

Hilton Worldwide Holdings Inc. NYSE:HLT

FQ3 2023 Earnings Call Transcripts

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Table of Contents

Call Participants		3
Presentation		4
Question and Answer		8

Call Participants

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Presentation

Operator

Hello, and welcome to the Hilton Third Quarter 2023 Earnings Conference Call. [Operator Instructions] Please note, 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

Senior Vice President of Investor Relations & Corporate Development

Thank you, MJ. Welcome to Hilton's Third 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 risk factors that could cause actual results to differ, please see the Risk Factors section of our most recently filed Form 10-K. In addition, we will refer to certain non-GAAP financial measures on this call. You can find reconciliations of non-GAAP to GAAP financial measures discussed 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 third 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. Good morning, everyone, and thanks for joining us today. I wanted to start today by saying that our thoughts are with all of those impacted by the tragic events that are unfolding in the Middle East. Our priority remains the safety and security of our team members and guests as well as helping in any way we can to support the relief efforts for the humanitarian crisis in the region through a number of organizations, including the International Committee for the Red Cross.

Turning to results. We're pleased to report another strong quarter with system-wide RevPAR, adjusted EBITDA and adjusted EPS all above the high end of our guidance ranges. The strength of our brands, power of our commercial engines and resilient business model continue to drive strong top and bottom line performance. This supports meaningful free cash flow generation and greater shareholder returns. Year-to-date, we've returned more than \$1.9 billion to shareholders, and we remain on track to return \$2.4 billion to \$2.6 billion for the full year.

In the quarter, system-wide RevPAR increased 6.8% year-over-year, boosted by strong international performance and continued recovery in business transient and group. Demand improved across all segments and regions with system-wide occupancy for the quarter reaching our highest level post pandemic and only 2 percentage points off prior peak levels with September just 1 point shy of 2019.

Group RevPAR rose 8% year-over-year, outperforming leisure and business transient RevPAR growth of 5% each. Compared to 2019, system-wide RevPAR grew 11.4% in the quarter with all segments accelerating sequentially versus the second quarter. Overall performance was driven by both rate and occupancy. Steady rate growth and rising demand drove leisure RevPAR up 29% versus 2019, improving roughly 300 basis points versus the second quarter. Business transient RevPAR grew 7% with both large and small accounts improving.

Adjusting for holiday and calendar shifts, mid-week RevPAR increased nearly 500 basis points versus the second quarter. On the group side, RevPAR exceeded 2019 peak levels for the first full quarter since the pandemic and we continue to see positive group booking trends in the quarter for all future periods. Group position for 2024 is now up 18% year-over-year, and lead demand in the quarter for all future arrivals increased more than 15%.

As we look to the fourth quarter, we expect continued strength in international markets, along with continued improvement in business transient and group demand to drive further acceleration in RevPAR compared to 2019. Better-than-expected third quarter performance and increased expectations for the fourth quarter, partially driven by better group bookings. As a result, we now expect full year RevPAR growth of 12% to 12.5%.

Turning to development. We saw another quarter of robust signings with a near-record 35,500 rooms signed increasing 80% year-over-year. Our pipeline now stands at the highest in our history, totaling 457,000 rooms, up 4% versus the second quarter and 10% year-over-year. Signings in the quarter spanned our portfolio, demonstrating the benefits of a diversified industry-leading family of brands. Conversions accounted for 35% of signings increasing sequentially versus the second quarter.

Overall, we remain on track to deliver the highest annual signings in our company's history, surpassing 2019 record levels by double-digit percentage points. We also delivered another strong quarter of construction starts with every major region exceeding our expectations, and the U.S. in particular, delivering its strongest quarter of start since Q1 2020, up 18% year-over-year. Roughly half of our pipeline is currently under construction, and we continue to have more rooms under construction than any other hotel company accounting for more than 20% of industry share.

In the quarter, we opened 107 hotels totaling nearly 16,000 rooms, up 22% year-over-year and 12% versus the second quarter. We achieved several milestones in the quarter, including the opening of our 700th hotel in the Asia Pacific region, and we celebrated our 60th anniversary in Japan. We also opened our 300th lifestyle hotel in our 50,000th lifestyle room, including the global debut of Tempo by Hilton. Designed with well-being in mind, the brand's first property is now open in the middle of Times Square, New York as part of the TSX development.

Additionally, Canopy launched in the south of France with the opening of the Canopy by Hilton Cannes making Hilton's entry into the city and the latest addition to a growing portfolio of Canopy properties across Europe. Curio celebrated its debut in Savannah, Georgia. Tapestry increased its portfolio with the opening of the Bankers Alley Hotel in Nashville, and Motto expanded its signature flexible design and local vibe with its second hotel in New York City.

