

Hilton Worldwide Holdings Inc. NYSE:HLT
Q4 2023 Earnings Call Transcripts
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Presentation

Operator

Good morning, and welcome to the Hilton Fourth 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

Thank you, MJ. Welcome to Hilton's Fourth Quarter and Full Year 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 fourth quarter and full year results and discuss our expectations for the year. Following their remarks, we will be happy to take your questions. With that, I'm pleased to turn the call over to Chris.

Christopher J. Nassetta

Thank you, Jill. Good morning, everyone, and thanks for joining us today. We are happy to report a great end of what was another really strong year for Hilton. For the year, system-wide RevPAR grew 12.6% versus 2022 with solid growth across every major region and chain scale. Compared to 2019, RevPAR increased 10.7%. Strong top line performance drove record adjusted EBITDA of nearly \$3.1 billion, up roughly 20% year-over-year to the highest level in our company's history.

During the year, we launched 2 new brands, introduced new innovations, expanded our partnerships and opened a near record number of rooms, all of which further strengthened our network and enabled us to welcome more guests than ever before. Our strong top and bottom line performance drove significant free cash flow, enabling us to return \$2.5 billion to shareholders.

Turning to results for the quarter. System-wide RevPAR increased 5.7% year-over-year, exceeding our expectations, driven by strong international and group trends. Group RevPAR rose 6% year-over-year due to an uptick in small company meetings and convention demand. Business transient recovery continued in the quarter with RevPAR up more than 4%, boosted by gains in both rate and occupancy. As expected, leisure transient RevPAR increased 3%, decelerating modestly versus the third quarter, largely due to seasonality.

Compared to 2019, system-wide RevPAR grew 13.5% in the quarter, up more than 200 basis points sequentially compared to the third quarter. Demand continued to improve with December system-wide occupancy reaching 2019 peak levels. Group RevPAR outperformed expectations, increasing 8% versus 2019 and up more than 700 basis points sequentially versus the third quarter. Business transient continued to recover, growing 5% versus 2019. As expected, leisure RevPAR remained strong, growing 25% versus 2019 and decelerating sequentially due to calendar shifts.

As we look to the year ahead, we expect system-wide top line growth of 2% to 4% versus 2023. We expect performance to be driven by continued growth across all major regions, with international markets modestly outpacing the U.S. We also expect positive RevPAR growth across all segments, driven by continued recovery in business transient and group coupled with steady leisure demand. We expect continued recovery in small company meetings and large association and convention business to drive strong group performance.

For 2024, group position is up 16% year-over-year with small company meetings increasing as a percentage of mix further demonstrating the value of small- and medium-sized businesses given higher rates and greater resiliency.

Turning to development. We continue to see positive momentum throughout the year, opening 24,000 rooms in the fourth quarter, marking the largest quarter of openings in our history. We achieved several milestones in the quarter, including the openings of our 250th Tru Hotel and our 1,000th Hilton Garden Inn. We also reached 70,000 rooms globally for Home2. Additionally, we celebrated the opening of Signia by Hilton Atlanta, the city's largest ground-up development in over 40 years. The property is strategically located next to the Georgia World Congress Center and Mercedes-Benz Stadium, features nearly 1,000 rooms and over 100,000 square feet of meeting space, including the largest hotel ballroom in Georgia.

For the full year, we opened 395 hotels totaling approximately 63,000 rooms and achieved net unit growth of 4.9%. Conversion activity remained strong, accounting for 30% of openings and demonstrating the strong value proposition our system continues to deliver for owners. Full service and collection brands represented the large majority of conversions and continue to gain traction with owners. Both Curio and Tapestry opened more hotels in 2023 than in any other year.

Even with robust openings, our pipeline reached the highest level in our history, driven by record signings of 130,000 rooms, up 45% year-over-year and up 12% compared to pre-pandemic levels. At year-end, our pipeline totaled over 462,000 rooms with roughly half under construction following a strong year in construction starts.

For the full year, starts increased 15% driven by the U.S. We continue to have more rooms under construction than any other hotel company with approximately 1 in every 5 hotel rooms under construction globally slated to join our system.

As we look to the year ahead, we expect continued positive momentum in signing starts and conversions to drive even stronger openings, boosted by our 2 newest brands, Spark and LivSmart Studios. For the full year, we continue to expect net unit growth to accelerate to the higher end of our 5.5% to 6% guidance range with the opportunity for further upside of 25 to 50 basis points from our exclusive partnership with Small Luxury Hotels of the World that we announced this morning. This partnership will meaningfully expand our luxury distribution as we expect to add the majority of their over 500 hotels to our system.

