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Hilton Worldwide Holdings, Inc. (HLT)

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone and welcome to the Hilton Fourth Quarter and Full Year 2016 Results Conference Call. [Operator Instructions] Please also note that today's event is being recorded.

At this time, I like to turn the conference call over to Ms. Jill Slattery, Director of Investor Relations. Ma'am, please go ahead.

Jill Slattery

Director of Investor Relations, Hilton Worldwide Holdings, Inc.

Thank you, Jamie. Welcome to the Hilton Worldwide fourth quarter and full year 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 ir.hilton.com.

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

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

Christopher J. Nassetta

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

Thank you, Jill, and good morning everyone, and thanks for joining us this morning for the call. We're pleased to report our fourth quarter and full year 2016 results with RevPAR growth, adjusted EBITDA and adjusted EPS all in line with our expectations. We're also very happy with our continued momentum in the development side of the business.

With the spins of Park and HGV successfully completed last month, this will be the last quarter we report as legacy Hilton Holdco, as each company will be hosting separate calls to discuss their results and outlook.

As we talked about during our Investor Day in December, the new Hilton is a resilient fee-driven business. Our two primary drivers are same-store growth and net unit growth, and we are far less sensitive to changes in RevPAR, given the lower operating leverage of a more simplified model and the resiliency of our unit growth.

Focusing on results, same-store trends remained largely consistent throughout 2016. When adjusting for calendar shifts and other one-time items, system-wide RevPAR growth was essentially 1.5% to 2% throughout the year, led by group and leisure in the 2% to 3% range and business transient at around 1%.

In the fourth quarter, when you adjust for the impact of calendar shifts, Hurricane Matthew and the U.S. election, performance improved versus the third quarter, which was driven primarily by an uptick in corporate business. January performance also came in slightly above our expectations.

The bulk of our room night demand has short lead times and tends to follow macroeconomic indicators on a lag. Forecasts for these indicators, particularly U.S. GDP and non-residential fixed investment growth show modest year-over-year acceleration into 2017.

Actually, in the fourth quarter, non-residential fixed investment posted its first quarter of positive year-over-year growth since 2015 and is forecasted to strengthen further into 2017, which should lead the growth in demand for room nights. Where we have more visibility, notably in group and corporate negotiated business, we see continued demand growth. Group position for the full year is up slightly versus 2016, with approximately 75% of the business on the books. While January is a relatively light booking month, we did see positive momentum, indicating a stronger pace for the year. Additionally both group ADR and corporate negotiated rates are up 2% to 3% versus 2016.

Turning to unit growth, where we have good sight lines, we continue to take market share, with construction financing slightly more expensive and marginally harder to get in 2016, only top projects with strong brands got done, keeping industry supply growth below the 30-year average at just shy of 1.6%. It remains to be seen whether the lending environment gets better, but one thing is certain, our industry-leading brands continue to take a disproportionate share of development activity globally with little use of our capital.

For Hilton, 2016 was another record year for signings, for openings and construction starts. We maintained our position as the fastest growing global hospitality company on an organic basis, increasing our system size by 6.6% with 52,000 gross rooms opened. We opened roughly one property per day in 2016 and started construction on nearly 77,000 rooms. We signed a record 106,000 rooms bringing our pipeline to 310,000 rooms, with over half of that pipeline under construction. Globally, more than one in five hotel rooms under construction are being developed as a Hilton brand, which is 4.5 times our existing share of global rooms. Additionally, four of Hilton's brands are in the top five brands in the industry under construction globally.

Our five new brands continue to contribute meaningfully to both our supply and pipeline growth. New brands now represent nearly 800 hotels and 90,000 rooms that are either open or in our pipeline. Home2 recently opened its 135th property, with another 350 in the pipeline and is now the second largest brand underdevelopment in the United States according to Star. Tru by Hilton just celebrated its first birthday, with nearly 400 hotels representing 37,000 rooms in various stages of development. According to Star, Tru represents over a quarter of the U.S. industry's midscale pipeline and accounted for 65% of the total growth in the U.S. mid-scale pipeline in 2016. We're on track to open our first Tru hotel in the second quarter and expect to have nearly a 1,000 rooms open by the end of the year.

Last month, we launched our newest brand the Tapestry Collection by Hilton. This conversion-oriented brand positioned in the 3-star to 4-star space just below Curio is off to a strong start, with over 40 deals in progress. We expect the first Tapestry to open later this year, and believe this brand has significant growth opportunities with an addressable market of over 15,000 existing hotels globally.

We also had great success in deploying our existing brands into new markets. In 2016, we expanded our system footprint across five new countries for a total of a 104 countries and territories. Last week, for example, we signed our 100th Hampton in China with our partner Plateno.

For the full year 2017, we expect net unit growth of 50,000 rooms to 55,000 rooms, or approximately 6.5% system growth, supported almost entirely by third-party capital. We also forecast another year of robust signings totaling over 100,000 rooms.

While our scale, size and industry-leading brands and commercial platform continue to drive strong unit growth, similar attributes are also driving tremendous growth in our loyalty program. Hilton Honors added 9 million members last year, bringing total memberships to over 60 million members. For the full year, Honors members drove 56% of system occupancy, representing a year-over-year increase of nearly 400 basis points. By ensuring that all of our customers get the best value and the best experience through Hilton Honors, they are much more likely to have a direct relationship with us. Our digital channels, including website and mobile bookings continue to outpace other channels on share growth, up more than 200 basis points year-over-year.

In the quarter, web-direct as a share of all bookings was nearly 30%. We also launched a number of enhancements to our loyalty program just last month that we believe will make the value proposition even greater for our members. Hilton Honors is the first loyalty program that will allow members to choose exactly how many Points to combine with cash for a hotel stay through a Points & Money slider. Members will also be able to use their Points for purchases on Amazon.com and to allow family and friends to pool their Points for free. We believe these enhancements will continue to make Honors the most customer-centric loyalty program, driving incremental value for guests and the overall system.

Lastly turning to capital return, our new simplified business model with growth almost entirely financed with third-party capital, should continue to generate meaningful free cash flow. We intend to be very disciplined in returning capital to shareholders over time largely through share repurchases. We're meeting with our board of directors next week to finalize our plans and expect to provide further details shortly thereafter.

In closing, I'd like to extend a really heartfelt thank you to the Hilton team, as well as the teams at Park and HGV for the successful completion of the spins. As you might guess, breaking up a 100-year-old company is a massive undertaking. We owe the success of this spins to the hard work and dedication of team members across all three companies, and we remain very excited for the prospects of all three companies going forward.