During the quarter, we also celebrated the debut of our newest cost-effective conversion brand, Spark by Hilton. The grand opening of the Spark by Hilton Mystic Groton in Connecticut solidified our foray into the premium economy segment. I just visited the property last week and was blown away. I would encourage any of you that are in the area to go see it. Opening just 8 months after launch, Spark is the fastest announcement to market brand in Hilton's history, with more than 400 deals in negotiation, we think this is the start of a journey to reshape the premium economy segment while expanding our customer and our owner base.

Announced just 5 months ago, Project H3 also continues to see tremendous demand with 350 deals in negotiation. In fact, later today, we're breaking ground on the first ever property in Kokomo, Indiana, which we expect to open in late summer 2024. Positive momentum in openings has continued into the fourth quarter with several notable openings in

October, including the 540 room Hilton Cancun, Mar Caribe all-inclusive resort.

Tomorrow, we'll announce and open a 1,000-room conversion property in the Northeast part of the United States. We forecast conversions will account for approximately 30% of full year openings.

For the full year, we continue to expect net unit growth of approximately 5%. We believe we have hit an inflection point and expect a meaningful uptick in openings in the fourth quarter with continued positive momentum into next year, with forecast for our highest level of signings in the air, the largest pipeline in our history, nearing the largest under-construction pipeline in our history with identified 2024 openings and positive momentum in conversions, we are confident in our ability to accelerate net unit growth to 5.5% to 6% next year and to return to our prior 6% to 7% growth rate.

In terms of fee contribution, our algorithm is alive and well, and we expect fee growth above RevPAR plus net unit growth going forward. Our under-construction portfolio mix of roughly 60% focused service hotels and 40% full service remains in line with our existing supply. This balanced and diversified pipeline, along with rising RevPAR and royalty rates gives us confidence in our ability to continue delivering high-quality growth with increasing fees per room.

We also continue strengthening our value proposition for Hilton Honors members. In the quarter, Honors membership grew 19% year-over-year to more than 173 million members and remains the fastest-growing hotel loyalty program. Members accounted for 64% of occupancy, up more than 200 basis points year-over-year. Demonstrating our commitment to meeting the evolving preferences of our guests, we recently announced several new innovations.

As part of our long-term commitment to digitally transform the business travel experience for millions of small- and medium-sized enterprises, we will launch Hilton for Business early next year. The multifaceted program will feature a new booking website along with targeted benefits designs, especially for SMEs, which account for approximately 85% of our business mix.

Additionally, we will expand our events booking capabilities, enabling customers to book meetings and event spaces with or without guestroom blocks directly on our website. For travelers who prioritize sustainability, we recently announced an expanded agreement with Tesla to install up to 20,000 universal wall connectors at 2,000 hotels making our planned EV charging network, the largest in the industry.

We also continue to be recognized for our culture. During the quarter, we were named the top hospitality employer in Europe and in Asia by Great Place to Work. And just yesterday, we were named the #1 Best Workplace for Women in the United States for the fifth year in a row. The strong results we're reporting today would not be possible without our more than 460,000 team members who spread the light and warmth the hospitality each and every day.

Overall, we're very pleased with the performance in the quarter, and we remain very optimistic about the tremendous opportunities that lie ahead with continued strong demand, coupled with our record pipeline and accelerating net unit growth forecast. We're confident in our ability to further differentiate ourselves from the industry in the years ahead.

Now I'll turn the call over to Kevin for a few more details on the results for the quarter and our 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 6.8% versus the prior year on a comparable and currency-neutral basis. Growth was driven by strong international performance as well as

continued strength in leisure and steady recovery in business transient and group travel.

Adjusted EBITDA was \$834 million in the third quarter, up 14% year-over-year and exceeding the high end of our guidance range. Outperformance was driven by better-than-expected fee growth largely due to better-than-expected RevPAR performance and license fee growth. Management and franchise fees grew 12% year-over-year. For the quarter, diluted earnings per share adjusted for special items was \$1.67, increasing 27% year-over-year and exceeding the high end of our guidance range.

Turning to regional performance. Third quarter comparable U.S. RevPAR grew 3% year-over-year with performance led by continued recovery in both business transient and group. Leisure demand in the U.S. remained strong even with tougher year-over-year comps. Relative to 2019 peak levels, U.S. RevPAR increased 10% in the third quarter, improving 200 basis points versus the second quarter.

In the Americas outside the U.S., third quarter RevPAR increased 11% year-over-year. Performance was driven by strong group demand, particularly in urban locations. In Europe, RevPAR grew 11% year-over-year. Performance benefited from continued strength in leisure demand and recovery in business travel.

In the Middle East and Africa region, RevPAR increased 19% year-over-year led by both rate growth and strong demand from the summer travel season.

In the Asia Pacific region, third quarter RevPAR was up 39% year-over-year, led by the continued demand recovery in China. RevPAR in China was up 38% year-over-year in the quarter and 12% higher than 2019. The rest of the Asia Pacific region also saw significant growth with RevPAR, excluding China, up 40% year-over-year.

