

Call Participants

EXECUTIVES

Christopher J. Nassetta
President, CEO & Director

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

Jill Chapman
*Senior VP and Head of Development
Operations & Investor Relations*

ANALYSTS

Brandt Antoine Montour
Barclays Bank PLC, Research Division

Robin Margaret Farley
*UBS Investment Bank, Research
Division*

Carlo Santarelli
Deutsche Bank AG, Research Division

Shaun Clisby Kelley
BofA Securities, Research Division

Chad C. Beynon
Macquarie Research

Smedes Rose
Citigroup Inc., Research Division

Charles Patrick Scholes
*Truist Securities, Inc., Research
Division*

Stephen White Grambling
Morgan Stanley, Research Division

David Brian Katz
Jefferies LLC, Research Division

Elizabeth Dove
*Goldman Sachs Group, Inc., Research
Division*

Meredith Jane Prichard Jensen
HSBC, Research Division

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

Presentation

Operator

Good morning, and welcome to the Hilton First Quarter 2025 Earnings Conference Call. [Operator Instructions] Please note that 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

Senior VP and Head of Development Operations & Investor Relations

Thank you, Nick. Welcome to Hilton's First Quarter 2025 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 first quarter results and discuss our expectations for the year. Following their remarks, we'll be happy to take your questions.

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

Christopher J. Nassetta

President, CEO & Director

Thank you, Jill. Good morning, everyone, and thanks for joining us today. We are pleased with the results we delivered in the first quarter, with adjusted EBITDA and adjusted EPS both exceeding our expectations, even with somewhat weaker macroeconomic conditions that drove system-wide RevPAR to the low end of our guidance range. We also continued to deliver on our strong development story during the quarter, expanding our brands into new parts of the world and further strengthening our pipeline, which now includes more than half a million rooms. Our performance demonstrates the resiliency of our business model and ability to navigate short-term choppiness while driving long-term value for our owners, our guests, team members and shareholders.

Turning to results for the quarter. We reported system-wide RevPAR growth of 2.5% year-over-year, driven by strong momentum from the end of last year that carried into 2025 and supported solid performance in both January and February. However, broader macro uncertainty intensified in March, which pressured demand, particularly across Leisure.

RevPAR growth was led by Group, which increased more than 6% year-over-year, supported by growth in urban markets and continued strength in company meetings. Business Transient RevPAR increased 2%, led by solid performance from small- and medium-sized businesses, a resilient customer

that continues to make up roughly 85% of our business transient mix. Leisure Transient RevPAR increased 1% with robust performance in January, followed by softening demand patterns as the quarter progressed, mirroring the uncertainty in the broader macro environment.

Weaker trends have continued into the second quarter, with short-term bookings roughly flat year-over-year. We believe travelers are largely in a wait-and-see mode as the rapidly changing macro environment continues to unfold. As a result and with tougher year-over-year comparisons from the Easter holiday shift, we expect second quarter RevPAR to be approximately flat versus the prior

year quarter. For the full year, our system-wide RevPAR expectations are flat to up 2%, with the midpoint assuming current trends continue. The upside reflects a modest improvement in the second half of the year, and the downside suggests modestly deteriorating conditions. We continue to expect Group to outperform Transient RevPAR growth.

Turning to development, following a record-breaking year of growth in 2024, we had a strong start to 2025. During the quarter, we opened 186 hotels totaling more than 20,000 rooms, representing a 20% year-over-year increase, and achieved net unit growth of 7.2%. Conversions accounted for approximately 40% of openings in the quarter, driven largely by DoubleTree and Spark. Additionally, openings in international markets remain strong, representing half of all new additions to our portfolio, including several brand debuts in new markets. Hilton Garden Inn debuted in Greece; Hampton and Canopy entered Africa; and Spark expanded its presence across Europe with openings in Germany and Poland.

For the EMEA region overall, we're excited to mark the opening of our 1,000th hotel this spring. Our Luxury and Lifestyle categories continued to show significant growth, accounting for 30% of all hotel openings in the quarter, with these portfolios now approaching 1,000 hotels around the world. The addition of SLH Properties and continued growth of our conversion-friendly Curio and Tapestry brands supported growth across both categories during the quarter. Momentum continued into April with several key openings, including the Waldorf Astoria Osaka, a 252-room property that offers panoramic skyline views and successfully blends the iconic Waldorf Astoria legacy with the dynamic energy of Osaka.

Additionally, just last week, we opened the new Waldorf Astoria Costa Rica. The hotel has stunning views of Costa Rica's Northern Pacific Coast, 10,000 square feet of versatile meeting space and six regionally inspired dining experiences. Our latest Waldorf Astoria will pair world-class luxury with the nature and vibrant culture of Costa Rica while further expanding Hilton's growing luxury portfolio, which is now one of the largest in the industry.

In addition to strong openings, we continued to grow our development pipeline, which ended the quarter with more than 503,000 rooms, representing an increase of 7% year-over-year and continued sequential quarterly growth. We approved more than 32,000 rooms in the quarter, up 10% year-over-year, with notable announcements, including new Signia hotels in Jaipur, India, and Cairo, Egypt marking the debut of this brand in the Asia Pacific and Africa regions.

Additionally, we signed our first Waldorf Astoria in Texas. And in April, we announced the signing of Waldorf Astoria Turks and Caicos, which will redefine Caribbean luxury when it opens in 2028.

