Hilton Worldwide

First Quarter 2016 Earnings

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CORPORATE PARTICIPANTS

Christian Charnaux- Senior Vice President of Investor Relations

Chris Nassetta- President and Chief Executive Officer

Kevin Jacobs- Executive Vice President and Chief Financial Officer

Operator:

Good morning, and welcome to the Hilton Worldwide Holdings First Quarter 2016 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one on your telephone keypad. To withdraw your question, please press star, then two. Please note this event is being recorded. I would now like to turn the conference over to Christian Charnaux, senior vice president of investor relations. Please go ahead.

Christian Charnaux:

Thank you, Denise. Welcome to the Hilton Worldwide First Quarter 2016 Earnings Call. Before we begin, we would like to remind you that our discussions this morning will include forward-looking statements. Actual results could differ materially from those indicated in the forward-looking statements, and forward-looking statements made today are effective only as of today.

We undertake no obligation to publicly update or revise these statements. For a discussion of some of the factors that could cause actual results to differ, please see the risk factors section of our most recently filed Form 10K. In addition, we will refer to certain non-GAAP financial measures on this call. You can find reconciliations of non-GAAP to GAAP financial measures discussed in today's call in our earnings press release and on our website at www.hiltonworldwide.com.

This morning, Chris Nassetta, our president and chief executive officer, will provide an overview of the current operating environment and the company's outlook. Kevin Jacobs, our executive vice president and chief financial officer, will then review our first quarter results and provide greater details on our expectations for the remainder of the year. Following the remarks, we will be available to respond to your questions. With that, I'm pleased to turn the call over to Chris.

Chris Nassetta:

Thank you, Christian. Good morning, everyone, and thanks for joining us today. We're pleased to report first quarter performance in line with our expectations, driven by growth across all three of our businesses. We've also made great progress on the initiatives that we discussed last quarter, including the spins of our real estate and timeshare businesses, as well as our initiatives to strengthen our direct relationship with customers, both of which I'll update you on in just a few minutes.

As we discussed on our last call, we believe fundamentals will support solid top line growth this year. The best visibility we have on the demand side continues to be in the group business segment, which remains healthy. We have less visibility into transient demand, which makes up the largest portion of our business and historically tracks more closely with macro indicators such as GDP growth. Within transient, we continue to see relative strength in leisure, with softer corporate business driven by weaker macro conditions.

We did see strong U.S. booking pace across all segments and channels in the month/for the month of April, particularly in corporate transient. Looking forward, consensus forecasts are for full-year U.S. GDP growth to be modestly lower than last year at plus or minus 2%, with Q2 through Q4 meaningfully stronger than Q1. As a result, we are maintaining our 2016 RevPAR growth expectations of 3 to 5 %, which assumes a U.S. GDP growth of roughly 1.5 to 2.5% for the year. And we're also maintaining our adjusted EBITDA and EPS guidance.

While we expect to continue capitalizing on these positive fundamentals, we also remain very focused on driving value beyond what the broader economy gives us. Our distinct high-quality brands with global presence create a powerful network effect, driving greater value for our customers and hotel owners alike.

As a result, Hilton has led the industry in both market share premiums and organic net unit growth as a percentage of installed base for the past several years, a trend we expect to continue. We signed a record 100,000 rooms in 2015 and are on track to top that in 2016 with 26,000 rooms approved for development in the first quarter. With nearly 1.1 million rooms open or under development, including nearly 300,000 rooms in the pipeline, we maintained our number one position in global supply, active pipeline, and rooms under construction, according to STR.

More importantly, our net unit growth continues to accelerate off a larger base of rooms, with 45,000 to 50,000 net rooms expected to join our system in 2016, a 10% increase year over year, at the midpoint. Nearly 25% of the more than 1,700 hotels in our pipeline will fly flags of brands that did not exist seven years ago. At no material cost to us, we have organically developed carefully targeted new brands that further strengthen our network effect by bringing new customers into our system and offering more opportunities for existing customers to stay with us.

We launched our latest brand, Tru by Hilton, in the midscale space just three months ago, with 130 deals committed or in process. And since that time, we have averaged one Tru deal per day. As of today, we have 48 hotels in the pipeline and 170 more deals committed or in progress. And that's driven almost entirely by existing Hampton owners. We believe Tru is already the fastest-growing new development brand launch in U.S. lodging history, and we expect to open development more broadly in the near term, including to owners not currently in the Hilton system.

The ebbs and flows of capital markets continue to naturally constrain supply growth, disproportionately favoring global branded systems like ours that can drive leading returns for hotel owners. New brands like Tru, Home2, Canopy, and Curio help supercharge our growth, but we continue to have tremendous opportunities ahead, following demand and capital patterns around the world, with all of our brands. Outside the U.S. in particular, which represents more than half of our pipeline, we believe we are in the infancy of our potential growth. Deploying our brands into new geographies, like Hampton into China or Doubletree into Europe, made up nearly one-third of our gross openings over the last 12 months.

We have global scale in a business where scale matters and are using it to drive a more direct relationship with all of our customers. In February, we launched “Stop Clicking Around,” our largest global marketing campaign ever, highlighting the key customer benefits of our network effect and its scale, namely that joining Hilton HHonors and booking directly with Hilton offers customers the best value and a better experience.

Early results are very positive, with HHonors enrollments increasing nearly 90% since launch, helping drive HHonors occupancy to a record 55% in the quarter, an increase of more than four points versus last year. The business we receive through web direct is higher than it's ever been and is growing faster than ever thanks to increasing share shift. The share of web direct channels in our distribution mix is growing five times that of the OTA share of growth in the quarter, and business generated from our mobile app is up nearly 150% year over year, with downloads exceeding 70,000 a week, an increase of 200% over last year.

One of the most important metrics of our success is RevPAR index premiums. We continue to gain in share in the quarter, with our system increasing its RevPAR index premium 90 basis points, with every brand and every region gaining market share.

Lastly, a quick update on the spins we announced last quarter. As discussed, simplifying Hilton as a capital-light, fee-based business, while fully activating our real estate and timeshare businesses as standalone companies, should realize significant benefits for all three companies and our shareholders. We're very pleased with the progress on the spins to date and remain on track to file Form 10 registration statements with the SEC this quarter and to execute the spins by year-end.

Also, this morning, we were very pleased to announce the leadership team for our real estate company, with Tom Baltimore as CEO and Sean Dell’Orto as CFO. I'm thrilled that Tom, a respected leader in our sector, with experiences spanning REITs, private equity, and operating companies, including senior roles at both Hilton and Marriott, will be leading the REIT. I've known Tom for 30 years and believe his proven leadership and track record as a capital allocator should further the company's potential to create meaningful value for shareholders over the long term.

