PARTICIPANTS

Corporate Participants

Christian Charnaux – Senior Vice President, Investor Relations, Hilton Worldwide Holdings, Inc.
Christopher J. Nassetta – President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.
Kevin J. Jacobs – Chief Financial Officer & Executive Vice President, Hilton Worldwide Holdings, Inc.

Other Participants

Carlo Santarelli – Analyst, Deutsche Bank Securities, Inc.
Jeff J. Donnelly – Analyst, Wells Fargo Securities LLC
Joseph R. Greff – Analyst, JPMorgan Securities LLC
Felicia Hendrix – Analyst, Barclays Capital, Inc.
Patrick Scholes – Analyst, SunTrust Robinson Humphrey, Inc.
Harry C. Curtis – Analyst, Nomura Securities International, Inc.
Shaun C. Kelley – Analyst, Bank of America Merrill Lynch
Smedes Rose – Analyst, Citigroup Global Markets, Inc. (Broker)
David Loeb – Analyst, Robert W. Baird & Co., Inc. (Broker)
Richard Allen Hightower – Analyst, Evercore Group LLC
Bill A. Crow – Analyst, Raymond James & Associates, Inc.
Vince Ciepiel – Analyst, Cleveland Research Co. LLC
Chad Beynon – Analyst, Macquarie Research
Jared Shojaian – Analyst, Wolfe Research LLC
David Katz – Analyst, Telsey Advisory Group LLC
Wes Golladay – Analyst, RBC Capital Markets LLC

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Hilton Worldwide Holdings Second Quarter 2016 Earnings Question-and-Answer Session. All participants will be in listen-only mode. [Operator Instructions] Please note this event is being recorded.

And I would now like to turn the conference over to Christian Charnaux, Senior Vice President of Investor Relations.

Christian Charnaux, Senior Vice President, Investor Relations

Thank you, Denise. Our apologies again for the technical issues with our conference call provider this morning. Welcome to the QA section of the Hilton's second quarter 2016 earnings call. We're going to do the Safe Harbor again real quick.

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

We gave our prepared remarks earlier this morning and now we'll go straight to Q&A with Chris Nassetta, our President and Chief Executive Officer; and Kevin Jacobs, our Executive Vice President and Chief Financial Officer.

With that, Denise, may we have our first question?

QUESTION AND ANSWER SECTION

Operator: Certainly. Your first question will come from Carlo Santarelli of Deutsche Bank. Please go ahead.

<Q – Carlo Santarelli – Deutsche Bank Securities, Inc.>: Hey, everyone. Thanks and good afternoon. And, Chris, I apologize if you've covered a lot of this in your prepared remarks, but I wanted to maybe understand a little bit more inherent in your new guidance to achieve the high end of the range, what has to happen and is that purely reliant on corporate transient and could you maybe provide a little bit of an update as to kind of what you are seeing in July month-to-date? Thank you.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: We covered it, Carlo, a little bit, but I'm happy to give a little bit more color. As indicated in the prepared comments, for us to get above the midpoint, we'd have to see a significant reacceleration in demand, particularly in the corporate segment, yes, I do think, we believe that the Group business is hanging in there, as we had expected.

So that's why, in the comments, we really directed people to the low to the midpoint of the guidance. And the way I would summarize it, sort of when you boil it all down, is that for now, I mean, you've had holiday shifts going on, you have some holiday shifts that are going to occur for the rest of the year. But, when you sort of neutralize all that noise, transient demand driven by business, transient demand has been sort of growing in the low 2%s, plus or minus, Group demand has been better than that and it's been without the noise sort of producing a 2% to 3% outcome, in terms of RevPAR growth. That's why, we are sort of guiding you to the low to the midpoint, was the expectation of, if you believe things are going to continue the way they have, that's what you deliver. If you think things are going to get better as a consequence of the economy getting better in the form of incremental business transient, then you could be better than that, but I think that's sort of the zone, as I say when you neutralize for the noise is that, I think we have been performing at is, essentially 2% to 3% for the reasons that I discussed.

In July, I think, the way to think about the third quarter is July in part again for holiday shift reason is weak, picks up in August, but August is August. It's not exactly the most robust travel period for us, given that the bulk of our demand is business demand and then September is much, much stronger than both July and August with a very strong Group base to support it and obviously more active business travel part of the quarter.

<Q – Carlo Santarelli – Deutsche Bank Securities, Inc.>: Great, Chris. Thanks. That's very helpful.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Okay, next.

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

<Q – Jeff Donnelly – Wells Fargo Securities LLC>: Good morning, guys, or good afternoon.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes, sorry about that.

<Q – Jeff Donnelly – Wells Fargo Securities LLC>: Yes, no problem. I am not sure if there's a question limit here, but just I guess first one is around you removed some of the language around debt reduction from your expected uses of capital, I suspect due to the spinoffs, just looking beyond that time though, looking beyond 2016, do you expect to use capital in the future to circle back and include debt reduction paydown like say in 2017 or is that to be determined?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: No, I don't think our capital return viewpoint has changed and that's why we didn't really highlight it here. I think, we are going to as a consequence of the spins and the cost associated with that leverage up generally if you look at HoldCo a bit, but believe that as we exit the spins and go to next year, we will be able to get the leverage levels back to the stated goals of being in the low 3 times-s, which is consistent.

