

Hilton Worldwide Holdings Inc. NYSE:HLT

FQ2 2023 Earnings Call Transcripts

Wednesday, July 26, 2023

Table of Contents

Call Participants		3
Presentation		4
Question and Answer		8

Call Participants

EXECUTIVES

Christopher J. Nassetta
President, CEO & Director

Jill Chapman
SVP, Investor Relations & Corporate Development

Kevin J. Jacobs
CFO & President of Global Development

Shaun Clisby Kelley
BofA Securities, Research Division

Smedes Rose
Citigroup Inc., Research Division

Stephen White Grambling
Morgan Stanley, Research Division

ANALYSTS

Brandt Antoine Montour
Barclays Bank PLC, Research Division

Chad C. Beynon
Macquarie Research

David Brian Katz
Jefferies LLC, Research Division

Duane Thomas Pfennigwerth
Evercore ISI Institutional Equities, Research Division

Joseph Richard Greff
JPMorgan Chase & Co, Research Division

Michael Joseph Bellisario
Robert W. Baird & Co. Incorporated, Research Division

Richard J. Clarke
Sanford C. Bernstein & Co., LLC., Research Division

Robin Margaret Farley
UBS Investment Bank, Research Division

Presentation

Operator

Good morning and welcome to the Hilton Second Quarter 2023 Earnings Conference Call. [Operator Instructions] This event is being recorded. I would now like to turn the conference over to Jill Chapman, Senior Vice President, Investor Relations and Corporate Development. You may begin.

Jill Chapman

SVP Investor Relations & Corporate Development

Thank you, MJ. Welcome to Hilton's Second Quarter 2023 Earnings Call. Before we begin, we would like to remind you that our discussions this morning will include forward-looking statements. Actual results could differ materially from those indicated in the forward-looking statements and forward-looking statements made today speak only to our expectations as of today. We undertake no obligation to update or revise these statements. For a discussion of some of the factors that could cause actual results to differ, please see the Risk Factors section of our most recently filed Form 10-K.

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 second quarter results and discuss our expectations for the year. Following their remarks, we'll be happy to take your questions. With that, I'm pleased to turn the call over to Chris.

Christopher J. Nassetta

President, CEO & Director

Thank you, Jill, and good morning, everybody. We appreciate you joining us today. We're excited to report strong second quarter results with RevPAR, adjusted EBITDA and EPS exceeding our expectations. Adjusted EBITDA for the quarter had a record \$811 million, the highest single quarter in our company's history. Performance continued to be driven by solid fundamentals, along with continued share gains. Our industry-leading brands, strong commercial engines and powerful partnerships continue to strengthen our system and differentiate us from the competition while a culture of innovation continued to fuel additional growth opportunities.

Despite macro challenges over the near term, we're confident in our ability to continue driving solid top line and bottom line growth and, in turn, growing free cash flow. Given the strength of our results thus far and our expectations for the rest of the year, we're increasing our guidance for return of capital for the full year to between \$2.4 billion and \$2.6 billion.

Turning to results in the quarter. System-wide RevPAR increased 12.1% year-over-year as strong demand drove continued pricing power across all segments. Systemwide occupancy improved more than 4 points during the quarter to reach 77% in June, our highest level post pandemic. Business transient RevPAR remained strong, growing 11% year-over-year as trends continue to normalize. Leisure RevPAR increased 7% versus last year, driven by solid rate growth and despite more difficult year-over-year comparisons.

Group recovery remained robust in the quarter with RevPAR growing 19% year-over-year. Compared to 2019, system-wide RevPAR grew more than 9% in the quarter with all segments performing well versus prior peaks and accelerating sequentially versus the first quarter. Stable demand and rising rates drove leisure RevPAR growth of 26% versus 2019 and business transient growth of 6%. Group RevPAR was roughly flat versus prior peak levels and improved versus the first quarter. As we look to the back half of the year, we expect continued strength driven by recovery in international

markets, business transient and group demand.

On the group side, we continue to see very positive trends. Our bookings in the quarter for 2024 arrivals grew 30%, with group position now at 13%, up driven by the corporate segment. And our sales team saw the largest revenue bookings in our history for all future arrival periods. Based on all of that, we now expect full year RevPAR growth of between 10% and 12%.

Turning to development. We signed more than 36,000 rooms in the second quarter, representing the largest quarterly signings in our history. Conversions accounted for nearly 1/3 of signings in the U.S. Signings in international markets doubled versus last year, accounting for roughly half of system-wide signings in the quarter, driven by strong momentum across Europe and Asia Pacific.

In Europe, we signed agreements across 14 countries, including our first Tapestry Hotel in the French Riviera and our first Curio in Croatia. In China, Hilton Garden Inn continued to show tremendous growth since launching our new franchise business model. In the quarter, we signed approximately 3,700 HGI rooms in China more than 3x last year and accounting for more than 1/3 of our signings in China. Signings in America were up 20 in the Americas were up 25 year-over-year with strong interest in the U.S. despite tighter credit conditions.

We've signed more than 50 Tru hotels year-to-date, representing the strongest pace since 2017 as the operating success of existing Tru properties is leading to a surge in new signings. Results were further helped by Spark with approximately 60 hotels signed and another 400 in negotiation just 6 months since its launch.

Nearly all deals are conversions from third-party brands and half represent new owners to Hilton, with our first park scheduled to open in September and roughly 20 by year-end, Spark is well positioned to disrupt the premium economy segment while expanding our customer and owner base, especially in markets where there is no Hilton brand presence today.

