

Hilton Worldwide Holdings Inc. (NYSE:HLT)

Q2 2024 Call Participants

Executives

- Christopher J. Nassetta
President, CEO & Director
Hilton Worldwide Holdings Inc.
- Jill Chapman
Senior Vice President, Head of Development Operations & Investor Relations
Hilton Worldwide Holdings Inc.
- Kevin J. Jacobs
CFO & President of Global Development
Hilton Worldwide Holdings Inc.

Analysts

- Brandt Antoine Montour
Research Analyst
Barclays Bank PLC, Research Division
- Carlo Santarelli
Research Analyst
Deutsche Bank AG, Research Division
- Chad C. Beynon
MD, Head of US Research & Senior Gaming, Lodging and Theatres Analyst
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- Charles Patrick Scholes
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Truist Securities, Inc., Research Division
- Conor T. Cunningham
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- Daniel Brian Politzer
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- David Brian Katz
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Jefferies LLC, Research Division
- Duane Thomas Pfennigwerth
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Evercore ISI Institutional Equities, Research Division
- Joseph Richard Greff
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JPMorgan Chase & Co, Research Division
- Kevin Campbell Kopelman
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- Richard J. Clarke
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- Robin Margaret Farley
Managing Director and Research Analyst
UBS Investment Bank, Research Division
- Shaun Clisby Kelley
MD in Americas Equity Research & Research Analyst
BofA Securities, Research Division
- Smedes Rose
Director & Senior Analyst
Citigroup Inc., Research Division
- Stephen White Grambling
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Morgan Stanley, Research Division

Presentation

Operator

Good morning, and welcome to the Hilton Second Quarter 2024 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, Head of Development Operations and Investor Relations. You may begin.

Jill Chapman

Thank you, Chad. Welcome to Hilton's Second Quarter 2024 Earnings Call. Before we begin, we would like to remind you that our discussions this morning will include forward-looking statements. Actual results could differ materially from those indicated in the forward-looking statements, and forward-looking statements made today speak only to our expectations as of today. We undertake no obligation to update or revise these statements.

For a discussion of some of the factors that could cause actual results to differ, please see the Risk Factors section of our most recently filed Form 10-K.

In addition, we will refer to certain non-GAAP financial measures on this call. You can find reconciliations of non-GAAP to GAAP financial measures discussed in today's call in our earnings press release and on our website at ir.hilton.com.

This morning, Chris Nassetta, our President and Chief Executive Officer, will provide an overview of the current operating environment and the company's outlook. Kevin Jacobs, our Chief Financial Officer and President, Global Development; will then review our second quarter results and discuss our expectations for the year. Following their remarks, we'll be happy to take your questions.

With that, I'm pleased to turn the call over to Chris.

Christopher J. Nassetta

Thank you, Jill. Good morning, everyone, and thanks for joining us today. We are pleased to report strong second quarter results, with RevPAR growth driving adjusted EBITDA and adjusted EPS above the high end of our guidance. We continue to execute on our successful development strategy, and in July, our system surpassed 8,000 hotels globally. Our newly acquired brands and recent strategic partnerships will help us build even more loyalty with guests, further enhancing our network effect and increasing our

industry-leading RevPAR premiums. Coupled with our asset-light fee-based business model, we are well positioned to continue producing significant free cash flow and driving meaningful shareholder returns.

In the quarter, system-wide RevPAR increased 3.5% year-over-year, above the midpoint of guidance due to robust group performance, continued recovery in business transient and easier holiday comparisons. Transient RevPAR grew 2% year-over-year with increases in both business and leisure demand.

RevPAR across large corporates rose 5% in the quarter, driven by strong trends across most industries, including notable recovery in technology. Leisure transient RevPAR continued to exceed prior peak, supported by some -- solid summer travel demand, particularly in international markets.

Group RevPAR rose more than 10% year-over-year, led by strong demand for corporate and social meetings and events, and booking windows continue to lengthen. For the full year, group position is up 10% over last year, with position up mid-teens over the next several years.

We expect full-year system-wide RevPAR to increase 2% to 3%, driven by positive growth across all major segments and regions. We tempered the high end of our expectations versus prior guidance due to softer trends in certain international markets and normalizing leisure growth more broadly. With continued strength in group and steady recovery in business transient, we expect higher-end chain scales to continue to outperform.

Turning to development. In the quarter, we opened 165 hotels, totaling more than 22,000 rooms and achieved net unit growth of 6.2%. We marked several milestones in the quarter, including the opening of our 6,000th hotel in North America, and we surpassed 75,000 Home2 Suites rooms globally. We also opened 7 new resort properties in Europe, including the debut of Curio in Croatia and DoubleTree in Malta.

We welcome Graduate Hotels and NoMad into our family of brands during the quarter, providing further opportunities to deliver exceptional guest experiences and accelerate our expansion in the fast-growing Lifestyle segment. Demand for Lifestyle products continues to increase as guests seek unique experiences and sought-after destinations around the world. In the last year, we have expanded our Lifestyle offerings by more than 30%, fueled largely by growth in Curio, Tapestry and the recent acquisition of Graduate.

With roughly 400 Lifestyle properties today and hundreds more in the pipeline, we are well positioned for substantial growth over the next several years.