With that, I'm now going to turn the call over to Kevin to give you a little bit more detail on the quarter and the full year results. Kevin?

Kevin J. Jacobs

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

Thanks Chris, and good morning everyone. For the full-year, system wide RevPAR grew 1.8% near the high-end of our expectations with rate gains driving performance. Adjusted EBITDA of $2.975 billion was in line with the midpoint of our guidance range, supported by roughly 100 basis points of margin expansion. Diluted EPS adjusted for special items was $2.68. Before adjusting for the Reverse Stock Split, diluted EPS was $0.89.

In the fourth quarter, system-wide RevPAR grew 0.9% versus prior year, which was at the high-end of our guidance due to better than expected transient demand in November and December. Good cost control at the corporate level somewhat tempered by softer than expected ownership margins drove adjusted EBITDA of $751 million, achieving the midpoint of guidance.

In the quarter, we took a $513 million non-cash tax charge related to a corporate restructuring that was executed before the spinoff. The charge primarily relates to the transfer of certain intellectual property to a foreign subsidiary. For book purposes, the expected taxes on the future earnings of the IP are recognized in the quarter.

Diluted EPS adjusted for special items was $0.70 in the fourth quarter or $0.23, excluding the impact of the reverse split. Transient business grew modestly in the quarter, partially driven by better corporate performance, additionally increased demand from Hilton Honors members supported year-over-year growth.

System-wide group RevPAR was roughly flat in the quarter as declines in convention business offset modest upticks in smaller leisure-oriented group demand. Calendar shifts, challenging year-over-year comparisons and softer city-wide in key markets weighed on demand, while rates increased in the low single-digit range.

In the quarter, management and franchise fees grew 2% year-over-year to $436 million. Excluding unfavorable FX and other significant one-time items, fee growth in the quarter would have been approximately 360 basis points higher. For the full year, management and franchise fees increased nearly 6%.

Turning to our regional performance and outlook. In the U.S. comparable RevPAR increased 80 basis points in the quarter. Underlying corporate transient trends showed more positive performance sequentially. However, results were masked by unfavorable calendar shifts, Hurricane Matthew and continued weakness in oil and gas markets. Excluding the drag from oil and gas markets, we estimate U.S. RevPAR would have increased an incremental 60 basis points.

Performance in the quarter was supported by an uptick in Hilton Honors driven volume and the post election boost in corporate transient. For the full year, RevPAR increased 1.8%, largely driven by good group and leisure transient business. For full year 2017, we forecast U.S. RevPAR growth towards the midpoint of our 1% to 3% system-wide range. In the Americas, outside the U.S., fourth quarter RevPAR grew 2.5% versus the prior year due to strength in Canada where RevPAR increased more than 5% driven by solid group performance.

Zika concerns continued to hinder growth in the Caribbean, while economic contraction continued to drive declines in Brazil. For the full-year, RevPAR increased 4.2%. For full-year 2017, we expect RevPAR growth in the region to be at the higher end of our guidance range.

RevPAR in Europe grew 2.2% in the quarter, surpassing expectations due to solid leisure transient performance across the UK and Ireland during the holiday period. Additionally, results in Continental Europe were aided by increased demand from the Middle East and easier year-over-year comps, as we lapped terror attacks in Israel. Unfortunately, terror attacks and geopolitical instability continued to plague Turkey, where performance declined 16% versus the prior year. For full-year 2016, RevPAR for the European region increased 1.1%. For full-year 2017, we expect RevPAR growth to be at the mid to high-end of our range.

RevPAR in the Middle East and Africa declined 5.7% in the quarter, driven by new supply in the UAE, coupled with lower demand levels. Continued political unrest in certain African markets further weighed on results. In 2016, RevPAR in the region decreased 1.5%. For full-year 2017, our RevPAR growth forecast is flat to slightly positive. In the Asia Pacific region, RevPAR increased 1.5% in the quarter, largely due to strength in China, mitigating softer group performance in Japan and demand declines in Thailand following the death of the King.

RevPAR growth in China increased approximately 5% during the quarter, driven by the China national holiday campaign and the China winter campaign, which helps compensate for shortfalls from the recent implementation of nationwide service charges. For the full-year, RevPAR growth in the Asia Pacific region increased 3.5%. For full-year 2017, we expect RevPAR growth in the mid single-digits, with RevPAR in China up in the 3% to 4% range.

During the quarter, we paid a quarterly cash dividend of $0.07 per share, before adjusting for the Reverse Stock Split, bringing our full-year cash dividends to $277 million. As Chris mentioned, we are meeting with our board next week to discuss our capital return strategy, including recurring dividends and the initiation of programmatic share repurchases.

For the first quarter of 2017, we expect system-wide RevPAR growth to be 1% to 3%. We expect adjusted EBITDA of $380 million to $400 million and diluted EPS, adjusted for special items, of $0.24 to $0.29. We are maintaining our full-year 2017 RevPAR growth guidance of 1% to 3% and expect adjusted EBITDA of $1.835 billion to $1.885 billion, including an FX headwind of approximately $30 million.

Taking into account cash on hand and anticipated working capital needs, we expect to have between $900 million and $1 billion in cash available for capital return this year through dividends, share buybacks and potential debt prepayments. We expect diluted EPS, adjusted for special items, of $1.65 to $1.75. Please note that our full-year EPS range does not incorporate any assumptions on share repurchases.

Further details on our fourth quarter and full-year results, as well as our latest guidance ranges can be found in the earnings release we issued earlier this morning. This completes our prepared remarks, and we'd now like to open the line for any questions you may have. Please note that we will be focusing our comments on the pro forma Hilton business, leaving commentary on the Park and HGV businesses to their management teams. In order to speak to as many of you as possible, we ask that you limit yourself to one question.

Jamie, can we have our first question, please?

QUESTION AND ANSWER SECTION

Operator: Our first question comes from Shaun Kelley from Bank of America. Please go ahead with your question.

Shaun Clisby Kelley
Analyst, Bank of America Merrill Lynch

Q

Hi, good morning and congratulations on...

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

A

Hi, Shaun.

Shaun Clisby Kelley
Analyst, Bank of America Merrill Lynch

Q

On completing the spin-offs. So, maybe I just wanted to talk a little bit more about the outlook. Chris, the last quarter, it seemed like the outlook was fairly dependent on some pretty big macro assumptions. And so, I guess the question for you is, number one, do you feel a little bit more secure in that outlook today than you did where we were sitting a quarter ago? And number two, any green shoots you can mention that you're seeing specifically to the hotel business and what you're seeing on the transient side specifically, since that's where we saw a lot of the softness last year?

