

Call Participants

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Presentation

Operator

Good morning, and welcome to the Hilton Third Quarter 2025 Earnings Conference Call. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Charlie Ruehr, Vice President, Corporate Finance and Investor Relations. You may begin.

Charlie Ruehr

Thank you, Chuck. Welcome to Hilton's Third 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 Executive Vice President and Chief Financial Officer, will then review our third quarter results and discuss our expectations for the year. Following their remarks, we will be happy to take your questions.

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

Christopher J. Nassetta

President, CEO & Director

Thank you, Charlie, and good morning, everyone. We certainly appreciate you joining us for our call today. Our third quarter results continue to demonstrate the resilience of our business as strong net unit growth, disciplined cost control and our capital-light business model delivered solid bottom line performance. Adjusted EBITDA and adjusted EPS both meaningfully exceeded the high end of our expectations despite softer-than-expected industry RevPAR performance. Our strong portfolio of brands, powerful commercial engines, and disciplined execution continue to drive meaningful free cash flow conversion, which we expect to be greater than 50% of adjusted EBITDA for the full year. We remain on track to return \$3.3 billion to our shareholders in the form of buybacks and dividends for the full year.

Turning to results for the quarter. System-wide RevPAR was down approximately 1% year-over-year as unfavorable holidays and events, softer international inbound to the U.S., declines in U.S. government-related travel and portfolio renovations weighed on results. In the quarter, leisure transient RevPAR was roughly flat, driven by strong demand in Europe and the Middle East, offset by unfavorable holiday shifts in the U.S. Business transient RevPAR decreased approximately 1%, driven by continued economic uncertainty.

Group RevPAR decreased approximately 4%, driven by tougher comparables as we lap major international events, renovation impacts and holiday shifts. We did see group demand strengthen, which is reflected in our stronger fourth quarter group position and our 2026 position, which is up in the mid-single digits. As we look to the fourth quarter, we expect RevPAR to be up approximately 1%, driven by holiday shifts, easier year-over-year comps and relative group strength. We now expect RevPAR for the full year to be flat to up 1%.

As I lift up and think about the opportunity ahead, I remain optimistic about the next few years. We continue to believe that in the U.S., lower interest rates, a more favorable regulatory environment, certainty on tax policy and a significant investment cycle will result in accelerated economic growth and meaningful increases in travel demand. This, when paired with limited industry supply growth, should drive stronger RevPAR growth over the next several years.

Turning to development. During the third quarter, we opened 199 hotels totaling over 24,000 rooms, and achieved net unit growth of 6.5%. Openings increased more than 35% year-over-year on an organic basis. Our luxury and lifestyle brands continue to expand around the world, comprising approximately 20% of total openings in the third quarter. In Asia Pacific, we announced our plans to exceed 250 luxury and lifestyle hotels in the coming years, representing portfolio growth of over 50%. In Europe, we opened the Conrad Hamburg to expand our award-winning luxury brand into one of Europe's most iconic destinations.

Conversions remain integral to our growth story. We expect nearly 40% of openings in 2025 to be conversions across 12 of our brands sourced from a mix of independent hotels and competitor brands. We recently celebrated Hilton's 9,000th hotel following the conversion of the Signia by Hilton La Cantera Resort & Spa, a landmark property set atop 550 acres overlooking the Rolling Hills of Texas Hill Country. We also added the 1,000-room Sunseeker Resort as part of our Curio collection. After eclipsing 8,000 hotels just a year ago, we opened nearly 3 hotels per day to reach this latest milestone, further underscoring our incredible growth momentum.

In the years to come, we continue to believe the conversion opportunity is immense globally. To help capture this opportunity and leverage our skill set in identifying white space and developing new brands, earlier this month, we launched our newest brand, Outset Collection by Hilton, the company's 25th brand and 8th in our growing lifestyle portfolio. Outset Collection by Hilton is defined by soulful, story-led properties featuring a diverse range of hotels across urban destinations, small towns, adventure outposts and off-beat hubs. Grounded in deep research, we determined that the upper mid-scale to upscale collection space represents an enormous opportunity for unbranded or independent hotels that currently comprise more than 50% of the global hotel supply.

To date, we have more than 60 hotels in development with a long-term growth potential of more than 500 hotels across North America alone, and we'll open our first several in the fourth quarter. Hilton has consistently delivered an industry-leading share of conversions in the United States, and we expect that to strengthen with the addition of Outset Collection. More broadly, we continue to deploy our brands into new markets around the world, driven by industry-leading premiums they deliver for owners. In the quarter, we marked brand debuts in 12 new countries and territories, including DoubleTree in Pakistan, Hampton in the U.S. Virgin Islands and Motto in Hong Kong, which also represented the brand's debut in Asia Pacific.

Globally, Hilton operates properties in 141 countries and territories with an average of only 4 of our 25 brands per country, demonstrating the huge runway of growth ahead. In addition to strong openings, we signed 33,000 rooms in the quarter, up over 25% year-over-year on an organic basis. We increased our development pipeline to more than 515,000 rooms, growing both year-over-year and sequentially versus the second quarter with expansion in key strategic markets and across chain scales.