Conversions accounted for roughly half of openings in the quarter, driven by the addition of Graduate and the continued strength from DoubleTree and Spark. In the quarter, Spark opened 27 hotels, more than doubling its existing supply.

The brand also celebrated its debut in Europe with the opening of Spark by Hilton London, Romford, just 9 months after the first property opened in the U.S. The opening marks the start of an exciting journey for Spark to redefine the premium economy segment in Europe, with further launches of the brand across Continental Europe expected in the coming months.

In the quarter, we signed 63,000 rooms, increasing our pipeline to approximately 508,000 rooms, which is up 8% from last quarter and 15% year-over-year, with notable strength across the EMEA and APAC regions. In particular, Hilton Garden Inn continued to gain tremendous traction, with year-to-date signings up nearly 90% across 20 different countries.

Overall, conversions accounted for over half of the signings in the quarter, driven by additions from our acquisitions and partnerships. Excluding acquisitions and partnerships, conversions accounted for 25% of signings in the quarter, largely driven by continued momentum with Curio, Tapestry and DoubleTree.

System-wide construction starts in the quarter were up 160% versus last year and up 37% excluding acquisitions and partnerships. With meaningful growth across both the U.S. and international markets, we remain on track to exceed prior peak levels of starts by year-end.

Approximately half of our pipeline is under construction, and we continue to have more rooms under construction than any other hotel company, accounting for more than 20% of industry share and nearly 4x our existing share of supply. We've seen tremendous interest from owners through our exclusive agreement with small luxury hotels of the world, with the pace of initial property sign-ups far exceeding our expectations.

Under our strategic partnership, we added nearly 300 boutique luxury properties to our system in July, with an additional 100 properties expected to join later this year. Adding these unique properties to our network is highly complementary to our existing luxury portfolio and significantly increases our luxury offerings for guests around the world without any capital commitment.

During the quarter, the first AutoCamp properties were added to our platforms. Each AutoCamp location provides a unique opportunity for guests to immerse themselves in nature without sacrificing the comforts of high-end accommodations.

These exclusive agreements with SLH and AutoCamp provide Honors members with new and exciting ways to earn and redeem points while broadening and enhancing our network effect. As a result of our strong pipeline, recent tuck-in acquisitions and strategic partnerships, we now expect net unit growth of 7% to 7.5% for the full year.

We are also proud to continue to be recognized for our industry-leading brands and culture. Brand Finance recently ranked Hilton as the most valuable hotel brand for the ninth consecutive year, claiming 9 of the top 50 hotel brand spots.

Additionally, Hilton was recently named the Top Workplace in the U.S. for Millennials by Great Place to Work and Fortune for the seventh consecutive year. Since 2016, we've received over 540 recognitions as a great place to work across more than 60 countries, and we remain the #1 great place to work in the world and the United States.

We're very happy with our second quarter results, development milestones and branded commercial enhancements, which we think demonstrate the continued strength of our business model.

Now I'm going to turn the call over to Kevin for a few more details on the results in the quarter and our expectations for the year.

Kevin J. Jacobs

Thanks, Chris, and good morning, everyone. During the quarter, system-wide RevPAR grew 3.5% versus the prior year on a comparable and currency-neutral basis. Growth was largely driven by strong international performance and continued recovery in group. Adjusted EBITDA was \$917 million in the second quarter, up 13% 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 U.S. RevPAR performance and some timing items. Management and franchise fees grew 10% year-over-year. For the quarter, diluted earnings per share adjusted for special items was \$1.91.

Turning to our regional performance. Second quarter comparable U.S. RevPAR was up 3%, driven by strong group performance, particularly in urban markets. In the Americas outside the U.S., second quarter RevPAR increased 7% year-over-year, driven by strong results in leisure markets. In Europe, RevPAR grew 7% year-over-year, with solid performance across all segments and continued strength from international inbound travel.

In the Middle East and Africa region, RevPAR increased 11% year-over-year, with growth in both rate and occupancy led by strong group and leisure performance. In the Asia Pacific region, second quarter RevPAR was up 1% year-over-year. RevPAR in APAC ex-China increased 11%, led by continued strength in Japan and Korea.

China RevPAR declined 5% in the quarter with difficult year-over-year domestic travel comparisons and limited international inbound travel negatively affecting results, which weighed on RevPAR results for the region, but accounts for less than 3% of overall fees.

Turning to development. We ended the quarter with approximately 508,000 rooms in our pipeline, up 15% year-over-year, with approximately 60% of those rooms located outside the U.S. and nearly half of them under construction. For the full year, we expect net unit growth of 7% to 7.5%.

Moving to guidance. For the third quarter, we expect system-wide RevPAR growth of 2% to 3% year-over-year. We expect adjusted EBITDA of between \$875 million and \$890 million and diluted EPS adjusted for special items to be between \$1.80 and \$1.85.

For full year 2024, we expect RevPAR growth of 2% to 3%. We forecast adjusted EBITDA of between \$3.375 billion and \$3.405 billion. We are bringing down the high end of our guidance to reflect slightly lower RevPAR growth expectations and FX movements. We forecast diluted EPS adjusted for special items of between \$6.93 and \$7.03. Please note that our guidance ranges do not incorporate further share repurchases.

