02-May-2017

Hilton Worldwide Holdings Inc (HLT)

Q1 2017 Earnings Call

CORPORATE PARTICIPANTS

Jill Slattery
Head-Investor Relations, Hilton Worldwide Holdings Inc

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

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

OTHER PARTICIPANTS

Felicia Hendrix
Analyst, Barclays Capital, Inc.

Stephen Grambling
Analyst, Goldman Sachs & Co.

Shaun C. Kelley
Analyst, Bank of America Merrill Lynch

Harry Curtis
Analyst, Nomura Instinet

Joseph R. Greff
Analyst, JPMorgan Securities LLC

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.

Jeff J. Donnelly
Analyst, Wells Fargo Securities LLC

Jared Shojaian
Analyst, Wolfe Research LLC

Smedes Rose
Analyst, Citigroup Global Markets, Inc.

Thomas Allen
Analyst, Morgan Stanley & Co. LLC

Robin M. Farley
Analyst, UBS Securities LLC

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

David James Beckel
Analyst, Sanford C. Bernstein & Co. LLC

Michael J. Bellisario
Analyst, Robert W. Baird & Co., Inc.

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

Richard Allen Hightower
Analyst, Evercore ISI

MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Hilton Worldwide First Quarter 2017 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Jill Slattery, Senior Director of Investor Relations. Please go ahead.

Jill Slattery

Head-Investor Relations, Hilton Worldwide Holdings Inc

Thank you, Denise. Welcome to Hilton's first quarter 2017 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. Unless otherwise noted, comparisons to the company's first quarter 2016 results assume that the spin-off transaction had occurred on January 1, 2016. Please see our earnings release for additional details.

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

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 thanks everybody for joining us this morning. We're pleased to report our first quarter as the new simplified Hilton with the RevPAR growth, at the top end of our guidance range, adjusted EBITDA and adjusted EPS results above expectations and with good progress on our recently announced share repurchase program.

As a result of the strong start to the year, we're also raising our adjusted EBITDA guidance for the full year. We continue to see tremendous momentum in unit growth as our share of global hotel development continues to increase. We opened nearly 8,000 net rooms in the quarter and we remain on track to deliver approximately 6.5% net unit growth this year, while adding over a 100,000 new signed rooms to our development pipeline.

We expect 2017 to be another record year for construction starts, openings and net unit growth. Our top line performance continues to benefit from favorable fundamentals along with market share premiums driven by our industry-leading brands and commercial platform. System-wide RevPAR increased 3% in the quarter helped by the Easter calendar shift. Leisure and corporate transient both performed well and group RevPAR meaningfully outperformed our expectations.

Looking forward, macroeconomic forecasts are relatively unchanged since last quarter with U.S. GDP and non-residential fixed investment expected to outpace 2016 growth rates. Modestly accelerating demand should offset forecasted supply growth, allowing us to deliver a full-year system-wide RevPAR growth in the 1% to 3% range, driven by solid group and transient performance. Group position for the year remains positive with nearly 85% of the business on the books.

Turning to development, our pipeline increased 16% year-over-year to a record 2,100 hotels and 325,000 rooms. Hotel owners continue to invest in our growth at a record pace, accelerating our net unit growth. We continued to approach our growth in a strategic and discipline way with new units coming from existing brands in both new and current markets as well as organically-developed new brands targeted at incremental market segments. All brand segments are at record pipelines and the pipeline mix is similar to our installed base with balanced distribution across chain scales.

As our growth is almost entirely financed by third parties, we generate substantial returns on minimal capital investment. We also generate leading returns on our owners' investments, which enables us to continue growing franchise rates. Our effective rate is currently at 4.8% system-wide and heading towards the 5.6% as contracts step up to current rates, increasing roughly 10 basis points per year.

We've had great success with our new brands, which have been developed at minimal cost. We recently opened our first Tru by Hilton just 15 months after the brand launch. The property located in Oklahoma City is owned by Champion Hotels. With more than a dozen signed Trus, Champion Hotels is an incredible supporter of the Tru brand and we're thrilled to celebrate this milestone with such a great partner. We expect to open about 10 Tru hotels by year end and an additional 75 next year. There are currently 425 Trus in various stages of development, of which roughly 90% are with current Hilton owners. According to STR, Tru represents more than 30% of the U.S. industry's midscale pipeline.