Moving to our guidance. For the fourth quarter, we expect system-wide RevPAR growth to be between 4.5% and 5.5% year-over-year and 12% to 13% versus 2019 with continued sequential improvement versus the third quarter. We expect adjusted EBITDA of between \$739 million and \$759 million and diluted EPS adjusted for special items to be between \$1.51 and \$1.56.

For the full year 2023, we expect RevPAR growth to be between 12% and 12.5%. We forecast adjusted EBITDA of between \$3.025 billion and \$3.045 billion. We forecast diluted EPS adjusted for special items of between \$6.04 and \$6.09. Please note that our guidance ranges do not incorporate future share repurchases.

Moving on to capital return. We paid a cash dividend of \$0.15 per share during the third quarter for a total of \$39 million. Our Board also authorized a quarterly dividend of \$0.15 per share in the fourth quarter. Year-to-date, we have returned more than \$1.9 billion to shareholders in the form of buybacks and dividends, and we expect to return between \$2.4 billion and \$2.6 billion for the full year.

Further details on our third quarter results can be found in the earnings release we issued earlier this morning. This completes our prepared remarks. We would now like to open the line for any questions you may have. We would like to speak with as many of you as possible, so we ask that you limit yourself to 1 question. MJ, can we have our first question please?

Question and Answer

Operator

[Operator Instructions] Our first question today comes from Shaun Kelley with Bank of America.

Shaun Clisby Kelley

BofA Securities, Research Division

So Chris, I think the big incremental here is obviously your 2024 improving net unit growth outlook. I think this is meaningfully better than what people were expecting out there. So you gave some color in terms of what you're seeing on obviously, signings, starts and details. But just help us kind of dig in here a little bit. What would kind of give you the confidence to kind of bump that up from where we were a quarter ago. Is there something in particular you'd like to call out for us?

And specifically, just remind us of exactly the activity levels you're seeing here U.S. as we know we're fighting that sort of tougher construction and financing environment for owners broadly, it seems like you're obviously able to buck that trend.

Christopher J. Nassetta

President, CEO & Director

Yes. Yes, last quarter, we gave a broad range of 5 to 6, which we felt good about, but a broader range for obvious reasons, we were middle of the year, and there was a lot of year left and thus a lot of time to see what was going to happen in signings and starts and success with conversions and the like. And so -- as you saw from what we just reported on in Kevin's and my comments, we continue to have great success in the third quarter, and that's continued in the fourth quarter. As I said in my prepared comments, we're going to have a record year by double-digit percentage on signings.

While starts aren't quite back to where they were, they're getting close to being back to where they were. We obviously have an elevated level of conversions from what we've seen in recent years at 30%, which we think is going to continue with across a broad range of brands and of course, including the addition of Spark. And so the confidence we have is at this point in the year, we have a very granular model. This is -- we always have a model, but in the middle of the year, by definition, we just don't have as much information.

Now, as I said in my comments quite briefly, we have identified -- a lot of what we're going to deliver next year is identified. Obviously, we have a bunch of conversions that we'll do in the year for the year, but we have a lot -- we've had a lot of success there. And so the confidence is ground up region by region, hotel by hotel with some, we think, reasonably conservative assumptions for what we'll be able to execute on given the momentum we have in conversions, this is where we end up is 5.5 to 6.

And so we wouldn't say it if we didn't believe it and it is a plan that is based on the underlying momentum and things that are largely in production. As I looked at it, I know we get questions all the time about when are you going to get back to 6 to 7, and we obviously -- and I said in my prepared comments, I have every confidence we will. I think it's possible next year if a few things go our way. I think we could be at the bottom end of that range. But we're still in October 2023. So we're going to take it 1 step at a time. We refined it. We feel really good about 5.5 to 6, next time we talk, we'll find out even more. And as I said, a few things go our way. Honestly, when I look at all of the data in a granular way, I think there's probably more upside potential than downside risk at this point.

Kevin J. Jacobs

CFO & President of Global Development

And then Shaun -- just to circle back to the U.S., I think, look, the story, I mean, you've heard the story about things are a little bit more stressed with financing costs. But I think the story around if you are financed and you're entitled and you're ready to go and you want to build a hotel, you're better off getting underway than leaving that asset as a nonperforming asset.

And I think that you think about that being fueled also by the fundamental environment where people are optimistic about growth, capacity additions are going to be constrained. We continue to take share. And so I think it's a good story in the U.S. as well.

Operator

The next question comes from Joe Greff with JPMorgan.

Joseph Richard Greff

JPMorgan Chase & Co, Research Division

Chris, just trying to understand, longer term, the accelerating net rooms growth. How -- on average, how long is the typical full service or the typical limited service hotels staying in the pipeline? Is that time line narrowing? I mean understanding next year's accelerating rooms growth is more a function of past periods gross room signings as well as starts that you're seeing pickup here. But are you seeing the time line room staying in the pipeline narrow at all on a like-for-like basis?

