Hilton

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Christian Charnaux: Good morning, everyone. Welcome to the Conrad New York and welcome to the Hilton Investor Day. I'm Christian Charnaux, I run our Investor Relations efforts. On behalf of the management teams here at Hilton, Park Hotels & Resorts, and Hilton Grand Vacations, welcome and thank you for being here.

Before we get going, a couple of housekeeping items. First, there is Wi-Fi. The code is up here on the screens. The materials that we are going to go through today are available on our website, IR.Hiltonworldwide.com, and also available through some 8K filings we made this morning with the SEC.

We're also going to do the Safe Harbor Statement which you'll be happy to know I keep here in my breast pocket at all times. We would like to remind you that our discussions today will include forward-looking statements. Actual results could differ materially from those indicated in the forward-looking statements, and forward-looking statements made today, are effective only as of today. We undertake no obligation to publicly update or revise these statements. For a discussion on some of the factors that could cause actual results to differ, please refer to the Risk Factors section of Hilton's most recently filed Form 10K, Park Hotels & Resorts' most recently filed Form 10, and Hilton Grand Vacation's most recently filed Form 10.

In addition, we will refer to certain non-GAAP financial measures in our presentation. You can find reconciliations of non-GAAP to GAAP financial measures discussed today on our website at Hiltonworldwide.com.

We're going to do a quick welcome video and then we'll welcome our President and CEO, Chris Nassetta to the stage. Again, welcome, and thank you all for being here.

[video plays]

Chris Nassetta: Okay. Good morning, everybody. Nice to have such a big crowd, and thanks for coming out so early in the morning. Appreciate you guys spending what is going to be probably a pretty long day together. We talked to a bunch of you folks about whether you would like us to do this all three companies together or split it up and everybody said they thought it would very efficient and helpful to do it all together. So that's what you're going to get. We'll start the morning out with the new Hilton. And then of course this afternoon shift to HGV and Park. So it's going to be a long day to cover all three, but bear with us, I think you're going to enjoy the day and it's quite a good story in each and every case.

It's been, as you might imagine, a pretty busy time here at Hilton, particularly as we get to the end of this year and we are getting ready to complete the spins that we've been working on for quite some time. From my point of view, in a sense it's the end of part of our journey that started when we went private, almost to the day nine years ago, and we laid out a plan then privately and of course three years ago publicly, for how we were going to transform Hilton into a leading player in the industry. And we were going to unlock significant value that here until that time really had not been unlocked. And I think as I'll lay out, I think we've done a very good job doing that.

Having said that, I think we're at the beginning of the next leg in the journey which is really the leg that I think allows us, through three independent companies, to fully maximize value, frankly in ways that as a combined company we just couldn't do. I started intentionally with the video that you saw and I hope everybody liked that. For our team, many of them have seen it a bunch of times. I've probably seen it 100 times, and every time I see it I enjoy it even more. And the reason I started with it was sort of as a foundation for the day. I said this to many investors, certainly inside the company we talk about it all the time, which is, in the end, we're a business of people serving people. That's what we do. And our success over the nearly 100 years of our history, we're a couple of years away from that, or the nearly decade since we began the transformation of the business when we went private, or over the three years since we've been public, has all been about our people and about the culture of the company and a transformation of that culture.

It's been about having intense alignment around a common purpose, around our vision, around our mission, around a common set of values. Why? Because what we're really trying to do is ultimately motivate and inspire 350,000 team members and 105 countries around the world to do great things together. To ultimately, as you saw in the video, better serve customers. But more than that, better serve our owners, better serve our communities, and better serve each other.

We've been recognized in all sorts of ways. You can see on the slide on the screen, I won't list them all, for the culture that we've built, Fortune World's Most Admired Companies, Fortune One of the Ten Best Workplaces in the Fortune 500. Great Places to Work, we're one of the top 25 in the world, number one in a bunch of places around the world, China, Turkey, Saudi Arabia. We're a diverse group of people. We're a op 50 in diversity in companies for diversity. So we have been recognized for this culture in lots of different ways you can see on the screen. But I know standing in front in New York of a bunch of investors, what really the message to you would be is that this culture, it's the people, it's getting our people rallied around this common cause, that has driven our performance. That's what's driving the performance.

So at the IPO, talked to almost all of you, I see a lot of the same faces, we outlined a plan. So the plan was, the new Hilton was a transformed company. We had our people aligned around the world, around a common purpose. And that common purpose was ultimately going to deliver performance on the top line, that we would outperform our competitors on margins, on bottom line performance, on net unit growth. We talked a lot about what we were going to do in the sense of returning capital and value enhancement opportunities that we thought were available to us in the company, particularly in some of the real estate.

And I would say I think we've done a pretty good job. Everything that we told the investment community that we would do at the IPO, I think we've done, and I think we've done some things beyond that. Walking though quickly some of the stats, you can see just since the IPO, three years ago, pretty much almost to the day, we've grown our systems size by 17% to almost 790,000 rooms. We've grown our pipeline by 60% at 300,000 rooms, the largest pipeline in the history of the company. Our rooms under construction have grown by over 50% now at about 150,000 rooms. Importantly, our share of rooms under construction is up 16% and that represents 22% of all rooms under construction globally. Our net unit growth, obviously a really important driver up until now and a much more important driver going forward for new Hilton, is up 44% at 6.5%. We've launched three brands in the last three years. So a lot going on and a lot of very strong performance.

You're looking at the new brands that we launched, and adding it to Home2 that we launched a couple of years before that, those brands alone now represent over 700 hotels and 80,000 rooms that are either open or in our pipeline. Just those four brands alone.

We're also in a bunch of new countries. We're in 14 new countries. I keep debating this, I think actually we're in 105, so 15 as of today, but these numbers are as of the quarter end. So tremendous progress in terms of building our network effect.

Performance wise, we've grown adjusted EBITDA by nearly 40% since the IPO. Talked about margins obviously being important. Grown our margins over 700 basis points, our franchise rate increases were up by 30 bps now to 4.8 against a 5.5 published rate. And I think a testimonial to the fact that we are serving our customers well is that HHonors membership, just in three years, you're going to hear a lot more about this from one of our team members, is up by almost 50% at nearly 60 million HHonors members. And importantly, our HHonors occupancy is up 500 basis points and that represents 55% of system occupancy.

In terms of enhancing equity value, between net debt reductions and dividends, we've effectively returned $2.6 billion of capital since the IPO. We've taken the overhang related to Blackstone's ownership from 75% to 15% with the pending sale of part of their interest in HNA, which we expect to close at the end of the first quarter. And we've done a bunch of things to mine real estate value. You're going to hear from Tom and his team about a whole bunch more that is still to come, the most significant of which is selling the Waldorf Astoria right here down the street, or up the street, for 32 times and deploying that into our 1031 assets.

So now here we are. So we've done I think everything we said we'd do at the IPO in performance, in growth. And we also talked, and got a lot of questions at the IPO, about the different segments of our business and what we were going to do to look at those segments to figure out how to best maximize value. And so here we are today, nearly on the eve of being able to separate the business into three businesses.

Why? We've talked a lot about it, so I'm not going to spend a lot of time on it, but I think it's quite simple. The first would be, we want to have each of these businesses be able to have dedicated shareholder bases. They're very different businesses and everybody in this room, some of you may like all of them, but people want to have the opportunity to self-select. We obviously want to have dedicated management teams and you're going to hear from those this afternoon. And those dedicated management teams, for them to have the ability to fully activate all three of these businesses which heretofore we have really not been able to do.

And last but not least is really to create capital market efficiency and tax efficiency opportunities. And as a consequence of how we're doing it with the tax-free spin and the REIT conversion with the Park assets, we're creating a tremendous amount of efficiency in that regard. You're going to hear a lot more from Tom and Mark later this afternoon and I'll leave that to them.

I will say for Tom and Mark, they are two of the most extraordinary leaders that I've known. I mean the saddest part for me in all of this is that we're breaking up the band in the sense that they're going to be going off on their own. But these guys are the best of the best in their various segments. You'll make your own conclusion, but you'll see that today, and I have a tremendous amount of confidence in these guys both and their teams as they build out world-class teams to really be able to unlock tremendous amounts of value.

I'll let them talk about that unlocking the value. What I'm going to talk about is the new Hilton. Because that's the company I'm going to run. So at the risk of covering some of the things that are fairly consistent, I thought it would be helpful to sort of level set who we are, the Hilton company going forward. And I think a lot of this you'll see is similar. We're one of the biggest hotel companies on earth now with almost 5,000 properties 800,000 rooms, 104 countries. I think what really distinguishes us now and going forward is we have the 13 best brands in the business. And how can I say that? Because we've got the highest average market share in the business with a 14% RevPAR premium. That matters a lot.

And what matters even more is that every one of our brands is a leader in its segment or a category killer. Why does that matter? It matters because that's saying that customers, no matter where they stay with us, at whatever price point, whatever geography, are getting a great product. That means that owners across the entire system are able to drive share and profitability. I would argue that we have the purest brand portfolio in the business and we love that. You're going to hear a lot about what we're going to do to make sure we maintain that and add to that over time as we launch new brands.

We also, through our HHonors Program, our worldwide sales, our online mobile business, HRCC, our reservations and customer care, as well as a number of other parts of our commercial engine, are driving $36 billion in system revenue to help take those great products and all that service and drive market share.

As a consequence of those things, and the spins, we end up as a very different company and a very focused and fee driven business that's diversified geographically and with chain scale. So if you look at the business, you're going to get a lot more detail on this, we're now 90% the remaining Hilton, management franchise business. 71% based in the US, the rest spread around the world and very well balanced with the greatest proportion between upper upscale, upscale and upper midscale.

It all, and many of you have seen this before, the value proposition for Hilton is a very simple value proposition, and parts of it I've covered. One, we've got to have the best brands in the business. We've got to be able to serve customers for any need they have anywhere in the world that they want to be with great products, service, and great commercial engines.

If we have the best products and we deliver great service, we end up with very satisfied customers. That shows up in dominant market share which we have and you see. That makes owners happy and makes them a lot of money. They end up investing more money in our system to grow the system which drives our performance ultimately. So that simple value proposition is supported by also a simple strategy and one that is quite disciplined that has essentially four pillars.

The first is aligning our culture and organization. I talked a lot about that in my introduction. That's about having a very performance-oriented culture that is connected by a common vision mission, set of values and key strategic priorities. It's also about continuing to make Hilton a great place to work. Not because we want to show up on all the charts, but because that means we're going to attract and we're going to retain the best talent in the industry, which means long term we're going to perform better.

Second, in terms of strengthening our brands in our commercial services platform, you're going to hear next from a bunch of our team there, so I'll do it very quickly. It's all about maximizing the relevance of the brands we have and strategically adding new brands that are going to be market leaders in their segment. It is about building leading commercial capabilities so that you take those great brands, you take that authentic service delivery, and you put the engines to it to drive market share. It's about leading in innovation in the digital space and making sure that our personalization capabilities are the best in the industry. And then of course about driving deeper loyalty and more direct relationships. As you can see, we've had great success doing that through HHonors.

In terms of expanding our global footprint, you're going to hear from Ian Carter, our head of development, so I won't steal his thunder other than to say it's all about delivering industry leading, high quality organic net unit growth. We've been very consistent about that. We're not out buying our growth and there's a simple reason. If we do all the other things that I just talked about in terms of our culture and the brands, the products, the service, our commercial engines driving high market share, we don't need to buy it. And I think I'll show you some numbers that prove that we have been able to do, we've been able to grow in a very high return way.

It is always about filling market gaps with the right brands at the right locations at the right time. Why? That's because we want to extend our network effect. We want to make sure that we can continue to serve more customers in more places for more needs they have because they become more loyal to us and we get a higher share of their wallet. It's also about expanding our luxury portfolio. We've been the fastest growing luxury brand organically in the world but we need to keep doing that. That is an important part of the halo effect, particularly for HHonors, and you'll hear a little bit more about that from Mark.

And then executing on the China growth strategy. China is really important. I've talked about it many times. Not just China in China, but China outbound China. And right now, China is the largest outbound market in the world and it is growing leaps and bounds. We have to be successful there. And we are I think on a great path, particularly with our Plateno relationship as well as some others and our new relationship that we're building with HNA. I think we have some distinct competitive advantages there that are going to allow us to win in China, and as a result really build loyalty with Chinese customers around the world.

In terms of maximizing performance, Kevin will talk about this in great detail, I think it's really simple as you can sort of gather from all of my comments. We need to grow market share, right? That is the key to the system. That's what keeps that wheel of fortune going is growing market share so the owners want to ultimately invest with us. Produce as much free cash flow as we can, preserve a strong balance sheet, and accelerate return of capital. That's what we're here to do. We're going to walk you through sort of the simple algorithm of what that could look like over the next few years.

Before I get to that, double click a little bit on growth. So this relatively simple value proposition and discipline strategy, as has been executed with our development plan, is delivering good results. If you take the best performing brands, which we have, and we execute against development by taking our existing brands in current markets which represent about 55% of our pipeline, you take existing brands in new markets, which are about 25% of our pipeline, and the you take our new brands which are growing rapidly but at this point are 20% of our pipeline, you have a really -- you have three big pistons firing that are driving deal signings and ultimately driving growth. And that's why ultimately today we have the largest pipeline in our history. Every one of our brand segments is setting records in terms of pipeline, and we're in our sixth consecutive year of growth in signings. So tremendous amount of momentum.

So signing deals is great. I've said to people the reason we kind of invented the NUG is that actually opening them and getting them to pay fees is even better than signing them. And I think we went back a little further in time to show system growth, but as you can see from the beginning of our go private days and really the beginning of the transformation of the business, we've been leading growth in the industry with growth of nearly 60% in the system. These are rooms that are in the system and paying us fees, driving free cash flow.

We also I think have very good things coming in the sense that not only do we have a great pipeline, not only have we delivered tremendous amount of growth, but if you look at the rooms that we have under construction, it certainly portends tremendous amounts of growth going forward. Today we are a little less than 5% of all supply in the world. We are 4.5 times that at 21% of all the rooms under construction in the world. That is number one. It's the number one in every region except the US, but number one overall in the world. So obviously reflective of the fact that given these are rooms under construction and they will complete, that our growth rate is going to continue to pick up.

And to my earlier comment about capital efficiency, which I think is a major distinguishing feature of our growth story, and you're going to see from Ian a little bit more granularity on that. And just looking at the pipeline as an example, 300,000 rooms, the run rate EBITDA for the pipeline is about $640 million. We put a multiple, pick any multiple, this is 13.5 times, that's $8.6 billion in theoretical value. The entire investment that we're making to make that happen is $140 million. So quite capital efficient. We'll show some stats when Ian comes up of how that looks versus the competition, but that is the plan is to continue to stay very capital lite.

I really like this slide and we've used it over a few years just to make a simple point. And it makes an even bigger difference in the new Hilton which is our growth is resilient. Using the US, because it's the biggest market we have, as a surrogate, when you look at it, whether it's 9/11, whether it was the Lehman collapse and the great recession, we keep growing. So yeah, our net unit growth is at its highest point right now. But if you look at this line, our system keeps growing because we have been very intelligent about how we deploy development strategies around the world, recognizing that macro conditions ebb and flow in different places of the world, which Ian will talk about in more detail.

So all of that is going on. Our growth is great. I'd be remiss in not saying that I think in a lot of ways we are in the golden age of travel. The fundamentals for the new Hilton going forward are just phenomenal. You look at what's going on demographically, the middle class has doubled over the last 20 years and the next 20 years I think it's fair to say we still believe that it will double. Global tourist arrivals two years ago went over a billion arrivals, now well over that. And over the next 20 years they're expected to double again. And as you can see in the chart, outside of the US, the world is woefully under capacity in hotel rooms. So you pull all that together, we think we have an incredibly bright future.

Now, that bright future is going to be met with the new Hilton model which is a very resilient, fee based business. Kevin will cover it in a heck of a lot more detail, but looking at a high level, 90% of our EBITDA is from fees and 90% of that is revenue driven. 70% of total fees are franchise fees, much lower beta. And our NUG, net unit growth, has been running at 6.5%. The result of that has been if you look at 2009 until now, very high growth, 11.5% fee growth in the business.

Now here's one of the first money slides. Kevin will dig into this more. So I would describe this as sort of the algorithm. So the new Hilton, as an investor, how do I look at it? What are the drivers of value? And I think it's really four basic things. One is same store growth. So we tried to size all this. One point in system wide RevPAR growth is $20 million to $25 million in EBITDA growth.

The second is new unit growth. We talked about 300,000 room pipeline, it's worth $640 million, but to get it to be more granular, every 10,000 rooms is $20 million more EBITDA growth. We've talked for years about our opportunity to increase our franchise fees moving from where we are to published rates. We're at 4.8, we've moved it nicely over these last years. 5.5 is the published rate. We would be able to see the 5.5 go up over time, but just assuming that you go from 4.8 to 5.5, it's $125 million. Every five points, every five basis points is another $8 million or $10 million. So you have a business that Kevin will describe that is producing a significant amount of free cash flow. Every one of these levers that we are pulling going forward is just going to increase the free cash flow of the business and what our intention is then to return capital to shareholders.

So how are we going to do that? First of all, we're going to have a lot of it and we're going to do it with a dividend that will be quite modest and then programmatic and opportunistic buybacks. If you look at basic assumptions on RevPAR growth that I think are conservative and net unit growth, Kevin will cover the model. You look at I think pretty conservative assumptions on free cash flow and opportunities to re-lever, in the next three years we think we can deliver, return to shareholders $3.5 billion to $4 billion which would, assuming a modest dividend, be reducing shares outstanding by 13% to 21%.

Now if you take that and you extrapolate it out a few more years, you can start to see it's a very powerful model. So as simple as that is, the business itself is unbelievably complicated. And I talked in the introduction about culture and people serving people and really doing an even better job to serve our customers in making sure that we keep our customers at the heart of everything we do. What does that mean? That means we've got to have the best products of our existing products. That means we've got to add new products that really work for customers. That means we have to wrap it in really authentic service that works for customers. It means we have to have loyalty that's better than everybody else, that connects all of this together. And we have to have innovation in a way that really connects it and resonates with customers.

Why? Because if we do those things, we get more preference. If we get more preference, we get more market share. If we get more market share, we get more owners building. If we get more owners building, we get unit growth and we get performance. So that's the magic, that wheel of fortune, that's the magic. There are a whole bunch of things that go into making the magic and rather than hear it from me, Jim Holthouser, Mark Weinstein and Geraldine Calpin who run our brands, loyalty, and marketing and digital, are going to walk you through in a little bit more detail than you've heard before, how we make the magic. So, guys?

Jim Holthouser: Good morning, everybody. Thank you so much for being with us. Really, really great to be here together. Well, as you guys all know, with the spin of our real estate and our time share divisions into separate companies, we're transforming the core of Hilton to a fee based model that generates revenue from franchise and management fees. So the advantages, it's low capital, it's low volatility, with very, very high growth potential.

Now central to unlocking this potential ultimately lies with the success and the strength of our brands. Now some of you in the room follow our company and you know our brands pretty well. In case you don't, let me just tell you that these brands are among the highest performing, most highly regarded brands you're going to find in this business within both customers and with owners.

Every one of our brands, and we'll show you some numbers a little bit later in the presentation, every one of these brands runs significant market share premiums. We do not have a slacker in this group. And if you buy the argument that owner capital follows superior performance, well it shouldn't be any surprise when you find that we're sitting at record levels in pipeline, and record levels in terms of unit growth for each and every one of the brands.

So over the next 45 minutes together, we're going to take a look at the story and we're going to divide it into three components. First of all, we're going to talk about disciplined brand management. Chris talked about the magic for how we bring all this together. And that's really the purpose here. So we'll have a chance to explore the brands a little bit together. We'll have a chance to look at Hilton's competencies in terms of a manager and a developer of brands. We'll take a look at the very sophisticated and deep infrastructure underpinning the brands that account for a lot of this performance. And then we're going to look at the ability to manage existing brands and create highly successful brands.

At that point we're going to talk about deep customer relationships. Because performance leading brands needs lots and lots and lots of customers and they have to love us more than anybody else. So here we're going to discuss our ability to attract, to retain, and then to manage millions and millions of customer relationships.

Then the final component here is really going to be about innovation. Ours is a highly competitive industry in which customer needs and expectations are evolving constantly. Competition is constantly raising the ante. But our brands are in constant motion. We're not just keeping up, we're exceeding. So while we can't cover the myriad ways that we're innovating across the portfolio, what we can do is give you a great example. A great example of how we're evolving, how we're evolving the customer experience and how we're creating real product differentiation in this portfolio.

So the way we'll structure this, I'm going to cover the first bit of this which is disciplined brand management. And then I'm going to turn the floor over to my colleague Mark Weinstein to cover the deep customer relationships. Mark is our Senior Officer of Loyalty and Partnerships. And then last but not least is Geraldine Calpin. She's our Senior Marketing and Digital Leader in Hilton and she will tell you about our innovation story which is going to be all about our award winning digital platform.

So with that, let's talk about disciplined brand management. So over on the screen here you see the Hilton trophies. Thirteen brands. Nearly 5,000 hotels with business operations in 105 countries. Hilton is a global juggernaut. So as we think about these brands, you've got a full complement of lodging options for customers ranging from great luxury brands like Waldorf and Conrad. We have full service brands like Hilton and DoubleTree. Soft brands that we've created like Curio. Lifestyle brands we've created like Canopy. We have the mother of all suites called Embassy. We have two amazing extended stay brands, Homewood and Home2. And then we get into our focused service brands like Hampton, Hilton Garden Inn, our latest entrant, and of course our timeshare partners, Hilton Grand Vacations.

So while each of these brands is positioned differently and every one of them plays a unique role on the industry landscape, nevertheless, as Chris showed you, they're all tied together in a lot of different ways. One, I will argue they're tied together with their reputation for quality and consistency. And we'll show you in a little bit exactly how we achieve that. They're tied together with this common purpose of delivering awesome hospitality. Each brand delivers hospitality a little bit different way, in ways that's appropriate for its positioning and its customer, but all of them are tied together with this desire to deliver amazing hospitality. They're tied together with a common loyalty program, HHonors. And then last, they're tied together with Hilton. Every one of our brands with the exception of Waldorf and Conrad are endorsed by our flagship brand Hilton which is the most recognizable name anywhere in the world in lodging.

So as I mentioned, every one of these brands serves a unique purpose on the industry landscape. Everyone is positioned in well-defined segments against well defined customer targets and trip occasions. Every brand has its own unique swim lane. And these swim lanes are global. Our intention is to develop brands that have global application. They're all not global today, at some point we intend for them to be.

So you can take brands like Hampton and Garden Inn or Hilton and DoubleTree which are basically being developed all over the world, and the positioning they hold here in this country is basically the same position they will hold whether you're talking about China or Latin America or the Middle East or Africa or Europe.

Unlike a lot of our competitors, we don't have brands that sit right on top of each other or that share the same position, that are fighting each other for the same customers. Quite frankly, that confuses everybody. In contrast, as Chris mentioned, the Hilton portfolio, while it's broad, has a lot of coverage. It's clean, it's rational, it's easy to understand. Because every one of these brands has a unique role to play. Every one lives in its own swim lane.

So the brands win with their clear positioning. They're winning with their quality and their consistency of their products. They're winning because of their own unique blend of hospitality. But that's really only half the equation. The other half of their success really lies in what you don't see. Because what you don't see is a comprehensive, world-class system of support that lives underneath all these brands that we collectively call the Hilton performance advantage.

Now the Hilton performance advantage marries proven brand management systems with world-class commercial capabilities, or engines as we call them. So if you look at the diagram on that the chart, up at the top in the lower, or the upper part of the chart that's a little lighter in blue, those are essentially our brand management systems. And that's where we work to achieve these high levels of quality consistency within each one of our brands. So again, in the interest of time, I'm not going to cover all of them. But let me just pick out a couple of them and just give you a flavor for what it takes to create these amazing brands.