In Japan, we announced several agreements to further bolster our luxury and lifestyle portfolio, including Waldorf Astoria Residences in Tokyo, marking the region's first residences under the iconic Waldorf Astoria brand. We approved LXR, Curio, and Tapestry properties at the foot of Mount Annupuri Japan, offering guests easy access to Niseko's exceptional ski slopes when the hotels open later this year.

In Vietnam, we approved nearly 1,800 rooms across 5 hotels to debut our Conrad, LXR, and DoubleTree brands and to expand the Hilton brand in one of Asia's most dynamic markets. We also signed our first LXR hotel in Phuket, Thailand, our first Canopy in Manila, Philippines, and announced 3 Curio hotels in key Italian destinations, including Geneva, Milan, and Sorrento. New development construction starts in the U.S. were strong during the quarter. And for the full year, we expect global new development starts to finish up nearly 20% and up over 25% in the U.S. year-over-year.

Even with this year-over-year growth, new development construction starts remain below 2019 levels, implying strong continued runway for growth. Our record-setting pipeline, combined with conversion momentum and acceleration in construction starts will continue to fuel our growth in the coming years. We expect to achieve net unit growth of between 6.5% and 7% in 2025 and 6% to 7% annually over the next several years. Our development success is incumbent on us being the premier partner for our owner community. Thus, we're always innovating to continue delivering industry-leading RevPAR premiums and profitability for owners while exceeding guest expectations.

During the quarter, we communicated a first-of-its-kind program that offers owners system fee reductions, many of which are tied to hotel-specific product and service quality scores. The fee reductions will share the efficiencies we have gained through scale and technology with our owners while reinforcing the need to continue maximizing the customer experience. We think we are well-positioned to continue finding new efficiencies and strengthening our value proposition for guests, owners, team members, and shareholders. Our proprietary tech platform, which was envisioned a decade ago, was built for agility with 90% of our enterprise solutions in the cloud today, up from 20% in 2020 when we started deployment. This modern platform has established Hilton as a pioneer and leader in hospitality technology and is allowing us to rapidly introduce new innovations that elevate guest experiences and drive greater value for our entire network. Because of where we are in our technology platform road map, we feel uniquely positioned in the industry to embrace AI and drive greater differentiation for our Hilton network.

During the quarter, we continued to drive our award-winning workplace culture, including being named #1 Best Workplace in Australia, New Zealand, and Sri Lanka, marking a total of 18 #1 wins in the past year, the most since we began participating in the Great Place to Work survey. We're more confident than ever that our team is poised to deliver for our shareholders in the years ahead. Overall, we're very optimistic about our business and what is on the horizon globally. Our brand-led, network-driven and platform-

enabled strategy will continue to help us achieve our dramatic growth trajectory and meet the evolving needs of our travelers around the world while delivering great returns to owners and shareholders.

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

Kevin J. Jacobs

Executive VP & Chief Financial Officer

Thanks, Chris, and good morning, everyone. During the quarter, system-wide RevPAR decreased 1.1% versus the prior year on a comparable and currency-neutral basis, driven by modest declines in both occupancy and rate. Adjusted EBITDA was \$976 million in the third quarter, up 8% year-over-year and exceeding the high end of our guidance range. Outperformance was predominantly driven by better-than-expected growth in non-RevPAR-driven fees, disciplined cost control, ownership and some timing items outweighing RevPAR softness. Management franchise fees grew 5.3% year-over-year. For the quarter, diluted earnings per share adjusted for special items was \$2.11.

Turning to our regional performance, third quarter comparable U.S. RevPAR decreased 2.3%, largely driven by pressure across business transient and group as holiday shifts, declines in government spend, portfolio renovations and softer international inbound demand weighed on performance. For full year 2025, we expect U.S. RevPAR to be roughly flat versus 2024. In the Americas outside the U.S., third quarter RevPAR increased 4.3% year-over-year, driven by strong demand in both leisure and group segments. For full year 2025, we expect RevPAR growth to be in the mid-single digits.

In Europe, RevPAR grew 1% year-over-year, driven by a rebound in the U.K. and Ireland and offset by a tough year-over-year comparison from major events last year. For full year 2025, we expect low single-digit RevPAR growth. In the Middle East and Africa region, RevPAR increased 9.9% year-over-year, driven by robust intra-regional travel growth for both business and leisure segments. For full year 2025, we expect RevPAR growth in the high single-digit range. In the Asia Pacific region, third quarter RevPAR was up 3.8% in APAC, excluding China, led by strong group trends in Japan, Korea, and South Asia. RevPAR in China declined 3.1% in the quarter, largely driven by the impact of the government travel policy on business transient and group travel, particularly in Tier 2 and Tier 3 cities. For full year 2025, we expect RevPAR growth in the Asia Pacific region to be roughly flat, assuming modest RevPAR growth -- assuming modest RevPAR declines in China.

Turning to development, as Chris mentioned, for the quarter, we grew net units 6.5% and have more than 515,000 rooms in our pipeline, of which nearly half are under construction. We expect to deliver 6.5% to 7% net unit growth for the full year.

