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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Hilton Worldwide Holdings Third Quarter 2016 Earnings Conference Call. [Operator Instructions] 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, sir.

Christian Charnaux

Senior Vice President, Investor Relations, Hilton Worldwide Holdings, Inc.

Thank you, Denise. Welcome to the Hilton Worldwide third 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 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.

This morning, Chris Nassetta, our President and Chief Executive Officer, will provide an overview of the current operating environment and the company's outlook. Kevin Jacobs, our Executive Vice President and Chief Financial Officer, will then review our third quarter results and provide details on our expectations for the remainder of the year. Following their remarks, we will be available to respond to your questions.

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

Christopher J. Nassetta

President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

Thank you, Christian, and thanks to all of you for joining us this morning. Even with macro conditions that continue to underperform expectations, we delivered adjusted EBITDA and EPS consistent with our guidance and continued to increase our global share of development activity in the quarter. Our objective is to drive value beyond what the broader economy gives us and we believe our portfolio of clearly-defined brands with global scale and distribution will continue to drive market share premiums, industry-leading net unit growth and ultimately result in superior returns to our stockholders over time.

We also have the opportunity to drive additional value by fully activating all segments of our business and achieving meaningful tax and capital market efficiencies through the spin-off of Park Hotels & Resorts and Hilton Grand Vacations, both of which are on track for completion around year-end.

Moving specifically to the third quarter results, our system-wide comparable RevPAR growth for the quarter was 1.3% on a currency neutral basis, driven entirely by rate, strong group business supported RevPAR growth in the quarter but corporate transient was softer than expected, particularly in September. Calendar shifts had a negative impact in the quarter as the unfavorable timing of July 4 more than offset the benefit of a favorable September holiday calendar. The quarterly results were also negatively impacted by continued weakness in oil and gas markets and by softer international performance with political instability and terrorism in Turkey, Belgium and France, strengthening currency in Japan, and VAT charges in China.

As we look forward into Q4, we anticipate softness in transient growth to continue, especially given the unfavorable October calendar shift. Additionally, November and December are typically low group months, resulting in lower transient compression. Combined, we think this will result in flat to slightly positive system-wide RevPAR growth for the fourth quarter. As a result, we forecast full year 2016 system-wide RevPAR growth of 1.5% to 2%.

As noted on our earlier calls, our prior guidance was based on 2016 U.S. GDP growth expectations of 1.5% to 2.5%. While our current outlook incorporates a more tempered consensus view of 1.25% to 1.5% GDP growth, down plus or minus 50 basis points since July. Year-to-date at a high level when adjusting for calendar shifts and other one-time events, we actually see pretty consistent RevPAR performance across the three major buckets of demand. Roughly half of our mix is business transient, which has been growing at approximately 1%, with the rest split pretty evenly between leisure transient and group business, both of which have been growing roughly 100 to 200 basis points above that.

Looking forward, we continue to expect that the lodging cycle will align with the broader business cycle. In the U.S., our largest market, macro indicators point to a more positive outlook on the demand side as we head into next year with forecasts for slightly accelerating GDP growth, growth of non-residential fixed investment, rising corporate profits, incremental jobs growth, and certainly having the election cycle behind us won't hurt. Paired with easier comps, this suggests modest demand acceleration from current levels.

The two pieces of business where we have reasonable sight lines, corporate negotiated and group, also support a potential acceleration in demand next year. We're in the early stage of negotiating corporate rates for next year and given record U.S. occupancy levels, we expect to increase rates roughly 3% to 4%. Similarly, in the first half of 2017, we're seeing mid-single digit system-wide group revenue position growth. This anticipated U.S. demand growth will be paired with supply growth that is expected to increase around 30 basis points next year to slightly less than 2% which is well below prior cycle peaks and still below long term averages.

There's good visibility into new capacity given the years of lead time and annual estimates of supply growth this cycle have pretty consistently been higher than what has actually been delivered. Overall development continues to be largely driven by economically rational projects in markets that can support room growth and with brands that are the most desired by customers, particularly as lending standards have tightened in this lower growth market.

Overall, we believe 2017 will be another year of positive RevPAR growth in the 1% to 3% range, but would note that it is early and there's still a great deal of uncertainty on how well the economy will actually perform next year. The other key growth driver for our business is net unit growth, which has more visibility than top-line growth. Our pace of room signings continues to increase and we expect another record year of more than 100,000 room signings. This fuels our pipeline, now at approximately 300,000 rooms representing a 15% year-over-year increase. Additionally, construction starts are 14% ahead of last year, meaning half the pipeline or nearly 150,000 rooms are under construction and largely expected to open over the next three years. As a result, we expect to increase our net rooms additions to more than 50,000 rooms next year.

We continue to lead the industry with 6% to 7% annualized organic net unit growth with little or no capital commitment on our part. Our accelerating capital-light growth is driven by all of our high quality clearly defined brands with each of our brand segments at record pipelines. We continue to accelerate our growth by deploying existing brands to new markets and organically launching new brands.

Regarding specific brands, we have some developments that I'm excited to share. In Luxury, the Waldorf Astoria Beverly Hills will begin accepting reservations this month for its opening next summer and the Waldorf Astoria San Francisco was recently added to our pipeline. We just celebrated the 750th hotel opening in our All Suites category, which includes our Embassy Homewood and Home2 brands. As a reminder, Home2 is the third largest brand under development in the United States only five years after its launch.

More recently, we've been further leveraging Home2's success by developing dual-branded products with Tru, our newest and fastest growing brand. We now have more than 140 Tru hotels, representing nearly 14,000 rooms in the pipeline, up an impressive 55% from the second quarter. Including all rooms in various stages of development, we have 360 hotels representing approximately 35,000 rooms. The brand continues to gain tremendous traction with developers and we're looking forward to opening our first Tru early next year.

Our industry-leading rate of net unit growth off a base of nearly 800,000 rooms continues to build our scale. We're in a business where scale matters and we're leaning in on these scale advantages to innovate faster, improving both our guest experience and our owners' returns.