We also approved the first Tapestry and Curio hotels in Athens, Greece, signed Canopy's first ski destination in Deer Valley, Utah, and announced plans for Tempo to enter the U.K., marking the brand's first hotel outside the U.S.

To capture even more fast-growing global middle-class demand, we continue to strengthen our focused service pipeline in strategic growth markets. During the quarter, we approved Hilton Garden Inn properties in Vietnam, Malaysia, the Philippines and Indonesia and announced that we will triple our focus service footprint in Southeast Asia in the coming years, fueled by the growing demand for mid-market accommodations.

In India, we signed a strategic licensing agreement with NILE Hospitality to open 75 Hampton hotels in the market, along with our agreement to open 150 Spark hotels in India, this reaffirms our commitment to expanding in this key emerging economy.

Construction starts remained strong in the first quarter, up 13% year-over-year, excluding partnerships, with growth across all regions and particular strength in Asia Pacific. Our pipeline includes nearly a quarter million rooms under construction, which is more than any other hotel company, representing more than 20% of industry share of rooms under construction and nearly 4x our existing share of supply.

Looking ahead, we remain confident in our ability to deliver net unit growth of 6% to 7% in 2025 with nearly half of our pipeline under construction and continued growth in conversion opportunities.

Making all this possible is our family of Hilton team members who continue to spread the light and warmth of hospitality in remarkable ways. During the quarter, we were named the #1 best company to work for in the United States by Great Place to Work and Fortune, marking our second consecutive year in the #1 spot and our tenth appearance on this prestigious list.

Overall, we are pleased with our performance in the first quarter and remain optimistic about our opportunities over the long term. Supported by our asset-light fee-based business model and favorable megatrends in travel, we believe we can continue to drive long-term value for our shareholders despite current uncertainty in the global macroeconomic environment.

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

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

Thanks, Chris, and good morning, everyone. During the quarter, system-wide RevPAR grew 2.5% versus the prior year on a comparable and currency-neutral basis, driven largely by rate growth. Adjusted EBITDA was \$795 million in the first quarter, up 6% year-over-year and exceeding the high end of our guidance range. Outperformance was largely driven by better-than-expected growth in non-RevPAR-driven fees and timing items. Management and franchise fees grew 5% year-over-year. For the quarter, diluted earnings per share adjusted for special items was \$1.72.

Turning to our regional performance, first quarter comparable U.S. RevPAR increased 2.1%, driven by strong Group performance. For full year 2025, we expect U.S. RevPAR growth to be around the midpoint of our revised system-wide RevPAR range. In the Americas outside the U.S., first quarter RevPAR increased 7.7% year-over-year, driven by key events in Mexico and Brazil, including Carnival. For full year 2025, we expect RevPAR growth to be in the mid-single digits.

In Europe, RevPAR grew 2.6% year-over-year, with strong rate and occupancy growth in Continental Europe driving results for the region. For full year 2025, we expect low single-digit RevPAR growth. In the Middle East and Africa region, RevPAR increased 8.5% year-over-year, driven by strong performance in Saudi Arabia during Ramadan and key regional events, including the Muslim World League Conference. For full year 2025, we expect RevPAR growth in the mid-single-digit range.

In the Asia Pacific region, first quarter RevPAR was flat year-over-year. RevPAR in APAC ex China increased 3.5%, led by strong performance in Japan, India and Korea. China RevPAR declined 3.1% in the quarter as performance was pressured by strong outbound travel during Chinese New Year and tough year-over-year comparisons. For full year 2025, we expect RevPAR growth in Asia Pacific to be in the low single-digit range, assuming flat RevPAR in China.

Turning to development. As Chris mentioned, for the quarter, we grew net units 7.2% and have more than 503,000 rooms in our pipeline, up 7% year-over-year, with more than half located outside the U.S. and nearly half under construction. Looking to the year ahead, we remain optimistic in our development story in both the U.S. and international markets with continued strength in conversions as well as high-growth international markets.

Moving to guidance. For the second quarter, we expect system-wide RevPAR growth to be roughly flat year-over-year. We expect adjusted EBITDA of between \$940 million and \$960 million and diluted EPS adjusted for special items to be between \$1.97 and \$2.02. For full year 2025, we expect RevPAR growth of 0% to 2%. We forecast adjusted EBITDA of between \$3.65 billion and \$3.71 billion and diluted EPS adjusted for special items of between \$7.76 and \$7.94. Please note that our guidance ranges do not incorporate future share repurchases.

Moving on to capital return. We paid a cash dividend of \$0.15 per share during the first quarter for a total of \$37 million in dividends for the year. In the second quarter, our Board authorized a quarterly cash dividend of \$0.15 per share. For the full year, we expect to return approximately \$3.3 billion to shareholders in the form of buybacks and dividends. Further details on our first 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.

Nick, can we have our first question, please?

Question and Answer

Operator

Absolutely. [Operator Instructions] And your first question today will come from Carlo Santarelli with Deutsche Bank.

Carlo Santarelli

Deutsche Bank AG, Research Division

So you guys have obviously -- not to date anyone, but you've been through some cycles in the past over your careers in the business. And I guess my question is, based on what you're seeing, whether it's at the hotel level within the business, developers you're speaking to or kind of in the news in D.C., what is your perception of the setup around the much feared and often talked about recessionary environment? What are some of the things you guys are seeing right now, specifically outside of kind of near-term demand and stuff that gives you some pause or reminds you of prior time?