Adding this extraordinary portfolio with a heavy orientation to resort locations to our already strong and growing luxury portfolio will further enhance a powerful network effect and give our guests even more opportunities to dream, book, earn and burn points and we're doing so in a capital-light way. The royalty rate will be in line with our existing brands, but fees will be paid only on the business driven through our channels. We expect over time to drive a meaningful portion of system revenues for SLH, and we'll start to integrate hotels into our system later this spring.

Last quarter, we announced Hilton for Business, our multifaceted program designed to transform the travel experience for small and medium-sized businesses by providing the booking website along with targeted benefits designed specifically for SMBs. The program launched in January with thousands of companies registering in just the first few weeks. The SMBs account for approximately 85% of our business transient mix and comprising a meaningful and growing percentage of our group mix. Given its greater resiliency and higher rates, we think this important customer base provides significant opportunities to drive further growth.

Overall, we remain focused on creating unique experiences in our hotels, including through innovative food and beverage offerings. We recently announced the launch of StiR Creative Collective, an in-house consulting and development arm that gives us the ability to work with our owners, operators and hotel teams to elevate food and beverage offerings to meet the evolving needs of our guests. Several noteworthy StiR projects have already launched at the Conrad Orlando, the Canopy by Hilton in Toronto and the new Signia in Atlanta.

In a business of people serving people, our team members are at the heart of absolutely everything we do. We recently celebrated the remarkable achievement of being named the #1 World's Best Workplace by Fortune and Great Place to Work. This recognition follows 8 consecutive appearances on the world's best list and marks the first time a hospitality company has achieved the top honor in this best-in-class program.

Additionally, for the seventh consecutive year, we were honored to be included in both the world and North America Dow Jones Sustainability Indices, the most prestigious ranking for corporate sustainability performance. Overall, we're extremely pleased with our performance with our world-class brands and powerful commercial engines driving a record pipeline and accelerating net unit growth. We are confident in our ability to continue delivering value for all of our stakeholders in 2024 and beyond.

Now I'm going to turn the call over to Kevin to give a bit more detail on the quarter and our expectations for the year ahead.

Kevin J. Jacobs

Thanks, Chris, and good morning, everyone. During the quarter, system-wide RevPAR grew 5.7% versus the prior year on a comparable and currency-neutral basis. Growth was driven by strong international performance and continued recovery in group and business transient.

Adjusted EBITDA was \$803 million in the fourth quarter, up 9% 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 \$1.68.

Turning to our regional performance. Fourth quarter comparable U.S. RevPAR grew 2% year-over-year with performance led by both business transient and group. Leisure transient in the U.S. was flat with difficult year-over-year comparisons. Relative to 2019 peak levels, U.S. RevPAR increased 11% in the fourth quarter, improving 100 basis points versus the third quarter.

In the Americas outside the U.S., fourth quarter RevPAR increased 7% year-over-year, with urban markets delivering RevPAR growth of 17%, boosted by strong group business. In Europe, RevPAR grew 10% year-over-year with solid performance across all segments. Large events, including the Rugby World Cup in Paris, drove strong group performance across several key cities.

In Middle East and Africa region, RevPAR increased 12% year-over-year, led by strong rate growth. The COP28 Climate Change Conference in Dubai, along with solid trends in Egypt continued -- contributed to strong performance in the region. In the Asia Pacific region, fourth quarter RevPAR was up 42% year-over-year, led by continued demand recovery across China and Japan and notable strength across all segments.

RevPAR in China was up 73% year-over-year in the quarter, with RevPAR in the Asia Pacific region, excluding China, up 18% year-over-year.

Turning to development, as Chris mentioned, for the full year, we grew net units 4.9% and ended the year with over 462,000 rooms in our pipeline, which was up 11% year-over-year with approximately 60% located outside the U.S. and nearly half under construction.

Looking to the year ahead, we are excited about our strong development story and the robust demand for Hilton-branded products in both the U.S. and international markets.

Moving to guidance. For the first quarter, we expect system-wide RevPAR growth of 2% to 4% year-over-year. We expect adjusted EBITDA to be between \$690 million and \$710 million and diluted EPS adjusted for special items to be between \$1.36 and \$1.44. For full year '24, we expect RevPAR growth of 2% to 4%. We forecast adjusted EBITDA of between \$3.33 billion and \$3.38 billion. We forecast diluted EPS adjusted for special items of between \$6.80 and \$6.94.

Please note that our guidance ranges do not incorporate future share repurchases.

Moving to capital return. We paid a cash dividend of \$0.15 per share during the fourth quarter for a total of \$158 million in dividends for the year. For full year 2023, we returned \$2.5 billion to shareholders in the form of buybacks and dividends. In the first quarter, our Board authorized a quarterly cash dividend of \$0.15 per share. For the full year, we expect to return approximately \$3 billion to shareholders in the form of buybacks and dividends.