We're also giving up one of our best and brightest, with Sean moving over to the REIT as chief financial officer. As many of you know, Sean currently serves as Hilton's treasurer and has been integral in our corporate strategy, capital markets, and investor relations activity since joining us in 2010, including our IPO. Sean joined us from Crestline Hotels and Resorts, where he was CFO. We look forward to partnering with Tom and Sean in their new roles. And with that, I'd like to turn the call over to Kevin, who will give you a little bit more detail on the quarter. Kevin.

Kevin Jacobs:
Thanks, Chris, and good morning, everyone. First quarter RevPAR growth of 2.1% was at the low end of our guidance range, largely reflecting lower macroeconomic growth in the quarter and a larger-than-expected impact from the Easter calendar shift. Weakness in corporate transient demand was a 60 basis point drag on total occupancy for the quarter, but we still expect modest occupancy growth for the full year.

Transient RevPAR grew 2.4% in the quarter. Results were supported by solid leisure revenue trends that were up in the mid single digits, but offset by weaker corporate transient and oil and gas markets, which were down nearly 5%. As Chris mentioned, we have seen stabilization in corporate transient so far in April, with solid in the month/for the month increases in pace.

Group business in the quarter continued to perform in line with expectations, with group room revenue increasing nearly 4% in our Americas owned and managed portfolio, and over 15% at our big six assets, in what is a seasonally slow group quarter.

Results were led by robust performance at our Hawaiian and San Francisco properties and boosted by strong bookings in the SMERF and company meetings segments. Even more importantly, group position for America's owned and managed hotels continues to track up in the mid single digits, and pace in the year, for the year, was up in the high single digits during the first quarter, driven by both volume and rate.

Adjusted EBITDA in the quarter increased to $653 million, exceeding the high end of our guidance range, driven by solid results across all three of our businesses and including roughly $10 million of favorable timing items and timeshare. Systemwide adjusted EBITDA margins increased a solid 260 basis points versus the prior period, to 38.9%. Diluted earnings per share adjusted for special items increased 42% for the quarter, to $0.17, at the high end of our guidance range.

Turning to our segments, management and franchise beat expectations, totaling $409 million in the quarter, an increase of nearly 5% year over year. Our fee segment growth rate was affected by some large franchise sales transactions during Q1 of last year. In the ownership segment, RevPAR grew 3.1% in the quarter, as growth was tempered by softer demand in Chicago and New York, and supported by a strong RevPAR growth in San Francisco, Orlando, and Hawaii, which all benefited from strong group trends. Adjusted EBITDA for the ownership segment was $207 million, up 13% versus Q1 2015, when adjusted for the sale of the Hilton Sydney.

Timeshare revenues totaled $326 million in the quarter, increasing 2% year over year as we lapped strong sales from the Grand Islander project in Waikiki last year. Segment-adjusted EBITDA was $95 million in the quarter, an increase of 28%, which was driven by favorable sales mix and resort operations results. We continue to make progress on our ongoing shift to a capital-efficient business, with third-party intervals increasing to 64% of intervals sold for the quarter, and accounting for 85% of our inventory or 110,000 units.

Now turning to our regional performance and outlook. In the U.S., comparable RevPAR grew 1.8% in the quarter. Hawaii and Northern California markets were strong, with RevPAR growth in the high single digits, driven by rate gains across all segments. Reduced citywides continued to affect Chicago, while oil markets struggled with weaker demand, and increasing supply in New York continued to weigh on pricing power. International inbound revenues declined in the quarter, continuing late 2015 trends, as weak demand from Canada and Brazil failed to offset increases from China, the UK, and Japan. We expect this softness to continue but have less of an impact as comps get easier in the back half of the year.

For full year 2016, we continue to forecast U.S. RevPAR growth in the low to mid single digits.

In the Americas outside of the U.S., RevPAR rose 4.4% in the quarter. Although Brazil remained an overhang on the region, given a deepening recession and weakening currency, the Olympics this summer should provide a much-needed boost in demand. Our Latin-American properties continued to perform well, given a broader strengthening in leisure trends. For full-year 2016, we continue to expect RevPAR growth in the region to be mid single digits.

RevPAR in Europe increased 2.9% in the first quarter, supported by strong market share gains of 230 basis points. Continental Europe performed well, with strong transient and group demand, particularly across Germany and Prague. The UK, namely London, remains soft, and security concerns continue to pressure our results in Turkey. The tragic events in Brussels had a local effect on business, but have not meaningfully affected regional performance. For full year 2016, we continue to expect low to mid single digit RevPAR growth for the European region.

The Middle East and Africa regions struggled, with RevPAR down 4.7% in the quarter, given continued weakness in Egypt and depressed leisure demand in the UAE. With uncertainty in the region expected to continue weighing on results, our full year 2016 RevPAR forecast assumes growth is flat to slightly down in the region.

In the Asia-Pacific region, RevPAR increased 7.1% in the quarter, with continued strength in Japan and China, our largest regional markets. Business in Japan has been particularly strong, especially in Tokyo, and we have not seen a meaningful impact from the recent earthquakes.

RevPAR growth in Greater China reaccelerated to 8% in the quarter as an up tick in group business across key cities drove occupancy gains. We also saw strength in Thailand, Singapore, India, and Malaysia. We expect RevPAR in the Asia-Pacific region to increase in the mid to high single digits for the year, with RevPAR in China up 5 to 6%.

Moving on to capital allocation, during the first quarter, we paid a quarterly cash dividend of seven cents per share. Our board has authorized a quarterly cash dividend of seven cents per share for the second quarter of 2016, as well. We remain committed to achieving a low investment grade credit profit and still expect to initiate a stock buyback program subsequent to the execution of our spin transactions, which we expect to complete later this year.

As Chris mentioned, we are maintaining our full year 2016 RevPAR guidance of 3 to 5%, and also are maintaining our full year adjusted EBITDA and EPS guidance ranges. Please note that our full year guidance does not incorporate the impact of our intended real estate and timeshare spins.

For the second quarter of 2016, we expect 3 to 5% systemwide RevPAR growth, supported by stabilizing macro trends and the Easter shift. We expect adjusted EBITDA of between $790 million and $810 million, and diluted EPS, adjusted for special items, of $0.25 to $0.27.

Further details on our first quarter results can be found in the earnings release we distributed earlier this morning. As a reminder, we, unfortunately, cannot provide many additional details on the proposed spins until we file Form 10 registration statements, which we still expect to occur later this quarter. In addition to the filings, we also expect to provide additional information on the strategy and financial performance of all three companies prior to the execution of the spins. This completes our prepared remarks. We would now like to open the line for any questions you may have.