In addition to the strong start for Spark, we recently launched an inventive new extended stay brand in the U.S. under the working title Project H3, the apartment-style accommodations are designed for guests booking 20 or more nights built with the staying power of Hilton's award-winning hospitality. We have received tremendous interest from owners and developers due to the strong market opportunity, cost-efficient build and high-margin model and we currently have more than 300 deals in negotiation.

Our system-wide pipeline now stands at a record 3,000 properties totaling approximately 441,000 rooms, increasing 7% year-over-year and 3% from last quarter. Following another strong quarter of starts, up more than 73% year-over-year roughly and over 40% year-to-date, roughly half of our pipeline is currently under construction.

We have more rooms under construction than any other hotel company ensuring guests will have even more options to stay with us in the years to come. Specifically in the U.S., our under construction pipeline has continued to increase, up 15% year-over-year, which will contribute to increased openings later this year and next. In fact, in the coming weeks, we're going to open nearly 2,000 additional hotel rooms in New York Times Square with the debut of our first-ever Tempo by Hilton and a new tri-brand property featuring Home2 Suites, Hampton Inn and Motto.

In the quarter, we celebrated several milestones, including the openings of our 2,900 Hampton Inn and our 600 Home2 Suites property, which remains one of the fastest-growing brands in the industry. Additionally, we surpassed 150,000 rooms in Asia Pacific, including the openings of the Hilton Okinawa Miyako Island Resort in Japan and the Conrad Shenzhen, our first luxury hotel in China's thriving technology hub.

We expect openings to accelerate as the year progresses given strong international and conversion trends and expect

conversions to account for around 30% of openings. For the full year, we expect net unit growth of approximately 5%. With forecasts for our highest level of signings, the largest pipeline in our history and approaching the largest under-construction pipeline in our history, we expect net unit growth to accelerate to 5% to 6% next year and to return to 6% to 7% over the next couple of years.

As part of our commitment to deliver exceptional experiences for guests, we remain focused on initiatives to drive increased loyalty and satisfaction. We know, for instance, that food and beverage experiences are an integral part of travel and want to ensure our hotels themselves are great dining destinations. We recently formed a first-of-its-kind partnership with the James Beard Foundation serving as the premier sponsor of the 2023 restaurant and Chef awards and continue expanding our partnerships with world-class talents such as Michael Mina, Jose Andres, Nancy Silverton and Paul McGee. Hilton Honors remains the fastest-growing hotel loyalty program with more than 165 million members, up 20% year-over-year, driven by strong growth across all major regions.

Honors members accounted for 64% of occupancy in the quarter, up 2 points year-over-year. Hilton team members and our award-winning culture continue to differentiate our brands from the competition, just yesterday, our Waldorf Astoria, Home2 and Tru brands were named best in category by J.D. Power for their respective segments in North America.

Last week, Hilton was again named as a top employer for millennials for the sixth consecutive year. Since 2016, we've been recognized by Great Place to Work as the world's best hospitality company in over 60 countries. We're thankful for the great work our team members do to serve our guests around the world. We have incredible opportunities ahead to further position ourselves as the leader in hospitality, and we're very excited for the future of travel.

With that, I'll turn the call over to Kevin to give you a few more details on the quarter and expectations for the full year.

Kevin J. Jacobs

CFO & President of Global Development

Thanks, Chris, and good morning, everyone. During the quarter, system-wide RevPAR grew 12% versus the prior year on a comparable and currency-neutral basis. Growth was driven by strong demand growth in APAC as well as continued strength in leisure and steady recovery in business transient and group travel. Adjusted EBITDA was \$811 million in the second quarter up 19% year-over-year and exceeding the high end of our guidance range.

Performance was driven by better-than-expected fee growth, largely due to better-than-expected RevPAR performance as well as strong performance in Europe and Japan, benefiting our ownership portfolio. Management franchise fees grew 16% year-over-year, driven by continued RevPAR improvement. For the quarter, diluted earnings per share adjusted for special items was \$1.63 increasing 26% year-over-year and exceeding the high end of our guidance range.

Turning to our regional performance. Second quarter comparable U.S. RevPAR grew 6% year-over-year with performance led by continued recovery in both business transient and group segments. Leisure demand in the U.S. remained strong but grew more modestly year-over-year due to tougher comparisons. In the Americas outside the U.S., second quarter RevPAR increased 22% year-over-year.

Performance was driven by strong group demand particularly at our resort properties. In Europe, RevPAR grew 26% year-over-year. Performance benefited from continued strength in leisure demand and recovery in international inbound travel, particularly from the U.S. In the Middle East and Africa region, RevPAR increased 30% year-over-year, led by rate growth and strong demand from our latest travel.

In the Asia Pacific region, second quarter RevPAR was up 79% year-over-year led by the continued demand recovery in China. RevPAR in China was up 103% year-over-year in the quarter, an 18-point sequential improvement from the prior quarter and 3% higher than 2019. The rest of the Asia Pacific region also saw significant growth with RevPAR, excluding

China, up 52% year-over-year.

Moving to guidance. For the third quarter, we expect system-wide RevPAR growth to be between 4% and 6% year-over-year. We expect adjusted EBITDA of between \$790 million and \$810 million and diluted EPS adjusted for special items to be between \$1.60 and \$1.65.

For full year 2023, we expect RevPAR growth to be between 10% and 12%. We forecast adjusted EBITDA of between \$2.975 billion and \$3.025 billion. We forecast diluted EPS adjusted for special items of between \$5.93 and \$6.06. Please note that our guidance ranges do not incorporate future share repurchases.