During that timeframe, we expect to continue of course to pay dividends. The Park will pay its dividends, RemainCo, Hilton Worldwide, will pay its dividends and then on behalf of Hilton Worldwide, we would expect early in the year to be talking to our board about a stock buyback program. We may be in order to get the leverage back down to low 3 times-s because it takes up a little bit, I would expect, we would be paying off some debt in the earlier part of next year, but we would also be thinking about a buyback program contemporariness with that.

<Q – Jeff Donnelly – Wells Fargo Securities LLC>: Yes, it's helpful. And just maybe two questions on just different demand segments. On corporate transient, does HHonors give you guys the granularity to see if some of the softness in corporate transient is more than just of a less demand and it's sort of data that's granular like a same-store customer either trading down on price point or taking fewer trips or staying fewer nights. Can you see that in your system?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: I think we can see lots of data, but what I'd say sort of the K.I.S. rule, keep it simple. I think what's happening is, Corporate America, whether it's big companies, medium, small, I think you're just seeing lower demand. And we're getting mostly rates. So I think, what's happening is, volumes are relatively flat and rates up a little bit and I think it's a consequence of what we had witnessed as an economy, which was in the fourth quarter and the first quarter of this year, a significantly lower overall economic growth.

Now, I think when you get to the print of Q2, you're going to see much higher economic growth and certainly every expectation is for the second half to be better. We do know that historically we've had a lag somewhere one quarter to two quarters on sort of economic growth translating into demand growth in the corporate business. We haven't really seen it yet, but expectation I think would be when you see Q2 be stronger, and I think Q3 and Q4 eventually will flow through. Yes, it's just hard to know exactly when that occurs and we have not seen it to my earlier point in any meaningful way. We've seen positive growth, I mean we've seen transient growth as I said sort of in the low 2%s, but you'd obviously as a consequence of seeing broader economic growth pickup, like to see it flow through. And I think every expectation would eventually it will flow through, it sort of stands to reason by any historical standard.

<Q – Jeff Donnelly – Wells Fargo Securities LLC>: And just a last question on Group. Can you just talk about the trends in cancellation and attrition rates as well as your year for the year Group booking pace? I'm just curious what you're seeing there, effects maybe what your thinking is for 2017 and 2018 Group of shorter-term Group trends might be weakening?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes. We have not seen any negative activity in attrition or cancellations. And in fact in the first quarter I think we noted that it was down year-over-year, second quarter was consistent year-over-year. So there is nothing abnormal going on there. As we look at pace in the year, for the year, generally relatively strong. If you look at pace in this year going into next year and as a result what position is for next year, relatively strong position for next year and sort of up in the mid-single-digit. So, they're not indications of something going wrong in the Group side.

<Q – Jeff Donnelly – Wells Fargo Securities LLC>: Thanks.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes.

Operator: Our next question will come from Joe Greff of JPMorgan. Please go ahead.

<Q – Joe Greff – JPMorgan Securities LLC>: Hey, guys.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Hey, Joe.

<Q – Joe Greff – JPMorgan Securities LLC>: Sorry, if you kind of talked about this a little bit on the earlier calls. And obviously, you're not seeing this in your development pipeline, but can you just talk about the conversations, Chris, you might be having with the development community? And how much of this deceleration in corporate demand and corporate transient RevPAR growth is having an impact on the mindset of those looking to build out or convert new supply, and how those conversations might be evolving, say, since the beginning of the year?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes. I would say, honestly, Joe, have lots of discussions with owners across the board. And given that they're owner-operators, most of them, they're seeing what's going on with demand patterns across the board, particularly in corporate transient demand. I've not seen any material impact, and they're thinking about what they're trying to do from a development point of view. I do believe that there is generally, amongst the development community, and I happen to agree with this, a fair amount of optimism, and that optimism is based on the fact that the U.S. economy is picking up a little bit, in my earlier comment, that eventually that has to flow through to corporate transient demand by any historical standards.

So I think the development community, and I agree, thinks that it will. And while certainly, I don't think anybody is being a Pollyanna and has a view that we're going to go back to transient growth trends of the type that we saw maybe in the first half of last year or before, I do believe that people have a general belief that those trends could pick up, and that in any event, we're going to continue to see positive fundamentals, meaning positive RevPAR growth, albeit it's at a little bit lower level than what we had been experiencing, but positive RevPAR growth, simply as a consequence of continuing increases in demand, at lower levels, but increases in demand met with capacity additions that are still in the 1%s, and still below any sort of 30-year historical average.

So, I mean the financing markets generally have been reasonably strong, a couple of conversations with folks would say they're maybe having to put up a little bit more equity, maybe their spreads have had increased, but I think those spreads have come back in with the – even post Brexit – with the markets stabilizing. The debt markets have been quite strong generally, of late. So, I could go on, but I won't. Not a material change in the view of our ownership community.