First of all, training and culture. That's probably something you guys don't think about or talk about a lot. But if you think about this, we're a scale business. Chris mentioned 350,000 team members across these 13 brands. This is also a high turnover business. So if you're going to be in the hotel branding business, and you're going to operate at this scale, in a high turnover environment you'd better have an awesome training platform. We have to teach our associates what it means to deliver hospitality Hilton style, Doubletree style, Garden Inn style, Waldorf style, etc.

Quality assurance. When our brands are in the hands of other companies, we have to make sure that everyone is playing by the rules. Every hotel is inspected twice a year to make sure that our brand, that our hotels are adhering to our brand standards.

We can take a look at social media & SALT. Every hotel in our system gets regular feedback from their customers in their market each and every day. Everybody knows exactly where they stand with their customers in the market at any given time.

Brand performance support. We have a small army of specialists who are working with our hotels day in and day out. Yes, they focus on quality, but more importantly they're focused on maximizing top line revenue because that's where it starts for the owner and that's ultimately how we get paid.

And then last I'll bring your attention to product development. We do a ton of product innovation in this company. We have teams who are working on everything from prototypes, tweaking prototypes, FF&E packages, restaurant concepts, tweaking breakfast programs, all the way down to the uniforms and the soap and shampoo that you find in our hotels. So all of that is there in order to take each of these unique brand promises and deliver them for our customers.

And then in the second half of this, in the area that's shaded in darker blue, that's where you're going to find our commercial systems. And these are some of the most powerful, demand generating, revenue management and technology systems you will find any place in this business. You can take a look at marketing and digital for example. We spend over half a billion dollars every year positioning our brands and driving traffic to our hotels.

Sales, we have 600 people who work above property in B2B capacities, again, working on relationships with clients, driving demand to our hotels. We have these amazing loyalty constructs. HHonors. Chris gave you come information on that. Mark will share a little bit more. But we also have very sophisticated personalization CRM capabilities to help us to attract, retain and ultimately build share of wallet with our best customers.

Distribution, our revenue channels. We literally have thousands of people all over the world working in call centers, working behind the scenes on our websites, on our mobile apps, working on connectivity between Hilton and airline systems and other third parties. And the finally, revenue management where another 600 people who are revenue management specialists are working with our hotels day in and day out to make sure that they're maximizing or optimizing the demand that we're sending to them.

So obviously all these commercial systems are powered, they're enabled by the best technology you'll find in the industry. And so if you ask yourself okay, what does all this do? It's pretty simple. These things are so impactful, so powerful, they are either directly or indirectly accounting for about three quarters of every room night sold in our business.

And let me share one other insight for you. We have thousands of people who are involved in this, in this Hilton performance advantage. Thousand of people who are coming to work every day with a common mission of making these 13 brands as powerful and successful as they can be. The nice thing is, from a shareholder standpoint, this really doesn't cost us because of the model under which we operate. If you think about it, in our business we basically collect two kinds of fees. There's either a royalty or a management fee. That belongs to Hilton, that belongs to our shareholders. Our owners also pas us a second fee which is what typically we call a program fee. And that's basically the dollars they give us that essentially fund this whole infrastructure. So it's a system that works beautifully for our owners, it works for our operators, it works for the brands, and obviously it works for our shareholders.

So to sum up real quick, our brand management forum, we've talked about two of these three components. One is well defined executed brands. We've talked about this world-class infrastructure that underpins the brands. And one other point I'd like to make is dedicated senior leadership. When you're a company of 13 brands, and a lot of them are new, a lot of them are still in their infancy, it's kind of easy to get lost in the shuffle. So a little bit if insurance that we take out is basically, lies in the way that we are essentially structured as a company. Because every one of our brands has a senior leader and has a dedicated team responsible for that brand's success. They serve as the internal and the external champion and they're completely accountable for both the short and long-term performance and health of these brands. That's a little unique to Hilton.

So as we look at well-defined executed brands, infrastructure, focus and support inside the organization, in and of itself those are really the three comments to brand management. Those are the three components that make up our secret sauce.

So we've talked about clear positioning of the brand, the highly effective infrastructure. What I'd like to do now is take a look at the numbers. So in our business, in the branding business, the best metric out there, the best yardstick really is your RevPAR index. For brands, that's where it all comes together. So this is where the awareness of the brand, the relevance of the concept, the quality of the execution of the brand, the efficacy and the strength of all the engines, it all comes together in this one number. And for those of you who follow this industry and our company, you know how to interpret it. In case you don't, basically it's really simple. Everything is indexed to 100. So if you're at 100, you're at fair share. If you're below 100, you're operating subpar. If you're above 100, basically you're generating premiums.

So you look at every one of our established brands here, and they're running from 106% all the way to 123%. As I said earlier in my remarks, we don't have a dog in this pack. Every one of these brands are running substantial market share premium.

Also, I'd call your attention to the pipeline. Now I was saying that all of our brands have record pipelines and they're contributing at record levels to net unit growth. That's great. But I'd like for you to know that as you look at all these deals, we have about 1,900 projects or so in our pipeline, 75% of these deals are with existing owners. Take that in for a second. Because that is the biggest complement our owners can pay us is when they put millions of dollars of their capital at risk with Hilton. We perform, in fact we perform so well, that they come back for a second, a third, a fifth, a 30th project with us.

So hopefully you're getting the picture that you know what? We're pretty darn good at this brand management game at Hilton. But you know what? We've also got a pretty good track record of creating and launching new brands, too. And new brands, that's the fun part of what we get to do. But our shareholders should be very excited about new brands as well because they're new fee streams and they're ways of growing out network effect.

So you think about this, we've launched four in this last six years. Home2, which is a moderately priced extended stay brand that's positioned right under Homewood Suites. We did Curio which is an upper upscale, softer collection brand. We've done Canopy which is an upper upscale lifestyle brand. And then ten months ago we introduced the world to Tru by Hilton which is a midscale brand positioned right under Hampton.

Chris has already mentioned the number, 700 hotels, 80,000 rooms accounting for about 20% of our pipeline. It's a great story. As you can tell, over the years we've developed a pretty disciplined playbook that works very well. And it's a playbook that we can repeat over and over and over again as long as we need to.

So one of the things I was asked to do is share with you a little bit to give you some insights on basically how do you create these brands? And what I'd like to really underscore is that it's a very methodical, disciplined process that we go through. Because at the end of the day, as I mentioned, we don't have weak players and we don't intend to ever introduce a weak player to this portfolio. So really it all begins with identifying an opportunity. Either in the portfolio or we see something out in the market. And really where the bulk of our time is spent is in this next phase. It's really in research. Because here's where we're really trying to extract insights from customers, understanding what motivates them, understanding their pain points. We're taking a critical look at competition to understand what they're doing well and where we may have opportunities.

We're having to size the market, translate that into units and into EBITDA, because at the end of the day, this thing doesn't move forward until we go to the CEO sitting here in front with a compelling business case. And he asks a lot of hard questions. And we have to be able to explain very clearly why we're doing it and what exactly it's going to do for the portfolio.

At that point we're ready to start basically building the brand. We built it first on paper. And I know I've got a lot of financial minds in the room here and this will probably sound very marketing-ize, but we start working with positioning statements, we develop pillars, we understand exactly how we're going to develop those pillars. We give it personality, we give it tone, all these cool marketing things, right? We give it an identify, we give it a logo, we create the brand on paper. And then after that we turn it over to the architects and the designers and the construction guys.

So what I'd like to do is then take a real live example, and I'm going to use Tru in this example because it's really the one that's closest to me because it's only been ten months since we went through this. And let me kind of walk you through this very quickly and I'm going to show you exactly how this project came out.

So as we think about identifying the opportunity, once upon a time when this behemoth brand called Hampton was birthed, its place in the industry was at the midscale. Not the upper midscale, but the midscale segment. And over a 30-year period, that brand migrated upward in terms of as the product evolved and through ADR growth. So there was a hole, there was a vacancy. If you look at how much demand in the industry is at midscale all the way down to economy, it accounts for about 40% for everything that's out there. So that represented a pretty cool opportunity for us.

We moved into this discovery or research phase and we discovered that basically customers and owners weren't terrible happy with the options they had out there. Competition is largely tired. These are very old brands with relatively little capital going into them. Relatively new brands were being introduced here. So we saw an opportunity.

And what we learned is that there are about another 18 million customers out there in the market up for grabs. We learned that about 25% of these customers were next generation customers. That's a great thing to bring new blood into the system and start a relationship earlier in the customer lifecycle. And then with Mark's help, we learned that about one out of every five HHonors customer was staying in midscale or economy and we really had nothing for them.

So luckily those arguments were compelling enough, Chris gave us the green light to go build it. We built this brand and if I can just describe it, again, this is a little marketing-ize, but this is a brand that's all about cost conscious and cool conscious. At the end of the day it's all about a very, very simple lodging experience that focuses on doing the basics really, really well. So it's got a great bed, a great shower, it's very clean, simple breakfast, a little friendliness, and that's basically what this is. Then we gave it a personality and a style of hospitality that's all about energy and fun and full of spirit. So rather than letting me use words to describe what we created, let me show you this very, very short video and give you a sense for what Tru by Hilton came out to be.

[video plays]

So as I mentioned, we take this very disciplined approach as we develop brands. We're in constant contact with customers through the process and we'll typically get a nice panel of owners that we'll work with probably 4 or 5 different times to let them validate and react to the work. So we had a goal with Tru from a development standpoint. By the time we handed it over to our development partners, we wanted to assure them that we could achieve the same level of gross operating profit percentage and same return on working capital as we typically see through Hampton. We knew if we could achieve that, then basically we had a real winner. Because at this point, we're taking care of the owner, we're giving him great ROI, and we know we're taking care of the customer.

So what ended up happening is, this has been really our most successful launch to date. Since January, we have signed or secured more than 400 franchises, again, either in the pipeline or with signed LOIs. 400 in ten months. Now for those of you who follow this industry, have you ever seen a brand with that kind of trajectory? I don’t think you have. I haven't seen it.

So typically what ends up happening in our business, when brands launch, when new brands come on the market, it takes them typically years before they develop any kind of momentum. And that's simply because developers aren't willing to risk their capital. They don't want to be the guinea pig. So everybody sits over on the side line over here and kind of waits for ten of these things to be built so they have operating statements and they can go in and kind of kick the tires so to speak.

So I'm absolutely amazed that we've got 400 of these and we don't have a single one open yet. In fact, the first doesn't open until the first quarter of next year. So the way I explain this, it's really twofold. One, I think we've really tapped into a real need in the market with both customers and with both owners. People are looking for a new alternative, so this is a segment just ripe for disruption.

The second thing I would say is that this is a testimony to the trust and the confidence that hotel developers have in this company. They're not going to risk their capital, certainly not 400 times, without a very high level of trust and confidence in what we do and our ability to deliver.

So the nice thing is, as we think about new brands, we're not done yet. We still see opportunities on the horizon. There are a number of brands that we're contemplating right now in the portfolio. I thought it might be interesting just to kind of go through some of these with you so we can share some of our thinking.

We think that potentially what makes sense right now is for us to concentrate on some additional soft brands. Potentially something below Curio, kind of at that DoubleTree level. Maybe something above Curio at the luxury level. Because as you guys know, we're entering that cycle right now where I think soft branding, the ability to access engines from Hilton, it's a very attractive proposition if you're the owner on an independent hotel without the scale and scope and the muscle of a Hilton behind you.

Second thing we're contemplating right now is potentially something in the luxury lifestyle space. Again, these are -- you'll never get hundreds of hotels in all likelihood with a brand like this, but Chris was talking about kind of the cache and the halo effect that brands like that cast. It also helps us to attract new HHonors members and get them to commit to our program and our family. So that's something we're looking at.

We think there might be an opportunity with a Hilton Plus product, probably a line expansion or maybe it's a separate brand. We haven't really decided yet. But something that it's another tool in the arsenal that helps us with really complicated, very high profile convention city, convention center projects.

And then finally, we're looking down in the economy space with maybe an urban Microtel kind of concept, urban lifestyle economy. This is great play for next generation travelers, but at the same time this gives us something to do really, really, to be very innovative in this space. And the economics are pretty compelling.

So again, no guarantees in terms that we're all going to run out and do these things for the next year, we probably won't. We have to be very, very purposeful and strategic in terms of how we roll things out based on the cycle and other things. But this gives you a glimpse into what we're looking at and hopefully as you connect these dots, we have the capabilities of creating winders in every single one of these segments or swim lanes.

So let me finish up with just a few thoughts on what I call the network effect. So we're sitting on this incredible pipeline of 1,900 projects. So what's obvious are the future fees that will come from these 1,900 hotels. But one point I'd like to make is that when you look at these future fees, I think there's additional value right on top of the future fees. Value that maybe not be immediately apparent. Because you think about this, every time Hilton opens another hotel, the entire system works a little bit harder for owners and for our operators, for our guests and for our shareholders.

Think about this. Every time we open up another hotel, we're bringing new customers into the system. Hopefully we're signing them up for HHonors. Every time we open up another hotel, we're giving existing customers more options. Every time we open up another hotel, we're strengthening the value proposition of Hilton HHonors. Every time we open up another hotel, we're bringing more program fess that we translate into more marketing, more sales, more technology, more innovation

And then finally, every time we open one more hotel, we're adding to the considerable scale that we can then leverage in terms of helping decrease operating costs for our hotels. Whether that be third party commissions, OSE&E, FF&E, expense. So again, as you think about this pipeline, as you think about the growth, even the growth that we can contemplate beyond these 1,900, again, the point is there's a lot of value just simply beyond the fees.

So that was a quick look at our brands, quick overview of our ability to manage, create and sustain high performing brands that customers love. So next up, Mark is going to discuss customer relationships and our ability to attract, retain, and sustain very deep emotional customer relationships. Mark?

Mark Weinstein: Thanks, Jim. We call them targets, prospects, customers, guests, travelers, mom, dad, brother, sister, all kinds of names. But at the end of the day, they're all people. We're all people. And people really want two things in life. To love and to be loved. And it turns out falling in love is the easy part relatively speaking. Sustaining that lifelong relationship, that special magic that comes from going all in, is really where the magic happens.

At the core of that love is loyalty, this idea of a give and take, of getting to know each other even better, an even stronger bond. And in our space we use this word all the time. So I want to slow us down and pause for just a second. This word has so much power. It's beautifully simple. It's complex and often misunderstood. And its powers are often underappreciated. So why the heck am I up here in front of a bunch of investors talking about love and human connections and loyalty when I could be talking about CRM and the connections we're making there in personalization? I could be talking about our partnerships, I could be talking about the hard numbers.

Because the reality is, these human connections, these millions and millions of personal connections, one to one relationships, are what's driving our engine. It's the heart of our business. It's the heart of the engine. And it certainly is the heart of Hilton.

In fact, when we talk about loyalty, it's important to start with those 13 brands Jim just mentioned. They are the core of what our customers love about us. Hilton HHonors would not be possible if it wasn't for 13 brands in all the places our customers want to go and stay and travel. Think about it this way, if your local bakery said to you, you get the 13th bagel free, but you really didn't care for the first 12, it probably would not be that compelling of a value proposition.

But then you layer on top Hilton HHonors, the connective tissue, the glue that holds our brands together, and in some ways while we call it our loyalty program, that undersells the value of what Hilton HHonors is. It's the lifeblood. It's how we connect with every one of our guests in a more meaningful, purposeful, personalize way. It's how we make travel more effortless, more fun, more delightful, truly creating those exceptional experiences.

And we're really fortunate because we do have the industry's leading guest loyalty program. And don't take my word for it. Listen to our guests. Our guests told Phoenix Market Research we were the most preferred loyalty program in 2016. Business Traveler Magazine in the UK told us that we were the most preferred loyalty scheme in all the world. And for the second year in a row, and we're extremely proud of this, JD Power ranked us number one in customer satisfaction.

And the reality is, a lot of loyalty programs get this a little bit wrong. They think the word loyalty is really about the customer's loyalty to them. You do this and we'll give you that. The secret for over 25 years here at Hilton and certainly the last few, has been that we are deeply focused on our loyalty back to the customer. What do we offer in exchange for that relationship? And I want to spend a bit of time on that today.

This strategy has been extremely effective with the most elite travelers, those folks who stay on the road 30, 40, 50, 100 nights a year. This idea of earning points and saving up for that vacation five years later, really is compelling when you have a large travel wallet and a high frequency of traveler. But the reality is, it didn't always fit the needs of the rest of our travelers.

Just to give you a sense of scale, these elite travelers were already making up, when we went public, about 40 million of our Hilton HHonors members that had been enrolled and it was 50% of our occupancy across the system. But what was even more amazing when we looked at the data is that 97% of our most elite travelers are Hilton HHonors members who are booking direct with us. We were able to deliver more value, more personalized experiences for them, and more efficiency for our owners.

So we started spending a lot more time thinking about the other 50% of our guests. Why hadn't they joined Hilton HHonors? What did we need to do to connect with less frequent guests? How do we make Hilton HHonors a club for all travelers? And when you think of these travelers, and we spent a lot of time researching this and spending time with them, they're not yet brand loyal. They may not have a preference for booking channel and they might not be travelling but once or twice a year. Simply put, we needed a Hilton HHonors story of them.

And so we went on this journey. In 2016 we decided to transform the Hilton HHonors program to build on its strengths and make it future proof. We changed the dialogue. If Version 1.0 is about elite guests, the most frequent travelers in the world, Version 2.0 of Hilton HHonors, the new Hilton HHonors, was really about being a club for all travelers across the world.

To do this, we focused on three areas of the program. The what. What was our value proposition going to be for less frequent travelers? Second, if you want more members, you have to make it easy to join. We had to make joining Hilton HHonors the rule rather than the exception. And if you have new customers, new customers to engage, you have to change how you talk to them in the partnerships you enter into to deliver that travel ecosystem. I'd like to highlight a couple of things in each bucket.

In the value proposition, we focused a lot more on immediate value, things you can receive on this day. We are prepared to deliver an even more personalized, more relevant experience, value adds like free Wi-Fi and a better price, if you interact with us directly. If we get to know each other and have that conversation. And you're going to hear a lot about digital innovation from my colleague Geraldine in just a moment, but this idea that when we build products, build brands, build services, we're baking the Hilton HHonors experience right into the core of it rather than layering it on later. And what this is, is more authentic, more emotional, more relevant to these customers and more efficient for our hotels owners to deliver.

Making it easier to join. I would argue about a couple of years ago it was easier to get a mortgage than it was to fill out the Hilton HHonors enrollment form. In fact, we had upwards of 50% of customers starting the form and abandoning the process for a free program you could join. We had to make the form simpler and easy. And we're spending a lot of time working in jurisdictions all across the world to simplify that form.

Second of all, we had to adopt our thinking, adapt and evolve our thinking and make enrollment as easy as one click. So on our website, when you make a reservation, at the end of the process you can hit one button and join the program. When you call our call center, you can ask them to enroll you and they can hit one button and enroll you through our technology. When you receive your prearrival email, coming to our hotel, if you're not an HHonors member, with one click you can join the program. And that's fueling the growth by hitting the easy button, by making it simple, by taking the friction out of the process.

And perhaps not surprisingly, if you want to grow outside the US, you have to speak the languages of your customers. And so we put the process into 22 languages and really thought about critical moments of truth from enrollment through onboarding in the 22 languages we support all across the world.

Now with this new mix of customers, we had to change our engagement model. First we had to be a lot more human. We want to be comforting and your travel guide, like you're an old friend, not a stuffy corporate loyalty program that's talking to you in jargon and asterisk terms and conditions and small print. We had to make it more personalized from using people's names more often and showing them more relevant messaging all across the journey. And we had to build partnerships in an ecosystem of partnerships with Live Nation, McLaren-Honda F1, European Golf, the Grammys, our credit card partners, that create truly once in a lifetime, money can't buy experiences.

So our journey took us on these three phases. Different value proposition, effortless experience to join, and a different way of engaging. And is it working? Well here's what we found. As we entered Q3 of this year, we had already enrolled more Hilton HHonors members than all of last year. In fact we're already on track, we've already enrolled 8.4 million Hilton HHonors members. By the end of the year there will be 9 million and we'll finish the year with nearly 60 million Hilton HHonors members across our system. And as Chris mentioned earlier, they're driving 55% of our occupied rooms, up 7% over just last year. So truly driving that network effect.

Now as Chris mentioned, in 2019 this company will hit a major milestone. We'll hit our 100th anniversary, our Centennial. And at that moment we intend, and we will have, 100 million Hilton HHonors members in our club all across the world. It's an aggressive goal, it's a bold goal, but one we're deeply focused on and committed to.

Now why are we focused on this? It's not about shading a thermometer, it's not about having the biggest number. It's about connecting with our customers in a more personalized, relevant way. Every time we personalize the experience, we start this virtuous cycle. We get to know the customer better, they appreciate the brand even more, we can deliver better insight and more relevant experiences back to them, and ultimately better returns.

In fact, on our website, in certain areas when we personalize the area, we're seeing twice as much revenue from the same customer versus non-personalized content on the web. Pretty powerful stuff. And in fact, that is the next step in our journey. So if Version 2.0 is to make it a club for all customers, Version 3.0 is more personalized experiences. When I say personalized, I don't just mean more marketing materials that are personalized, I mean the entire travel journey. Products and differentiated experiences every step of the way from dreaming through your stay experience and ultimately when you advocate for our brands.

And so what are we looking at? A couple of highlights on our journey. More reward options. Different ways to earn and use points in our hotels and through a very thoughtful, carefully curated network of new and existing partners.

Second, more exclusive experiences. More exclusive experiences. Money can't buy experiences that we can only create through the Hilton connection with a customer. And in fact, on our Hilton HHonors auction platform, we know customers who use their Hilton HHonors points spend 7.5 times as much, 7.5 times as much as customers who don't engage with us in these experiential ways. So it makes a huge difference.

More flexibility. How do we drive more performance for our hotels, more engagement with food and beverage and other opportunities across the system with our Hilton HHonors points and our membership base? We're very focused on that journey.

And of course at the core of all this is the hotel experience. You're going to hear a bit more from Geraldine in a second on digital and physical coming together. And we're really focused on making sure we deliver a consistent, effortless Hilton HHonors experience for all of our guests. To put it in perspective, there are hundreds of millions of dollars of wallet available, as Chris mentioned earlier, if we can take a passive guest, one who has neutral perspective on our brands, and turn them into an advocate. We are deeply focused on every guest, every time, delivering exceptional experiences.

And of course, personalization. We have to be relevant, we have to be more personalized. And while Hilton HHonors is a club for all travelers, personalization is where we start to really focus on our elite travelers and generating more share of wallet and higher returns for those who have tremendous opportunities to drive volume to our hotels and we can deliver more value back to them.

In a world of personalization, it's not about all customers, it's not about customers like you. It's about you, knowing you and having a relationship with you. And so as we do this, Hilton HHonors will continue to be and will grow even faster as the leading loyalty program, a club for all travelers. It provides us with unique opportunities across the portfolio, across our platform, to drive more direct relationships. Why are these important? We've said it before and we'll keep saying it. More profitable direct relationships allow us to personalize the experience. These customers book direct, they're more likely to return, they pay a premium, for our rooms. They buy more products on property, they take out a credit card, and so on and so and so on. The relationship deepens and so does the network effect.

And so I'll wrap up where we started. When we focus on these relationships, as Chris mentioned, putting customers at the heart of everything we do, Hilton HHonors becomes even more beloved. And as Hilton HHonors becomes more beloved, so do become our brands and our hotels. And customers engage with us even more than they do today. And those connections, those millions and millions and millions of one to one direct customer relationships, allows us to deliver exceptional experiences consistently all across the world at any price point in any brand. And that is truly what will drive our growth across the system.