Moving on to capital return. We paid a cash dividend of \$0.15 per share during the second quarter for a total of \$37 million. Our Board also authorized a quarterly dividend of \$0.15 per share in the third quarter.

Year-to-date, we have returned nearly \$1.8 billion to shareholders in the form of buybacks and dividends. And for the full year, we expect to return approximately \$3 billion. Further details on our second quarter results can be found in the earnings release we issued earlier this morning.

This completes our prepared remarks. We would now like to open the line for any questions you may have. We would like to speak with as many of you as possible, so we ask that you limit yourself to one question. Chad, can we have our first question?

Question and Answer

Operator

[Operator Instructions] The first question will be from Joe Greff with JPMorgan.

Joseph Richard Greff

I was hoping you could give us a little bit more detail. Obviously, on the net rooms growth side of things, Chris and Kevin, clearly, going to 7% to 7.5% is obviously a very good thing. Can you talk about what's added versus a quarter ago with particular attention with SLS and some of the newly acquired brands, as well as maybe what's different on a sort of organic same brand basis versus a quarter ago?

Christopher J. Nassetta

Yes, I'd be happy to. I think the way to think about it is what's being added essentially is Graduate. I mean if we -- if you look at our prior guidance, we had incorporated a guesstimate on what we would do for SLH. We are doing better than that. And so I think in the end, that's going to probably be about 1.5 points of NUG. Graduate, which we said would be separate and apart, is about 0.5 point.

And so I think if you sort of unwind all that and compare it against prior guidance, the organic is slightly less, but has 100% to do with some things that are just moving from the fourth quarter into the first quarter of next year.

But as we were -- as I said in my comments, in terms of feeling good about what's going on in the development side, I mean, for the full year, we're going to hit historically high levels on signings, we're going to hit historically high levels on starts, and that is both of those excluding any sort of partnerships or acquisitions. And obviously, that's been translating into very good results. We feel very good about the momentum into next year.

Most -- everybody was at our Investor Day in the spring, where we articulated a NUG sort of algorithm story of 6% to 7% organically. And we feel very, very good about being able to deliver on that.

Obviously, this year is going to be above the higher end of that because of some of the inorganic things. But if we fast forward to next year, our expectation certainly is organically, we will be solidly in that range, just given the signings, the starts and looking at how that's going to play out in the next couple of years.

Operator

Our next question will be from Carlo Santarelli from Deutsche Bank.

Carlo Santarelli

Chris, I think you addressed most of what I was going to ask. But in the -- at the end of your remarks that you did talk about organic growth and the outline you laid out at the Analyst Day, when you think about kind of contract acquisition spend over the next several years and acknowledging kind of that 6% net unit growth range, should we be thinking something similar to what you've kind of been spending in terms of contract acquisition spend this year to date, last, et cetera?

Christopher J. Nassetta

Yes. Well, last year was elevated because of a few very specific deals, which we've noted over the last couple of calls. This year will moderate and be lower than last year. And I think on a go-forward basis, I'd look at the next few years as sort of being comparable to where we'll end up this year.

We're not really seeing any material difference, notwithstanding a lot of noise in the market. I think in the quarter, Kevin, help me; our key money percentage of deals in the second quarter is like 7% or 8%. Overall, key money is still less than 10%, so 90-plus percent fully free of any form of incentive. And we haven't really seen those stats really move around a whole lot.

Again, we had an elevated year or 2 coming out of COVID because we got some really cool opportunities on some very big, super high-end luxury and sort of resort-, convention-type assets, and we took advantage of that. But we're getting back to more normalized levels, which again, will be lower than last year this year. And I think we'll continue at that kind of level over the next 2 or 3 years.

Carlo Santarelli

Great. And then you mentioned group pace plus 10 for this year. And the outlook for the next few years, you mentioned, were mid-teens. If -- in terms of '25, '26, what kind of percentage of your group is -- expected group room nights on the books at for '25?

Christopher J. Nassetta

I don't have the exact number in my head. But I would guess at this point for '25, it's probably 40% to 50%. And for '26, it's probably a quarter, something like that. By the end of the year, we'll be -- for '25, we'll probably cross over at 60% to 70%. Those would be sort of the typical numbers. And the group is sort of getting back to pre-COVID typical levels. Like even if you look in the second quarter at group mix, it was pretty much at where we were pre-COVID.

I mean of overall mix in Q2, it was 20%, which is exactly what it was pre-COVID. So it's sort of group, it's taken a while because of the long-lead nature of it and planning and all that goes into it, particularly with the larger groups and the city-wides. But that that's sort of now hitting on all cylinders and normalizing. So yes, I would think it'd be in those percentages.

So I think it's a very good indicator. We sit around this very table with all of our senior team, including Head of Sales and his team. And they feel very good. They're not -- there's no sense of sort of slowing on demand and pricing and the group demand, pricing. And overall attitude in that segment remains quite good, quite strong.