Christopher J. Nassetta

President, CEO & Director

Yes. Carlo, thanks for the question, and that's probably the question on everybody's mind. My guess is we're going to get that question, 30 iterations of that question today. But hopefully, I'll do a decent job of answering it.

I have lived through a lot of cycles. We've been doing this for a long time, I think, approaching 40 years. So we've lived through lots of good times, lots of -- not so good times. And seeing lots of black swan events, normal recessionary downturns and the like. And they're all sort of unique. I think what's going on today, if you lived way above it. And again, I'm not trying to be a [indiscernible]. You asked me a question, I'm giving you my personal opinion, which may or may not be right in the end, good news is you'll get to judge me as every quarter plays out.

But I think right now, there's just so much going on, and I live in D.C., I live inside the Beltway. I'm talking to a lot of people on the Hill and in the administration to get, as best I can, a sense of what's going on. And I think it's fair to say there is a lot going on. And as a result, you see it in the market reaction across both the equity markets, the bond markets and everything else, consumer sentiment. There's just a fair amount of uncertainty.

I would say, based on lots of discussions and years of experience doing this, that I think at the moment, the risk in the marketplace is sort of weighted too heavily to the downside. If I look at what's going on in our business, certainly, we've seen a modest step back in demand patterns. But at the moment, those seem to be relatively stable, which is why we gave the guidance and sort of suggested what we did at the midpoint, which is sort of what the midpoint is an expectation of things that -- the patterns we're seeing right now continue.

I think there's a lot of seismic change that this administration here in the United States is trying to accomplish. You can't have -- move that much cheese, so to speak, without rattling a lot of cages. That doesn't mean it necessarily doesn't end up in a good place. My own view is in the process of doing it, though -- again, I think the market is sort of asymmetrically taking the risk of the downside. I think it's a much more equally weighted risk. I'm an optimist by nature, so I'll fully declare. I would actually say I think the risk over intermediate to longer term is probably should be more weighted on the upside. But let's just say, I think to be conservative, it's a much more equally weighted risk than what everybody is thinking and talking about today.

Why do I think that? Again, I could be wrong, but I think if you really lift up and look at what's going on, you have real progress being made. It's choppy, and it's -- there's a lot of noise, but the legislative process is grinding through. And I think there is a very good probability that sometime this summer, you're going to see 1 big bill get done that's going to deal with a lot of the regulatory reform, energy, releasing sort of the shackles from the energy industry and making permanent the 2017 tax cuts and also incrementally adding, for certain folks, no tax on tips, social security for the elderly and a whole bunch of other things that are going to be positive. I think there's a reasonable probability all that gets done.

Obviously, what's rattled the markets and I'm not an economist, so I can pontificate and you guys on the call can judge for yourself. There's lots of ways of doing things. This is the way they've chosen to do it. I think the desire is to ultimately end up with a fair deal with our biggest trading partners around the world. My own belief is that as the next -- as you're getting the legislative process done on the tax and regulatory and energy, you're going to see a bunch of these deals with some of our biggest trading partners come to fruition, which is going to create maybe not perfect stability, but a lot more stability, a lot more certainty of sort of what the deals look like, what the future is.

And I think it's not crazy to think that all that starts to come together this summer. And as a result, when you get to the second half of the year, you could be in a very different place. If you look underneath it all in terms of like what's really going on in employment, wage growth and corporate America's balance sheet and profit, all of the -- the underlying economy is still really strong. What's going on right now is this sort of asymmetrical risk to the downside because of a high degree of uncertainty.

My own belief is you will see some of that, if not a lot of that uncertainty wane over the next couple of quarters, and that will allow the underlying strength of the economy to shine through again. And so that's why I know a lot of companies have not pulled guidance and I'm not being critical. When we talked about it, my view is very simple. We know more about our business than anybody else. I hope we do and think we do.

And I feel like we have an obligation, even in uncertain times, to give you a sense of the various outcomes that we think based on assumptions, which is why we gave you a range of 0 to 2 and gave you the basis of assumptions. I believe we've tried to be as scientific as we can. I feel very good about like how we thought that through. And the good news is we report every quarter, and we'll have -- next time we report, we'll have a quarter behind us. We'll have much better sight lines into how the second half of the year is developing, and we'll update you. But that's a long-winded way of saying having been around doing this a long time.

Anytime you have like seismic change, I don't care what it is like, whether it's black swan events, of like 9/11, or the Great Recession or COVID, I mean obviously, this is nothing like any of those. There's a reaction. And my own experience says there's an overreaction. And so right now, there's a lot of uncertainty. I think there's a bit of an overreaction to it. And so again, I would say sort of reasonably conservatively, I think that it should be much more equally weighted than what we're experiencing today.

Operator

Your next question today will come from Shaun Kelley with Bank of America.

Shaun Clisby Kelley
BofA Securities, Research Division

Chris or Kevin, wondering if we could just talk about the development environment a little bit. We get a lot of questions about sort of how the uncertainty today is going to filter through the development landscape, particularly around trade and tariffs. So could you sort of elaborate on sort of the comments that you saw or the trajectory that you saw during the quarter?

How specifically is that factoring into the way developers are proceeding with current projects, thinking about possibly delaying things like signings, moving into in construction? Just what's the behavior out there on the development side? And what is the risk, if any, to sort of the way you see NUG shaping up for the year?

