

Hilton Worldwide Holdings Inc

Q4 2022 Earnings Call

Company Participants

Christopher J. Nassetta, President & Chief Executive Officer

Jill Slattery Chapman, Senior Vice President, Investor Relations and Corporate Development

Kevin Jacobs, Chief Financial Officer & President, Global Development

Analysts

Brandt Montour

Carlo Santarelli

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Joseph R. Greff

Richard Clarke

Robin M. Farley

Shaun Kelley

Smedes Rose

William A. Crow

Presentation

Operator

Good morning, and welcome to the Hilton Fourth Quarter and Full Year 2022 Earnings Conference Call. All participants will be in a listen-only mode. (Operator Instructions) After today's prepared remarks, there will be a question-and-answer session. (Operator Instructions) Please note, this event is being recorded.

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

Jill Slattery Chapman

Thank you, Chad. Welcome to Hilton's fourth quarter and full year 2022 earnings call. Before we begin, I 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 discussion of some of the factors that could cause actual results to differ, please read the Risk Factor section of our most recently filed Form 10-K and first quarter 2022 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.

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 fourth quarter and full year results and discuss our expectations for the year. Following the results, 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. We're happy to report a strong end of another year of continued growth. Together with our team members, owners and communities, we've navigated through the most challenging times our industry has experienced and are deep into recovery throughout the world.

During the year, we continued investing in new innovations and partnerships that meet guests' evolving needs and further strengthen our value proposition for Hilton Honors members and owners. We remain committed to delivering reliable and friendly experiences to our guests, and we continue to enhance our network through our strategic and disciplined approach to development, enabling us to serve even more guests across more destinations for any stay occasion they may have.

Our strategy drove strong performance for the year with system-wide RevPAR up 42.5% versus 2021, and approximately 1% shy of 2019 levels. Both adjusted EBITDA and EPS surpassed our expectations and prior peaks with margins of roughly 69% up more than 300 basis points year-over-year and more than 800 basis points over 2019 levels. Strong results and higher margins enabled us to generate the highest levels of free cash flow in our history and return more than \$1.7 billion to shareholders for the full year.

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Turning the results for the quarter system-wide RevPAR grew 24.8% year-over-year and increased 7.5% compared to 2019, with performance improving sequentially versus the third quarter. We saw continued progression across all segments with leisure, business transient and group RevPAR all exceeding 2019 levels. System-wide occupancy reached 67% up from the third quarter and just three points shy of prior peak levels. Overall rates remained robust, increasing 13% versus 2019 with all segments exceeding expectations.

As expected, leisure trends remain strong throughout the quarter with RevPAR surpassing 2019 levels by approximately 12%, modestly ahead of third quarter performance. Strong leisure transient demand continued to drive rates up in the high teens compared to 2019. Business transient RevPAR also continued to improve with business travel up 3% versus 2019, nearly all industries saw a continued recovery compared to the prior quarter. Small and medium-sized businesses remained an important and growing part of our business travel segment, accounting for roughly 85% of our segments mix and enhancing our overall resiliency.

Group saw the biggest quarter-over-quarter improvement with RevPAR fully recovering to 2019 levels driven by both occupancy and ADR gains. Company meetings boosted performance improving more than seven points versus the third quarter. As we look to the year ahead acknowledging macroeconomic uncertainty, we expect system-wide top-line growth of 4% to 8% versus 2022.

We expect performance to be driven by continued growth in all segments and aided by easy first quarter comps due to Omicron, meaningful recovery across Asia, and solid growth in U.S. urban markets as group business continues to recover. Comprising roughly 20% of our normalized mix, group is a segment with the greatest visibility.

For 2023 group position is up 25% year-over-year and nearly back to 2019 levels. Even with robust forward bookings, the pipeline still remains strong with tentative bookings up more than 20% versus last year, helped by rising demand for company meetings as organizations bring their teams back together. Additionally, pricing for new bookings is up in the low double digits and lead volumes in January, were at all-time highs.

Turning to the development side. We continue to deliver on our commitment to capital-light growth. For the full year, we added nearly a hotel a day totaling more than 58,000 rooms and celebrated the opening of our 7,000th hotel. Since our go-private transaction 15 years ago, we've more than doubled the size of our system. Our rooms in the U.S. are up nearly 100% and our international portfolio is now 3.5x larger.

Additionally, we've added 10 new brands to our system more than doubling our portfolio of brands. We achieved all of this without any acquisitions and more than 90% of the deals in our current pipeline did not have any key money or other financial support.

In the fourth quarter, we celebrated the opening of our 60,000th Home2 Suites room, our 150,000th DoubleTree room, our 200th hotel in CALA and our 600th hotel in Asia Pacific, including our first Hilton Garden Inn in Japan.

We also saw continued strength in construction starts throughout the year, leading to starts of more than 70,000 rooms for the full year. In the U.S. starts increased more than 9% versus 2021. We now have more rooms under construction than all major competitors. With a record pipeline of more than 416,000 rooms half of which are under construction, we expect net unit growth of 5% to 5.5% for the year, and remain confident in our ability to return to 6% to 7% net unit growth over the next couple of years.

Our disciplined development strategy continues to enhance our network effect and enables us to serve more guests across more destinations for any stay occasion. Building on this commitment, last month, we launched our newest brand Spark by Hilton, a value-driven product that delivers our signature, reliable and friendly service at an accessible price. Spark provides a simple, consistent and comfortable stay with practical amenities and unexpected touches, filling an open space in the industry by creating a new premium economy lodging option, to meet the needs of even more guests and owners.