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

A

Yeah, a great question. I assumed, one way or another, we're going to talk about that probably on multiple questions. It would be hard to say I don't feel a bit better than I felt when we originally gave our 1% to 3% guidance. And that would be because that did have an expectation that we would see a pick-up in key macro indicators, including GDP growth and non-residential fixed investment. I think we have started to see that, and I noted it in the – in my prepared comments that non-residential fixed investment turned positive in the fourth quarter for the first time in a while. That is the highest correlation that we can find to growth in demand for hotel rooms.

I think there is a fairly high level of expectation generally out there that you're going to see positive non-residential fixed investment this year and that GDP growth is not picking up in a significant way, but picking up at least modestly. And so, I think when we gave guidance of 1% to 3%, we felt reasonably good about it at the time based on where we were in budgets. As we now have a little bit of the year behind us, we have a few green shoots that are essentially that the corporate business, the business transient business has, as I said, picked up a bit post-election. It's continued into the first part of this year. We feel like we've got a decent group base on the books. Leisure has maintained its relative strength.

So, it would be hard to say that I don't feel a bit better about our 1% to 3% than I did when we gave it to you last fall and that the opportunity to be at the midpoint or above would be higher today than it was at that time. Having said all that, it's early in the year. There is a lot going on. If you watch cable news and read the newspapers and some of the things that have created the positive sentiment, I think, in the business community relate to the idea of tax reform, regulatory reform, the possibility for infrastructure spend. And well, I think there is decent momentum on a number of those things. In the end, what will matter is what actually happens. So, I think the psychology in the business community is more positive than it was certainly when we talked last time.

How positive it gets, how long it stays positive is entirely dependent on what actually happens on some of the things that I just mentioned that are swirling. But we feel like – what we're seeing right now makes us feel like the guidance we've given is a darn good guidance. And when we look at what we've delivered so far this year, and we've already had an opportunity to work with our teams to re-forecast the year based on what they're seeing in activity, short-term plus the longer term group business, we feel pretty good about it.

Shaun Clisby Kelley
Analyst, Bank of America Merrill Lynch

Q

Great. Thank you very much.

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

A

Yeah.

Operator: Our next question comes from Stephen Grambling from Goldman Sachs. Please go ahead with your question.

Stephen Grambling
Analyst, Goldman Sachs & Co.

Q

Hey, good morning. Thanks for taking the question. It looks like your RevPAR and fee growth guidance in 2017 has a bit of a widening gap between the growth rates. Can you just walk us through some of the puts and takes driving that shift, whether it's FX, unit growth, accelerating mix shift, et cetera?

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

A

Maybe I'm not sure I understand the question exactly, Stephen. Can you give me more?

Stephen Grambling
Analyst, Goldman Sachs & Co.

Q

So, I guess if we look at the RevPAR guidance, it's pretty consistent throughout the year, but yet you have fee growth accelerating for the year versus first quarter?

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

A

Well, got you. Got you. On a quarter-to-quarter basis – maybe Kevin will jump in with a little bit more detail. I think the way to think about that is two things that are going on that sort of create the anomalies on a quarter-to-quarter basis. Some of it's FX. Some of it's one-time items either that are happening this year or happened last year. If you'd cleanse it for those things, it actually is relatively consistent throughout the year.

Stephen Grambling
Analyst, Goldman Sachs & Co.

Q

Okay. And then, maybe one other follow-up just on the better corporate transient. Perhaps I missed this. But were there specific industries where you're seeing this recovery or do you feel like it's more broad based?

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

A

I think we're seeing it very broad based. In fact, I was talking to our folks that lead our sales efforts about that very question earlier in the week, and I think we're seeing very broad based – more positive sentiment across a broad range of industries.

Stephen Grambling
Analyst, Goldman Sachs & Co.

Q

That's great. I'll jump back in the queue. Best of luck.

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

A

Thanks.

Operator: And our next question comes from Patrick Scholes from SunTrust. Please go ahead with your question.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Hi, good morning.

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

A

Patrick Scholes. How are you doing, Patrick?

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

I'm doing all right. Thank you. Just a couple of questions here. Can you drill down a little bit on your group revenue position as it relates to the first half of this year versus the back half of the year and how are you trending for 2018?

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

A

Yeah. We're sort of in the low to mid-single digits for the full-year with the first half of the year up more meaningfully than the second half of the year. That is not atypical in most years as we come into the year, just given the timeline. So, a lot of the in-the-year for-the-year business obviously, when we get to this point, is going to be in the second half of the year. So, we feel – again, talking to our sales teams, we feel pretty good about it.

If you look at where we ended up last year in group consumed revenue, we ended up in the 2%, maybe a little bit better. I think we're on track to do at least that. I wouldn't want to get too optimistic and say it's a ton better, given we're up 2.5% or 3% in terms of position on the books. But we feel pretty good about the first half of the year stronger, but we have – we still have plenty of time for infill in the second half of the year for in-the-year for-the-year. And as I said, that would be fairly typically how it would weight out.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. And for next year, where do you stand?

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

A

Next year, obviously, a much lower percentage of room nights on the books. I want to say if we're at 75% now for this year, we may be at 20%, in the 20s for next year, but up materially. I'd say as we look at it today, Kevin, correct me if I'm wrong, we're up in the 5% to 10% range. I think towards the higher end of that range for next year at this point, but again to be balanced about it.

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

A

That's right.

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

A

There's only 25%-ish of the room nights on the books at this point, which again would be fairly typical being a year out.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. And just lastly, shifting gears a bit, are you or Kevin predisposed to – when you're thinking about capital returns or debt payments, you're predisposed to any of the various combinations, whether share repurchases, dividends, debt, et cetera?

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

A

Yeah. We've been, I think, pretty clear on this in the past including at our Analyst Day in December. But maybe to make sure that we have perfect clarity, I'll do it again. I think when we think about – and first of all, as Kevin and I both said, we're going to meet with our board next week. So, everything I'm going to say is our philosophical approach, subject to our board agreeing with that philosophical approach. Obviously, we've had discussions prior to next week about how we might approach it, but next week we're going to consider it. I do expect we will walk out of our meeting next week with an approval for a programmatic approach to how we're going to return capital.

The way that we've talked about in the past and the way I'd say it again today is that there is a programmatic and an opportunistic component to how we intend to return capital. The programmatic element of it is that we would look at our recurring free cash flow, and to use – the numbers for this year is roughly $800-plus-kind-of-million, and we would look at taking a large component of that – let's use a number to say 75% of that, that would come back in the form of a modest dividend, not unlike what we had been doing pre-spin. But the bulk of it then would be coming back in the form of share repurchases in a programmatic way.