Christopher J. Nassetta
President, CEO & Director

Yes. I mean, we don't give guidance lightly, as I just tried to suggest and the same, whether it's on same-store or unit growth. We spend -- Shaun, as I'm sure you know and others on the call know, we don't just make it up. It's a super granular analysis. And when we give guidance, it's because we feel really good about it.

I mean the fact is for this year, while we still have a lot of work to do -- as always, to our development teams, thank you for that work. And we still have in the year, for the year conversions. You could see in the first quarter, we have huge amount of momentum on conversions. The things that are under development and new construction, those are in process. If they're going to deliver this year, they're largely getting close to being done. So we feel very good about our ability to deliver within those ranges.

By the way, starting to look at next year, again, we have a pipeline of over 0.5 million rooms, half of that under construction. A lot of momentum on conversions. We feel good about being able to do it again next year. I know you didn't ask that.

In terms of what's going on in real time sort of relates to my first answer a little bit. I mean, not much. I mean if you look at the quarter, okay, the data suggests everything looks great. I mean your signings are up, your starts are up, deliveries are up on a year-over-year basis. All that is -- I think all that is fine. I think all of those things, even as we forecast the full year, are going to remain positive.

I think -- being objective, we talk to owners all the time, a lot of -- we know all of our owners, and many of them are very close friends. I mean, not unlike we've seen a little bit with customers, everybody is kind of like stepping back a little bit and saying like, I just want to like understand where the world is going. But so far, we haven't seen any real impact. And remember, I mean, it's not that

we couldn't. And if this persists, if I'm wrong and the uncertainty at this level persists for a longer period of time, yes, I think it will have -- it's just logical rationale to think it would have some impact.

Now that doesn't really mean much for this year or a bunch of next year because a lot of that stuff is in production. It's further out. However, if I'm right and things do start in the second half of the year to sort of settle down, I don't think you have to believe that this has a lot of impact. And let's remember -- and I grew up on that side of the business. Our development community and I -- we're optimists by nature. The development community, they're mostly a bunch of small- and medium-sized players, and this is their business. And they've been doing it a long time. They have a very long view of the business.

And so yes, I mean, when things rattle their cage, they may slow down and take a deep breath. But underneath it all, as they've been committing to land and trying to get things into production, their desire is really to get them into production, sort something really meaningful happening. And that is not what we're -- this is not like COVID or the Great Recession or any of the -- this is not that, okay? And so again, I think the world is sort of asymmetrically sort of risk to the downside. I'm much more equally weighted. And I would say, again, if I amalgamate all the conversations I'm having with our development community, I'd say they're more akin to my level of thinking.

So I think part of it, like I think this year next year, we got to work hard. I think we'll be able to deliver what we want to deliver. As you get out to '27-'28, there is the possibility of you end up in a very long period of time of very high uncertainty that people slow down some of the things they're doing. That's not what's happening now, okay, to be clear.

And the reality is in more challenging times, we get -- we pick up the slack like we've done this year, very heavily in conversions. People, in good times, they want to do conversions with us. In more uncertain times, they really want to do conversions with us because they want the safety and the comfort being in a system like ours that has hundreds of millions of loyalty members and drive such strong commercial performance. So there is sort of a counter veiling or counterbalancing impact there.

So I think that answered it. I mean, not seeing. I mean, just have -- there's no there, there yet. And again, I think if I'm hopefully right about what starts to happen in the second half of the year, I think not to be a [indiscernible], I think we can -- I don't think we have to see meaningful impact.

Operator

Your next question today will come from Stephen Grambling with Morgan Stanley.

Stephen White Grambling
Morgan Stanley, Research Division

I hate to focus on maybe the downside case, but with the mindset of preparing for the worst and hoping for the best, I guess if the market or economy does take a turn lower, where would you generally expect to see that deterioration first in this environment? And what levers or actions would you take to pivot the business not only to weather that storm, but to improve the competitive positioning long term?

Christopher J. Nassetta
President, CEO & Director

Listen, it's hard to prognosticate. As I said, I gave you my view of what I think is happening. If the economy -- and there is always some risk that it goes -- the risk is to the downside and that's where the world heads.

I think -- and Kevin may want to jump on top of this, too. I feel really good about where we are. I mean, the fact of the matter is the business model, as you know, is super resilient. Just the basic model of capital-light business, super high margin, 70-plus percent EBITDA margin business. We're at some of the lowest levels of leverage that we've had, no big maturities, super significant access to liquidity. We have been hyper efficient. I think everybody would have to see versus competition and everything else on the G&A side.

So I mean, listen, we were -- I could say a lot of those similar things. We went into COVID, and the reality is COVID was hard, but we sort of sailed through COVID. And what I would say, Stephen, is like those -- I don't want that. I don't wish that upon us, and I don't think that's where we're going, but we are fully prepared for whatever eventuality there is. And the reality is, I think every time that we have seen -- I'd say this to our teams all the time. Every time we have seen these really disrupted environments, significant downdrafts in the macroeconomic conditions because of that strength and resiliency.

And because this team has been together a long time and is battle tested, we have been able to really, I think, outmaneuver our competition and put ourselves in an even better position than we were before. I mean, COVID being sort of Exhibit A. I mean, our --

we're over 1,000 basis point higher margin business from the peaks of pre-COVID to now. Some -- there are a lot of reasons for that, but some of that is we did a whole bunch of things during COVID to generate incremental margin and efficiency, as well as to pivot in a bunch of interesting ways with different segments of business, SMBs and otherwise.