Christopher J. Nassetta

President, CEO & Director

No, I would say every region is a little different. I don't have a hard stat in my head. I'll give you sort of a directional answer. I mean with limited service in the pipeline generally in the pipeline a couple of years, full service, I would say, on the order of 3 or 4 years, but it could vary greatly depending on what region of the world you're in. But I think directionally, those are -- if I average it all together, those are pretty good.

And I would say what happened during COVID is that extended out a great deal because everything stopped and slowed down and then you have the supply chain issues even after things got moving again, we reopened. You have the supply chain things that slowed things down. That has now come back down to being closer to where we were, but still a little bit more extended than where we were. And I think that has a lot to do with just in a lot of parts of the world, what Kevin just said. It's just a little harder to get things done.

And so it's taking a little bit longer. People are getting financed, but if they had 5 projects they wanted to start, they're maybe getting 2 or 3 of those finance and it's taking a little bit longer. So I think there is a little bit longer gestation period.

Now when 30% of the deliveries are conversions, obviously, that's a super short gestation period from pipeline into NUG. And so that's helping -- if you take it on average, I would say, with an increase of conversions relative to being in the low 20s right before we were in COVID.

I would say the gestation period, the time and pipeline is about the same. Again, I'm doing sort of quick and dirty math in my head. But -- but if you just look at pure new construction, it's a little bit -- it's still a touch longer than it had been. And

again, we sort of like not to repeat myself, we factored all of that in, meaning we know we have a team that is on the ground everywhere in the world, working with all of our owners on every project that's under construction and what we think we're going to deliver next year other than the end of the year for the year, which are largely obviously conversions at this point. Those are projects. They're on the ground, they're being -- they're under construction, and we have rational time lines for when we think that those will deliver.

Operator

The next question comes from Carlo Santarelli with Deutsche Bank.

Carlo Santarelli

Deutsche Bank AG, Research Division

Chris, you said earlier in the call that the kind of fee growth -- you expect fee growth to outpace kind of the NUG plus RevPAR dynamic. I was wondering if you could kind of break down a little bit how to think about the NUG plus RevPAR dynamic for the operating business relative to kind of the fees and whatnot and how we should think about that fee component of that relationship?

Christopher J. Nassetta

President, CEO & Director

Yes. We do get a bunch of questions periodically on like fees per room and they're going up and going down. I mean that's the reason we put it in there. And we'll give you a lot more granularity on that on March 19 of next year when we do a full day or a good part of a day talking about it.

But we just -- we put it in there because we wanted to -- we get the question enough. I wanted to publicly say how we think about it. I mean, we described years ago when we had our last Analyst Day sort of an algorithm that had same-store growth, new unit growth with leverage associated with fee -- license fee increases and that, that would ultimately give us same-store fee growth or fee growth that would be greater than the combination of those 2. And that is the condition that exists today. That's what we see in the business today that as we model the business going forward, we believe that will continue as we look at the models. Why? Because of the things that are happening. We're getting same store. We're adding units, and we continue to see our license fee rates go up as we renew contracts, we have 5% of the system that's sort of on average rolling out every year and getting mark-to-market.

And we're moving our -- on a bunch of brands. We're moving our license fees up. So when you factor for all of that, that's how you get it on our -- in our core RevPAR base. And then our non-RevPAR base fees as I think we've said a bunch of times, we're having great success. There's a bunch of different pieces of that. The 2 biggest pieces of it are our credit card, co-brand business and our HGV business, both of which we think, over time, will grow at higher than algorithm on average.

And so when you put all that together, those are our fees. And that's why our fees, we believe, will be growing greater than sort of RevPAR plus NUG. And that obviously then translates if you just do simple math when you look at fees per room and you add RevPAR growth into that equation and you model it out over time, it's sort of hard if you make those assumptions not to fees per room go up.

So people ask us that. We think -- I think the math is pretty easy. That's why we put it in there is just to sort of marker out there. Again, we'll give -- we're going to have -- the reason we want to have an Analyst Day is to do a bunch of different things, but that will be one of them to give everybody a little bit more granularity. But and an abundance of sort of transparency, we obviously always have our business model and we think the arithmetic is pretty straightforward and obviously compelling.

Operator

The next question comes from Stephen Grambling with Morgan Stanley.

Stephen White Grambling

Morgan Stanley, Research Division

Was it to touch on key money a little bit, which went up a bit guidance for the fourth quarter, even as conversions are also going up. Can you just remind us of your general approach to key money and how the industry dynamics around key money have been evolving as we think about not only in 4Q, but beyond?

