unlike any other recovery period, rate strength has way outperformed what anybody had thought.

And when you look at it, you could look at the majority of our system, which we do, the majority of our system, the hotels are generating greater profitability than they ever have, greater than '19, which was the prior high watermark. So what is that -- what is happening that is then fueling optimism? We'll talk about the US because you asked about the US, it's fueling optimism in people wanting to do more deals. This is, you know, we have a very diversified owner base, it's mostly small and medium businesses. This is what they do. It isn't a part of what they do, it's a 100% for the most part of what they do and they like what they see and they're making gobs of money in most of their hotels and they want to do more of it, and they want to lock-up the best brands.

To pat us on the back, we have the highest performing brands in the business, the highest market share across on average and across each of the segments. And so, we, I think are disproportionately benefiting from that. And how it's showing up is, Kevin, I think mentioned in his prepared comments, we're going to be over '19 levels on signings this year in the US. And that and a percentage of those are translating into starts, and that's why we have seen the uptick in starts starting in the third quarter that we think is going to continue in the fourth quarter.

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Now there is a lot of uncertainty. I know, like how many different ways we can say it, everybody is asking the question says it. So there is a lot of uncertainty out in the future. But we are seeing an inflection point. And we are certainly expect that to continue and are hopeful it continues for an extended period of time. While input costs are higher, the reality is those things are starting to stabilize a little bit. And you've seen other forms of construction drop-off, which have provided more availability of sub-contractors. And while the big banks are still, it's still challenging from a lending point of view, our ownership community broadly is getting financed in local and regional banks. And they've still with the strongest relationships been willing to finance. Now they're putting more equity up, they're providing in many cases, full recourse. And rates are higher, but I think their view is rates are higher for a period of time, these are short-term financing and ultimately when assets stabilize, we'll be in a different environment and longer they can convert to longer-term financing, that's more reasonable.

So, while it is clearly net-net harder, there are a lot of reasons as I say, if you just look at the behavior of our broader owner community, they're signing more deals and we've hit an inflection point on starts. And we like seeing that. And we think our performance and market share and all of those things are meaningful contributors to it. And we'll keep you up to speed as we watch those tailwinds and headwinds. And the macro-environment to see if that changes, but we've been very pleased with that momentum.

**Q - Robin M. Farley**

Great. Thank you for the color. And just for my follow-up question, if I could ask about group. You mentioned your position for '23 is 5% ahead of '19. And I think that's a total revenue position. And just given how much disruption there has been that, that groups were not necessarily booking as far out because of the disruption from the pandemic. It seems like I'm just thinking about the impact on your RevPAR for next year that the benefit to you is that if they're booking closer in, you're going to be able to get these sort of current rates as opposed to like historically group you're stuck with whatever rates you agreed to, you know, two years ago. Can you give us a sense of maybe how much the volume is down like thinking about like the incremental price that you may get on, I don't know, how significant that volume delta between now and what you had in '19.

**A - Christopher J. Nassetta**

Let me sync up on stats, because I think maybe I misheard you or you misstated what I said in when I gave group stats. So we're 5% up in the fourth quarter. By the way, if you go back a couple of quarters ago, we were not, we were 5% or 10% down. So again the business has been picking up at a very rapid pace, but is relatively short lead. We are 9% or 10% off group position system-wide for 2023, not ahead. But our tentatives and pipeline are literally off the charts. When we sit here and talk to our sales teams across the world, the biggest issue is just having enough people to keep up with all the demand. There is a massive amount of demand and it is short lead demand.

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So when we look into next year, just given the experience we've been having, it makes us feel very, very good about being able to fill-in that group base and ultimately get group back, which was at 93% in the third quarter, we think it will be from a revenue point of view, roughly at par in the fourth quarter and we think given this trajectory it will be above '19 high watermarks next year. Thus another contributor like leisure, which we think will stay strong and business transient, which we think is picking up steam and will stay strong to why we think next year will be a reasonably very good positive year.

In terms of rates, that is a good thing in the sense that we do I think have a reason, if all these segments stay stable to strong, we have an ability to maintain pricing power that I think is again just back to the fundamentals of the business that I think is reasonably good. And we've been booking new business at much higher rates, you're right, existing business is booked at less high rates. Although still reasonable rates, most of those are equal to or greater than 2019 rates. And at this point, the majority of our bookings for all of next year, I would say, are still to be booked. And we're probably roughly half of our bookings, maybe plus or minus are on the books at this point in the year. And everything that's going on between now and the end of the year, we will go into next year higher than that in my opinion given the demand. But all of those bookings will be at the higher-rate structure.