So I'm not going to be specific other than say I think we're ready for whatever comes our way. I think we're a really seasoned team that knows how to address issues. Our attitude will be -- we're in great shape. We have a steady hand on the wheel and take advantage of whatever comes our way to make the company better to deliver better performance for our owners and ultimately deliver better growth. So that translates into better opportunities for our shareholder base.

Operator

Your next question today will come from David Katz with Jefferies.

David Brian Katz
Jefferies LLC, Research Division

Morning, everybody. I wanted to -- I appreciate all the big picture commentary. I wanted to just focus on -- Chris, something you indicated about APAC and China, in particular, and gaining some share. Can you provide us with a little bit of color on the economic intensity of those deals relative to the totality? And some of the same question you just answered, but more specifically to that area of the world and what you're seeing on the ground development-wise?

Kevin J. Jacobs
CFO & President of Global Development

Yes. I think, David, I'll take this one. I think we've talked about -- I mean, look, we gave you some -- as Chris talked about earlier, our business in China is large and still keeps going strong. Part of that business in China, as I think maybe what you're getting at, is in a joint venture format for Hampton and Hilton Garden Inn, where we share the economics. But the reality is we're not investing capital. And every one of those deals is, like a lot of our franchise deals, no capital, infinite yield, and we're growing a huge presence and building a big brand name in China on the backs of those deals. So we've been very transparent about the economics on those deals.

The rest of it is we continue to grow outside of those joint ventures, both in China and in other parts of the world, our economics are at market, right? And so our economics in terms of the way you think about fees per room growing over time. We've talked about that. We think for a bunch of reasons as we continue to do the bulk of our new deals at our current distribution level as RevPAR continues to grow, as we continue to raise royalty rates as deals roll over, we're going to grow our fees per room over time. And again, we're not investing capital in these regions.

So big demand for our -- and then one more thing I'd add about China is we are now starting to grow in a big way, a lot of our brands outside of China. So Hilton Garden Inn remains a great story in China. We have over 100 hotels open -- over 100 Hilton Garden Inns opened in China and nearly 200 more coming in the pipeline, right? So that -- those deals are at market rates, full fees, higher RevPAR than the Hamptons and Hilton Garden Inns, and on it goes across those regions through Southeast Asia.

Middle East remains a good story. We talked about Luxury Lifestyle being up to 1,000 hotels, right? As we gain momentum in these brands across the spectrum, there's really nothing that I would call out that should change the trajectory of our economics over time.

Operator

Your next question today will come from Smedes Rose with Citi.

Smedes Rose
Citigroup Inc., Research Division

You mentioned, Chris, the strength in Group in the first quarter. I think you said up 6%. And I was just wondering if you could provide a little more commentary around maybe what you're seeing through the balance of the year, if you -- especially from like kind of the larger kind of corporate group side? Because that can sometimes just be a proxy, I think, for how businesses are thinking about sending people on the road, et cetera. So just any updated color you have there would be of interest.

Christopher J. Nassetta
President, CEO & Director

Yes. I mean, we still feel good about it for the full year. If you think about our guidance of 0 to 2. I think even at the low end of that, Group is sort of at the higher end of that range. And as you get up into the mid and higher, it's above the high end of the range. So we

feel good about it. It's not -- and that is "Trust, but verify" I think Ronald Reagan said that. We have a great Group position on the books. Group position is up in the mid-single digits across the system, so it sort of supports that.

That Group position is a little bit lower than it had been for a couple of important reasons. One, as you get into the year, it always comes down. And two, there's no question that sort of some of the uncertainty in the environment has affected booking patterns across all segments. I mean, that's the one thing I'd say is right. When you have this kind of uncertainty, everybody -- I sort of said it in my comments, a little bit of a great wait and see. Let's see where it goes. So what do they do? They don't stop traveling, they don't stop running their businesses. They don't stop taking vacations. They may do a little bit less of it or they wait a little bit more to the last minute.

And so as you look at like short-term group bookings -- I think I said in my comments, they're sort of flat year-over-year, which is not bad. But if you went further out, they're a little bit down, because I think people are thinking, well, I don't want to plan further in the future at this exact moment, but I know I got to do it. And so in fact, in the short intermediate numbers, they're still showing up. If you look at into next year, we're in the teens. We're up -- our group position, back to group, is up for '26 in the teens. So that sort of defies a little bit, but a lot of that has been on the book.

So we feel good that Group will definitely lead the pack in terms of segments. People are showing up, they're consuming the group room nights. The pace of booking in the last 6 weeks or so is less than it had been just because of what's going on. Again, my belief is, as we get, hopefully, to a little bit more with a little more certainty in the environment, there's no reason sort of underneath at all why I think we wouldn't see it tick up. But again, we're still in the -- we're in the mid-single digits, and I think we've been reasonably conservative in sort of the guidance -- the Group component of the guidance we've given.

Operator

Your next question today will come from Robin Farley with UBS.

Robin Margaret Farley
UBS Investment Bank, Research Division

I just wanted to clarify, Kevin mentioned in the opening remarks that some of the outperformance in the non-RevPAR fee-related was timing-related or maybe it was something in G&A, but just there was something timing related. So I just wanted to get some clarity on that? And then if I could also just sort of ask for a clarification on the comments about fee revenue per room? Because I do think that's been a big question that a lot of investors have asked, and I think your commentary about expecting that to continue to grow as is better than expected.