Then the remaining amount of that free cash flow and any other opportunities that we would have, including re-levering, as we described at Analyst Day, we would view as opportunistic. And so, we kind of put it in those two buckets. The programmatic, you will start to see very, very soon. The opportunistic, I hate to say it this way, but we'll know it when we see it. And we want to make sure that we have the capacity when there are opportunities that present themselves to be able to lean in and do something even more significant at those times.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Very good. Thank you.

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

A

Yeah.

Operator: Our next question comes from Felicia Hendrix from Barclays. Please go ahead with your question.

Felicia Hendrix
Analyst, Barclays Capital, Inc.

Q

Kevin, while we're talking about the capital return, I did have a question on the guidance that you announced today. It was just a little bit lighter than we had expected, given your three-year view. So, I was just wondering if it's more a function of what you think your free cash flow is this year or is there anything more mechanical like from the spin or balance sheet requirements that might limit you a bit more this year than in the later two years of your three-year plan?

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

A

No, Felicia, there's nothing mechanical there. And I think we did give you a three-year model that was cumulative and we understand we didn't break it down at the Investor Day. But our free cash flow for this year is consistent with what we thought at the time, and the free cash flow per year, as the earnings of the company grow, grows throughout the time period. So, there's nothing else going on there.

Felicia Hendrix
Analyst, Barclays Capital, Inc.

Q

Okay, that's helpful. And Chris, can you just comment on the recent news flow about the impact of the administration's travel ban on lodging? I know that only about – I think it's 5% of your domestic business comes from international demand. But I was just wondering more broadly if you could comment.

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

A

Yeah. That's a good question, and obviously, one that we've been fielding in lots of different forums. I'd say, as you pointed out, the international business system-wide in the U.S. is a relatively modest component of our business. If you look at what we saw in the international business last year, it was down a bit in revenue. I think it was down 2.5% to 2.8% I think but 2.5% to 3%. That was obviously pre-travel ban. That had a lot to do with the strengthening of the dollar in my mind.

You did see some markets continuing to show very good growth, mostly Asia Pacific to the U.S. But a lot of the other markets, including Canada close by, we saw drop off. As we think about this year, my sense is, and then I'll answer the question specifically, my sense is you're going to continue to see pressure on international business, and I think that pressure is largely going to be driven by even further strengthening of the dollar. If you look at what's happened over the last 90 days, the dollar has strengthened a lot. That is not good for international inbound business. So, I think you'll see continued impact.

On the other side, the good news is, part of the reason the dollar is strengthening, at least at the moment, is a belief the U.S. economy is going to be stronger. U.S. economy being stronger in-the-U.S. for-the-U.S., where we have 95% of our business coming from that net-net is a win for us in the industry.

As it relates to the travel ban, we've been tracking it as carefully as we can. We have not seen any material impact as a consequence of what's happened over the last two or three weeks. We obviously will keep watching it and keep an eye on it, but nothing in anyway material that's come from it at this point.

Felicia Hendrix
Analyst, Barclays Capital, Inc.

Q

Great, helpful. Thanks.

Operator: Our next question comes from Carlo Santarelli from Deutsche Bank. Please go ahead with your question.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.

Q

Hey, thanks everyone and good morning. Just on the RevPAR cadence, Chris, Kevin, you guys guided the first quarter 1% to 3%. Clearly, a little bit of benefit there and then a little bit of headwind coming in the 2Q with the calendar shift. Could you guys maybe quantify how you're thinking about that?

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

A

Yeah. Kevin may want to jump in. The truth is with the Easter shift, we tried not to get too tricky in the guidance and keep it consistent, because it's early in the year. The truth is that first quarter is likely to be more to the higher end, second quarter probably more to the mid to the lower end just because of the shift in Easter. I guess in the end, we could have tried to be a little more precise, but it is – we think both quarters are within those ranges and we tried to keep it simple. But Easter is going to help first quarter, it's going to hurt second quarter, moving from April – moving into April from March.

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

A

Correct, but all should be captured within the range.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.

Q

Great. And then, just in terms of the FX headwind, Kevin, I think you said $30 million in 2017 was built into the adjusted EBITDA guidance?

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

A

That's right.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.

Q

Could you possibly parse that just between the leased assets and the management and franchise fees?

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

A

Yeah. Just because of the breakdown in the earnings as a business, it's more of an impact to the fee business. So, you have a larger impact in the fee business, smaller in the leased business, and then a bit of a benefit in corporate expense, because we have some offset by spend in that part of the world.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Is it close to pro rata, if you just looked at it on a company-wide basis?

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

A

No.

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

A

No, I'd say it's probably two-thirds, one-third...

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

A

That's right.

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

A

If I had to approximate it.

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

A

That's right.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks guys.

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

A

Two-thirds in the fee...

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

A

Yeah, so it's not. Yeah. If that breaks down to 90/10, you probably go to two-thirds in the fee segment and one-third in the ownership segment.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.

Q

Helpful. Thank you.

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

A

Sure.

Operator: Our next question comes from Joseph Greff from JPMorgan. Please go ahead with your question.

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

Chris, you talked about this I guess in a couple of different ways. But when you think about 2017 across the four quarters, can you talk about what's baked into your assumptions for the pace of business transient growth?

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

A

Yeah. I think what's baked into our assumptions is that we're going to see, throughout the year, we're going to go from last year, where it was circa 1% to – if we wanted to get to the mid to the higher end of the ranges, we're obviously always trying to do is get the best performance we can. I think it's more 1% to 2% than 1%. As I said, I think group is going to perform in a consistent way. We don't see any leisure issues at the moment. Now, there's lots of things that could happen. But at the moment, we think leisure keeps clicking around – or keeps clicking along.

So, I think if you get – if you can get business transient up over the 1% and 1.5%, 2%, I think it's what could lead you to being in midpoint or hopefully higher than the midpoint of the range. And I think that's possible and that's sort of what we've been seeing, if you look at – if you cleanse December and January of noise, that's sort of where we've been, is 1.5% to 2% on business transient. The only caution – again, that's all great and I know I'm sort of guiding to the mid or high in those comments. The only caution is it's very early in the year, okay, and January is not the biggest business transient travel month, nor is December. They're amongst the weakest business transient travel months we have.

So, I'm not trying to be negative, just trying to be objective. We need more time to – we need more time to sort of play out and we need to be able to – as we get into February, really March, April, you get into the meatier travel season for business transient, we need to sort of track those trends and see if they continue. But again, if business psychology is more positive generally, it stands to reason and fixed – non-residential fixed investments going up stands to reason it should.