Moving to guidance. For the fourth quarter, we expect system-wide RevPAR growth to be approximately 1%. We expect adjusted EBITDA of between \$906 million and \$936 million and diluted EPS adjusted for special items to be between \$1.94 and \$2.03. For the full year, we expect RevPAR growth of 0% to 1%, adjusted EBITDA between \$3.685 billion and \$3.715 billion and diluted EPS adjusted for special items of between \$7.97 and \$8.06. Please note that our guidance ranges do not incorporate future share repurchases.

Moving on to capital return. We paid a cash dividend of \$0.15 per share during the third quarter, bringing dividends to a total of \$108 million for the year-to-date. Our Board also authorized a quarterly dividend of \$0.15 per share in the fourth quarter. 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 third quarter results can be found in the earnings release we issued earlier this morning. This completes our prepared remarks. We would now like to open the line for any questions you may have. We would like to speak with as many of you as possible so we ask that you limit yourself to one question.

Chuck, can we have our first question, please?

Question and Answer

Operator

The first question will come from Shaun Kelley with Bank of America.

Shaun Kelley

Bank of America Securities, Research Division

Chris, like usually around this time of year, we start to think about the setup for next year. And I know it's hard to put you on the spot without guidance out there, but we'll kind of talk around it anyways a little bit. Could you just give us your thoughts about kind of the timeline for the improvement you're hoping to see on the top line and operating environment? And then just we're getting a lot of feedback this morning about how well you've done on the cost side. So let's play the counterfactual. If the top line -- and we're talking really RevPAR here, but if that environment doesn't get a little bit better, could you just talk about what you can do and your comfort to kind of continuing to execute so well on the bottom line side of the business and drive some operating leverage across the Hilton enterprise worldwide?

Christopher J. Nassetta

President, CEO & Director

Yes. Thanks, Shaun. Happy to cover both. So obviously, yes, we're not giving -- we gave you a form of guidance on unit growth for next year, we're not -- at this time of year going to -- we're just starting the budget season. And so we don't -- we're not going to give guidance on RevPAR. But here's what I'd say. I said it at your conference, I said it on the last call, I believe. We feel incrementally a lot better about the setup for 2026. I sort of said it briefly in my prepared comments. I mean, I think while there's certainly a lot of noise in the world, and you saw in Q3, industry numbers were less -- were lower than everybody expected.

I still think if you sort of lift up and you get away from the noise that structurally, in the U.S. at the moment since that's still 75% of our business. There's a lot of really good things going on. I mean inflation is definitely coming down. Rates are coming down with it, expectation that rates will continue to come down. You have certainty on tax policy, which is unusual and probably lasts for at least 3 to 5 years. You have some meaningful benefits in that tax policy like bonus depreciation and things that stimulate investment. You have a regulatory regime that is going to be much, much more friendly. And you have an investment cycle that is coming and sort of happening, but it takes time to get embedded in the economy.

And what is that investment cycle? I mean, I hate being redundant, but it's worth noting. I mean, you have the core infrastructure bill that was done -- approved by Congress, signed by President Biden, if you add up all the pieces of it, roughly \$1.6 trillion, like less than 20% of that's been spent. You had \$800 billion from the CHIPS Act, less than 5% of that's been spent because it takes time to get the money in the system. And then on top of that, you have the whole AI investment thesis that's going on, not just the tech companies that are obviously investing into the trillions when you put it all together, but all the infrastructure that goes behind that. So all the data center development that's going on, all the energy development that has to go because without energy, you don't have data centers, without data centers, you don't have AI.

And so while it takes time to get all of that embedded, and I can -- I cannot tell you like I think it's like January 18 that -- I think it's like a benefit that we are going to be getting for several years. I do believe you will start to see it in the first half of next year. I almost think you have to. And then another couple of reasons for optimism on next year is one obvious one is comps get a lot easier, right? I hate to rely on that. I mean, I obviously just gave you a pretty good setup for much better fundamentals.

But the comps get easier, you've got some event-driven benefits next year. You have midterm elections, which mean a lot of activity. These are big midterms. People are -- in every state in the union, people are going to be running around, raising money, campaigning. That's good for business. You have Americas 250, which is going to be a year-round celebration. There's a lot of energy going into that from a lot of different places, including the administration. You have World Cup, which isn't like Super Bowl, where it's a weekend or whatever, it's a fairly extended sort of experience. And so all of those things are going to be good.

And then, of course, on the other side of it, while we're benefiting from what I think is a pretty darn good development story and getting much greater than our fair share, you're still in a super cycle of underdevelopment in the industry where you're adding capacity at less than 1% against the 2.5%, 30-year average. So like, again, you can all get caught up in the noise and tariffs and like there's a lot geopolitically -- listen, I'm not -- I don't have my head in the sand, but I like to try and lift up above noise. That's sort of what I do in my personal and professional life. And when I do that, it makes me feel pretty good about the next few years. So I would bet a lot of money that '26 is going to be better than '25, and I'd bet a lot of money '27 is going to be better than '26. The exact slope of that

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is difficult to determine. We'll obviously try and do a little bit more precise job through the rest of this year in doing a very granular analysis market by market as we go through the budget season. But I feel really good about it.