Guests continue to prefer our web-direct channels with share increasing to 28% of distribution mix in the quarter, our highest level ever. Our guests have successfully completed 20 million digital check-ins. The world is going mobile and our top-rated hotel booking app in the Apple Store is the Hilton HHonors app, which is downloaded on average every eight seconds. Through our app, guests can download their room key on their mobile device and head straight to their self-selected room upon arrival in nearly 600 hotels today. Over the next year, we expect to deploy this capability to every one of our hotels in 80 major North American markets, representing nearly half of our total global system.

Earlier this week we announced the sale of Blackstone shares representing 25% of the company to HNA Group, a leader in the global travel and tourism industry with market leading positions in aviation, hospitality and travel services. We believe this strategic sale at a premium price with a thoughtful shareholder agreement that includes a two-year lock up, a perpetual stand-still and limited voting rights is a win for all parties. On the strategic side, there are many opportunities to leverage both Hilton and HNA's respective travel assets and capabilities.

While we're in the early stages, we anticipate that connecting our hotel system to HNA's customers through their online and offline travel agencies and their extensive airline network and loyalty program could be of meaningful mutual benefit to both companies. We also believe that HNA's financial businesses and extensive relationship should afford opportunities to support our development growth both in and outside of China.

Lastly, as we near the completion of our announced spin-offs of Park and HGV, we'd like to provide you with further information on each of the company's strategies and facilitate further interaction with the leadership of all three companies. I'm happy to announce we plan to host an Investor Day on Thursday, December 8 at the Conrad New York and we look forward to catching up with all of you more then.

In closing, although our third quarter top line growth was weaker than expected and macro uncertainly continues to weigh on sentiment, we are cautiously optimistic heading into 2017. We think our portfolio is uniquely positioned to further enhance value through sustainable industry-leading unit growth and full activation of our three businesses.

With that, I'm now going to turn the call over to Kevin for a little bit more detail on the quarter. Kevin?

Kevin J. Jacobs
Chief Financial Officer & Executive Vice President, Hilton Worldwide Holdings, Inc.

Thanks, Chris, and good morning, everyone. In the third quarter, system-wide RevPAR growth was tempered by a variety of factors, most notably a softer than expected macro environment with geopolitical uncertainty further weighing on growth. In addition, we estimate that one-time items such as calendar shifts and declines in oil and gas markets pressured top line performance by 100 basis points to 150 basis points in the quarter, including approximately 70 basis points of net drag from the July 4th and Jewish holiday calendar shifts.

Despite more modest top line gains, adjusted EBITDA of $765 million and adjusted EPS of $0.23 per share were in line with expectations supported by good cost control and solid performance in our purchasing business.

As Chris discussed, transient business was below expectations in the quarter with RevPAR up 40 basis points. Business transient continued to be largely weak across industries and geographies with particular weakness in our oil and gas markets.

Leisure transient continues to be stronger than business transient on a relative basis but was affected by terrorism and political instability in international markets. Group business increased approximately 4% in the quarter with America's owned and operating group revenue up nearly 8% versus prior-year, on strong ADR gains and more than 100 basis points of room night growth.

Convention and association business was particularly strong. Solid group trends also drove strong growth in America's owned and operated F&B revenue, which increased nearly 7% versus prior-year, mostly as a result of 11% growth in banquets revenue.

Turning to our segments, in the quarter management and franchise fees grew more than 7% year-over-year to $470 million in line with our expectations. Franchise fees increased over 8% boosted by new hotel ramps, stronger than expected license fees and solid new deal volume as Tru signings continued to outpace our expectations. Base management fees were flat versus the prior year due to softness in Japan, while one-time items helped incentive management fees which were up nearly 9%.

In our ownership segment, flat RevPAR growth and a 4% reduction in rooms largely driven by three lease removals contributed to a decline in adjusted EBITDA to $264 million in the quarter. RevPAR performance was primarily driven by weakness in the New York and Chicago markets, as supply growth and the convention calendar affected performance. Results were further pressured by softness in Japan; however, strength in our Hawaii properties helped to mitigate some of these overhangs.

Timeshare adjusted EBITDA was $85 million in the quarter. Overall timeshare sales volume increased 15% as a result of increased tour flow and net volume per guest of 5% and 9%, respectively. Third party developed intervals accounted for 63% of intervals sold in the quarter, up from 61% in the second quarter. At our current sales pace, we have nearly six years of inventory, or 127,000 intervals, more than 80% of which are third party developed.

Turning to regional performance and outlook. In the U.S. comparable RevPAR grew 1.5% in the quarter. Performance was supported by good group business with Orlando and Hawaii being the primary beneficiaries. Solid leisure demand during the summer months also contributed to positive growth. Results were affected by broader weakness in corporate transient business and oil and gas markets, which we expect to pressure fourth quarter performance as well.

To-date October trends are softer than anticipated and include an additional drag from the impact of Hurricane Matthew. For full year 2016, we forecast U.S. RevPAR growth in the low single digits.

In the Americas outside the U.S., RevPAR rose a strong 6% versus the prior year, surpassing expectations. RevPAR in Canada increased by approximately 9% driven by good group demand. Growth in the Caribbean was tempered by Zika concerns and Brazil continued to struggle given economic weakness, offsetting any Olympic related demand gains. For full year 2016 we expect RevPAR growth in the region to be in the low to mid single-digit range. RevPAR in Europe decreased 70 basis points in the quarter due to weaker performance in continental Europe, partially offset by a 2% RevPAR gain in the UK and Ireland. Turkey suffered a 40% year-over-year decrease in the quarter due to terrorist attacks and political instability which depressed inbound travel during the country's peak summer season. Terror attacks also weighed on France and Belgium, leading to declines in transient performance. While it's still too early to know the implications of Brexit, we expect increased uncertainties surrounding potential outcomes to temper regional performance. For full year 2016, we expect slightly positive RevPAR growth for the European region.

RevPAR in the Middle East and Africa dropped 2.6% in the quarter driven by unfavorable timing of Ramadan and the Hajj, coupled with political unrest in certain African markets. Improved leisure performance in Egypt and an extension of the royal protocol in Saudi Arabia mitigated these shortfalls. Our full year 2016 RevPAR growth forecast for the region is slightly negative.