You've heard about our brands, you've heard about how we're very focused on customer relationships. It's my pleasure to bring up Geraldine Calpin, our Chief Marketing

Officer, who is going to share with you how we're innovating in digital to create those exceptional guest experiences. Geraldine?

Geraldine Calpin: Thank you, Mark. Good morning, everybody. So as Mark said, I am the Chief Marketing Officer for this fabulous company which I joined 15 years ago. You might have noticed I'm not from around here, so I apologize if you have difficulty understanding my Scottish accent. The good news is, the innovation that I'm going to walk you through has been done like a true Scot, highly cost effective. So in the next few minutes, I'm just going to share, highlight there's innovation happening all over Hilton every day. I just wanted to -- we didn't want to take you through all the areas, but we wanted to share a little bit of the limelight and what are the areas that we are most proud of and that we spend a great deal of time doing, focusing our resources on. Why? Because we believe it is one of the most critical areas for the future success of any company. And it's also one of the areas where we have strategically started to leap.

So just in context, we live in a crazy world. I live in a crazy world. People are addicted to their devices. They want to be always on connectivity. Morning, noon and night. Connected to products, networks, friends, trends, likes, swipes. They have become accustomed to and expect to run their lives, control their lives from the palm of their hands.

But as Chris said, Hilton is a business of people serving people. We have a human business. We're about warm smiles, delivering exceptional experiences, memories that you will have for the rest of your life. But our customers are no different. They do want to control their travel from the palm of their hand. And so our strategy at Hilton is to seamlessly connect the two in a way that it will deliver extra value. One and one equal three.

Why do we do that? It will deliver a better experience through digital hospitality because it's what our customers want. And it will enable them and it will enable us to have them fall in love with our brands and drive greater preference for our brands. Because it is about people serving people. But it's also about make it easy for me to talk to you, make it easy for me to engage with you. I'm holding this incidentally like it's a mobile phone in case you didn't know that.

And so how do we do that? What do we focus on? Because there's a lot of technology out there that you could get distracted by. We want to do couple of things. Surprise and delight. And I'll show you a couple of examples of that in just one second. That is about one of those things that when you touch it or you use it, it makes you smile. It's kind of cute. A huge amount of what we do is trying to be indispensable. Something that is effortless and useful. A feature that, even though you didn't know you wanted it, when you use it, you can't live without it. And it will make you drive preference. It will make you choose a brand or a hotel that has it. Because it delivers that better experience.

So when we think about what areas do we want to surprise and delight, how do we become indispensable and drive that better experience which will drive preference? We think about it through not what technology is available out there. We think about it with a customer in mind. What, at each point in our customer journey, what do we want to offer? How can we make our guest's life easier? How can we give them something that they become addicted to that will make them choose our brands?

And so we look at each point in the customer journey. And just for the -- I will highlight a couple of the areas that we are working on or have already delivered at some of the points in the journey. Dreaming, shopping, booking. Show me an area, show me a hotel, give me a selection that's within 5 hours' flying distance from Manhattan that's going to be warm in March, it's going to be 70 degrees, 80 degrees. I'm from Scotland, 70 degrees and 80 degrees is warm.

Make it easy to through dream and that selection, and also, as Mark said, personalize it. If you always book a suite, let's give you suites as your preferred selection. Before you arrive, after you've booked, in the prearrival stage, just like you choose your seat on an airline, being able to check into the hotel, choose what floor you want to be on from the room type that you've booked. And not just which floor, whereabouts on the floor, all the way down to the room number. Because everybody does that -- window, aisle, and if you're tough, to get in the middle. We are able to offer that for our guests. That is one of those indispensable things and it is also something that we have done at scale. It's at 4,500 hotels.

As you are getting ready, you are packing your suitcase, our app will tell you what the weather is going be like. Bring a raincoat, it's going to be raining. Again, from Scotland it's not an analogy. And allow you to preorder -- you're going to get there late, I'd like to have a burger in my room when I get there. So making it easy so that your travel experience is controlled by our customers. That's how they control their lives today.

When you get off the plane, you can order an Uber from our app. We have a partnership with Uber in our app. You can then actually message the hotel and say, that was a hell of a flight, can I have a glass of wine or a beer with my burger when I get there? When you get to the hotel, the concierge greets you by name, even though you've never been there before. And then you go straight to your room with your digital key and you use your phone to open the room that you selected the day before.

In room, being able to stream whatever content you have on your phone. That's the Game of Thrones that you were watching inflight, half way through. If that is pictures of your friends and your family and your loved ones, or music. Being able to have the content that you have on your phone, on our entertainment systems in our rooms. Having the ability to know who, when you enter the room, so that our energy management systems can turn everything on. And also when you leave, turn everything off. That also allows us to know when we can send our housekeepers in to clean the room, turn it over, and then sell it faster for early arrivals. So energy management, time management, labor management, and great for our customers.

Then around the hotel, I think that the easier you make it to pay, or certainly in my experience, the easier it is to pay for something, the more you pay and the more often you pay. So we are going to make it easy for people, for our guests to charge things to their room, but also maybe pay with points, charge it to the room with their phone.

Now all of that might sound a bit futuristic or forward thinking. But for Hilton, a lot of that we have already delivered. And I'll just talk about the one, the digital check-in. We focused on a that couple of years ago. Why? 100% of our guests 100% of the time had to check into a hotel. And it was friction point. So we set out to deliver the ability not just to be able to check in the day before, but give them that choice that everybody has become so accustomed and addicted to when they fly, choosing their seat. So instead of us telling you which room we've put you in, you can choose yourself from the day before. And that is as I say, at 4,500 hotels. Gorgeous level floor plans. Please, I encourage you to try it if you haven't already.

But it wasn't easy. I'm just going to say that with the management in the room. It wasn't an easy accomplishment. But how did we achieve it? Well several years ago, we replaced multiple, what we had multiple property management systems in our hotels, those are the hotels, those are the systems that allow us to know who is in which room, is it vacant, have we cleared it, etc.? Those are on property in every hotel. Several years ago we replaced that and we put singular property management systems in across the estate.

That means that when we innovate we can do it really quickly and we can do it system wide. And that is why today, 2.5 years after we first launched it, we are still the only hotel company on earth that has the ability to allow you to check-in and choose your room. And the most important thing about it is our guests love it. It's all enabled through our app. But the best person to tell you a little of the story of our app is our app herself.

[video plays]

I don't know what (inaudible) says, but those are real reviews from our app store. But we are not stopping there. And just as I close, I wanted to share with you a little bit of what is to come and what we're working on right now. Personalization, as I say, guests love our floor plans. We have overlaid them to Google maps. We're not going to allow you personalize it. Messaging on property. And this last bit, you've got to watch this last bit. If you've ever ordered room service and thought, I wonder if I have time to get in the shower before my burger gets here? We're going to put room service -- isn't that gorgeous? We're going to show you where your burger is coming down the corridor. Again, we're the only people that have the maps. We have worked to put them on steroids, as I say, overlaid them with Google maps, and now we're going to make them give you -- that's one of our surprise and delight areas, but it's also quite functional because then you know, it's still in the kitchen or it's coming down the corridor. I love that one. It did get a laugh.

And just as we look at indispensable, not surprise and delight, finally indispensable. Digital key, the ability to if you choose to, to say hello to front desk as you walk by, but skip the line and go straight to your room. We have digital key at 700 hotels. We will have it at 2,500 hotels by the end of next year. That is going to be one of those things that you will not go to a hotel or choose a brand if it doesn't have it. So digital key, and as I talked about, a lot of the end room technology and the end room entertainment, we will also, again, deliver that to surprise and delight our guests.

So continuing, we have the best loved app in travel that enables our guests to control their stay through the palm of their hands. We will continue to innovate and develop and be obsessive about being the best in this area. Why? Because it gives our guests a better experience which in turn drives a better performance for our hotels and it drives preference for our brands. So with that, I'm going to hand it back over to Jim.

Jim Holthouser: Thank you, Geraldine, great job. So let me just take one minute and we'll close this up. We have covered a ton of information with you this morning, and really we're just scratching the surface. We covered come of mechanicals, some of the mechanics of brand management. And we did that just to show you some of the processes that we go through to create and sustain these brands that customers absolutely love. And we've given you a couple of examples. Through our loyalty mechanism and through great innovation of the things that we're working on, the things that we're doing, again, to deepen that relationship and that customers love us even more.

I want to close with a slide that Chris had in his presentation. If you think about everything that you've heard today, ultimately it's all about the customer. And it's about the customer, innovating for the customer, doing things for the customer nobody else is doing, and doing them in a way obviously that makes great economic sense for owners.

So if you start in that blue area at the top, essentially what our job is, our role is as brand managers, is to start a chain reaction. Everything you've heard today is part of that chain reaction. Because to the extent that we can be successful with driving more and more loyalty and love from our customers, we end up with more satisfied customers, we get more market share premiums, more satisfied owners. And when owners are satisfied, they give us unfair share of their capital. That leads to pipeline, that leads to more fees and greater network effect. That's the intended impact of what we do.

So that's going to be a wrap for us and what I'd like to do now is call my good colleague, my friend and our Chief Development Officer to the stage, Mr. Ian Carter. Thanks for your time today.

Ian Carter: Thank you, Jim. Thank you. Good morning, everyone. I have to say, it's great to be back here up in New York. I love walking around the city, it's very invigorating to see all this new construction, all apart from the roads that is. You see these construction workers on the roads with what I call ironic signs. This particular favorite of mine, the one that says slow. Like there's a choice?

Anyway, good morning. It's great to be here as I said and great to come after Jim because what I'm going to talk to you now is, for about 20 minutes or so, our development plans. Briefly look back at where we've come from, our strategy and our plans for the future.

Firstly, some highlights, some of the milestones that we've achieved. And if you look at our pipeline which globally is now 1,900 hotels, over 300,0000 rooms, half of which are outside of the US, we now have over 22% of all rooms under construction on a global basis. That's up over 18% since the Blackstone acquisition. And we now have close to 150,000 rooms under construction globally with an average contract length of 19 years.

These 1,900 hotels that are in the pipeline represent we believe about $50 billion worth of third party investment. Now as Chris mentioned, that should have a trading stabilized EBITDA, adjusted EBITDA of about $640 million when open. So importantly, the vast majority of these deals in our pipeline are actually dry deals, in fact 95% of them are dry deals. So that's no key money. Which is a consistent theme of our strategy and we'll talk about that more as we go through the presentation, but that's a consistent theme of what we've been doing and intend to keep doing. Organic growth, high ROI for our owners and our shareholders.

So looking back briefly, since taking the company private in 2007 we've added 26 new countries. So I'm not sure if it's 104 or 105, but either way, if you want to go to Monte Negro, we've got you covered, because that was our latest opening last week. We've organically grown our system by nearly 60%, so 285,000 rooms added to the system from just under 500,000 rooms to over 780,000 rooms. In 2007 our pipeline was just 850 hotels, 116,000 rooms. Now, as I mentioned, it's 1,900 hotels, 300,000 rooms.

I'm going to talk about this in a few slides. We've taken a very targeted approach to international growth in particular. And as Chris mentioned, that's one of our four pillars of the overall company strategy, was expand our global footprint. We've been very targeted from a perspective of both country and by brand. We've had real success with limited service brands growing more than fourfold since 2007 in international estate.

Overall it's given us an international trading estate of over 200,000 rooms, double where we were 8 years ago. And our pipeline internationally now is 150,000 rooms versus in 2007 just 22,000.

Now Jim mentioned it, we've been very targeted when it comes to launching new brands. Identifying, exploiting that white space he showed on the chart. The four brands that we've launched since 2007 have added 18,500 rooms to the footprint and have 61,500 room in our current pipeline. In fact, with Tru, we'll be close to 35,000 rooms either approved or working deals by the end of this year, so that's as Jim said, after just 10 months of existence. That's going to be the fastest development growing brand in our industry's history.

Now our strategy is pretty straightforward as is our objective which is to win everywhere. Utilizing very clear brand strategy, the portfolio is very clear as I think you've seen from Jim's charts. Driving organic growth and at the same time following capital flows around the world.

Our strategy has been to use key money in a very judicious and careful way. Really we're focused on just what we would call strategic deals. So that would be gaps in countries or cities, and specifically really with upper upscale, full service or luxury type properties where we feel that we have had an area that we've been maybe missing out on and we needed key money to be able to drive those deals.

Our pipeline is growing through management franchise deals exclusively. They now represent 100% of our global pipeline. Now when we started this journey of expanding the global footprint, we took a lot of the lessons of best practices that we'd established here in the US and employed them internationally.

First and foremost, we took the time to build a very good and dedicated development team representing the markets that they were going to be developing in. In other words, we hired local developers that spoke local language and knew their local markets intimately. Then immersed them in the brands. That was a very, very important step for us, maybe took a little bit longer than we would have hoped in the first instance. But over time has proven to be really the right thing to do.

Prioritization has been key to driving this success. I think you've seen that as a theme from Chris at the start of today through what Jim and his team have said and what I'm going to reinforce. The simplest thing would have been to employ our developers in each of the countries around the world and then simply open the candy store and let them take every brand everywhere. Because believe me, they would have loved to have done that. The toughest thing we did was say, no, let's stay very disciplined and approach this is a much more rifle approach rather than shotgun,.

So in about 2007 we decided to take just three brands and expand them globally. DoubleTree, Hilton Garden Inn and Hampton. We picked about ten markets in EMEA, Europe, Middle East and Africa, and about the same in Asia Pac. We added the By Hilton moniker. So we at that point launched DoubleTree by Hilton and Hampton by Hilton. Which subsequently as you all know, has come back here to the US market as we know it drove great brand recognition.

By doing that internationally, it immediately gave credibility to those brands because the Hilton brand internationally was extremely well known. We looked for partners that had great locations for new builds and/or conversions, especially with DoubleTree, and grew using managed and franchised deals only. And this continues to be our strategy here in the US and throughout the rest of the world.

It's served us extremely well as you can see from this chart which shows the under-construction key count by region of the world. We have over 50,000 rooms under construction in both Asia Pac region and in the US. The two together represent about 17% of our total pipeline. But moreover, you can see that our share of under construction regionally, our share of the total of under construction regionally, is also very strong with the US leading the way, our share being almost one in four rooms under construction. And in the other major regions of the world, one in five rooms under construction totally are Hilton brand.

Looking across the portfolio, 60% of our pipeline is with limited service brands and almost completely under franchise contracts. Home2 as an example, launched only six years ago, has 115 trading hotels and a pipeline of 36,000 rooms here in the US.

But we've also got very, very good disbursement of rooms across limited service and full service brands. Nearly 55,000 rooms for example in the pipeline are under the Hilton brand. The majority of these are under management contract and 90% of them are outside of the US in our international markets. Between the Waldorf Astoria and Conrad brands, we now have 54 trading hotels, 20,000 keys, a combined pipeline of 33 hotels, 8,000 rooms. And that was up from a combined total nine years ago of 32 hotels. So with our pipeline in trading hotels, we'll actually have luxury hotels in 34 countries around the world.

As I mentioned earlier, our strategy is, continues to be focused on organic growth. Following capital and using key money in a very strategic way, only where we have those gaps either in a market, a city or a portfolio in a brand. And you can see from this chart on the left, our global share of rooms under construction at 22% is 4.5 times our existing share of global supply. So we see that as a strong signal that owners have a preference to grow with our brands. We are batting above our weight.

Because of that preference, and supported by the strength and performance of our branded commercial engines that you've just seen, we're very, we're growing using a very limited about of capital, whether it's been key money or CapEx, without acquisition. And in fact, we've only spent about $200 million in key money in the past five years, meaningfully less than our major competitors especially when you factor in acquisitions that they use to grow their systems.

So a little bit more now about what we mean when we say sequencing. Because this has been very important to the way that we've grown internationally. As we've targeted either specific countries, markets or cities, we initiate a presence with the core Hilton brand. The recognition of the core Hilton brand even ten years ago, international markets was fantastic. But by leveraging our presence as the Hilton brand, it's allowed us to take, to focus on an existing customer base, Hilton HHonors guests, and these global business travelers and leisure travelers. We built upon this presence. We launched -- I'm sorry, we backfill our other brands into those markets. So if you can imagine a market where a Hilton brand already existed, we gain brand recognition and then we can start backfilling our other brands into those cities, into those markets.

This allows us then, after not just servicing global travelers, but also go to local travelers. Equally, this kind of rifle approach rather than shotgun approach, allows us to create critical mass. And that was one thing at the very start of our strategy we felt was going to be super important, not only for us and for our guests, but also for owners. Enter into a market knowing that we can get critical mass with multiple hotel deals rather than just having one-offs by brand. Great for the customer giving them choice of course, but also for our owners, they see this rapid expansion of the individual brands grow and penetrate individual markets.

It's proven to be really beneficial for us. This strategy has really worked for us. We've doubled our international supply from 100,000 rooms to 200,000 rooms, so that's 200,000 rooms now outside of the US market. At acquisition, we only had 5,000 rooms under construction globally outside of the US I should say. Today, that number is 95,000. So from 5,000 to 95,000 in the last seven years under construction outside of the US.

I'd like to give you an example of what could be considered now a kind of relatively mature market. It's London, so my hometown. Contrary to what you may think, I'm not from Dallas. Prior to 2007, we only had the Hilton brand present in the city. And I was actually in the city at that time and it felt pretty good. We had 18 hotels, thought well, we're doing well in London, 18 hotels, 6,500 rooms, three hotels in the pipeline. Well spin the clock forward to today, not only is the Hilton brand present of course and it's growing, but we now have Hampton by Hilton, Hilton Garden Inn, DoubleTree by Hilton, Conrad, Curio, and Canopy either trading or in the pipeline.

And that 18 hotels has grown to 51 hotels. And the 6,500 keys is now 15,000 keys in what would be considered a fairly mature market. Or city I should say. Now this strategy has continued to serve us extremely well. Even here in the US where we've launched new brands, as Jim alluded to, and in particular if you look at Home2 and Tru launched here in the US, we now have a combined pipeline of over 500 hotels.

Just to continue this kind of example, I want to give you a country example now and we'll look at China. 2007, hard to believe we only had 6 hotels. One Conrad and 5 Hiltons, close to 2,000 keys. We took this very focused approach that I've talked about with people and with brands and with cities, and firstly took the Hilton brand to other tier one cities. Secondly, looked at tier two cities, and then lastly looked at, were appropriate, tier three cities. Once we had that presence, we started to feed in our other brands. Now we have Waldorfs, some great Waldorfs in Shanghai, Beijing. Canopy, DoubleTree, Embassy, Hilton Garden Inn, and Hampton Curio to the extent now, if you look at this page, we have 316 hotels trading or in the pipeline representing 90,000 keys in diverse markets across the 9 of these brands that I mentioned. And we expect to open our 100th hotel within the next 30 days. So from 6 to 100 trading and over 300 in the pipeline.

Look at this on a regional level. In this case I chose Europe. 2007, we had a total of 160 trading hotels in the region. But only three of these were non-Hilton or Conrad branded hotels. You spin that forward to today, and as you can see on the map, we have 317 non-Hilton, non-Conrad trading hotels, 4 in the pipeline, covering everything from Hampton by Hilton through Waldorf Astoria. We've had great strength and growth across our limited service brands, and also DoubleTree which has acted as a great conversion brand during the recession in 2009/2010, now giving us a total of 488 hotels and 101,000 rooms overall trading and pipeline.

What we've also seen is our investment in the right teams of people around the world located in markets really accelerating payoff as we leverage this brand sequencing approach. Clearly, the new brands, as you can see, are boosting growth, but all of our brands have been growing. Overall, we've had record approvals in each of the last six years, going back to 2010. And while we've seen a little bit of slowing down in some markets, around the world others have accelerated. It's all about following the capital. And with a launch this year of Tru here in the US, we're going to deliver what again will be a year, record year of approvals, north of 100,000 rooms.

Just looking ahead, you can see we will continue to grow rapidly internationally, no surprise there, but while still growing at a very strong pace here in the US. Our pipeline has a really good balance. US, international, focused service, full service, franchise, managed. We have full service managed properties adding to our footprint internationally. In the US we have a very strong pipeline of focused service hotels which is great because typically from groundbreaking to earning fees is about 18 months. So that's great news for all of those Tru hotels we've signed in the last year in terms of the velocity going through the pipeline and earning fees.

Before I close, one quick slide to show what I think is the kind of resilience of our strategy and story. Even during the depths of the recession, we didn't go ex-growth. We had great success with conversions. I think that's an important point, conversions have done very well for us at times when markets have slowed. Especially our DoubleTree Brand in Europe I'd highlight. But since then we've added Curio as a conversion brand and as Jim showed on his white space chart, we have a potential to offer other, potential to develop other conversion brands.

When RevPAR slows, we've found that owners shift to high performing, well known internationally recognized brands with strong commercial engines. So for the next three years, given all that I've said and all that you've seen, we see a CAGR of 6% net new unit growth going forward.

So to summarize all of that, we plan to maintain our lead as the fastest organically growing hotel company as we have done since 2007. Maintain the strongest growth ratio between pipeline and supply across all segments we operate and/or regions. And we have a very high quality pipeline which I think is a very important point. More than 50% is in the final stages of construction preopening. So they're going to open. We plan on delivering a CAGR as I said of 6% over the next three years which will add in total 160,000 rooms to our global footprint.

So hopefully that's given you a flavor of what development has done and more importantly will do. We feel actually our best days are ahead. This has been a great story looking back, but it's a fabulous future looking forward. Thank you for listening. I know a lot of you are probably ready for coffee now. We'd like to ask if you could to come back at 10:30 to resume. As you leave there's going to be a video showing of potential holiday spots for you. These are great hotels we've opened. Please take a look. Thank you.

[break]

Kevin Jacobs: Okay, good morning again, everyone. It's always fun to be first back from break as everyone is piling into the room. But that's okay. Hopefully everybody has had a good morning, a lot of content so far. Some of the stuff that I'm going to cover Chris covered at a high level earlier, but I'm going to take you through a little bit more detail. But the good news is I have a little bit of first, I'm going to do a little bit of logistics and so we can get the logistics out of the way while people are still coming back in the room.

So you see the three companies with the ticker symbols as they're going to be and the when issued ticker symbols. Our bankers told us that it was important to show that. Not that you couldn't have figured it out some other way. Exchange ratios, we're going to be exchanging, everybody will receive one share of Park for every five shares of HLT that they own up through the 12th of December. When we go ex-dividend, you'll receive one share of HGV for every ten shares of HLT that you own. And then following the spinoffs as you've probably seen, we're going to do to a three for one, or one for three, sorry, reverse split immediately following the spin.

So the key dates again, there's a few key dates there, but really the key ones, issue trading begins on the 13th of December. This is all effective as of what we call the distribution date on January 3rd, and then regular way trading of all three companies begins on January 4th. So logistics done.

So as we've discussed the new simplified Hilton we think is a much more resilient model than we've had over time and should be lower beta over time. You've heard this morning 90% of our EBITDA is going to be fee driven going forward and of that 90%, 90% of the 90% is going to be drvien by top line base management and incentive fees.

Incentive fees is only 10% of our fee segment and 85% of that 10% is from what we would call international style management agreements. So all of our management agreements outside of the US work in this way and our agreements with Park are going to work in this way whereby the IMF has earned, as a percentage of GOP, it's a lower percentage than the typical US style that stands behind the hurdle rate, but as a result it earns at first dollar of profitability, ought to be lower beta both for us and for Park. I'm sure the Park team will get into the structure of the agreement later, but for Hilton, it ought to be lower beta. So our fee segment should be much lower beta than some of our competitors just as a result of the structure.