On the cost discipline side, listen, I think -- I would hope everybody would agree. We've been super disciplined forever on costs. Like since we went public, if you look at us versus core competitors relative to our size and scale, we've always been pretty efficient. And I believe we will continue to be, as I said very briefly in my prepared comments, there are a lot of tools available to us to continue to drive efficiencies, and we're going to use those. I mean, in the world of AI, by redefining a lot of processes, there are opportunities to continue to do things more efficiently and be able to accomplish more with less.

And that, by the way, holds true for our G&A, but also importantly, very importantly, because our job is ultimately to deliver profitability for our owner community. I think it affords us opportunities to continue to find efficiencies that can translate into higher margins by reducing incrementally system costs more.

I noted very quickly, and it's reasonably broadly known because we've communicated to our owner community, but we did a first-of-its-kind reduction in system fees to be clear, not our royalty rates and not our license fees, but the fees that owners pay us to operate the system. And that's been done because we've just found ways to be more efficient, whether that lots of different use cases in AI where we're redoing processes and getting efficiency, and we think we're doing things better, but more efficiently. And that's translating to benefit us, but it's also translating because the bulk of the cost structure of this whole enterprise really is running the system. It's benefiting our owners. And we want to do more of that. Like we want to -- this has been a difficult time for the owner community in this sort of air pocket where I think really good things are coming.

But at the moment, you're sort of in the U.S. seeing modestly negative top line. And while inflation has come down, it's still a little bit elevated. That's not good for our owner community. And so that's why we put this program in place. But it's also why we want to continue as we're in this transition period to a faster growth period of time, utilize every weapon in our arsenal, and we have a lot to continue to drive efficiency. So that's a long-winded way of saying, I think we've always been, frankly, on the tip of the spear in driving very efficient cost structures, and we will continue to do so. And that's sort of a mentality I have and we have that will never change. And now we just have more ways to do it.

Operator

The next question will come from Stephen Grambling with Morgan Stanley.

Stephen Grambling

Morgan Stanley, Research Division

Chris, I appreciate the comments you made about the tech stack and also some of the opportunities in AI. But just to dig in a bit on that, on the back of partnerships being formed by some retailers and e-commerce companies with large language models, how do you think about potentially partnering with some of these companies as another source of distribution? And maybe also remind us of some of the internal efforts on AI as we think about both direct and indirect opportunities.

Christopher J. Nassetta

President, CEO & Director

Yes. We could spend the whole call plus some. We could spend the days together talking about this. And we are obviously like most, spending a huge amount of time understanding where AI is, the art of the possible. I mean we have, to be exact, I think 41 use cases that are being utilized inside the company at this moment as we test and learn. I'm not going to torture everybody going through it and competitively, I'm not going to get into granular detail for obvious reasons. But I'd say, broadly, I look at it as AI for us at the moment, and I think it will evolve and change and like you just have to be really agile with the speed at which this is moving.

But I think for the foreseeable future, meaning the next year in AI world, there's probably three buckets. I talked about one, which is reinventing processes to garner efficiencies. And that can be wherever we have a lot of process and historically, you have antiquated ways of doing things that require a lot of people. There are different ways to do it and repurpose people to do higher-value things. And so again, I think that benefits -- that can benefit our G&A, which you've seen like some of the use cases are -- you're seeing a benefit. But again, we're at the tip of the spear. And you've seen a little bit of it vis-a-vis the system relative to our owners, but there's more of that. That's one big bucket.

The second big bucket is go-to-market, like basically how you market distribution, the whole distribution landscape, and that's what you started with, Stephen, and I agree wholeheartedly. I think there are all sorts of risks with AI, like -- but in the end, here's the thing. We're in the business of fulfillment. We're not -- yes, we have a platform and a network. But in the end, we have all -- we have 9,000

and growing hotels that we control rate, inventory and availability. And the only way you get it is through us. Okay? No other way. You either get it from us or you don't get it, and we are in charge and control of fulfillment, the actual experience for the customer.

In the world, we're going into of having multiple LLMs and a really, what I would argue, much more competitive environment for how people get information, I view that, again, I'm not -- I don't have my head in the sand. There's all sorts of risk. I view that as a very good thing, right? If we do our job, we have control over inventory. If we do a really good job in delivering product, service, loyalty to our customers, and we are viewed, which we are, as the best of the best at fulfillment, then we're going to -- we have all sorts of new ways to think about how we distribute our products. So you can assume, yes, we're talking to all these people. And they're early days. They're in a bit of an arms race trying to figure out who the winners and losers are. And it is organized, but it's a little bit like the Wild West at the moment. But I think where it's going is super good for us in how we go to market and how we distribute our products if we are intelligent about how we control our inventory and how -- and making sure we always deliver on the fulfillment side.

The third bucket is CX, customer experience. We're already not just testing. We're doing -- like we have -- because, as I said in my prepared comments, we've evolved our tech stack, and we're basically micro services open source, cloud-based. We have massive flexibility in how -- what we do with our tech stack, and we are already utilizing that in ways to deliver a much better customer experience, meaning mass customization, understanding your customer, being able to take all this data that we've had, manage the data, get outputs that actually allow people, enable people on property to do things, to customize the experience, to resolve a problem real time in a way that we've never been able to do because you just -- you always had massive amounts of information.