And as I mentioned in the comments, the booking window has -- is extending. I mean our overall booking window extended in the quarter. And at this point, pretty much the booking window is back to -- obviously got super short during COVID. But it's pretty much now back to normalized level, extended in the second quarter and pretty much got us back to pre-COVID levels. And the group booking window continues to extend just because people have to go further out, there's just not enough space available for their needs.

Operator

And the next question is from Shaun Kelley with Bank of America Merrill Lynch.

Shaun Clisby Kelley

I wanted to maybe just go high level and get a few of your views on the kind of latest on the consumer and just maybe the broader macro. Obviously, a lot of cross-currents out there. I think what we continue to see repeatedly is some softness in leisure at the margin in the U.S., contrasting that with the fairly solid corporate environment.

But behaviorally, what caught your eye just operationally through the quarter as we got into maybe the summer travel season? What do you think is changing at the margin?

Christopher J. Nassetta

Yes. Great question. And obviously, we've spent a lot of time talking to people there and looking at a lot of data in our business. Let me do it maybe through the lens of walking around the world a little bit to talk about what's going on.

So starting with -- maybe I'll finish at home, start with Asia Pacific. Asia Pacific, as you heard and Kevin's commentary is sort of a tale of 2 cities, China and then APAC ex-China. So in China, I think Kevin covered it nicely. In China, there is actually a very significant amount of travel going on. We do expect to end the year sort of down probably circa 5%.

But what's going on in China is, obviously, they have economic issues. So their economy is slow, but really, the travel business is still quite robust. But what's happening is they've opened up a lot of corridors for inter-Asian travel that is visa-free and Chinese travelers love to travel, and they're going -- getting out of China, and they're going around. And there's just not enough inbound travel yet into China.

There's not enough flights from Europe and the U.S. and other parts of the world to compensate for that. And that's going to take time. I mean I was there during the quarter, to U.S.-China Travel Summit at the State Department, sponsored with their equivalent, and we were talking about how we're going to get -- stimulate more travel, more flights.

And by the way, the flights have tripled or quadrupled even since then. So I mean, there is progress, but it's still going to take some time. So I think China is a complex story, but that's what's going on. Travel, in aggregate, similar to where it was, sort of not better or worse, but more people leaving, not enough coming in. I suspect, over the next year or 2, we will get to a different place. Hopefully, the economy starts to pick up, but you'll have a lot more inbound travel.

The rest of Asia Pacific quite strong, particularly led by Korea and Japan. And we haven't seen any real signs of weakening in those markets. And I should say, India, for that matter, no real signs of weakening. And those are the real APAC ex-China markets that are driving performance.

And then coming to EMEA, again, sort of a bit of a tale of 2 cities. The Middle East remains quite strong pretty much across the board. Europe, I would say, is still very, very strong in an absolute sense, but a

touch weaker than what we had seen a quarter ago, led by what you're talking is implied in your question, which is some of the leisure business.

Again, you're still at the high end of high single-digit sort of year-over-year growth. So it's not like it's a -- it's not a bad story. It's just a little -- it's come off just a little bit. And then coming -- I can keep lots of other places in the world, but these are the big markets. Coming home to the U.S. is exactly what's implied in sort of what you would guess from what I've already said.

If you break apart the segments, group is still raging. Business transient is still grinding up, not at a rapid pace, but still grinding up. Both of those segments, maintaining great pricing power.

And then leisure transient has been normalizing because we're just getting back to a more normal life, and it was at very elevated levels, particularly on weekends, but broadly -- and so we continue to see sort of normalization there.

And the consumer, if you break it apart in sort of segments in the lower sort of half of consumers, maybe even the lower 3 quarters, I mean you can read, the data is all out there; they had bank accounts and checking accounts, pull the money. Coming out of COVID, they've spent all that money, they're now borrowing more. And so they have less available -- less disposable income and capacity to do anything, including travel.

You go up to the upper echelons, and people still have pretty fat bank accounts and checking accounts and wherewithal. And so what the impact of that is some continued normalization on leisure transient.

And the reason I use normalization is not to be cute. I mean, for the full year, if you look at it, we think we will globally see growth in all segments. I said that quickly in my prepared comments. It will be very, very low in leisure transient, but positive, a little bit higher on business transient and then very, very strong, for the reasons I've described, on meetings and events.

So it is not -- at least in our world and what we have seen year-to-date and what we expect for the rest of the year, it's not cratering in any way. It's just -- it's -- but definitely softening for the reasons I described.

Operator

And the next question will be from Stephen Grambling from Morgan Stanley.

Stephen White Grambling

Would love to hear some of the incremental detail on effectively the non-RevPAR-related fees both within the management and franchise fees as well as the other revenue line as we just think about how the outlook has changed. And any puts and takes to think about not only this year, but maybe longer term?

Kevin J. Jacobs

Yes. Sure, Steve. And I think, look, obviously, those -- the non-RevPAR-driven fees outperformed. We still had very strong core fee growth in the quarter, based on our algorithm, but non-RevPAR-driven fees outperformed in the first half of the year. Some of that is a little bit of timing as it relates to the over the trajectory of the quarters of this year.

And -- but I'd say longer term, all of those parts of the business, right, we've talked about license fees, we've talked about other income, we've talked about ancillary lines of business at our Investor Day, all of those parts of the business should continue to grow at algorithm or above over time. So you're seeing a little bit of timing issues this year, but then over time, it should be additive to the algorithm overall.