We also continued to get great traction on our conversion-oriented brands where deals can move quickly through our pipeline and add to unit growth in the year without increasing industry supply. Curio, our four-plus star conversion brand, continues to attract both domestic and international attention. Over the last several months, we opened our first Curio in the Middle East and signed several projects across Continental Europe. As of the end of the quarter, we had nearly 90 Curio hotels opened and in the pipeline. Our newest conversion brand, Tapestry by Hilton, sits just below Curio in the three-star category. At quarter end, we had 60 projects signed or in various stages of negotiations. Additionally, we're on track to open our first Tapestry in the second quarter, less than six months after the brand's launch.

In addition to new brands, we think our existing brands have terrific upside, especially in the international markets. Last week, we opened our 100th hotel in China, up from just five hotels under a decade ago. Today, our pipeline in China totals nearly 275 hotels and 70,000 rooms driving our number one ranking in rooms under construction in the country, and 21% share of total rooms under construction in the Asia Pacific region.

We celebrated a major milestone in March with the opening of the Homewood Suites, French Quarter in New Orleans, which is our 800th hotel in our all-suites brand portfolio. This segment has been a really strong performer with RevPAR Indexes over a 120, and we expect to have another 350 suite hotels open over the next two years.

Marking another significant milestone, today we actually opened the Hilton Rio de Janeiro Copacabana which is our 100th hotel in Latin America. This brings our supply in the region to more than 17,000 rooms across nine brands, with another 70 projects in the pipeline and shows our continued commitment to strategically expanding our footprint, particularly in resort destinations and key international markets.

We're also taking full advantage of our global scale to roll out industry-leading innovations. Guests continue to prefer our web-direct channels, which made up nearly 30% of distribution mix in the first quarter. This is our highest level ever and web-direct continues to be our fastest growing channel, increasing more than 200 basis points in distribution mix year-over-year. Our Hilton Honors app is downloaded every eight seconds and is the highest rated travel app providing unprecedented choice and control for guests. Through this app, guests can check in, download their digital key on their mobile device and head straight to their self-selected room upon arrival. By the end of this year, we expect to have digital key capability at all of our hotels in 80 major North American markets and 2,500 hotels globally.

In the first quarter, Honors members accounted for 57% of occupancy, up nearly 2 points year-over- year. Additionally, paid member folio increased more than 8% as new members join the program, and existing members move up the tiers, enabling us to capture an even greater percentage of their travel wallet. We ended up the first quarter with 63 million Honors members, up 19% year-over-year.

Post-spins, we're a resilient fee-driven business with a very disciplined strategy that's focused on growing market share, units, and free cash flow per share, as well as preserving our strong balance sheet and accelerating our return of capital.

We estimate a 1 point change in RevPAR growth impacts our adjusted EBITDA growth by approximately 1 point, roughly the same as every 10,000 net unit adds on a stabilized basis. This year, we expect to add 50,000 to 55,000 net new rooms with great sight lines for the next couple of years, given that we have nearly 170,000 rooms currently under construction. Given the resiliency of our model, modest changes in RevPAR do not meaningfully impact our free cash flow generation potential, and we intend to be very disciplined in returning capital to shareholders. To provide more clarity, we expect to return $900 million to a $1 billion to shareholders this year with around $200 million in the form of quarterly dividends, and the full balance in share repurchases.

At our core and critical to our continued success, we are a business of people serving people, and our team members strive to provide exceptional experiences at every hotel, for every guest, every time.

I want to thank all of our team members for their hard work and commitment to our shared purpose to be the most hospitable company in the world. Hilton was again named one of Fortune's 100 Best Companies to Work For. Our inclusion on Fortune's list is a very prestigious ranking and I think a fantastic acknowledgement of where we stand when measured against the top companies in the U.S. and around the world. This ranking is also representative of our exceptional workplace culture. Ranking at number 26 in the U.S., we increased our position by 30 places this year and we ranked number 17 globally. We're really proud of this important recognition.

With that, I'm going to turn the call over to Kevin, who'll give you a little bit more details on the quarter and our outlook. Kevin?

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

Thanks, Chris and good morning, everyone. For the quarter, system wide RevPAR grew 3% versus the prior year on a currency neutral basis, which was at the high-end of our guidance due to good transient demand and strong group performance. We estimate the Easter calendar shift boosted RevPAR growth by 70 basis points in the quarter.

Adjusted EBITDA of $424 million exceeded the high end of our guidance range, driven by better than expected fee growth, good cost control at both the corporate and property levels and one-time items. Roughly half of the beat was related to timing, and should not impact full-year forecasts. Diluted earnings per share adjusted for special items was $0.38, exceeding the high-end of our guidance range and increasing nearly 60% year-over-year on a pro forma basis.