Premium economy represents a large and growing segment of travelers, totaling nearly 70 million annually in the U.S. alone, for which we have not had a tailored brand to serve. And this cost-effective all-conversion brand offers a streamlined reinvestment plan, focused on core guest elements and enables owners to leverage our industry-leading commercial engines and powerful network effect. To date, we have more than 200 deals in various stages of negotiation almost all of which are conversions from third parties.

Additionally, we've identified more than 100 U.S. markets with no Hilton-branded products, providing a great opportunity for the brand and the company to expand its presence. As a testament to the strength of our system and our continued success of our customer-focused strategy, Hilton Honors surpassed 150 million members during the fourth quarter and remains the fastest-growing hotel loyalty program. Honors members accounted for approximately 64% of occupancy in the quarter, up more than 300 basis points year-over-year, and roughly in line with 2019.

Additionally, we welcome approximately 200 million guests to our properties during the year, exceeding pre-pandemic peak levels. We remain focused on ensuring Hilton has a positive impact on the communities we serve. For the sixth consecutive year, we were included on both the World and North America Dow Jones Sustainability Indices, the most prestigious ranking for corporate sustainability performance, and for the seventh consecutive year, we were ranked among the World's Best Places to Work by Fortune and Great Place to Work.

As our performance demonstrates our team members have proven that we can handle whatever comes our way and because of our hard work and discipline, we are incredibly well positioned for the future, with the pivotal moment with great opportunities ahead and a new golden age of travel. And we're more confident than ever -- than ever, that our team is pleased to deliver in 2023 and beyond.

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

Kevin Jacobs

Thanks, Chris, and good morning, everyone. During the quarter, system-wide RevPAR grew 24.8% versus the prior year on a comparable and currency-neutral basis and increased 7.5% compared to 2019.

Growth was driven by continued strength in leisure, as well as steady recovery in business transient and group travel. Strength over the holiday travel season also benefited results. Adjusted EBITDA was \$740 million in the fourth quarter, up 45% year-over-year and exceeding the high-end of our guidance range.

Outperformance was driven by better-than-expected fee growth, particularly in the Americas, Europe and the Middle East, as well as roughly \$30 million in COVID-related government subsidies, which benefited our ownership portfolio. Recovery in Japan following borders reopening in October also contributed the strong performance in ownership.

Management franchise fees grew 31% year-over-year, driven by continued RevPAR improvement. Good cost discipline further benefited results. For the fourth quarter diluted earnings per share adjusted for special items was \$1.59, increasing 121% year-over-year and exceeding the high-end of our guidance range.

Turning to our regional performance, fourth quarter comparable U.S. RevPAR grew 20% year-over-year and increased 8% versus 2019. All three segments showed quarter-over-quarter improvement as compared to '19, with performance continuing to need to be led by strong leisure demand. Both

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business transient and group RevPAR recovered to above 2019 peak levels for the first time since the pandemic began, driven by continued recovery in occupancy and strong rate.

In the Americas outside of the U.S. fourth quarter RevPAR increased 53% year-over-year and 25% versus 2019. Performance was driven by strong leisure demand over the holiday travel season, particularly at resort properties where RevPAR was up over 60% versus peak levels. In Europe, RevPAR grew 67% year-over-year and 20% versus 2019. Performance benefited from continued strength and leisure demand and recovery in international inbound travel, particularly from the U.S.

In the Middle East and Africa region, RevPAR increased 26% year-over-year and 34% versus 2019. The region benefited from international inbound travel during the World Cup in Qatar. In the Asia-Pacific region, fourth quarter RevPAR was up 29% year-over-year and down 19% versus 2019. RevPAR in China was down 37% compared to 2019, taking a step back quarter-over-quarter as loosening travel restrictions led to a surge of new COVID cases.

Demand is expected to gradually recover throughout the year but remains volatile in the near term due to rising infections. The rest of the Asia-Pacific region saw significant improvement with RevPAR excluding China up 8% versus 2019. Performance was largely driven by strength in Japan, following borders reopening.

Turning to development, for the full year we grew net units 4.7% modestly lower than expected, largely due to the ongoing COVID environment in China, which weighed on fourth-quarter openings. Conversions accounted for 24% of our gross openings for the year, and additionally our pipeline grew year-over-year ending 2022 at more than 416,000 rooms with nearly 60% of those located outside the U.S. and roughly half under construction.

Looking to the year ahead, despite the near-term macroeconomic uncertainty, we are encouraged by the robust demand for Hilton-branded products in both the U.S. and international markets. For full year 2023, we expect net unit growth of between 5% and 5.5%.

Turning to balance sheet. In January, we completed an amendment to our revolving credit facility to increase the borrowing capacity under the facility to \$2 billion and extend the maturity to 2028. As we look ahead, we continue to remain confident in the strength of our liquidity position and financial flexibility.

Moving the guidance for the first quarter, we expect system-wide RevPAR growth to be between 23% and 27% year-over-year. We expect adjusted EBITDA between \$590 million and \$610 million and diluted EPS adjusted for special items to be between \$1.08 and \$1.14.

For full year 2023, we expect RevPAR growth between 4% to 8%. We forecast adjusted EBITDA between \$2.8 billion and \$2.9 billion. We forecast diluted EPS adjusted for special items of between \$5.42 and \$5.68. 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 fourth quarter for a total of \$123 million in dividends for the year. For the full year 2022, we return more than \$1.7 billion to shareholders in the form of buybacks and dividends.