So I just want to make sure I understood, I think it was Kevin's comments about -- was the idea that the fee revenue per room in Asia ex China was growing faster, and that's why you -- the fee revenue growth coming from China with the sort of more shared economics wasn't a concern for you in terms of that slowing? Or I just want to make sure we...

Christopher J. Nassetta
President, CEO & Director

Well, for China, we can talk -- Kevin will talk about fees. In China, the fee per room growth from the point of where we are is going up simply because we really did these MLAs to build a broad sort of network effect, which has been incredibly successful. I think we've outmaneuvered everybody.

But now what we're doing is franchising. We've built a team and we're franchising, particularly with Garden Inn and other brands, our own brands. And so if you look at the sort of fees per room that we're generating now and you look forward, a disproportionate piece of it is going to come from full fee franchise deals that we're doing with our other brands. So that's why that's growing.

On fees per room, I'll let Kevin take the first one. On fees per room, I think Kevin already said it. It's just math. I mean I say this to investors all the time, like it isn't that complicated. We have -- our pipeline is pretty consistent with our existing supply. We talked about China individually. We continue to have rising RevPAR, and we continue to drive share gains. A large part of our growth is from our highest paying royalty fee brands, and we continue to move the royalties over time on our brands systematically higher. And when you just do the math, which we do, obviously, in long-range models, fees per room are going to go up as long as we look at it. We do 10-year models, and fees per room are going to go up every year in those models. There's really -- it's just -- it's -- as I said, it's sort of structural in math, based on those inputs.

Kevin J. Jacobs
CFO & President of Global Development

Yes. And then -- so then -- yes. And that covers it, Robin. I was speaking to the broader fees per room. But yes, I mean coming out of China, our fee per room growth from where we are today, we'll be actually at a higher rate of growth than the rest of the business. But I think it's important to focus on the entire business. Because you're right, we do get that question a lot.

And then back to the non-RevPAR-driven fees and timing, they're somewhat connected and they're somewhat separate. So a large part of addressing the beat and in terms of what we're carrying through for the rest of the year, we wanted people to understand that a decent chunk -- actually, sort of the vast majority of the beat for the first quarter was timing. Some of that was timing in non-RevPAR-driven fees, and some of that was timing in other parts of the business.

Separately, non-RevPAR-driven fees across the board, I wouldn't point to any 1 component, whether that's purchasing or credit cards or HGV or other things -- did outperform meaningfully in the first quarter and will continue to outperform over the course of the year, and we expect those non-RevPAR-driven fees to be above algorithm both for the year and going forward. We don't give a lot more specific guidance than that. But that's how I would characterize that.

Operator

Your next question today will come from Brandt Montour with Barclays.

Brandt Antoine Montour

Barclays Bank PLC, Research Division

Chris, Kevin, could you guys unpack the 2Q guidance, the RevPAR guidance a little bit more, specifically looking at what you're expecting for domestic RevPAR versus international? And then within domestic, if you could just unpack that comment about Group being better than Transient? On the Transient side, which of the Transient segments are growing better or worse in sort of real time here?

Kevin J. Jacobs

CFO & President of Global Development

Yes. I think for the second quarter, it's the same story, just with a little bit of -- I don't know if idiosyncratic is the right way to say it, some timing issues in the second quarter largely driven by the impact of the Easter shift. Right? So I think the way to think about this segment is Group will continue to lead, Business Transient will be next, and then we expect Leisure conditions in the near term given the uncertainty to remain softer.

I think as you think about domestic versus international, I would think about domestic, which is still the large driver of the outcome, being about the same as the guidance being roughly flat, and then the international parts of the business in line with what we've said, right? So Europe, a little bit better; Middle East, better than Europe; APAC ex China, positive; and China, a little bit negative. I think it's just the same story, just a little bit more muted because of the calendar shift.

Operator

Your next question today will come from Lizzie Dove with Goldman Sachs.

Elizabeth Dove

Goldman Sachs Group, Inc., Research Division

I just wanted to kind of zoom in a little bit on what the drivers of what was assumed in the kind of lowering of the EBITDA outlook? I guess, specifically in terms of any pressure from IMF participation, especially in the U.S. or any kind of slowdown on the non-RevPAR side? I know, Kevin, you said those are still strong. I think you've given like the algo of like 12% to 14% in the past at the Investor Day. I'm curious if that still holds true today?

Kevin J. Jacobs

CFO & President of Global Development

Yes. I think obviously -- Lizzie, I'll take the second part first. You're factually correct about our Investor Day guidance. I think, again, what we're saying about non-RevPAR-driven fees is still ahead of algorithm and there's nothing that's really changed about our Investor Day guidance in terms of the structure of the model or the drivers that I would change. Obviously, our RevPAR outlook for this year has changed, and that is largely what is driving the EBITDA impact for the full year. So if you think about our normal distribution of roughly \$25 million to \$30 million per point, if you put that into the [calculator] ex the timing items that I talked about in Q1, that all holds together for the balance of the year.

So there's no drivers in terms of -- IMF growth a little bit lighter when RevPAR gets lighter, right? I mean IMF flows through at about 1.5x typically, will be positive for the year, I should state. Even on 0 to 2, we'll run mid-single digits IMF growth for the year. But it all sort of tracks with the model. It's really the primary driver, if not the entire driver of the balance of the year coming down is RevPAR coming down.

Christopher J. Nassetta
President, CEO & Director

And importantly -- all that's right. If you take the full year, we're delivering algorithm. I mean we're just the same store new unit growth, NUG is staying the same, and same store is coming down, but when you add 1 plus 1 together, it's getting you to what you should get to.