In the quarter, management franchise fees grew 7% versus the prior year to $429 million, well ahead of our 2% to 4% guidance range. In addition to timing-related items, outperformance was driven by greater than expected incentive management fees and franchise sales.

Turning to our regional performance and outlook, we believe that our broad geographic diversity coupled with the resiliency of our fee-based model, helps mitigate the impact of regional uncertainties. Following the spins, no single market or gateway city accounts for more than 3% of our adjusted EBITDA and international travelers comprise less than 5% of our U.S. room night demand.

In the U.S., comparable RevPAR increased 2.5% in the quarter, driven by strong group performance. We estimate oil and gas markets pressured growth by 10 basis points, representing a significant improvement versus the prior nine quarters. For full year 2017, we continue to forecast U.S. RevPAR growth towards the midpoint of our 1% to 3% systemwide range.

In the Americas, outside the U.S., first quarter RevPAR grew 2.8% versus the prior year, due to strength in Mexico and Canada, driven by good group performance. For full year 2017, we expect RevPAR growth in the region at the higher end of our guidance range.

RevPAR in Europe grew a strong 8.4% in the quarter, ahead of expectations due to transient strength in London and a notably strong March for Italy, Spain and the Mediterranean region. Additionally, international inbound to the UK was up nearly 20% in the first quarter, helped by favorable exchange rates and increased travel from the Middle East. For full year 2017, we expect RevPAR growth in the region to be modestly above the high end of our range.

In the Middle East and Africa, RevPAR declined 2.1% in the quarter, which was in line with our expectations as supply challenges and political unrest in certain markets continue to weigh on results. Modest improvement in Egypt helped mitigate weakness. For full year 2017, we expect RevPAR growth in the region of flat to slightly positive.

In the Asia Pacific region, RevPAR increased 5.5% in the quarter, led by stronger than expected growth in China and solid performance in Japan. For full year 2017, we expect RevPAR growth in the mid-single digits, with RevPAR in China up in the 6% to 7% range.

Moving onto capital allocation, we paid a quarterly cash dividend of $0.15 per share during the quarter for a total of $50 million. Our board also authorized a quarterly cash dividend of $0.15 per share for the second quarter. As Chris mentioned, we initiated our stock buyback program in March and have since repurchased over 2.1 million shares for a total of $123 million.

The previously announced HNA acquisition of 82.5 million Hilton shares, or a 25% equity interest from Blackstone, closed in March establishing a long-term investment in Hilton. We believe this strategic partnership will be mutually beneficial as both companies leverage their networks and relationships.

Turning to our balance sheet, we successfully executed over $9 billion in financial transactions in the first quarter, including amending and extending our $4 billion of term loans, refinancing our $1.5 billion of senior notes and unwinding and replacing our interest rate swap portfolio. Collectively, these transactions lowered our cost of debt by 25 basis points, reduced our interest rate risk with roughly 75% of our debt now at fixed rates and extended our average debt maturity by approximately a year and a half. We now have no meaningful maturities for six years.

For the second quarter of 2017, we expect system-wide RevPAR growth to be 1% to 3% with the unfavorable calendar shift likely resulting in growth in the lower half of the range. We expect adjusted EBITDA of between $490 million and $510 million and diluted EPS, adjusted for special items, of between $0.47 and $0.51.

As Chris mentioned, we are maintaining our full-year 2017 RevPAR growth guidance of 1% to 3%, but are raising our adjusted EBITDA outlook to a range of $1.86 billion to $1.9 billion. We expect the return between $900 million and $1 billion to shareholders this year in the form of dividends and share repurchases. We're also raising diluted EPS, adjusted for special items to $1.73 to $1.81 for the year. Please note that our full-year EPS range does not incorporate incremental share repurchases.

Further details on our first quarter 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. 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: Certainly, sir. We will now begin the question and answer session. [Operator Instructions] And your first question will come from Felicia Hendrix of Barclays. Please go ahead.

Felicia Hendrix
Analyst, Barclays Capital, Inc.
Q

Hi, good morning.

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

Good morning, Felicia.

Felicia Hendrix
Analyst, Barclays Capital, Inc.
Q

Hello. Chris, since you last reported, last quarter were talking about some of the post-election euphoria. And since you last reported, some of that's worn off. But there's certainly been fits and starts in sentiment, particularly now as the President is trying to put through an ambitious tax plan that could be very favorable for business. So, certainly the sentiment plays a role in lodging demand. And I'm wondering have you seen group demand and business transient demand ebb and flow with different ways of sentiment or has the uncertainty regarding various administration policies caused corporate customers to sit on their hands again?