The question is, did you have the right information? Could you manage the information? Could you translate the information in ways that could spit out a command to get somebody to take an action. And now we have that. And so this isn't like a pipe dream that we -- like I'm thinking about this is like in action, we're doing it, we're testing, we're learning, and we think there's a huge opportunity. I think the winners in fulfillment and back to my fulfillment comment, are the winners across all industries in a world where everybody wants what they want, right? And they get it now more and more is mass customization. I mean I've been thinking this for 20 years. It just hasn't been quite as possible as it is with how technology has evolved, particularly with AI.

And so the most -- I mean, they're all very exciting to me, but the customer experience side of it, as you can probably tell, really excites me. The other two buckets are super important, and I think will ultimately, all of them will allow us to differentiate ourselves in terms of how we serve customers and ultimately drive greater profitability into the network.

Operator

Next question will come from Dan Politzer with JPMorgan.

Daniel Politzer

JPMorgan Chase & Co, Research Division

Thanks for all the great detail thus far. The net unit growth, obviously, it's a bit of an acceleration organically here from that 5% that you've been running at ex. SLH and Graduate. Can you maybe parse that out as we think about going forward between your expectations for conversions next year versus some of the newer brands that you've launched? And maybe if there's any element of that accelerating, albeit off a low base, construction starts that you mentioned?

Kevin J. Jacobs

Executive VP & Chief Financial Officer

Yes. Thanks, Dan. I think, look, the composition for the acceleration, I think, is just -- if you think about it, if you go ex. -- as you said, if you go ex. partnerships and look at it is it just an acceleration still coming out of COVID, right, because the development cycle picks back up and delivers on a lag. So what you're seeing here, we raised our 6.5% -- from 6% to 7%, to 6.5% to 7% for this year. That's really broad-based., there's really no one area. We said we think nearly 40% of that is going to come from conversions, so we keep winning well more than our fair share of conversions. But if you look at new development, and Chris mentioned, we think new development starts this year are going to be up 20% and in the U.S. over 25%, that bodes well for the setup for new development going forward and really is the underpinning of the 6% to 7% for the next couple of years. And then you layer in with conversions.

And so, look, new brands is going to be part of it, just like Spark has been an important part of it the last couple of years. The new brands that are oriented towards conversions will be part of the conversion story., but then a big part of the story is taking our core brands and exporting them around the world in emerging markets, right? So it really is pretty broad-based across the board, and we would expect something on the order of magnitude of in the 30 percentage points, 35, mid-30s, call it, to be from conversions versus new builds for the next couple of years.

Operator

Our next question will come from David Katz with Jefferies.

David Katz

Jefferies LLC, Research Division

I wanted to just talk about -- frankly, asked this a lot about the higher end of the luxury end of the scale. You've commented in the past how it provides somewhat of [indiscernible] as well as the financial benefit. We certainly hear and see this getting to be a more expensive arena to play in. Talk please, about how you sort of balance that tangible and intangible return opportunity and sort of where you're at?

Christopher J. Nassetta

President, CEO & Director

Yes. I'm happy to, and good question. Luxury is very important, not -- I mean, we do make money in the luxury space. but if you look at the -- if you looked at our EBITDA driven by segment, it's not a huge contributor as a slice of the... size of the slice of the pie. But it's important because it does help create halo effect that helps the whole system and network effect work. It's aspirational product that our customers want, and so we have been very focused on it.

You are right that if you looked at where our -- ultimately where the bulk of our key money goes in any particular year, it is disproportionately at the high end of the business, not all luxury, but big convention, resort convention and luxury hotels. And so by doing those investments, we're saying it's important. And we'll continue to do that, but we're not going to go crazy doing that, meaning right now, if you look at where we are in luxury, I would think -- I think we can prove scientifically, it's really working. We have as many dots on the map as anybody. As a result of the SLH deal, which was 100% capital-light deal, we have 600 dots on the map. We have 100-plus more in our core brands coming in terms of pipeline. We have, we think, all the most important destinations covered. I mean there are always a couple. I'd like to see Waldorf in Paris and there are a few places that are hard that we're focused on, but if you look at the whole world, we think we're in all the right places.

And the reality is with all respect to the competition, our loyalty program is the best-performing loyalty program in the space. I mean we're approaching against the target, a multiyear target of 75% Honors occupancy. We're approaching 70% at a faster rate than we thought. We're growing the program 15% to 20% a year. Active members are increasing, are crazy healthy. People are really engaged with the program. The patterns that we've seen in redemption with luxury, including SLH, have proven that what we were trying to do, we've accomplished that -- and so that -- we're going to continue to focus on luxury. You're going to see us do things to continue -- I mean, SLH will continue to grow, not at a -- really not the way it has grown, 0 to 500, but it will grow incrementally because we are helping them, and they are working on growing that business. So that will continue to grow, but you'll see most of the growth come in our core brands, and we're going to be sensible about it.