In the Asia-Pacific region, RevPAR increased 60 basis points largely due to slowing performance in Japan as the stronger yen continued to reduce leisure demand and slowing exports continued to weigh on the country's economic growth. Results were further pressured by the typhoon in September. RevPAR growth in China increased nearly 3% during the quarter. China growth was tempered, however, by the recent introduction of a nation-wide VAT tax. We expect RevPAR growth in the Asia-Pacific region to increase in the mid-single digits for the full year with RevPAR in China relatively stronger in a similar range.

Both during and subsequent to the third quarter, we successfully completed a number of capital markets transactions, all with the goal of better positioning Hilton, Park, and HGV ahead of the spins around yearend. Through these deals, we reduced interest rates, pushed out and staggered our maturities and secured greater financial flexibility for each company. There's more detail on these transactions in our recently filed updated Form 10s and we intend to provide further detail on the capital structures of all three companies at our Investor Day in December.

During the quarter, we also paid a quarterly cash dividend of $0.07 per share bringing year-to-date cash dividends to $207 million. Our board has authorized a quarterly cash dividend of $0.07 per share to be paid in the fourth quarter of 2016.

As Chris mentioned, given continued softness and the broader macro environment, we are lowering our full year 2016 RevPAR growth guidance to 1.5% to 2% and reducing our full year adjusted EBITDA and EPS guidance ranges to reflect softer expected top line performance. We now expect full year adjusted EBITDA of $2.96 billion to $2.99 billion and diluted EPS adjusted for special items of $0.86 to $0.89 per share. As with prior guidance, please note that our full year ranges do not incorporate the impact of our intended real estate and timeshare spends.

For the fourth quarter of 2016, we expect system-wide RevPAR growth to be flat to modestly up. We expect adjusted EBITDA between $736 million and $776 million and diluted EPS adjusted for special items of $0.20 to $0.23.

Further details on our third quarter results and updated guidance can be found in the earnings release we published earlier this morning.

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?

QUESTION AND ANSWER SECTION

Operator: Absolutely. [Operator Instructions] And your first question will come from Robin Farley of UBS. Please go ahead.

Arpine Kocharyan
Analyst, UBS Securities LLC

Q

Hi. Thank you. This is actually Arpine here for Robin. Thank you for the detail on 2017 RevPAR in the prepared remarks, but could you just elaborate a little bit more in terms of factors you're looking at today. Specifically what North American RevPAR is the current guidance for 2017 pricing in. And then in terms of group pace for 2017 overall, not just the first half of the year, what are you looking at today versus same time last year?

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Yeah, happy to do that. Thanks for the question. I know that's pretty much what is on everybody's mind as what is the go forward set up look like. And I would say, as we said in the prepared comments, we've given you a sense of what we think, we're in the final stages of going through our budgets which are a granular build-up of every asset, every property around the world, aggregated together to come to a result, and best we can give you guidance today, you know we come out at the – in the 1% to 3% range.

I think that the under-pinning of that I covered a bit in my comments. I think the largest contributor to that is what we've suggested, which is a belief based on what we see as a consensus view that the broader economy, particularly here in the U.S., but I think on a global basis is projected to pick up just a bit.

And if you look at what's been weakest, it's been really the business transient side of the business, as I said, when you clear out all the noise, sort of growing at plus or minus 1%, we believe that if you have a little bit of an uptick in the broader economic environment, you have a little bit more certainty, particularly in the U.S. with an election behind us, which we think has the potential to release some decision-making out of corporate America on investment and the like, that you could as a consequence see a bit of an uptick in that part of the business, which is our largest segment and which has been performing at the lowest levels of all of our segments.

In terms of the sight lines we talked about, I want to be cautious in the sense that it's early. We're not even done with this year, let alone into next. We're pre-election and what we're trying to do, as I said, is judge based off of what consensus estimates are. What sight lines we do have certainly support that. As I said, we've gone through a very granular budget process, aggregating every property in the world, which gives us a decent sense of around the world what our teams think, and that forms the basis of this. We look at where we are in our negotiations with all of our corporate customers, which I noted, which supports this, up in the 3% to 4% range. And as we look at the group position going into next year, as I said, the first half of the year is quite strong. It's actually a little higher than, I said, mid-single digits. It's really 6% or 7%. A little bit higher than pure mid-single-digits. And if you look at it for the full year, it's probably in the lower single digits, but there's a lot of time left to fill in in the second half of the year, that would be typically what would happen. We'll go into the year probably as we finished this year with about 70% of our group bookings on the books, but we're obviously busily working towards increasing the group booking position in the final stages of this year.

So, I think all of those things are generally positive indicators, but I would, again, bring you back to the core underpinning, which is a view on the broader economy. And our view on the broader economy is being really informed by consensus views of folks that are studying this. And I think to the extent that those views end up being correct, I feel pretty darn good about being able to deliver in the range that we talked about. If those consensus views are wrong, obviously either on the high or the low, it would have an impact on our ability to deliver the 1% to 3%.

Arpine Kocharyan
Analyst, UBS Securities LLC

Q

Helpful. Thank you.

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

Harry C. Curtis
Analyst, Nomura Securities International, Inc.

Q

Good morning, everyone.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Good morning.

Harry C. Curtis
Analyst, Nomura Securities International, Inc.

Q

I just had a quick follow-up on your answer there, before I get to my question. Chris, as you talk to other CEOs, what is their body language for loosening up the travel purse strings? And what do they need to see before they do it?

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

You know, I would say again, anecdotal obviously, I talk to a lot of other CEOs. They talk to a lot of our biggest customers. I would say that there is a sort of view right now, particularly exacerbated by the U.S. election cycle, that everybody is nervous. They don't know. There's just a great deal of broad uncertainty. And when I talk to CEOs, I think my sense from them is that not just loosening the purse strings a little bit on travel, but just broadly making decisions, whether that be more hiring, more investment in technology, plant, equipment. All of the things that make up non-residential fixed investment which still has the highest correlation to demand growth in our business that we can track.