Stephen White Grambling

And just to clarify, are the timing issues just related to deals that were struck, partnerships that were struck or just lapping over changes in terms?

Kevin J. Jacobs

Not on partnerships or deals, just a little bit of comparability year-over-year and just a little bit of strength in the early part of the year in some of those parts of the business. And I should say, a handful of onetime items in there, but nothing related to the partnerships.

Operator

And the next question will be from David Katz with Jefferies.

David Brian Katz

And it's perfectly suited because I wanted to follow on to the prior one, which is related to non-RevPAR fees. Can you talk a bit about your ability to affect or influence that growth? Meaning, is there just more resource toward identifying and executing on those opportunities? Or is the world just evolving in a way that's sort of driving that growth on your behalf, which benefits from your scale?

Christopher J. Nassetta

Yes. I mean, being born and raised a control freak, nothing, I don't view anything is outside of some ability to have influence, other than maybe the broad macro, which we'll, I'm sure, talk more about at some point.

So there are, David, a bunch of different things we can do. I'm not going to get into granular detail. But I mean you can see it in some of the actions that we publicly talk about, like with our AMEX co-brand cards and the things that we're doing there to sort of reintroduce cards, change the benefits.

And so I think I think the way you should look at it is, as Kevin described, we're in constant state of dialogue with all of our third-party partners on how to maximize these cards. We have a very serious seat at the table. We have lots of sort of contractual rights built into our relationship. But we also, in the bulk of -- and particularly in our largest one with American Express, have a long-standing and very close partnership.

It's always in both of our interest to be making sure these things are performing. And so we both have dedicated teams in our companies, in the case of AMEX, we and they; but in our other partnerships that we have as well.

And we have people literally grinding every day to figure out what the -- what we could do to modify the offer to customers to ultimately get them more to sign up in the case of co-brand and to enhance their desire to spend. We're in constant dialogue with like Hilton Grand Vacations. If you think about it, AMEX and HGV are probably the two biggest about the value proposition there.

You can see in a very material way, we were deeply involved in the Bluegreen and Diamond acquisitions. Those were things that we worked on very closely with them to ultimately drive a much better outcome by effectively creating new brands within that space.

So I can go on and on. The short answer is we don't leave anything for chance. I mean we're all over this stuff. We have rights, and we have great partnerships, and we are very aligned, always trying to figure out how to modify programs and adjust the offers to customers to drive better outcomes.

Operator

And the next question is from Robin Farley with UBS.

Robin Margaret Farley

Just circling back to the unit growth guide for next year. You have -- I think it's something like 30% more rooms under construction than you did in 2019, if my math is right. So you don't really necessarily need an acceleration in conversions, but some others are talking about that.

I wonder if you could just sort of characterize what you think is going on in the conversion environment in terms of are there things that would drive that to accelerate in 2025 or -- for you, not necessarily...

Christopher J. Nassetta

Yes. I mean I agree. That's why I feel good about being in the 6% to 7% range. I mean, effectively, if you take out all the partnerships and everything, it is -- by being solidly in that range, it is accelerating. So it is organically reflective of the strength.

Conversions, we do think, are accelerating. I mean, for the full year, we're going to have conversions over 50%. But again, that's in part driven by partnerships, acquisition and partnership. If you strip all of that stuff out, conversions are going to go from like 30% to just under 40%.

So we are having great success in conversions. We believe strongly that has everything to do with the strength of our brands and the strength of our commercial engines driving better outcomes for our owners. And so we are getting a hugely disproportionate share of conversions. And if we do our job, which we intend to do, we think that will continue.

So the -- being solidly in 6% to 7% next year, it is reflective of the benefit of the acceleration we're seeing in signing starts, conversions, all of that baked in. It's obviously a little bit early, in that it's August, to give the number -- to give a tighter range. But as we get closer to it, we will. But we feel very comfortable being solidly in that range.

Robin Margaret Farley

Great. It's very helpful. And then if I could, just one clarification. Kevin's comments on kind of the timing of fee growth and that the first half outperformed and the idea that it will -- over time, it will -- sort of algorithm is sustained.

Just does that mean like sort of for the full year, the algorithm will be the same? Or was that more that like -- I'm just thinking about if in second half would be slightly below algorithm, but the full year still comes in, in line or with the comment that...

Christopher J. Nassetta

Yes. If you look at our guidance, that is what is implied. I mean we -- the first part of the year in terms of - I don't know what metric you're looking at. But if you just look at EBITDA growth, it will be higher in the first half of the year because of some of the stuff that Kevin was talking about on timing. As a result, it will be lower. But for the full year, it will be in the ranges we talked about, which when I rounded, is sort of like EBITDA growth of 10%.

I mean, I think -- and I'm patting us on the back, but I guess that's my job. I mean when I think about what's going on in the world and our ability to do that, I think it's striking. The reality is as much as I said, I'm a control freak, and I wish we could control everything.