So we think there's both the opportunity for the demand to get back, and then exceed base demand levels of '19 and to do it at a higher rate, which for that segment will contribute meaningfully to RevPAR growth. Just to sync back to what it normally was, our system-wide group was about 20% of our business in '19, right now is about 16%, 17%. So we think next year we'll normalize and be pretty close to if not at historical levels of demand from a segmentation point of view.

**Q - Robin M. Farley**

Great. Super helpful. Thank you.

**Operator**

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

**Q - Chad Beynon**

Good morning. Thanks for taking my question. Kevin, you mentioned that one of the areas of the Q3 beat came from the better European ownership segment, which is probably benefiting from a stronger US dollar and just kind of overall recovery. Can you talk about how you're thinking about this segment, the margins around that, maybe in the fourth quarter and beyond. I know at the beginning of the year

there was probably a little bit more pessimism. And I'd say, in the last two quarters, this is probably come in ahead of expectations and pushed numbers higher just trying to level-set on that. Thanks.

**A - Kevin Jacobs**

Yeah, sure. I think -- yeah, that's completely fair right, I think that Europe has continued to despite what -- you see the rhetoric over there and what they're bracing for in the winter and things like that, we talk about all the time around here the operating results have continued to sort of defy gravity and you heard the results that I've said in my prepared remarks, which are sort of growth in excess both -- obviously on an absolute basis because of how far it fell, but relative to 2019 in excess of the other regions of the world, that clearly has translated through to our real-estate portfolio or at least the part of it that is concentrated in that part of the world, the UK and Central Europe.

I'd say for the fourth quarter similar to what we've said about the macro, we don't see any reason to believe that sort of won't continue. And then you probably, in that part of the world, have some headwinds next year, right, you think about the inflation that they've got going on, that affects labor, that affects energy costs and utilities and things like that, although the fundamental environment holds up, we should do just fine. And then Japan where we have a couple of large leases, again they just opened the country up, demand is starting to pour in. And that's a part of the portfolio that could be a headwind.

And so, I'd say, to sort of wrap it all up on a run-rate basis, we're about sort of three quarters of the way back to 2019 levels. So we don't see any reason why that portfolio doesn't continue to recover to where it was, which should continue to enhance our growth rate broadly overall. And I think it's always worth mentioning that, that keep in mind that the rest of the business the fee business is growing at a nice clip, and that portfolio continues to get smaller over time because of the work we've done there. So we exited seven leases last year, we'll exit another two or three of them this year. I think two or three a year is probably the right way to think about it. And that business will be, you wake up a few years from now, that will be 5% or less of the overall business.

**Q - Chad Beynon**

Great. Thank you very much. Appreciate it.

**A - Kevin Jacobs**

Sure.

**Operator**

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

**Q - Patrick Scholes**

Hi good morning everyone.

**A - Christopher J. Nassetta**

Good morning Pat.

**Q - Patrick Scholes**

Wondering we can talk a little bit more about the group pace. If I got my numbers correct, you said, next year down roughly 9% to 10% and then you said for 4Q up 5%. I wonder since you reported in the end of July, how is the pace been going for those two different periods? It really sounds like 4Q was up, but what was the comparable pace for next year when you last reported?

**A - Christopher J. Nassetta**

The best I remember, they both moved about 500 basis points in the quarter.

**Q - Patrick Scholes**

Correct.

**A - Christopher J. Nassetta**

Up, better. Better.

**Q - Patrick Scholes**

Okay. Okay, and then do you have any -- I know it's early, but any indications on sort of the longer -- how are corporations feeling about '24, '25 at this point is, I guess it's fair to assume that they are probably a lot more cautious than they would be to book a holiday party at this point or is there something...

**A - Christopher J. Nassetta**

Yes, that's not -- the business that gets booked that far out is typically the mega size groups, the association, groups and other trade groups, and not so much -- I mean corporations don't -- they don't

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even -- they don't put their small meetings or their social events. So that's relatively short-cycle. So -- but when you look at the big, I think I mentioned -- I know I mentioned in my prepared comments, what we're seeing in terms of the mix on a forward-looking basis in bookings on the group side is looking a lot like the mix from pre-COVID, which by definition means we're getting a much bigger mix of the very large meetings and events that are getting booked. It's not surprising it took some time to get there. And to get the revenue consumed, will take more time, because these are huge multi thousand person events, some -- many of them city-wide. So it just take a long time to plan and implement.