I think broadly as I talk to them, I think people, when they have a little bit – companies and CEOs, when they have a little more certainty, I think do want to start to make decisions again to start investing and hiring and traveling and doing all the things they need to do to drive the growth in their business. I think this cycle of election – I mean everybody is watching it as I am. I think it's been an unusual cycle, and as a consequence, I think it has slowed down the economy probably more dramatically than I've seen certainly in my adult life, just in the sense of creating such an aura of uncertainty that people are sort of waiting to make decisions until it's over. Now but we don't know what's going to happen, but the one thing we do know is it'll be over on November 8. By the time we close out at midnight, we're going to have certainty of who our next president is going to be. And I think just the fact of having that type of certainty is going to be beneficial.

So yeah, sort of a rambling answer. But I think you are going to get a lot of things that are going to sort of get freed up a bit which is I think one of the core underpinnings for why you might see broader economic growth tick up a bit. I don't think that means that, in my opinion or anything I'm reading from a consensus point of view, says the economy is going to start roaring. I don't think that's the view. I think it's just that things have been pretty locked up and that they're going to start to unlock a little bit.

Harry C. Curtis
Analyst, Nomura Securities International, Inc. **Q**

So my real question, not that the other one was not real is.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc. **A**

Your second question.

Harry C. Curtis
Analyst, Nomura Securities International, Inc. **Q**

My real first question is your relationship with HNA as you envision it over the next several years. What I'm trying to get a better understanding of is how you expect joint ventures to proceed and impact in China on EBITDA growth as a result of this?

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc. **A**

Well, I think it's really early to start to translate it into impact on EBITDA growth, so I'm going to avoid answering that simply because I can't give you a rational answer yet because it's relatively early days. Having said that, we've spent as you would imagine a great deal of time with the leadership of HNA as a lead-up to this transaction, and I think we believe and our board believed that there were some serious compelling strategic reasons why this was beneficial to our company. And you can imagine some of those and as time goes on, we'll give you more details as we can.

But they are big time in the travel and tourism business. They're big tour operators. They have a big offline travel agency business. They're the second biggest online travel agency business, one of the biggest airlines in China and the world. They're transporting through their aviation system hundreds of millions of people a year. They have tens of millions of loyalty members, obviously incredibly well respected in China and now as a global Fortune 500 company around the world. So the idea is quite simple in a sense is that we have a big customer base, they have a big customer base. China is both the fastest growing lodging market in the world. It's also the largest outbound market in the world, and one of the fastest growing outbound markets in the world.

While obviously there is some overlap in our current businesses, there's not much overlap between our core customer base and theirs, thus a tremendous opportunity to be able to connect those customer bases in ways that I think is going to help feed our system throughout the world, and particularly in China, but it's also going to help feed their system, and so I think there is mutually beneficial ways to look at this. We are having those discussions, sort of putting as I would say the meat on the bones of exactly how that's going to work. But you can imagine taking our hundreds of millions of folks and their hundreds of millions of folks where there's not a lot of overlap and connecting the dots can be incredibly powerful.

And in terms of the development growth in China, they have a tremendous network of financial services investments and relationships in that market that we think are going to be hugely beneficial to us and our growth over time. Recognizing that all of our growth, in terms of our new unit growth is really dependent upon third party capital in China and everywhere else and the more access we have and relationships that we can build in all parts of the world, but particularly the fastest growing market in the world is China, we think can be tremendously beneficial to us over time.

So we are very excited about the HNA deal in every way. Obviously, it helps with our overhang issue, and we think we were quite thoughtful about how we protected all of our existing shareholders against all the things that you would want us to protect against, but at the same time, managed to take down the overhang of Blackstone, which we certainly hear a lot about in the marketplace. But the strategic elements of this over time I think are going to be even more powerful, because while the overhang is important obviously, that would eventually fix itself. I think this is quite an elegant way to help fix a lot of it.

But long term, I think the relationship, the fact that they're going to have a $6.5 billion investment in us and our success, and given their relationships globally and in China, I think is going to be incredibly powerful for us. I can't translate that to EBITDA growth rate yet, okay. Give us a little bit of time. And as we pull together the elements of this partnership, you're obviously going to hear a lot more about it because we're obviously going to want you to.

Operator: And our next question will come from Joseph Greff of JPMorgan. Please go ahead.

Joseph R. Greff
Analyst, JPMorgan Securities LLC

Q

Good morning, everybody.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Good morning, Joe.

Joseph R. Greff
Analyst, JPMorgan Securities LLC

Q

Can you guys talk about how you were thinking about the composition of 2017 net unit growth, and how that compares to what you've done so far in 2016? And then with the gross additions to the pipeline, are you anticipating that those take longer to open, just given the economic backdrop we're living in right now?

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Yeah, I would say composition wise, very similar, 2017 very similar to 2016. It'll be higher, but if you look at the proportions of it, you know, where it's going to be and what segments it's going to be in, I'd say it is similar. In terms of the pipeline, in terms of whether the pipeline – what we're signing is getting extended out. Hard to say; I mean, my instinct, Joe, is if you look at what we're signing this year, by the time the year is out, not an insignificant component of that is going to be Tru. We're going to end up probably by the time the year is out signing 20,000 to 25,000 rooms for Tru. I mean, just given what's in production. And those are much more readily financeable given the dollar amounts we're talking about and people seem to be very able to get access to financing levels to get this done.

There's also a shorter gestation period given they're smaller properties and really take less time to build. So I would say, I'm not seeing any incrementally over the last quarter or two quarters, I'm not seeing anything that says if I were to try and semi-scientifically in my head as I'm thinking about it, take what we're adding in the pipeline and what's being delivered, is it – are we extending it? I would say ultimately it's pretty comparable, you know, it's offsetting given that Tru has a shorter gestation period and smaller pieces.

Joseph R. Greff
Analyst, JPMorgan Securities LLC

Q

Thank you.

Operator: The next question will come from Carlo Santarelli of Deutsche Bank. Please go ahead.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.

Q

Hey, everybody. Good morning.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Good morning.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.