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

Yeah, that's a great question, and I think one that's on everybody's mind to sort of get to the fundamentals of what's going on with demand in the business. What I would say is, breaking it apart into the two segments. First on the transient side, we've seen it in the leisure transient remained relatively healthy. We haven't seen lot of ebb and flow there, both pre and post elections. If you think about pre and post election with business transient, which had increasingly pre-election, I think, we all know become quite anemic to flattish. Post-election, we saw it step up a little bit. And we've seen it remain pretty consistent since.

So, we saw a little bit of post-election bump and it's remained, I mean week by week obviously things move around, but if you have sort of cleansed the data, our read of the data is it's been relatively consistent. We haven't seen any further pickup. I think my opinion is there is potential to see further pickup. I mean, you're looking at some – while the GDP print in the first quarter was quite weak, there is certainly I think still an expectation that GDP growth, as I said in my prepared comments is going to be better this year than last year. If you look at non-residential fixed investment numbers, which have a very high correlation to demand growth in the hotel business, the fourth quarter of last year was the first quarter in a while you all saw it go positive, and the first quarter was quite positive. I mean, it's almost – it's very high single-digits.

Now, if you look at the data, generally, improvement in business transient will be in a lag to that – to non-residential fixed investment numbers going up. So, I think if you look at those numbers, there's a bit of a reason for optimism. I think ultimately time will tell. I mean, it's early in the year, it's early in the Trump administration and this legislative agenda. And I think we need to see it play out. I think to see it go from a little bit of a bump post-election to see further upside, I think you have to see some things settle down.

There's still a decent amount of uncertainty around certain foreign policy issues going on and the legislative agenda, health care, tax reform, infrastructure, the regulatory. I think the regulatory is pretty stable and I think people view that as quite positive. Healthcare, unclear, maybe have clarity in the short-term. Tax policy, a lot of work being done on that and a lot of thinking going on on infrastructure. So, I think as those things play out and you have a little bit more certainty, particularly if it's viewed as positive in the business community, and I would say tax reform being the most important of those, I think there is potential to see incremental increases. Again, having said that, what we're seeing is relative stability at the moment.

On the group side, which we've had tons of questions about, not surprisingly there's been lot of dialogue about it over the last week or so. What I would say is we feel pretty good about the group side. I'd say if you look at system wide group performance in the first quarter, we covered it in the prepared comments, frankly it was a lot better than we thought it would be. In that, of course, you had the Easter effect which helped but we knew the Easter effect was coming. It was better even factoring for the Easter effect. If we look at the full year forecast for what we think for group at the moment, it's a bit a better than it would have been a quarter ago or two quarters ago. So, that we feel good about that. If we look at our current position, system-wide on the books we feel pretty good about it and it certainly supports what we think we need to deliver in the group side for the year. If you look at the pace numbers, which I think people have been focused on, you got to parse those really carefully because everybody sort of defines it in slightly different way. So, I would sort of break it down maybe into three categories.

Pace in the quarter, in the first quarter, for the quarter – in the quarter, so very short-term group business was actually up quite nicely, okay. So that was positive. Pace in the quarter for the full year of 2017 was down marginally. That should be expected and it follows the pattern that we've seen over this recovery in the last few years, which is you'd very occupancy levels, you're lapping over high occupancy levels, you have 85% of your group business on the books and so sort of the math – the math on that is you would generally see some of the pace and position numbers decline a little bit as the year goes on.

Another I think really important pace number is looking at in the quarter – in the first quarter what were bookings like for all future periods, not just this year, but into the – in the future years. And that was up pretty meaningfully. So again, I think generally support of a feeling reasonably good about group. April, we got the date on the last couple of days. Pace was up quite nicely in April, obviously the beginning of the second quarter. By the way April overall, even though you have the reverse of the Easter effect, I will say performance wise, April is better than we thought it would be.

And as we look at in the 2018, 2019, the position is quite – is quite strong, so maybe more than you wanted to know, but I know a lot of questions on this. I think that we feel fine relative to the range of guidance that we've given overall, and I think group's contribution to that, I think we feel – we feel good about group for the year, and group going forward.

Felicia Hendrix
Analyst, Barclays Capital, Inc.

Q

Thanks. You answered like all five of my follow-up questions.

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

A

Okay.

Felicia Hendrix
Analyst, Barclays Capital, Inc.

Q

Thank you. Thanks.

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

A

Okay.

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

Stephen Grambling
Analyst, Goldman Sachs & Co.