The contracts are long term. Our unit growth gives us good visibility on a lag to the broader economy and should enable us to grow our fees in all economic environments. People have talked, Chris, Ian, Jim, everybody has talked about our level of capital that is required to growth this business. We have been very disciplined about not using a lot of our capital to grow, not acquiring brands. And with our scale, Jim took you through how we grow brands and how we launch brands and Ian took you through how we sell incremental contracts, at our scale, each one of these incremental deals is effectively 100% margin and at nearly infinite yields. Other than the small amount of key money that we contribute, it's effectively infinite yields on incremental agreements and incremental fees. So all in all it is, I'll obviously get to it at the end, but the model ought to generate significant amounts of free cash flow and meaningful returns over time.

The algorithm, we've talked about the algorithm. I will get into more detail I promise in a few minutes, but it's really not all that complicated. It's quite simple actually. Same store RevPAR growth, combined with new unit growth combined with growth in our effective fee rates and some of the other fees that we charge out of the enterprise is the top line algorithm. We've got expenses and uses of cash that you can model and which will lead to recurring free cash flow. Combined with re-levering to our target leverage level ought to yield significant amounts of capital to return to shareholders. So that's the algorithm.

Fee segment. Here's a little bit of a double click on the fee segment which, as I mentioned, is 90% of the enterprise. We've had significant growth since 2009. We've grown at a 12% CAGR in the segment and you can see the breakdown in the colors here.

The IMF is that small, that thin gray strip at the bottom with base management fees in the lighter blue and franchise fees, which you see is the most significant contributor today of our fee base, in the dark blue.

We've talked about sensitivity. From a sensitivity perspective, 1 point of RevPAR ought to yield $20 million to $25 million of EBITDA growth. Because of our net unit growth, however, and so obviously that works both ways, a point of decline in RevPAR will cause $20 million to $25 million of decline in EBITDA. But because of net unit growth, which again, has been very resilient and very predictable, we believe we can continue to grow EBITDA even if our comp RevPAR declines by 2% to 3%. So I think that's an important point about the resiliency of the model.

Next is the ownership segment. Again, it's only 10% of the business, but we wanted to talk a little bit about it. We will have 75 hotels in this segment with a little bit over 22,000 rooms. These are primarily leases which, as I'm sure you know if you've been following, covering the business for a long time, that is the primary form of hotel operations in certain parts of the world. So in certain parts of the world, this is what enables us to protect our tenure. And frankly there are places in the world where Ian wants to do deals where we just can't do deals without doing leases. Although we've done a really good job. We've only done I think two incremental leases since we've been at the company and one of them is effectively a synthetic management agreement in a market that just again, in Japan, that requires leases, but economically it behaves like a management agreement.

But the ones we have, the places where we already operate, these hotels are important. So the top ten strategic assets account for 70% of the EBITDA in the segment. And these are assets that we want and need to be Hiltons forever. So the Tel Aviv Hilton, the Istanbul Hilton, the Tokyo Hilton, the London Hilton on Park Lane, hotels like that. We serve a lot of customers in those hotels, they're important for our brands. And so had we -- if we were to put those leases in a real estate company, when those leases end, that real estate company, they have no reason, bias to keeping those hotels a Hilton. So that's another reason to keep those hotels in OpCo because we want and need to retain them in the system.

I talked about the top 10, but the reality is about 90% of the segment are leases that we would consider quite strategic and that we would want to keep. And so that leaves a very small portion of these assets that over time, since we've been here, we've probably worked our way out of three to four, maybe five on a good year of these not as attractive leases a year. And we'll continue to do that. The other thing of course that's going to happen is that we could have tremendous growth in our fee segment which ought to reduce this 10% contribution of the ownership segment over time as we grow the fee business much more quickly than the ownership business.

So a little bit of our capital structure, shifting gears for a moment. This is a bit of a busy slide, I apologize for that. But you can see here it's a breakdown of the balance sheet, of our approximately $6 billion of net debt. Down at the bottom of the page you can see that through the financings we have executed over the past few months as we've been leading up to the spins, we've pushed out our maturity schedule quite significantly. We don't have any significant near term maturities. Our first meaningful maturity is in four years and it's pretty balanced after that. The weighted average life of our debt is 6.1 years. The weighted average cost of our debt is 4.2%, and as you can see from the circle charts at the top of the page, it's majority fixed rate and 85% of our debt is totally pre-payable with virtually no friction.

Our liquidity position is quite strong. We have $1.25 billion in liquidity available to us between our undrawn revolver and our unrestricted cash position which we think is more than sufficient to run the business.

Turning to our financial policy, it's pretty straightforward and it's very consistent. Again, many of you have followed us since the IPO and our financial policy is quite consistent. We're going to continue to focus on growing our capital lite management franchise business. We're going to be extremely disciplined about the way we allocate capital. We'll maintain sufficient liquidity. We intend to maintain our dividend. Our targeted payout ratio is 20% to 25% of recurring free cash flow. We expect to maintain net leverage in the range of 3 to 3.5 times net debt to adjusted EBITDA. And then anything, any cash flow we generate in excess of that, as Chris mentioned earlier, we intend to return to shareholders, likely though a combination of programmatic and opportunistic stock buybacks.

Turning to the model, which I know many of you have been waiting for, I'll get to the answers here quickly, the setup -- we've taken a three-year view like has become the custom in our business where we've modeled RevPAR growth in a range. We've chosen to keep that range consistent with what our 2017 guidance is. Again, this is for modeling purposes and we want to be able to show you what we think the algorithm can do and what the company can produce in those scenarios. So we're using 1% to 3% for RevPAR.

We're assuming net unit growth of 6% per year which about 160,000 net room additions over the course of the three-year modeling period. Our cash taxes we've modeled which is about where it is today or will be for 2017, at 25% of adjusted EBITDA. We're keeping the weighted average cost of debt stable at 4.2%. Investment spending we've modeled about $185 million per year. That is consistent with what we're thinking about for next year. Probably will be in the range of say $175 million to $185 million a year over the period. Dividend and leverage per our policy that I just outlined, and of course the three for one stock split is modeled in here for the per share metrics.

So you can see here is what that produces is revenue, a revenue CAGR of 3.5% to 5% per year with those RevPAR assumptions. Operating income with leverage in the business of 8% to 12% per year. Moving to adjusted EBITDA per year, that produces a CAGR of 5% to 8% per year, roundly $2 billion to $2.2 billion of adjusted EBITDA in 2019. And adjusted EPS CAGR of 14% to 25%, sorry, 23%, or $2.31 to $2.87 per share, again, on our adjusted share count.

We believe this will produce meaningful free cash flow. I won't go through all the lines there on the left-hand side of the page. We can take you through the math of course in any detail you want, but this should produce about $2.6 billion to $2.8 billion of adjusted free cash flow over the three-year period which will allow us to reduce our share count at a CAGR or I guess an inverse CAGR of 4% to 8% per year.

So here is the money slide if you will, which is a bit of an infographic presentation of the numbers that I just took you through. The free cash flow, again, range of $2.6 billion to $2.8 billion a year. If you assume, again, we model between 3 times leverage and 3.5 times leverage depending on market conditions, how we feel about the cycle, where we think we're headed, that could flex up or down. That would produce incremental issuance of net debt of between $400 million and $1.7 billion over the three-year period. Which produces a total of $3 billion to $4.5 billion of cash available to return to shareholders. If you break that down between dividends, assuming our 20% to 25% of free cash flow target, 15% to 20% of the return of capital would come in the form of dividends and 80% to 85% of the return of capital will come in the form of, again, likely a combination of programmatic and opportunistic stock buybacks.

So in summary, again, there's a lot of numbers in all the slides. We're happy to spend time taking you through as much detail as possible. We talked a little bit about this earlier, so I don't want to be redundant. The three pillars of the revenue growth components there. RevPAR at 1% to 3%. For every point, we said it is \$20 million to \$25 million. Every 10,000 rooms of net unit growth is about \$20 million of EBITDA, and every five basis points of increase in the effective franchise rate is \$8 million to \$10 million of incremental adjusted EBITDA.

We believe we can continue to grow the corporate and other segment if you will or expense base at about a 3% CAGR or at about the rate of inflation which should yield again, the adjusted EBITDA, the range that I talked to you about earlier of 5% to 8%. Free cash flow should increase by 12% to 15% a year, and again, our reduction of shares should be about 4% to 8% per year.

So I know it's not a ton of detail on the model, but at the end of the day, it's a quite simple algorithm and this is the model. So without going any further on that, I thought we'd move to the Q&A portion of the program and invite my colleagues up to the stage to do Q&A. Thanks.

Christian Charnaux: We're going to start the Q&A component. Jill and I will be here working the aisles. If you have a question, please raise your hand. And when you ask a question, if you want to direct it to any of the people on stage please do so. And also, please identify name and your firm. So I think --

Jill: I have one from Robin right here.

Robin Farley: Thanks. Robin Farley, UBS. Two questions about the assumptions there. One is, can you talk about kind of that 1% to 3% RevPAR? Is that just sort of taking the current year and projecting it forward? And then also, just your interest, weighted average interest cost. Like 40% of your debt is free floating, but you're not assuming any increase in interest rate, so just wanted to hear your thoughts on that, too.

Kevin Jacobs: Yeah. So yeah, Robin, I think yes. What we're doing in the model of 1% to 3% is just taking next year's guidance that we have out there and bringing it forward. So it's not a commentary on, advanced commentary on what we think 2018 or 2019 will or won't do. And then yeah, today, 40% of our debt is floating. As we continue to roll over debt, we're looking at alternatives to execute swaps and things like that and looking at the interest rate environment hard. So I wouldn't -- we've modeled it flat for a reason, because we think we can keep it flat over that time period.

Felicia Hendricks: Felicia Hendricks from Barclays. So during the marketing presentation, a comment was made discussing the pipeline and the white space, that you're going to be disciplined at looking at new brands, given where we are in the cycle. So the point was you're not going to be aggressive, you're kind of going to be cognizant of where we are. Which kind of led to my question. Prior to the presidential election, the dialogue was oh, we're at the end of the cycle. So what I'm wondering is, now that we're past that and there's potential for a number of positive economic policy changes, just wondering what your view is today of where we are.

Chris Nassetta: Great question. And given there's only 21 days since the election, I'd say the honest answer is it's a little bit hard to tell. There's no question that sentiment has changed. Just look at what's happened in the markets, in the equity markets broadly. Certainly, if markets are being efficient they are saying the next year or two is going to be better than they might have thought 22 days ago. And we are, while it is early days, certainly seeing that start to show up a little bit, particularly with corporate travel.

So I think ultimately that optimism is probably justified, but time will tell. As I said, it's 21 days past the election and we have to see what all the discussion of policy is on regulation, tax, etc., what really happens in reality. But certainly the trend line from a business environment point of view and a hospitality business point of view I would say is quite positive and quite good.

In terms of how that relates to what we're doing on the brand side, I don't think it has a particularly significant impact. I think the things that we were working on when Jim outlined the five white spaces that we see, we don't want to -- we just launched Tru, we like to give all of our brands sort of a proper birthing if you will to let them gain momentum, and so we've done that with Tur. But at the same time, we've been working on a number of other concepts. I'd say what's going on in the world obviously could have impact. I'd say with what I see happening right now, not a material impact. I mean as we think about sort of what's next in our brand bar, if you will, I think the things that -- the brand that is probably most front and center is a three to four-star soft brand concept and I think the reason for that is quite, or reasons for that, are quite simple I think number one, as we sort of canvas our customer base and talk to our most loyal members, we look at customers that maybe we don't have that we want to bring into the system, our research says that that's a huge opportunity for us to drive more preference with existing customers and bring new customers in.

As we talk to our ownership community, same sort of story. Our ownership community is looking at an environment where yeah, maybe it was weaker than 30 days okay than they might think today, but still, our ownership community that has a lot of these types of assets, and there's thousands of them, I think looks at this as a real opportunity for them to get in and get the benefit of all these great commercial engines that you had Jim and Geraldine and Mark talk about. So it's sort of the, as it always is, it's at the convergence of those two things, what's good for our customers and what's good for our owners. So I think that's kind of next up and I think that's relatively short term, probably in the next quarter or so.

Some of these other ideas are incubating pretty rapidly. If I had to say, I think doing something in the sort of economy, urban, micro space which we've talked about a little bit publicly, is again, another opportunity where we're hearing from customers that that's something they'd love to see us do. We think we could attract younger customers because it would be an urban type of brand and at a lower price point and we think we could do it with a product at scale that really hasn't been done. Not unlike Tru, but sort of in an economy and urban context. So we're hard at work on that as well.

These things take, as Jim I think did a very good job describing, they take time. And obviously what's going on in the macro environment we factor for and it has impact, but certainly nothing -- we're very purposeful about how we do it, making sure that long term, whatever we're doing really is going to work for customers, really is going to work for owners. And so I'd say there's no material difference from a standpoint of post-election how we think about those launches.

Rachel Robbins: Rachel Robbins, Susquehanna. And I just wanted to make sure that I have this right because I didn't see KJ highlight it in his slides. But I just wanted to ask, do I have it correct, two things. First, that your fee streams or your management fee streams may be what we would consider more defensible or more protected and that you just renegotiated your contracts as part of this deal? Whereas some of your other whatever you call them, manager franchisers, competitors, have more flexible terms or more outs on their deals than you do? And do I have it correct that you also renegotiated an incremental $50 million in fees as part of this transaction?

Kevin Jacobs: Yeah, I think those were all -- yes, those are all plus or minus correct assumption in terms of what we actually did. I think my comments were more geared around. even absent what we are doing with Park, we had a much smaller contribution from IMF than some of our competitors. And frankly, many of our contracts were already of what I would call the lower beta variety than I described. We just sort of changed the complexity of most of our contracts, most of our major contracts in the US, to be that same style by way of what we're doing with Park. But your modeling assumptions are not incorrect.

Harry Curtis: Good morning. Turning to your key money, you mentioned that it's the lowest, probably the lowest in the industry. Can you talk about why you believe it's the lowest and your outlook for its sustainability? Harry Curtis at Nomura Instanet.

Chris Nassetta: Ian, you want to --

Ian Carter: Yeah, I didn't necessarily say it was the lowest in the industry, I said we have spent very little. But I think what we see when we are spending our key money first of all is that they're really very much for just strategic deals. So where we know it's very targeted. The charts that we showed show not just key money, but also acquisition costs which obviously we have had none. We know that we've been able to grow through this very targeted approach in only applying key money in markets where we've got gaps or portfolios where we've got gaps. We don't see that changing. That was through a time where there was a significant downturn, 2009, 2010, 2011 right away through to now where we've seen increased growth about the world. The key money is applied in a very balanced way globally. I mean we use very little in Asia Pac as you can imagine, apart from some very specific key strategic deals. And it's really only for those upper upscale, full service, managed and luxury deals and we don't see that changing. So I think the kind of ratios you saw on the page, I don't see those changing over time.

Chris Nassetta: I don't either. I think I said it, Harry, in my comments at some point, I think it's about driving high market share. And then being strategic in how we deploy brands and development resources around the world and being disciplined. If you've got really good market share and you've got great development resources and you've got good strategies for how you're laying brands in in the right way in terms of demand patterns and capital flows around the world, my attitude is, and I think we've proven it with what we've shown you we've done over the last decade, is you don't have to deploy a lot of capital. And that's the power of the model of the new Hilton if we do our jobs. Which is why I thought it was so important to walk through with the folks on the other side of the stage as I said the magic, sort of the more complicated part.

The algorithm that Kevin described and that I desired a bit is quite a simple algorithm of grow, capital lite, produce cash flow, buyback stock, a little bit of dividend. All that's simple. But the complicated part is really doing the right things by virtue of serving our customers with product, service, loyalty, innovation, and that's really important. The net output of all that gets back to what I said today, I'll say every time I talk about the business, it's about market share. And the reason that we have been able to grow and do it with less capital than our competition is obviously we're I think being more strategic honestly. I think we're being more disciplined if I were to say. But it's because we're doing the right things with the brands and that we don't have -- we have brands that are all winners. So we don't have winners and losers across not just the average market share of our brand as the highest in the space, but every single brand. And that's why I said it's sort of a leader or category killer.

So when owners are looking for themselves to sort of take advantage of demand patterns in different parts of the world to invest money to get a return, when they look at our portfolio of brands they look at it and they see winners across the board. And as a consequence, not only those winners because of our share of preference with our customers, but we have preference with our owners because we can make them more money.

And I think it's just that virtuous circle. I think it's just that simple. You have to have discipline in how you run the business and you can't ignore the market. There are people that sometimes in the market are doing things that we don't like. And if we don't like the economics, and we haven't been acquiring for a reason, we haven't liked the economics, and we haven't felt like it's a good way to use our capital. And I think we've proven that as a consequence to that, that's been right, with the returns that we've delivered. And I think we can continue to do that. We'll maintain the discipline and we'll walk away from things, as we continually have, that don't make economic sense.

Joe Greff: Good morning, this is Joe Greff from JPMorgan. I have two questions. The first question, Chris, relates to your comments earlier on China. You said you possess distinct competitive advantages and you've seen footprint growth in China. How do you think your soon to be new relationship with HNA Group complements your opportunity set in China?

Chris Nassetta: It's a great question and I touched it ever so briefly. We talked about it a little bit on our last call. I think it enhances our opportunities in China in a number of different ways. Obviously the relationship already that we have with Plateno is worth noting in the sense that we're going to have 400 or 500 Hampton Inns. We already have fifty plus deals done with these guys and our teams are over there this week. I'm getting tons of emails and pictures of everything going on. We are moving at a very rapid pace to be able to get though a broader distribution market, again, following the demand patterns. That's the segment where there is the most demand and that economically is most justifiable in terms of building that's going on. And so capital is being invested and we are a beneficiary of that and I think we'll at an increasing pace be able to build out our network effect in China in a way that is differential.

Now we were there ahead of time. That's not to say that others aren't now following, of course they are. I've watched announcements since we did it. We're just ahead of the game. And the truth is, we got there a year, probably a couple of years ahead of everybody in figuring it out and figuring out it isn't always going to be just a luxury game and an upper upscale game. It's a midmarket, like every other major market in the world, is probably going to drive things economically over the long term. And we repurposed our products, Garden Inn and Hampton particularly, found partners in Garden Inn, found a partner in Plateno, and we're moving forward.

The HNA deal I think is just the next step in our China journey. Here is an organization that had vast assets around the world in the travel and tourism space, but particularly some really important assets in China. They are faring 200 million passengers a year on their airlines. They have tens of millions of loyalty members. They have the number two online travel agent, the number one tour operator business in all of China. And so the idea is to connect all of our assets together. Mark and the teams and Jim, we're working at a fast pace to understand what are all of the benefits of that? So we'll put some more meat on the bone over time. But they have every incentive, $6.5 billion to be exact, to want us to be successful and to take advantage of those commercial synergies that we have. So I think it's incredibly powerful.

I think the other thing that's really powerful and is different, particularly in a market like China, is I love the fact that a very important Chinese based company is investing $6.5 billion in our success. Because I think that they care, not only in terms of how we connect into these various travel assets they have, but I think just broadly it changes the nature of how we're thought of in that market over time vis-à-vis certainly the big international competitors that don't have something like that.

So I think HNA is super powerful. I think we're at the tip of the iceberg of really figuring out how to tap into the mainstream on that. But trust me, we will, both for China, business in China, but particularly they have a lot of customers that they have a relationship with that we don't that are leaving China, that can help stimulate business and loyalty for our brands around the world.

Ian Carter: Could I just add a couple things, Chris? One of the other reasons that Chris just mentioned Plateno is very important for us in China is it has 70 million loyalty members in that program. Now not everyone one them is going to be a Hilton HHonors member, but a vast, there's going to be a lot in there that we can tap. They will eventually over time, depending on whether that's 5 years, 10 years, or whatever, be outbound potential customers for us. They are gaining their loyalty through Plateno, it's not just about gaining a footprint, it's about gaining those loyalty members firstly.

Second thing is, we adapted and changed Hilton Garden. And we talk about, this is Hampton, the relationship with Plateno, but we adapted and changed Hilton Garden Inn for China to fit the market. And we've gone from zero to very close to 50 probably by the end of this year, open and trading or in the pipeline in China. So from a standing start.

Joe Greff: Then a second question I have here, with regard to your financial scenario, Kevin, obviously it's a very free cash flow generative business, not a lot of capital investment needed. And most of that free cash flow will be deployed more into shrinking the share count and the dividend. You described the share buyback program as programmatic and opportunistic. Can you just share with us how valuation plays to that? How valuation sensitive do you think buybacks are?

Kevin Jacobs: Yeah, I think it's a little early to sort of lay out exactly how we're going to play it, Joe. But it's probably -- it implies what you would think which is we'll be opportunistic and obviously part of opportunity is price. But it's not just price, it's how you think about the other things you can do with your capital, how you think about your outlook, how you think about your leverages, your position going into one cycle or another. And so I think it's a little early to be prescriptive about it, but you can probably imagine what the scenario is.

Chris Nassetta: Yeah, and I think a simple -- I agree with everything Kevin just said. A simple way to think about is, programmatic, you have a recurring free cash flow and then you have incremental cash flow that can come through re-levering. I think the idea would be ultimately between a modest dividend and the programmatic buyback element of it that would be a large part of the recurring free cash flow. And then where you have the extra levers of leverage and other things that we could do, would be more price dependent and value dependent. We have a lot of confidence in this business. Make no mistake about it, you can tell I think listening to everybody here we think this is an incredible model and we have an opportunity to deliver outsized returns over time. And certainly if the markets don't necessarily align with that, we're going to want to take it -- we're going to want to be aggressive about that.

Laura Starr: I have a question over here. It's Laura Starr with Nuveen. I think following up on Joe's question, I think you started to answer that China market in particular, the plans you have with HNA. Are you envisioning that down the road you maybe have like the equivalent of a Sky Team or One Star or whatever alliance, so that once all those outbound travelers, they don't necessarily join your program, but if they're in a program that's an alliance, they're getting points by staying at your hotels? And maybe there are other countries, but China is the biggest, but other places you could do the same sort of thing?

Chris Nassetta: I think the short answer is yes. I think the ultimate objective would be both with Plateno and with HNA and with other partners potentially over time is where there is an opportunity to actually have any of their members that we can that actually want our products, become members of our HHonors program. So again, the numbers are huge and in each of them there are going to be customers that are part of some of those loyalty programs that maybe don't relate to what we have to offer. But I would say the bulk of them, both for Plateno's 80 million and the 40 million or so in HNA, the idea would be we want as many of those and the bulk of those in our program. And we want to have a relationship with them, we want to be communicating with them, whether it's for China or outside of China.

Thomas Allen: Thomas Allen, Morgan Stanley. So Chris, in one of your earlier slides you showed your 300,000 room pipeline and you said it's stabilized earnings, you think it should be worth $8.6 billion, implies a 13.5 times multiple. Why did you see the 13.5 times multiple as appropriate?

Chris Nassetta: I think you should ask Kevin that. I think we picked a number. I wouldn't put -- we were trying to scale it and I think we were looking at sort of the average valuations in today's world of largely fee based businesses. And I don't think it's a whole lot more complicated than that. And you can, the truth is, take $640 million and multiple it by whatever everybody in the audience thinks is reasonable, it's a big number at any multiple. And we weren't trying to be too scientific.

Dave Beckel: Dave Beckel from Bernstein here. You mentioned that historically on the brand side you haven't been acquisitive because you haven't necessarily seen the value in doing so. I'm just curious, where do you think your assumptions about value when assessing those deals differ most from your competitors who have been a little bit more acquisitive?