Operator

Your next question today will come from Chad Beynon with Macquarie.

Chad C. Beynon
Macquarie Research

Chris, I was wondering if you could touch on the impact from Canadian travel, how that has changed since Liberation Day and particularly the last couple weeks? And more importantly, when you speak to executives that have businesses up there or multinational executives that could potentially bring corporate or leisure travelers down there, how they're thinking about the feeling and sentiment with their employees?

Christopher J. Nassetta
President, CEO & Director

Yes, really, really good question. I would have been shocked if we didn't get that question given everything going on. So interesting in the quarter, inbound international represents circa 4% of the business, something like that. So it's not huge, but it's meaningful. In the quarter, it was up, even with all of this going on. It was up in the mid-single digits on a revenue basis.

And so -- but what you saw was a progression where it was up a lot in January, a little bit less in February, and it was sort of flat in March, which -- I mean we could debate, and I don't know the answer, whether that's the full force of the impact of what's going on vis-a-vis, particularly Canada and Mexico. But what you saw was clearly through the quarter, a flattening out or leveling off. And with Canada and Mexico, you saw those both deteriorate to the point where -- they're down for us, I would say, like high single digits. Each of them is down high single digits.

At the same time, the reason it's flat in March and what we were sort of seeing in April is other markets, weaker dollar, a whole lot of other things going on. Other markets are up. So up from the Asian markets, up from the U.K., up from other parts of Europe. And so at the moment, I would say, in March and so far in April, it's sort of balanced out, and it's been neutral.

And we'll see. Again, if we can settle some -- create more certainty, trade deals with some of these partners. Hopefully, we can settle some of these things down. Interestingly, I asked -- our development team was up in Canada doing a bunch of work because we obviously have a big business, and Kevin and I were with them and asking them, are you hearing a lot of noise? People don't want to do deals with us. And their answer was quite to the contrary, that they didn't sense any sort of resentment or sentiment vis-a-vis our brands as a U.S.-based company that was affecting the sort of the trajectory of our development opportunities in the market at the moment. And certainly, we haven't felt any of that on the development side in Mexico either.

Kevin J. Jacobs
CFO & President of Global Development

And Chad, it's worth pointing out as well that Mexico and Canada combined are about 1.5% of our total revenue. So it's not to say that if you are part of our system and you own a hotel in Detroit or Buffalo, that you're -- or it's closer to the Mexican border that you're not feeling it. I don't -- I don't mean to be flipping about it vis-a-vis our ownership community. But in terms of the grand scheme of our business, it's only 1.5% of revenue.

Operator

And your next question today will come from Patrick Scholes with Truist.

Charles Patrick Scholes

Truist Securities, Inc., Research Division

All right. Great. Good morning. Thank you, everyone. When we talk to franchisees -- large franchisees of some of your competitors, we hear that construction costs are up at a minimum of 20%, in some cases, up 40%. Is that consistent with what you're hearing from your franchisees?

Kevin J. Jacobs

CFO & President of Global Development

No. I think, Patrick, I think what I'd say is you may have -- and I'm not saying you're not having valid conversations because I know you talk to developers all the time. That is not being realized. I think that is -- that -- particularly when these things first got announced, that was the fear, right? If you think about your sourcing and overall what could happen to development costs and some uncertainty, I think a lot of that has settled down.

We came into the year in the U.S. with construction costs kind of trending up kind of mid-single digits, and it hasn't really realized kind of, call it, 3 to 5. It kind of -- that hasn't realized yet. And I think you have to take a little bit of a wait-and-see approach depending on how this all plays out, as Chris was talking about earlier.

Charles Patrick Scholes

Truist Securities, Inc., Research Division

Okay. Thank you for color on your side.

Operator

Your next question today will come from Michael Bellisario with Baird.

Michael Joseph Bellisario

Robert W. Baird & Co. Incorporated, Research Division

I just want to go back to your comments on April and the weakness there, maybe just digging in a little deeper. Within Leisure, can you maybe give us some color on high end versus low end, how each of those track? And then same within BT, any differentiation you see between small, medium-sized accounts and then the larger corporate accounts?

Christopher J. Nassetta

President, CEO & Director

Not -- I mean, here's the thing. So April will be a bit odd, April, the Leisure business because the Easter movement will be a bit better, and Business Transient will be worse. So I think you got to be careful sort of trending in April, given the shift in the holiday. I think more broadly, what we have seen is sort of [indiscernible] a bit of a pullback in demand across all categories of Leisure both at the high end and in the middle.

And on Business Transient, which I made to comment on in the prepared comments, we've seen not so very little impact on the SMB business because these folks got to get out and run their business, and they're not going to be as quick to make decisions, and a little bit more on the big corporates. Having said that, there's been sort of a bright spot, which has been in banking and finance, where we've seen a pretty nice uptick.

But broadly, I'd say big business is always going to be a little bit more cautious. They're going to be a little bit more waiting to see where all this goes, where SMBs are going to -- in the moment, they got to run their business. And thankfully, SMB is 85-plus percent of our Business Transient book. So far, so good.