Q

Hey, good morning. 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

In the past you talked to the – good morning – you talked to the benefits of network effects for the whole company. As you look at the pipeline growth and RevPAR growth in international market, specifically, which continue to build, are you already getting the benefits of those network effects, and what are the key puts and takes to think about the pace of the international pipeline going forward?

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

A

That's a good question, I would say. I don't think that we're fully getting the benefits of the network effect. It depends where you are in a world where – where we built out, places where we built out, broader distribution we are getting more of the benefit. But there is – none of them have been built out to the same degree as, Steve, as we have in the U.S. So, I think that there is certainly opportunity there. I mean, one gauge, I don't have the exact numbers in my head, but I'll tell you if you look at our average market share in the U.S. versus the other mega regions, the other mega regions have very good market share, and rapidly approaching the market share of the U.S., but not quite there.

So I think there is still more opportunity in that regard. I think as time goes on by just by definition of the scale of our existing footprint and the size of the population centers outside the U.S. and our under-representation, I mean we're in 104 countries in the world. We are in a lot of places, but we are at the tip of our iceberg of international growth. If you just do the math that's increasingly over the next 5 years or 10 years, you're going to see our percentage growth coming from other places around the world.

So we're really – I mean, we look at these market share numbers, as you can imagine every week, we visit with our teams around the world. And I have been really pleased in the last two years or three years that those market share numbers are supporting our theory of the network effect that as we're building out broader distribution in other parts of the world, that we are rapidly sort of approaching similar market share numbers. But in terms of ultimate growth potential, I think the sky is the limit. I mean, you think about the populations around the world that we can serve and you think about the layering of existing brands, let alone newer brands that we're launching. We have tremendous and I would say sort of, certainly for my lifetime, unlimited opportunity to continue to grow.

Stephen Grambling
Analyst, Goldman Sachs & Co.
Q

And then as a quick follow-up, where was your RevPAR index in those other markets compared to the U.S.? Are you seeing those close the gap similar to how the U.S. market has matured? Thanks.

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

Yeah, I mean, I said that. I think they are both on an annual basis, quarter-by-quarter moves around. I think they are both within a couple of hundred basis points of the other mega region, EMEA and APAC are within a 100 basis points, 200 basis points of the U.S. and they've been moving up materially over the last few years at a rapid pace.

Stephen Grambling
Analyst, Goldman Sachs & Co.
Q

Thanks.

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

Shaun C. Kelley
Analyst, Bank of America Merrill Lynch
Q

Hi, good morning, everyone.

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

Good morning.

Shaun C. Kelley
Analyst, Bank of America Merrill Lynch
Q

May be just to touch on a pretty specific one as it relates to the guidance. We noticed that you raised your fee guidance from 6% to 8% up to 7% to 9% it looks like for this quarter fee numbers came in much better than expected. So, number one, just what's driving the increase in guidance? And then number two, if you could, is there some room for some of those same line items to possibly continue to improve as we move throughout the year?

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

Yeah. Shaun, it's Kevin. The increase in the fee guidance for the year is pretty much – I think I mentioned it in my prepared remarks that about half of the beat was timing-related items, and half of the beat was just pure performance and a good chunk of that was in the fees. So, what you're seeing is kind of carrying through the beat to the full year guidance for the balance of the year. And so, of course, if we ended up – if we were to end up near the high end of the range on RevPAR over the course of the year, of course, the fee guidance could continue to go up. But that one point increment in the range is just the carry through from the first quarter beat.

Shaun C. Kelley
Analyst, Bank of America Merrill Lynch

Q

And to be specific, Kevin, just as my follow-up, it was primarily IMF and is it a initial franchise fees and anything you're seeing on that initial franchise fee line item we should know about?

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

A

No, it was kind of broad based, right. I mean the RevPAR came in at the high end of the guidance. So, that's going to push fees to the high end and then IMF was a little bit better and then franchise sales, which is a combination of change of ownerships and new deals, was better than we thought. Some of that timing and some of it's just better than we thought. So it's pretty broad based on the fee side.

Shaun C. Kelley
Analyst, Bank of America Merrill Lynch

Q

Thank you very much.

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

A

Sure.

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

Harry Curtis
Analyst, Nomura Instinet

Q

Hey, good morning, everyone.

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

A

Good morning.

Harry Curtis
Analyst, Nomura Instinet

Q

I wanted to go back to a comment that Chris made about leading returns to owners. Can you just walk through what do you think is driving that and its sustainability, is what you're doing easily – can it be easily copied by your competitors?