Q

Two part question, both kind of focused on Chris, some of your comments from earlier. You mentioned group pace for next year and I thought you said kind of first half 2017 group pace. Do you have any early indications on second half? And then also, as it pertained to the corporate negotiated rates, trending up 3% to 4%, are there any types of guarantees in terms of volume or anything that are being, you know, kind of, that have changed materially I would say in those corporate rate negotiations?

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

All right. So, yeah, on the group side I think I gave the number, I intended to. For the first half of the year, it's up, call it 5% to 7%. For the full year, it's up probably 2% to 3%, something like that. So that obviously implies the second half of the year is lighter. Part of that's just sort of the convention cycle, part of that is second half of the year is a long way away, so but – that's the full year sort of look on it.

On the volume question on transient, the short answer is no. We don't really have a lot of guarantees of volume. There are incentives built into pricing so that, you know, they're not guarantees as much as you get a better price if your volume is higher or you get a worse price if it's lower. But it's not – it doesn't – the set-up is not in the form of a guarantee. Anecdotally, again it goes back to the question I think Harry asked about what are you hearing from CEOs, what are you hearing from customers, you know, CEOs of companies that are big customers of ours. I'm not hearing anybody really say, you know that, hey, we're going to be cutting back on a lot of volume. I mean, they're obviously pushing back on our trying to push rates up, that's why we're at 3% to 4%, but they know occupancy levels are high, so they're accepting that.

I think if I had to summarize my discussions anecdotally I'd say it feels like flat, it feels like sort of flat volume. I think if the economy gets worse I think it'll – as I said, I think it'll drive volumes lower. But I think if the economy gets a little bit better, it'll keep it flat or maybe you'll see a little bit more. As I said, the highest correlation to demand in the hotel business is non-residential fixed investment. I've been studying this for 15 years and it's ebbed and flowed in terms of what the R-squared is, but it's always been very high.

If you look at what's been happening this year as we've seen business transient growth levels really drop precipitously. I mean, we were in the 6% to 8% range, now we're in the 1% range, and you look at what's happened with non-residential fixed investment, non-residential fixed investment is going backwards. It's negative growth this year. I think everybody's – again, broader expectations are that that's going to, you know, that that's going to increase next year. If non-residential fixed investment increases next year, I think you will see flat or increasing volumes in business transient. So, I think we should all watch that and the broader economy carefully because we're going to track – generally on the top line we're going to track in line with that business transient very much so.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc. Q

Great. Thank you.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc. A

Yeah.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc. Q

And then, Kevin, you might have said this in your remarks and I apologize if I missed it, but I assume some of the timeshare margin softness was related to timing, but is there anything else you can kind of add to kind of the decline year-over-year in segment margin?

Kevin J. Jacobs
Chief Financial Officer & Executive Vice President, Hilton Worldwide Holdings, Inc. A

No. You've got it, Carlo. We left the overall guidance range the same for timeshare. It's about $5 million or $6 million of timing items that are related to – $5 million or $6 million that are related to exactly what you say which is timing items. So nothing really going on there.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc. Q

Great. Thank you.

Operator: And the next question will come from Stephen Grambling of Goldman Sachs. Please go ahead.

Stephen Grambling
Analyst, Goldman Sachs & Co.

Q

Hey. Good morning, and thanks for taking the question.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Good morning.

Stephen Grambling
Analyst, Goldman Sachs & Co.

Q

Can you just remind us of what your capital allocation priorities will be post the spin as you balance some of the added financial flexibility from the recent transactions with the softening macro?

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Yeah. I think from a capital allocation point of view, we're exactly where we've been. We want to get the balance sheet to a credit profile that is low grade investment grade. We think that's in the low threes. We're sort of there now. We leverage up a teeny amount related to all the spins and the costs and the incremental G&A that's associated with the spins, but we very quickly get it back down. We're going to continue to pay a modest dividend. We're not really thinking of doing anything material to the dividend, and then using the incremental cash flow to buy back stock. The likelihood is we'll be discussing it with our Board, that early next year we'll be able to be in a position to begin a buy-back program. And that's pretty much what we've been saying. Nothing's really changed in that regard.

Stephen Grambling
Analyst, Goldman Sachs & Co.

Q

Great. And then you mentioned earlier about the potential for renegotiating your corporate credit card program. Can you just talk about the various financial impacts from that? Or what that could – how that could impact the business? And maybe sizing what it would look like right now? Thanks.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

I would love to, but I can't right now. We're literally in the middle of a bidding process amongst a number of bidders and I would prefer to get to the end of that process and not debate it or negotiate it publically. So give us a little bit more time. We're not – we're getting close to the final stages of that and when we have that done, we'll obviously be happy to talk about it, and give you a sense of where it ends up. But we have very healthy competition and we think we're going to get a very positive outcome for the company. I'd rather leave it at that until we're done.

Stephen Grambling
Analyst, Goldman Sachs & Co.

Q

Fair enough. So if I could maybe sneak one other quick one in. Just on the direct booking efforts, can you just update us on what the net impact has been as the penetration has grown? Thanks.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Yeah, our direct booking efforts, you can see with some of the stats we gave in the prepared comments, is working well. The whole objective here has been where we can have a direct relationship with a customer we want to, because we think in the end customers get the best value and will have the best experience. We want them to know that and, to the extent that they get the best experience and we can do it through our lowest cost distribution channels, it's better for us, it's better for customers and it's better for our owners, which is – we're here to serve all constituencies. And you can see from the stats that it's working really well. We've had over 200 basis points of channel shift to our direct channels. We've had huge increases in our HHonors enrollment, up 60% year-to-date. And, when you look at, sort of, our net rate structures, everything that we see across all of our rate structures suggests that our owners and we are benefiting from it.

Having said that, it's really important to note that we still have a healthy relationship with the OTAs. We still do a lot of work with them. There are still customers that, for whatever reasons, don't want to have a direct relationship with us and that we still want to have stay with us, and that we can access through intermediaries including the OTAs. And for those customers that understand this setup and that still want to – do not want to have a direct relationship, we obviously want to serve them as well. And so we've had a relationship over the long term with the OTAs, we'll continue to have that relationship where they have unique access to a customer we may not be able to have access to, but the combination of those things I think can be quite powerful for us. But we think customers are increasingly understanding the benefits of a book-direct relationship as is depicted with the channel shift we have.