We don't control the macro. You know that better than we do. And the macro environment is weakening a touch, okay? That's just what's going on, not dramatically so, but it's weakening a touch. Thus, why we brought the top end of our RevPAR guidance down and the top -- and shaved a little bit of the top end of our EBITDA guidance. Frankly, a lot of that shape had to do with FX changes. Honestly, if you take out FX, it didn't really move a whole lot from an EBITDA point of view.

But even in the face of all that, at the same time that RevPAR -- the midpoint of RevPAR is coming down, the midpoint of unit growth is going up. And the result is pretty much the same, which is if you think about back to Investor Day, we said we're going to deliver plus or minus 10% EBITDA growth on average.

We're going to do it, even in an environment that I would argue from a macro point of view, is not super strong and softening a touch because of the success that we're having in executing what I think is a very

thoughtful plan and strategy. On the development side, we are still getting to circa 10% EBITDA growth in that environment.

And I think that is a demonstration both of the resilience of the core business and the model, and this is the pat us on the back, and I'm patting Kevin on the back as he runs development; the success that we're having in what is a really good development strategy being super well executed.

Operator

And the next question is from Smedes Rose with Citi.

Smedes Rose

Just, I guess, to follow up on the growth outlook a little bit, just looking at sort of the implied RevPAR ranges at kind of 1 and change to 3 and change through the back half of the year, I mean, is the higher end just a reflection of maybe what happens with the U.S. economic growth? Or is there something else in particular that you think could drive you towards the higher end of that implied outlook?

Kevin J. Jacobs

Yes. I mean it implies 2 to 3 really for both quarters, Smedes. I think if you think about it, if you look at what's going on so far in the third quarter, it has been a touch softer. And as we get into the fourth quarter, the expectation would be as the bigger business travel months of October and the first part of November kick in, particularly in the U.S., that there would be a little bit of strengthening in RevPAR growth as supported by -- also by, I should mention by our group position.

So if you think about that and then if you think about the mix of the business, we still are largely -- 70% plus or minus of our revenue comes from the United States. And so what happens in the U.S. will be a driver. But supported by our group position, supported by strength in the bigger group hotels in the urban markets, we think -- and what we think will be stronger business travel in the early part of the fourth quarter, that's kind of what's playing out over the balance of the year.

Operator

And the next question is from Brandt Montour with Barclays.

Brandt Antoine Montour

So Chris and Kevin, so implied in the fact that EBITDA, the guidance for the full year didn't really come down, but you did cut RevPAR, we're left to assume that there's some incremental fees potentially from that extra NUG from SLH. Correct me if I'm wrong there. But the follow-on question is, if you could just remind us the economics of the SLH hotels and what you're implying to sort of accruing fees from them as we go through the rest of the year?

Christopher J. Nassetta

Yes. I think your implication is right. Some of it is fees doing better in SLH. Some of it's non-RevPAR fees doing better. And the way to think about economics on SLH is we get sort of normal fees relative to what we would get in a typical franchise arrangement. But for the fact that we get paid on the business we generate there versus 100% of revenues.

Now, recognize that the average rate of these hotels is probably 5 to 7x -- 6 or 7x our system-wide average rate, so in the end, we feel very good about the economics.

Brandt Antoine Montour

Okay. That's super helpful. And then the follow-on question is just a clarification on some of your comments, Kevin, on the back-half RevPAR. I know U.S. is the big one, but U.S. and China may be taken separately, what are you implying for the back half on those 2 buckets versus the July run rate? Are you implying any reacceleration or sort of straight lining? Or what's qualitatively what you guys are thinking there?

Kevin J. Jacobs

Yes. I mean, we didn't -- we haven't given a July run rate for us. But if you look at what's going on in the industry, it does imply an acceleration in the back half of the year relative to July, if that's your specific question.

Christopher J. Nassetta

And I think that acceleration, Kevin said this, Brandt, would be fourth quarter oriented. I think third quarter, you will likely see -- you're in a transition where leisure is softer and you don't have all the business travel and the meetings and events.

So third quarter, if you look at it, third versus fourth, I think third quarter will be weaker, fourth quarter a lot stronger for the reasons Kevin described. One, we end -- we fully expect a more normalized business transient travel, particularly as you get a week or so past Labor Day. And in October, November, it will get cooking, and we have a very strong group base in the fourth quarter that supports a stronger fourth quarter than third.

Operator

And the next question is from Patrick Scholes with Truist Securities.

Charles Patrick Scholes

Have you seen any impact on ADR growth or even customer demand from bundling the hotel rate and the resort or amenity fees into a single-rate quote?

Kevin J. Jacobs

No, not yet. I think, look, it's sort of early days on sort of those changes. But I mean, really, in the end, that's about more transparency, and we do not see any impact to ADR -- we have not seen any impact, nor do we expect any from that change.

Charles Patrick Scholes

Okay. And a follow-up question maybe for Kevin. You folks have done exceptionally well with EBITDA margin expansion really, far and away the best in my coverage universe since 2019. Any high-level thoughts about how much more room you have to go? Or how should we think about potential for EBITDA margin growth over the next several years.

Kevin J. Jacobs

We appreciate that because we think it's been a very good story. We talked about this a little bit at the Investor Day. But for those who weren't there or need a reminder, we think there's 50 to 100 basis points a year of embedded margin growth increases in the business as we shift. Obviously, the growth in the business is all through the fee segment. So those fees come in at 100% margin and improve the margins of the business.