Kevin J. Jacobs

CFO & President of Global Development

Yes. So Stephen, first of all, I'd say our overall approach to key money has been very consistent the entire time we've been here. We still have less than 10% of our deals that have any key money associated with them. I think you have to recognize that in a more competitive environment for conversions, those tend to be get a little bit more competitive and a little bit more expensive. But this year, what I would say is it's just we happen to have 1 -- we upped our guidance for overall CapEx, I should point out that, that's not key money guidance. That's overall CapEx guidance.

we upped our guidance. We've been fortunate to win a few relatively large deals at the higher end of the business where they get a little bit more expensive in the fourth quarter. And we had 1 big deal, as we've told you about that carried over. It really was a last year deal, but didn't end up closing until this year, which caused last year to be lighter this year to be a little bit heavier.

If you look at a 3-year average we're sort of south of \$250 million of total CapEx, the way we guide it. And I think that's the right way to think about it going forward. We think next year will normalize and be back into that sort of low 2s -- low to mid-2s range on a total CapEx basis.

Operator

The next question is from David Katz with Jefferies.

David Brian Katz

Jefferies LLC, Research Division

You covered a lot of details and in particular, the NUG acceleration into next year. If you could help us unpack a little bit. Is there some expectation for improvement in the landscape? And I know Kevin mentioned taking share of the opportunities that are out there. How? Is that a function of key money? I'd love to just get a sense for how you're pitching it and why you win?

Christopher J. Nassetta

President, CEO & Director

I would say, built in, I said this is a very granular -- for next year, it's a very granular analysis. So it's all in production or conversion. So I would say we do think -- the environment is not great, but not bad. I mean things are getting financed. Actually, in a really tough environment, as Kevin implied, we end up taking share.

So we're getting more -- much more than our fair share of the development opportunities. Why? I mean, I'm obviously partial, but I think if you talk to a broad base of owners, I would say because our brands perform better. Our market share is the highest in the industry. And if they're only going to do a few deals. They want to do them and get the highest

returns, and so they go to the brands that are going to deliver their best performance.

So I mean, it's clearly it's still a challenging financing environment, although open and slow. We haven't made any big assumption to get to these NUG numbers for next year that something changes wildly. We think it's sort of going to my guess is it will matriculate and get a little bit better because there's a chance at some point next year, rates will come down things. So we haven't really made that assumption, as I said, because we -- what's going to happen next year is largely in production.

But we do think as has been happening this year and for a number of years that we will continue to take share. And we do believe and built into this is that on conversions, again, I said I think we'll be 30 this year. I think we'll be about 30 next year too that we are going to get more than our fair share of conversions. And we have enough momentum that I have the confidence to feel good about giving you the range and outcomes on that basis.

And my guess is, as I said, if a few things go our way, we might be able to outperform that we've really definitely hit an inflection point of view -- if you really think about the inflection point, it was sort of the second half of last year, you started to see the momentum shift and things bottom out in terms of signings and starts. And I kept saying this to people. I know everybody has been nervous, they're not -- for good reason. But you could -- we can just see like the rat moving through the snake so to speak, starting the second half of last year, and now you're starting to see it produce. Third quarter is up a little. You'll see the fourth quarter, we're going to have a very large delivery quarter. And our belief, just given, again, what we know is in production is you've hit a real point of inflection and you're on the way back up.

So that's a lot to unpack. I think the core answer is there is no broad assumption of like the world improving from the standpoint of development and financing in any material way from where we are here.

Operator

The next question comes from Smedes Rose with Citi.

Smedes Rose

Citigroup Inc., Research Division

I just wanted to go back to your comments around group business, which looks like it's pacing very well up for next year. And you mentioned as you have before, that 85% is coming from smaller business enterprises. And I was just wondering if you could talk a little bit about the remaining 15%, which I guess is comprised of larger businesses? And maybe just what you're hearing in terms of their sort of appetite to book into next year at this point?

Christopher J. Nassetta

President, CEO & Director

Yes. Thanks, Smedes for the question. I think you may be conflating 2 different comments. Group is way up 18%, group business on the books for next year. The 85%, I was talking about SMEs was business transient. It does turn out by coincidence that 85% of our group business is small and medium groups, but that's a total coincidence. And 15% of it is sort of large, I'd say, 300-room plus groups.

As we look at next -- as you look at sort of implied, I think, in some of the comments I've already made or in the prepared comments, what's going to happen next year is that it will start -- I still think group business has always been dominated by just like business travel, business transient by small and medium groups. But you will see the return of the mega groups that started in the second half of this year. It takes a long time to plan these things and think about it last year. Nobody wanted to commit them much because they didn't know we were still in the open close, open close. They got to spend millions of dollars planning these events, they can't get out of them, there's penalties and everything else.

So people waited a long time, and then it takes -- then they got to get a space and it's getting much, much harder to get space for these city-wides and the big groups. So that just takes time. I think it will shift next year not radically, but I think you will see a decent shift to an orientation to the large groups because they have a huge amount of pent-up demand that needs to be satiated. And so that's going to start happening next -- my guess is you'll see a surge in it, it will shift the stats around.