Moving on to capital return. We paid a cash dividend of 15% -- \$0.15 per share during the second quarter for a total of \$40 million. Our Board also authorized a quarterly dividend of \$0.15 per share in the third quarter. Year-to-date, we have returned more than \$1 billion to shareholders in the form of buybacks and dividends. And as Chris mentioned earlier, we now expect to return between \$2.4 billion and \$2.6 billion for the full year.

Further details on our second quarter results can be found in the earnings release we issued earlier this morning. This completes our prepared remarks. We would now like to open the line for any questions you may have. We would like to speak with as many of you as possible so we ask that you limit yourself to one question. MJ, can we have our first question, please?

Question and Answer

Operator

[Operator Instructions] Today's first question comes from Joe Greff with JPMorgan.

Joseph Richard Greff

JPMorgan Chase & Co, Research Division

Maybe the first question relates to your net unit growth target for this year, approximately 5% versus the 5% to 5.5% previously. Can you talk about what's driving that? I mean how specific to the U.S. is that -- can you talk about the rate of China development recovery? And then obviously, we all heard what your expectations are for next year in terms of net rooms growth. What gives you the confidence for that acceleration? And what specifically, whether it's brand or geographies is driving that acceleration?

Christopher J. Nassetta

President, CEO & Director

Yes. Great question. And no, I'm not surprised that would be the first question. For the record, I think, on the last call, probably 3 different times I said around 5%. So the truth is, since our last call, I don't think our view has really changed much about where our NUG would be this year. And so it is what it is, it was always a bit back-end loaded and the simple reason for that, Joe, is in the numbers. If you look at starts, what's been happening with starts, we had a big surge in starts in the second half of last year. Starts were up second half of '22, 40%.

And if you look at what they are in the first half of this year, as I stated in my introductory comments, they're up 40%. So that means that a bunch of stuff is just translating into the second half of this year and in the next year. And so it really is entirely sort of the timing of -- in the sequencing of how that happens. So we thought it would be around 5%, we still think it will be around 5%.

Our confidence in going back on the way back up, I do feel like -- if we look at the data, it's not just pure optimism, although everybody knows I'm an optimistic sort. I mean if you look at the data, as I already said, starts were way up in the second half of last year. They've been way up in the first half of this year, we continue to see good momentum there.

Same with signings. I mean, we expect, as I said in my comments, have a record year in signings relative to our prior peak and that -- all of those things are translating into both our optimism about the second half of this year being much stronger than the first half and 2024 being much, much better. It's a bunch of different things that are contributing to that. It's really all regions, even though arguably the U.S. credit conditions are -- make it more challenging. As I already said, we're still up year-to-date -- over the last -- over the trailing 12 months, 15% in starts.

And we have some other nice things that are going to add to our growth here in the United States with Spark. We're only going to open 20 this year. You should assume we're going to open a lot more than that next year and Home3 will start contributing H3 will start contributing next year, probably not a ton, but that is a much more financeable product, even in today's environment because it's probably more apartment than it is a hotel. We are broadly having really good success on conversions and Europe, which had been slow, has really started to pick up. And Asia Pacific really led by China has woken up and the engines have not just restarted, but they're really starting to fire on many more cylinders, I wouldn't say it's all the way there yet, but in the second quarter and our expectation for third and fourth is we're going to start to get a very good momentum.

And so that's why we feel pretty darn good on the NUG for next year. Obviously, for giving you a range, I would sort of direct you to the middle of it. If some things go our way and the world stays relatively stable, I think we can be mid-range of that or above, but it's a little bit early in the year to go quite that far. We'll, obviously, next quarter and the following quarter, we'll update you. But I think -- what I would say to people is, again, it's objectively based on things that success we're having in conversions, the success we're having in demand for Spark, conversions all over the world, Spark here.

By the way, we will take Spark to Europe relatively quickly and just what we have in the pipeline, I mean, almost half of our pipelines under construction more than anybody in the industry. And once they start, they almost always finish. So that pickup starting in Q3 last year is starting to pay dividends. And thankfully, the pickup in starts has continued everywhere in the world. And as I said, the world is a big place. So there's a little bit more pressure in the U.S. even though our numbers are still good but a lot less pressure in some other parts of the world that had been feeling it, which is the benefit of a big diversified global business.

Operator

The next question comes from Shaun Kelley with Bank of America.

Shaun Clisby Kelley

BofA Securities, Research Division

I guess if we've covered the net unit growth side. Chris, I'll ask a little bit of the same around sort of the RevPAR outlook. I'd like to gear it to sort of incremental kind of changes or upside for the second half? Just kind of what's the biggest difference to kind of your prior outlook that gave you some confidence there? And then just any pressures or concerns you're seeing on the leisure normalization point. It's a question we take a lot and just kind of maybe update us on the latest you're seeing as we move through some of these really tough comps in the summer. How is behavior out there? And what's going better or a little worse than anticipated at this point?

Christopher J. Nassetta

President, CEO & Director

Yes, happy to. So yes, we moved our numbers up for the second half of the year and thus impacted the full year. That was set on the basis that we're just seeing better results. We -- as we say very regularly, we're not economists, so we try and take the consensus view of what's going on in the macro. The consensus view last quarter was that the second half of the year would see a little bit more meaningful slowdown.