In order to speak to as many of you as possible, we ask that you limit yourself to one question. Denise, can we have our first question, please?

Operator:
Certainly. We will now begin the question and answer session. To ask a question, you may press star, then one, on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. If your question has been addressed, you may withdraw from the queue by pressing star, then two. And your first question will come from Bill Crow of Raymond James.

Bill Crow:
Good morning, guys.

Chris Nassetta:
Good morning.

Bill Crow:
Congratulations on the hires on the REIT side. That's great.

Chris Nassetta:
Thank you.

Bill Crow:
Chris, my question is on guidance and the range that you provided. And we appreciated that you provided any guidance. But three to five, given the first quarter and the outlook for the second quarter, to hit the high end would imply something north of six for the back half of the year, and I'm just curious whether that's even possible at this point, given some of the dynamics around the industry.

Chris Nassetta:
Bill, thanks for the question. I assumed we would get that first and probably second, third, fourth, and fifth as well, because I know that's what's on everybody's mind is trying to get a

little color. So let me try and give you that color and maybe answer some other questions that are likely to come up.

I think that we tried to triangulate around what we are seeing, you know, both in the business now and what we see on a forward-looking basis, where we do have sightlines, and tried to match it up with a perspective and an expectation on broader economic growth. And that's why we connected the 3 to 5% to 1.5 to 2.5% broader GDP growth, because, obviously, the largest part of our business, which is the corporate transient business, is fairly directly related to broader economic growth.

And so while first quarter obviously in the low twos is below the range in three to five that we're giving, the confidence we have in the three to five is based really on three different things, okay? One is a little bit of a reverse of the Easter effect. I'm not going to say that's tremendously dramatic, but that's a benefit.

The second is that, as I said and Kevin said in the prepared comments, we have a very good group position on the books for the rest of the year. We get, you know, for the full year, the numbers are quite healthy, but that is distributed, as is always the case, you know, every quarter is a little bit different every year depending on how big groups cycle through a lot of the big hotels. In this particular year, the way it's distributed is, across the system, Q1 is actually quite weak -- was quite weak from a group position point of view. And Qs two, three, and four are much stronger, with particular a little bit heavier strength in Qs two and three -- reasonably good numbers in four, a little less than two and three. So we have a much stronger group base coming into Qs two through four, which we think will help.

The other thing -- and this gets back to the broader economic growth issue -- if you think about what's been going on with corporate transient, which is what's been really weak, because leisure's been strong, in driving the results in the fourth quarter and, frankly, the first quarter that were a bit lower than what we would've hoped or expected, it had to do with the fact that the world froze up. I mean, you had things going on with fears of what was going to happen with China's economy, terrorism in Paris, terrorism in Brussels, and other things going on that drove the capital markets -- the equity capital markets down, where companies were losing 20-30% of their equity market cap.

Well, you know, that scares people. There was a lot of fear in the air at the end of last year and certainly the first couple months of this year. And the result of that -- and we saw it very dramatically -- was people freeze. They stop making decisions on discretionary spending, on travel, on capex spend, and the result is, you know, the economic growth numbers come down. I think when you see the print on Q1, it's going to be quite low. And that ripples through to our business.

So what's different? Why, in addition to the group and the reversal of the Easter effect, why do I feel like three to five is reasonable for the full year and for Q2? It's because, you know, I sort of told you, and I say it to our guys, is the great thaw is on, meaning, well, the world is not -- make no mistake. I'm not trying to be a Pollyanna. The world is not -- there are things going on in the world that aren't great, but relative to what we saw at the end of last year and the first couple months of this year, there is a heck of a lot more stability.

The equity markets are obviously, you know, have come back. Valuations, not just in our industry, but broadly have come back, and I'd say there is an air about of stability. And that ultimately I think translates into more economic growth. Certainly to get to a 2% sort of consensus for GDP off of what I think will be very low numbers in the first quarter. It anticipates Qs two through four being a lot better. That is what we believe will happen, all things being equal. Meaning that the stability that exists today or relative stability continues.

Do we have any sightlines into that? Some. I mean, I talked about group, which, you know, continues not only to be good in terms of position, but pace is good. So we see the first quarter pace of group bookings for the rest of the year have been very healthy of late. April feels pretty good, okay, certainly relative to what we experienced in the first quarter. And why is it better in April? Because corporate business is coming back. Now, you know, that's not a huge dataset, admittedly. You know, you're looking at not even a full month of data. But, you know, there is the beginning, in my mind, of a trend.

So that's a longwinded way of saying that, you know, if you think that, you know, you're going to get to a broader growth number that is around consensus, it by definition means that you're going to see some better things happening in the business. Now, obviously, 3 to 5% growth is not -- I'm not -- we're not suggesting we're going back to 2014-type transient growth numbers, or the first half of last year. It's obviously, you know, the growth is somewhat more tempered than that. But we do believe, again, all things being equal, for these primary reasons, that you're going to see performance in Qs two through four that is superior to Q1 performance.

Bill Crow:
Thanks, Chris.

Chris Nassetta:
And as it relates to the high end, you know, that's why we gave you a range. So you would have to believe -- I agree with -- you would have to believe that broader economic growth is meaningfully above consensus to get that, but that's why we give a range. We, you know, assume that -- we are forecasting somewhere in the midpoint of our range, and we've given you a range of outcomes -- if the economy and broader growth is lower or higher.

Bill Crow:
Appreciate the insights, thanks.

Chris Nassetta:
Yep.

Operator:
The next question will come from Steven Kent of Goldman Sachs. Please go ahead.

Steven Kent:

Hi, good morning. Two questions.

Chris Nassetta:

Two questions.

Steven Kent:

First is the $9 million in costs that were incurred from the spin-offs in the first quarter '16 -- how much should we start to put into our models for the remainder of the year? Just general numbers. I know they're extraordinary, but I just want to have some sense for what that's going to look like. And then, separately, I mean, you continue to show very strong margin growth, and I just want to understand the balance of the shift towards asset light, more franchising, more management, versus the opportunity to reduce expense structure at the owned hotels. And what initiatives do you have on both sides of those to improve the margins?

Chris Nassetta:

Yeah, thanks, Steve, for both. On the first, unfortunately, I'm not going to satisfy your need there. We're going to have a lot of information that we're going to -- we're just around the bend from filing the Form 10s that will give you a much better sense of what we think, and supplemental information, ultimately, that will give you a much better sense of the costs. So if you could just wait a teeny amount of additional time, I think we'll give you some clarity on that. We'd rather do it in a more complete way as we give disclosures on both companies.