Further details on our fourth quarter and full year results can be found in the earnings release we issued earlier this morning. This completes our prepared remarks. We would 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

The first question today comes from Joe Greff with JPMorgan.

Joseph Richard Greff

Chris, I was hoping you can talk about M&A of brands. Obviously, it was an article earlier this week suggesting you might be close with the Graduate Hotels brand. If you want to comment specifically on this, but I would just love to get your overall view on opportunities for you to acquire brands. And then since it's something that you've been sort of not doing at all, maybe you can revisit some of the criteria for brand M&A?

Christopher J. Nassetta

Yes, I'm happy to do that, Joe. I figured with all the rumor mill, I'd get asked this question. Obviously, first and foremost, you're right, I'm not going to comment on market rumors and speculation on anything specific. I would say my attitude, our attitude on M&A is really the same as it's always been. If nothing, we've been consistent and I've been consistent in what I've said. And that is we -- the fact is, as you point out, we haven't done any, but every time I've ever been asked for the last 10 years of being public, I've said never say never, but we have a very tough filtration system, and that filtration system at a high level is, number one, does something really -- is something additive from the standpoint of the portfolio of brands that we have. And from the standpoint of offering our customers, a product and experience that would be really additive to the family of brands that we have, number one.

And number two, and importantly, can it be done in a way that's accretive to the value of the company. For the last 16 years, going on 17 years that I've been here, we've looked at pretty much everything. I've said that to everybody and nothing is passed through that filter. So that's the reason we haven't done anything.

The environment we're in is a little bit different. There is, for a lot of reasons, interest rates and otherwise, more stress in the system than normal, that probably, I think, presents more opportunity to do things like this. But things that are quite modest in my view and that are what I view as sort of tuck-in acquisitions.

Now, I still think the filtration system is really rigorous. And obviously, we're not sitting here announcing any acquisitions. We announced a strategic exclusive partnership with SLH that we're very excited about and I'm sure we'll talk about from other questions on the call. So that we don't have anything to report and to the extent that we do, obviously, you guys will be the first to know. And so summary is we have no different attitude. We continue to look at everything, but the stress in the environment maybe provides a little bit more opportunity than we've seen in quite a long time.

Operator

The next question comes from Carlo Santarelli with Deutsche Bank.

Carlo Santarelli

Chris, you obviously -- you talked about the strength in business transient and group that you kind of foresee for 2024. Given those mixes respectively are down a couple of hundred basis points from pre-pandemic levels, I was kind of wondering where you think they settle for 2024? And what impact

that mix shift has obviously presumably taking away from leisure demand to some degree on ADRs for the year?

Christopher J. Nassetta

Yes. I think broadly, if you look at the segments, I said it at a very high level in the prepared comments, we feel really good about all the segments. Business transient continues to recover. I mean the big corporates finished the year still a bit off, probably 5% off of where they were, but still but growing every segment in that world is a little bit different. I mean most segments were relatively strong and either back to or beyond prior to pandemic levels with the exception of probably banking technology and consulting, which were less. But blended together, they weren't that far off. SMB segment is at or above -- most of those segments are at or above. And when you blend all that together for the fourth quarter, full year from RevPAR point of view, business transient was ahead. But from an occupancy point of view, is still a bit behind.

We do think that by the time we finish this year, assuming sort of the broader consensus view of a reasonably soft landing that by the time we get to the end of the year, we think you'll be at more normalized levels of demand. And we believe given very low supply numbers that are continuing and continued decent economic growth, that we're going to continue to have pricing power there and everywhere else.

On the group side, I'll give you a snippet of like group position being up 16%, that's the best leading indicator. But anecdotally, sitting around this very table last week with all our teams from around the world and all of our commercial and sales leads, I've said it, the demand is off the hook. I mean the demand is really strong. Every quarter is the next -- the new high watermark in terms of bookings for all future periods. So we are seeing very good strength. We believe the group demand is quite sticky in the sense that a lot of it still is pent-up demand that are things people haven't done for a long time that they need to do in addition to incremental new demand. You're obviously seeing in the group space, the big association, citywide business start to come back. That's super sticky business because of the time frames associated with the planning and the cost. So we think group will definitely lead the system. And as a result, you asked about rate, which I'll cover on both, we think rate will be very strong.

Just there is so much demand and there's just a limited amount of space, if you think about it, not only is supply low broadly, but supply of hotels over the last 10 years that have been built that have a lot of meeting space has been anemic. And so you have a lot of demand. I mean, I was sitting around this table yesterday, we're planning our own conferences for like sales conferences and general managers and all these things that we have to start going out 3 and 4 years because we can't get space in our own hotels. So demand is good as a result with very limited supply, pricing should be good.