I think the consensus for you right now, I mean, you can pick somebody, but it broadly is that it's going to slow down, but it's more of a soft landing and later in the year and more in the next year. And so when we factor for that and we look at the momentum, obviously, we've already booked a half a year and we look at what we have reasonable sidelines now into the third quarter, which we feel very good about.

And as we look at the fourth quarter, we would probably say the macro views that things will slow. And so we've assumed that, but probably the macro view is that they saw a little bit less than maybe last quarter. And so when you flush all that through, it results in an increase in our guidance. Now there's possible upside if the fourth quarter keeps going like we saw in the second and what it looks like we're going to see in the third, there may be potential. But it certainly warranted increasing our guidance based on where -- what we've already booked for the year, what we see at a macro view in the late part of the year. I mean the interesting thing is like everybody wants to will the business backwards, but we don't really see it. I gave you the stats on leisure, business transient and group.

I gave you some sense of where we have really good forward-looking information, which is really on the group segment remaining really, really strong. I mean, obviously, leisure is growing at a somewhat slower pace because of the comps, but I mean it's still way over the prior high watermarks and business transient keeps grinding up and getting better and

the same with group.

So as I'm sitting here today, honestly, while we will take a macro view of later in the year because we're not economists, we're not seeing any signs of weakness. I know there's a lot of questions on the leisure business. I mean what I would say to you is like we're not seeing -- we're having it a wildly strong summer in leisure. I mean the only places where leisure has backed off a bit is where you would expect it, where it's normalizing from like crazy highs. It's still in those markets, which I'll talk about way over '19 levels.

But I mean it's just sort of coming back, not even to earth, but sort of in our universe, I guess and those are markets like South Florida, Hawaii, parts of Southern California where it was just like it was insane. But broadly, we have a very diversified leisure business. Broadly, we're not really -- again, other than comps being harder, we continue to see good growth and we expect to -- and at least what sidelines we have in the business transient, talking to a bunch of customers, which I've done very recently. And certainly, our sales team talks to them all the time, and we got everybody together upsize as we always do last week to talk about it.

They're feeling quite good, particularly the SMBs, which is at this point, 85% plus of our business. They're traveling more. They're feeling reasonably good about soft landing in their business. And then group and there's pent-up demand there and group, there's still huge amounts of pent-up demand that haven't been released, as I said, we're -- we had the best booking quarter in our history ever in the second quarter and our position is great for next year. And you're still not where you're going to be with all the big associations because that was really driven by corporate group.

So a bunch of the big association groups, I mean, they are booking, but that's multiyear booking cycles, that's still to come and so we don't see weakness. Obviously, we're sentient and we know what the Fed is trying to do. We'll hear this afternoon, what the next steps are? I expect they are going to raise rates but I do think we're probably getting to the end-ish of that tightening cycle.

Inflation is coming down, some of the lag indicators that will eventually come into the inflation numbers. Housing in particular is definitely real time coming down and will eventually show up. And so I do think -- we'll see. Again, I'm not an economist, but I do think consensus view is starting to center around a softer landing, maybe late this year or sometime next year. And that feels rational based on everything going on. And as I said, our business, we're not seeing any real cracks anywhere. And of course, the places in the world that had been lagging are now starting to like produce. So the most significant lag everywhere was doing really well, but China -- and now China is eclipsing prior high watermarks and getting going on development, as I already said, but also operationally, eclipsing 2019 numbers.

So not to be a poly -- it all feels pretty good and if we can orchestrate a slowdown but a reasonably soft landing, I think the rest of this year is going to be very solid and in line or better than what we said. And I think next year will be a darn good year because I still think there'll be strength in leisure, but particularly, there'll be if you get a reasonably decent slowdown soft landing, you're going to have continued growth in business transient, particularly with SMBs, which is the vast majority of the business. And group is going to be pretty sticky because people just have to do some of the stuff and particularly in a soft landing environment, I don't think you're going to see a big change there anytime soon.

So it's early. I'm not going to -- like, obviously, I'm not going to give guidance yet for next year. We're not it's sort of crazy to do that. We got a lot of year to see how things play out. But I sit here today, I feel quite good about the rest of this year. I actually feel quite good about as we later this summer get into budget season, how we feel about next year. And that's reflected, as you not surprisingly. And the guidance we're giving the increase in our return of capital, I mean I think that should be read for what it is.

Operator

The next question comes from Stephen Grambling with Morgan Stanley.

Stephen White Grambling

Morgan Stanley, Research Division

I know you don't want to get 2024 guidance, but if we go all the way back to the split off, you had outlined this algorithm of 1% to 3% RevPAR growth kind of translating to 14% to 23% EPS algorithm with kind of 6% NUG. You're talking about the reacceleration of NUG basically in that range but what other changes in the business should investors be thinking through as we compare and contrast that algorithm to today whether it's thinking about royalty rates or pipeline or other fees?

Christopher J. Nassetta

President, CEO & Director

I think that the algorithm stands. I mean -- and in fact, even -- by the way, while NUG has been a little bit lower, RevPAR has been higher. I mean it's a pretty perfect hedge, meaning -- we've been running a little lower on one, a little higher on the other. My guess is it's going to flip around over the next couple of years. And as I said, we're going to get back to 6% to 7% and same-store growth is going to normalize. But we think the algorithm is alive and well and will deliver at those -- in those ranges that we've talked about as a result of increased growth rates from where we are, increased license fee rates, overall RevPAR growth, the deals that we've done on the licensing side, which generally drag us up because they're at or above algorithm growth rates.