Stephen Grambling
Analyst, Goldman Sachs & Co.

Q

Thank you.

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

Shaun Clisby Kelley
Analyst, Bank of America Merrill Lynch

Q

Hey. Good morning, everyone. Maybe a little bit more granular of a question, but Kevin, in the guidance I think the fourth quarter is looking for 2% to 4% management and franchise fee growth, and if we think about sort of your algorithm with 6% to 7% net unit growth and still positive RevPAR, even if modest seems like a little bit of a wider spread in the fourth quarter. So is there anything one-time in that or anything that might be driving that spread? And then, my follow-up will go ahead and be, how do you think about that spread next year when we have to think about FX and mix from new openings?

Kevin J. Jacobs
Chief Financial Officer & Executive Vice President, Hilton Worldwide Holdings, Inc.

A

So the first part, Shaun, is easy. We did have a couple of pretty significant one-time items, primarily termination fees that affect the growth rate this year, so the algorithm, if you will, is pretty much intact when you look at the full year. And I think we think about the algorithm going forward in the fee segment as being just about the same as you described. If you look at same-store sales growth plus net unit growth, that ought to be the algorithm in the fee section other than, as you mentioned, FX. It's hard to predict. We don't bake FX into our algorithms. It's really hard to predict, so I don't know if you want to add anything to that, Chris.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.
A

No, and on December 8 when we get together and we lay out all three companies separately, we'll lay out in great detail how we view the algorithm going forward for Hilton Worldwide RemainCo.

Shaun Clisby Kelley
Analyst, Bank of America Merrill Lynch
Q

Fantastic. We'll look forward to that. Thank you very much.

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

Felicia Hendrix
Analyst, Barclays Capital, Inc.
Q

Hi. Good morning. Thanks for taking my question. Chris, I want to go back to the HNA announcement, because we've gotten a lot of questions from investors regarding the transaction, so just wanted to touch on a few of them.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.
A

Sure.

Felicia Hendrix
Analyst, Barclays Capital, Inc.
Q

The first is just regarding the incremental sale of the 54 million shares of stock by Blackstone following the sale to HNA prior to the REIT election, so we've gotten a lot of questions about how the math works and the ownership restrictions under the REIT tax laws. So maybe you can walk us through that. I think it would be helpful.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.
A

I'd be happy to but time does not allow for it. Kidding aside, the rules that we're dealing with within the IRS code are called the EIK rules, they're incredibly complex and very difficult to come up with like an easy equation for you. If they own X, they're selling Y, because it has a lot to do with how Blackstone owns the shares in the company and the various funds that they have, very complex attribution rules. And even attribution on a go-forward basis has between large shareholders like HNA and Blackstone, even though they are unrelated in the attribution rules, they become related to a certain degree. Now I'm not trying to be evasive. The truth is there are a lot of really smart people in our tax and with outside advisors that have figured out how all of this works because ultimately we have to get an opinion that says that we meet the REIT qualification rules.

As we've done all that work, again, not a simple equation because of the complexities of the attribution rules, it became apparent to us in doing the work that in order to qualify, we needed to have Blackstone sell down 5.5% and that's why we've disclosed it. Obviously, we can do the spins without that sell down because this problem only arises as a consequence of the HNA deal. So really they have to have done this by the time the HNA deal closes. So we could do the spins and there was no EIK issue under the setup pre-HNA. Now that the HNA deal is getting done, prior to that closing, in order to meet the REIT qualification test, they would have to sell down the 5.5%.

So I know you want me to sit and give you a very simple equation; it's just not that simple. But we are 100% confident that the work that has been done is right and that if they sell down 5.5% prior to HNA closing, we will meet all of the REIT qualification rules upfront and can be able to continue to meet those rules.

Felicia Hendrix
Analyst, Barclays Capital, Inc.

Q

Okay. So just to paraphrase, you need to be below 35% and you can't just take the 25% HNA plus the then 15%-ish the Blackstone added.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

No. It would take literally 50 pages of analysis to do this and I don't have it in my head. It is much more complex than that, and there's no way anybody, and I'm not being – there's no way anybody can do it because you've got to know the intricacies of how Blackstone holds all this and how HNA is going to hold all this, because the attribution rules are not entirely logical. It is not a simple equation. And again, I'm not trying to be evasive, it's just it is not that simple. The thing I think that's important for investors to know is that this fixes it. Okay. And that the timing of it is such that it needs to be done before the closing of HNA buying 25% of the company.

Felicia Hendrix
Analyst, Barclays Capital, Inc.

Q

Okay.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

And there will be no issue. And it will be solved permanently.

Felicia Hendrix
Analyst, Barclays Capital, Inc.

Q

Okay. But the 5.5%, the 54 million, so that's all they need to sell?

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

That's it. That's all they need to sell. Now Blackstone can sell whatever they want. It's their choice whether they want to sell more. But the contractual commitment that we have with them is that they will do this so that we make sure that Park qualifies as a REIT.

Felicia Hendrix
Analyst, Barclays Capital, Inc.

Q

Okay. And then this gets to my next question. So I was just wondering if you could address any risks to the HNA transaction, particularly on the regulatory side. And what steps need to be taken for it to get approved?

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

No, I mean there's not much to say about that. Obviously, we just announced the deal. We do not think that there are big regulatory challenges to get over. And so I do not personally think that there's a great deal of risk from a regulatory point of view. But time will tell. We'll go through the process.

Felicia Hendrix
Analyst, Barclays Capital, Inc.

Q

Okay. And then you addressed this. This is my final question, talking about the relationship with HNA and all the synergistic relationships that you can have. But we get questions about the two board seats that are going to HNA, and if you foresee any concerns or do you have any concerns about conflict of interest there?

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

No, I don't. I think we attached the shareholder agreement and filed it so that if you want to or any investor wants to, you can read. I think we filed 180 pages of supporting documentation. So everything is 100% transparent. I think if you looked at how we dealt with both how they come on the board with one HNA-affiliated member, one unaffiliated independent member, both board members that have to go through a vetting process with our nominating committee where we are able to say yes or no, and how those board members can interact and participate on issues that might be in conflict with HNA's investment, or in the event that there is other M&A activity that we're interested in pursuing.