Over time, I think it's probably like -- I don't have a hard data point, but sort of directionally having done this a long time. I think it's like 80-20, something like that more normally. And so I think next year, you're going to get -- you're going to get more of that instead of 85-15, you're going to see the bigger groups take a leap up in the short to intermediate term to get to a more normal environment.

But we're seeing sort of underneath the question, I assume, is what are we seeing in strength from small, medium, big, whatever. We're seeing -- if we sat in this very room with our sales team as we do every quarter and went through it all. We're seeing strength in everything. Group is just off the hook, strong tons of demand, peak groups or lead times are lengthening because the obvious, right?

Now everything -- there's not been a lot of group hotels that have been built in this country for essentially 20 years. And so you have all this demand, you have fewer places to go. So groups have to start planning further in advance and booking much, much further out. And so -- the demand is very good. We've not seen -- notwithstanding a lot of noise in the environment about like where is the economy going and the like for next year. It's not -- we've not seen any real impact in terms of group demand at this point to the contrary. Our teams are saying they're doing everything they can to keep up with demand.

Operator

The next question comes from Brandt Montour with Barclays.

Brandt Antoine Montour

Barclays Bank PLC, Research Division

Maybe for Kevin, the fourth quarter RevPAR guidance looks strong, not out of the arena of your third quarter RevPAR growth. And you don't see that sort of translate into EBITDA year-over-year growth in the fourth quarter versus sort of the third quarter. Just wondering if there's timing you want to highlight between the 2 quarters or anything else and why that would be a little bit diverging?

Kevin J. Jacobs

CFO & President of Global Development

Yes, sure, happy to, Brandt. I think, yes, obviously, we raised our guidance about the amount of the third quarter. We did increase the top line for the fourth quarter a little bit, not huge, and it is flowing through, say, for there's a little bit of timing in corporate expense, a little bit of FX and then a small amount for Israel. That's really it.

Operator

The next question comes from Robin Farley with UBS.

Robin Margaret Farley

UBS Investment Bank, Research Division

I wanted to ask returning to the topic of unit growth. The conversion percent next year, you said about 30% as well in

2024. Can you give us a sense of sort of typically in October of the prior year, how much of those conversions would be kind of already on your books versus how much would come in sort of in the year -- for the year that you don't have as much visibility on. Just to kind of understand the visibility there.

Christopher J. Nassetta
President, CEO & Director

It's a great question. I wish I had a great answer. Every year is sort of wildly different. I would say less than half it's not nothing, but a lot of the work gets done in the year. But I would say, if I had to guess that it half, maybe a bit less would be 40% to 50% would be on the books one way or another or maybe not in -- it wouldn't be in the pipeline, but it would be in some form of negotiation. I would say 40% to 50% would be in some form of negotiation.

Operator

The next question comes from Patrick Scholes with Truist Securities.

Charles Patrick Scholes
Truist Securities, Inc., Research Division

The question about how you're thinking about upcoming corporate rate negotiations for 2024?

Christopher J. Nassetta
President, CEO & Director

Yes. We feel pretty good about it. I mean we're sort of in the -- just getting into the thick of it. It's not -- we're never near done. Keeping in mind, it's a relatively small part at this point of the business. This is like 6% of our business given that we have really pushed hard on the SME side of the business, and that's 85% of the business. So when you sort of whittle it down, it's about 6% of the business. But we think at this point, when you add it all together, the fixed and the dynamic, most of our pricing is dynamic at this point. It's probably in the upper single digits.

Operator

The next question comes from Duane Pfennigwerth with Evercore ISI.

Duane Thomas Pfennigwerth
Evercore ISI Institutional Equities, Research Division

Chris, I'll ask you to pull out your crystal ball for a second. Could you share some high-level thoughts on which regions have the most RevPAR growth potential into 2024. Are you thinking maybe next year is more of a domestic growth driven year or more of the same with international leading? Does the regional leadership change into 2024?

Christopher J. Nassetta
President, CEO & Director

I think it will be -- I mean I think it will be reasonably balanced between the U.S. and rest of world, maybe a smidge lower in the U.S. than rest of world, but not too terribly different, at least based on what we're seeing now.

And then for Rest of World, I think we see positive growth everywhere, by the way. We don't see a region where we will not have growth. We're in the middle of budget season, so it's slightly premature to judge exactly where it will be. But -- if you said to me, where do we think it would be recognizing we're early in the process. I would see -- I would say low to mid-single-digit global RevPAR growth. And we'll, obviously, on the next call, we'll give you a refined view when we have

finished the whole process.