On the margin side, obviously, yes, we're growing margins in all three businesses. Going forward, all three of those businesses, as we get to the spins, are going to be doing that as independent companies. One of the things I'd talk about here is -- and I understand why the market seems to be exceptionally focused on top line. Everything's about top line. We don't get a lot of questions on margins and bottom line. So I appreciate it because, you know, we're running a very big, global, complex business, and it starts at the top line, but driving cost and margins to get it to the bottom line, which I think frankly we've done quite an effective job of not just in this quarter but, you know, for years and years while we've been public and while we've been private -- you know, I honestly don't think gets sort of enough attention or discussion.

Probably on the limits of time on this call, it'd be hard to go into all those initiatives. I mean, part of the margin growth is coming from the really industry-leading growth that we're getting on the new unit side, and continuing to see all of the new units coming in, in the management franchise segment, where, essentially, those are 100% margin business additions, you know, but on the timeshare side, as you'll see, as we break that business apart, and you see it in the Form 10, you know, we have done a tremendous amount of work there to drive what I believe are industry-leading margins by just being much more efficient on how we sell and distribute the product. And then inside the hotels, we have hundreds of initiatives that are going on all the time. On the labor side, labor management side, you know, making sure we're driving efficiency, you know, in every way possible -- on procurement, et cetera.

So there's a constantly evolving, but long list of things that we're doing in the hotels. I think it's fair to say we are exceptionally focused not just on driving top line but cost and ultimately we're running the whole business and trying to drive margins as high as we can to get as much EBITDA to the bottom line as possible.

Steven Kent:
Okay, thanks.

Operator:
The next question will come from Harry Curtis of Nomora. Please go ahead.

Harry Curtis:
Hello, good morning.

Chris Nassetta:

Good morning, Harry.

Harry Curtis:
I've been getting a reasonable number of questions on the topic of the Marriott/Starwood merger and its potential impact on Hilton and whether or not it puts you at a competitive disadvantage. So I wonder if you could take a minute and give us your thoughts on where or what circumstances that might be right, and then where it misses the mark.

Chris Nassetta;
Well, I'm happy to answer it in some ways. I don't want to get snarky about what our competitors are doing. I think the way to think about it is that we have chosen a path, proactively, which is a different path than others, including them, have taken. And that started with the fact that we did not get involved in the process of -- when Starwood, last summer, put themselves in play.

And that was related to the fact that, as we looked at it, and we looked at what our opportunity was, we were very focused on having purebred brands that were market, you know, segment leaders in their individual segments, that or category killers, and that each of our individual existing brands we wanted to be described that way, and any individual brand that we might add to the system, and we obviously have had a number, we wanted to fall in that category.

And as a result, to drive the highest market share by brand, the highest average market share, which ultimately we thought, you know, we thought and think will drive, you know, as a result of resonating with customers, will drive the highest organic growth. And we chose not to want to have the distractions that would come with doing something like that. And I think, you know, if you look at our numbers and what we're driving in terms of organic growth, as I said in my prepared comments, we've been leading the industry for the last several years. I think we'll continue to lead the industry.

And I think, you know, what we're focused on is making sure that every brand we have really resonates with customers and with owners, and that we continue to drive that growth. And I think that, you know, that's sort of the story. In terms of scale, I said in my comments, we are in a business where scale matters. We think we have enough scale. I think my attitude, our attitude is at this point, when you have existing system and pipeline that's 1.1 million rooms, we're big enough. And we're in the game of quality at this size as opposed to quantity.

Operator:
And our next question will come from Vince Ciepiel of Cleveland Research.

Vince Ciepiel:
Hi, I was wondering if you could comment a little bit more on supply growth, and it seems like your pipeline continues to act nicely. Could you comment on what products specifically you think are adding to that? And then also could you maybe speak to, as you think about supply growth over the next couple years, any natural suppressors that you're starting to see come into place that could put a ceiling on supply growth?

Chris Nassetta:
Yeah. First, thanks for the question, and an important one, as well. I think there already is a natural ceiling on supply growth. I mean, it is creeping up a little bit, but it's still well below long-term averages and I suspect will be lower than people think, as it has been the last couple years, when the year is out. It's going to be, you know, somewhere, in my mind, between 1.5 and 1.75 against a 2.5% long-term average. So I think very much in check.

And I think the reason that it's in check is really simple, and that is while there's capital available, it's limited amounts of capital, and the basic economics only support a certain amount of development. And largely what you would find is that is in the limited service space. We happen to have, in my mind, the best limited service brands out there. So from the standpoint of what we're seeing product-wise, it's all as described or a little bit as described in my prepared comments. Now, Tru, with our new brand, Home2, Homewood, Hilton Garden

Inn, Hampton -- that's the large majority, certainly in the U.S., of what we see getting done, you know, largely in secondary and tertiary markets.

Why is that getting done? Two reasons. That's where the economics make sense, where demand growth is heavy enough, where pricing structures and cost to build makes sense. So owners can get the economics. And why are we getting disproportionately two and a half times our existing system size in the U.S.? There's a simple reason. Our brands are strong enough, market share is strong enough, that while there is limited financing, we are getting a disproportionate amount of that financing.

So, I said it before. We're sort of in a sweet spot, you know, for us, which is there are some pretty decent natural constraints on supply, but yet, we're getting a disproportionate share of what's available to get done because we're one of the most financeable and we're driving the best economics for owners, so they want to continue to invest with us.

Vince Ciepiel:
Great, thanks. And then maybe another big picture question. I think that you mentioned that you guys expect occupancy to swing positive for the year.

If you look in the quarter, you have occupancy slightly down and somewhat more modest rate growth. When you think back over historical cycles and kind of where we are with a hotel that's relatively full, do you need occupancy to swing positive for rate to accelerate from the first quarter level? Or is it something else that could cause rate to accelerate, maybe confidence or something like that?

Chris Nassetta:
No, I don't think you need occupancy -- I think you're going to see the vast majority of RevPAR growth in the industry and certainly for us be rate at this point. And that's what you would expect at this point. We've been saying that this would come for the last couple of years.

I think the reason we think -- first of all, first quarter, if you just neutralize for the Easter effect, would have been a slightly positive occupancy growth. So I think it's just the reversal of that -- a much stronger group base and some, you know, basic pick up off of very weak corporate transient demand, as I described in my first answer, that's going to drive some modest occupancy growth.

I don't think it's going to be big-time occupancy growth. I think it's just a sort of reversal of those three trends that drive more volume in the last three quarters of the year.

Vince Ciepiel:
Great, thank you.

Operator:
The next question will come from Rich Hightower of Evercore ISI. Please go ahead.

Rich Hightower:
Hey, good morning, everyone.

Chris Nassetta:
Good morning.