We only -- even when we're making these investments, we don't make these investments to lose money. I mean we're always investing against a market -- a deal opportunity where we think that whatever we're giving is a lot less than the value of what we're getting, and we'll continue to do those. But I don't -- we do not -- I do not and we do not feel particularly post-SLH that we have to do anything unnatural. And obviously, the luxury business has been performing really well, and we like that. My own belief is it will continue to perform well. But what you're going to see over the next 2 or 3 years on the basis of what I think is going to happen, you can disagree with me, you're going to see broader economic growth in the U.S. pick up, and it's also going to be much broader-based and you're going to see all of the mid-market start to converge with the high end.

It almost -- I mean, eventually, it has to and because it always does and the makeup of what's going on, which is really what's really driving it is an investment cycle, that's a middle-class game, like the investment cycle of building data centers, bridges, highways, power plants, that's getting everybody in the game. And so again, luxury is great, it's performing really well, we're focused on it, it's a good halo effect. We think we have what we need, and we'll keep grinding it out with these deals. But I do believe that the relative performance gap will close in a meaningful way over the next couple of years.

Operator

The next question will come from Steve Pizzella with Deutsche Bank.

Steve Pizzella

Deutsche Bank AG, Research Division

Chris, just wanted to follow up on the offer to provide owners system-wide fee reductions tied to product and quality scores, if I heard you correct. Can you elaborate on what the genesis of that was, how we should think about any impact from a franchise and royalty fee perspective moving forward, if any at all? And does this incentivize more conversions from owners moving forward?

Christopher J. Nassetta

President, CEO & Director

The answer to the last part is yes, I think it does. But the genesis of this was sort of what I implied. It started with the fact that, listen, in the end, our job is to deliver not just top line, we've got to deliver bottom line to owners or this wonderful virtuous cycle of getting them to reinvest and build us more hotels does not work as well. And so we know that they are having a difficult time. They had a great run in initial years coming out of COVID, but it's gotten much more challenging. And so we want to help, and we think we should be able to, meaning same comments I won't repeat them about, we can garner efficiencies, we can use AI, we can think about all of our processes where it's a big system in ways that will benefit them. So that was really the genesis.

The other thing we're trying to accomplish, and it was -- I said it very quickly, but it's an important note, is that -- and this isn't unique to Hilton -- the whole industry during COVID had a cycle of underinvestment in assets. That's because everybody, the owner community rightfully had to survive, they were having to pay interest and like they didn't have the money that they would normally have to invest. So you went through a unique cycle in my 40 years of doing this of underinvestment. Again, not just across the board. Thankfully, we went into it in a very good place. So we feel pretty good about where we are, but we want more investment in the system.

And so we have been encouraging -- and by the way, I sort of mentioned, we have in the U.S., we have over 20% of the system is in renovation right now. So we've been encouraging it, and it's been happening, but we thought if we're going to do this, we want to help provide another incentive to accelerate it to go even faster. And so we did create, I think, a pretty unique setup where we have stay scores et cetera, think about customer satisfaction scores, and it's a complex equation, but one that they understand because it's the way we manage the system, the franchise system already, where we provided gates, essentially, that people need to get through by brand with its staircase, it's a very complex system. But again, it's sort of the way we've managed the business, they understand it. And so that's the secondary.

The first was we want to help our owners. The second was we want to help our owners also in the long term, which is to make sure that the product quality is where it needs to be. And even without it hitting, it doesn't start until January. The relief doesn't start until January. We've seen a pretty meaningful uptick in activity. So I mean, people get it. They want to get through the gate. And a large part of the system will. I think when we did it, it was like 50... I think it's... last I looked at maybe approaching 60 without even having rolled out. To be clear, it doesn't -- I do think it will -- the more, the higher our margins, the more people want to build us hotels, so I think it's helpful in that regard, and it doesn't have any impact on our royalty management rates and license fees, management fees. It's all in the other part -- the part of the system we manage on behalf of owners for the whole system. So there's no impact on our P&L.

Operator

The next question will come from Robin Farley with UBS.

Robin Farley

UBS Investment Bank, Research Division

Looking at your fee revenue for the year, kind of fee revenue per room, it's growing, even with more economy rooms and more rooms in China that I think a lot of investors might worry would hurt that number. What's driving the economics there? And I guess, is there anything that you'll be comping next year for us to think about? Anything unusual in those numbers for this year that you'd be comping next year? Or do you feel good about those economics continuing next year?

Kevin J. Jacobs

Executive VP & Chief Financial Officer

You're talking about comps that would drive fee per room year-over-year? No.

Robin Margaret Farley

UBS Investment Bank, Research Division

Just things like the non-RevPAR, yes sorry. Go ahead. Yes.

Kevin J. Jacobs

Executive VP & Chief Financial Officer

Well, non-RevPAR is different, but fees per room, no, there's nothing that would comp year-over-year. And yes, you are seeing a little bit of our mix shift over time in terms of what we're delivering shift to emerging markets, including China, which is normal as we continue to grow outside the U.S. But I think as we've said before, and I know, we all know why you're asking because you get this question a lot from your clients and from investors, and we get it a lot, so we get that it's on investors' mind. We've talked about this a lot in the sense that even if you take the mix of what we're delivering, which is slightly different, if you combine that with the existing mix, we're really not shifting the overall mix of contribution over time from higher fee-paying things to lower fee-paying things. The rooms we're opening largely around the world, if you exclude China, are at the same fee per room rates or higher than our existing in-place fee per room rates.