Now, I talked about a correlation, non-residential fixed investment, it being the highest correlation to growth in demand for hotel rooms. It's generally on a two-quarter lag. When you go back and you really look at it over time, the first time it turn positive is fourth quarter. If you were going to be really precise, you would say you would start to see some of the benefit of that flow-through in the second quarter of this year. So, we're going to be watching the second quarter really carefully like – well, we watch every quarter really carefully, but particularly carefully to see if you're starting to see the flow in the business transient side as a consequence of capital investment going up around the country.

Joseph R. Greff
Analyst, JPMorgan Securities LLC

Q

Okay. And thank you for that, Chris. And just one question going back to maybe close the loop on the topic of capital return, if we were to assume the board approves the authorization, there's no other issue or impediment for buybacks to start, there's ostensibly no need to further pay down debt or anything else?

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

A

Nope. No, we – our intention, subject to our board approval, is that we will start a buyback program in the very, very near future.

Joseph R. Greff
Analyst, JPMorgan Securities LLC

Q

Great. And then, Kevin, are there any incremental spin-related costs that hit the 1Q that should be – that we should be mindful of?

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

A

We – for the most part, we've accrued for them. So, I don't know if you're asking from a cash perspective or a GAAP perspective. For the...

Joseph R. Greff
Analyst, JPMorgan Securities LLC

Q

From a cash perspective, yes.

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

A

From a cash perspective, we still have expenses to pay, yes.

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

A

But Joe, we – as you'll see, if you look at our year-end balance sheet, we got a lot of cash...

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

A

Yeah.

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

A

So, we basically stockpiled all the cash to pay all that.

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

A

That's right.

Joseph R. Greff
Analyst, JPMorgan Securities LLC

Q

And so, what would – how would you quantify that incremental cash expenditure related to the spin then here in 1Q?

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

A

We had – we said about $250 million in total. I don't have the exact number in front of me, but I guess it's about half.

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

A

I think with all the one-times – yeah, there's a couple of hundred...

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

A

Yeah, yeah.

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

A

$200 million or $300 million of all of the one-time stuff.

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

A

Yeah.

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

A

It's been accrued, but we – and the cash is sitting there ready to pay it.

Joseph R. Greff
Analyst, JPMorgan Securities LLC

Q

Great, thank you.

Operator: Our next question comes from Robin Farley from UBS. Please go ahead with your question.

Robin M. Farley
Analyst, UBS Securities LLC

Q

Great, thanks. Just looking at where net unit growth came in, in Q4, it was towards the low-end of your guidance. I'm just wondering if that was openings that sort of slipped into Q1 or were there more removals than you were expecting. And then, your 2017 net unit growth guidance didn't change. So, if it was openings that slipped from Q4 into 2017, did kind of a similar number of 2017 openings slip into 2018 just to keep 2017 kind of unchanged?

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

A

Yeah. Here, the answer on the first part is there were a few openings that just carried over to the first quarter and there were a few relatively big hotels – we had a large hotel in Cairo, one in New York and another in Rio that we had expected in the fourth quarter, and just for a whole bunch of different reasons, it will be the first quarter. If you added those in, we'd be above the midpoint or right at the midpoint, so just very modest timing differences.

The reason we didn't make any changes in the guidance to this year is exactly what I think you implied in the question is just we've given a 5,000-room range and we just didn't feel like the movement – that movement alone suggest that we should change our range, because you can have, as you pointed out, the same thing happen.

It's always touch-and-go when you're opening a hotel a day. I wish I could say that it actually worked, that it was one a day and it was that sort of balance throughout the year. It doesn't end up working that way. We generally, like a lot of folks, a lot of our developers are crushing it to get things done at the year-end. There is a lot of moving parts at the year-end every year. So, yeah, our expectation is some of that will flow over again, but a 5,000-room range sort of picked up what we thought the expected outcome would be.

Robin M. Farley
Analyst, UBS Securities LLC

Q

Okay. No, great. I understood. And then, the other question – and maybe you've kind of answered this. But your fee revenue guidance for the year being up 7% is not as high as your unit growth plus RevPAR growth combined would kind of suggest. Is the difference – it sounds like FX would be maybe 100 basis points. Is there anything else that's making...

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

A

Yeah. There are two real simple things, FX which is a little bit more than that, if you – I think if you do the math, and then the Waldorf. The Waldorf Astoria is – in the end, it's a wonderful story, but we sold it for $2 billion and then we got – we're going to have a 100-year management contract, but it's getting ready to close on March 1. And as a consequence, until it reopens – and when it reopens, we'll get great fees. It'll be better than what we've been receiving. But while it's closed, we will not be receiving fees. So, it's FX and the Waldorf – there are lots of little nuance things. It's a big business. But if you factor for those things, that's really what's driving it.

Robin M. Farley
Analyst, UBS Securities LLC

Q

Okay, great. Thank you.

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

A

Yeah.

Operator: Our next question comes from Thomas Allen from Morgan Stanley. Please go ahead with your question.

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

Q

Hey, good morning. So, factoring in...

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

A

Good morning, Thomas.

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

Q

Hey. So, factoring in the fact that about 90% of your EBITDA comes from management and franchise fees, and within that, about 90% of that comes from base management fees and franchise fees. So, IMFs and owned segment are relatively small. But can you just help us think about if there are any kind of unique drivers of those two businesses or nuances we should think about for 2017? Thank you.

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

A

Yeah. No, I don't think there's any – the drivers are different, Thomas. Obviously, one thing to think about in the ownership segment that's predominantly leased hotels, right, so there's a fair amount of operating leverage there. And so, when you get – RevPAR at different levels and how it mixes between occupancy and rate can have an effect on profitability. And IMF, most of our IMF, as we've described, is driven by a percentage of GOP. So, we have less volatility in that segment – in that piece of our fee stream than others might have. It doesn't really go switch on, switch off. But it still has operating leverage baked into it, because it's driven on GOP. So, that's the primary difference is, the 90%, as we've described, it's 90% top-line, 10% bottom line. So, you have sort of plus or minus 20% of the business that is driven on bottom line hotel results.

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

A

If you look at IMF, Thomas, year-over-year and you cleanse it of FX, it's relatively comparable. It's in the high single-digits, and that's what – as we suggested at our Analyst Day, that's sort of what we expect generally over the – at least the three-year analysis period that we gave you. And then again, that's because that's a pretty good growth rate, but you know a little bit lower growth rate than you might see with others simply because it's a much lower beta fee stream, because it's not sitting behind owner priorities. So, that's where it is.