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

A

Certainly I don't believe it can be easily copied. I think Harry it's a complicated answer, obviously. But I think at its core it's about having better more consistent brands, which means product that is in each and every one of the brands and categories consistent service delivery that is consistent, ultimately a commercial platform that is hitting on all cylinders, all elements of sales in our res systems and revenue management and our online business and marketing and all of those things sort of coming together to drive performance. And then the other thing that it is not easily replicable is you can have really good products, really consistent service and good commercial engines, but in my humble opinion, without having a network effect, meaning having broad price point distribution as well as geographic distribution, you just by definition can't take as much of a share of wallet from customers and as a consequence you can't drive the same level of market share.

So, it's all of those things, which of course I'm going to say, I run the company and we are going say that we think they're unique. We don't think – we think we are one of a very limited number of people that have a real network effect. And in terms of having the purest brand portfolio in the business, we think we got it, meaning that every one of our brands in every category is either the leader or a category killer in its segment. There is no dogs in the bunch. So when owners come to us for various needs that they have, where they are following demand patterns, whatever those might be or whatever type of product or price point, we have a great product to give them, where we're going to drive consistently market-leading market share and that's what they're investing in. They are investing in a system to drive top-line and bottom-line performance and drive the best return. I think the fact that we've been able to lead the industry in driving growth and doing it organically without having to use our balance sheet in any meaningful way, it's a pretty darn good testimonial to that. Now we have to keep doing it.

So, we have to make sure that as we launch new products they're great products, that they really resonate with customers, that we have consistency and the high quality, that service delivery. I said we're a business of people serving people and we are – service delivery matters a lot. But that network effect of connecting all of those dots around geography and price point matters a whole lot and I think ultimately what we have is awfully unique.

Harry Curtis
Analyst, Nomura Instinet
Q

Thanks, Chris.

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

Yeah.

Operator: The next question will come from Joe 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

Chris, before, in your development pipeline commentary you mentioned that 52% of the pipeline is under construction which gives you pretty good visibility to net rooms growth. You also referenced in the press release that construction starts in the first quarter are up 50% or nearly 50% from year ago levels. What's driving that? Is it simply developers just wanted to get in front of interest rate moves and accelerate the financing timeline?

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

Those, yeah.

Joseph R. Greff Q
Analyst, JPMorgan Securities LLC

Or is it something else? And then--

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

No.

Joseph R. Greff Q
Analyst, JPMorgan Securities LLC

...also the 325,000 rooms in the pipeline, what percent of those projects are fully financed at this point?

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

I probably can't answer the second, I'll ask Kevin to take a shot at it, but the – in terms of the first, the numbers are accurate. We're up construction starts 50%, I do not think that we will be up 50% in construction starts for the full year, okay, just to be clear. That is an accurate data point, I think for the year, it will be less than that. What's driving the first quarter and that's going to help us a lot in the year is I think that we're sort of firing on all cylinders in all segments, but the thing that really accelerated first quarter was Tru, new brand launch, lots of Trus getting under construction. It's the lowest price point we have in terms of cost per room to build, much more financeable than a lot of other products in a financing market that, is sort of stable, but got a little bit tighter, it remains a little bit tighter. So I think proportionally we're getting more of the financing dollars.

The other driver of it was huge good things going on in China with limited service, particularly with our deal with Plateno, a ton of new Hamptons that went under construction in the first quarter and we're going to have a ton more coming, but my sense is, it will stabilize out that the Tru and the Hampton in China help supercharge the first quarter a bit.

In terms of the 325,000 in the pipeline, it will be under construction, certainly half of it – that would be financed, half of it's under construction, so it's financed. So I would say somewhere around the order of 60% to 70% because there is a 10% or 20% and I'm sort of guesstimating that would be on the verge of getting under construction or probably committed, so conservatively I'd probably say 60%.

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

Yeah. I think that's probably right, Joe. It's hard to have perfect visibility. And the other thing to think about is, I think, most of the focused-service projects particularly in the U.S., they may not be technically fully financed, but they'll get financed, because most of the folks who are building those are repeat developers, they've really strong relationships with their regional banks. And at the end of the day, if it's a viable project, they're going to get it financed. But I think Chris' guess is pretty good, but it's hard to have full visibility into that.

Joseph R. Greff Q
Analyst, JPMorgan Securities LLC

Great. Thank you, guys.

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

Sure.

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

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.
Q

Hey, everyone. Thanks and 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

Chris, you spoke a little bit about business transient trends and kind of what you saw pre-election, post-election. And if we go back to when you guys spoke in February on your 4Q earnings call, I think one of the comments that you made was, if you can get business transient in that 1% to 2% range, that would maybe lead to the higher end of your 1% to 3% guidance range for the year. Could you maybe comment on how things have shaped up since then and kind of where you're tracking relative to those metrics?