We feel very good about that algorithm that we laid out in 2016 that it's alive and well in producing. And as a result, we're producing today more free cash flow than we ever had in history, which is what allows us to return so much capital. Again, that will keep -- both of those things will keep going up as well.

Operator

The next question comes from David Katz with Jefferies.

David Brian Katz

Jefferies LLC, Research Division

I wanted to talk about just the strategic philosophies around brands. You've been highly productive at launching brands and just observing that a lot of the growth has been sort of in the middle and mid-scale and limited service, et cetera. How do you think about launching stuff potentially at the higher end? Or do you not sort of want or need those? Or -- and just help us understand how you decide where to launch.

Christopher J. Nassetta

President, CEO & Director

Sure, David. Thanks. Really good question. So yes, I got here with Kevin and others about 16 years ago, and this company had 9 brands that were pretty good, but not performing that well. Today, we have 22 brands. So we have, I think, really built a very powerful sort of engine of innovation to figure out what customers want, what segments we're missing and to give them more of what they want and do it with very high-quality brands and then deliver commercial performance that's winning performance and market-leading performance so that we attract lots of capital.

I don't think we have a brand and we have some that are early, but I don't think we have a brand. I know we don't that isn't performing at -- either equal to or above everybody in the space. And so listen, I say that sort of patting us on the back because I'm very proud of that. Every company has different strategies. We think this strategy is a winning strategy because it delivers better products for our customers over time that meet the market in a modern context and it's better from a return point of view because we're doing it with blood, sweat and tears and not investing capital.

And so it's an infinite return and better for the customers is sort of how do you not like it. Many of those brands, not all, and I'll talk about that, have been in the mid-market. Why? Because that's the biggest opportunity. And so we're trying to serve any customer for any need to have anywhere they want in the world. But obviously, we have focused a lot on where the big markets are, where the big addressable TAMs are, total addressable markets and there's no way you could debate that every segment is important, but the mid-market is where the people are.

I mean the big demographic trend in the world, I don't have to tell anybody on this call is growing middle classes all over the world, right? And that's where the money is and those people can afford mid-market hotels. And so when you wake up in 10 or 20 years, the bulk of the rooms growth in the world, that's the bulk of the money that's going to be made is in the mid-market. So that's why we have focused there but we have not focused exclusively there. We've done a bunch of things in the lifestyle space, with Urban Micro like Motto, with Tempo, with Canopy at the upper upscale lifestyle segment. And obviously, in the luxury space, we have made huge strides. I mean, Waldorf existed but wasn't really a brand and Conrad was not much to speak about. And LXR didn't exist.

And so we've gone from essentially a few hotels to a 100 world-class luxury hotels with another nearly 60 in the pipeline. And by the way, I said it, but this morning, if you look at Bloomberg or whatever, Waldorf Astoria was ranked the #1 luxury brand, eclipsing Ritz-Carlton in customer satisfaction in North America.

So we're making really good strides there. And I think there are more opportunities. I would say, listen, we've talked about this for a long time and the only reason we haven't done it is because we've had other market opportunities that we thought would drive, would serve more customers, drive higher growth and create more value for shareholders but luxury lifestyle is definitely -- I mean, we're in and around the lifestyle segment, LXR to a degree is sort of luxury lifestyle. But we don't have a pure hard brand in the luxury lifestyle. Yes, we will. I would say we're doing developmental work there. We want to give our babies Spark and H3. While H3, we need to give a name, which we're close to and then we need to make sure they become little toddlers and are successful but we're doing developmental work in luxury lifestyle.

I would expect in the next year, we'll launch something in that space to sort of add to the 3 brands we have already in the luxury space to give us another shot on goal for luxury opportunities around the world. But the -- and so luxury and lifestyle are hugely important to us because customers like it, and we give them lots and lots of opportunities. But again, the big mass market opportunity every -- in every major market in the world is the mid-market. And so we are not ashamed of saying we are -- we have every intention to have the best brands in every market to serve mid-market because we think that's where the most money will be made over the next 10 or 20 or 30 years.

David Brian Katz

Jefferies LLC, Research Division

Understood. And if I can just follow up on one detail and if I'm over beating the horse, apologies. With respect to the NUG for the remainder of this year, I just want to be as clear as possible about whether there was some one tough comps pull forward or any projects that have slid into next year that are elevating.

Christopher J. Nassetta

President, CEO & Director

I'm not really. I mean not really. As I said in the last call, I said around 5%. And if you go listen to it, maybe 3 times I mean a little bit, although it's not meaning -- I mean, listen, we were hoping from the standpoint of the momentum that we have in Spark. We were hoping to have 50 hotels open this year. I think by the last quarter, we realized that wasn't going to happen. But we're going to have, as I said, we're going to probably have 20. There's no problem. I mean we have 400 deals in negotiation with hundreds more coming over the threshold. It's just -- and the supply chain stuff is now set up and moving. It was a lot of moving parts as we get set up. And so -- that probably has a tiny bit of impact. I mean 20 to 50 is a few thousand rooms. But otherwise, not really -- not really -- I mean, again, I said around 5%. I'm still -- we still think it's around 5%.

Kevin J. Jacobs

CFO & President of Global Development

Yes, David, I think not to go too far on. I think I'd just add that there's a reason why we signaled 5% last quarter, another quarter has gone by. So the second quarter is sort of in terms of openings played out the way we were thinking it would, which is why we were signaling we weren't yet ready to adjust the official guidance. All we've done now is crystallized with a half year in the books and have a half year left, that what we thought was going to happen in the second quarter happened. And then if you think about the momentum, I mean, Chris already talked about this, but the momentum in approvals and starts, I'd say it was a better experience in the second quarter than we were expecting a quarter ago.