And you can see from the numbers that we outlined in Tru, tremendous progress there, obviously that's a very – that's a product that's very much a value proposition, and it's a lower cost to build, lower number of rooms, lowest price point in terms of cost per room to build. But I think people feel very confident in their ability to get those deals and other deals, they're working on finance, and still have confidence that the cycle has legs to it.

<Q – Joe Greff – JPMorgan Securities LLC>: Thank you.

Operator: And our next question will come from Felicia Hendrix of Barclays. Please, go ahead.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: Hi. Thank you. Chris, I was wondering if you could just tell us what the leisure transient growth was in the first quarter and second quarter?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes. It was on the higher end. I think it was in the 4%s, not quite all the way to mid-single, not quite 5%, but it was in the 4%s year-to-date.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: Okay. Year-to-date. And then...

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: So, it was weighting up now, it's a smaller percentage of the overall mix of transient, but it was weighting up performance where the corporate side was weighting it down and that's how you end up in the low 2%s. I mean again, every month's different and you have the calendar shifts that, when we sort of neutralize it all, which is I was trying to maybe oversimplify, but I think it's helpful to think about it that way. The transient's growing in the low 2%s, Group's growing better than that, that's how you're delivering sort of 2% to 3% until further notice. Further notice being, you see something change in the economy, either positive or negative. Obviously, we're hopeful, with the broader growth picking up, that that's going to be on the positive side.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: Good, that's helpful. And then the strong Group business that you're seeing in September, I was just wondering how much of that's coming from the holiday shift?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Some of it's holiday shift, but it's overall strong. I can't be scientific enough to give you the exact percentages, but it's both. I mean clearly, you have the holiday shift helping September, hurting October, but you also have a very robust sort of Group funds going in any event.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: And then, if you could look to October, I mean I know if you kind of backed out the holiday shift, if you could, do you see consistent, strong growth?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes, I mean October is going to get hurt by that. It's not a bad Group calendar, but year-over-year it's going to be hurt because of...

<Q – Felicia Hendrix – Barclays Capital, Inc.>: Yes.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: ...what's going on. Again, if you neutralize all that, honestly, the way I think about it is, all these all you had Q2, you had the 4th of July thing going on in the beginning – that affected it. Q3, you've got benefit of the Jewish holidays, you got the offsetting in Q4 but these are your comps in Q4. There is a lot of noise. I won't keep going. Either way I think about it is that Q3 and Q4 in the end will end up because of all that noise being relatively comparable in performance, certainly as we look at all the puts and takes. We think Q3 and Q4 are going to be relatively comparable.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: And then just to put your leisure comment in perspective, what was that comping against last year?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Similar. It's been very – I can get to the exact number later. I mean it's been very consistent over the last couple of years. Leisure has been good.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: Okay.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Leisure has been good, and generally sort of trending up mid-single digits, pretty consistently over the last couple of years.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: And then just a final quick one, because I think this will be a quick answer, just getting back to Group and you were saying that how strong it's been. There's just been a few companies that we've heard from so far saying that they're seeing weaker short-term Group bookings particularly in terms of small corporate meetings. Are you seeing that at all?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: No, not in any material way that has shown up and with the data I've looked at.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: Okay, great. Thanks.

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

<Q – Patrick Scholes – SunTrust Robinson Humphrey, Inc.>: Hi. Just a little bit further question on expectations for leisure transient, what are you thinking for performance for that segment for the rest of the summer?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: I think it's going to be relatively good, so I think it's going to be higher than the average of our overall transient growth rate, so let's say in the 3% to 5% range.

<Q – Patrick Scholes – SunTrust Robinson Humphrey, Inc.>: Okay. One other question. When you look at for the business traveler, the various sort of customer segments, whether it's financial services, technology, who has given you the most pushback on what we say rate or demand and who are you performing better with at the moment?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: I wish I could be precise, but the real truth is that the weakness is broad-based. And so, I can't really – when I talk to our sales team, which I do frequently, I can't like pick out whether it's pharma or technology or financial services, I would say again just because everybody has been experiencing in the fourth quarter particularly in first quarter, weakness in the macro environment I think it has been sort of a general dampening of demand across most industries. So, there is nothing that really comes to mind to highlight.

<Q – Patrick Scholes – SunTrust Robinson Humphrey, Inc.>: Okay. I hear you. Thank you.

Operator: And the next question will come from Harry Curtis of Nomura. Please go ahead.

<Q – Harry Curtis – Nomura Securities International, Inc.>: Hi, guys. Just a quick follow-up on Group for next year. Chris, can you comment on your pace and position for next year?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes. I thought I said it but maybe just neglected too. Pace has been relatively healthy for Group bookings this year going into next year. And position is mid-single digits. So, position is slightly stronger next year than for full year this year.