Rich Hightower:
One quick question on the Hilton flagship brand that I noticed just scanning the room counts. It does look like the brand lost a handful of managed hotels in every region except for Asia-Pac, but then there looks to be basically a one-for-one offset in the franchised segment. Can we assume those are basically the same hotels, just converting to franchise agreements? And then is that a trend that we should expect to continue?

Chris Nassetta:

I don't think it's a major trend. I think it was one portfolio that we have in the UK, in some of our leased estate, that, as we were restructuring some of that relationship, we flipped from managed to franchise. So I don't see it as a big trend. I think it was fairly unique to that transaction.

Rich Hightower:
Okay, that's helpful Chris. And then one quick follow up. Just on the outlook for energy markets, it does seem like the outlook for Houston and some other places might be incrementally better over the next 12 to 18 months, given what may appear to be a bottoming in oil prices. Are you actually seeing any fundamental acceleration in demand in those markets? Or, you know, is it just a function of easy comps, going forward?

Chris Nassetta:
Not yet, not yet. I think you have two opportunities there. One, the comps get much, much easier, really in third and fourth quarter. If you look at the dive in those markets last year, first quarter, not so much, second quarter, it started, third and fourth quarter, was in full swing. So you're going to get much easier comps in those markets in Qs three and four. And you have to believe, although I will say we haven't seen it yet, that, with oil prices off the bottom and moving back up, it'll provide a little bit more of a, you know, stability on the demand side in those markets. But we'll have to wait and see that happen.

Rich Hightower:
All right, great, thanks.

Operator:
The next question will come from Joe Greff of JP Morgan.

Joe Greff:
Hey, guys. Good morning. I have a question for you guys on your full year 2016 guidance. And I'll preface it with this. When I looked back at the Q1 results, you hit the lower end of

the range for RevPAR growth guidance, yet you were above the higher end of the EBITDA range or above the higher end of the EBITDA range. So when I look at the full year guidance for '16, at the lower end to the higher end of RevPAR growth, does that correspond exactly to the lower and higher end of EBITDA growth? I.e., if you hit the middle of the road in terms of RevPAR growth, are you something a little bit north of middle of the road for EBITDA growth?

Chris Nassetta:
That's a very fair question, Joe, given first quarter. And if we've done our job, those should match up. In the first quarter, they didn't match up exactly. In part, really, to do with timing on some of the timeshare stuff that moved $10 or $12 million from one quarter to the next. It would've otherwise generally been lined up. So, yeah, our guidance on both EBITDA and RevPAR were intending to match up between low and high end.

Joe Greff:
Okay, great, thank you. And then, with respect, Chris, your comments about April, and maybe I missed this, but did you actually talk about what April month-to-date RevPAR growth was, and could you talk about it maybe in brief?

Chris Nassetta:
I did not. And I don't want to get into month to month too much, but here's what I'd say. April is trending sort of at or a little bit above the midpoint of our guidance for the quarter. So a lot better than in Q1, and in the places that you'd want to see it. Good group base, but also corporate business coming back.

Joe Greff:
Good enough. Thank you.

Operator:

And the next question will be from Shaun Kelley of Bank of America Merrill Lynch. Please go ahead.

Shaun Kelley:

Hey, good morning, guys. Chris, in the prepared remarks, you mentioned a little bit about the "Stop Clicking Around" campaign and kind of success you'd had across the metrics. That's something that I think we're likely to probably hear more about as time goes forward. Could you give us a little perspective here? Number one, how big is the direct booking channel for Hilton on their websites and apps relative to the OTA channel? And then, secondarily, where does the benefit here accrue? Does it accrue to Hilton? Or is it really more of a pass-through to the owners but helps the brands in the long term?

Chris Nassetta:

Well, I think it helps everybody. Here's the underpinning of it, Shaun, is that we're trying to deliver the best value and best experience for our customers. And what "Stop Clicking Around" is really intended to do is, in a fairly loud way, admittedly, make it clear to customers, you know, how they're going to have the best experience and where they're going to get the best value. Because I think not all customers really understand that, okay? So we're trying to put an exclamation point on it.

And I think if you look at the stats, early days, but if you look at the stats in the first quarter, I think it reflects that customers are getting it and that, so far, you know, we're having very good success. You know, but it's a long-term strategy. And you definitely will hear more about it. In terms of what's the beneficiary of it, I think everybody benefits from it. In the end, I think the customers benefit because they are going to get a better experience and they are going to get a better value.

Clearly, the system, all of our owners, benefit, because, in the end, it is a much more -- not only do the customers end up happier because it's a better experience and they get a better value, but they get that value at a lower cost because our direct channels are the most efficient way to distribute our product. And so, yeah, the largest benefit is really going to flow through to the system, meaning all of our owners. And we are obviously very serious about not only driving market share at the highest levels, as described in my prepared comments, to drive returns to owners and incremental growth for us, but driving the best bottom line possible.

And the more that we could have a direct relationship with our customers, the more efficiently we can distribute our product and our owners' product, the better their returns are going to be, the happier they're going to be, the more hotels they're going to build into the system. In terms of percentages, you know, I would say, you know, our direct channels are sort of a quarter of our business and growing at a very rapid pace. The OTAs are plus or minus kind of 10% of our business. So our direct channels are significantly larger than those channels and, as I described in my prepared comments, growing, at this point, at a much faster pace.

Shaun Kelley:
And just to be clear, the direct channels are excluding property direct and call center, all that. This is just –

Chris Nassetta:
Correct. These are our online -- this is hilton.com and the app. Mobile and online, yeah.

Shaun Kelley:
Perfect, thanks very much.

Chris Nassetta:
Yep.

Operator:

And our next question will come from Wes Golladay from RBC Capital Markets. Please go ahead.

Wes Golladay:
Hey, good morning, everyone. You mentioned that everything froze in the first quarter. You have easy comps in the second half. I think the big concern is the decelerating industry demand. Would you expect a V-shape recovery or a steep acceleration in industry demand in the second half?

Chris Nassetta:
Yeah, that's hard to say. I mean, I think you're going to see an acceleration in demand, unless something else goes wrong. I think we're already starting to see the early signs of that.

How to describe it as a V or -- I don't know -- I'd probably describe it as a U, but, you know, a long U. Again, I wasn't trying to suggest-- I think it's very positive. I think we see great telltale signs that it's happening. I think just, I say to our guys here -- common sense tells you it's going to happen because it wasn't just the beginning of this year, the end of last year we went into a deepfreeze. And we definitely have been witnessing a thawing across the broader economy.

That just has to ultimately drive incremental business. Exactly how much, it's hard to see. That's why we've been, I think, tried to be quite reasonable in giving a range of outcomes that are not suggesting a big, steep V-shape recovery. But certainly a decent up tick from what we saw in Q4 on the corporate transient and Q1.