And then you think about other factors like RevPAR continuing to grow, our take rate continuing to increase as we regrow license fees, the bulk of our deliveries being in our strong mid-market brands where we charge our highest fees per room. If you put all of that in the model, and sorry, I should add that even in the case of emerging markets, we're starting to grow our higher-end brands, and in China, we're moving more towards our own brands versus in the MLAs, the MLAs are going to continue to grow, but we're growing our own brands that are 100% us at higher rates. So you put all that in the model, and we believe and we know that fees per room will continue to grow over time.

Christopher J. Nassetta

President, CEO & Director

Yes. We -- I know Kevin's right, it comes up often, and so right or wrong, it does. We've modeled it in the most granular way, which by definition is more granular than anybody else can model it in our 5- and 10-year models, and it keeps going up for the reasons Kevin described, a little bit more visibility. On the China thing, we did two MLAs, we're not planning to do any more. Those have been highly productive, they've helped us build an incredible network effect in China. Our market share in China is incredible. I'm not going to -- but it's off the charts, it's the highest market share that we have anywhere in the world. So it has worked, but we're not doing any more MLAs. We -- those are productive. We learn from those. And now we're taking our mid-market brands like Garden Inn and others and doing it ourselves. So if you look at even in China, with those continuing to grow just based on the velocity of growth that we have and the ones we're doing ourselves, the fees per room are going up in China. They're not going down. So you put all that together and when we do it bit by bit by bit, fees per room are going up.

Operator

The next question will come from Brandt Montour with Barclays.

Brandt Montour

Barclays Bank PLC, Research Division

So apologies for more of a near-term question, Chris or Kevin. I'm just curious in terms of the corporate travel trends into the fourth quarter. I mean, you do have tougher comps on that side of the ledger, but I think more of the question is, you guys talk to a lot of companies, you see a lot of data from your, within your system. Does it tell a bit of a story in terms of which corporates are putting their people on the road, large companies or small companies, region by region? And when you speak to those companies, what are they sort of -- if they agree with your view of the sort of future economic tailwinds -- what do you think that they're waiting for?

Christopher J. Nassetta

President, CEO & Director

Yes. I mean, listen, it's a lot of -- yes, we talk to our customers, we do customer events all the time. We did a big one recently where I had tons of our customers and talked to our sales teams. And I'd say broadly, people are pretty constructive. I mean, it's anecdotal, but I don't really talk to any of our major customers that say, like, they're not going to be traveling more next year. I don't talk to any of our customers that don't understand they're going to be paying a little bit more for the product next year. I think they, like everybody think inflation should come down. So maybe they don't want to see the big increases that they have been seeing, but they understand they're going to have an increase.

I think what's been holding them up is the obvious, just noise in the system. I mean, I think the big guys, the tariff stuff has sort of affected them, they were way behind, so I'd say in a relative sense, maybe they have performed in the very short term a little bit better because they were so far behind, but they're rattled. And then the little -- the SMBs are always more resilient, but they're a little

bit rattled. So I just think there's been a lot of noise in the system. The reason I'm more optimistic about next year, again, I can't prove it, is just anecdotally, I'm talking to a lot of them. I think you're going to see these -- if I'm right about when you lift up, you see some of these broader macroeconomic trends start to take hold and people feel more confident and you get, as you get closer to midterms or some of the tariff stuff sort of goes a little bit more in the back seat, I believe people will settle down and get back to their patterns. And again, anecdotally, they're not telling us, they're not telling me when I talk to the folks that run travel departments anything but we think we're going to travel more and we're going to have to pay more for it next year.

Operator

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

Elizabeth Dove

Goldman Sachs Group, Inc., Research Division

You're clearly seeing amazing traction on the development side and with the conversion side of things, speaks to the strength of the brand and everything else, but maybe it would be helpful just to get like a pulse check on the key money side of things, like what you're seeing in terms of key money per room, the competitive environment -- any kind of shift there over the last few months?

Kevin J. Jacobs

Executive VP & Chief Financial Officer

I wouldn't say there's been a shift, Lizzie, over the last few months. I think you've had a shift over the last few years in the sense that it is a more competitive environment. I mean, with unit growth being an important part of all of our stories in the industry, it's really important, and then when some of us sort of take a little bit of a lead in that regard, our competitors are sort of anxious to catch up and get out there and sort of deals get a little bit more expensive. But with that said, I would say, Chris mentioned it, something like 85% or 90% of the key money that we deploy is on full service and above. It tends to be on luxury, it tends to be on the big convention center-type hotels, it tends to be... the bigger projects garner the bigger checks.

Every once in a while, you have... part of it depends on which brands are available for a certain deal, right? If you have a conversion and it's an independent hotel and all the brands are available and that owner is fortunate enough to be able to create some competition, that can make it a little bit more expensive. But that said, if you look back, we're still, broadly, in terms of what is under construction, we're still under 10%, high single digits of our deals overall are using any form of key money, so you're still sort of 90% plus in terms of what's under construction, has no key money associated with it at all.