But again, I would think that would be rest of world a little bit higher, U.S., not too terribly different, and the one that would lead the pack again would be Asia Pacific for a bunch of reasons, most notably China, which, if you recall, just in terms of comps, China did open up and is now doing really well, but the first part of this year was not. So you will have a -- you'll have a very strong start given everything that's happening in China in the business, which there's a lot of noise about China in their economy. But from a travel tourism point of view, in China, it's very, very strong now. We think that will carry into the beginning of the year, and then you'll have some easy comps. So we think from a pure what will RevPAR year-over-year growth point of view, where would the regions be, I would say, China and thus, APAC will sort of lead the charge. But they're not -- but they're going to -- I would say, given we think it will probably be in the low to mid-single digits, they're going to converge a little bit more. And now the world because China is open, is all -- you're getting out of sort of these COVID comp issues and you're getting almost to sort of a normalized world where you have comps where everybody was open from COVID other than, as I say, the first part of the year in China, the first part of 2024 comparability issue.

Operator

The next question comes from Chad Beynon with Macquarie.

Chad C. Beynon

Macquarie Research

Just in terms of occupancy versus rate discussion, I guess, more focused on occupancy. Chris, can you talk about how we should think about occupancy exiting '23 as a percentage or decline versus '19? And then more importantly, is there still a day of the week that just hasn't come back? Should occupancy permanently be a couple of hundred basis points off? Just trying to think about this in the medium term.

Christopher J. Nassetta

President, CEO & Director

Yes. I mean, I said in the prepared comments that in Q3, we actually were only 200 basis points off. And in September, we were only 100. So I think we're going to exit this year getting closer and closer to prior levels of occupancy for the industry, but at least for Hilton. I think as we get into next year, particularly as we're able to build the group base, which is if you really look at what's happening and you're getting midweek business back, leisure is obviously still strong, weekends are still stronger than they were. What's really happened, particularly in a lot of the big cities in the U.S. is you don't have the group base back.

Well, you've seen recovery, you don't have that big group base to leverage the rest of the business off of. And as already commented, we think you're going to have a really robust group year just given where bookings are right now that then is, I think, sort of the last leg of the stool allowing you to get back to occupancy levels comparable to 2019. So I suspect next year, we will -- as that -- as you go through the year and you get that group base back, I think the rest of the segments feel very good. I mean, I know everybody wants to say, nobody is going to travel for business, but that's just that people are traveling like crazy, look around and the makeup of there's some industries technology and financial services that haven't rebounded as much and have issues like over hiring and then reduction in workforce and all that. But again, the bulk of it is driven by SMEs and they're traveling more than they were. And most of the corporates and even those corporates the people they still do have are traveling more.

So I don't -- I do not -- I do believe we will get back to prior levels of occupancy. I think it will happen next year. I think we're getting -- we're not quite there, but we're getting close. I think next year, as you think about the split between rate and occupancy, it's a little early, but I would say it's probably a pretty balanced equation as between the 2 next year. I mean, certainly, it's early look.

Operator

The next question comes from Michael Bellisario with Baird.

Michael Joseph Bellisario

Robert W. Baird & Co. Incorporated, Research Division

Just wanted to ask on luxury. Maybe just remind us where is the white space today as you see it? And then maybe more importantly, what are your customers still asking for as you think about investing key money dollars at the higher end price point?

Christopher J. Nassetta

President, CEO & Director

Yes. I think that the white space for us is luxury lifestyle. We've talked about it a bunch. We are doing a bunch of work in the space right now. I think next year, we will come out -- we will have a product in the market next year. So we've done a lot of work over many years, but we sort of cranked up that engine once we got Spark launched in H3 out there. That's sort of next.

I think our customers, listen, I think our customers love what we have. I mean, as reflected in the fact that loyalty is amongst the largest and is certainly the fastest growing. And I think we -- I know we still represent the highest level of engagement in the sense of Honors occupancy being higher than anybody in the industry.

So I think our customers are saying to us the ecosystem that you've created, both how you do loyalty, the products you have, the geography, what we talk about frequently, the network effect that we've built combined with Honors and experiences related to Honors and how they engage with Honors is really working well.

So I don't think there is anything that if I'm being really blunt that our customers are screaming out, I just sat in 12 hours of focus groups with customers because we're going through a strategic planning process for over 2 nights with every segment of customers, people are loyal to us, not loyal to us, et cetera, et cetera. There was -- I mean there's a lot to unpack there. I'm not going to do it on this call, but there was nothing that our customers were saying like, gosh, you need this and you need that.

What we do know is that having more on the high end creates even more of a halo effect. We believe we have a significant amount already in the luxury space, in the resort space. And given our scale and breadth and depth geographically, we think it's very pleasing to our Honors members. But on the margin, having more of it, we think, is beneficial, which is why we spend the time doing it. It's why we want to do luxury lifestyle.

The other reason really not only do we want our customers to have more opportunities at the high end, but we're just giving away, if I'm being honest, we're just giving away development opportunities. I'm looking at Kevin, who runs development, too. It's like I travel all over the world. We have owners that are super loyal to us, and many of them want to build a luxury lifestyle hotel, and we don't really have a product for them. And so literally, they're doing it with other people just because we don't have a product, and that makes me crazy, so that I think that it will obviously enhance our growth rate.