<Q – Harry Curtis – Nomura Securities International, Inc.>: And is it your expectation or would you expect at this point in the economic cycle to begin to see that soften, several other companies have talked about Group softening a bit, but your seems to be stronger.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: I'd say it's a little bit stronger, I wouldn't say it's wildly stronger. And I think it's entirely dependent on what happens in the macro environment. We believe the broader global economy is going to pick up, and a lot of the groups in the U.S. U.S. economy is going to be stable to picking up. I think that's what you would expect to see in the Group side of the business. So, I think that's why – its' a longer lead business, it doesn't tend to vacillate up and down as quickly with changes, but I think if the economy stays, if economic forecasts are right for this year and next year for the U.S. economy, which I think consensus is 1.9% for this year and 2.2% for next year. I think the Group business will be fine, and I think you'll ultimately see a bit of an uptick in corporate transient business that will help you. It's not, in my opinion, I don't think we see on the horizon that's it's going to go back to where it was. We're not going to see corporate transient demand growing 6% or 8% which was what we were experiencing up until and through the first half of next year, but you could certainly see better than the low 2%s that we've been seeing in transient as a consequence of that. But the Group will act generally consistently with transient on a lag, I mean I think that's the way, just on a longer lag, I mean it's obviously a longer lead business.

So, transient today is really weak, because the economy stays really weak, eventually it will ripple through to Group. If the economy is stable and potentially going back up a little bit, then you'll see Group hang in there just fine.

<Q – Harry Curtis – Nomura Securities International, Inc.>: And thank you. And just a housekeeping question on your expected leverage ratio early next year at the new Hilton, what might that look like?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes. We're going to have an Analyst Day or equivalent to walk through all three companies. I think the way to think about it is sans the spins the company HoldCo, would end up at about three times by year end, which would be on target. We're going to probably tick up a little over 20 bps, and then we got to split it up between the three companies. We gave guidance in that regard, which was for us 3.25 times. Hilton Worldwide 3.25 times to 3.50 times, so that's probably we think we would be in that zone. For Park, 3.75 times to 4 times and HGV generally one times and we think all three of those are consistent with sort of market norms and the respective industries where those companies and with the comps that those companies will be going against. So, 3.25 times to 3.50 times in that zone which is a little bit higher than the low 3 times-s we want to be at but I think we believe we can quite rapidly get it back down to that 3 times or close to 3 times.

<Q – Harry Curtis – Nomura Securities International, Inc.>: Thanks, Chris.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Thanks, Harry.

Operator: Our next question will come from Shaun Kelley of Bank of America Merrill Lynch. Please go ahead.

<Q – Shaun Kelley – Bank of America Merrill Lynch>: Hey, good afternoon. So, Chris or KJ, I was just wondering if you guys could talk a little bit more about the owned/leased performance lowering the guidance there to 1% to 3% that's sort of at the low end of what we are seeing some of the other lodging REITs coming in at this quarter for their outlooks for the year? What do you think the drivers are and some of the pluses and minuses when you think about the geographies that the only segment has?

<A – Kevin Jacobs – Hilton Worldwide Holdings, Inc.>: Yes, Shaun, it's Kevin. I'll take that one. When you think you've seen the markets that have been underperforming in the first half of the year where we have big box hotels with relatively big exposures like New York and Chicago, so that's certainly part of it. And then we have some hotels in the ownership segment that – in parts of the world like Japan that's struggling a little bit with the strengthening in their currency, that's affecting domestic travel, places like Turkey, Istanbul where you've had geopolitical type events. So, it's a little bit spread around the world, but obviously the big box hotels in urban markets that are struggling has a little bit of an outsized effect into size of the hotels.

<Q – Shaun Kelley – Bank of America Merrill Lynch>: That's helpful. And sort of maybe the flip side to that question is, seems like you're actually doing a really good job of holding margin there with just I think still up 10 basis points year-to-date. Where are you guys out on the cost side there in terms of margin's already very high, so are you starting to actually reduce cost or are you still at more of like an efficiency phase level where you still think there are more things to gain in the portfolio without actually cutting costs or moving to contingency plans?

<A – Kevin Jacobs – Hilton Worldwide Holdings, Inc.>: Yes, I think it's a bit of both, Shaun, I mean what you saw on the first quarter was margins were up really strongly, 150 basis points and then obviously in the second quarter, overall RevPAR for the segment at 70 basis points makes it hard to maintain margins, and so margins were down 100 basis points. So, what you saw in the first quarter was our – we have really good cost discipline and we're sort of reaping what we sowed over the past couple of years in terms of being really efficient. And then when the revenue side gets softer, then you got to lean in a little bit more and so we are working our labor management systems, we're watching management levels, working on procurement initiatives, we'll get a little bit of benefit in the back half due to energy prices we think. And so, that all goes into the mix and that's why we think we'll still grow margins and EBITDA lower than we have in the past, but will still grow for the full year.

<Q – Shaun Kelley – Bank of America Merrill Lynch>: Great. Thank you very much.

Operator: Our next question will come from Smedes Rose of Citi. Please go ahead.

<Q – Smedes Rose – Citigroup Global Markets, Inc. (Broker)>: Hi, thanks. I just had two quick ones. One, through the first half, it looks like EBITDA came in towards the higher end of your range and RevPAR was at the lower end of the range. Is that primarily because it looks like timeshare has just been performing better and do you think that those will sort of align more through the second half of the year?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes, so I think it's both timeshare and then fees. Some of the fee growth on the non-recurring fees and signing, application fees, et cetera so I do think those as you think about the full year guidance we're giving should definitely align more than we have in the first quarter and second quarter.