Wes Golladay:
Okay, thanks for taking the question.

Chris Nassetta:
Yep.

Operator:

Our next question will come from Patrick Scholes of SunTrust. Please go ahead.

Patrick Scholes:

Hi, good morning. Question for you on the performance of the Hampton Inn brand. It definitely looked like it underperformed what I could've expected based on the Smith Travel results for the quarter. And that's your largest brand by room count. How do I reconcile that underperformance versus your commentary on gaining RevPAR index?

Chris Nassetta:

I don't know. I'd have to dig into it, Pat, to understand it more clearly. There's nothing going on. I would say I spend a lot of time with all of the brand heads on all of the brands. I can't say I've dissected the first quarter of Hampton, but there's not a broader issue. And, in fact, Hampton did gain market share in the system.

So it could have to do with, you know, the only thing I can guess is when you're looking at Smith Travel data, you know, we're comp, and Smith Travel is non-comp. I'm not saying that's the answer. I just, I'd have to dig into it. I mean, if you think about where all the new supply is coming in, it's in that segment. And so those are all ramping up when they come in new, and it's a disproportionately large chunk of new supply. My guess is that probably explains it.

But I'm happy to work with our team and dig in a little bit more. We did gain share on a comp basis in Hampton, Hampton's doing great. We're signing up owners. I'd say Hampton is one of the most successful brands and most desired brands that exist in the space, with the ownership community.

Kevin Jacobs:

Yeah, Pat, we did gain share in all brands in the first quarter, but it's just varying degrees of share gain that blended to the nearly 100 basis points that we mentioned. And as Chris mentioned, you have independents and then you have non-comp hotels in the STR data, so you can get different answers on a quarter-to-quarter basis.

Patrick Scholes:
Okay. Fair enough. Can I ask one last, completely unrelated follow-up question?

Chris Nassetta:
Sure. Sure.

Patrick Scholes:
And that's do you gentlemen care to take a stab at what you see RevPAR being for the months of May and June? I know you mentioned April already.

Chris Nassetta:
Not really. No. I mean, I really don't want to get into business forecasting by the month. We're trying to -- I'll give you a little color, though, just based on what we see. Which it's a fair question, by the way, Pat. And it's a, you know, I know you guys are looking for any forward-looking color, and I would too. So I think it's fair. Rather than give you a number of exactly what our forecast is, what I would say is, you know, Q2 has a better group base. That group base is distributed, overall, more heavily in April and June than May. We've seen, as I said, in April, a nice up tick in the corporate business. Our sightlines into May and June, what we do have, suggest pretty decent trajectory on that basis.

If everything stays, as I said, sort of relatively stable in the world. And so I would expect that, again, we're sort of -- I said it earlier -- we're kind of forecasting a range of three to five. That means we're hoping to be, you know, somewhere around the midpoint. I think it will be distributed, with April and June being stronger than May, just -- in part because of the group base being so much stronger in April and particularly June.

Patrick Scholes:

Okay, fair enough, thank you.

Chris Nassetta:
Yep.

Operator:
The next question will come from Jeff Donnelly of Wells Fargo. Please go ahead.

Jeff Donnelly:
Good morning, guys. Concerning the spin, I'm just curious, do you expect the leased hotels are going to stay with the brand, or can they go with the REIT? And I guess in broad strokes -- I know you can't be specific -- how are you guys thinking about the G&A load of the REIT? I'm curious if you think you can be more efficient than, say, someone like Host.

Chris Nassetta:
I'd say on the -- we're going to give you the Form 10s, and you'll know where everything goes. But the overarching theory is we're trying to make all these companies really great companies and set them up for success. And so things that fit within the REIT you should assume are going to be in the REIT, largely. And things that don't would not.

And so I think the sum and substance of the EBITDA related to leases will end up remaining in OpCo, both because it doesn't fit within the REIT structure, really, because most of that's international. And importantly, in those parts of the world, that's how we have our tenure in those assets, many of which that drive the largest part of that EBIT are very important strategic assets. So it makes sense for that to stay back in OpCo. It will, even though they'll be there, it will be, and you'll see when we do all the disclosures. It'll be a relatively small component.

The bulk of all of the real estate ownership EBITDA will be moving out. On the G&A side, we'll give you more. I'm not going to pick on others. I think you can look at our G&A at

Hilton and compare it to our competitors and, given my earlier comments about we are very top line, but also cost and bottom line focused, and we think we do a really good job running a tight ship, you know, we are going to be as efficient as anybody out there. Let's leave it at that. And we'll give you more color on that both with the Form 10s and supplemental disclosures that will go along with that.

Jeff Donnelly:
And maybe just as a quick follow-up, in the wake of the Starwood deal, do you think there's room for more consolidation to happen in the industry, or do you think that's a dead topic for the foreseeable future?

Chris Nassetta:
You're talking about in OpCo world or --

Jeff Donnelly:
In the OpCo world, yeah, because given the number of people who seemed to be pursuing Starwood.

Chris Nassetta:
I think you will continue to see more of it. There aren't tons of logical combinations, when you really dig into it, but my view is you're at that stage of the cycle. I think people have figured out that scale matters. There are some that have it and some that don't.

And I do think -- I'm not going to, in any way, suggest anyone's scrambling around, because I don't see that, but I do think people are taking deep breaths and saying, gee, are there things that we can do to try and get some of that scale? Because I think there is something to this network effect that we've been articulating, you know, prior to and since the IPO. And I think proving out, in both average market share of our brand and leading organic net unit growth, and I think when people look at that, look at what others have done with Starwood, et cetera, I think it has to make them think.

Now what they do, I don't know. Again, I just don't sense people scrambling around in a mad dash, but it would be surprising to me if you didn't continue to see some incremental M&A activity.

Jeff Donnelly:
Thanks.

Operator:
Our next question will come from Robin Farley of UBS. Please go ahead.

Robin Farley:
Great. Thanks. I actually have two questions. I'm going to try and package it as one to meet your one-question requirement. I'm wondering, on Q1, in group, I think on your prior call you had actually said that Q1, that group was looking strong. So I wonder if there was maybe a lot of cancellation of group kind of during the quarter, if you have any color on that.

Chris Nassetta:
No -- oh, sorry, go ahead.

Robin Farley:
Well, go ahead, if you -- and then I'll --

Chris Nassetta:
No, I was going to say -- we'll let you answer two. So, no, in fact, what's interesting on group -- I was going through the stats with the team over the last week or two -- not only are we not seeing any increases in cancel or attrition activity, it's gone down year over year. So a very good trend. I was sort of surprised myself. I assumed it would be stable, you know, not that it would necessarily go up. But it's actually been going down.