Now luxury lifestyle is not like H3 or Spark or Tempo or Home2 -- it's not not -- it's a very bespoke thing. You're not going to have thousands of these. You're not even going to have hundreds of these. I mean, look at people who have been at it for a long, long time. You'll be fortunate to have dozens of them.

But every room counts and having more really high-quality products in the right locations, we think continues to build our network effect. And so I've said this many times to many investors, I sort of love where we are which is we have a -- we have a network effect that works. We have 173 by end of the year, beginning of next year, we'll have 200 million Honors members that are very loyal to us. They love Honors. They love the network that we've created. They love the brand diversification, the geographic diversification. And so there is really doing luxury lifestyle is fabulous, doing more luxury deals with Waldorf, Conrad and LXR, we'll keep doing that. Those will add to growth, but there is -- the ecosystem works.

I think point in case is the success that Honors is having versus the competition. So I look at these as all like incremental halo incrementally. Obviously, we can always make it better. And we can always add -- want to add products that add to our growth rate. And we think luxury lifestyle will.

Operator

The next question comes from Bill Crow with Raymond James.

Christopher J. Nassetta
President, CEO & Director

Hey Bill, you there?

William Andrew Crow
Raymond James & Associates, Inc., Research Division

I'm sorry, Chris. Quick 2-parter on maybe the last question, I'm not for today.

Christopher J. Nassetta
President, CEO & Director

A lot of that question.

William Andrew Crow
Raymond James & Associates, Inc., Research Division

Well, a couple of specific questions. First of all, the headlines surrounding Country Garden in China are getting any better. And I'm just wondering as it regards the pipeline as opposed to the already constructed and opening units, what do you think the risk is to that pipeline as you stand today?

The second part of the question is more specific on the key money, and we understand the hotel you're going to announce the conversion on tomorrow is in Boston, the reports are circulating that's a \$40 million key money payment. I'm just trying to figure out the economic state out of payment like that.

Christopher J. Nassetta
President, CEO & Director

Let me -- I'll maybe tackle both Kevin can jump in. On Country Garden, it is not a huge component of our overall pipeline yet in China. And so I don't feel like there's any risk. And certainly, the guidance we're giving you on NUG anticipates what we think conservatively will happen there.

Having said, Country Garden obviously has a lot of issues, but this venture is a totally separate entity apart from their residential business. They remain very committed to it. They have very rigorous milestones that they have to meet in

order to keep the exclusivity with Home2. And if they don't, we have all sorts of options that we could move forward on doing it ourselves, et cetera, et cetera.

So Home2 is a very -- is very well received by the Chinese customer and very well received by the owner community recognizing Country Garden is not building any of these. This is a MOA, where we're going out with them, and these are franchisees that are doing it, and it's not their money. It's individual property owners, developers in all these little regions of China.

And so it's not a capital drain for them. They like it. It's profitable, and I think they'll stick with it. If they don't, ultimately, we have all sorts of mechanisms. If they don't meet the milestones, it's not like we have to wait very long. I suspect they will -- what they're saying to me and to us is they remain very committed to it.

So I think we -- I think it's fine. I think Home2 is the key ingredient too. It is super popular, super profitable on the ones that we've opened up in the development community are just like, I love Home2 in the U.S., the development community in China loves it. So that means that we're going to get a bunch of Home2s done. Hopefully, it's with them. If it's not, we'll do it ourselves.

On the deal we talked about without naming it, we're not going to name it, we would have named it if we could. So we're not going to comment on specific deals and individual key money. The way to think about it broadly is on big, complicated city center, full service or luxury, those are the deals that end up drawing -- I mean being most of the key money we spend. As Kevin said, less than 10% of our deals and our pipeline by number have any form of balance sheet support. And disproportionately, it's those kinds of deals, they're more competitive, they're more strategic in certain locations where we may have lesser density of distribution where it's really important to us.

And in every single case, we are making money. I mean, we are never giving key money, and I'm not going to comment on individual deals. We're never giving key money that doesn't have us make -- creating value in a contract that is significantly higher than the key money contribution. Obviously, that's -- we're a for-profit business. We just don't approach it that way. So every deal is profitable and 90-plus percent of them are infinitely profitable because we put nothing into.

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 closing remarks.

Christopher J. Nassetta
President, CEO & Director

Thanks, everybody, for the time today. Obviously, very pleased with Q3, but more importantly, pleased with the momentum we have going into the fourth quarter, I feel pretty good about next year. We'll get back to you on exactly what we think as we get through our budget process. But given the macro view of what next year is going to be like and the pent-up demand, particularly in group but also in business travel, we feel very good about it. And obviously, we talked a lot about NUG today. We tried to give you a much more granular view of that. We feel good that we've hit a point of inflection and we're on the road to getting back to our 6% to 7% growth rate.

So we got a busy end of the year to make all that happen and get set up for next year. We'll get back to it, and we'll look forward to getting back with you after the year is over.

Operator

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

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