<Q – Smedes Rose – Citigroup Global Markets, Inc. (Broker)>: Okay. And then I just wanted to ask you specifically on San Francisco for next year, which obviously has a big downtick in Group, in Group's booking because of the Moscone Center renovations. Will you guys suffer from that or will you be able to maybe take Groups away since you have a fair amount of Group space yourself at those larger hotels that you own in that market. How is that looking...

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: I would say that is certainly what we would hope. San Francisco with Moscone has obviously had a bit of a cooling off, still relatively strong, I mean still growing as faster, faster than any of the other major markets in the country, but instead of growing 10%, it's growing half of that this year, as we maybe a little higher than that as we look into next year, given that we do have a lot of meeting space, we do think and we do have a pretty good Group position. We do think we can take advantage of in-house Groups and continue if everything – all else being equal with the broader economic setup, we do think we can continue to drive pretty good performance there.

<Q – Smedes Rose – Citigroup Global Markets, Inc. (Broker)>: Okay. And then finally...

<A – Kevin Jacobs – Hilton Worldwide Holdings, Inc.>: Yes, and I'd just add, Smedes, that San Francisco doesn't have any new supply to speak of and so then that makes it a little bit easier too and I think that the issues at Moscone are becoming better known. And I think they're working with the city to know when they're going to be in and when they're going to be out, so you can just do a little bit better. So as Chris said, probably not going to be gangbusters, but we think San Fran will be okay next year.

<Q – Smedes Rose – Citigroup Global Markets, Inc. (Broker)>: Okay. And then, fair to say that the case of unit addition should accelerate through the back half in order to reach your – I think you said 45,000 net adds for the year expected?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes. And that's not atypical. I mean, if you look at the numbers year-to-date, we're ahead on signings, we're ahead on construction starts, and we're ahead on net unit growth relative to last year, it is not unusual that the second half of the year is heftier in terms of deliveries than the first half of the year. So, we feel comfortable with the guidance that we've given; the third quarter should be a banner quarter for openings.

<Q – Smedes Rose – Citigroup Global Markets, Inc. (Broker)>: Okay, great. Thank you.

Operator: Our next question will come from David Loeb of Baird. Please go ahead.

<Q – David Loeb – Robert W. Baird & Co., Inc. (Broker)>: Good morning.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Good morning.

<Q – David Loeb – Robert W. Baird & Co., Inc. (Broker)>: I know you talked a little bit about the direct booking earlier today, at least I've been told that. If you don't mind, just a little deeper into that...

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Nobody was on the call, I thought, people heard the – anyway, we'll have – you can get the transcript.

<Q – David Loeb – Robert W. Baird & Co., Inc. (Broker)>: I will get the transcript. I didn't manage to get on, but the rest...

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Okay. So sorry, we had a small problem with AT&T. Yes.

<Q – David Loeb – Robert W. Baird & Co., Inc. (Broker)>: Yes. Apparently they had a lot of problems. That's fine. But just to go a little deeper into the direct booking initiative. Can you give us a little bit of color on what you think the trade-off has been in terms of what's happened to ADR versus the savings for owners, in terms of the customer acquisition cost, the booking cost?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes. Yes, I mean I think, at a high level, the way to think about our book direct campaign is, it's pretty simple, it's really to make sure that we're delivering to our customers the best value and the best overall experience. And we think, by having a more direct relationship with them, we are able to do that. And we also realize that we can't have a direct relationship with absolutely every customer. And so, in those cases, we certainly want to work with other intermediaries, including the OTAs, but where we can have a direct relationship and make sure they get the best value and give them all of the other things, HHonors, benefits and digital check-in and Digital Key and all those things, we think ultimately it's a better value and better experience for them.

So, we've gone on this campaign, and the one thing I want to note, that I have said on prior calls that's really important is, this is going to be – this is a long-term strategy, this isn't a flash in the pan, we're going out and doing a stop-clicking-around campaign. That's the beginning of years of effort and initiative to really evolve HHonors as a club to better serve our customers and to continue to bring more people into a very direct relationship with us. We think, if you look at the stats, when you read the transcript – sorry about that – you'll see we're having great success.

I think at a high level, you look at what's going on with HHonors membership, up 80% year-over-year. You look at the channel shift that's occurring to our direct channels from other channels, particularly the OTAs, all at the same time gaining market share, okay? So, you put all that together, I'd say we're having very good success, but it's early days clearly, this just really kicked off in February, March. It's going to go on for years. We're going to have to stay very vigilant, again, with the objective, giving our customers the best value and the best experience.

In terms of our owner community, and obviously you can speak with them. I'd say broadly, our owner community is, to say they're supportive would be an understatement. I think our owner community is incredibly focused on these issues and distribution costs and ultimately are having a more direct relationship with our customers. They have been very, very supportive, as a group, of all of our initiatives, and I believe that they are benefiting from it. If you look at it the way that we have to look at it, which is what's going on with – on a net rate basis, if you look at what's going on as a consequence of the channel shift that has occurred to our direct channels, on a net rate basis, our owners across the board, in every segment of our transient distribution, are doing better on a net rate basis, because even though, with HHonors discounts, which vary depending on day of the week and forward time, et cetera, but always there is some discount to HHonors members because they shift our channels and the cost of our channels, particularly our app, are de minimis relative to the other channels. On a net rate basis, our owners are making out in a big way.