And if you look back in the last few years, we've had some years that are a little bit higher. We've had some years that are a little bit lower, but that tends to be more some of the big chunky deals that the timing of when they happen changes that answer. If you had asked us 6 months ago, a year ago, even back to our most recent Investor Day, we would have said a good run rate for key money is \$150 million to \$200 million a year, and we would still say that's a good run rate, so it hasn't really changed dramatically. It is a more competitive world, a slightly more competitive world, but it isn't changing dramatically.

Christopher J. Nassetta

President, CEO & Director

And part of that is, and Kevin alluded to it, I mean, we're training -- listen, our brands perform better than everybody else's. So, like, we have trained our development teams to have the dialogue with our partners, our owner partners, to make sure as they're thinking about key money that they're not being penny-wise and pound foolish. So they get a little bit more key money, or they get some versus none, but they get 500 or 1,000 basis point lower RPI or market share. Obviously, that's a losing trade, and so we've worked really hard with our development teams, and we make it hard on them. I mean, we basically don't believe we should have to do it. To Kevin's point, we think it should be consistent with where we've been. And we've been able to do it because I think we've got a really good story with really good performing brands, and I think our development teams understand how to make that argument. And it doesn't always win, but it's winning a lot more than it's not.

Operator

The next question will come from Mike Bellisario with Baird.

Michael Bellisario

Robert W. Baird & Co. Incorporated, Research Division

Just a question on pricing sort of broadly -- maybe help us understand, what are you seeing in terms of how and where customers are booking, especially on the leisure side? And then how much more are you running promotions and discounts? And is that weighing on ADR at all looking ahead?

Christopher J. Nassetta

President, CEO & Director

We are running, you know, when it's weaker, we're always going to do honor specials and use a little bit more OTA business and access other distribution channels, and in third quarter, it was weaker, so we did those things. I mean if you look at the numbers, you'll see it was pretty... we're not... you haven't seen any sort of collapsing in rate integrity. I mean, our declines were pretty much balanced between rate and occupancy, which is what you'd see. You definitely had in categories, you had a lower in third quarter, lower group base, so that means you have more rooms to sell, you got to do more transient -- business transient was a bit weaker for the reasons I just described -- everybody is rattled about everything going on in the world. Leisure was pretty strong, but then leisure isn't the highest rated business. so what does that mean? It has an impact on rate. What I would say is when you dissect so far, and you know my view now because I've said it 3 or 4 times that the world is coming our way. So far, if you dissect it, it's really been a mix shift that has affected rate. You're just taking lower-rated customers and they're substituting for higher-rated customers, meaning you're taking leisure customers that pay less, not necessarily that the leisure rate is dumping, it's just, it's a lower rate than you're substituting in for business transient, which is a higher rate.

So I think when you deconstruct it scientifically, I think you feel pretty good that rate integrity has been reasonably good, and not... that shouldn't be surprising sort of intellectually to any of us in the sense that inflation is alive and well, and while it's come down, it's still somewhat stubbornly high, and so we will be a beneficiary of that broader trend. So technically, it's pretty evenly split, but things... occupancy is off, so we replace it with lower rate business. As a result, rate will come down a bit, just the weighted average will bring it down.

Operator

The next question will come from Smedes Rose with Citi.

Smedes Rose

Citigroup Inc., Research Division

I know you've covered a lot of territory here. I just wanted to ask you, I think the full year sort of trimming on RevPAR and a slightly more modest outlook doesn't really come as a surprise, but as you think about the fourth quarter and kind of the implied guidance, is the government shutdown impacting your forecast at all? Or is that -- is everything sort of just going on, it's business as usual?

Kevin J. Jacobs

Executive VP & Chief Financial Officer

No. I mean, look, we're sort of almost a month into, or 22 days, I guess, into the government shutdown with...so almost a month of that in the forecast, so we have factored for that into the forecast in the fourth quarter, and our full year scenarios, which is a range, really encompass if the government -- even if the government shutdown keeps going, we think we'll be within that range. So, it is affecting the numbers. I think that, who knows if our forecast would have come down anyway, probably given what came in the third quarter, we might have been a little bit lower for the fourth quarter anyway, but we are factoring for it and it is affecting the numbers somewhat.

Operator

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. Please go ahead.

Christopher J. Nassetta

President, CEO & Director

Thanks, Chuck. Thank you, everybody. As always, we appreciate the time. As you can see, I remain pretty darn optimistic about

what the next several years are going to look like. And even, I think, if you look at all the numbers and everything we talked about today, even in the midst of what's been a bit of an air pocket as we sort of get through this time to a little bit higher growth time, the resilience of our model, business model and our execution, I think, has been really, really good, and we're continuing to deliver and outperform on unit growth, deliver and outperform on the bottom line, with taking what the world gives us and doing everything we can to make it better. So, we're feeling good about the business, feeling good about where we are, feeling good about where the future is going, and we'll look forward on the next call to giving you a fulsome update once again. Thanks again, and talk soon.

Operator

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