If you look at it very carefully, we were very thoughtful about making sure that where there might be potential for conflict, we limited their voting rights. We limited what they can participate in board discussions, and on the board we also limited their voting rights, ultimately on certain transactions and events to make sure that we dealt with those conflicts. So we've spent months, literally, of time on these issues. We had a special committee of our board that went through an incredibly rigorous process with outside advisors, both on the banking, legal side. Management was very actively engaged with them in giving it our advice. And the reason it took a couple months is because we wanted to make sure we were protecting the base of other shareholders in the company against any potential conflict.

So again, you can read it in detail. I feel incredibly comfortable that we have protected against any eventuality and that we're going to be able to run the company the way we need to run the company, that they're going to be engaged with us in a very constructive way, and that anywhere there is a potential for conflict vis-à-vis existing shareholders, we protected the existing shareholders, including ourselves, against any of those concerns.

Felicia Hendrix
Analyst, Barclays Capital, Inc.

Q

Thank you very much.

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

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Hi. Good morning. Just a real quick question here and I'm sorry if I might have missed this earlier. When you gave your group expectations for next year, can you break down how that's composed of occupancy versus rate? Thank you.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

It is I would say largely rate. It's a little bit of volume, but I'd say, best I can remember it's like 80/20, something like that, 80% rate, 20% volume. But there is a little bit more volume.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you.

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

Bill A. Crow
Analyst, Raymond James & Associates, Inc.

Q

Good morning, guys.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Good morning, Bill.

Bill A. Crow
Analyst, Raymond James & Associates, Inc.

Q

Can I get a clarification first? You talked about the Tru brand and its contribution to the pipeline. How many franchised units are actually under construction today or by the end of this year do you anticipate?

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

I think by the end of this year probably a dozen, something like that, I can get a maybe a little bit higher, but I'd say 10 to 20.

Bill A. Crow
Analyst, Raymond James & Associates, Inc.

Q

I assume that's in line with your expectations that you had.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Yeah, everything given we just launched it in February, yes, everything. Some deal signings, pipeline under construction are all ahead of our expectations.

Bill A. Crow
Analyst, Raymond James & Associates, Inc.

Q

All right. If you don't mind, I want to ask a big picture question on timeshare. For those of us that don't spend as much time looking at that industry, Chris, who's the next buyer of timeshare? I mean it doesn't seem to me like Millennials have the loyalty or maybe the interest of doing it. The Baby Boomers are getting towards 70 years old. They're not necessarily. So who's the next generation of buyers?

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

You know what, Bill, it's a great question. I think we're all the next generation of buyers, right. So if you look at the breakdown and where we're selling timeshare, it's a pretty diverse demographic. And you got to remember that what timeshare is selling is a vacation. This is not a second home or a third home market. This is simply selling, if you're going to go on vacation once a year, you can do it and save a lot of money and have a lot more space and take your whole family and you can trade it for wherever you want to be or you can trade it for hotel rooms.

It's a incredibly flexible vacation alternative and so I think if you went through the sales pitch, what you'd find is that's what's compelling. People look at it and those people who have one or two, in many cases three or four units, are basically saying, yeah, I'm going to take one or two or three weeks of vacation and this is a very cost-efficient way for me to take vacation, be able to take my family or friends, have a kitchen, have a washer dryer and have all these things.

So now you've got to sort of break, and I know you know this, so you get the break from – the people that don't understand the business very well I think, think of it more as a like this is sort of in lieu of a second home or whatever. And it's just not that. So I think it's appealing to anybody that is looking to go on a vacation and is looking for a value proposition and I think that transcends age, honestly.

Bill A. Crow
Analyst, Raymond James & Associates, Inc.

Q

All right. Maybe we'll get more into it at your meeting up in December.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Okay. Yeah, and we'll have our whole timeshare team there with us as well.

Bill A. Crow
Analyst, Raymond James & Associates, Inc.

Q

Thanks.

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

Thomas G. Allen
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good morning. So it's been about a month since Marriott closed on the Starwood deal. Now that you've had some kind of real time data, any updated thoughts on the potential impact to your business? Thank you.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

No. I'm not going to – I mean, I think – the way I think about it is we are very confident in the strategy that we're pursuing and that we've articulated, which is we're very focused on having purebred brands that our leaders in their individual segments that have clearly defined swim lanes, that have premium market share and as a consequence help us drive industry leading organic net unit growth, that's our strategy, others have taken different paths. I'm not going to get into – obviously we've chosen our strategy because we think it's the best strategy, otherwise we would change it. I remain confident in our strategy. I think as we continue to deliver the results that we're delivering and net unit growth particularly in the post-spin world, I think the strategy and the success of it will speak for itself.

As for what Marriott or anybody else is doing, I think you have, I'm not going to comment on it. I think you got to ask them about – if you want to talk about their strategy, I'm sure they're going to have a call in the next couple of weeks and you can ask them about it. We're very confident in our strategy. You can see in terms of deal signings, starts, unit growth, all those things that are incredibly positively impactful to our bottom line and our story. We're continuing to pick up some pretty good momentum.

Thomas G. Allen
Analyst, Morgan Stanley & Co. LLC

Q

Okay. I mean I guess my question was more, are you seeing it impact your unit growth, or is it helping you negotiate with OTAs? But I think the second part of your question largely answered that – good answer, sorry.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Yeah, we're doing just fine. We are picking up. There are lots of reasons for why we're gaining momentum, but I think the statistics sort of speak for themselves. We continue to pick up some steam.

Thomas G. Allen
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then just my follow-up, in terms of the direct booking push, how are you thinking about it, is it impacting RevPAR at all?