But that is definitely starting to happen as we talk to convention visitor, SCVBs around the country, that is starting to happen. And it makes sense, notwithstanding the macro concerns out there, a lot of these groups have to meet to survive. I mean these are events that, it's not just networking. These are revenue raising events that allow these trade groups and associations to be alive. And so, they can only go so long and not doing these. And the reason they weren't doing them before was -- and by the way they're generally very resilient in economic ups and downs, the big mega groups that book multi years out because there's too much planning and money involved.

The reason that they uniquely during COVID were impacted was health, like nobody -- you're having an event that nobody shows up where then we'll pay the registration fee, and then you have a big expense of putting on the event, you not only don't make money, you could lose a lot of money. But now that we're sort of like, you know, I don't want to be the guy that declares that, now that COVID is sort of over in the sense that it's not gone, and there is variants, people aren't making decisions in terms of their behavior, both personally and professionally and in meetings and events that are factoring for that. I think all of these groups now view it as it's a safe time from a health point of view to do it and they need to do it. And so they're very deep into the booking and planning processes. And so it sort of make sense, the unique thing was the health issue this time, which was -- which we had to sort of get through. But I think at this point notwithstanding things going on in COVID, I mean, just go into the airport, going to any one of our big hotels or anywhere else and you can see that when these events are happening, they are very normal, it looks just like it did before.

**Q - Patrick Scholes**

Okay, Chris, I appreciate the color. Thank you.

**A - Christopher J. Nassetta**

Yeah.

Operator

The next question comes from Duane Pfennigwerth from Evercore ISI. Please go ahead.

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**Q - Duane Pfennigwerth**

Hey, thanks very much. Maybe switch gears a little bit. I wanted to ask you about revenue management systems. One of the things we've heard from operators recently is a preference for Hilton, RM systems and the concept of pricing floors in those systems moving up. Can you speak to the investment you've made around RM, what you think your special sauce is there, and how you might be viewing pricing floors and institutionalizing those pricing floors differently than you have in the past?

**A - Christopher J. Nassetta**

I'll let Kevin answer it, but competitively we're probably not going to give you quite the detailed answer that you want.

**A - Kevin Jacobs**

Yeah, I was going to say that. But yeah, we'll probably won't get into the way the algorithms work or any I don't even -- I can't even bring myself to say that F word out loud. But look, I'd say we have a long history of being really good at revenue management, and it is part of our special sauce. It's -- we say all the time, you can't really unpack all of the different things that we do commercially, and say that one thing is X basis-points of RevPAR index premium, right. It all goes into the premiums that we drive. But I would say, we in our history, we have a vendor that we work with, we co-created the algorithm with them, we work -- they've been an amazing partner, we work really hard with them. And we think we're really good at it, we've created the concept of the consolidated center, we drive more of our owners that sign up to be in these consolidated centers where we help them, we don't set pricing for the vast majority of our system right, because 75% of its franchise and it's ultimately up to the franchisees to set the pricing. But we can advise them on how we do it. And we're really good at it. And it's part of our special sauce and I'll probably just leave it at that. I don't know if you have anything to add?

**A - Christopher J. Nassetta**

No, I would say that's right. And we don't stop. I mean it's not a system. In the old days these systems were like you built a new system and then you let it run for a long time. We are -- these algorithms are being tweaked constantly to add incremental data fields that used to be in revenue management in our world, it was really just like data-related to the hotel, now we have datasets because the world is awash in data that are contributing to the decision-making in these algorithms and just make it smarter.

During COVID and the aftermath of COVID, one of the big things has not been less about floors and more about ceilings. And so, I think we've been very, very thoughtful about that as well. So yeah, it's part of our one of the many things that we think we -- our commercial teams are second to none in the

industry, not just in revenue management but in every other regard, but this is one area that we think we do a really good job.

**Q - Duane Pfennigwerth**

Appreciate the thoughts.

**A - Christopher J. Nassetta**

Yeah.

**Operator**

The next question is from Stephen Grambling from Morgan Stanley. Please go ahead.