In the first quarter, our Board authorized a quarterly cash dividend of \$0.15 per share. For the full year, we expect to return between \$1.7 billion and \$2.1 billion to shareholders in the form of buybacks and dividends. Further details on our fourth quarter, and full year results can be found in the earnings release we issued earlier this morning.

This completes our prepared remarks, we would like -- 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 is from Carlo Santarelli with Deutsche Bank. Please go ahead.

Q - Carlo Santarelli

Hey guys. Thank you. And thanks for all the color you provided. Kevin or Chris, Kevin or Chris, whoever wants to kind of tackle it. Obviously, given the strength in the first quarter and acknowledging their seasonality, and it doesn't flow this simply. It does look like at least for the back half of the year, you guys are looking at a flattening out. Could you kind of RevPAR.

Could you more or less frame kind of how you're thinking about the back half from a macro perspective? And what's more or less embedded in your guidance as it relates to the economy?

A - Christopher J. Nassetta

Yeah, I mean, listen you can see in the fourth quarter. First of all thanks for the question. I think that is the \$64,000 question on everybody's mind. I mean, you can see in the fourth quarter, we had really good strength across all the segments. We're early in the year, but the first quarter we continue to see that strength continue in substance relative to 2019, obviously versus 2022, its way up because of the Omicron impact.

But we continue -- you know, from a fundamentals of the industry point of view, to feel very good about things. I mean if the fundamentals are supply and demand that's what ultimately drives the result.

The supply side is quite muted, we're currently experiencing using the U.S. market, which is our biggest market, as an example. Equal to the lowest levels of supply that we've seen. Thankfully we get more than our fair share, but overall in the market, very low levels of supply and that continues to be met with very strong demand.

And we have not seen for the record any weakening, we have not -- we haven't, like seen any telltale signs or no threads of like, any of our major segments sort of backing up. What I think is driving that is, some both cyclical and secular, sort of tailwinds.

First, you continue to see consumers shifting how they're spending their money. So, maybe they're spending a little bit less, but how they're spending, it continues to be shifted more towards experiences. We're where sort of exhibit A on the experience side.

The international markets are opening up. And people, you're starting to see -- not just inbound to the U.S., but across the world, people traveling. Asia Pacific is opening up with pretty fully, it will take a little bit more time, we saw that happen in Japan in the fourth quarter, which raged -- we had very strong results. So, we get the full benefit of that.

China is obviously going through sort of what we went through 12 to 18 months ago with herd immunity and the like, -- our view is that's happening quite rapidly on the ground. You're already starting to see significant travel within China in terms of uptick, and we expect particularly, in the second half of the year. You're going to have a big tailwind from that. And there continues to be broader pent-up demand across all segments. I mean you could argue in the leisure side some of that has -- the people

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have been doing a lot of it, but we don't see him slowing down. So, we continue to think people being partly because of the shift and as I mentioned towards experiences in continue to see strength there.

On the business transient side, still good demand, very strong demand and growing demand, lots of pent-up demand. And as I mentioned in my prepared remarks, we finished the second half of last year on the group side as people really got comfortable, we were through COVID and they could start planning events.

They've been planning them like crazy -- even the biggest groups all the association stuff that really starts to hit the second half of this year, because of all of the planning. Some of that's happening. I've been at a lot of big events speaking at them lately, but the group demand, which I think is pretty resilient, just because people have gone years without doing things that they need to do for survival is pretty resilient.

So those are -- the economics of supply and demand are really good. To be specific, Carlo. And a very fair question. When we've given you a range of 4% to 8%, what did we sort of build into it. I mean, part of the reason that you're suggesting a flattening or details. Because let's be honest, it's math. I mean, we're going to be way out, of you saw our guidance for the first quarter. The world was partly shut down in the first quarter last year. So that's just a comparability issue.

But we have anticipated, right or wrong. We've tried to be conservative that the second half of the year, you'll see macroeconomic conditions slow. So, if you were to categorize it, I would describe it as we have assumed in the second half of the year sort of a plateauing related to what we think will be a moderate recessionary environment in the second half of this year. And that's what we have sort of built into what we -- what we've suggested to you in the numbers today.

Q - Carlo Santarelli

Great, Chris. Thanks. That's super helpful. And then just one follow-up. As you guys think about '23 and obviously, some projects that likely were slated for the fourth quarter as you mentioned kind of slipping into '23. As it pertains to conversion activity as a percentage of the unit growth this year. What would you think that 24% is better or would you think it's higher or lower than that, that 24% that you experienced in '22?

A - Kevin Jacobs

Yeah, Carlo. We think it's going to be higher. I mean, a couple different reasons. One conversions continue to be more important as the world gets a little bit tougher, although those conditionings are loosening. It has been tougher for new construction as you know, so conversions become even more important.

And then, Spark, as we've talked about in our prepared remarks is 100% conversion brand. So we don't think there's going to be a ton of those introduced this year, but by the end of the year, we'll start delivering those and so that'll drive a little bit higher level of conversion. So, the way we think about it, we don't guide specifically. But higher than that 24% say probably 30% or higher for the year.

Q - Carlo Santarelli

Sounds good. Thank you, Kevin. All right. See you guys.

Operator

Thank you. And the next question will be from Joe Greff from JPMorgan. Please go ahead.

Q - Joseph R. Greff

Good morning, guys.

A - Christopher J. Nassetta

Good morning, Joe.

Q - Joseph R. Greff

So, I just wanted to see. Chris, if you could talk about what's embedded in the second half of this year's guidance with respect to U.S. occupancy and pricing changes on a year-over-year basis?