And then on leisure, we do think it will grow. We do think probably more in rate than volume because the consumer, particularly our consumer, which is our median income levels, reasonably good. It's in the \$140,000 to \$150,000 range. They still have plenty of money, plenty of desire to travel. And again, there's just not a lot of new supply. So the fundamental economic setup is good. Obviously, it got supercharged coming out of COVID, so it will probably -- we think it will grow more rate than volume, but it will grow, but it will be third in line after continued recovery starting with group then business transient then leisure transient. So we feel really good about -- again, based on a broad consensus view that we have a rational sort of reasonably soft landing and continue to see decent -- slowing broadly, but decent economic growth in 2024.

Carlo Santarelli

Great. And then if I could, just a follow-up on Joe's question from earlier. The NUG guidance for 2024, I'm going to assume that SLH and any kind of tuck-in M&A that you guys do in 2024 would be on top of the guidance that you provided.

Christopher J. Nassetta

Correct. The 5.5% to 6% with a strong indication to the high end of that is pure organic. I said in my prepared comments, we think SLH depends on how rapidly hotels come in, which is why there's a range, 25 to 50 basis points on top of that. And if we were to do anything else, it's all on top of that. But that is the 5.5% to 6% or leading towards the high end of it is pure organic.

Operator

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

Shaun Clisby Kelley

Chris, wondering maybe you could build off of the last part there about SLH. This is a little bit of new territory. Obviously, something that's pretty selective. But just a, can you give us a little bit more about the deal itself and I think it sounds economically quite similar to what we see in the normal -- kind of in the normal course on the fee side. But any color you can provide there? And then I think more importantly is just big picture, do you think there are other collection places out there that you could utilize your distribution capability and help other systems that may exist out there but not overlap directly with owners, which I know is going to be a sensitivity point for you.

Christopher J. Nassetta

Yes. Well, first of all, on SLH, as you hopefully could tell from my prepared comments, we're really excited about it. We've had a relationship there for a while. We've been working with them to figure this out and we're really excited to be able to get it done. I mean if you think about it, it's sort of like the moons and the stars aligned super well for us. We're going to be able to bring the majority of 500 hotels that are super unique, small, obviously, Small Luxury, it's a small luxury but very heavy resort orientation and very heavily oriented to very niche markets that are super hard to get into. And so when you look at it vis-a-vis, the overlap of our existing -- we have 100 open luxury hotels. We have about another 60, 70 in the pipeline. So a terrific portfolio and growing super rapidly.

When you look at the overlap, it's -- there is really none just because this is a really unique collection of hotels. We did a bunch of focus groups and customer research around this over the last year and really feel like this offering from the standpoint of our customers, particularly our higher-end customers is going to be super well received in terms of their ability to book it through our channels, but earn points, burn their points, go on their vacations in these places and the like. And so we think it is literally the perfect combination and an unbelievable way for us to take what is currently 100 -- with pipeline 150, 160 hotel luxury portfolio and turned it into 600 or 700 scattered in all the best and most unique and hard to duplicate places around the world.

So we think this is great. Customers, we think, based on all the work we did are going to really love it, and we're excited to start ramping up and including them in all our channels. In terms of the economics, we feel really good about it. As I said, we want to be really straightforward. I mean license fees that we're getting are very similar sort of in the zone of what we would typically get in all of our -- with our direct brands. One difference in this case, we -- as I said in my comments, we'll get paid on the business we generate which we think will be significant. I mean it will take time to ramp that up. It will be significant. And that there's real economics in this for us as well. So we think sort of like, as I said, moons and stars, fabulous for the network effect, fabulous for our customers, and we think really good for shareholders in the sense that we'll be generating meaningful fees, and we are investing nothing. It's fully capital-light.

Shaun Clisby Kelley

And sorry, just as a follow-up there, Chris. Just any thoughts on, again, sort of future opportunities that could look like sort of leverage the platform.

Christopher J. Nassetta

Sorry, you did ask us 3 or 4 part question. That's all right. We got time. I think there are always -- I mean we're looking at lots of different things all the time. I mean since the IPO road show, we have talked a lot about network effect. I mean, very consistently trying to build that out to create an ecosystem that brings customers in and builds loyalty. And so we're always looking at other opportunities. And so I think there are possibilities in that regard. But nothing, I would say, right now, we're focused on this. This is a lot of effort and work to get these built into the system. And we'll see, we'll see. Where anything that we think we can do to keep building -- bringing new customers in and giving them and our existing customers, more products that resonate with them that builds more loyalty and that we can commercialize in the sense of being paid for the effort we're interested in. But nothing more to report at this point beyond SLH.

Operator

The next question is from David Katz with Jefferies.

David Brian Katz

Just to follow on the same theme. Is there a case or a strategy or thought around whether SLH could either naturally or strategically transition into a business use as well? I admit I've not stayed at one. Is there any particular barrier to that as business people tend to choose smaller and smaller hotels, more unique properties over time?