Now, FX, I would say because most of it, 80% of our IMF, so 80% of that 10% of fees, if you will, is international, it gets more hit by FX. So, the high single-digits gets whacked more proportionally than the other fee base, because it is disproportionately more international, where we have the strength of the dollar impacting it.

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

Q

Helpful. Thanks. And then, just a couple of questions on China. What are you seeing in terms of new development and overall trends in the market there? Thanks.

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

A

Yeah. The overall trends remain pretty good. We ended up, for the year last year, in the mid single-digits in same-store growth. I think we're thinking similar this year, maybe a tick below, as they continue to transition their economy, but still feel like we're going have pretty decent positive same-store growth this year in China.

On the new unit side, we continue to pick up steam. We opened 20% more hotel rooms in 2016 than we did in 2015, we think it'll be another 10% or 20% then again higher in terms of our NUG, net unit growth on a rooms basis in 2017 over 2016. And so we're making good headway. I think that the pivot we made a few years ago was a really important pivot. We've talked about it for a few years. We anticipated it ahead of I think a lot of others, and that was that in the end a lot of the growth like most markets around the world as they start to become a little bit more mature as the hotel market comes in the mid-market because that's where you have the middle-class population growth that is at a very high rate, the midmarket product is what they can afford, and that ultimately ends up driving a lot of the growth.

So, as been well-chronicled, we pivoted very hard about three years ago to start to build out our infrastructure, retool our products on both Garden Inn and Hampton, including doing the joint venture with Plateno in anticipation of that, and that's exactly what's happening. So every year that's gone by over the last bunch of years, we've seen more unit growth for our brands in that market. The composition of that unit growth has changed dramatically. We're now – if you look at next year, meaning this year, you'll see the majority or at least probably 50/50 of our openings will be between focused service and full service and above, where it used to be essentially a 100% full service and above. So that pivot has been incredibly important, and I think impactful as an enabler to continue to keep our growth moving in a very positive direction there.

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

Q

Great. Thank you.

Operator: Our next question comes from Wes Golladay from RBC Capital. Please go ahead with your question.

Wes Golladay
Analyst, RBC Capital Markets LLC

Q

Hey, good morning, everyone. Looking at that business transient travel forecast of 1.5% to 2%, can you provide some context of what that level was for, call it, 2014 and the front half of 2015?

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

A

Much higher. By the way, I would restate the question, if I can? It wasn't really a forecast that I was giving for the record. I was saying, what would we have to see – what have seen more recently, and what would we have to see for the full year to see that we'd be at the middle or upper end of our ranges. We don't know what the forecast transient business is, so short nature. That's what we have seen in a very short low-volume period of time, and we hope that continues.

If you go back to 2014 and 2015, those numbers were probably in the 5% to 7% – if you went to 2014, I would say they were – and Kevin help me, I think they were like 5% to 7% and I'd say in 2015, they were 4% to 6%. They were moving up at a much higher clip, much more positive growth.

So getting to 1.5% to 2% relative to that is not meteoric growth. I think if business sentiment stays positive, if people think the economy is going to be stronger, and they ultimately are hiring more people, and investing more in plant and equipment and technology, I think that's very much possible. I don't think that's a hope certificate. But those things has to continue and it's early in the year, and it's early in new administration, and there are a lot of swirling winds out there. We need to just see where it goes.

Wes Golladay
Analyst, RBC Capital Markets LLC Q

Yeah. Hopefully the six-year high in CEO confidence translates into more investment. Looking at Tapestry...

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

It certainly should logically, I mean, and it is, if you look at what happened in the fourth quarter, it is.

Wes Golladay
Analyst, RBC Capital Markets LLC Q

Okay. And then looking at Tapestry, do you have any internal goal that you would like to share with us as far as signings for the year?

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

No. No.

Wes Golladay
Analyst, RBC Capital Markets LLC Q

Okay.

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

We have goals that we set out for every brand with our development teams and we obviously set up our comp systems around those. But for a whole lot of competitive reasons, we're not going to get into disclosing those.

Wes Golladay
Analyst, RBC Capital Markets LLC Q

Okay. Fair enough. And congrats on a good year. Thanks.

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

Hey, thanks. Appreciate it.

Operator: And our next question comes from Smedes Rose from Citigroup. Please go ahead with your question.

Smedes Rose
Analyst, Citigroup Global Markets, Inc.

Q

Hi, thank you.

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

A

Hi, Smedes.

Smedes Rose
Analyst, Citigroup Global Markets, Inc.

Q

Hi. You mentioned in your opening remarks a very strong growth in the Hilton Honors program. And as I recall, and you might have to remind us some of the context here a bit, prior to our IPO, you were able to monetize that program, I believe with American Express and at least one other credit card company or bank. Isn't there an opportunity coming up now that you would be able to monetize that again? Are you eligible to do that or can you maybe talk about that a little bit?

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

A

Yeah. What we did pre-IPO was we did a pre-sale of points, a number of companies do this across the travel industry, both in hotel, airline business, et cetera. That was a three-year forward sale and that is largely complete at this point. So, yes, that is a lever that we always have with all of our – at this point, we have two co-brand relationships with Citi, Visa and with Amex and that is something that is available to us. Whether we do that or not, I won't comment on.

Smedes Rose
Analyst, Citigroup Global Markets, Inc.

Q

Okay. And the amount there prior was something like $600 million. Is that about what it was?

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

A

That's about right. Yeah, $650 million to be exact. Obviously, the system is bigger now and the size of the system is a direct sort of impact on the size of Points, because the bigger the system, the more the Points that they need to have to service their customer base with the co-brand card.

Smedes Rose
Analyst, Citigroup Global Markets, Inc.

Q

Okay. And then just one more extra. You mentioned the $30 million headwind from FX, is that assuming – and I'm sorry, if you mentioned this, is that assuming a constant dollar or does that assume continued appreciation in the dollar as we move through the year?

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

A

It assumes the...

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

...forward curve.

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

...forecast for the dollar against the basket of currencies and it does assume further appreciation, Smedes.

Smedes Rose
Analyst, Citigroup Global Markets, Inc.
Q

Great. Okay. Thank you very much.

Operator: Our next question comes from Chad Beynon from Macquarie. Please go ahead with your question.

Chad Beynon
Analyst, Macquarie Capital (USA), Inc.
Q

Hi, great. Thanks for taking my question. In your opening remarks you mentioned that oil and gas continued to be a headwind, I think, you said 80 basis points. I'm not sure if that was sequentially or year-over-year. Could you just provide some more color in terms of if you are seeing an improvement sequentially? And then, also, how you're thinking about this from an impact standpoint in your 2017 guidance? Thanks.