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

It is not affecting RevPAR in a material way. It's really hard to sort of – I know others have said it's so many basis points. I mean as we've studied it, I think it's really hard to say. I think intellectually it's hard to debate that it's not having a little bit of impact given de-ranking and dimming that's going on within the OTA world. But it's not so meaningful that we can really measure it in a hard way. What I would say is, if we look at it, and we have measured this very carefully, if we look at our net rate, effectively, sort of the net rate, net of distribution costs relative to where we are now versus where we were, we're better off across the board. Meaning that you'd be willing to sacrifice in theory a little top line growth if the result was you're bringing your distribution costs down and that your net rate effectively is higher. Across every one of our categories our net rates are higher.

So there's probably some modest amount of impact built into the last couple of quarters and the next couple quarters of RevPAR growth, on the headline RevPAR, but on a net rate basis we're better off because we're shifting to our lowest cost channels and ultimately our job is to drive better results for our owners who are investing all the capital to help us continue to drive that net unit growth we're talking about. Our owners are incredibly supportive of what we're doing because they're benefiting from what's going on.

Thomas G. Allen
Analyst, Morgan Stanley & Co. LLC

Q

Helpful. Thank you.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Yeah.

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

Wes Golladay
Analyst, RBC Capital Markets LLC

Q

Yeah. Good morning, everyone. Going back to the scale question. How big, or how much run way do you have to capture scale? Do you need to get x percent of a market? Or a certain size globally? Where do you get the most bang for the buck on getting scale?

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Here's the thing. I think scale does matter. I said it in my prepared comments and I think we have it, right? I guess we went from the largest in the world to the second largest post Marriott-Starwood merger. But if you take our pipeline in our rooms in the existing supply, we have 1.1 million rooms. We think that gives us all the scale that we need and we certainly, if you look at the market share numbers that we're driving in each of our brands, that's partly, obviously, great products, great service, but partly the result of the network effect that scale creates. If you look at each of those brands, they are leading their segments in terms of market share.

So I think the hard scientific evidence would say scale matters and we have it. And what we're obviously trying to do is then lead into it more around the world and build more network effect in the various regions around the world where we operate. So we feel really good about where – there's no deficiency, I guess I'd say. I think there's opportunity. We've got enough of a network effect that, I think shows up in all the numbers that I just described, to be able to really take advantage of the scale. And now it's to opportunistically continue to layer brands in different locations in different chain scales and markets to just continue to strengthen that network effect.

Wes Golladay
Analyst, RBC Capital Markets LLC

Q

Okay. And then looking at your various regions in the setup for next year, how do you see? Do you see any demand headwinds in Europe, Middle East, Africa, Asia Pacific or is the supply going to be a concern in any of those regions? And looking specifically at a smaller market for you, the Middle East, Africa, for the year-to-date numbers, occupancy down quite a bit, but you seem to have the most pricing power in that region. So I'm just kind of curious what's going on there?

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Yeah, on a regional basis I think honestly, next year is going to look a lot like this year. I hope it's all a step change up a little bit. But in terms of the relative performance around the world, I think it's going to look a lot like this year, which is Asia Pacific probably leading the charge, non-U.S. Americas sort of doing reasonably well and comparable. The U.S. market being sort of in the middle of the pack and Europe, and Middle East, Africa being a little bit lower than the midpoint because of an assumption that European economy is going to continue to have anemic growth and Brexit concerns, generally, as you get closer to an actual event of the UK leaving the EU.

In terms of Middle East, I just think that it's a very small region relative to many of the others. There's just enough sort of disruption in enough places where I think we do expect to be positive next year, but relatively modest growth there.

Wes Golladay
Analyst, RBC Capital Markets LLC

Q

Okay, thank you.

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

Smedes Rose
Analyst, Citigroup Global Markets, Inc.

Q

Hi, thanks. Just along those same lines, as you think about next year and across the 1% to 3% outlook, could you maybe comment on how you think the owned portfolio would do? I mean do you think maybe like 100 basis points short of that range, given the concentration in some large U.S. markets that face some tough difficulties or how are you sort of thinking about that?

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Yeah, I mean, again, we'll give you a lot more detail on that when we have all the Park folks and we've fully completed the budget process, which is nearing completion, but not done. But I think your summary is probably a reasonable assumption.

Smedes Rose
Analyst, Citigroup Global Markets, Inc.

Q

Okay. I just wanted to ask you one more question on your performance system-wide in the third quarter for RevPAR. And I know it's not one-for-one with SGR, but it seems like no matter kind of how you cut it, looking at your brands, looking at your U.S. only, it was a significant shortfall to what SGR put up, which would have experienced the same calendar shifts you talked about. So do you attribute that to – you talked about some of the regional weakness in more oil markets or is there a concentration in areas that were relative underperformers? I would just like to understand that a little better because it seems such a shortfall.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Yeah I know, Smedes, it's a good question. I'd say there are three or four reasons for it as we've looked at it, some of which we've talked about before. I mean the Star data, first of all, is non-comp where we're a comp, so yes, you have to adjust for that. Segment weighting, which you talked about, obviously can have an impact. I think a few other things. One, we're more urban in orientation than you would find on average in Star and the urban markets, particularly because business transient was so weak, we're more beat up.

We have a little bit higher average representation from the oil and gas markets which were, it's hard to believe they keep getting worse, but they do, which I think hurt us. And then there's probably, to my earlier comment, a little bit of impact from the OTA situation that I talked about. Again, we're willing to trade a little bit of headline top line RevPAR for net RevPAR if you will, that it's higher because that drives a better result for our owners. But my guess is, again, I can't measure it perfectly, my guess is there's certainly some modest impact in the third quarter from what's going on with the OTAs.

Smedes Rose
Analyst, Citigroup Global Markets, Inc.

Q

That's very helpful. Thanks a lot.

Christopher J. Nassetta
President, Chief Executive Officer & Director, Hilton Worldwide Holdings, Inc.

A

Yeah.

Operator: Ladies and gentlemen, at this time we will conclude the 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, Hilton Worldwide Holdings, Inc.

Well, thanks everybody for the time today. I'm glad to see this call worked out better than the last one when the AT&T trunk line shut down us. We got to do it in one shot instead of two. We appreciate the time. Really look forward to getting together with as many as can join us in New York on December 8 at the Conrad in New York downtown. We'll have all the management teams there and look forward to walking you through all three companies in a great deal of detail. So we'll see you then. And thanks again for the time today.

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