As this continues, if we're successful, and we certainly plan to be, I think the net rate benefit is going to accelerate, and that is the objective. So I think everybody is – our ownership community is quite supportive. I'm sure like anything, you could find somebody that's not, but I think we're really focused on this. They for years, together with us, have been focused on making sure that we have good strategies in place, to make sure that our distribution costs are reasonable.

<Q – David Loeb – Robert W. Baird & Co., Inc. (Broker)>: So, just to follow that up, I do appreciate the comments about the net rate, that's kind of where I was going. If the HHonors' share of occupancy is 56% now, what's the sort of theoretical limit, or the optimal, for where that can go?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: The higher, the better. I don't think there is any reasonable limit. I think if we do our job over time, HHonors should be a club for everybody. HHonors should be a club for those that are frequent travelers, those who are infrequent travelers. Obviously, the more frequently you travel, the more benefits you may get, but there should be benefits to all travelers and I think we could have a much, much higher share of overall occupancy than in the mid-50%s ultimately. But again, I want to reinforce that I am absolutely happy to talk about this and should talk about it every quarter. We're going to be talking about this for years. This is not going to be like a quarter or two quarters and okay, that's over. This is a long-term strategy that our company has.

<Q – David Loeb – Robert W. Baird & Co., Inc. (Broker)>: Okay. That's great. And finally, look, not for your fault for the technical issues, not holding you accountable.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: I'm holding Christian accountable for the record.

<Q – David Loeb – Robert W. Baird & Co., Inc. (Broker)>: Thanks.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Thanks, David.

Operator: And the next question will come from Rich Hightower of Evercore. Please go ahead.

<Q – Rich Hightower – Evercore Group LLC>: Hey, good afternoon, everyone. Thanks for taking the question here.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Sure.

<Q – Rich Hightower – Evercore Group LLC>: So, just to go back to the spin transactions for one second here. I think previously whether on these calls or offline calls, you guys had mentioned potentially doing some opportunistic capital transactions in advance of this. So, just I'm wondering if you could add any color to what those might be. And just any additional detail would be helpful.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Not in a position to give you a whole lot more detail at this point, Rich. I'd repeat what we said before which is we're in a position thankfully where we don't have to do any financings to accomplish the spins, though, we may very well want to opportunistically particularly given the strength for the debt market. And we are considering a whole bunch of options right now. And when we have more detail, we'll obviously get back with you.

<Q – Rich Hightower – Evercore Group LLC>: All right. Thanks, Chris. That's it from me.

Operator: The next question will come from Bill Crow of Raymond James. Please go ahead.

<Q – Bill Crow – Raymond James & Associates, Inc.>: Hey. Good afternoon, guys.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Hey, Bill.

<Q – Bill Crow – Raymond James & Associates, Inc.>: Christian is always to blame, I think. Chris, three very quick topics hopefully, following up I think it was Joe's question earlier on the development pipeline and then whether you've seen any impact. Do you guys measure the time that elapses between signings and actual construction start? And has there been any change in that over the last year or two years?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: We do measure that and it has extended a little bit, but that's been more, if I look at the granular data, it's a lot more to do with China than anything, lot of the big projects in China that are in the pipeline, even some that are under construction. They're just slowing, just the pace is slowing. There are not as many workers on the sites. They are just taking longer to get it done and you've seen more delays. I'd say outside of that, not a whole heck of a lot of difference than the last year.

<Q – Bill Crow – Raymond James & Associates, Inc.>: Okay. And then, I know, Chris, you're really involved on the government relations front in marketing for the industry. And lately, the headline seemed to point to momentum shifting against your B&B, just wondering if you had any thoughts on that topic?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Not anything particularly new. I think all the headlines do a reasonable job of covering. And I think the industry's perspective, if I were to encapsulate it is that just having sort of a fair set of rules that apply to everybody, and I think that's a belief that's held by many of the municipalities around the country. And like a lot of the sharing economy companies that are out there, the rules and regulations haven't really kept up. They are moving faster than many of the government entities, both locally and federally can move. And so, I do think over time you're going to find that those two – that the government side of it catches up with it and ultimately that you have sort of balanced rules and regulations that apply to businesses that have similar attributes.

So, I think you're going to see, I mean, Airbnb is a real business, a good business is going to be around, they are obviously growing very rapidly, I think, increasingly you are going to see either by self governance or otherwise, that the set of rules that they are playing by are going to look more like the set of rules that we play by.

<Q – Bill Crow – Raymond James & Associates, Inc.>: All right. And then finally, Chris, I know special corporate negotiated rate businesses is just a part of overall corporate demand, but there were several companies saying that last fall's negotiations were as good as they have been for the cycle and here we are with a real void in corporate demand. So, two-part question, are we making more of that negotiating period than we should be as even material? And number two, are we entering this fall negotiation period at more of a position of weakness?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: We've been talking a lot about that because we are talking to our sales teams about the discussion that's going to start to hit in the high gear late summer or early fall. I think, you can interpret everything we said about weakness in demand in that space, while special corporates are maybe 20%.