Again, we haven't -- everybody is worried that markets are sort of asymmetric risk to the downside. And you've heard what we -- where we are for the quarter, but also sort of March-April, we're still seeing positive growth. We're not -- it isn't as though the growth rates have gone negative. If you look at the midpoint of our guidance, probably, to be fair, Leisure is kind of flat at the midpoint, but it's not really negative. But we would expect, as I've already talked about, Group to be up in a pretty decent way and even Business Transient to be up in that scenario. And in fact, that's what we're seeing right now.

Now we've got to get through this Easter shift. But if you look at -- if you sort of try as best we can to sort of neutralize for the Easter effect, we're still seeing growth, just growth at a little bit lower level than what we would have hoped for or expected coming into the year.

Operator

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And your next question today will come from Meredith Jensen with HSBC.

Meredith Jane Prichard Jensen
HSBC, Research Division

I was hoping you might speak a little bit to -- further into the development and how the conversion prospects are looking now versus a year ago, potentially with the changes in construction costs and the like spoken about? And how this may or may not sort of just ongoing discussions of M&A in the sector? Maybe not for Hilton because I know that bias towards organic growth. But maybe on just there's a few topics to speak a little bit more would be great.

Kevin J. Jacobs
CFO & President of Global Development

Yes. So thanks, Meredith. On the conversion front, I mean, we gave a little bit of the color. We think conversions will be about 40% of our deliveries this year. That's a little bit higher than last year. You think about the stuff we did last year on the partnership side, those are larger conversions. So -- but if you neutralize, conversions are up year-over-year.

We tend to take share. I mean, I think Chris touched on this earlier. In an environment where -- it -- if it gets a little bit harder to do new builds, developers lean into conversions. And then when the environment gets a little bit softer, we tend to take share. So we already, in the U.S., do nearly half of the conversions that get signed in the U.S. last year, pretty close to half were with us, and pretty close to half were with all of our competitors combined, right? So in a softening environment, we take even more share.

Those deals, they're all different, right? Spark is driving a fair amount of that, but only, call it, 30%-ish of our conversions this year will be Spark. We did a bunch of DoubleTrees in the first quarter. And in our first quarter signings, we did conversions across 10 of our brands. So it really is mixed across the portfolio. And if someone can buy a trading asset or owns a trading asset today that's independent, it's a lot easier to finance. A lot of these conversions happen around transactions. And these transactions are just a lot easier to finance with in-place cash flows, and our brands become very attractive to both the equity and the debt financing for those deals.

So we would continue -- we feel really good about the environment. And then we're doing a lot of conversions outside the U.S., right? Our conversion deliveries this year will be about 50-50 U.S. and outside the U.S. So when we get sort of really focused on these conditions in the U.S., you have to remember the conditions remain a little bit different around the world. So we feel -- in short, we feel really good, and then I'll let Chris take the M&A.

Christopher J. Nassetta
President, CEO & Director

Yes. On the M&A, I think, implied in your question, I think you were headed in the right direction. I mean, we are much more focused on organic growth. We obviously did a couple of things last year, but we thought those were very unique in the sense of fit very nicely into the portfolio of brands that we had and spaces that we wanted to fill with really great brands, and we really feel like the value proposition for us was spectacular. And so we really are excited with those, and they're going really well.

We look at, as we always have, everything that you read about that anybody is doing. You should assume we've looked at it and that given our size and scale and all of these things, for the most part, are broadly marketed, that we have chosen not to pursue it and certainly to any type of conclusion. And that's because the truth is we like organic growth other than a couple of things last year. That's what we've done for almost 20 years. We've had great success in building what we think are the industry-leading brand, certainly, the industry-leading performing brands. We have 24 brands that give us a huge amount of opportunity in every market, including where we have the biggest distribution in the United States, where we still have huge growth opportunities.

And we are, to a degree, I would say, in most parts of the world still very early in gestation in terms of propagating the full family of brands that we have. At the same time, we're always looking at -- within these segments at opportunities. And there are 2 or 3 things that we are working on in terms of new brands that would be done organically. A couple of those in the Lifestyle space, potentially a Lifestyle collection that would be under Tapestry to take unique hotels that we think would be very additive to the system from a customer point of view, real demand in the owner marketplace, and we really don't -- haven't had a place to put those. And then a hard brand in between Motto and Canopy where, again, we see big segment of demand that we're not really serving and an owner community that is looking to do, around the world, a lot more of that.

And then I've talked about a number of times, all the accommodations we called, our furnished apartment space where we've done a huge amount of work there. And my expectation is you will see us do something there. And so yes, we look at everything. And I

always have to say, never say never, but we have made, I think, great progress over 20 years of doing it the old-fashioned way. I think we've built a skill set and a team that is really, really good at this.

And as I said, we got 24 brands. My guess is in the next year or 2, we're going to have 27 at least that we think will continue to fill niches within the family of brands that will provide customers some great opportunities and better serve our owner community on things that they want to do. So I think that's the likely path you will -- highly likely path you'll see us follow.

Meredith Jane Prichard Jensen
HSBC, Research Division

Super clear and helpful.

Operator

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

Christopher J. Nassetta
President, CEO & Director

Thank you, everybody. As always, we appreciate the time. Lots of great questions. There's obviously a lot going on in the world, a lot of which we talked about, but as I've said a few times, we feel really good about the position the business is in. We love our model. We're in a really good position from a balance sheet liquidity point of view, driving incredibly high margins. And even though there's some choppiness out there, we're really confident in our ability to continue delivering for you all. We'll look forward after the next quarter to give you an update and let you know exactly what we're thinking at that time. Thanks again for the time, and have a great day.

Operator

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

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