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

Sure, Chad. Some of those markets are – it depends on the market, but some of those markets are not yet recovering, and part of that is supply driven, where the markets got so strong that it brought on some supply in places like Houston and Austin. So we're not yet seeing that recovery mostly because of supply. We do assume that it does get a little bit better over the course of the year just because it lapsed comps. And then the other thing that's going on is, as oil approaches $60 a barrel, and if it eclipsed $60 a barrel, you'll start to see more economic activity in that business. But part of that is it gets caught up in what Chris was talking about before, where if activity picks up there then you'll see corporate transient pickup, and you might see that could be a factor that causes us to get a little bit more positive about corporate transient.

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

Yeah. And the oil and gas getting back into heavy production mode is on a lag.

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

Right.

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

I mean, once it gets to, breaks the $60 barrel, some of it can start pretty quickly, but it takes more investment and there is a lag effect.

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

A

Right. So that wouldn't be a lot of that – there wouldn't be a lot of that baked in.

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

A

There's not a lot of that baked into our guidance for this year. The benefit of very much easier comps is obviously baked in.

Chad Beynon
Analyst, Macquarie Capital (USA), Inc.

Q

Okay. Thanks. And then my follow-up, just because we're a couple of weeks after the ALIS Conference. Chris, was there any dramatic, I guess, difference in terms of what you're expecting your partners and REIT owners in terms of how they were viewing the world after you had conversations with them and how they view 2017 versus maybe how you and some of the C-corps view it?

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

A

No. I think not to be too short on the answer, I didn't see any real difference in our view and their view. I think the broader view coming out of ALIS, I think was, I would describe – probably it's used too frequently but, cautious optimism. There's still a lot of – as I said, a lot of things in play, but I think most of the folks I talked to in our ownership community, and I talked to a ton of them there, and I talk to a ton of them on a regular basis, our feeling, I think broadly in the industry with our owner community and the REIT community are feeling a little bit better about 2017 than they did a few months ago. And as I said, I think time will tell, but my general sense is a bit more optimism.

Chad Beynon
Analyst, Macquarie Capital (USA), Inc.

Q

Okay. Thank you.

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

A

Yes.

Operator: Our next question comes from Harry Curtis from Nomura Instinet. Please go ahead with your question.

Harry C. Curtis
Analyst, Nomura Instinet

Q

Hi. Good morning.

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

A

Good morning, Harry.

Harry C. Curtis
Analyst, Nomura Instinet

Q

Chris, I wanted to focus on the longer-term picture. Now that you've separated from the two other businesses, are there – or what are the – and any new strategies or enhancements to existing strategies that you're now able to pursue to drive shareholder value over the next three to five years, it's very broad question, but if you want to take an opportunity to really focus on the primary drivers? And then fold into that your thoughts on, how the relationship might work with HNA once that closes?

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

A

Sure. The first one, I don't know with the limits of time, I should be careful, because I am longwinded as everybody knows. But I would say, there is no real change in our strategy for the core business. I think having spun the other two businesses, it changes the nature of the business from the standpoint of how the investment community would look at it, it certainly changes the beta of the business in the sense that now, the remaining business is really the fee business, that's a much more resilient business with embedded growth as a consequence of the pipeline that we have and that is growing.

So our strategy had been and continues to be to make sure that we have the best brand portfolio in the business that as we add brands that we do it in a sensible way to better serve our customers that we drive terrific commercial performance across new and existing brands in a way that drives premium market share, and that that premium market share is ultimately driving a disproportionate share of the investment capital to our brands from the ownership community because they are going to make more money dealing with us. And that disproportionate investment from the ownership community is ultimately going to drive unit growth and bottom-line growth. And we know in the new world order of New Hilton that – while obviously the higher same-store growth is the better it is for us, the new unit growth is a much more significant component and contributor to our overall growth.

And so, we had been focused in that way, and I think trying to do our best to optimize that opportunity, we will continue to focus on that, again making sure that our existing brands maintain their relevance and gain relevance, gain market share, that new brands that we launch organically are relevant to what customers needs, and ultimately all of our brands drive performance for owners. And if we do that, I think you're going to see our market share continue to grow, and I think you're going to continue to see us take share globally on the development side, and that's going to deliver a fabulous result over time. When paired with now new part of the strategy, a different return of capital story, which is in a world where we had other businesses that were much more capital intensive and a lot of our capital was going towards that or deleveraging, we did not have the kind of capital available that we do today to return to shareholders.

So when you take the fundamental business that's performing I think exceptionally well and if we do our job, it'll only get better from a growth point of view. You match it with now very little and capital needs and very significant free cash flow and a very disciplined approach from myself and the rest of our team to returning that capital over time, I think it drives a fabulous result.

As a result of having spun the companies in addition to having a cleaner more resilient lower beta model with more free cash flow, it obviously frees management up, not that we weren't focused on this, but it frees us up to double down on everything we're doing with our brands, everything that we're doing with Honors and loyalty, some of the things you saw just recently allows us to double down on what we're doing with innovation to continue to make sure that everything we do is through the eyes of the customer and making sure that that we are ultimately driving more loyalty, more relevance with our customers and as a consequence, more share and more growth.

So, we've been focused on those things, that's not to remember – obviously going without saying without having those two businesses, it just gives those of us and senior management even more time to focus on those things and do it even better and I think propel growth at an even faster rate going forward.

Harry C. Curtis
Analyst, Nomura Instinet

Q

And HNA?

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

A

And HNA, which we do expect to close before the first quarter is out. We've had discussions with them, nothing is different really than the commentary I made on the last call. The discussions with them really center around how do we connect our respective travel asset, so loyalty, they have a very large loyalty program, we think there are tremendous opportunities to connect their folks with ours and ours with theirs. They are also quite active in the travel agency, both online and traditional through their tour business in China and with customers leaving China and getting very connected with them in both those regards. So though, as they close the deal at the end of the quarter and we continue those discussions, I think as the year plays out, we'll have some tremendous opportunities that connect those assets in a way that helps us and frankly, I think helps them as well, which is obviously in part why they were interested in us.

Harry C. Curtis
Analyst, Nomura Instinet

Q

Thanks very much.

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

A

Yes.

Operator: Our next question comes from Bill Crow from Raymond James. Please go ahead with your question.