And so that, combined with really good cost control, which I think we have like Chris said earlier, I think we'll pat ourselves on the back a little bit on that. I think we're really good about being disciplined about cost control. And so what that's done is you can see our margins are 1,000 basis points higher than they were pre-COVID, and we think that, that will continue to grow.

Again, there will be different -- there'll be puts and takes, depending on what's going on in the economy and how we do and where we are relative to our annual algorithm projections. But for the most part, you should think about it as 50 to 100 basis points of embedded growth.

Christopher J. Nassetta

And some years will be better. Somewhere -- this is going to be a year that's better. So I think we will -- we expect to be over 100 basis points in EBITDA margin growth this year.

Operator

And the next question is from Chad Beynon with Macquarie.

Chad C. Beynon

I wanted to focus on conversions, which for you guys and a lot of your peers are just becoming a bigger component of net unit growth and maybe said differently, more predictable piece. So as you think about the net unit growth beyond in '25 and '26 and some of the new brands that you've rolled out, which are helping on conversions, should this lift just in terms of percentage of NUG? And how does the cycle play into that with rates coming down?

Kevin J. Jacobs

Yes. It's a really good question. I think it's obviously a bit of both. I mean we've had years in the past. This is the part of the cycle where -- particularly when capital gets more constrained and more expensive for new builds. And this is the part of the cycle where you typically lean into conversions because they're just easier to finance.

You've got a trading hotel, you've got -- it's cash flowing. We are obviously leaning in to our Lifestyle brands, which our soft brands, tend to be more driven towards conversions. Spark is a 100% conversion brand.

So we are doing things strategically to increase our share of conversion. So I think it's both. I think it's -- part of it's cyclical in nature. You said -- like I said, you've seen times when conversions have been a bigger part of the story. This is a part of that cycle.

But some of these are like, I don't want to say permanent, but sort of semi-permanently, where we're doing things strategically to focus on being able to take share. And we're doing it. I think I think last year for the full year, we were something like 40% of the conversion deals done in the entire U.S. We're higher than that so far this year.

And so our -- the network effect we create, the RevPAR next we drive, the fact that our brands are stronger and the fact that we're strategically focusing on it, I think, should mean that it's additive to the overall growth trajectory of the company over time rather than just being cyclical, but cyclicity matters as well.

Operator

The next question is from Duane Pfennigwerth with Evercore ISI.

Duane Thomas Pfennigwerth

Just on Spark, you mentioned 27 hotels. Any themes in terms of the brands or types of properties that are converting from and what the average investment by owners is? And then my follow-up on the 400 SLH. Generally, where are they located? And any more detail you can offer about the profile of these properties coming in as well?

Kevin J. Jacobs

Yes. So I'll take -- the first part, I would say, on Spark is everything is going the way we thought and the way it's planned. I mean, 95-plus percent of the are from third-party brands. I think I'm not going to get into specifically which brands those are from, but I think people can figure that out. And it's been sort of what we've expected. And the owner investment is coming in, in line with what we thought.

There have been a little bit of increases in construction costs, as has been well documented in the industry, but still coming in within the ranges. And then so far, early days, the RevPAR index, the performance of the hotels has been quite strong and again, maybe even a little bit better than what we've expected, which is creating momentum in that area.

And then SLH breaks down 60% in EMEA, 20% in the Americas and 20% in Asia Pacific. And I'd say that they're small hotels, by definition, small luxury hotels. I think on average, they're 45 to 50 rooms, something like that. As we've talked about, really unique properties in really high-rated, high-RevPAR

markets. And that's all been -- I think the pace of people signing up has been better than we thought, but the profile is exactly what we thought when we went into it.

Operator

And the next question is from Dan Politzer from Wells Fargo.

Daniel Brian Politzer

Just a quick one on China. I believe you said that China was 3% of overall fees. I assume that over-indexes in terms of the incentive management fees. But how should we think about that relative to that line item? And maybe any guide -- guardrails for incentive management fees as we think about the rest of the year and as it relates to China?

Kevin J. Jacobs

No. I think, look, for China, it doesn't -- it's no different than our normal fee structure. If we manage -- it's basically off the top and a percentage of GOP at the bottom. So that's not really different than any of our other international management agreements.

And we're growing a big franchise business now in China. So that's just straight franchise fees, right, 5%-ish franchise fees off the top. And so that's really -- the fee composition in China is really in line with the broader business.

And then for IMF, there's a couple of things going on with IMF. This maybe isn't exactly what you asked, but we've got a little bit of FX. We've got a couple of contracts that converted from management to franchise sort of at the same economics. So you're just seeing some shifts from one IMF segment to the other.

If you adjust for those two factors and a couple of timing items, IMF would be sort of low double-digit growth for the year, so a little bit better than the overall business. And it's, I think, 9% or 10% of fees. So nothing much really going on there.

Operator

And our next question is from Richard Clarke with Bernstein.

Richard J. Clarke

Just looking at some of the other regions like Middle East and Africa, Asia ex-China, the ones that are really delivering the double-digit growth at the moment, just your outlook for that for the second half. Can they keep that pace of momentum? Or are we going to sort of see a convergence of global RevPAR around your guidance number?