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

That's a good question. I'd say we're probably tracking in that zone. There is no ways week-to-week and month-to-month, but I'd say we're in the 1% to 2% zone and as we were sitting around every Monday morning, and I started with EC call with all of our senior folks from around the world, I did it yesterday like I do every Monday and we go through the performance in every major regions of the world. And I'd say there's generally a level – a decent level of optimism in all of our – from all of our folks coming out of April where if we look at all of the regions I think everybody felt like April was trending better and as they go into May and June, they're feeling reasonably good. So, to get to the higher level of range, I'd say right now and we gave you 2 point range in outcome because it's early in the year, okay. And I think that's the prudent thing to do. If you put me on the spot a little bit, where – if I had to refine that more or where do I think it'll be, honestly what I see right now real time in talking to our teams and looking at the data, I would say we'd be at the mid to the high point. That's what forecasting, current forecasting would suggest.

Now, there is a lot to play out in the year. There is a lot going on. We talked about legislative agenda, foreign policy. There is lot out there. But we've got – it's not roaring, but we got pretty good stability in the range of outcome that we talk about and business transient, leisure transient hanging in there and I gave you a long soliloquy on group that makes me feel with our position in group for the rest of this year reasonably good that it's going to deliver what we want to deliver there.

So yeah, we're in that zone and I will say we feel good about delivering or suggesting we're going to deliver.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.
Q

Great. That's helpful. And if I may, just a quick follow-up. Obviously you guys have the dividend in place, offering about 1% yield now. When you think about 2018 and growth in the business, how are you thinking about the trajectory of the dividend and maybe what kind of benchmarks are you using in terms of thoughts to grow it?

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

Yeah. I mean, we're really sort of in the 20% or 25% of free cash flow. So, as the free cash flow goes up, I think there could be some modest increases in the dividend. I would guide you to not expect that this year. I mean, I think we're going to be stable with where we are. But there we'll be potential in future years as free cash flow goes up.

I mean, we – as you probably gathered from our commentary, we're a lot more focused on returning capital in the form of buybacks. We obviously want to have a dividend, we want yield investors to be able to invest in the stock. But in terms of driving great, sort of market leading total returns to shareholders over a long period of time, we think being relatively modest on the dividend side and much more robust as robust as we can on the buyback side is going to lead to the best long-term returns.

Carlo Santarelli
Analyst, Deutsche Bank Securities, Inc.
Q

That's great. Thank you very much.

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

Jeff J. Donnelly
Analyst, Wells Fargo Securities LLC
Q

Good morning, guys.

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

Good morning.

Jeff J. Donnelly
Analyst, Wells Fargo Securities LLC
Q

Just maybe the first part of the question, Chris, I'm just curious and I know that politicians have thrown out some new tax plans. I'm just curious how potential the new tax policy affects your thinking on capital allocation and leverage. I recognize it's a little bit of wait-and-see, but I just wasn't sure what might be kind of in your thoughts.

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

Yeah. It is definitely a little bit early, and it's wait-and-see. I mean they've thrown some things out there, and we've had some pretty good discussions with folks that are on the point on this to get a bit of a sense of what's going on behind the scenes. I think they're darn serious about getting something done, and I would not at all be surprised if when we finish this year it is something done or something is pretty well baked in getting done.

I think from my point of view, whatever they're going to do – all of the options that we're looking at I think are going to be good for our business. I think now it could turn out a different way but certainly everything that's sort of being fancied about, the net result for us is positive, meaning that it's going to ultimately drive more free cash flow. And so it doesn't really change in any way our capital allocation policy, it just may change the amount of capital that we have to allocate, meaning if taxes go down, free cash flow goes up.

Our belief is and our strategy will be to return all of that cash flow back to shareholders too again largely in the form of incremental buyback. So, I think same plan, just may have – if they get something good done, we'll have more to play with.

Jeff J. Donnelly
Analyst, Wells Fargo Securities LLC

Q

And then just a follow-up. I mean setting asides for these macroeconomic drivers like non-residential fixed investment for a moment, what are some of the positive and negative considerations from the operatings out of the industry that are really shaping your outlook? Is that the pricing pressure from supply maybe offset some of the strong pipeline deliveries you have or do you see an ability to renegotiate with OTA? I was kind of curious of what bubbles up from the industry itself that really drives your view on Hilton?