So I think we're mixing and matching comp sets, unfortunately, and that's -- when I think we commented in the first quarter, I think we were really highlighting some of the bigger group assets, and what we're talking about today in terms of weakness in group and the group position was the whole system, because I think everybody seems to be, and should be, really focused on our systemwide RevPAR growth in the first quarter. And what we think for the system wide at three to five for the full year. So it's a little bit of a comp set thing.

If you look at the, our big assets we call them our sort of top 120, or you look at the big six assets, they did actually have a reasonably strong first quarter in group. If you take it through the whole system, group revenues were up circa 1%. They were up, depending on the bigger hotels, they were up 3 to 4%. Okay? So I think that's the differential.

Robin Farley:
Oh, great, no, that's helpful clarification. Thank you. My other question, then, has to do with cancellation and rebooking. But now this is not a question about group. This is just kind of overall business and a lot of this I think would be transient, both leisure and corporate maybe. Are you seeing a change in pattern, an increase in consumers canceling and rebooking closer to the time of stay, as rates come down a little bit? It's something we've heard from others, and I'm just wondering if it's something that you're seeing, too, if there's any way to sort of quantify how that's changing.

I know you had experimented with ways to create friction on that, which sounds like it's been difficult to do, right that the consumer's kind of resistant to nonrefundable or cancellation fees. So I'm just wondering if you could sort of talk about how much that cancel and rebook behavior maybe has increased versus last year. That kind of thing.

Chris Nassetta:
Yeah, I don't think we've seen a big increase year over year in that. I think if you look at it over the last two or three years, we've seen a significant increase, you know, both by

customer because of customer behavior, but also technologies and apps that have come out that have accelerated the behavior.

We did do it, and so, yes, like others, we have seen that trend. It's more prevalent in certain major markets around the country. It's not as prevalent throughout the system. We do think it's an important issue. We are working hard on it. We did do the test, as I mentioned, I think, on one of the last couple calls. Not necessarily because that's exactly what we wanted to do, but we wanted to get a sense of how customers responded to it.

We're working on a bunch of different approaches to it. And the trick here is to do something that makes sense for customers or, you know, that's what we're in the business of doing is serving customers, but is also thoughtful relative to how we manage the inventory for ourselves and all of our owners. We're one of the very few businesses I can think of that ties up basically all of its inventory with no downside risk, and that, particularly in today's world, with new technologies and these kinds of behaviors, that has a cost to it.

Now, that cost ultimately is going to be borne, at some point, by the consumer. So while it may seem like it's good for them, it may ultimately not be so good. So I don't have the answer yet. As I say, we've got all of our scientists working on it, and we're trying to figure out as, probably a little bit later this year, how do we come up with a way to price our products in a way that customers understand it, it works for them, for the various things, needs that they may have, but it's a more sensible way to manage inventory. And we're making some progress on it.

Nothing to announce, nothing to scare consumers about. We're not going to do dumb things that don't make sense for consumers, but there are, like other businesses, ways to be able to look at pricing for those that need more or less flexibility, and to create different sorts of pricing structures. So we'll give you more when we have it. We're very focused on it because I think it's in everybody's interest, customers and owners and the system.

Robin Farley:

Okay, great, thank you very much.

Operator:

And your next question will come from David Loeb of Baird. Please go ahead.

David Loeb:

I promise, only one question, even if it does have [unintelligible]. Chris, the pace of signings has been torrid, but while openings have been strong, they've been a bit slower than signings. Are you seeing any issues that are slowing openings, like economic issues, financing challenges, construction costs? And when do you see the pace of openings accelerating meaningfully?

Chris Nassetta:

Yeah. I mean, not anything dramatic. I mean, there are parts of the world, China being the best example, where you have seen, as they, over the last year or two, have sort of been evolving their economy and shifting to more of a services versus an infrastructure-based economy. You have definitely seen a slowdown there relative and a lengthening of development period between signing and opening.

But, you know, there's nowhere else in the world, maybe a little bit in Europe, as Europe has had its ups and downs, but broadly speaking, when I went and actually statistically looked at the timelines we've had historically between signings and openings, they're following pretty normal patterns, maybe outside of those, particularly China, and a little bit of Europe -- outside of those examples. So I think so goes on a lag to the signings, you can sort of prognosticate that the openings will pick up as the gestation period -- as you get through the gestation period for development.

David Loeb:

So when do you see that curve really bending up? The opening curve? When do you think we start seeing a substantial increase in opening –

Chris Nassetta:
Given that we have doubled our net unit growth percentage at the same time we've been growing the company, since 2007 or 2008, by 50%, I think you've been seeing it. You know, we've gone from sort of a low point of unit growth of 3% in 2010 to 6 to 7%, so we've doubled our growth rate at the same time the company has gotten 50% bigger. So I'd say you're seeing it -- hopefully, appreciating it.

David Loeb:
We are. Just looking for more. Thank you.

Chris Nassetta:
Yeah.

Operator:
The next question will come from Felicia Hendrix of Barclays. Please go ahead.

Felicia Hendrix:
Hi, thanks a lot. First, guys, I just wanted to congratulate you on Tom Baltimore. We have a tremendous amount of respect for Tom and all he's done at RLJ, and we're assuming he's going to do the same for Hilton REIT. So congratulations there.

Chris Nassetta:
I am confident. Yeah, as I said in my comments, I've known Tom for 30 years. Tom was not just on the list. Tom was the number one, top person on our list. And we couldn't be more pleased that he was willing to come provide the leadership of our new REIT. So it's an exciting day for all of us.

Felicia Hendrix:

Well, that's just great. Hey, I know you talked a lot around this, but I want to understand the impact of Easter a bit more. You definitely discussed your outlook for an improvement in April, but how much of that April recovery that you're seeing has benefited from the Easter shift?

Chris Nassetta:

Some of it for sure. I mean, there's no question. It'd be hard, Felicia, for me to give you an exact number at this point. Maybe when we get through the month and we have, you know, we can scrub all the data we can. There's no question the reverse impact is benefiting you. But there's also no question -- and I'm not trying to pound the table -- there's no question we're also seeing broadly, unrelated to that, a modest pick up in corporate transient business. It's there. I've been talking to a ton of corporate customers.

You know, the great thaw that I described, it's going on. What I can't tell you is what is the result in terms of broader growth, exactly what is the shape of the up tick, but, all things being equal, meaning things stay in a relatively stable mode, it's just hard -- forgetting the Easter effect -- it's hard to apply common sense and not believe that you're going to see corporate transient pick up.

Felicia Hendrix:

Okay, that's helpful, thanks. And just, finally, Kevin, you didn't appear to prepay any debt in the quarter. I think you did that for most of last year. So just wondering, are you preserving cash for another purpose later this year, such as share repurposes? Or is there any other reason behind that?