Christopher J. Nassetta

Listen, I -- absolutely no barrier. I mean I emphasize the resort because if you look at it as a percentage of their rooms and a number of hotels, a lot of them are in resort locations. By the way, there's over 500 hotels and growing, by the way, it's not like it's static. It's growing, and we think we're going to help them grow at a much faster pace by being in our system. So we think this will continue to be 5, 6, 7 and continue to grow.

There are plenty that are in urban locations around the world that are small luxury boutique hotels, just percentage-wise, it's more resorts. But there are -- there's a very good representation in urban environments around the world and some really interesting urban environments that we don't have luxury exposure to. And so we absolutely believe that this is also crosses over into business transient. It will also drive some group business, but prototypically these hotels have very limited meeting space just by the very nature of what they are. I mean they have some boardrooms and small meeting spaces. So it will be -- it will drive some meetings and events business, but I think it will be a lot of leisure and then first and foremost, and then business transient. But I think business transient will be a meaningful component of it, particularly in those hotels in the right locations.

David Brian Katz

If I can just ask about the locations geographically, what kinds of cities are in it now and where would they like to be, please?

Christopher J. Nassetta

I think if you looked at the map, I mean, you can go on rather than me describing it, you can go on their website. I mean right now, it's sort of like 60% of it is in Europe, 20% in the U.S., 20% in APAC. The major cities in those markets, they have -- pretty much all of them have some representation. What you'll find if you went and then double-click on that is that locations within those cities are pretty unique just because of what they are and where they are. So they're in niche, super hard to duplicate locations within most of those major cities.

Operator

The next question comes from Smedes Rose with Citi.

Smedes Rose

I just had a quick question on -- again, on the SLH. To reach the higher -- above the 6% unit growth that you said you're comfortable with, what sort of penetration would you need to reach within the SLH portfolio, I guess, in year 1 to get to the 6.25% or 6.5% growth that you mentioned with this potential -- with this partnership.

Christopher J. Nassetta

Yes. We ultimately think the majority of SLH hotels are going to join our system and feel confident in that. The question is just going to be with all the technology and I mean all of which is being worked on because we've been -- we signed it recently. We've been working with them for quite some time. So the range of 25 to 50, which we feel comfortable just has to do with how quickly we can get all -- execute against all of the technology requirements and the like. So again, as I said, we feel good about the high end of 5.5% to 6% without any of those. The quarter will depend on just the speed of execution.

And so next call, we'll try and give you -- we just signed the deal. Teams are working hot and heavy on it. On the next call, we can probably try and refine it a bit. We'll have a better set.

Smedes Rose

And just, Kevin, could you just share with us what the year-end share count was?

Kevin J. Jacobs

I actually don't have the actual share count in front of me right now, Smedes. I'll follow up with you.

Operator

The next question comes from Brandt Montour with Barclays.

Brandt Antoine Montour

Just sorry, 1 more on SLH.

Christopher J. Nassetta

We're excited about it, too. So happy to answer.

Brandt Antoine Montour

Exactly. No. I mean, I guess the question is, when you think about those hotels coming in the system, and it sounds like they're all -- you think that they might all come at some point. But do they have to opt in? And sort of what is -- those individual hotel owners, what does the mechanism look like? I guess I would have thought of them...

Christopher J. Nassetta

They have to opt in, and we and the team at SLH have already started the process of communicating with them in that process. But they have the option to opt in. Now we think as SLH, at least the owners that we've discussed with that it's a compelling value proposition for them to be opting in which is why we have confidence that the majority of the system ultimately will come in. But they have the option to opt in or not.

Brandt Antoine Montour

Okay. Great. And so just to quickly follow-up on that. So these are hotels that went to SLH originally because they wanted to keep their sort of whole specific brand, their own name and be very

independent and you're basically allowing them to do that same thing by going through your distribution system.

Christopher J. Nassetta

We're allowing them to keep all of that, they're not branding with us. The SLH brand is maintained. So it's the same branding they've had. We're just giving them access to hundreds of millions of customers, a loyalty program all of our sort of commercial booking channels and alike, which obviously has proven to be, given the market share we drive in our system quite a compelling value proposition. So we feel good about it for the same reasons we feel good about all of our development progress.

Operator

The next question comes from Robin Farley with UBS.

Robin Margaret Farley

So looking at your pipeline, your rooms under construction looks like it's back almost pre-pandemic levels pretty much. So I guess I'm just wondering what percent of your 2024 unit growth are you expecting to come from conversions?

Kevin J. Jacobs

Yes. We did 30%, as Chris mentioned in his prepared remarks. This year, we think it will be a little bit higher than that, sort of in the mid-30s for the year this year.