A - Christopher J. Nassetta

Yes. I mean, I'm not going to get highly specific. Because we gave you a range and it would be hard to do the range that way. But, I would say, directionally the way to think about it is that occupancy sort of flat and flattens out. We don't believe in at least in the numbers we're giving you, we don't anticipate that occupancy even gets back to 2019 levels.

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RevPAR levels we think throughout the year will be higher, because of rate integrity. For all the reasons I described in my fillibuster off of Carlo's question. We do continue to believe, we will have good pricing power, at least through this year, simply because there's no capacity addition really coming into the market puts in U.S., the question about the U.S. market. And we do have these both cyclical and secular tailwinds that are giving us increases in demand, that we think are going to allow us to continue.

We have pricing power, we're not assuming in the second half of the year that pricing power is increasing. I would say we assume it's flattening or maybe even modestly lower to get to the ranges in numbers that we've suggested to you.

So, on the occupancy side, if the world's better than everybody thinks, it may be some opportunities. Again, we had a very high level, we've assumed not a crash landing sort of soft to bumpy landing in the U.S. with a moderate recessionary environment in the second half.

But, with some structural things that are going to help the business globally that I talked about, and help the business in the U.S. in terms of spending patterns, group demand and pent-up demand on certain categories of business travel.

Q - Joseph R. Greff

Great. And this is my follow-up Chris or Kevin. When you think about the fees not related to RevPAR growth in the franchise and licensing line. Specifically the credit card fees, as well as royalty fees coming from timeshare.

Do you think that grows in-line with RevPAR or how are you thinking about, how that changes over the course of this year versus last year?

A - Kevin Jacobs

Yes. Joe. I think look. Historically or right now. Historically, over the last few years, it's been less volatile, right. So, if RevPAR was up 45% for the year this year. Those fees were up something less than that, although still very robustly and HGVs public can look at what they've grown, when they report. I think in a more normalized RevPAR environment of 4% to 8%, they should grow. They should grow slightly higher, they should grow at a rate that's better than the overall business.

And so, largely dependent on spend. Although, our credit card program set a record for spend in the fourth quarter and for the full year. It was spend about 50% higher than it was even in 2019.

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So that program is doing quite well, although it should be -- it should grow better than RevPAR overtime but it'll be a little bit less volatile than it's been just given what's been going on in the world.

Q - Joseph R. Greff

Thank you guys.

A - Christopher J. Nassetta

Sure.

Operator

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

Q - Shaun Kelley

Hi. Good morning, everyone.

A - Christopher J. Nassetta

Good morning.

Q - Shaun Kelley

Chris or Kevin just any we could talk about the development side and obviously the kind of shifts from China aside, the overall outlook on the construction starts remains robust and we just continue to get a lot of investor concern about the ability of developers to finance new projects. How has that changed with the interest rate environment or the economy? So how did your conversation to go, kind of throughout the quarter?

And then, if you could talk maybe dig in as my follow-up, a dig a little bit deeper into Spark, there's been a bit of concern or question in the past about kind of going further down in the chain scales and just hoping you could unpack that a little bit for us why is right now the opportunity set right for moving into the premium economy space?

A - Kevin Jacobs

Yeah. Sure, Shaun, thanks. I'll start with sort of maybe the construction trends more broadly and then and then may be handed off to Chris to cover spark a little bit. I think what you've seen, look, there's a lot of puts and takes, right?

So, you're talking about the interest rate environment and availability of capital and obviously rates are a lot higher than they had been and availability of capital is a little bit more constrained, but there's still plenty of money available for the right projects in the world.

If you think about what's going on at the local and regional bank level is different than what's going on with the money center banks in terms of capital constraints and things like that.

You have some headwinds as we would say in terms of construction costs coming down, there were still higher than they were in 2019 by about 20% to 30%, but that's off of peaks and moving in the right direction, and then as we've been talking about the fundamental environment gives people more confidence that -- when the hotel -- when they developed the hotel and it opens, it will perform at a higher level than maybe it otherwise would have, so their pro forma goes up.

So you sort of put all that in the gunkulator and that's why started to build in the U.S. and ended up higher in the U.S. last year than they were the year before. Depends on where you are in the world. Obviously, it was really difficult, not only was it difficult to get hotels open slash impossible in China at the end of the year, because literally the offices that gave you your certificate of occupancy were closed.

And so, that's why you saw a little bit of softness in our NUG, that same environment is going on in starts. So, if you're in China starts have been behind. But, we think starts are going to continue to build from here -- the fundamental setup does give developers optimism and the way they're thinking about it, they can absorb not in all cases, but in a lot of cases, they can absorb a higher cost of their construction loan and thinking that the world will be in a better place when they open the hotel, it will perform better and when they roll their construction loan into a permanent loan, that hopefully the rate environment will be a little bit more normalized. So those are sort of some of the puts and takes of what's going on.

A - Christopher J. Nassetta

Yeah. And supporting that, and then I'll talk about Spark, when we talk to our owners, I would say, at this point the majority of our system are making more money, each individual hotels are making more money than

they were at the peak of 2019. So that's driving optimism, and the reason they're making money is more efficiencies, higher margins.

Obviously, rate integrity and pricing power has helped that. But, they've got the bulk of the portfolio is producing more free cash flow than it ever has and this is the business they're in. And many of them are quite good at finding the money in a local and regional context as they have decades-long relationships.

And as Kevin said, that's why you saw in the second half of the year, we saw inflection point, where it started to go up, here in the U.S. and generally around the world. And we think that trend, we don't see anything that suggests that trend is reversing itself.

On Spark, we spent a lot of time. We have -- the truth is, we have been thinking about something in this space for a long, long time. Almost the entire time I've been at the company. We had a lot -- obviously we've doubled the size of our brand portfolio.