Chris Nassetta: I'm not going to talk about our competitors, you have to ask them how they underwrote. We've looked at pretty much everything that has transacted one way or another. As you would imagine, we're looking at overall returns like you would expect and like you would. If we buy X, you're buying sort of an in-place fee stream and then you're going to be able to incrementally grow it, but you're paying for the in-place stream and the incremental growth ultimately versus what you pay us to deliver in my mind a long-term return or an IRR that justifies it as against an opportunity of doing it yourself. Particularly at our scale where I'd say there are white spaces that Jim covered, but those are opportunities. In other words, there's nothing, there's no gap in our system that is holding us back. There are opportunities in the system where we can do more.

So the really simple math is, if you're going to pay, pick a number, 12, 13, 14 times for a brand, you have to believe that you're going to grow it at a really high rate to get the returns if you're really disciplined about it that justify it. And then you have to compare it, particularly in our case where we have the opportunity to do it organically, against t a return that is essentially infinite.

So think about Tru. Here are the numbers. We invested out of our pocket, other than our sweat equity, zero dollars on our P&L, zero dollars. We have 400 deals done. This will be a really big business. When it starts to deliver hotels next year we'll be 100% margin and an infinite yield. It's really hard to compete against that. So when we look at any of these brand opportunities, I mean against that yield, you'd never do anything unless you thought you strategically needed to. But even beyond that, we have looked at these things and said, well, infinite is, we're never going to beat that, do we think we could even get a reasonable return? The problem is, when you buy it off a base, the incremental growth that we think we can get above and beyond what we would do on our own, when you do that math it just never pencils out. I'm not going to say it never would. You never should, as a CEO, should never say never. But it hasn't and it's not something as you can tell that we're really like pounding the table saying we're going to go out bounty hunting.

I like the idea of growth at 100% margin and infinite yields and that's what we're focused on. And I think it's hard to beat the math. We have a lot of financial people, that math is pretty compelling and easy.

Amit Kapoor: Amit Kapoor from Lewis Sales. So one observation and a question. So yesterday Starbucks held its Investor Day and it talked about leveraging their loyalty program and technology much the way your team has talked about it. So I think you're in great company in terms of personalization and taking the friction out of the loyalty program, attachment and payment, etc. And I guess the question on a more strategic note is, so in 2013, three years ago when you went public, you had indicated, drawn the roadmap and said eventual separation of these businesses, activation. Now that that will be complete in 30 days, what is on the annual for you for the next three to five years? Strategically what will occupy your greatest time?

Chris Nassetta: So I think you heard it. It's a great question and I think you heard it on the stage today. I think from a capital allocation point of view, we just talked about it, we gave you the algorithm. I think it's really simple and I think you can count on us to be, on me, Kevin and the whole team, to be very disciplined about, I'll come back to the hard part of running the business, but then taking the benefits of that, making sure we're driving as much free cash flow as we can, every penny out of it, and returning that capital. So that part of, that's the future. And that's I think quite simple.

In terms of what we'll do with the rest of our time, because that doesn't, ultimately if we're disciplined, take a lot of time. It's all the things that my three colleagues talked about and that each of us in different ways that I kicked off with in terms of our purpose and our culture and really keeping our customer at the heart of everything that we do. So it's about all of this making sure our products are relevant, the existing products, we're adding the right new products, to continue the network effect. That we're evolving loyalty in a way that is better than what's been better than what's been out there. Mark went through 1.0, 2.0, 3.0. Innovation to do the things that Geraldine described in terms of things that are fun and create a little bit of the excitement, but also things that are indispensable that are going to change the way that we interact with our customers.

So Geraldine did a great job, better than I could do, but the real truth is, we are connecting. And this is what we're going to spend an immense amount of time on. We already are and will, the physical and the digital. It's not -- anybody that says, by the way, I hope our competitors say, that it's all going to become digital and it's a big distribution game, because we're going to out maneuver them. It is always going to be a business of people serving people. It is always going to be. That's why customers come back, that's why they don't come back is ultimately having a great service experience. Of course, you've got to have good products, and we're very good at that. But the more we can extend the journey, like the opportunities they have in every other aspect of their life, the more that when they're with us, check in to check out, we've got to kill it in terms of the service delivery. But we can use technology to make it better, to free people up to do more customized things. The more mechanical things can become digitized.

And then before and after they're with us, unlike ever before we can connect with them in ways that really resonate with them and really connect in a way that creates more of an emotional connection. So that's what it's about. It's about in the end driving preference, driving market share. And that means doing things to have customers. We have their heads, it's doing more things to have the heart of the customer, that we become more and more relevant. So it's the things that you heard on this stage. That will occupy our time.

And while it may seem easy when we do these fun presentations, this is hard stuff. Particularly when everything we do, which is the huge advantage, is at scale. It's 350,000 hearts and souls doing this stuff in 105 countries, it's 5,000 hotels and growing. So digital key, all these things we make look pretty easy, Geraldine does, but, and she said this, it's hard. But we love hard work. And so my attitude is, the bifurcation of the business is great for all three companies. It allows all of us, when we talk about dedicated management teams, activation of the business, it's not as though we haven't been doing these things, we have. We're way ahead in my opinion of the competition. If you look at it objectively and what we're doing in the digital space and otherwise is ahead of the competition. But we have -- it's been a big and complicated business and I think with the spins done, at all levels of management, including my time, Kevin's time, Ian's time, everybody's time can be purposely dedicated to looking at what else we can do to better serve our customers.

Wes Golladay: Wes Golladay from RBC Capital Markets. With all the heavy investment you guys are doing over the next few years, do you see the opportunity to increase the franchise rate from 5.5% to maybe 6% when it's all said and done? And then as you get scale maybe lower the cost to actually run the program for the owners as a nice offset? Would there be anything along those lines?

Chris Nassetta: Yeah, I do think that opportunity exists. I think it has a lot to do with what's going on, as you might guess, in the macro environment. But there's no question you can even see some of our brands are above the 5.5% now. So we're very thoughtful about that in terms of making sure that the owner proposition is a good one and we look at it, we debate it, we fight about it all the time. Do we move this, move that? Jim's laughing because he's always on the other side of that discussion. I do think over time we will be migrating more from 5.5% up to 6%. I'm not going to say that's going to happen overnight, but that's going to happen over time.

In terms of how you pay for it, I think you're absolutely right in the assumption which is the bigger the system gets, yeah, it gives us more to reinvest in sales and distribution and technology, innovation, all these fun things that we're talking about. Loyalty obviously. But it does, at our scale, also give us opportunities to take our system charges down to help pay, to help keep the owner proposition steady. And we in fact, I can't say this scientifically so I shouldn't, but I think, we've been much more actively doing that than anybody. Meaning if you look at a number of our brands, as we've moved the fees up, we have reduced our program charge. Obviously the programs fees that we're collecting, into the billions of dollars, are going up because the system is getting bigger, but if you look at it as a percentage for owners, like Homewood and Garden Inn, we've actually, as we've been raising those fees, we have been doing exactly what you're suggesting which is we've been taking the charge, either HHonors charges or other what we call our program fees, down. So that from an owner point of view the proposition sort of remains the same. At the same time, market shares are going up. So they're getting more top line and in terms of their expense load for all our programs, are holding relatively constant. I do think as we move fees up we will be working very, very hard to be hyper vigilant about being efficient. The number you saw, $50 billion, I mean our customers that sleep in the hotels are pretty darned important. We have to think about them in everything we do. Our customers that are building these hotels and operating a lot of them in our franchise system, are equally important.

That simple algorithm that we described, the NUG element of it, which becomes even more important in a new Hilton world, only works if our owners show preference. And part of that is obviously ultimately about their profitability. Not just top line market share, but driving the best bottom line profit. So great question, super focused on that. We will definitely drive efficiencies as we get bigger that will allow us to sort of have a win/win between us and owners.

Smedes Rose: Smedes Rose from Citi. One of your initiatives this year was to introduce member pricing. And I was wondering if you could just share what you've seen with direct booking and also talk about owner profitability. Have your owners seen improved profits from that?

Chris Nassetta: One of you guys? I'm happy to take it, but I don't want to consume --

Mark Weinstein: Well on the consumer side, I mean you're seeing the growth of Hilton HHonors and customers that are going to book with us, so two forms of growth. The first is new customers that maybe weren't considering us or seeing a new value proposition that maybe didn't think about Hilton or the space that we're in. So that's been a major source of growth. But the second is customers who were already seeking out our brands, but looking for other ways to book us, now realize they can get the lowest price when they interact with Hilton HHonors, join the program, come and fall in love with our brands. And so for us, that's been a major driver of success and the volume we're seeing come in, the channel shift you're seeing to our direct channels, certainly into our digital app, the website, even our call centers, even our hotels directly, has been growing tremendously as a result of that.

Chris Nassetta: And I would say what it all boils down to in the end is what owners again want is net profitability. I mean what do you get in share, what do they get in revenues and how much are they spending to get the customer in including distribution costs? Maybe you look at the strategy and you go across every segment of business, on a net rate business, our owners are better off as a consequence of what we've done.

Geraldine Calpin: And just to add to that, our app downloads are at an all-time high, like triple digit growth. That is important one, because it's direct book. But secondly, when you have an app, back to what I said, you actually get a better experience. So you get the digital check-in, you get digital key, you can order your Uber, etc. It transforms what is generally a regular hotel experience into something entirely different. Which is why to one of the earlier comments about the other loyalty programs, I believe that we will be able to attract members from HNA and Plateno's loyalty programs to ultimately join HHonors because they get that access, that much better experience that will drive that all-time high.

Mark Weinstein: The core of your question, I mean it's working in the short term, but really the long term payoff is what we're looking at as well, these sticky relationships. Consolidating travel, that people are already going to spend in the space, more of it is coming directly to us and you see the long tail in that lifecycle relationships, that's ultimately where this relationship is going to pay off for both Hilton, for Hilton HHonors and ultimately for the hotel owners across the system.

Jim Holthouser: And if I could add to that, too, I mean ultimately what this is about with the OTAs, I think the longer term question is, who owns the customer relationship? Yes, it's about more efficiency, lower commissions, that's all very, very important. But ultimately I think what we're deciding is, who gets to own the customer relationship? And we want it to be us.

David Katz: Good morning. David Katz, Telsey Group. Two questions. One, not to in any way minimize all of the other compelling aspects of what you talked about this morning, but I wanted to go back to the 1% to 3% RevPAR growth. If we could just drill down a little bit farther and talk about where that might have been if we were sitting here 35 or 40 days ago, in the context that this has been a fairly choppy year, if you could just talk about the inputs and your thought process as to how you got to that.

Chris Nassetta: Yeah, I'm happy to put it in context. Here's the thing. Today what we're really trying to do is give a little bit more of the intermediate, long term outlook. And so what we're trying to do is not get in our modeling caught up in what do we think is happening today versus 22 days ago. The 1% to 3%, as Kevin suggested, I think in answer to an earlier question was really driven by that's sort of the guidance, most recent guidance we gave.

Kevin Jacobs: In fact, we gave it 30 to 45 days ago.

Chris Nassetta: We gave 1% to 3% for 2017 30 or 45 days ago. We are super optimistic as are the markets that in a new world order we may release some economic growth that's been pent up. And in fact, 30 or 40 days ago when we gave that guidance, it was on the basis that certainly as you got to the higher end of that range, that we were going to see some pickup in broader economic growth around the world, particularly in the US. But it was about -- I don't want to overstate the science behind it. It really was we had said that and 21 days after the election, even with all these swirly winds, and certainly we are quite optimistic and as I said, are starting to see some good things happen, we haven't had enough time to really start to alter our thinking in the short term in any meaningful way.

We'll give, as we always do, guidance in a very granular way for 2017, top to bottom, when we do our fourth quarter call. That's sort of the pattern and we wanted to make today more about the bigger picture and the overall algorithm over time. So could it be better? Of course. It depends. But I think what we've done is tried to give you sort of a bit of a matrix.

If you think that the economy is going to be roaring, then certainly it could be. If you think the economy is going to be terrible, it could be worse. If you think it's going to be great, it could be enter. And I think the model is simple enough where I think everybody can sort of pretty easily factor for the assumptions.

The other thing you see in the resiliency in the model, when you quickly look at those free cash flow numbers, the recurring part of it is, there wasn't a big difference in terms of -- between 1% and 3% in terms of dollars that we're spitting out. There's a whole bunch of free cash flow coming, I mean another point in our model is $20 million or $25 million. Not that that's insignificant, but so say it's 5% instead of the high, whatever, you're talking about $50 million, it's a lot of money. But the model, the core cash flow generation is pretty low beta and pretty stable and you can sort of factor around that based on whatever you think is going to happen.

David Katz: And if I can ask one more quick one, with respect to your business in China as it grows and continues to grow, how are you thinking about the target Chinese loyalty traveler? And what adjustments or tailoring are you doing to that approach for them?

Mark Weinstein: It's a great question. It's really easy to solve in the market for the market. You can kind of wall it off and you can say these hotels are going to offer these benefits. But the real opportunity is what Chris described which is the outbound opportunity, consistently delivering that experience. Not just in the gateway cities, but any single hotel anywhere in the world. And so what we're piloting with Hampton for example is a slightly different set of benefits. So in the Hamptons in China we're changing and tweaking and trying to find the balance between domestic loyalty programs that really get the local customers and what traditionally has been a little bit tone deaf international companies coming in and trying to apply a one size fits all model. And so that tailoring is helping us learn. It's a great test environment. We're seeing tremendous returns. We're seeing loyalty sign ups of nearly 90%, almost 100% sometimes, of all the guests in the hotel, so it's working.

The next opportunity for us, what we're working on now, in both technology and strategically, is trying to figure out how to make sure that we can deliver a consistent loyalty program on the Hilton HHonors platform that is very personalized. And I think personalization is the key to the question you're asking. It's not just by you live in this country, it's by the preferences we know about you. And sometimes that may be offering a new partnership network. It may be filling in the gaps in your travel, if you're a less frequent traveler, with airlines, with retailers, with banks along the way. It may be tweaking your earning rates to reflect less frequent travel in the midscale segment versus more frequent travel in the business segment. It really is focused on having local boots on the ground. So we have a lot of folks that work in the market and think deeply about the partners we should have and not trying to apply a one size fits all model.

So at the end of the day, it really is about having a consistent platform, Hilton HHonors, having scale and the ability to deliver it at a personalized level for any customer. But having folks on the ground that really truly understand the Chinese market, the preferences that come along the way, and are challenging us to change our thinking, push our thinking and adapt the program to be relevant for those in the market.

Jim Holthouser: And you know, were definitely doing that inside China for the China customer, but keep in mind, I think somebody has brought this up, the other half of the opportunity is really what goes out of China. So it's 100 million customers a year, last time I looked it's growing like 25 million a year, it's just huge. This is demand that didn't exist a couple of years ago. You can imagine, as a company with business operation in 105 countries, we're kind of interested. The more people who are basically hooked up to us, loyal to us, understand us, the better the benefit to the system. So we're looking at HHonors not only for just within China, but also what this means from an outbound context, too.

Jared Shojaian: Good morning. It's Jared Shojaian from Wolf Research, over here to your right. So you talked about Tru, you talked about the pipeline. Who are your Tru owners right now? Is it primarily coming from the Hampton base? I realize there are different price points, but just curious if you've seen any cannibalization from the Hampton pipeline at all?

Jim Holthouser: You know actually what we did was in kind of an owner friendly move, we really kept Tru largely focused on our existing owners. We wanted to give them first dibs, if you will. We really haven't been actively marketing this out to some of our competitors' franchisees, but ultimately that will come. And again, we'll see what Ian says about this, I don't think we've seen an impact on Hampton yet. Hampton still has such growth potential, it's still growing very rapidly in the US. At some point, common sense tells me it probably will, but Hampton increasingly has opportunities outside of the US, so I don't think we're seeing it quite yet. But probably still in the future I would think.

Ian Carter: Yeah, I'd echo all of that. I think the thing is, the first and most important thing is that the signings that we've done this year, the vast majority are from existing Hilton owners of a brand, whether it be a Hampton of a Hilton Garden Inn. So that's a great thing because it means we've got a lot of potential once we open the tent wider.

The second thing is, I think it goes back to the white space we identified. And as Chris mentioned, Hampton has moved north in terms of ADR and this is a clear white space to grow where Tru is. So right now we see no cannibalization. Could there be in time? Maybe. But we've got 400 signings or thereabouts in year one. There's 2,000 Hamptons. I mean it's a pretty good first year.

Jim Holthouser: And increasingly, Hampton's opportunity, as I said, is outside of the US. I mean it's growing very rapidly in eastern Europe, including Russia, Turkey, the UK and China. So I think in the future that's basically where we have the biggest opportunity to do massive amounts of deals with Hampton.

Jared Shojaian: Thanks. And if I could ask one last quick one for Kevin, you talked about the 25% cash tax rate. Just any sense at all with potential corporate tax rate reform on where that could go? Obviously a lot of puts and takes, but just curious what you have to say on that.

Kevin Jacobs: Yeah, I think generally speaking, given the events of the last couple of weeks, more of us in corporate America are hopeful that something could get done in terms of corporate tax reform. But I think it's just way too early to know what that could be. I think the good news is it's very likely that what we've modeled is probably the worst-case scenario. You'd like to think that anything that happens would be neutral to better than what we've modeled and that's why we've modeled it that way.

Christian Charnaux: Okay. Before we go, thank you to everyone. Chef Mark is here to tell us a little bit about lunch.

Chris Nassetta: All right, so thank you, guys. You're halfway done. Everybody, hang in there. I want to introduce Chef Mark. He I guess technically is head of culinary for the company. I call him our head corporate chef. This guy is an amazing guy who helps us figure out from a food and beverage point of view what we're going to do across brands and all over the world. And he invariable, anytime we have an important event like this, he shows up to make sure everything is spic and span and is great. So Mark, maybe a couple of comments about our approach to food and beverage and more importantly, it looks like we've got a lot of hungry people out here, so what are we doing for lunch?

Chef Mark: We make it very short. Thank you, Chris. Thank you for being here. I just want to let you know, behind these doors it's really our community. And the lunch that we're going to offer up today really represents the direction that we have as a company to create an extraordinary food and beverage experience. Our food culture, I want to tell you very, really the reason why I cook, and I think it's the definition of the food culture that I have, is when I was a child, my grandmother used to be behind the stove that was cold and was made out of cast iron. And when she turned it on, the house changed temperature. It became warmer. The flavors, the aromas took over the space and then people started coming to the kitchen. And suddenly everybody was friends, everybody loved it, and every weekend there were additional people coming to the kitchen.

And that's really the philosophy that I have for the food that we cook. And it's really based on the simplicity of the ingredients. It is showcasing the product of the highest quality, globally inspired, locally sourced. We create great relationships with farmers, with companies. As an example, with this property we have Murray Cheese, we're going to see it for lunch, Gotham Greens, and Union Square Group with (inaudible) just to name a few. And this is to just bring those best dishes in front of our guests. Because at the end of the day, the reason why we wear our chef jacket is only the food we eat is how we good we are.

And most important, it is serving to the unbeatable hospitality by our team members who are the heart and soul of our company. I hope that you enjoy this lunch as much as we've enjoyed cooking it and I wish you a very good afternoon. Thank you.

[lunch break]

Ian Weissman: I'm Ian Weissman. I head Corporate Strategy and Investor Relations. We're very excited to be here today, and I want to thank everybody for joining us as we sit here and unveil the Park Hotel story. We've been working extremely hard over the last several months building leadership, building infrastructure, building corporate culture, and we're very proud of it.

We've got a great lineup today of management. We don't have any fancy videos like Hilton. We'll work on that for the next Investor Day. But we have -- we're very lucky and fortunate to have our Chairman and CEO, Tom Baltimore, to talk a bit about the Company, about leadership, about strategy, about the portfolio. We'll also hear from Rob Tanenbaum, who is head of asset management, who will talk about our asset management strategy, as well as some key ROI projects. As well as Sean Dell'Orto, who's probably one of the happiest guys in the room since he's been working tirelessly at three jobs over the last several months getting this spin happen, and he'll talk a little bit about the balance sheet and liquidity.

So with that, I'd like to turn it over to Tom Baltimore.

Tom Baltimore: Thank you. You can take that with you. I think I'm miked up. So, 16 years ago, I left Hilton. And I left a former company. We were private and raised three private equity funds. Took it public. Had an incredible team of men and women who had worked with me. I had lost, candidly, during that duration of my senior team, zero turnover. I think we had an excellent track record. One, selling a lot of our private company assets in 2007, first fund in 2008, eye popping returns. Merged the last two funds, went public. Life was good. Didn't need to do anything else.

And then about a year ago I sat down with my dear friend, who I admire and respect, Chris Nassetta. We met for breakfast. Chris said, Tom, we're going to proceed with the spin out. We'd like for you to consider running the REIT. My initial reaction was yes. No hesitation, no fear, no apprehension. I knew that this would be an incredible opportunity. It would be complicated. Worked out the agreements. April 27th we announced. May 11th, my last day at the former company that I had co-founded. May 12th I went back to pack and retrieve my things. I took the 13th off to play golf with my 17-year old son, so I'm a bit of a slacker. And then I started on May 16th, and we've been working our tails off ever since.

When I think about Park, the thing that most important is assembling a seasoned and experienced team, I think we've done that and we're walking through that. We have an iconic portfolio. Irreplaceable assets; candidly, assets that I don't think you could replicate. Significant discount to replacement cost. And we estimate that at 50% plus or minus, and we'll show you some stats on that.

Scale. 67 hotels, 35,000 rooms. We'll be the second largest lodging REIT at launch. Scale matters in this business, as you all know, but there's also a significant growth profile. There are embedded ROI opportunities. Rob Tanenbaum is going to walk you through some of that, and we're excited. And this is just the beginning. Remember, we've only been together a few months as a team.

There are single asset acquisition opportunities as part of our growth strategy. And again, we want to be focused on upper upscale, luxury, top 25 markets, premium resort destinations, assets over $100 million. We do not want to be chasing small assets. We want deals of scale that are going to move the needle.

M&A. We think there's a huge opportunity of M&A in this business. As many of you know -- and I've been one of the strongest advocates for consolidation in the lodging REIT industry -- this will take time, will not happen overnight. But we think the scale of Park really gives us a platform to explore these things over time.

Brand diversification and operator diversification. I love Hilton. I wouldn't be where I am today had it not been for the great training, for the opportunities, and for me to come full circle like this is a personal real joy. But we also know to be a successful REIT, it's important to have that brand diversification. So we will over time, whether that's Marriott branded product, whether that's Four Seasons, whether that's Hyatt, again, as long as our high quality assets compliant with our strategy. And again, upper upscale, luxury hotels, top 25 markets, and premium resort destinations. We'll be US-centric initially. We do have an international presence today. We will explore over time, but we will be focused on the US.

Superior asset management. I'm passionate about it. I believe in it. And I think I've got the best lead in asset management in the lodging REIT industry and Rob Tanenbaum. It was a real coup. When I was putting together the team, it was almost a targeted search of men and women that I wanted. Rob was at the top of the list on the asset management side. Just a superb executive. You're going to hear from him shortly. A low levered balance sheet. Sean Dell-Orto's going to talk about our balance sheet.

Many of you have heard me talk about this for years. Three things I think it takes to be a successful REIT. Aggressive asset management, building on what I just talked about. This mindset of continuous improvement. Prudent capital allocation. Because we're going to be distributing 90% to 100% of our taxable income, we know we've got to come back to the equity markets to raise capital. We've got to show to you consistently that we're going to be prudent capital allocators. I'm a passionate believe in that as well.

And then again, a strong and flexible balance sheet. And low levered. We're going to be net debt to EBITDA 3 to 5 times. And look, long term, we aspire to get to investment grade. That will take time. That will not happen overnight. But we're bracketing today 3 to 5 times.