<A – Kevin Jacobs – Hilton Worldwide Holdings, Inc.>: 10%.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: 10%.

<A – Kevin Jacobs – Hilton Worldwide Holdings, Inc.>: Yes.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: 20% of that corporate business, so 10% of the overall business, it's meaningful, it's not as big I think it ultimately is as people think. I do think in a weaker environment, it's going to be tougher to push rates and, I think, if last year, we were all sort of in the mid-single digits and pushing above frankly, our objectives were mid-single digits to high single digits.

I think, it's this year, likely we are not there, but likely going to be in the low single digits to mid-single digits, that's where sort of rationally, I think, we can expect to be. We will see. It's not going to really get going in earnest until September, October. We'll see what's going on in the broader macro environment to see if things have picked up a bit, but I think, 3% to 5% would be a rational expectation, with what I see sitting here today.

<Q – Bill Crow – Raymond James & Associates, Inc.>: Thanks for the time. Appreciate it.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes.

Operator: The next question will come from Vince Ciepiel of Cleveland Research Company. Please go ahead.

<Q – Vince Ciepiel – Cleveland Research Co. LLC>: Hi. Two questions on RevPAR. First, it looks like occupancy swung positive, which I think was in line with your commentary on the prior call. Curious what the full year move from 3% to 5% to 2% to 4%, is that more driven by rates or occupancy? And then second...

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: It's almost all rate. I mean, we did flip back around on occupancy and, I think, our actual forecast show a tiny amount of occupancy, but it's almost all rate, so almost a 90%-plus rate in the guidance we've given you.

<Q – Vince Ciepiel – Cleveland Research Co. LLC>: Great. Thanks. And then, second, for your second half RevPAR outlook, would you expect international or North America to lead RevPAR growth?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: I would say that when you blend it all together, I haven't done the math in my head, it's probably going to be comparable, simply because international, you've got the Asia Pacific that will clearly lead the world with continuing relative strength in China, and still in Japan, while Japan's cooled off a bit, it's still relatively strong. You're going to see Europe, you know, weaker, you are going to see Middle East/Africa weaker, so when you blend strong Asia with weaker other regions against America, my guess is, it could be about the same, I mean we could do a little bit more refined math, but I think that's plus or minus, what I would say.

<Q – Vince Ciepiel – Cleveland Research Co. LLC>: Okay. Thanks.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes.

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

<Q – Chad Beynon – Macquarie Research>: Hi, great. Thanks for taking my question. Just one from me. I just wanted to focus on fee growth, particularly the IMFs in the quarter and kind of how that fits into the overall M&F guidance for the year. So given that, that the quarter as you just mentioned was mainly rates versus occupancy, and that's kind of the outlook for the second half of the year, and given that Asia was strong where there is most likely no owner's priority, curious why M&Fs were flat in the second quarter and then second part of that, should we expect for this line item to kind of re-accelerate above base and franchise fees as we have seen it in the past? Thanks.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes, I think the short answer is yes, but let me give you a little bit more detail. First of all, remember for us that IMF is only 10% of the fee base, so not as big as you might find with other of our competitors which we like because IMF obviously by its very nature is a higher beta income stream. The reason you saw it flat in Q2 had to do with one-time stuff year-over-year. I think we would expect for the full year, it would be growing faster than base, certainly base and even core franchise fees. I think on an FX neutral basis, current expectation is for low teens, which is a little bit lower than where we've been, but that's because the bulk of that 10% IMF is in the international states and some of the places that have been more impacted by some of the things going on around the world. So, full year expectation, FX neutral, low teens, which is obviously – and they could have a higher growth rate than what you are seeing in the core fee base.

<Q – Chad Beynon – Macquarie Research>: Okay. Thanks very much.

Operator: The next question will come from Jared Shojaian of Wolfe Research. Please go ahead.

<Q – Jared Shojaian – Wolfe Research LLC>: Hi. Good afternoon. Thanks for taking my question. Just broadly on supply, and obviously your pipeline growth looks pretty good here, but we're also seeing sort of similar growth from everyone else, and yesterday Starwood showed a pretty big spike. So my question is, how will this not result in an overall industry supply problem as we go forward? And what are you expecting for industry growth here in the U.S. for next year and into 2018?

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes. I mean, again, the prepared comments, which evidently not many people heard, but you can read. I think part of what's going on is, our development pipeline's picking up, but we are fighting way over our weight. Can't really speak to Starwood in any detail, but I'd say, relative to almost all the competition, with one notable exception, we are getting a disproportionate share of the development. We've got 25% of the rooms under construction are our brands in the United States, where we have 11% market share. So, part of what's going on is, the stronger brands are getting a disproportionate share of the development, which means you are in a nice place where you are not having a huge amount of supply, that's why you are still in the 1%s, but yet we can have really significant growth as a company, given the strength of these brands and the market share of these brands at the same time.