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

Q

Hey, good morning. Chris, I think there were two drivers this cycle that kind of set it apart from other cycles from a demand perspective. One is inbound international travel, and I think we've talked about that, FX, whatnot. But the other one is kind of the millennials proclivity to travel. And I guess my question is, is there any sort of fatigue – travel fatigue you're seeing from the millennials, any change of habits from a travel perspective?

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

A

Not really. I mean, Bill, we spend a lot of time thinking about millennials and young people and young customers, and I have to say, it is certainly no trend that I have seen, if you look at our leisure business overall throughout, even the downturn, but coming out of the downturn, into this now fairly long up-cycle, it's been pretty consistently a leading positive indicator in the sense of growth has been at a strong clip, sort of leading the charge and has stayed that way.

And a component of it and an increasing component of it is the millennial traveler, who I think really wants to get out with the – and experiencing. Now, I would probably say, when we wake up in a decade that's going to be over half our traveling population, if you look at it today, it's probably 20%, 25% of our population are travelers. That's one of the reasons we've been doing – in terms of our brand launches, we've been doing some of the things we've been doing, if you think about Home2 first, then Tru, now Tapestry, a lot of that, not all of it, we want to obviously appeal to a broad range of customers with all our brands, but those brands, particularly at the price points that they're at, which is at the lower end, is going to allow us we think to get younger travelers into the system and build loyalty with them. So as they grow up and they travel more in different ways they stick with us. Because the fact is, some of our products even at the lower end were at a price point that it was very difficult for certainly the younger end of millennials to stay with us.

So I think the millennial travelers is alive and well, I think that certainly the trends we see is a – as a proportion of their disposable income, all the stats we can find are that they more than most generations like to use it on experiences, and thankfully travel is one of those experiences that they like to use it on.

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

Q

Well, Chris that leads me into the follow-up question, which is the Stop Clicking Around campaign. If you could give us any details on how you're gauging the success of that, and the impact positive or negative to the company and to the owners? Thanks.

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

A

Yeah. Great question. I mean, we gave you some of the stats that I think matter the most. So we're about a year – not quite a year from anniversary from the beginning of that campaign. And if you look at some of the stats that we disclosed earlier about 9 million new Honors member, and that number is higher now because we have more members this year, so probably over 10 million new Honors members. You look at Honors occupancy up nearly 400 basis points. And I think most important statistic is over 200 basis points in channel shift, I would say, leading to our direct low cost online channels either web-direct or mobile, that suggest to me, well this is early days and while the Stop Clicking Around campaign is done, you're going to see us to do all sorts of other things, including what you just saw with Honors to continue to build direct relationships. I would say, it's been quite successful.

In the end, what our job is, is to drive profitability for owners and that means top line, but also bottom line and distribution cost is not an insignificant component of their cost structure. So if I look at the channel shift that that has occurred and we look at, what's happening from a net rate point of view across all our channels, I think in the end, our owners – I can't say every single owner in every single circumstance that it's worked perfectly, but I would say across the system, it has worked really well.

We have shifted, we've obviously maintained growth and market share and shifted by a couple hundred plus basis points business to channels that drive better net revenue for our owners. So as I talk to our owners, again I could not find an exception to anything, but broadly, we just had a joint OAC meeting with a 100-plus of our most important largest owners in LA, as part of ALIS. They all seem very, very happy with what we're doing and continuing to try and build direct relationships with our customers.

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

Q

Thanks, Chris.

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

A

Yes.

Operator: And our next question comes from Vince Ciepiel from Cleveland Research Company. Please go ahead with your question.

Vince Ciepiel
Analyst, Cleveland Research Co. LLC

Q

Just had a quick question on the trajectory of brand launches, we've had a handful of new launches in the last two years, and I know there is still some white space remaining. But what should the trajectory of those new brand launches look like? And then, secondarily, when can these new brands start to become a material piece of that 55,000 rooms that you add each year?

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

A

Yes. Well, we do these things in a – hopefully, we make it look easy when we do them, but it's not easy, because not only do we have to figure out with our customers ultimately what resonates with them, but we then have to commercially make sure it's successful, because if we go out and launch something that doesn't really work for owners, then they are not going to invest the capital. So we try and give each of these a proper birth.

And they all sort of go through a process, we obviously had great success last year with Tru, but we're really still – we haven't even opened our first Tru. So we're very focused on making sure that works commercially. Tapestry, which is a bit easier, because these are largely conversion hotels, existing hotels, it's plugging it into our engines, which again, I make sound easy, my team is wincing probably all over the world, it's not easy, but it's easier than starting from scratch. So we were able to move Tapestry along a little bit faster.

And we need to get that under our belt and get some momentum on the develop – we have momentum, we need to get more momentum, we need to get some opened. We have four other concepts that I think we described them all very briefly, but nonetheless, described them at the Analyst Day in December, that we're developing. I think, eventually we'll do them all. And the cadence is likely, maybe one more in the soft brand area that we could do this year, because again more conversion, a little bit easier, in terms of incubating it here. The others, I think, will take a little bit longer, because they're more complicated and we're going to want to give what we've done a chance to gain some momentum.

In terms of when, if you look at, what we've already done, what's sort of in the supply and in the pipeline is, we've already got 90,000 rooms out of the brands, including Home2, that we've launched over the last half a decade. So, I think these things can ramp up quickly. We have 400 deals in Tru alone, I think by the end of last year, we had 16,000, 18,000 rooms technically in the pipeline, 37,000 with what's in progress, so the rest of those will go in the pipeline. So Tru alone will probably have 30,000 or 40,000 rooms in the pipeline in the not too distant future. And those things are relatively easier to finance and smaller bites given the size of the deals, those things will start to have – the Tru's will start to have much more quickly. So, I think there are – I think our new brands are already contributing significantly to the pipeline, and in the case of Home2 particularly with the existing stock, but you'll start to see these things really contribute in terms of its existing supply in a much more meaningful way over the next two and three years.

Vince Ciepiel
Analyst, Cleveland Research Co. LLC

Q

Great. Thank you.

Operator: And ladies and gentlemen, this will conclude today's question-and-answer session. I'd now like to turn the conference call back over to Chris Nassetta for any closing remarks.

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

Thanks, everybody, for joining us today. Obviously been quite a busy time here at Hilton, as well as at Park and HGV. We're really thrilled for all three companies, as I said earlier, and we're pretty optimistic about how the year is playing out. We'll look forward to getting back together with you after the first quarter to give you a little bit more color on how things are playing out. Have a great day. Thanks.

Operator: And ladies and gentlemen, the conference has now concluded. We do thank you for attending today's presentation. You may now disconnect your lines.