So it's not like, we've been sitting around doing nothing. We had not entered that zone, but three years ago or so we started to look at it and say like, because it's a very big customer base, it's a huge opportunity to better serve our existing customers. But also an important opportunity to acquire new customers. If you look at that customer base, at least half probably, I think arguably more than half of that customer base, are customers that are early in their travel lives that are going to grow up and do other things and the sooner you get them into the system and building loyalty with them, the better off you are.

So, as always when we look at brands it starts with a sort of a customer acquisition and network -- continuing to build the network effect for existing customer base. So, we were confident when we started looking at it three years ago, that there was a lot of reasons to be serious about it, and then comes the hard part of trying to figure out how do we engineered something at this price point that really works.

That works for customers meaning that the experience they have with us is going to be great -- friendly, reliable, consistent, and that we can apply the same magic if you will from a commercial point of view to our ownership community that we have in our other brands, so that we drive superior performance to our competition.

And so, there's a reason we spent three years on it, because it's not easy. But, we think we figured out. I would say, and time will tell this, will be the most disruptive thing we've done, in terms of brand space. Because, it is very ripe for disruption. If you go look at hotels at this price point in this segment, you will find a very high beta situation, in terms of the physical attributes.

And it's very hard to fix when you have a big system that's already out there. So you'd say, well this is our conversion. It is our conversion, but what we did over the last few years that figure out with our supply management team with our design teams with our brand teams and everybody else in this company.

How can we engineer a product, where every single hotel 100% of the time when it comes in the system has been refreshed, everything that a customer-facing? We built it, we built the rooms, we put it in real hotels, we built the lobbies. And we brought customers in to say, is this what you want, is it different?

And so, what will be different about this in this space. And why I am not worried about it, and why frankly, I mean it's not sexy, okay. It's not a sexy as lifestyle and luxury. But in terms of an opportunity to be a value contributor in the billions of dollars for this company and its shareholders. I'm as excited about this as anything else we've done.

Because, from a customer point of view, we are going to give them a high quality, consistent experience at this price point, that does not exist in the market because of the way we've engineered the retrofit of these properties. And this will ultimately take some time but it can happen quickly, be thousands to biggest segment in the U.S., it's the biggest segment in Europe. I mean, it will be thousands, it should be over time the biggest brand we have in terms of number of units.

And as I said, most importantly, it always starts with what is best for better serving our existing customers and acquiring new customers, and how do we do it in a way that owners will get a superior return. We think we have cracked the code, we will have to prove it, it will come to life quite quickly. As Kevin said, we will have Sparks open this year, won't have it too terribly big impact on this year's numbers.

But as we get into next year and beyond we think it will have a meaningful impact. And as I said, ultimately, I look at these as opportunities as a consumer branded company to think about a new product at our scale being able to be deployed at scale, deployed globally, and have the opportunity to be worth billions of dollars, to our shareholders. And I think this checks all of those boxes.

So, we're super excited, we're not nervous, we've done all the work. I hope we've proven at this point given this is the 10th or 11th brand that we've created out of the ashes or out of a dust that we're pretty good at this at this point.

Q - Shaun Kelley

Thank you very much.

Operator

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

Q - Smedes Rose

Hey, good morning. I just wanted to ask you a little bit on the owned and lease portfolio. I think you mentioned \$30 million of COVID related subsidies, I think during the quarter. And I just wondering should we just assume that those start to kind of dissipate as we go through 2023 or they just all gone at this point? How are you thinking about that?

A - Christopher J. Nassetta

Yes. I think it's played through based on the programs that have been approved thus far in Europe. I mean, if there's maybe a little bit more to come through, based on things we've applied for that -- haven't quite come through yet a very small amount. And who knows if anything more will come, but we're not expecting any.

And then a thing I would say is if you look at it on a normalized basis, because remember we had subsidies in 2021 as well. If you sort of pull all that out the growth has been quite dramatic and we continue to think that portfolio will grow at a higher rate than the overall business this year.

Q - Smedes Rose

Great. Thank you. And then, I was just wondering if you could just touch on. You mentioned the U.S. pipeline and we all see what's happening there. Any change in the way that Hilton is thinking about, using key money in order to maintain or grow share or potentially land to developers at this point or?

A - Christopher J. Nassetta

No. Not no. As I commented in my prepared remarks. And if you look at the whole pipeline, more than 90% of it has no key money, no financial support. We have not changed our view on that. If you look at the aggregate dollars in CapEx, when you peeled out what we're spending in key money. Actually if you average last year and this year together, because we had some things we thought would happen last year that are happening this year.

It's actually lower than what we've been, what we've been suggesting to everybody over the last couple of quarters. So no, I don't -- we still view the opportunity to grow as very strong and without the use of our balance sheet and that ultimately is driven by what you would guess it is.

Everybody investing in our portfolio of brands is doing it to get a return and our brands are the highest performing brands in individual segments. But overall, when you aggregate them together and people are continuing to want to invest with us in that way.

So, a long-winded way of saying no, we don't see anything. In fact, I think the trend line for us overall in key money, I'm looking at Kevin, he runs development too. So, make sure he agrees with this. But the trend line is down meaning, over the last couple of years, we've had a little bit of elevated key money and in aggregate dollars because during COVID a bunch of things we'd been working on a long time came together or deals some other people's deals blew up and we were able to sweep in on some very strategic things, at a moment in time and those were lumpy but we always have opportunities we're working on, but I think those lumpy thing -- they're going to be fewer of those lumpy thing. So I think, honestly I think, in an aggregate dollar sense over the next few years the trend line is down, not up.