Christopher J. Nassetta

No, I think we feel good about the second half in those regions that are really performing at that level. As I was trying to say when I did my little around-the-world exercise, we do think there's softening in certain segments, in certain parts of the world for the reasons I described, but not enough.

We think APAC ex-China is going to have a very good second half of the year, we think Middle East Africa will as well in those two cases. And those are the two that are really at the highest levels of RevPAR performance.

Richard J. Clarke

And then maybe just a clarification. Maybe this is related to your previous comment, Kevin. But I noticed that I think about 1,000 Waldorf Astoria rooms have left the system and about 300 Conrad. I guess that's probably Edinburgh and the New York one. But just any color around those hotels leaving the system and what it means for those brands?

Kevin J. Jacobs

No. I mean the -- we had a couple of Waldorfs that we converted to -- that actually stayed in the system and converted to different brands. These were a couple of the hotels that have been in Waldorf for a long time, kind of going back to when Waldorf was more of a collection brand than sort of the brand it is today.

And so other than the one you mentioned in New York, the Waldorf that shifted out have stayed in the system. And they're now -- one is an LXR and 2 of them are Curios.

Christopher J. Nassetta

And that was at our urging. With what we're strategically trying to do with Waldorf, if you think about all the existing Waldorfs, the new-build Waldorfs that are coming, Waldorf is really hitting on all cylinders, the product is extraordinary, the new products are off the charts.

And so there are -- like any brand that's been around for a while, there are some that really don't quite fit the bill. But the good news is with 24 brands, we have a home for -- not for everything, but we have a home for most things. And those properties that left Waldorf are terrific properties that just weren't sort of meeting the mark on Waldorf, but they met the mark in other brands.

Operator

And the next question is from Kevin Kopelman with TD Cowen.

Kevin Campbell Kopelman

Just a couple of quick housekeeping. The first one is on your FX assumption. Is it safe to assume that, that was set before the U.S. dollar kind of started weakening on Friday? And then the second one was, if you could -- could you give us pipeline approvals in the second quarter ex-Graduate?

Kevin J. Jacobs

Yes. So the first one, the answer is no. I mean, technically, our forecast was set before Friday, but I don't think the Friday's move is going to have a material effect on the full year for FX. It's just -- it did -- as we mentioned, it did get a little bit worse over the -- become a little bit more of a headwind over the course of the quarter, which affected our guidance range for the full year. And then sorry, the second part of your question?

Kevin Campbell Kopelman

The second one was just you had that huge approvals number. I think some of it was maybe incorporating Graduate hotels, but I know underlying was also strong. If you could just give us pipeline approvals ex-Graduate?

Kevin J. Jacobs

We gave it. It's in the press release.

Christopher J. Nassetta

44,000 and change.

Kevin J. Jacobs

And you're right, it does incorporate both momentum in the existing brands and the new stuff.

Kevin Campbell Kopelman

I'd say that's pretty strong. Thank you very much.

Operator

And the next question is from Conor Cunningham with Melius Research.

Conor T. Cunningham

Just on the conversations with developers, I'm just curious on how that's changed over the past 6 months. I assume that there's a lot more comfortability around financing and credit availability.

And then another one, just Airbnb called out booking hesitation on just longer-term rentals. I mean, I realize your extended-stay business is not exactly the same. But are you seeing any hesitancy on the longer booking curve stuff in general?

Kevin J. Jacobs

Yes. No, the second part is easy. We're not. And I think I'm not going to comment on what Airbnb said, and you haven't had a ton of time to study what they said, but that's a very different business. The composition of their business, 90%, 95% leisure, all long-term stay.

So I'll let them comment on that part of the business. We're not seeing any changes. And Chris even talked about booking windows normalizing and things like that earlier in the call. So nothing there. And then sorry, the first part was...

Conor T. Cunningham

Just on the evolution of your discussions with developers. It seems like -- yes.

Kevin J. Jacobs

Yes, I'd say they're largely consistent. I mean developers remain excited about the future for travel and the setup. I think that overall, capital is a little bit less expensive than it was, right? It's coming off of peaks. I think there's an expectation that it will come down. There is -- it is a more constrained credit environment, based on the lending community's views of the macro and what they're worried about is going to happen.

But there's still capital available for good projects, which is why you're seeing our construction starts go up. And we're taking share in environments where capital is more constrained. We've said this a bunch of times, but rising tides lift all boats when the tide is going out. The stronger brands that are -- that lenders have more confidence lending to and developers have more confidence affiliating their hotels with are going to take share, and that's what's happening.

Operator

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

Christopher J. Nassetta

Thank you, Chad, and thank you, as always, for spending an hour of your day with us. Obviously, we're super pleased with being able to deliver on second quarter. And we feel very good about our outlook for the full year, as I described.

While the macro environment is a little bit weaker, our development story is incrementally stronger. And the net result is pretty much our ability to deliver at algorithm, which we're excited about. We will look forward to catching up with you after the third quarter to give you the latest and greatest. And hope everybody enjoys what you can in the rest of summer. Take care, and thanks.

Operator

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

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