Operator

The next question comes from Smedes Rose with Citi.

Smedes Rose

Citigroup Inc., Research Division

I just wanted to ask you a little bit about occupancy levels. When we look at the U.S. data and I think is true for Hilton versus 2019 is a reasonable sort of gap to prior peak occupancy levels or pre-pandemic occupancy levels. But it sounds like from what you're saying, you think maybe the continued improvement in group trends will kind of close that gap? Or is certainly be something else you're seeing? Or do you think it's just structurally lower going forward? Just kind of curious how you think that evolves over the next -- through the balance of the year and maybe just going forward?

Christopher J. Nassetta

President, CEO & Director

Yes. For us, it's been better than the industry. We're 3 or 4 percentage points off of depending on when you look at it off of peak occupancies. I think that you sort of noted some of the issues. I think part of it is happening because of the group. It's still -- our group is getting there, but it's still building. Part of it is -- and that's impacting a bunch of the cities, right, that have recovered a lot most of them. There are a couple of exceptions or one big exception, but most of the cities have recovered. But from an occupancy point of view, they're still off because they don't have the big citywide spec.

So I do think it is partly the group. And then the other thing that's going on is, I sort of kid not to be a smart ask about it, but part of it is pricing, right? So if you said to me, could we drive occupancy consistent with the prior peak. The answer is, yes, I could probably do it in the next couple of days, but it wouldn't be the right answer. Meaning, we are pushing hard on price because we've been obviously in a highly inflationary environment. And from the standpoint of trying to make our hotel owners the most money, that relative trade is the right trade, keep pushing price hard even though it might impact occupancy.

The bottom line is better because the flow-through run rates a heck of a lot better than the flow-through on occupancy. So part of this is, yes, there's still goods coming back. You have business transient is still particularly the big corporates are only 92% back, part of -- and they'll come back no matter what they say, by the way, over the next few years, they'll come back. You heard it here, I'm telling you they'll come back. But a bigger part of it is, honestly, yield management strategies. I mean, we're really trying to push rate and we don't want to give -- we're not as worried because it's a better outcome for every -- better outcome for us, our owners make more money to drive higher margins.

Operator

The next question comes from Brandt Montour with Barclays.

Brandt Antoine Montour*Barclays Bank PLC, Research Division*

Just a follow-up on that, Chris. Industry ADR growth has been tracking below inflation since April. Inflation is probably expected to ease further. And I know your pricing is based on supply and demand and you're pushing rate. And I'm trying to just reconcile those 2 forces as we look into the back half of this year, and maybe you could also just add in what your core SME or your core business transient ADR pricing growth is looking like and if that is in excess of inflation today.

Christopher J. Nassetta*President, CEO & Director*

The answer is yes. I mean there is a tiny disconnect in timing. But I'd say the core pricing of our transient products, whether that's leisure or leisure transient or business transient is keeping up with inflation at its current levels. And obviously, we expect that to continue to come down. We feel good about the pricing power, again, with all the assumptions I already commented on about my view or the macro view that we've adopted for the back half of the year. And as we go into next year, and we think the broader environment is generally supportive for continued rate strength.

I mean the one thing -- it's funny we talked -- I kid our team around here, it's like we've been living a little bit in Bizarro World coming through COVID, obviously, and then in the aftermath, where you saw will be about fundamentals. That's all we would ever talk about on these calls. It all has ever talked about with investors, the fundamentals of demand, what's going on with demand and what's going on with supply. In Bizarro World, nobody talks -- nobody cares about supply. But we're normal -- I mean, everything is just getting reasonably close to a more normalized environment.

Prices are higher, okay, but that's just a broader reset that's happened throughout the entire economy, which I think unless you have broad disinflation, which it doesn't feel like that's happening anytime soon, that's sustained. And so you've sort of set a new water level, if you will, for pricing. And then eventually, in the very near term, it's going to get back to basic fundamentals, like what's going on with base demand and what's going on in supply. And I think the thing that doesn't get enough attention, like thankfully, as you can see in our starts and signings and NUG and our expectations for the future, we get a heck of a lot more than our fair share. But what's really going on in supply, particularly in the U.S. is anemic levels of industry growth that are sub if the 30-year average is 2.5%, it's running like 0.8% and it will be, and it's been running low. And given the environment, it's going to stay low.

And so when you get to a more normalized environment, which is we're sort of morphing slowly into over the next year or 2, you're going to find yourself in an environment where demand should be reasonably healthy if the economy is okay against a historically low supply side environment in the industry. And so I think it's going to feel pretty good and I think it's going to be another factor for sustaining performance and rate integrity.

Operator

The next question comes from Duane Pfennigwerth with Evercore ISI.

Duane Thomas Pfennigwerth*Evercore ISI Institutional Equities, Research Division*

Can you talk a little bit about the profile of your owners for new development and how that may be changing. With the signings activity you talked about in the second half of last year, first half of this year, any new trends or maybe some surprises you could speak to with respect to the organizations or the individuals that are investing in new development?