Leadership. Let me talk about this team. Keep in mind, it's been six months, and what we've accomplished in building a team and a board, I would respectfully submit that this is already a best-in-class team.

Sean Dell'Orto I mentioned. If you don't know him, you'll get to know him. As Ian said, he's had three jobs -- CFO at Park, he was the Treasurer at Hilton, and then that he was helping out with HGV. And his work ethic. And those of you that know me know I work 6 days a week. That's my rhythm, that never changes. Sean is 7 days a week. That commitment, that discipline, that energy, he's going to be a special CFO.

Matt Sparks. Matt was involved in the 1031. We didn't take many people from Hilton, and part of that was the balance when we took a third of our team. Matt, again, wealth of experience from Marriott to Starwood to Sage to obviously his involvement at Hilton. He'll be our Chief Investment Officer.

Rob Tanenbaum, who I just talked about. Again, the former CEO at DiamondRock. All of the men and women are experienced executives in the hospitality industry and particularly in the REIT world.

Tom Morey, who was the General Counsel at Wash REIT, and prior to that was a GC, was a partner at Hogan. He worked on the Host spin some 20 years ago, plus or minus. So again, a very strong team.

Jill Olander, former executive at Hilton. Also had been at Allied Capital. A strategic mindset of human capital. No team, no company succeeds without having the right men and women. Jill is my partner. We talked multiple times a day as we were building out this team. She's extraordinarily talented and grateful to have her.

There are others. Guy Lindsey. And I won't highlight all, but Guy, our Senior Vice President, he formerly worked at Sunstone heading up their design and construction. As many of you know, I have always believed you separate asset management from design and construction. We did it effectively in my past life. They're two very different disciplines; they have to be managed separately. I've got two superstars there, and I'm really pleased.

Ian Weissman. I've known Ian, as many as you have, for years. Love his temperament, love his balance, love his experience. Thrilled to have him on the team as well.

Scott Winer. Scott was a lead of tax at Rayonier. He is a spin expert, one of the strongest tax minds in the REIT space. Thrilled also to have him on the team.

Let's talk about the Board. Strong governance is a must. This will be my fifth public company board. We spent a lot of time making sure that we had the right framework. Men and women of experience, of stature. We started with 100 candidates. I would also respectfully submit, this is one of the strongest boards. We didn't want anybody who didn't have that experience to be able to push us, to challenge us, to set the right foundation for growth.

Patty Bedient. Patty is the former CFO at Weyerhaeuser. She's on Alaska Air's board. She was a managing partner at Arthur Andersen.

Gordon Bethune, who many of you might see occasionally on Squawk Box. Gordon, former Chairman and CEO at Continental Airlines. Brilliant. Been on eight or nine boards.

Rob Harper and Tyler, both extraordinary executives at Blackstone. Thrilled to have them on the team, on the Board as well.

Christie Kelly, who is the global CFO for JLL, and had formerly had been at Duke Realty as their CFO. Again, we've got a board of a lot of men and women with a lot of relevant experience, but also global and broad from other industries to balance that out.

Senator Joe Lieberman. We wanted an elder statesman. Joe is a wonderful man. He has time, was willing to do it, thrilled to have him on.

Tim Naughton, who many of you may know from AvalonBay. Tim, exceptional. I think one of the top REIT CEOs in the space.

And then Steve Sadove. Steve is former Chairman and CEO at Sachs. Ladies and gentlemen, this is an extraordinary board. Pleased to have, again, that foundation of governance as we move forward.

Portfolio. Not going to walk you through. You can see the eye candy, but I just want to highlight a few. Look at our New York. Obviously New York had a tougher market. Full block, 1,900 keys plus or minus, 150,000 square feet of meeting space, fortress position. This hotel's not going anywhere. Hilton San Francisco, again, north of 1,900 rooms, 136,000 square feet of meeting space. Hilton Hawaiian Village, 22-acre ocean resort just south of 2,900 rooms, 145,000 square feet of retail space, another 96,000 square feet of meeting space. You couldn't replicate any of these three today if you wanted to.

The Waldorf Astoria in Orlando and the Hilton Bonnet Creek, 482 acre, 1,500 rooms, 147,000 square feet of meeting space. We think there are huge opportunities, ROI opportunities at a number of these assets. Rob is going to walk you through.

A diverse portfolio. Again, we've got where we're represented in 14 of the top 25 markets. Clearly Northern California with 7 hotels and about 15% of our EBITDA. Largest concentration coming out of Hawaii, about 22% of our EBITDA, and two just extraordinary resorts there.

Florida, 7 hotels, again representing about 16%. Louisiana, again in New Orleans, having the Hilton New Orleans Riverside, which is a fabulous asset which we'll talk about some of the ROI opportunities that exist there. We have the opportunity now to activate the real estate. Much of that is Chris and Kevin and others have been talking about really wasn't their focus. That will be our focus as we move forward.

Wanted to give you a breakdown. I saw some of you looking earlier today, and I won't go through and look at all. You can see the geographic diversity. You can see obviously the difference in location type. Obviously heavy concentration both urban and in resorts.

But I would draw your attention to group and transient. About 63% transient, about 32% group. We think there's an opportunity to group up and to change that over time. Transient in third quarter I believe was down about 2.3%, group was up about 1.9%. Again, you'll see an increased emphasis for us on that as we look to partner with our partners at Hilton, but also Rob Tanenbaum and his team on the asset management side will really be pushing as we move forward.

Supply. When you take a detailed look at our supply picture vis-a-vis many of our peers, we think that's an advantage for Park. We're going to average about 2.2% -- the average across our peer is about 2.7% -- about 50 basis points. And also, if you further look down at number of hotels being constructed with over 50,000 square feet of meeting space, significant reduction. And again, we've got 26 assets with more than 25,000 square feet of meeting space, and we've got 6 with over 125,000, to put it in context for you.

Again, same theme as we think about our group portfolio. We think that's an anchor and a competitive advantage for us. And, candidly, a nice defense mechanism against some of the disruptive forces, whether that's Airbnb and others.

And you can also see, there's actually been a reduction -- that's actually relates to Mandala Bay and how they're being treated -- but there's actually been a reduction in big box hotels. So again, given our fortress position there, particularly given our top 10 assets that account for about 61% of our EBITD -- and that's a RevPAR of about $204; our top 25 accounting for about 82% and a RevPAR of about $182. Overall portfolio I think about $161 RevPAR, plus or minus.

There's a little bit of theme that you heard today coming from Chris and team as you look at international. We think, again, if you look over the last 15 years, compound annual growth rate is about 2.8%. And if you look to the future, next four years, Department of Commerce is saying at about 4%, going from about $77 million up to about $91 million. That is only going to increase as you think about what's happening in Asia and the huge middle class in the hundreds of millions. And there are five or six cities that are really high on their list that they want to visit. Clearly Hawaii, San Francisco, Los Angeles, Chicago, New York, Miami. Those are all markets that we are really well represented, so we see that as a real benefit for us as we move forward.

These concepts clearly that I talked about, our size and scale gives us a competitive advantage. The iconic assets that we have that we think are irreplaceable. A significant growth profile as I walk through really those four levers that we talked about. Again, having active asset management, and again, a low levered balance sheet. These are core fundamental beliefs for us. They will not change. And our team, we embrace them significantly as we move forward.

One of my favorite slides. I think this is telling you just how fragmented the lodging REIT sector is. Again, Park at launch we believe will be the second largest. And you can see that there are both, whether it's select service or full service, a lot of undercapitalized players. We think that the opportunity industry is right for consolidation at the appropriate time. We don't see that tomorrow or the day after the launch, but clearly there is an opportunity. We think, obviously as investors may consider rotating out of some of the undercapitalized entities, that may create an opportunity for growth for Park as we look to the future.

Park at launch will be one of the top 25 REITs when you compare that to last 12 months EBITDA. So again, it's scale, it's chunky, this is a big startup. And given the amount of work and the experienced team, it's a team and a platform that's -- Waldorf Astoria Orlando and the opportunities there. As you look at Casa Marina, again, landmark; has a RevPAR of about $300, the largest in the portfolio.

Look at San Francisco. We control 3,000 rooms within a block and a half. 168,000 square feet of meeting space. And even though San Francisco's going to have somewhat of a tough market, we have the ability to group up, we think we're going to largely be insulated, certainly more than our competitors.

New York Midtown, New York, again a tough market today. But please keep in mind, all that supply is still getting absorbed, market's still running 85% occupancy. Really is a rate issue there more than anything else. Love our asset there, love our location, love the long-term potential.

Chicago. Again, 1,544 rooms, 190,000 square feet of meeting space there, ROI opportunities that we're beginning to explore. New Orleans, 1,622 rooms, over 40,000 square feet of meeting space. Tremendous opportunities there. Rob is going to talk a little about some of the ROI opportunities. Same with Hilton Orlando Bonnet Creek.

If you take a conservative, just from a replacement cost standpoint, and you look at a multiple range of our peers, we come up with a discount to replacement cost conservatively of 46% to 57% in our portfolio. We think a huge opportunity.

Again, top 10 assets, probably at about $790,000 a key. Again, if you look at the entire portfolio, about $525,000 a key. Those are conservative. That's internal work. We will be doing more work on that, but conservatively, this is an iconic portfolio that would be near impossible to replicate.

I talked about this earlier in my opening remarks, and let me reemphasize it again because I think it's really important. Again, our focus -- because I had a great lunch group and asked a ton of questions. We're going to be focused upper upscale and luxury, top 25 markets, premium resort destinations. That's our window. We want deals of scale, over $100 million. What we'll show you is that those larger deals, $100 million to $250 million, trade at a higher cap rate, there's less competition. Many times those deals are done off market. That will be our focus. We will not be chasing smaller deals that are not going to move the needle and give us the growth platform that we want.

We will, as I talked about, we will seek to diversify brand and operator over time. Chris, you missed my love of Hilton and all my comment, but I wouldn't be where I am today had it not been for the great opportunities I got at Hilton. But Hilton also shares that philosophy that we're going to want. It's important for Park also to have a diversified platform. We start with an incredible platform with an incredible partner and operator in Hilton. And we're going to continue to grow that, but we will look over time to diversify both brand and operator.

There are tremendous ROI opportunities. We're going to highlight three for you today, just some of the preliminary work. Again, the team has just formed. We've just been up and running literally for six months. Can't wait for the spin to be completed. But this will give you a flavor of the type of things that we're going to be looking at in the future as we look to activate the real estate.

And again, we will -- it's important; it's part of that prudent capital allocation that you look to recycle capital. That will be a focus for us. Very much those of you that know my history, we were very active in recycling capital. I think it's terribly important that you -- part of the portfolio management that you recycle capital.

Talked a little bit about this. Again, when you look at what happens in those larger deals, this was provided by Eastdil. If you look at -- if we just highlight on two of those deals over $250 million, for an example, average number of bids 3.8, again versus deals that are under $100 million. And then look at the percentage of those that also trade at off market or a preempt; 27% versus 7%. And look at the cap rate. Find that those deals also trade at a higher cap rate. We don't have the same amount of liquidity. So it's terribly important. We think our size and scale gives us a great opportunity in that respect.

This actually is one of my favorite slides. And I'm going to close out on this. And this is a slide, as the team will tell you, it's a variation of one that I had. I've used this slide and a variation for 15 or 16 years. And my thesis has been, and I think it ties into the great work that Chris and the team did this morning, and that is, brands matter.

And what I love about brands from my standpoint, from an owner standpoint -- now I started my remarks in the beginning intentionally. I had a private company. We did three private equity funds. I took a company public. So I've lived through this. And what I've seen over the years is that the advantage you get with brands is you get brand segmentation, and that's important. You get the global sales. You get the worldwide reservation system. But Chris hit the nail on the head this morning, and that is it is the RevPAR premiums that is the absolute key.

And my number's different. I don't know whether Jim is here or not, but my number's different a little bit based on my own research that I've been tracking for years, and that is if you look largely -- and it's largely a two-horse race between Hilton and Marriott -- but if you look at those brand premiums just on individual, they range from about 6% to 25%. I've been tracking that for 15 years or more, and it's consistently been in that range.

And you look at Hilton today at 14%, that is meaningful. That means you're getting more on the top line with, again, if you can move the margins, then you're getting a higher return on invested capital. I believe passionately in that. And the soft brands only give you that brand extension, which again gives you that flexibility to grow. So, believe very strongly in brands matters. So for us, as we move forward, a brand strategy will be also an important part of our growth strategy as we move forward.

With that, I'll turn it over to my colleague, Rob Tanenbaum, who I'm thrilled to be working with.

Rob Tanenbaum: Thank you, Tom, and it's a pleasure to be with everyone today and talk about Park's asset management program. Our approach is for an active asset management platform that differs from the past where our team focused mainly on capital projects. While we will certainly have our eye on maintaining our capital plans, we're pivoting to a traditional owner-operator asset management program.

More specifically, our path to success is clear as we focus on the following mottos: hope is not a strategy. We cannot cost cut our way to greatness. Every dollar counts. There's always another opportunity to look at, be it revenue generation or cost containment, and return on investment comes in many forms. Most importantly, we did not invent the pillow, nor are we saving lives. We're here to create shareholder value via a hands-on approach, working in collaboration with our operators.

Our focus is on five areas, the first of which is expanding the strong relationships with our hotel operators via proactive communication that is both timely and accurate. In other words, no surprises.

And the next we're focusing on understanding our market dynamics. We're building strategic plans that seek out new sources of business, while developing reverse marketing plans for changes in supply.

Third, we're driving revenue management via the various sales channels which were spoken about today, instituting premium pricing where applicable, looking at growing our both shoulder and weekend occupancies.

Our fourth area of focus is going to be on the continuous improvement of property level operating performance, much to what Tom spoke about. We're utilizing a drive for 65 mantra, which means we're looking at $0.65 of every incremental dollar coming down to the bottom line as compared to the traditional 50/50. We're going to understand our profitability by business segment and source. And most importantly, we're going to develop very thoughtful cost containment plans.

Last but not least is our forecast accuracy. We're going to be reviewing our forecasts on the 1st and 15th of every month, which is going to allow us to adjust accordingly. Our proactive implementation of this focused approach includes weekly revenue management calls, spending time with our sales teams to better understand the group and transient booking paces. We're also developing a business intelligence system, a BI system, that's currently under development. And we're going to benchmark key performance indicators, KPIs, including food costs, beverage costs, controllable expenses, and labor productivity.

This is a point of privilege for Park that will allow for in-depth discussion both with our operators, and allow us to share best practices across the portfolio. I can't stress that part enough; the ability to take the learnings from one hotel and bring it across to another. And we're going to be able to do that over the full 67, given this BI system.

We're also going to spend quite a bit of time working with our operators, being on site. We're going to be reviewing our monthly and quarterly operating performance. On our top 15 hotels, we'll be there every month. On the remaining portfolio, we'll be there every -- twice a year, though in between we'll always be reviewing our calls with them on a monthly basis. But we're going to be working collaboratively with our hotel teams to improve the operating fundamentals on both the top and bottom line via revenue analysis and cost opportunities, and we're going to be setting stretch goals of 25 to 50 basis points every month for their teams.

We're also going to be leveraging both our in-house and external resources. We recently hired a director of retail to look at our large retail platform which extends over 300,000 square feet of retail. We're going to also address rooftop antennas and parking revenue, as well as high speed internet.

Now that we've provided an overview of our operations approach, we're going to spend the next few minutes talking about our capital program before we turn over the presentation to Sean.

With regards to CapEx, our focus is to protect the physical integrity of each asset. Within the past five years, over $1 billion has been reinvested in Park hotels as we've focused on driving market share with thoughtful guest room and public area renovations that adapted to evolving customer preferences and latest technology needs.

At our largest properties, new food and beverage outlets, including the introduction of grab-and-gos, will continue to improve our food and beverage margin. In fact, from 2011 through 2015, Park's 5-year CapEx spend was 9.4% of total revenues, which is above the average of our full-service peers. Most importantly, there is no major deferred maintenance CapEx projects on the horizon. And on a go-forward basis, we expect our CapEx run rate to be 6% of total revenues.

From an ROI perspective, we'd like to highlight the value creation opportunities at three properties -- the 1,622 room Hilton New Orleans Riverside; the 2,860 room Hilton Hawaiian Village in Waikiki; and the 1,499 room Hilton Waldorf Astoria Bonnet Creek.

Our first opportunity is at the Hilton New Orleans. This outstanding property has two development opportunities, given the significant available floor area ratio, FAR. And is located adjacent to the 1.1 million square feet New Orleans Convention Center. We have an 8-acre parking parcel in between our hotel and the New Orleans Convention Center, as well as a parking garage that can be torn down and converted to a higher and better use.

More specifically, this parking parcel is known as the whale lot. The reason for that is that there's an enormous whale mural on the hotel wall overlooking the parking lot. The opportunity exists for us to explore various options that create the highest and best use, including adding hotel rooms, meeting space, or selling the land to the Convention Center. Or more importantly, probably a trio of all three options. While at the World Trade Center parking garage, we can add a luxury tower after we tear it down.

For our second project at the Hilton Hawaiian Village, it's in the true sense of a village. This 22-acre site boasts an incredible beachfront on Waikiki beach, with 2,860 guest rooms, nearly 145,000 square feet of retail space, 20 restaurants and lounges, 5 pools, a spa, and 96,000 square feet meeting space. You will never feel alone here as this property runs an annual occupancy of 95%.

With the spin, we're acquiring three parcels along Ala Moana Boulevard, adjacent to the Hilton Hawaiian Village. This is the second to last piece of available land on our square block that we currently do not control, and will allow for the development of a high rise building that will optimize additional FAR. While we'll have retail on the ground floor, we'll be studying the highest and best use, including hotel, timeshare, and/or residential.

Our third opportunity is at the Hilton Waldorf Bonnet Creek. This is a unique property that provides guests the best of all worlds -- Waldorf and Hilton. Combining true luxury and upscale amenities, including two zero entry pools, a 3-acre lazy river, a Rees Jones 18-hole championship golf course, 12 restaurants and lounges, and 174,000 square feet of meeting space, all situated within a 482-acre nature preserve that is surrounded by Walt Disney World.

The opportunity exists to redevelop current tented space to over 40,000 square feet of multipurpose space, including a large ballroom and appropriate breakout rooms. This $50 million investment is expected to generate an incremental $10 million in EBITDA annually starting in 2020.

We are thrilled at these three large opportunities, and our team continues to be focused on additional ROI projects, including adding guest room keys, installing grab-and-go food and beverage outlets, instituting energy efficiency projects, as well as optimizing under-utilized areas.

Thank you. And now Sean will present our overview of our financials.

Sean Dell'Orto: Thank you, Rob. Great to be up here for everybody. As Tom mentioned earlier, it's very exciting to kind of be at this point, talking to the equity side, after doing a bunch of work on the debt side. We still continue to do so. So I'm very excited to be at this point, and looking forward to kind of getting out and to launch these spins.

So first, I wanted to just acknowledge and thank the leadership, Chris, Tom, and Mark, across all these three companies, because it's been needing a lot of people doing an incredible amount of work to makes these things launch, which will all be successful businesses on their own. I think the amount of work that's been done I think cannot be underestimated. A lot of folks have been involved, a lot of talented men and women putting this thing together. So I at least wanted to acknowledge them before I start getting into the balance sheet for Park.

I think in the end, Park's balance sheet is a microcosm of all the work that's been done across the businesses. The philosophy was to set these up, each business with -- set them up for success, and I think the debt and the balance sheet for Park is a perfect example of that.

We've took a portfolio, which you probably saw from the Form-10, that was north of 5 times leverage, $4 billion of debt on it. And we sought to 1) deleverage the portfolio; 2) optimize the balance sheet, the capitalization and the mix of that debt; and 3) allow this company, as well as the others, ample cash flow to run its business going forward.

And so with that, we did a lot of work to reduce leverage by $1 billion, and move that leverage from over 5 times -- net leverage from over 5 times to just around 3.9 to 4 times when we launch. It's an incredible amount of deleveraging. I'm very happy where the balance sheet sits as we go forward.

Optimizing the balance sheet and the capital structure, we basically refinanced the entire capital stack. We took what was an old CMBS loan from 2013 and a single asset mortgage on Bonnet Creek, and we replaced it with $2 billion of CMBS, long-term fixed and very well leveraged in terms of -- modest in terms of loan-to-value to three assets that we put the debt on. We also are in the midst of closing, working to close a credit facility, which will give us a $1 billion unused revolver at close, as well as a $750 million floating rate term loan.

Together, all combined, we've reduced the average interest rate of Park from where it started at 4.3% to 3.7%. We also increased the fixed component of that, which is looking good right now since we were able to fix everything before the recent run-up in the benchmarks from about two-thirds fixed to 75% fixed. So we're happy where we stand right now, and that we'll certainly look at the floating component as we look at post-election dynamics going forward.

We extended maturities, and I'll show the maturity graph on the next slide, dramatically. Right before we refinanced the debt, our CMBS only had a couple years left on it, and Bonnet was one year beyond that as well. So, kind of an average maturity of call it 3 years or less. I'll show you the results on the next slide.

And then ultimately, with ample liquidity, again a revolver with $1 billion undrawn on it to start, along with about $100 million to $200 million of cash flow on the balance sheet, when pro forma for after our E&P purge, which we have to do as part of converting from a C-corp to a REIT, we currently anticipate that being somewhere between $550 million to $650 million in total cash, which simply will end up being around 20% of that. So call that about $120 million at the midpoint which will be additive cash that we'll have on our balance sheet to start. So pro forma for doing that in probably the first quarter, we'll have somewhere between $100 million to $200 million to work with going forward.

From a dividend standpoint, we're going to be -- I think Chris mentioned early on, you have a low basis in these assets. This will generate a great and very attractive yield for the shareholders. We certainly -- we would expect to pay about 65% to 70% of FFO, so very attractive there. We look forward to giving everybody their dividends and as Chris would want in cash. So we'll make sure to get that in cash.

Turning to the next slide is our maturity table, as I mentioned. So, on average, just a little bit below 8 years of weighted average maturity, again, extending from almost 3 years. We, in our CMBS, we fixed it long term on our Hawaii asset. But we took San Francisco and put a 7-year fixed on it to give us some tenure, but also gave us a 3-year call on that one. So we have flexibility to get out of that loan and ultimately have 50% of our capital stack fully prepayable in about 3 years. So as we think about going investment-grade and managing the capital stack over time, going to unsecured bonds as we do that, we have flexibility to do that over time without too much friction.

With that, that was a quick run through the balance sheet. I'm going to put the highlights here of the investing in Park on the backdrop, and we'll ask Tom and Rob to join me on stage for Q&A session. Just so you know from housekeeping, there are some slides in the appendix behind this main presentation that is our -- what we want to do is show people what the portfolio looks like with 67 hotels in place from a historical perspective, because the Form-10 really doesn't do that effectively for you because we have the Waldorf in past years and other transactions. So we're trying to right-size for disc ops to give you what this portfolio did in the past, as well as some ancillary information on our JDs and the like.

So with that, I'll open up for Q&A.

Tom Baltimore: I just want to note as I've been back at Hilton now about six months, and listen to Chris and Kevin and Sean talk about the money page as most of the presentations, we wanted to make sure we had our own money page that showed really the story and real benefits of Park.

Sean Dell'Orto: Dressed in green.

Tom Baltimore: It's dressed in green.

Scott Craig: So when it comes to negotiating the management contract between the owner and the management franchise company, the owner always wants maximum flexibility on things like termination on sale or doing things within the asset or --. And of course the management company wants less. How did you address that as you were negotiating these contracts, and where did you come out on some of the big issues that matter from an owner perspective?