Kevin Jacobs:

Yeah, we have, Felicia, these two big transactions coming up that, as Chris said earlier, in response to Steve's question, have some expense associated with them. So that's it. And also, as I said in my prepared remarks, we fully expect to target the same credit rating and start a share repurchase program once we get the spins, or ask our board to start a share repurchase program once we get our spins complete, but we're really just saving our cash for the transactions, at this point.

Chris Nassetta:
Yeah, we're hunkering down to get these things done, and there's a lot of moving pieces, all of which are manageable, but we want to sort of get it done, create three pure play companies, and we'll get back on it.

Felicia Hendrix:
That completely makes sense. Thanks.

Chris Nassetta:
Yep.

Operator:
And the next question will come from Thomas Allen of Morgan Stanley. Please go ahead.

Thomas Allen:
Hey, good morning. China RevPAR accelerated from 3% last quarter to 8% this quarter. Did that surprise you at all? And you didn't change your guidance for the year. So just trying to hear your latest thoughts.

Chris Nassetta:
It did, honestly, surprise us to the upside, a little bit. In talking to our China teams, which, you know, I talk to our team constantly around the world, they were a little bit surprised. And, you know, part of what's going on is the just sort of part of the great thaw, you know, the reason for the great thaw is I think there is a little bit more stability in the Chinese economy. Certainly the world is starting to settle down on China.

I think if you're in China, which our guys are, and operating, running businesses, I think it feels like things are, you know, to our teams, more stable. The business is showing up. And so, yeah, we feel pretty good about what will happen for the year. I'm not going to say we're being conservative. It's not going to make a huge difference in the numbers if we're a little off, given it's a relatively low percentage of our overall EBITDA, but that things are reasonably good -- yeah -- surprised us a little bit to the upside.

Not so much so that we thought we should change our guidance at this point. Some of it driven by some particularly strong group bookings in some of the bigger hotels in China, but all good. It's nothing but good. And, you know, same thing on the development side. We shifted the strategy there appropriately a couple of years ago to more of the midscale side of things, and we're continuing when others are not to accelerate both signings and particularly accelerate openings. I think we'll probably open 20% more rooms this year than we did last, and last year was, I think, the best year we ever had in openings in China. So China feels reasonably good.

Thomas Allen:
Great. That's all I had. Thanks.

Chris Nassetta:
Yep.

Operator:
And the next question will come from Chad Beynon of Macquarie. Please go ahead.

Chad Beynon:
Hi, great, thanks for taking my question. Just wanted to get a better understanding of what you're seeing in the first quarter and kind of going forward, from a cost standpoint -- your owned and managed properties with respect to labor, taxes, insurance, some of the

inflationary things. And kind of your outlook over the next 18 months on some of these important cost line items. Thanks.

Kevin Jacobs:
Yeah, thanks, Chad. On an overall basis for the segment, we've seen cost per occupied room for the first quarter was still below 2%, so we've had pretty good cost containment there. In the U.S. hotels, we'll detail all this in the Form 10s and the like and how it breaks up, but a little bit higher. But we've been doing a good job of containing costs, even in a wage and benefit environment that's been pretty high growth across the nation.

Chad Beynon:
Okay. Thanks. That's all for me.

Operator:
And the next question will be from David Katz of Telsey Group. Please go ahead.

David Katz:
Hi, good morning.

Chris Nassetta:
Good morning.

Kevin Jacobs:
Good morning.

David Katz:
I think you've given some pretty positive context around the development landscape. Can you talk about the financing environment for hotels, which I think obviously is an important driver of new franchising deals, new management deals? What are you seeing in terms of

LTVs and the size of deal opportunities, et cetera? And directionally where you think that's headed.

Chris Nassetta:
I'll let Kevin maybe get a little more specifics because he's more active day to day in working with our owners, but at a high level, I think it's been reasonably steady. You know, I think most of our stuff, if you use the U.S., because it's a big chunk of where the development is occurring, most of it is getting financed by local and regional banks, where you have owner-operators, some big, some small, that are financing with generally a decent chunk of equity, full recourse on the debt.

It's the way they do the business. And the local and regional banks have continued to be pretty stable. At end of last year and very beginning of this year, when all the world, you know, my description, froze up, you were starting to see little telltale signs, certainly on Wall Street, of less capital available. I would say, my opinion, it didn't really trickle through to main street very much, and now with the world being stable -- I was with a whole bunch of owners that are building these things, a few weeks ago, and I asked them are you seeing any difference in your ability --

And they said, no, maybe a teeny bit more expensive, a little bit more equity, but, you know, after a -- but no real difference in sort of the mainstream kind of lending environment. Or nothing that they viewed as material. The best, the quality developers are still able to get it and still able to finance our stuff. Kevin, I don't --

Kevin Jacobs:
Yeah, I think that's a good way to describe it is the Wall Street versus main street. I mean, the main street side of it is where the lion's share of our development's getting done, especially in the U.S. On the Wall Street side of it, I think for existing cash flowing assets, you know, when you had the world freeze up the way Chris described it, CMBS in particular, spreads did gap out quite a bit. But those markets have destabilized, and they're

looking a lot stronger than they were. But again, on the main street side of it, I think specific to your question about development that is almost all local. They're highly equitized. They're financed on a loan-to-cost basis. And it's just a little bit different environment than some of the things you've been hearing out of Wall Street.

David Katz:
Got it. And if I could ask one more smaller question, and I recognize that it's a smaller piece of your business, but given the split, it's relevant. We did hear a timeshare competitor talk about default activity yesterday. And I wondered if you had any perspective on your timeshare business and whether there has been any change directionally or anything notable with respect to timeshare notes and your customers and your system.

Kevin Jacobs:
Yeah, David, we saw those comments, of course, like you did, and that particular activity has not existed in our business. And, frankly, our customer, who's a little bit different customer, has been quite strong. So our default rates are not ticking up. Our average fico on new loans is almost 750, so a quite high credit profile for our customers. And, frankly, I was, you know, just looking -- our default rates were not up really at all in the quarter. So we're not seeing that issue.

David Katz:
Understood. Thanks very much.

Kevin Jacobs:
Thanks, David.

Operator:
And ladies and gentlemen, this will conclude our question and answer session. I would like to turn the conference back over to Chris Nassetta for his closing thoughts.

Chris Nassetta:

I just want to say thanks, everybody, for spending so much time with us this morning. We continue to make great progress. You should be looking in the not-too-distant future for our Form 10s, to get more information on the spins. We look forward to catching up with you on the next quarterly call or before. Thanks.

Operator:

Thank you, sir. Ladies and gentlemen, the conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.

[End of recorded material.]