Q - Smedes Rose

Thank you very much.

Operator

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

Q - David Katz

Hi everyone. Thanks for taking my question. Just following on some of the earlier discussions about the thoughtful conservatism baked into the guidance. Could we talk about the capital returns a bit, and just how you thought about pulling that together and is that necessarily a kind of firm number in view of how the guidance is set up, and what could push that up or down going forward?

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A - Kevin Jacobs

Yes, David. I have to say that. Yes, it's a firm number, we wouldn't have given it to you. I assume that goes without saying, but I can't help myself. So yes, as of now it's a firm number that, that's what we think it's range for a reason. There's a lot of year left and a lot could happen.

I think if -- I did read your note this morning, so I think I know where you're going with this -- it does it is -- right now, we're a little bit lower than our historic range of leverage, that range does assume effectively no borrowing for the year, because we think that the borrowing -- and we don't like the borrowing environment right now. It's very choppy, rates are higher than we're used to.

And so, that assumes that leverage stays roughly flat to slightly down for the year, and that's what -- and yes, that's what the range of guidance in EBITDA will spit out for capital return.

Again, recognizing that we're very high free cash flow business and we don't do other than what -- we were just talking about with a little bit of key money and a little bit of capital. We don't do much else with the money other than pay a small dividend and use it for buybacks and so. So that's the range for now.

A - Christopher J. Nassetta

Yes. The only thing I would add to that, I agree wholeheartedly. The only thing I would add to that is, that's not our longer-range views on the balance sheet and return of capital haven't changed. We've been very consistent, since the beginning of time it feels like, saying we want to be 3x to 3.5x we're at the low end or below the -- a little bit below the low end of the range for the reasons, Kevin just described. We think that markets are choppy, they'll get better.

Over the intermediate longer-term, we don't intend to run leverage at those levels. We would intend to be in the ranges frankly. We've set it on these calls, probably towards the high end of the range, in a norm in a normal -- in a more normalized environment or even beyond that is something that we would certainly we've been asked and said, many times publicly we would consider.

We just need, we're just looking for a little bit more stability in the debt markets. And obviously, as Kevin said, we don't have the need and as I commented in my answer to the early question on key money, which is the primary use in terms of CapEx, we don't think we need a whole lot more.

So, any borrowing, any re-leveraging or leverage up obviously, just affords us the opportunity to return even more capital. So, I think there will -- those opportunities will exist. We gave you what we think right now, and we'll see how the debt markets and broadly have the macro sort of shifts sort of going forward.

Q - David Katz

Appreciate that and everything is well received since I misspoke and my question, I know what you mean what you say. Can we talk about the new brand just a bit. Am I taking away from that, the notion that you are fitting yourself into a space where there aren't necessarily direct competitors or there are, and you believe you've come up with a better value proposition that will just compete better.

A - Christopher J. Nassetta

I would say, we don't think there are any real competitors. I mean meaning that if we do our job, we're going to sort of come in plus or minus 20% below Tru. Which still probably be above if you look on average, it will be above where most of the folks in the existing segments are. That's why like, we like to do we're branding company, we've made up a segment, we called it Premium Economy.

So our view would be, it is above the traditional economy space, it will price above both because of the strength of our system our commercial engines, loyalty system and all those things. But, but importantly because it will be a better have better higher quality, more consistent product.

Q - David Katz

Got it. Thank you very much.

Operator

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

Q - Robin M. Farley

Great. Thanks. My question and follow-up are both really sort of clarifications on earlier comment. Because you said, in your guidance you were assuming that pricing power would flatten, or even be modestly lower later in the year. I just wanted to clarify, were you saying pricing power, like the rate of increase modestly lower or actually some rate actually lower, just to clarify?

A - Christopher J. Nassetta

No, not the rates actually lower. Just basically plateauing relative to '19 in the second half of the year.

Q - Robin M. Farley

Okay. Perfect. Thank you. And then, on occupancy. You mentioned that your guidance, you're really not even getting back to occupancy in 2019.

I'm assuming that's assuming that's just sort of a matter of time and that you would expect to be there by 2024 or are you-- do you have a view about -- ?

A - Christopher J. Nassetta

Yeah. I mean honestly I think it may be a bit of conservatism on our part, I do think we get back. By the way, Robin, we can get back to it tomorrow if you want it. But we -- we could occupy ourselves up but we don't want to do that.

We're actually manage as you can see with the rate growth, we are trying to manage in the cycle, particularly, given the environment, inflation everything else really effectively to drive the best bottom line results for our owners. In this case that to a degree, our occupancy levels are driven by pricing strategies. Okay.

Some of it is still, I think there is more recovery and more pent-up demand particularly, business travel and the group segments. So, I absolutely believe there's never been a cycle that I'm aware of that in recorded history where we will not go above prior occupancy level. So, I think that we will.

It may happen this year honestly if we continue to have pricing power, I kind of hope it doesn't and I hope it happens next year as we -- that we continue to be able to drive rate, and thus higher margins and more profitability for our owners.

Q - Robin M. Farley

Great. Thank you. And then just another clarification on your net unit guidance. From the comment in the release, I guess I'd kind of understood the sort of the coming into under 5% of the COVID delays in China that it was, maybe some openings that were sort of push past December 31 in China that would maybe make than Q1 opening sort of ahead of the full-year number.

But then in your comments, you made a comment about starts in China being behind. So, I guess I just wanted to get some clarification on. Whether it was just -- openings delayed by a few weeks or sort of a broader issue with the unit growth in China, if starts are also behind? Thanks.