Kevin J. Jacobs*CFO & President of Global Development*

Yes, Duane, I'd say, look, no surprises really. I mean, I think Chris mentioned in his prepared remarks, I mean, I think half of the Spark owners are new to Hilton, right? And that's not a surprise to us when you're heading into a different segment, you're heading into a different group of owners. And we view that as a positive thing, right? You're filling the top of the funnel with a lot more demand for the product going forward. You're diversifying your own base even further. I mean we've always had a really diversified owner base but we're diversifying it even further and we're responding to -- if you think about Chris said before, when he answered David's question is like evolving the product base to respond to where the demand is, well, the owner base evolves in that same way, too, right? The capital follows the opportunities. And so if we were living in a world not that long ago, where 70% to 80% of our deals every year were with existing owners.

We're still doing the same absolute amount of volume with our existing owners. In fact I have to assume -- I don't have the stats in front of me, I have to assume we're doing more business with our existing owners, but then we're actually adding a whole lot more owners around the world. So I think globally, we're down to like 50% or 60% of our deals are with existing owners annually. So no surprises, but we view it as a huge net positive for the business.

Christopher J. Nassetta
President, CEO & Director

Yes. The other minor segment, I think that's well said is on H3. I mentioned in my comments, it's a hybrid and it's probably more apartment than hotel. We've been really excited about the institutional interest that we have from larger institutions that either want to develop or work with a partner and fund the development of large numbers of H3 just because of the cost to build the -- it's we think a 60% kind of margin business, and they really like the segment of demand and its existing profile and growth profile.

So that's been not surprising because we -- when we were developing H3, that was our hope and expectation, but it's nice to see it come to life. I mean, as I said, we're negotiating 300 deals and that's not with 300 different people at this point. We barely opened it up. This is with a relatively limited number of very well-healed more institutional type players. We will ultimately open the floodgates on H3 once we get it going but it's been very nice to see.

Operator

The next question comes from Robin Farley with UBS.

Robin Margaret Farley
UBS Investment Bank, Research Division

Obviously, great news on the RevPAR outlook. I did have a question circling back to the net unit growth. You mentioned Spark and maybe it sounds like some timing in China that was a little bit pushed out. But when we think about the strong start numbers that you've talked about, can you help us think about timing of interest rates are still moving up a little bit here? And obviously, some of those big increases in starts are due to sort of comping the pandemics, so there's that going on, making the comps look different than normal.

I guess just trying to think about the timing from here in terms of the factors like what has everything do you think bottomed. It seems like maybe not yet in terms of -- with interest rates still moving up, but help us think about the timing of like rates moving up, starts being high, but -- and kind of where you see things bottoming in terms of that.

Christopher J. Nassetta
President, CEO & Director

Yes. Just for the record, in the signings numbers, then starts signings will be above prior high watermarks pretty materially, and starts will be about -- even though the comps are resi will be about where we were at our prior high

watermark. So it's not just the benefit of comps. I'll let Kevin take the next part of it. But I mean, Spark, the beauty of Spark is it's a relatively low-cost entry product and so it doesn't really require a lot of financing.

Kevin J. Jacobs

CFO & President of Global Development

Yes. Both Spark and H3 are more easily financeable products in this environment. So again, that's not why we launched those brands. We launched those brands because there's a ton of customer and owner and for the product. But if you think about the way it's playing out, it's sort of another example of diversification being a great thing. We have products that are more financeable. I think our lower-end products around the world are more financeable. And then I think I'd couple of things I'd guide you to as well.

I think when you think about a tighter credit environment because not just rates, it's availability of capital, that's not a -- that's a Western world phenomenon. It's not just U.S., but it is highly concentrated in the U.S. Only 40% of our deliveries this year are going to be in the U.S., right? So it's a big world out there. We've got a lot of diversification. And I think that for all of the reasons we've given you, we think momentum can continue.

And if you think about, I mean Chris talked about Bizarro World on fundamentals. It's also Bizarro World a little bit on development because it sort of starts with approvals you got to sign them, you got to get them in the ground and then they deliver, and that's all usually on a lag. And we've had COVID and we've had a bunch of changes but I think if you think about development being on a lag, it has to start somewhere. So the outlook for approvals and starts bodes well for the future.

The fact that we're rounding out the product base with more easily financeable products bodes well for the future, the fact that we have more limited service and lower-end products to deploy in emerging markets bodes well for the future. And it's not to say there won't be hiccups along the way, but we do believe that it's a progression back to normal, if you will, from here.

Operator

The next question comes from Michael Bellisario with Baird.

Michael Joseph Bellisario

Robert W. Baird & Co. Incorporated, Research Division

Wanted to go back to the new credit card deal that Amex announced on Friday. You guys didn't mention it. So maybe hoping you could provide any commentary or incremental fees or economics that you expect to receive? And then maybe what's new or different in this deal versus what you last signed in 2017?

Kevin J. Jacobs

CFO & President of Global Development

Yes. I think, look, there's a fair amount of that is competitively sensitive, and we're not going to get into a lot of details, but I can sort of give you a sense for what's new and different. I think, look, the economics are a little bit better, which is as a result of the program just being better. I think our -- if you look at total spend in the program for this year, it's going to be about 2/3 higher than it was in 2019, right? So we're growing the program massively. It's been a hugely successful partnership with American Express.

We believe that those -- we've said we don't give you a lot of details on package and we apologize for that. But again, it's pretty sensitive competitively. It's been growing ahead of algorithm. We think it will continue to grow at or ahead of algorithm over time. It's a 10-year deal. I think a lot of people would have predicted the last time we did a credit card deal

that credit cards were going to go -- somehow go away and be replaced by other forms of payments. I think it's quite the contrary. I think travel co-brand cards have become extremely successful and attractive products. They drive engagement across the system. It's not just about the economics on the card. And I think Amex feels the same way. So we're super excited about the deal and probably will stop short on too many more details than what we've already said.