Tom Baltimore: It's a great question. I got peppered by my lunch guests at the table. But let's step back and look at this objectively. If you think back to other scenarios -- take Host and Marriott when they got done -- clearly the spinner is going to have a great deal of influence over that process. In fairness to Chris and his team, there's no way that they were going to spin out Park and not have the iconic portfolio, which are 6 of the top 10 assets in their portfolio worldwide that they wouldn't be managing.

We also think, as I think back again to my own background, having the big brand managers -- and I'll put Hilton in that category -- their real strength is managing those big convention center hotels and those iconic resorts. So we embrace that. We didn't dispute that at all. As you get into the fine print of negotiating, once you accept the fact that they're going to be encumbered -- and they are going to be encumbered long term; 50 to 70 years. Let's get it on the table. I think it was in the Form-10, so there's no surprise there. Then you focus on the other levers that are going to be important to an owner. I've been on the other side for years, so I have a good feel for that.

What are the things that are most important? I want to have approval rights over the general manager and key personnel decisions. I want approval right over the annual budget. I want approval right over the CapEx. And then clearly in most situations, you want performance measures, and you want those with as much flexibility as you can to really hold the operator accountable.

I think we've struck the right balance, given the circumstances. In a perfect world, if we were buying the hotels, and take a $250 million ex-property and we then control that, the terms would probably look differently than what we've entered into here. But I think we've found the right balance for all the key stakeholders.

Anthony Palo: Hi, Anthony Palo at Barclays. You mentioned a few times about energy ROI projects and also the grab-and-go CapEx. How far along are you in implementing that in the portfolio, and what's the ultimate upside to EBITDA for those types of projects?

Rob Tanenbaum: Certainly, Anthony. We're looking at some cojan opportunities for us in Hawaii, and we're looking more specifically at the Hilton Hawaiian Village, an opportunity there. We're still studying it. If that works, then we would apply it to Waikoloa. So those are opportunities there. I don't have the numbers yet on that, but those are -- we're working with Hawaiian Electric on understanding those opportunities.

Other small items, for example, is like taking low flow toilets and going from a 1.6 to a .08. So it ranges in size, but from very large to very small. But there are opportunities there.

From a food and beverage perspective, we believe that we can enhance our margins over time, working in coordination with our operators on the food beverage side. And as we grow our group base, we think those margins could further improve.

Anthony Palo: Got it. And a follow up on that group base, particularly in New York. As the Waldorf across town goes under renovation next year, can your asset maybe gain more share in the group space where you are -- where are you in the group now and where can you go?

Rob Tanenbaum: Certainly. So Hilton's done an amazing job transferring quite a bit of that group base over to the hotel, and we've gotten about $7 million worth of business transferred over. So we're thrilled about that both in group nights and local catering.

Thomas Allen: Hi. Thomas Allen, Morgan Stanley. So when you're thinking about your payout ratio for the dividend, the 65% to 70%, how did you think about kind of benchmarking the peers?

Sean Dell'Orto: It is higher than the peers. I think ultimately it's a, I would say it's a result driving through, paying out 100% of the taxable income. Again, as you think about our basis and whatnot, you'll result in a relatively, a lower shield than others would have. And so driving that kind of leads you to a result of about two-thirds of FFO. I would think -- I would say that's probably about at least 10, 15 basis points higher than I would say -- or I should 10%, 15% higher than the comp set.

Tom Baltimore: If you look historically, in my experience, you'd want to be 50%, 55% of FFO. So, we're a little higher, but again, given the low tax basis as Sean. As we grow, and again add more shield, we'll be able to reduce that and manage that. But again, out of the box, it's a very healthy dividend for investors.

Thomas Allen: And then just following up on that, when Rob, when you laid out the ROI projects, is most of this going to be done on your own balance sheet? Are you looking to bring partners in? How are you thinking about it? Are you looking at selling?

Tom Baltimore: We're certainly not looking at selling the iconic portfolio. Initially we'd prefer certainly to pursue it on our own, but as you look at New Orleans, that's one that where a mix use could make sense. As Rob outlined, you've got the convention center that would like to expand. Perhaps they build space, they build a podium. Perhaps there's an opportunity for additional, whether it's residential, whether it's a hotel tower, we think there's a lot of opportunity there in that particular parcel. So we will explore.

We're early in that process, but I think the message to is, as we begin the launch process, we are going to be aggressive in looking at opportunities to activate the real estate. And again, consistent with what Chris and Kevin and team have been talking about, one of the reasons for the spin, one of the things that really attracted me were all these embedded ROI opportunities; part of the four growth levers that I talked about.

Thomas Allen: But to be clear, could you do a timeshare business or a residential the way the REIT's structured?

Tom Baltimore: We certainly aren't in the timeshare business, and we've got a partner that will be speaking shortly, talking about their platform. Residential was not necessarily the focus, but it could make sense in certain situations. Maybe we sell that, maybe we end up doing a separate hotel tower, but there are ways it can be done.

Thomas Allen: Thank you.

Robin Farley: Thanks. Robin Farley, UBS.

Tom Baltimore: Hi, Robin.

Robin Farley: Hi. Can you talk about kind of longer term strategy, do you see your growth as more individual asset purchases or more consolidating some of the smaller REITs out there, or kind of what you see longer term?

Tom Baltimore: I wouldn't be here, as I said in the beginning, if I didn't believe there was a significant opportunity to grow this business double, triple the size of it. And I think that's going to be a combination of large scale, single asset, as well as looking at M&A at the right time. Our industry is ripe for consolidation. It has been for some time. And again, having another large, liquid name, we believe that's going to be attractive to investors.

Robin Farley: And just in terms of where we are in this cycle, can you talk about timing? In other words, do you feel like the idea of doing that in the next 12 months is the right time in the cycle?

Tom Baltimore: I don't. I wouldn't think -- it's hard to predict when M&A will happen, I think from that standpoint. I think if you look at the cycle where we are today, clearly the last 30 days have been better and more encouraging. Chris and others I think talked about it.

I think the thing to keep in mind is look at the last three cycles. Today we're probably month 80 now in this cycle. If you look at the cycle before that was about 56 months. Really cut short in part because of 9/11, because of the Great Recession. If you look before that, 1990 to about 2000 plus or minus, that was really an 80-month cycle, and then we had the Russian debt crisis in August of 1998. I actually was working for Hilton at that time in California. And then we got another 30 months onto that cycle.

So, this looks and feels early, but we could get extra innings here, and that could be many, many months, if not years. Particularly if we get a real catalyst and some momentum, whether that's loosening a regulation, whether that's tax reform, whether business investment begins to pick up. That being negative this year clearly hasn't been helpful, given the high correlation that you've got between non-residential, fixed investment, and hotel room demand. So we are cautiously optimistic.

Unidentified Participant: Hey, Tom.

Tom Baltimore: Hey, Wes. How are you?

Unidentified Participant: I'm doing well. So, sticking with that last question, you are okay being a full cycle acquirer, as long as it's accretive. And do you think any of the -- you've highlighted social issues in the past. Do you think those will abate -- after we've had a rough go of it in the last two years, do you think those are starting to erode?

Tom Baltimore: Social issues are always there, Wes. And I certainly don't mean to imply that we are going to be M&A -- first of all, there were no discussions that have occurred with anyone at this point. But I would also say, I think you know me and know my history; I was as active at managing the cycle as anybody. That's both acquiring and recycling and selling. So you can expect that we will watch those levers. We will be a very smart and prudent capital allocator, looking for opportunities. If there are accretive opportunities, we clearly will explore them.

I think really, we're anxious to get the launch completed. I think we've got a wonderful team. I would respectfully submit, I think best in class in the lodging REIT, when you look at the talent of the men and women that we've assembled, look at the strength of our Board. We've got a wonderful platform, an iconic portfolio, and we're anxious to get at it. And really, we're beginning to gel as a team. We've been together in the same office now for two months, and we've been working on this. Sean and I, when I first joined back in May, it was really just Sean and I, and he had three jobs. It was kind of me by myself, and we've been building, working with Hilton and others, building out the team, and I think we've accomplished a lot in the last six months.

Ryan Meliker: Hi. Ryan Meliker with Canaccord.

Tom Baltimore: It's good to see you, Ryan.

Ryan Meliker: Couple quick questions for you, Rob. First of all, I think in the slide that was mentioned before, over the past 5 years, you guys have spent roughly 8% of revenue in the form of CapEx across this portfolio. Obviously that's higher than what we normally see. From an FF&E reserve, do you think this portfolio requires a little bit more CapEx than that 4% to 6% that we normally see in FF&E reserve, or do you think this was outsized items and we won't see those types of levels going forward before we even get into ROI?

And then the second question was, you've done a great job in past lives squeezing margins and being able to really drive the last dollar out of the assets. Do you see a lot of low hanging fruit across this portfolio that doesn't require a lot of ROI?

Rob Tanenbaum: Great. Thanks, Ryan. First to start on the CapEx side. We believe the 4 to -- to your question -- that 6% will be our run rate going forward. And so no -- I think what was done previously on the 9.4% spend over the past 5 years addressed many issues, and we think going forward we'll be in good shape there.

With regards to the opportunities, it's very early on, but I've been out to the top 10 hotels -- actually top 10 plus hotels -- meeting with the teams. First, we have incredible operating teams there who understand the mission at hand. We're really in great partnership with Hilton. We have a dedicated team associated with us. And we really believe that there are opportunities. I won't say there's low hanging fruit, per se. But there's, as we spend more time working with the teams, we believe that we can drive both topline revenue and the bottom line through effective cost containment.

Ian Weissman: I think we have time for one more, if there's another question in the audience.

Scott Craig: Since no one else took it, I'll take a second one. Scott Craig, Eaton Vance. You mentioned brand diversification being something that you're thinking about over time.

Tom Baltimore: Yep.

Scott Craig: How important is it to make that happen quickly? And is selling a chunk of assets to redeploy into other brands something you'd look at? And related, you mentioned the top 6 assets Hilton is particularly focused on. Are there any of your assets you just can't sell at all? Or is it that you can sell them, but the contract is tight and the buyer would take that into account?

Tom Baltimore: We can certainly sell any of the assets. And there's 21 that account for that are long term, whether they're 50 or 70 year, but those contracts will remain in place.

Regarding the brand diversification, we will look opportunistically. We're not going to just do a deal to get another brand in the family. It's got to be a deal that's compliant with strategy. I want something that's of scale and that will be compatible and compliant with what I've outlined today.

Now I don't think -- look, long term, as we've talked about and I know our partners at Hilton agree with this -- it is important that we have a diversified portfolio. So that is something that we will look to execute over time.

Thank all of you for taking time. We're overwhelmed with the response. Well done.

Unidentified Participant: Well, good afternoon, and I appreciate you all being here today, and we're thrilled to be here as the closing act. Thanks to the Park guys for setting this up for us. In a few minutes, our CEO, Mark Wang, is going to take you through the HGV story. And then our CFO, Jim Mikolaichik, will take you through the numbers. And then finally, we'll have Q&A afterwards.

And before Mark comes up, though, we would like to share a short video with you to introduce you to our extremely loyal customers, and to highlight some of our very amazing properties in our system. So without any delay, let's roll the video.

[video plays]

Mark Wang: Thanks for staying. Well, good afternoon. I didn't think we were going to have this big a group here. Do we have a prize for these guys, Chris, afterwards? We should, we should. Anyways, I appreciate you guys staying here and spending the afternoon learning more about Hilton Grand Vacations and our business and strategy.

It's an exciting time for us. And I hope you enjoyed that quick video. I thought opening with the words, the voices, the pictures of our HGV members would make a lot of sense, because a lot of what I'm going to cover today is because of them. And you've heard from two very seasoned, and I say seasoned CEOs. One who've I reported to for the last 9 years, Chris, I had this really cushy office in Hawaii, and he called me up one day and he says, you need to come to Beverly Hills, we need to talk. And I'm like, well why do I need to come to Beverly Hills? Well, we'll talk about it. So from Hawaii to Orlando. And it's been a great transition. It was a little difficult for my wife to get connected with the Orlando move, but anyways.

Quick background on me. Been in the industry for 35 years, 18 with Hilton. So two more years longer than Tom. And 9 years as a president of HGV. And so I know what it takes to run a successful timeshare company. And it appears that working with this group now is the new part of my job. This is new for me. First Investor Day. Haven't spent much time in front of investors, but I look forward to engaging with you guys in the future.

And I've learned a lot during the spin process. And one of the things that's become really clear to me is, especially in our bond show a couple weeks back, was that our industry still remains a bit of a mystery to many of you out there. Though, I got to say that the lunch group I had today, they knew more about the business than I did. It was amazing all the questions they were asking. But I've heard that people really want to understand what our product is and how our business really works.

Let me start off with who we are. We're the premiere operator and have been the fastest growing company in the industry. We've got a great brand. High quality product, sophisticated marketing approach, very disciplined sales process, strong leadership, leading capital efficient model. And all of the above things I just mentioned has resulted in high customer satisfaction and the industry's best financial performance.

And before I get into the business, let me share the incredible flexibility and the quality of our product. And I use my own personal homepage here, HGV homepage for an example, because I've actually been a member of HGV since 1998; a year before I started with HGV. And you can see, I own two different units. I own two weeks in Hawaii. These are deeded weeks. You own them in perpetuity. Each week has a point overlay, so since my two-bedroom lagoon week is ocean front, I get a premium, I get higher value points, 9,600 versus 7,000 points. And in total I own 16,000 points that are available to me on an annual basis.

And so my first option is I can reserve time at my home resort every year. So I have a priority window. So those Hawaii weeks that I bought, I have a priority window to stay at those properties every year if I want. But I can also use those points to stay at any one of our 46 HGV properties. Or I can convert my HGV points into Hilton Honor points and stay at any one, was it 4,800? It's growing so fast. I had 4,700. I think this morning Chris said 4,800. It's growing so fast, but I can stay within any one of those properties in the Hilton system, or I can convert the points and I can use it for a cruise or I can use it for airline miles if I want to exchange it for airline miles. In total we have over 14,000 unique vacation options that you can use.

So there's tremendous freedom to customize your vacation with us. And over the years, we found that 93% of our customers stay within the Hilton ecosystem. So they really prefer to stay within the Hilton ecosystem, and I think it's because of the quality of service and the experiences that they have.

And our owners really love the quality of our product. And here's one of our new properties, the Grand Islander. Grand Islander is actually being developed at the Hilton Hawaiian Village. And this is actually being developed by Blackstone and ADIA. And I'm going to talk a little bit more about how our fee-for-service model works, but this is a beautiful property. And our units, while they're focused service in nature, the quality is upper upscale, and in some cases luxury.

Another aspect that our members love is the size of our units. This is a typical two-bedroom floor plan. The red box represents the average hotel unit. So our units are 2 to 5 times larger, and they include full kitchens with many of the comforts that you get at home.

So, many of you are probably thinking, who buys timeshare? Who's a customer? Well obviously I bought one, but I'm in the business. But who are they? First, they're uniquely loyal. They're high quality with six figure incomes. They're stable; over 90% own their homes. And these folks love to travel. On average, they spend 25 days a year for leisure travel. Just like you guys, 25 days a year? I'm in the business and I can't get away for that. My wife was complaining the other day, you know how much PTO you have? I said, I know, I know. We'll get to it. Is that transferring over, Chris, that PTO? Okay, good.

And they're trending younger. 16% of our new owners this year are millennials. They fall in the millennial generation. And it makes sense because millennials love their travel. And as I talked about before, household formation is important. The upper end of the millennials are finally forming and buying homes and starting families. And they're also very satisfied. If you look at our delinquency and default rates, they're below 2% and 3% respectively.

So, I've talked about our product and how it works. Now let me talk about our business and who we are as a company. And I believe we've created a new paradigm in our industry. When you measure the outputs, there's clear indicators that we have led the industry in quality growth and innovation coming out of the financial crisis. It starts with our exceptional product; 46 great assets and growing.

Another competitive advantage is our capital efficient inventory model. Over the last five years, we've completely transformed our inventory model, pioneering a new fee-for-service model. In the last 5 years, for every dollar we invested in inventory, our third party partners invested approximately $2.50. Last year, 58% of our sales were fee-for-service from practically nothing 6 years ago. And since the industry peak in 2007, contract sales have grown at an 8% CAGR, and we've doubled our owner base.

And in the last 3 years, we generated over $500 million in free cash flow, and in the last 5 years over $1 billion in free cash flow. And our return on invested capital has moved up 3 times to just over 40%. And despite lower margin fee sales, our EBITDA's increased 75% since 2011.

So how's the business really work? Our business breaks down into four lines of business -- real estate, which is about 45% of our business; finance, 20% of our business; our club and resort, 20%; and rental is 15% of our business. And I've had a number of investors especially on the road show ask me, can you tie a single transaction to our P&L? And I thought it might be helpful to show this using a customer lifecycle. Jim's going to provide a lot of the details in his remarks, so let me show you from a customer lifecycle how this works.

We start by servicing new customers and selling them deeded weeks. We earn margins on our own real estate, and we earn commissions on third party real estate. We also provide credit for customers who prefer to finance. Approximately 60% of our buyers are using our financing on which we earn healthy net interest income. And all of our customers become a member of our club and respective homeowners' association, so we earn annual dues and transaction fees for club services, and our club and HOAs are in perpetuity. They're members in perpetuity, so they're highly predictable and they're highly reoccurring fees.

In rental, we use rental to monetize unsold weeks. So when we have inventory that hasn't been sold yet, we rent those weeks out on Hilton.com. And the ancillary revenue comes from our spas, our retail, and our F&B.

And to complete the lifecycle, we have 20 years of historical data showing there's a high likelihood of upselling a new buyer in the future. And we estimate on average for each dollar that's invested, we're going to get another dollar invested in real estate in the future.

And another way to look at the lifecycle is to follow the revenue. And approximately 37% of our revenue's captured by the initial real estate sales. So in essence, 60% of the value of the owner is tied to activities after the initial sale -- 10% for financing, 13% for our club and resort. And our financing and our club are both 70 margin business, 70% margin business. And 39% on the second sale where the margin is actually higher as the cost to upsell an existing member is lower than it is to source a new buyer.

Okay. Do you get it now? Well, you've heard me talk about the quality, the flexibility, the vacation nature of the product. You've seen the diverse lines of our revenue and how we generate that revenue, and many of which are reoccurring in nature. Now let me step back and share a little bit about the industry overall.

We've seen a significant evolution in the business. It's come a long way from the condo conversions in the 80s. And revenue growth has been strong, moving from $1 billion to $8 billion. We've seen significant consumer protection put in place. And single site developers are either -- they've either consolidated or they've left the business as they've been crowded out by the larger hospitality companies.

This shows a new era of branded timeshare companies. You can see the strong growth leading up to the financial crisis. We had great growth going up to the financial crisis, then there was a 40% drop, but it's trending back nicely. And as you can see it here, we're one of the later branded companies or entrants to join the space back in 1992.

Here's another view. And Tom said he had his favorite slide; this is my favorite slide. And Chris knows, Kevin knows, everybody from Hilton knows because I've only been able to show this internally for the last six years. But here you can see this is sales based from the peak in 2007. So this is your growth from the peak in 2007. We're up 80% to peak, and that's represented by the orange line. Wyndham has gotten back to peak, and VAC and SVO are moving up, but they're still 50% below peak. And during this period of time, we moved our market share from 5% to 12%. And not only have we won in terms of sales, reaching over $1 billion in sales last year, we're substantially ahead in capital efficiency and net owner growth. And I'll talk a little bit more about that in a minute.

So, this is usually where I'm asked, how did you trump the bad macros and outperform the rest? Clearly, there's a number of things. There's not just one or two things; there's a lot of things that went into this. But there's a couple that are worth me really talking about because I think they were the key key drivers in our success. The first is winning new customers. We won new customers at a faster rate than the rest. Second, we added the right inventory at the right time in a capital efficient manner. And when you combine that with the work that we did with Hilton, and the great execution and the strong customer engagement that we had, it's led to really good outcome.

And so let me provide a little bit more color on each of those two core strategies. Since the downturn, we've been able to achieve just under a 10% CAGR in tour flow growth. This year we're going to see over 300,000 guests go through one of our sales centers.

And here you can see our mix. 88% of our customers are sourced through Hilton channels. Direct marketing is our largest source of customer. And over the years, we've worked alongside the Hilton team to find customers who have a favorable disposition for our product.

And as you heard from Chris and Ian earlier, as the Hilton system grows, so does its customer base. Whenever Chris and Ian talk about our pipeline, I get excited because the more hotels that open, the more customers that come through the Hilton system. That provides great growth opportunities, not just for Hilton on the hospitality side, but it does for us, which really bodes well for our future. And when you visit one of our sales galleries, the goal is to provide a tailored experience, and we've achieved this by using cutting edge technology that's both intuitive and fun. This is improved engagement has led to higher conversion and efficiencies.

We've also been very strategic about our markets. While many of our competitors have wider footprints, our philosophy is we prefer scale. We like scale because we like high volume and inherent demand leisure travel markets. And these are markets, when you look at these markets, the orange bars represent the amount of annual visitors to those markets. And these markets are highly demanded by our owners, and they're highly travelled.

And in Japan, with a population of 125 million, roughly a third of the Japan population lives within two hours of one of our 7 sales galleries there. In our top 5 markets alone, we'll see nearly 200 million visitors a year. And this focused approach has led to economies of scale and lower customer acquisition costs compared to most of our competitors.

And as I talked earlier about the value of a new member into the club, the fact that 60% of the revenue comes after the first sale, as each new member really supports all of our business lines, you can look at this number here, we've had 23 years of consecutive net owner growth. And our owner growth has been diverse. If you look at the orange bar, the orange portion of the bar, that represents our Japanese market, which represents 20% of our base. So, that's how we engage the customer, and that's how we drove the demand, that's how we created the demand.

Let me spend some time now and talk about our inventory strategy. In 2007 and 2008, we invested on average about $400 million a year in inventory. And I think similar to the decision that Hilton made back in the 70s that they couldn't grow a worldwide hospitality company by building all their hotels using their own balance sheet, we had to figure out a way to capture the attractive economics of the business while investing significantly less in inventory. And we figured it out by implementing a new fee and just-in-time model, and we were able to reduce our capital spend by over 75% annually. Today, 78% of our inventory is capital efficient, which is represented by the orange part of that wheel.

And in 2008, 100% of our inventory that we sold was developed by us. In 2015, 22% of the inventory was developed and sourced using Hilton's capital. The benefits of developed inventory? Generate higher margins, very strong EBITDA, and we also benefit from the financing revenue, and returns are good.

Just-in-time inventory is built by a third party. We then acquire the inventory from the third party, usually in tranches, and we usually buy it close to the time we intend to sell it. 20% of our sales last year came from this source. And while the margins are typically lower than developed, they're still good, but the returns are higher and we still achieve the financing income.

Fee-for-service inventory. It's represented 58% of our contract sales last year. It's developed by a third party using third party capital. We take no balance sheet risk. We provide no guarantees. The third party provides the inventory, and we provide the branding, sales and marketing, and management services for a fee.

Our sales and brand fees range between 57% and 60%. And while this model provides lower margins, it does result in higher returns. And the other thing is we don't benefit from the financing here. However, we own the customer, and we retain all the benefits of club and HOA going forward.

So, this shift in sourcing of inventory has allowed us to go from spending on average $400 million a year in 2007 and 2008 on average to just under $100 million in 2014 and 2015. And our investment's down 75%, but our supply has increased by 3 times from 2 to 6 years. So back in 2011, we had a couple years of inventory. Now we're sitting on 6 years of inventory. 85% of that inventory, though, is capital efficient. Essentially we built our pipeline using third parties' balance sheets.

And here you can see how we supported our sales growth by the inventory mix. Over the last 5 years, we've had a 12% CAGR in sales. This growth was predominately supported by third party fee inventory, which is represented in the orange portion of this bar. So if you look at the fee mix on the bottom of the chart, we went from 8% to 58% over the last 5 years, and we improved our ROI C by 2,800 bps to just over 40%.