A - Kevin Jacobs

I think it's both Robin. And I mean, the environment is creating a drag both, we've created a drag in the fourth quarter on openings. And also has created a drag on starts, because it's just broadly when they reopen and then everybody -- before it was locked down. So now, if they reopen and everybody gets sick. But the net result is that business activity comes -- is a drag on business activity. So, signing starts and opens, we're all affected by it, we don't think it's a long-term trend in China.

We think its timing and yes by definition. If we -- as I said earlier in the Q&A. If there was an environment where you literally have a completed hotel that can't open, because it can't get a certificate of occupancy. We don't give you quarterly guidance. So, we're not going to get into, like when those hotels are going to open. But I think you can assume they're going to open on a delay.

Q - Robin M. Farley

Ok. All right, great. Thanks very much.

A - Kevin Jacobs

Sure.

Operator

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

Q - Richard Clarke

Thanks. Good morning. I guess if I stare long enough for your release, I find one negative number which is pricing down year-on-year for the Waldorf Astoria hotels out there. Is there any particular pricing pressure at high-end hotels you're seeing or is that mix and maybe more broadly on pricing.

I guess what I observe is you seem to have taken a little bit, less pricing than some of your peers and your occupancy's recovered a little bit quicker. With that match, what the strategy is being and does that give you maybe a few more buttons as you can press on pricing, further through the recovery?

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A - Christopher J. Nassetta

The first of all on Waldorf there's no there, that's driven by individual hotels. The Waldorf brand unlike our other brands is not so many hotels that one dynamic and one particular market or two markets will drive it. So there's no, we're not broadly seeing slow down in luxury. To the contrary, we're continuing to see great strength. I'll dish the second part of that KJ.

A - Kevin Jacobs

Yeah, Rich, I'm sorry. Maybe a little bit of clarification on the second part. I'm not fully understanding where you were going with that, I'm sorry.

Q - Richard Clarke

So, I guess my -- I look at your pricing relative to the market relative to some of your closest peers. It seems you've increased prices a little bit less than some peers, and your occupancy's recovered quicker than some peers. Is that in-line with your sort of set up?

A - Kevin Jacobs

Our market share is up across the Board, right? So, we're driving better revenue outcomes than our competitors. You may be looking at individual, I don't know what you're looking at in terms of our competitors or individual sort of spot rates for year-on-year, we'd be happy to look --

A - Christopher J. Nassetta

The simplest way to look at it is system-wide last year, we finished in share at the highest levels in our history. And we gained share both in rate and occupancy. So, but those numbers across the system would not support that theory.

Q - Richard Clarke

Okay. Thanks. And maybe just a quick follow-up. The reasonable size adjustment in the net other expenses from management franchise fees -- the pass through costs that have been -- negative through the rest of the year. Looking like, maybe you were clawing back some of the losses through COVID. So, just wondering -- some specific program that's pivoted that the other way in Q4?

A - Kevin Jacobs

No, there is always timing issues in terms of those line items. In the end, we have revenue and all of our various funds, and programs are going to run breakeven over time, and then you're just seeing timing issues on the P&L.

Q - Richard Clarke

Okay. Very clear. Thank you.

Operator

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

Q - Chad Beynon

Morning. Thanks for taking my question. Wanted to ask about the tight labor market that we continue to hear about in terms of the from the Feds reporting. Obviously, very strong in the experiential category on travel and lodging.

So, do you believe this is peaked when you talk to your partner's, kind of your builders? What are they saying, just in terms of the labor market? And then secondarily, how does that factor into -- how you're thinking about IMFs and kind of profits in the back half of the year if it hasn't? Thanks.

A - Christopher J. Nassetta

Yes. I mean, the labor market situation has eased a lot. So, as we talked to. I mean, listen we employ a lot of people, we operate a lot of hotels. We talk to our team, but beyond that talk to our franchise community. I think they would say that broadly, we are not fully back to the -- where we were in terms of access to labor, but we're getting awfully close.

And so, if it was on a scale of 1 to 10 a year ago. A 10 have in terms of extremists. It's a four or five. It was something we were talking about every single day, every conversation, and it is not quite as is topical which is a good indication.

So I think the labor situation is easing, you continue to see across a broad universe of other industries, notwithstanding with the Fed is saying, a lot of layoffs including of course, through technology but through banking also through retail, where people had really staffed up, thinking that the COVID retail demand was going to be maintained and it hasn't.

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And so, there are a lot of people that are getting pushed back out into the job market and that's allowing affording us the opportunity to get the labor that we need. You've also seen while wage rates went up a lot during COVID, a net-net from '19 to now you've seen that start to stabilize, and those kind of big increases are not continuing, their at a higher absolute level but the level the rate of increase has diminished substantially.

In terms of how we think about IMF, we feel good about IMF. I think for the year, we expect IMF to add significantly to the growth rate. We think this year we expect it'll get over our prior high water marks of '19.

Q - Chad Beynon

And then secondly, just in terms of FX, the dollar has weakened a little bit against kind of the basket of the non-U.S. currencies. How are you thinking about an operational impact from that? And then also, as that kind of feeds into guidance, is there a translational impact with just a slightly weaker dollar versus what you saw in '22? Thanks.

A - Kevin Jacobs

You know, operationally, obviously, it has effects in each individual market where your pricing labor and those currencies. It's a very small headwind, single-digit millions to dollars headwind in this year's numbers.

Q - Chad Beynon

Appreciate it. Thank you.

A - Kevin Jacobs

Sure.