Michael Joseph Bellisario

Robert W. Baird & Co. Incorporated, Research Division

Got it. And then just one follow-up. Any incremental economics included in the increased full year guidance from the credit card deal?

Kevin J. Jacobs

CFO & President of Global Development

I mean we've been assuming that we've been working on this for a while. So I think there's nothing new on that front.

Operator

The next question comes from Chad Benyon with Macquarie.

Chad C. Beynon

Macquarie Research

I wanted to ask about the owned portfolio. The performance in the quarter recovered better than M&F fee portfolio, leading to some of the positive variance versus your Q2 midpoint EBITDA guide. Kevin, you noted, I think, strength in Europe and Japan, obviously, where you probably have some of the smaller concentration. But can you kind of help us think if the outlook has changed for this segment as we kind of look into the back half of the year, given how much improvement you saw in the second quarter, does that give you more confidence that you could see some margin improvement and just overall EBITDA growth year-over-year in the back half?

Kevin J. Jacobs

CFO & President of Global Development

Yes, no problem. Yes, there's a lot there. First of all, the whole portfolio is concentrated effectively in U.K., Ireland, Europe and Japan, so particularly Central Europe and Japan have been quite strong. There's no real sort of change in -- I mean, a little bit of year-over-year growth for subsidies last year but that's just a little bit of noise. I think basically, there's operating leverage in the business, right? Their own hotels, their leases, right? So there's even more operating leverage than a regular owned hotel.

So they've been growing at a rate that is quite in excess of the overall fee business. As long as fundamentals stay growing, that will continue to be the case. And I think we -- our outlook for the segment is a little bit better now this quarter than it was last quarter because our outlook for Europe and Japan is better.

Operator

The next question comes from Richard Clarke with Bernstein.

Richard J. Clarke

Sanford C. Bernstein & Co., LLC., Research Division

Just on the [indiscernible] Spark and H3. Are those going to be enough to get U.S. now back up to 5% that for the

international business [indiscernible]. And then maybe just related to that, by giving us some big numbers on where you think Spark can do in the near term. If I go back to when auto was launched now 60 hotels, I think you're 8 to 10, you talked about maybe 20 to 30 having got a Tempo yet, but one coming through, just maybe what's different here versus maybe where -- what those brands achieved in the shorter term?

Christopher J. Nassetta
President, CEO & Director

Yes. Good question. I think the answer is yes on not just Spark and H3 in the U.S., but Home2 in the U.S., Hampton is growing in the U.S. I'll come back Tempo is just getting started. So I think the combination of all of those brands, the benefit of conversions in soft brands will get us back, I am confident to those levels. The difference between like a Tempo and Motto and Spark is night and day, honestly. I mean here's what happened at Tempo and Motto. We launched them about a day before the pandemic and they are all new build. I mean it's pretty much with both those brands.

There are some adaptive reuse that will go on, but it is a vast majority of those -- are new builds. And so we got into COVID, there was no financing, everything slowed down. Those brands, I think, will do incredibly well. I think Tempo, we have I don't even have the pipeline number in my head. But as we open Times Square, we've got dozens of those under development around the country. We're getting ready to take the show on the road around the world and now that we're in -- even though the environment has some uncertainty in financing and all that, it's a heck of a lot better than it was in COVID.

So you'll start to see a great trajectory and Tempo, there's nothing wrong. Tempos are great, owners love it. COVID got in the away. Basically same for Motto. Spark is a totally different thing. One, it's not -- we're not COVID. While there are challenges out there, it's 100% conversion brand and it's basically taking hotels that are in much weaker brands and converting them into our system where there's huge opportunities for market share gains and it doesn't cost in terms of the quantum of money to do it, it's a relatively low ticket for owners to do it, that is why we have so much interest.

So I think the ramp on that will be much, much faster, and it's a very different thing but I wouldn't diminish the opportunities in Motto and Tempo. They're going to -- particularly Tempo, Mottos, a micro hotel in just the biggest urban markets, we'll do a lot more of them. But I mean, Tempo will be a mega brand. It just got caught up in getting launched a minute before COVID.

Kevin J. Jacobs
CFO & President of Global Development

Yes. I wouldn't connect -- is a shorter way of saying I wouldn't connect too many dots. I mean the world is just different and the brands, as Chris said, are different. And again, the beauty of Spark is you don't have to get a building built to do a Spark. It's all going to be buildings that are already built.

Operator

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

Christopher J. Nassetta
President, CEO & Director

Thank you, MJ. Everybody, we appreciate as we always do, you spending a little bit of your morning with us. We know it's a busy time. And lots of earnings releases. We obviously remain really optimistic. Obviously, Q2 was a great quarter for us. That's flowing through plus some given our expectations for the second half of the year. Again, we're optimistic

on our unit growth and optimistic for not just the end of this year, but in the next year, we'll be able to deliver. But most importantly, the algorithm that we've described is alive and well and working and we continue to grow. We continue to maintain incredible cost discipline.

The company is at the highest margins by 800 basis points that is ever run at, thus producing the greatest amount of free cash flow in our history and we intend to be super disciplined about how we allocate that, otherwise known as giving it back to our shareholders. And so in any event, we'll look forward after Q3, giving you an update on how everything is going. I hope everybody has a great rest of the summer.

Operator

The conference has now concluded. Thank you for your participation. You may now disconnect your lines.

Copyright © 2023 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

© 2023 S&P Global Market Intelligence.