**Q - Stephen Grambling**

Thanks for taking my question. This is a bit of a follow up on the last topic and on pricing power broadly. Prior to the pandemic, there were regular questions it seemed on why rate was so hard to push even as occupancies were near peak. Given there seems to be very little pricing push back now, how would you frame what has changed cyclically versus structurally as you consider either changes in consumer behavior, distribution, yield management as you were describing, or other factors? Thanks.

**A - Christopher J. Nassetta**

Hey Stephen, good to have you on the call. I mean, not to be pedantic about it, I -- but maybe I'll sound that way. It's just the laws of economics, I mean, I don't know how many times I get asked in the lead-up to the pandemic, why can't you get rate pressure? I'm not going to accuse you of it, but probably got asked a thousand times by you and everybody else. And my comment there is just there was no compression. You were in an environment where while supply wasn't high, it was over 30-year averages and more importantly demand was low because you were in this very low torque growth environment, where GDP was vast leading between like 0% and 2%. Can you put those -- you were at equilibrium in supply and demand or maybe even a little bit added equilibrium in the wrong way. And that doesn't give you pricing power.

**A - Kevin Jacobs**

And no inflation.

**A - Christopher J. Nassetta**

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And no inflation. Now you have all the things that allow you to have pricing power. You have very limited capacity for what will be an extended period of time, robust demand growth that we're talking about and broader inflationary pressures. And those things are different to the law of economics, as I say around here they are alive and well. And that's what's happening. They were driving the result pre-pandemic and they're driving this result just different set of conditions.

**Q - Stephen Grambling**

Makes sense. Thanks for getting me on. I'll leave you with one.

**A - Christopher J. Nassetta**

Sounds good.

**Operator**

The next question is from Brandt Montour from Barclays. Please go ahead.

**Q - Brandt Montour**

Hey good morning everybody. Thanks for taking my question. Chris or Kevin, I'm curious if you have thoughts about the conversion activity into a potential macro slowdown. And the basis for the question is that, that activity historically has acted sort of counter-cyclical for obvious reasons. But you guys just had a cycle where conversion activity is really high. So, I guess is there -- was there a pull-forward of the conversion activity into 2020 and 2021 and 2022 that we would have maybe normally seen in a macro type of slowdown, which we could eventually see?

**A - Kevin Jacobs**

Yeah, I don't think -- it's a good question Brandt. I don't think there's been a pull forward. I mean we're still going to do roughly 25% of our rooms additions this year as conversions. You're right, interestingly it does tend to be counter-cyclical. And I think this is what you're saying, but I'll just say it anyway, look so rising tide -- conversions actually get tougher in really strong fundamental environments right, rising tides lift all boats. And so, if you think of an independent hotel that maybe considering needing a brand in a really strong demand environment, they need us a little bit less and so the pace of conversions goes down. So that's actually a little bit -- interestingly a little bit of a headwind at right now.

And then the other thing that drives is a lot of them happen around transactions and right at the moment because of people thinking about macro headwinds going forward, transaction activity has

slowed somewhat because bid-ask spreads have widened in those markets. And so there aren't as many assets trading. So that's a little bit of a headwind. And I think actually a downturn can sort of be a strong tailwind on both of those fronts, right. If you get a little bit of a reset in people's outlook, you sort of have a downturn, then the outlook gets better, capital costs sort of adjust, rates come down, spreads widen, you actually then see a pickup in transaction activity which helps. And then during the downturn, as demand softens people need us more. So we think that conversions will continue to be a big part of the story. And interestingly enough a little bit of a softening in the macro could be a nice tailwind there.

**Q - Brandt Montour**

Makes sense. Thanks for all the thoughts.

**A - Kevin Jacobs**

Sure.

**Operator**

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

**A - Christopher J. Nassetta**

Thanks everybody for the time. As always we appreciate the great questions and opportunity to give you a little bit of color on everything going on. Obviously the macro-environment is a little bit uncertain and like you, we're watching it very carefully. But as you heard today, we remain really optimistic, certainly about the long-term of the business given the position that we're in from a brand strength and margin and overall enterprise-wide point of view. But we also remain optimistic in the short to medium term just given that these tailwinds that we've talked about several times today are pretty strong. And we continue to see very good trends and very good recovery across all the segments.

So we'll look forward after the end of the year to giving you a sense of the fourth quarter and obviously a little bit more visibility into how we think about 2023. Thanks again. Have a great day.

**Operator**

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