Operator

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

Q - William A. Crow

Good morning, guys. Nice, Chris as you think about -- you talked about the strength of leisure in the fourth quarter and all last year. But, when you think about leisure demand this year, how would your

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RevPAR 4% to 8% growth for the year? How would that would leisure be in that range or there's a lot of concern that it's going to be significantly below that?

A - Christopher J. Nassetta

Yeah. I think, we do think it would be within that range. We continue to see strength, we do expect like all the segments that you will see some plateauing as a result of a slower macro environment in the second half of the year. We still feel very good about it.

The demand trends here and now are really strong and while there's a lot of noise out there, if you go back, just went back and looked at the number, consumers still have incremental savings in the U.S. relative to the month before COVID of \$1.5 trillion now.

So, that peaked at like \$2.7 trillion, it's down to \$1.5 trillion so, they are spending it and they're probably reading the papers and watching the news and getting more nervous and so that would be a behavior set that would say that maybe they pull back a little bit.

But the reality is we're not seeing it and I think part of the reason we're not seeing it, okay, and time will tell is because of the phenomena that I described earlier in the call, which is they're shifting their spending. So, not only do they still have incremental savings in their pockets and feel reasonably good. But they're spending a lot more of it at bars and restaurants and travel as a percentage of their overall spend.

And so, we have anticipated like all segments, that they'll be a little bit of headwind in the second half of the year. But we do expect leisure to be in those ranges.

Q - William A. Crow

Yes. Thanks. If I could, Chris, my follow-up question on Spark, which is really an intriguing product. Does it kind of take care of two problems that are out there for the industry?

And one is, obviously a lot of deferred CapEx over the last several years. But the other one is about the age of select service hotels, Hampton Inns what started in '84 or '85. So we're dealing with hotels coming up on 40 years old.

So, is that part of the thought process is that, you've got a lot of hotels that could ultimately fit within that brand?

A - Christopher J. Nassetta

Listen, it is an ancillary benefit on the margin. Meaning, if we do have older Hamptons, like other third-party products that we think aren't fitting for Hampton. As you know, we've been quite disciplined and keeping the Hampton brand the strongest brand in lodging in my opinion, by pushing properties out that are past their prime and don't make sense in the system.

There, I think, over the next 10 years, there is some percentage of those that we will certainly look at keeping in the system. I think in the end Bill, it will be a very small percentage of the overall system. And if I look at the deals that we have in house right now, 98% of the deals we are processing right now are third-party brands.

So, there are a few Hamptons in there that there's no other Hilton brands in there but there are a few Hamptons but I would say, it's an ancillary benefit on the margin, a lot of those hotels, frankly over time are going to exit the system as we've been doing for time and eternity.

Q - William A. Crow

Thanks for the time.

A - Christopher J. Nassetta

Yep.

Operator

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

Q - Analyst

Good morning. (Technical Difficulty)

A - Kevin Jacobs

Hey, Greg. Can you hear us? Your -- we can't understand what you're saying. Your connection is super garbled.

Operator

Apologize sir. So, we'll have to move on to our next question. And the makes question is from Brandt Montour with Barclays. Thank you.

Q - Brandt Montour

Hey. Good morning, everybody. Thanks for taking my question. Actually just one from me, Chris and Kevin. So, in terms of development and more medium to longer term sort of net unit growth, and I remember -- your comments were well taken Chris on a couple of years. The world, as seems to have gotten a bit better for you though, right? Since three months ago, right? In terms of the speed at which China's reopening now, the excitement over Spark. And then, U.S. starts continuing to get a little better.

So, I guess the question is. Do you feel a little bit better about getting back to the 6% to 7% NUG, than you did three months ago and are we potentially even playing for maybe hitting that run rate and late in '24?

A - Kevin Jacobs

Look. I think, we said what we said for a reason, Brandt not to be sort of cagey about it. But there's a lot -- there's a lot can go one way or the other in the world. We still feel great about getting back to 6% to 7%.

I don't. Chris may have a different view. I don't feel differently today, than I did three months ago about that. I think the world's coming our way a little bit, but we don't expect none of these things stay constant, right? I mean, these trends will change and we always think the world is going to come our way. So, I don't feel that.

(Multiple Speakers)

A - Christopher J. Nassetta

I'm probably more optimistic by nature than Kevin. That's our roles but no I think we feel that, we felt pretty good about getting back to it a quarter ago. So I agree and says we don't feel differently and I

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think we were asked on last call. What is it look like? And we said it looks like, you get to terra firma with a view on the U.S. economy either in recession or out, where people have a little bit more certainty.

I thought, I don't think we've accomplished that hasn't really changed. Then we said China. Okay, that we got to get China back and reopen then while it's not fully reopened its happening. So I think on them on the margin, we feel better about that and we didn't have we in our heads had Spark, but we didn't tell you about Spark.

And so we now have a Spark there and I think that provides no pun intended, a little bit of spark to the -- to our progress and getting back there. So yeah, we felt pretty good about it a quarter go. I think we feel pretty good about it now.

Q - Brandt Montour

Excellent. Thanks you so much, guys.

Operator

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

A - Christopher J. Nassetta

Thank you, Chad. And thank you all for joining u. As you can imagine, I hope you would imagine we're pleased with the state of the recovery, fourth quarter numbers are great. While we're sentient and watching the macro-trends, we feel very good about what we're seeing right now in the business and advance bookings and all the things that sight lines that we have into the business.

We think we're going to have another really good year. And we appreciate the support, we appreciate the time, we'll look forward to catching up with everybody after the first quarter to give you more sight lines into what we're seeing then. So, thank you, and have a great day.

Operator

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

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