And here's a list of our third party developers that we've contracted to do fee-for-service projects in. And many of these names you'll recognize. And one of the things that -- excuse me for one second here. One of the things I've been asked is, is this model sustainable? Well, five of these projects were conversions, but four of them have been from the ground up. And we believe the proof point is that we've done multiple deals with developers and multiple ground-up deals.

Given the attractive returns and access to a great, strong hospitality brand like Hilton, and our ability to provide, and all the sales and marketing ability that we provide for our partners, we think this is sustainable. And quite frankly, we're seeing more opportunities than we can take on right now. We're very disciplined on our approach, and so we're seeing more deals than we can possibly take today.

So in total, we've done around 2,700 units. We invested $61 million at a conservative COP of 25%. We would have been required to invest approximately $1.3 billion if we would have used the traditional development model. We went from $61 million; it would have cost us $1.3 billion.

And we've been the first mover and the clear leader in this efficient source of inventory. Only Wyndham has made an attempt. The other question I get is, why haven't the rest followed? And my answer is, this is extremely difficult move. It took us 8 years to get to this point. And you have to be committed. You have to be committed to significant topline sales growth to offset the margin loss. And this is where our new owner growth and our efficiencies and scale have paid off. We accomplished this move from basically 0% to 58%, but we grow our EBITDA by 75%. That was a tough move when you're losing that much margin.

So, let me run you through our key investment highlights and why we believe we're an attractive company. First, our 100-year license agreement provides exclusive rights to the Hilton name and timeshare. It also provides access to Hilton Honors and all the benefits you've heard from Mark Weinstein this morning and Geraldine.

And importantly, it's 100% variable. This is something that Chris and I, at the end of the day, we felt was really important. And writing an 8-digit check at the beginning of the year in January, and hoping we're going to get results wasn't something that was comforting to me. Now we begin the year at zero, and it's really up to HGV and Hilton to be fully aligned to drive the value. And the agreement provides full access to the Hilton customer database. Today we have over 170 million past stay guests in our database of which 89 million are qualified? Sounds like a pretty big pool to me. Anyway, it's a large pool of future consumers.

And the next highlight is our product. We've got world-class assets in sought after markets. We believe our high quality customer is at the core of our success. We've talked about our customer already. We're leaders in net owner growth, outpacing our branded competitors by 3 to 9 times. 3 to 9 times we've been able to outpace our competitors in sourcing new customers. And again, the benefit from the relationship with Hilton and the scaled approach has really made the difference.

Next, we offer a differentiated and capital efficient model you just won't find in the industry. We're less capital intense with majority of new owners in concentrated, large markets. And we believe we're structurally advantaged today to respond to market growth.

Another unique strength for us is our base of business in Japan. We've grown our members in this market at an 11% CAGR since 2011. They make up 20% of our member base. They're our most profitable and fastest growing customer. And we own this market. We believe further expansion in APAC is achievable.

The industry, it's in a good place. The fundamentals are good. We look at consumer spending and employment up. This should translate into favorable leisure tourism. And consumer continue to buy as discretionary spend toward experiences like vacations, and they're moving away from things. They're spending their money on experiences and things. And the industry itself, as I talked about earlier, is not back to peak, so there's runway for growth within the sector.

And all of the innovation and growth that I talked about today is because of the management team that I have at HGV. These are dedicated and very experienced leaders. They are the ones that have made the difference. They've got proven track records, and they've operated efficiently. Just look at the margins. Compare the margins of all the timeshare companies out there. We're running 58% fee-for-service. Our margins are better than every branded hospitality company out there with 58% of our business being fee-for-service. It's because this team runs a very efficient operation. Our operating and overhead is below industry average. And we're lean, and it's allowed us to succeed quickly.

All right. And I'm really excited about my new board. Tom talked very passionately about his new board. This is a great board. We are going to be getting together here soon. And they're diverse in background and in industry, and simply some of the best in their field. And I feel they're going to be providing outstanding strategic guidance and leadership to me and the company management going forward.

So, let me finish off with talking about where we're headed. We want to continue to win. It's in our culture. We're going to continue focusing on growing our vacation sales. We're going to continue focus growing our member base, while adding to the value proposition of being a member. And we're going to optimize our capital efficient model to drive free cash flow and continued strong return on invested capital. And as a public company, we'll look to leverage our unique strengths to create new products, continue our strong relationships with Hilton and Park, and we'll look at opportunities in the marketplace for partnerships to expand our marketing and potentially M&A.

I want to thank you for your time today, and now I'd like to welcome our CFO, Jim Mikolaichik. He's going to provide our financial review for the Company. Thank you.

Jim Mikolaichik: Thank you, Mark. Good afternoon, everyone. I've got a couple of topics to cover on the financial side. We have -- I'd like to summarize again what Mark said, because we do get a lot of questions about how the business model works, how we make money, how we convert it into earnings, and how diversified it is and how resilient the earnings profile is for a timeshare business.

So I'd like to go through the business drivers again, put the historical financial facts to those business drivers and the lines of business, then talk through our three-year model outlook and assumptions. And then look to demonstrate our capital structure and liquidity at time of spin, coupled with our near-term outlook from a 2016 forecast for year end and a 2017 forecast for full year. We'll also give you some guide bars on what quarter one will look like, in our opinion, coming out of the gates in 2017. They even gave the financial guy a slide with sun on it and stuff, so that'll be the last one. Everything else will be bar charts, pie charts, and tables.

The business is actually a little bit more straightforward than probably we give it credit. As Mark said, we sell deeded time in resorts. We match with that the flexibility of a point system to be able to move around the network within our resorts, as well as throughout the larger network within the Hilton ecosystem.

Those real estate revenues are driven by a couple of things -- tours. Our marketing team needs to make sure that we continually generate tours and we get people to properties and we're able to engage them. And then it's close rate and pricing, and that drives our contract sales and our real estate revenue.

To that, margins are affected, as Mark said earlier, by our efficiency and sourcing inventory. What does it cost us to get the product together, and how efficient are we in engaging the consumer, sales and marketing costs, and converting those marketing tours to actual sales and to new owners. To that, Mark said half of our sales are coming -- a little less than half of our sales are coming in the owned inventory side where we get consumer financings. So from our sales, we derive about two-thirds of every sale is from an owner that desires to finance the transaction. And from that we get interest income.

We manage net owner growth in a very disciplined fashion, making sure that we're trying to keep as much of the existing owner base happy and interested in what they bought originally or interested in the flexibility of the broader system. And to that we add the discipline of making sure we're always doing the hard thing, which is trying to acquire new owners, which is more costly than selling to existing owners. And from that growing membership base, we get a growing and recurring revenue stream in our club and resort operations.

And finally, we have rental for unsold and unused inventory that helps offset costs and helps create profitability for us and our business partners.

So if we look, how did we do? How have we performed? Here you have 2013 through 2015 for most of our key business drivers. You also have the trailing 12 months ended 9/30 2016. On the left side of the page, you have our real estate business. We said tours matter. We've been able to grow this by an 8% compounded annual growth rate. And we had over 300,000 tourists through the trailing 12 months for the first time in the history of the company. But more importantly, we've been able to convert those tours to contract sales at an even greater rate. And we have had over 14% compounded annual growth rate in contract sales, now topping $1.1 billion.

And in the middle of the screen, you see that that financing business has also continued to rise. Our propensity has gone from the mid-40s to now over 66%. And we haven't scarified our underwriting. So we've kept to the same disciplines that we've always had in our underwriting standards, which has maintained our default rates, and in fact has actually even lowered our default rates in recent history, now standing at approximately 2.84%. And we also have an allowance for bad debt over the longer term that's a very competitive 10.5%.

And on the right side of the page, you see that we've continued to grow the member base 9% compounded annual growth rate. We now have over 265,000 members that really fuel the future of the Company, and we've been able to increase our club and resort management fee per member on a 7% rate.

So if you look at these same business drivers listed into the lines of business that Mark outlined before, which are four, we have real estate on the left side of the page. We told you the story about the 14% compounded annual growth rate now over $1.1 billion. The more interesting story there is the orange bars at the top of the page, on the top of the bar charts, is that you can really see the demonstration of the effort that went into building the fee-for-service business. This business is now close to 60%, and it's grown by approximately 2.5 times in just the last three years alone.

And while doing that, we've been able to maintain stability in our own sales, which is the blue bars on the bottom. They decrease slightly, giving effect of the effort that had to go in to really building the fee-for-service business, but you'll now see that we're starting to have a positive growth trajectory coming back into our own sales. And that is a strategic target of ours to make sure that we're maintaining balance and discipline in all of our sourcing on the inventory side, as well as how we're selling. And we've been able to convert that to a 7% compounded annual growth rate on the segment adjusted EBITDA side.

Our financing business, despite lower sales and owned inventory, has also continued to grow, driven by an increase in propensity and low default rates. And we now have almost a $1 billion portfolio in consumer financing with FICO scores that are near 740, and a strong earnings stream at about a 3% compounded annual growth rate.

On the other two segments are lines of business. We've actually had extreme leverage and growth. On the club and resort side, member growth at 9% has driven 21% compounded annual growth rate. On the rental and ancillary side, we have the same story, a double digit growth rate on the top line and a 31% growth rate on the bottom line. This is driven by additional properties, both fee-for-service and owned properties, existing owners staying in the system, new owner growth. And an ability to be disciplined on the cost side, and also a discipline on our rental inventory, making sure that we're doing what's right for our members and that inventory's available for them at their home properties when they want it. But knowing when we can move unsold and unused inventory to rental spots for marketing packages and to offset costs, both for ourselves and for our fee partners on carrying inventory.

So when this comes together, these four lines of businesses, the two segments, you have a very powerful embedded value. We have, if you look at the upper right hand quadrant, approximately 40% of our segment adjusted EBITDA is in contractual businesses. We have financing, club, and resort. Our financing business has on average 7-year loans. So about $1 billion. It runs wells out into the future and is contractual.

Our management contracts with the HOAs are long tenured and near no cancellations in this business. And when you put with that low delinquency rates within HOAs and low default rates within our consumer financing, we think that this provides an incredibly sturdy foundation for the business going into any year.

And on the lower left quadrant, you'll see real estate rental and ancillary. As Mark said, for every dollar spent in our company on the real estate side, we get another dollar of spending from those consumers. This gives us another 38% visibility or 78% going into the year.

And when you match that with sales and marketing costs that are highly variable and that have been disciplined, and have not risen in spite of the great growth trajectory we've had, brand licensing fees that are variable and an efficient inventory system, we believe we've got an incredibly resilient business with a lot of different levers to drive to growth in the future.

Enterprise view. All this culminated 9.8% growth in revenues, top almost nearing $1.6 billion. 10.4% growth on the adjusted EBITDA side, now over $400 million. Free cash flow of over $500 million of $675 million in the last 3.75 years alone.

So turning to a three-year model and as we look forward, I'll touch on a couple of these and then I'll show you a few graphs on how this looks as we push out into the future. We're expecting tour flow growth of about 4% to 6%, which should drive contract sales of 5% to 7% and net owner growth of about 6% to 7% with 27% to 29% margins. We believe this will drive total revenue growth of about 5% to 6% going forward over the next 3 years, and adjusted EBITDA growth of about 4% to 6%.

And we expect capital structure spending to be -- inventory spending at about $135 million to $165 million. Owned inventory we'd like to maintain at about 2 to 3 years with about $30 million to $40 million of non-inventory capital expenditures. And we believe we can put a free cash flow over the next 3 years on average $140 million to $150 million per year.

What this looks like graphically, jumping off from the midpoint in our 2016 range, is revenue with about a 5% to 6% growth rate, getting into the $1.8 billion range by 2019. Net income that grows at 7% to 9% to $203 million to $216 million, or 21% to 29% growth from where we are today. You'll see a similar story on the adjusted EBITDA side, growing at a similar rate to our revenues, and earnings per share growing again at a 7% to 9% rate, similar to our net income.

Touch quickly on the capital structure out of the gates. We'll have approximately $500 million in corporate debt. It's a mixture of fixed and floating rate. $200 million in a term loan with 5% amortization with the maturity, the rest due at maturity 5 years hence. And we'll have 8-year notes that we issued recently and 6.125 that are not callable for the first 5 years, giving us an average term of around 6.5% to 7%, and a weighted average cost to debt just below 5%. We expect liquidity to be out of the gates, undrawn $200 million revolving credit facility and about $25 million to $50 million in unrestricted cash.

So finally, I'll finish up with our 2016 year forecast for yearend for us as an independent company. We're expecting net income of $160 million to $176 million; adjusted EBITDA of $383 million to $409 million; and free cash flow of approximately $125 million to $135 million. And as we move forward to 2017, full-year forecast is net income of approximately $170 million to $186 million, adjusted EBITDA of $390 million to $415 million, and free cash flow of $140 million to $160 million.

And if you look off to the right side of the page, we expect Q1 2017 to represent approximately 20% to 23% of our contract sales net income and adjusted EBITDA. Essentially looking at the seasonality of our business, we expect this to rise throughout the year, meeting our full-year guidance by year end.

With that, I'll close. As always, there's a number of GAAP to non-GAAP reconciliations that are included in the back to the pack for both the historical, as well as the segmented adjusted EBITDA and lines of business and our forward-looking financials. And with that, I will close the formal remarks, and we'd be happy to answer a few questions. And I think there's a couple mikes moving around the room.

Chris Agnew: Thanks very much. Chris Agnew, MKM Partners. I'd be interested to know, given the growth pace you've seen, 14% CAGR in contract sales, and even the strong growth in 2016, why you're thinking about 5% to 7% contract sales going forward. Because you've outlined really 6 years of inventory, and you're seeing very strong growth in Hilton Honors. I think they're targeting $100 million by 2019; a rich source of potential new owners. So why are you thinking -- are there any gating factors, or is it sales center capacity or anything like that that holds you back?

Mark Wang: Chris, good question. It stands out when you look at the numbers up there. We opened a couple new markets this year. And we're not planning to open new markets next year, so we won't get the benefit of additional capacity in new markets, so that's really what's driving that.

And I think that the number you're looking at that's up there is probably, on a sustainable basis, is where we're looking to target going forward. There will be years where we're at -- opening new markets, we'll get a strong lift, but --. And our inventory's in place right now. That inventory's in current markets today, so it's not in new markets that we're looking at going forward.

Chris Agnew: Thanks. If I could just follow up. You talk about 6 years of inventory. Could you give us a little bit more color? 85% is capital efficient. How much is just-in-time versus fee-for-service? And how much control do you have over taking down that inventory? What commitments or guarantees are there around there, because presumably your third parties don't want to be sitting on completed inventory for any amount of time. Thanks.

Mark Wang: Most of that inventory that's capital efficient is fee-for-service. I think it's 71% of the 85% that we're showing up there. They're all -- the just-in-time inventory are all contractual in nature, meaning we've contracted forward to purchase that inventory, so we've got that inventory tied up. Was there another question to that, or something I didn't answer there?

Chris Agnew: Well, the fee-for-service side, what sort of commitments or guarantees, because these third parties --

Mark Wang: We've got -- these are 10-year agreements with the ability to renew. One of the things you're seeing is a number of these projects are vertical properties. Great example, the Grand Islander that Blackstone and ADIA are building, investing at the Hilton Hawaiian Village. That's like $1.3 billion in gross revenue going forward. It's a 35-story structure. Another good example is the project we're doing in Las Vegas with Centerbridge. It's 1,200 units. We've been in sales for a number of years now, but still have a number of years still forward.

So when you get these vertical properties, these tall properties like that, the time period to sell these out are longer. But we're meeting all the projections that we put in place initially, so no surprises from our third party standpoint.

Patrick Scholes: Thank you. Patrick Scholes, SunTrust Robinson Humphrey. I have a couple questions. The first one is, I saw that your Form-10 has new owner sales at 60% of total sales. What is your target for that as far as the mix of new owner versus upgrade? And in your guidance that you gave today, is there any assumptions for change in that mix?

Mark Wang: Our target is really less around the percentage of owner sales and new owner sales. Our target is really more around net owner growth. And new owner growth is what's important for us. We call it NOG. It's similar to Chris's NUG that he's using for net unit growth. That's what's really important for us. So we look at that mix less. I know it's been a focus around the industry because a number of our competitors have inverse ratios that we have. But when you look at NOG, our net owner growth, we're looking at a sustainable 6% to 7% is what we want to achieve.

Jim Mikolaichik: And from a modeling standpoint, we didn't really shift drastically the mix there. I think the mix differential that we had is more on how we would lean back from fee-for-service to the owned side.

Patrick Scholes: Okay. Just a couple more questions here. You talked about having 6 years of inventory. What is the right level as far as number of years? Certainly 6 years is significantly more than some of the other public companies.

Mark Wang: You know, I don't know. I've been doing this for 35 years. The biggest disruption in sales is not having enough inventory. And the fact that we're trying to keep 2 to 3 years of inventory on our balance sheet, that gives us comfort that we've got time to get through any type of recovery. If it was 10 years and 20% of that was ours, I'd be happy with that, but as long as we're meeting the obligation.

As I mentioned earlier, we're getting more opportunities than we can take today. And we're being disciplined because we want to make sure that we meet our partners' objectives and our objectives going into these deals. We want only winning deals. We don't want to have failed deals. We want our partners to continue to want to -- to stand by us to do additional deals. And they're all saying that. Every partner we have today would like to do additional deals. And we'll do additional deals, but we'll do it at our pace and 1) that we know we can match the customer growth; 2) the velocity of sale required.

Patrick Scholes; Thank you. And then one last quick question. Diamond and Wyndham over the past year have highlighted that they had seen some challenges with third party induced default activity. Have you seen that at all for your Company?

Mark Wang: No, we have not seen any concerted effort by any group to disrupt our owner base that way. Of course you get the ones, one-offs. But I think for us, the customer, the quality of the customer we have, and the fact that we haven't been uploading and upselling our owners at the same velocity as our competitors, I think those cases where companies have weighted too heavily to selling to their owners, in some cases they've sold their owners too much and they put too much responsibility on those owners. And so we've got a balanced approach. We don't want to oversell our owners; we want it to be balanced. And so we haven't had that issue.

Patrick Scholes: Very interesting. Thank you.

Jared Shojaian: Hi. Jared Shojaian to your right here from Wolfe Research. Jim, I think you may have been the one that talked about 70% margins or so on the consumer lending side. So as we think about this new environment that we're in with rising interest rates, is there a way to think about just the impact to the profitability of the business? Is it -- I think Hilton or [Mayco] talks about the $20 million to $25 million of EBITDA for every percentage point in RevPAR? How do you think about just a 100 basis point increase in interest rates to profitability?

Jim Mikolaichik: We've tried to stay on the low end of probably the consumer financing interest rates. We generally don't want to burden our owners any more than really necessary. That rate stayed at around just around 12% right now. These are fixed rate terms with respect to the consumer financing loans with the members. We do have the ability to raise those rates if we see the market moving in a specific direction for new loans coming in. And we do have the ability to lock in spreads as rates start to rise in the ABS market by pulling some of those financing receivables forward.

We've not, though, had to really utilize our warehouse on the bank side or the ABS market to fund inventory or to really fund the consumer financing. So, we think there's a lot of flexibility there. Pure math, if rates go up some and we're borrowing against it, that will cause our spread to come in a bit. But to the extent we create new loans annually, we start to relieve what we have in terms of forward borrowings. We've got the ability with -- we'll have fixed rates, and we have the ability to raise those rates as we go forward. So, it's more interest rate sensitive than one would think, but certainly there's some sensitivity to it.

Brandt Montour: Thanks. Brandt Montour from JP Morgan. You touched on briefly your broader expansion into Asia. Could you give us some more information on that, perhaps your strategy and timeline?

Mark Wang: We're looking at, for the first time, bringing product into Japan. As I mentioned earlier, we've got about 60,000 members today, and probably 99.5% of them own Hawaii. Interesting data point, we believe approximately 10% of all Japanese arrivals to Hawaii is an HGV member today. We started this business 17 years ago and have built it up, and when you look at that, it's pretty phenomenal.

Now, Chris talked about HNA earlier. We've been looking at China over the years. Every time we've looked at it, we've come out of it saying, look, we need a partner, we don't understand this market, and it's complicated. But we've got a lot of interest right now from multiple companies in China that are very interested in engaging with us and talking to us about how they can bring this product form into the market. As you know, there's a glut of inventory in China, which was predominately been sold from an investment standpoint. The Chinese are trying to figure out how to create a usage product.

And our product, well, it's grounded in real estate, and we talk about real estate and we talk about the lines of business. We don't sell it as a real estate investment. We sell it as a future vacation, an investment in future vacation.

So, we think the opportunities are continued expansion in Japan. We'll probably announce a new project in Japan next year, so we'll have -- that'll allow us to cast a wider net for those Japanese that don't have an affinity to Hawaii. And we've got a small footprint in Korea today. And we're going to -- and once we get the spin worked out of the way, the third week of January I'm going to be in China, meeting with a number of different companies out there.

Unidentified Participant: Time for one more.

Brandt Montour: A follow-up question just regarding deeded real estate versus a pure points sales model. Can you talk about maybe the advantages and disadvantages of your model? Do you think you'd ever have to move to a more pure points based sales model?

Mark Wang: You know, we feel really good about our product form. As you can see, we've outpaced the industry. The advantage of our product form is we have the ability to sell really two types of customers out there. The first customer is a destination customer like our Japanese customer. They buying because they want to go back to Hawaii every year. Or New York. They're buying because they want to go to New York every year. Now in Hawaii, your average week there is $75,000 a week. In New York, it's about $60,000 a week.

Then we have customers that buying our Vegas, Orlando, Myrtle Beach market that are more interested in the system. Great example: our occupancy in Vegas only consists of about 25% of people that own Vegas inventory. The rest are using the system. So we like the structure of ours. We think we have the best of both worlds.

The other thing is our priority window. The property you buy into gives you a priority window so you're guaranteed a reservation. These other systems where they're just pure points, where you don't own and you don't have a priority, you're not exactly sure what you're going to end up with. At least if you have a priority, you know what you're going to get.

So we like our system. That doesn't mean we won't use that structure in other markets. And in fact, it may be advantageous to use that type of structure in other markets similar to China.

All right, I think we're done.

Unidentified Participant: Thank you.

Mark Wang: All right, thank you.

Christian Charnaux: Tom, come up here. Nice job, Mark.

Okay, well that's a long day. We're winding up, and we'll make this short and sweet. I want to first -- although most of them are outside of the room -- thank our Conrad team here for doing a fantastic job. I hope everybody enjoyed lunch. Give a big round of applause to them.

I want to thank Tom and Mark and your teams for everything that you have done to get ready for today. As you guys know, these guys -- everybody makes it look easy, but a lot of work goes into that. I want to thank my team, some of whom are here in the front row, and everybody that's worked on it.

More importantly, I want to thank all the teams that have been involved in making the spins happen. A couple of people mentioned, and I think Sean mentioned it, you can't even imagine the complexity of everything that has gone into making these transactions happen from a regulatory point of view, structural point of view, financing point of view and the like. So, a lot of people have put their heart and soul into this for a very long time. So, thanks to all of them.

But more importantly, because you guys are all here, thank you for coming. Thanks for agreeing to be here for such a big chunk of your day. We obviously are very excited about the future of all three of these companies. I hope you guys share that enthusiasm. We look forward to seeing lots of you out as all three companies hit the road starting tomorrow for the next week to catch up with people and have a little bit more of an intimate discussion to follow up on everything that we covered today.

So thanks for being here. I'm sure all of us are going to be sort of out and about and around the room. If you have follow up questions, we're happy to take those now that we're complete. So again, thanks, and have a great day.