Robin Margaret Farley

And I know you're not guiding to anything next year yet, but is that something you expect to accelerate as a percent of your unit growth over time? Or do you think that we're seeing that sort of mid-30% range this year will be kind of the most, and then it will return to more normal additional supply under construction.

Kevin J. Jacobs

I mean over time, it will depend on market cycles, of course, but I think as we -- particularly with Spark, as we -- which is 100% conversion brand, I think it will drift upwards over time and become an important part of -- it's always been an important part, but it will be a little bit higher over time. And then again, it will vary with market cycles over a longer period of time.

Operator

The next question is from Chad Beynon with Macquarie.

Chad C. Beynon

With respect to the 2% to 4% RevPAR guide, Chris, I know you walked through this from a segment standpoint, and it's obviously early in the year. In 2023, you guys exceeded STR results in each quarter. And for '24, I think STR has a slightly more positive outlook than you guys. So could you kind of maybe kind of square that circle in terms of your process versus maybe how STAR would do it? And then, I guess, more importantly, should we expect the international RevPAR? I know it's FX neutral to be more positive for you guys than domestically.

Christopher J. Nassetta

Yes. I mean, as you would guess, we look at what all independents have to say, including Smith Travel and that's interesting. But we do a ground-up process. I mean this is done by every individual hotel in the world, all 7,500 plus of them that then aggregates into us having a budget, and then we create a range around it. So that's the process we go through. Obviously, there's lots of uncertainty still on -- as we've talked about, we sort of tend always to take the consensus view, which right now is a soft landing. So there are a lot of different paths that the broader economy can take. But it feels,

certainly, with what we're seeing in our business that, that is the most likely outcome. And so this is how we aggregated it together on a property-by-property basis.

I would like to believe, and certainly, every year, I believe that I've been here in 16 years, we have grown market share, including last year, where we grew market share pretty nicely, and we are currently at the highest levels of market share we've ever had in our history. If we do our job again this year, we will grow market share again, which should mean that we would outperform whatever the market gives us. That is what we are trying to do.

In terms of internationally, I think I said it in my comments, international is going to be a bit above the U.S., in part because you still have parts of Asia. One, EMEA is really strong. Just basically strong, it's recovered and strong. And then you have parts of Asia Pacific that are still sort of recovering, notably the China market and the comparability benefits and that's really causing a slight overperformance in international versus U.S.

Chad C. Beynon

Looking forward to more of that at the Investor Day.

Christopher J. Nassetta

Look forward to seeing everybody.

Operator

The next question comes from Patrick Scholes with Truist Securities.

Charles Patrick Scholes

This question is for Kevin. Just give us an update on how Spark is progressing. And then related to that, given the uncertainty surrounding what's happening with Choice and Wyndham, do you think that is helping with your conversion activity?

Kevin J. Jacobs

Yes. Look, Spark is going great. I mean, we've got nearly 150 of them in the pipeline already, and we just launched it last year. We've got another 250 working deals, something like that, so 400 working deals. We had 8 or 10 of them open now that are performing really well. So we're picking up a lot of momentum. So we feel really good about the future of Spark and its value proposition. And I think I'm probably not going to comment on what our competitors might or might not be doing together. We believe strongly in the value proposition for Spark that's why we launched it, and we're not -- we don't think that anything that goes on in the environment around us will change that trajectory or our ability to be successful in that segment.

Operator

The next question is from Duane Pfennigwerth with Evercore ISI.

Duane Thomas Pfennigwerth

I wonder if you could offer some thoughts on the trajectory you see from here on mid-scale and below chain scales, still up meaningfully versus pre-pandemic, but a bit softer year-over-year. How do you interpret that? And is there anything you see on the horizon that could drive some acceleration this year on the lower end?

Kevin J. Jacobs

Yes. Look, I think some of it is comps, right? Those segments recovered really well and a lot more quickly from COVID. So some of it's year-over-year comps. So I think that you'll always have those as cycles play out, you'll have those effects, and we really believe in the demand for mid-scale. So you could have differences in year-over-year RevPAR growth relative to other chain scales.

But in terms of serving tons of customers, we think there's 70 million customers out there in that chain scale or below. And then if you think about -- so for Spark, for mid-scale transient, if you think about LivSmart for more extended sort of 30-, 60-, 90-day extended stay business, we feel really good about the demand profile over the long term and the ability to serve. As Chris said earlier, in one of his answers, serve more customers, bring new customers into the system. But more importantly, deliver great returns for owners and earn more fees. It's -- we don't do these things because of how year-over-year RevPAR growth will perform. Now we -- like in these chain scales, we expect to generate premium market share and outperform the competition but you're going to have -- you're going to continue to have year-over-year in RevPAR growth, and that's not why we do these things.

Operator

The next question comes from Michael Bellisario with Baird.