Expectations for next year, I think, if you look at consensus numbers, we are going to be this year, 1.7%, 1.8%. I think as you get into next year, its gets up to about 2%, 2.1% if I blend the consensus and obviously, we'd tick up above that. A 30-year average is 2.5%, and while you are going to be next year, starting in 2017 and 2018, you're going to get to and probably hit the longer-term average, my guess is, some people say 2017, I think the number's actually – traditionally come in lower than expectations. I think it's maybe late 2017, 2018.

I would note that, in no time in my experience have we had a – first of all, even when the supply has been two times and three times and four times those levels, has it been really supply that has driven the turn of a cycle, it's always really been demand, obviously supply being at high levels can accentuate that. But I don't think getting into the 2%s and low 2%s is, in and of itself, necessarily a problem. I've said this 1000 times probably, and I'd say it again, I think when people want to think about, when will the cycle turn? I think it is entirely going to be driven by the business cycle turn. So when you think the overall economy is going to go into a cyclical decline, I think that is what ultimately is going to drive a decline in the lodging cycle. I don't personally believe supply levels are going to get to a level, I mean, is it better for the number to be lower, of course, like the math, the laws of economics are alive and well, but high 1%s and low 2%s, I don't think are particularly problematic.

<Q – Jared Shojaian – Wolfe Research LLC>: Okay. Thank you.

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

<Q – Dave Katz – Telsey Advisory Group LLC>: Hi, afternoon, all.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Afternoon.

<Q – Dave Katz – Telsey Advisory Group LLC>: I suppose everyone's apologized enough in both directions for repetition, so if I'm raising an issue you have discussed, let's put it in that bucket. But when I came in this morning and I read through your release, I then went back and read your transcript from the first quarter call. And it is quite a bit more bullish about the remainder of the year. And I suppose what I have not really captured so far is what changed, and clearly it's closer in business or expectations of such, but if you could just talk about what has shifted since that April 27 call, I'd appreciate it.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes, I'd be happy too, David, and I think it's three very straightforward things. One, what we've delivered year-to-date. We're now more than half done with the year, we've reported second quarter but we have very good visibility now into July, and decent visibility into August. So in April, we didn't have all that visibility. We've delivered 2.5% year-to-date.

We had hoped, and if you read that transcript you would find, we had seen some, I'd say threads of improvement. I think I may have used those words with the business transient segment. When we pulled those threads, they didn't lead to rope, meaning we haven't really seen a meaningful uptick, which I've talked about a bunch of times. So we had hoped we'd start to see a little bit more of an uptick sooner. I ultimately think it has to come, if the economy is strengthening, but we haven't seen it yet and we have a lot of the year now behind us.

And then, a bunch of things in the world have gone on since then, Brexit, coups in Turkey, the strengthening of the Japanese yen, terrorist events in multiple locations around the world, all of which, net-net, are not the end of the world necessarily, but they're all sort of a net drag. And when you put sort of the corporate transient not picking up year-to-date and things going on around the world together, it's how you get to the outlook that we've described.

<Q – Dave Katz – Telsey Advisory Group LLC>: All right. Thank you. And if I can just sort of follow that up particularly around that last point, because we discussed the notion of sort of geopolitical issues and so forth. Does it appear that any one of these events has had more of an impact than any of the others, or is it, I'm sure there is an appropriate metaphor that we can come up with each one adds just a little bit more drag on the system.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: I would say the latter.

<Q – Dave Katz – Telsey Advisory Group LLC>: Right. Okay. I appreciate it. Thank you very much.

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes. Yes.

Operator: And the next question will come from Wes Golladay of RBC Capital Markets. Please go ahead.

<Q – Wes Golladay – RBC Capital Markets LLC>: Hello, everyone. Wanted to look at the corporate travel, the one thing that stands out, as you look at the demand for these upscale hotels, it's up almost 500 basis points year-to-date. Are they less exposed to the corporate travel customer? Are they pulling share from the full service hotels? What are your thoughts on why demand has been so strong for that category other than the fact that they had increased...

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: I think it's simply in a somewhat weaker environment more of a value proposition. And I probably wouldn't complicate it beyond that.

<Q – Wes Golladay – RBC Capital Markets LLC>: Okay. And then by geography are you noticing any regions that are having at least decent corporate travel, I imagine the Texas area may have a little bit weakness due to the energy segment exposure and maybe Northeast from the financial services...

<A – Chris Nassetta – Hilton Worldwide Holdings, Inc.>: Yes. I'd say the one, I mean probably the bright spots, the West Coast and the much less bright spot would be the oil patch, sort of energy patch. But otherwise, not notable exceptions.

<Q – Wes Golladay – RBC Capital Markets LLC>: Okay. Thanks a lot.

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

Christopher J. Nassetta, President, Chief Executive Officer & Director

Well, thank you, everybody, for the time today. One last apology, again, sorry for messing up everybody's day. For those of you, who didn't and I think there are lot of you hear our prepared comments, thankfully you can read those. We look forward to catching up with you after the third quarter and obviously we'll be giving you incremental information on the spins as the quarter plays out. So, hope everybody has a great day. Thanks.

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