Michael Joseph Bellisario

Sort of a 2-part just from development and signings, maybe where are you seeing the wins by brand, by region and kind of outside of the Spark momentum that you just mentioned. And then I guess, just specifically on Spark for the 8 or 10 hotels. I know it's still early days there, but what are you thinking in terms of loyalty contribution and sort of earn and burn patterns from Honors members so far?

Kevin J. Jacobs

Yes. So at the beginning, I'd say, look, for the first part of it, Michael, the success has been pretty broad-based. I mean 45% up in signings and which was up 31% in the U.S. and then obviously a little bit better than that outside of the U.S. and we expect another record year in 2024. And that's just because our brands are performing, industry fundamentals remain good. So despite what people think about economic growth, you're going to be in a supply-constrained environment here for a while. And in those environments, we take more share, right? We mentioned we've got 1 in 5 rooms under construction, more than any other hotel companies. So we have a lot of momentum and owners want to affiliate with us. And then when you get into an environment where capital, where lending is more constrained, right? Lenders want to see -- they want to lend to projects that are affiliated with our brands. And that's not just a U.S. phenomenon. That's around the world because lenders feel like they're more likely to get paid back. And so a lot of it's momentum. It's across all the brands and chain scales and across all the regions.

And then the second part of your question, I think -- look, it is early days. It's only a handful of hotels. But I think so far, what we're seeing from the performance of the Sparks is in line, market share premiums reasonable to strong loyalty contribution. We do think we're going to sign up a lot more new members with these hotels because we'll bring new customers into the system. So it's not just a matter of where they are member before they book, but sometimes they book and they become a member while they're there. So I think it is early days but pretty consistent performance across the board there.

Operator

The next question comes from Richard Clarke with Bernstein.

Richard J. Clarke

Just going back to SLH. Firstly, is this the luxury lifestyle launch you've teased recently? Or is that still to come? And then related, I guess, when other companies have done these kind of partnerships, they've seen some criticism that hotels are joining the loyalty program, but a lower percentage of their revenues being handed over to Hilton. So how are you going to stop hotels from choosing the SLH route into Hilton Honors rather than maybe joining LXR or Canopy or one of the other brands where they would pay across all of their revenues, the fee percentage?

Christopher J. Nassetta

Yes. Good questions. The first on luxury lifestyle, no, this is not in lieu of that. We are still hard at work. I've made, I think, pretty clear for a long time, but much clearer lately that we intend this year to enter that space one way or another and we're hard at work. And I think you should expect sometime this year, hopefully sooner than later to see us enter that space. And we think that's something that is totally different than what we're trying to do with SLH.

In terms of the value proposition of existing brands versus SLH, as I said in my earlier comments, I mean SLH is something very different than LXR, very different than Canopy, different than Waldorf, different than Conrad, different than everything we have in the sense that these are really very small luxury hotels in very niche markets in a lot of cases, but even within non-niche markets, very niche locations. And as a result, we do not believe that they are in conflict with or cannibalize anything else we're doing, just because -- I mean, I suggest anybody just go on the website, they got 500 plus, you can sort of get a feel for it. And I think we did huge amounts of work in terms of overlap analysis to make sure we understood that. I think you could very quickly understand that like this isn't consistent with anything else we're doing. It will be very -- what we do in luxury lifestyle will be very different. What we're already doing with LXR, our luxury soft brand is very different. Those hotels tend to be bigger, hotels, more meeting space and all of those things.

So as I said, we're excited. It's very -- as big as we are at 7,500 hotels across all of these chain scales, it's really hard to find something that you would view as this complementary but we worked really hard to find that, and we think SLH is that. So we do not believe that -- we believe it will bring in lots of new customers, serve our existing customers, as I said, really well, make them happier as they earn and particularly, they burn points and will not be in conflict either with our existing owners, but more importantly, not be in conflict with our existing growth opportunities and the brands that we already have on the brand park.

Richard J. Clarke

That's very clear. Maybe if I can just ask 1 very quick follow-up. Just the gap between the 15% RevPAR growth in owned and lease and the 8% revenue decline, what's leading to that gap in that segment?

Kevin J. Jacobs

You're talking about the -- yes, it's almost entirely the impact of government subsidies last year in the fourth quarter. I assume if you're looking at year-over-year RevPAR relative to RevPAR growth, which is same-store and the subsidies come in below the revenue line.

Operator

The next question is from Bill Crow with Raymond James.

William Andrew Crow

Chris, I'm curious, there's quite a debate out there about inbound versus outbound especially on the leisure side. You said you expect leisure to be up this year. I'm wondering what you're seeing when your system tells you that outbound travel is going to be as strong as last year or if we're going to see more balanced playing field here in the United States?

Christopher J. Nassetta

I think we're going to see a very strong -- a much stronger inbound year. That doesn't mean outbound is going to be bad. But I think with the -- what happened with the value of the dollar last year, you had the strength there, drove a lot of international travel, particularly to Europe. I don't think -- and people hadn't been in a while, so you put those things together, and it created a real groundswell for outbound business. I think there'll be plenty of outbound, but I think the trend this

year will be sort of recovering not maybe fully but getting much closer to a full recovery by the end of the year on inbound international.

The Chinese inbound is the big variable, which is still a small fraction of what it was. I still think that takes a more protracted period of time, just given everything going on in China, but other countries around the world are compensating for that. So we might not get all the way back this year. I think TBD, but I do think for the story, part of the strength this year is going to be about inbound international. And I think part of that will obviously index very heavily towards the big urban markets, and that combined with the, what I already talked about on the group side, with the resurgence of all the big city wides and association as well as SMB group business, that's everywhere, but that's nice for the big cities as well. So I think you're going to see -- I think that will -- when we finish the year, we're going to feel a lot better about inbound and not bad about outbound, but I think inbound will be the story.

William Andrew Crow

I do have a follow-up question, I'll make it quick here. But you a couple of times have kind of emphasized this low supply growth environment. The development pipeline continues to build. It's actually, I think, at all-time high levels. Your pipeline is a great example. I'm wondering if you're seeing any change in the pace of new construction starts or any indication that the period between signed deals and groundbreaking is starting to shorten. It feels like we got kind of a coiled snake out there. At some point, we're going to see some supply growth take off.

Christopher J. Nassetta

I think you will. I mean, first of all, I mean, our numbers are really good and not to pat us on the back, we take an unfair share of what is getting signed and an even less fair share of what's getting financed. So our numbers are not indicative of what's going on in the broader market. I think if you look in the broader market, the supply numbers are sort of circa 1%. In my own view, you're right. Eventually, that will go back up. I mean the 30-year average is 2.5%. So it suggests if you look at long-term trends, it will go up, particularly as strong as the business has been and we think will continue to be into this year. But there are natural limitations in place, which is why you see it at 1%. I mean the 1% is sort of an output of no -- very high cost to build and higher cost of labor, higher interest rates, no financing availability that occurred over the last couple of years. And so you see that sort of hitting the numbers now.

But the reality is while some of those things have stabilized, and that's why our starts were up double digit in the U.S. last year. It's still very hard while financing, interest rates have come down a little bit. Cost to build has not, but it's stabilized. Obviously, rates have gone up. I mean the economic setup works pretty well, but it really works, obviously really well for us because we drive very high market share and very high rates and higher than almost all of our competitors, so it works better for us and the financing market, while it's better, okay, that's why we're able to get -- we got a lot more done last year, and I think we'll get a lot more done this year. It's not robust.

And so there's a natural sort of gate that exist. And while it's getting better, I think will exist for a while. And it takes time to build these things, right? So the reality is, I think, this year, we'll still be not as constrained but more constrained financing environment that will weigh heavily to our benefit. And then I think it will continue to ease. But I think before you're going to see a lot of this stuff convert for and mass from a pipeline to under construction, particularly here in the U.S., I think it takes a couple of years, and then it takes a year or 2 to build the stuff. So I feel pretty darn good about like '24, '25 and probably most of '26 for being pretty meaningfully below the 30-year averages on supply. And that's why I made the comments that I made. I think it's just math. At some point, they got to start to finish.

Operator

The next question comes from Kevin Kopelman with TD Cowen.

Kevin Campbell Kopelman

Great. Could you give us an update on how you're thinking about fee growth for the year? If you still expect it to exceed NUG plus RevPAR and any kind of puts and takes there?

Kevin J. Jacobs

Yes. We still think -- we think fee growth will be a little bit above algorithm as it normally is. A couple of headwinds, a little bit of headwind from FX, but even with that, we think we'll be above algorithm for fee growth this year.

Kevin Campbell Kopelman

Okay. Great. And then 1 other quick one. Could you talk about any plans or your plans to get back into the kind of 3 to 3.5x leverage range that you talked about?

Kevin J. Jacobs

Yes. Our guidance this year implies we will be approaching the bottom end of that range. We still think it's the appropriate range for us. Obviously, the borrowing environment has been a little bit challenged. We haven't liked where rates have been. We're still -- obviously, our capital return is still moving up, and we've given guidance for this year. But the guidance for this year implies that we'll be approaching the bottom end of that range by the end of the year.

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 closing remarks.

Christopher J. Nassetta

Thank you, everybody, again, for taking the time. Obviously, a really good year for us last year, some exciting things going on with SLH, but even the organic growth and increases in unit growth that we see, given the momentum we're taking from last year into this year, we feel really good about the progress of the company. We feel really good about where things are and outlook for the full year, and we'll look forward to catching up with you after the first quarter to give you an update. Thanks again, and have a great day.

Operator

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

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