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

A

Well, I mean, that's a complicated question and I am not exactly sure there is a succinct way of answering and I think it's sort of a combo platter of everything. I mean, our model now as we've talked about is pretty simplified, I mean, it's really focused on continuing to do everything we can with our brands, and our commercial strategies to drive share. So we drive unit growth, and if we do those two things and outperform, we're going to drive incremental cash flow, which we're going to give back to shareholders.

And so, there are a whole bunch of things sort of bubbling around the industry that are going to contribute to that, whether that be on OTA renegotiations over time, which will obviously continue to take place, whether that be finding other distribution partners that are very efficient distribution partners, that allow us to have access to new customer bases. Importantly, our direct strategies, which we've talked a lot about over the last couple of years, and are going to be strategies that go far into the future, this evolution of Honors and having it be a real club that everybody wants to be a member of has a real value for both frequent and infrequent travelers, there is a huge amount of opportunity still left there to continue to take, what, 30% online business and grow it to a much higher share of our business.

So, there are multitude of things that we're going to do. On the commercial side, there are multitude of things that we're going to continue to do with our existing brands to make sure they continue to be relevant. New brands, which we've talked about, we've launched one this year, we've got four more in the skunkworks which obviously will help us deliver from a Hilton point of view incremental growth, but importantly it's going to help us further that network effect that I talked about to give us an opportunity to serve you and more of our existing customers, bring new customers into the fold.

So, there is a bunch of company specific, industry related things that we're going to do, but it's – again I can go on for a long time, it's a complex strategy, but the ultimate goal and sort of the holy grail is share, you know, it's all of those things are – so that we can drive incremental share to drive incremental profitability to owners, so they want to continue to invest tens of billions of dollars in our system.

Jeff J. Donnelly
Analyst, Wells Fargo Securities LLC

Q

It's helpful. Thanks.

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

Jared Shojaian
Analyst, Wolfe Research LLC
Q

Hi, good morning. Thanks for taking my question. You talked about some timing [Technical Difficulty] (46:25.).

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

We can't... [indiscernible] (46:30.)

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

Your line is breaking up unfortunately.

Jared Shojaian
Analyst, Wolfe Research LLC
Q

I'm sorry. Can you hear me better now?

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

Unfortunately, no.

Operator: I'm sorry, sir your line is breaking up. I need to move on to the next question and that will be from Smedes Rose of Citi. Please go ahead.

Smedes Rose
Analyst, Citigroup Global Markets, Inc.
Q

Hi, thanks. I wanted to just follow-up on the development question, I'm just wondering, have guys seen any change in the willingness of local lenders to finance developments just from, say, versus a year ago? Do you think that's getting easier or harder to bring a new property to market?

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

I think on the margin it's stable. I think throughout the second half of last year and maybe a little bit of this year, but really second half of last year, it became incrementally. The market became a little tighter, a little harder, terms were a little tougher, the loan-to-values were a little lower, pricing a little higher, all of those things. My sense in talking to our development teams and lots of owners is that it's relatively stable.

Certainly I would say relatively stable for the owners that are very good borrowers that have been out doing this as a part of their business over an extended period of time. So from the last quarter, not any material change.

Smedes Rose
Analyst, Citigroup Global Markets, Inc.
Q

Okay. Thanks. And then just a quick – it's a small question, but your Conrad hotels showed a RevPAR decline in the quarter driven by 5% decline in rates. And I was just wondering if there were something in particular there that was going on, that was maybe seasonal or regional?

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

Those – just a couple of individual hotels, it means it's not that many hotels. So a couple of individual hotels that had just off group pace for the quarter and a couple off-group pace [indiscernible] (48:18).

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

For the full year, the numbers are fine. But yeah, this is small enough system where you have a couple of hotels have a huge impact.

Smedes Rose
Analyst, Citigroup Global Markets, Inc.
Q

Okay. Great. Thank you.

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

Thomas Allen
Analyst, Morgan Stanley & Co. LLC
Q

Hey, good morning. Just in terms of your major...

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

Good morning, Tom.

Thomas Allen
Analyst, Morgan Stanley & Co. LLC
Q

Good morning. Your major corporate customers, were there any industry verticals that really stood out in terms of underperforming or outperforming?

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

Not really. In preparation for the group – the call, I'm going through our quarter-end numbers, I had our sales folks in here ask them the very same question. Nothing really stood out. They said it's been generally consistent as between industries. I mean, maybe with the energy sector being the exception where you're starting to see a little bit of outperformance relative to where it's been given what's going on in the energy sector, but otherwise pretty consistent.

Thomas Allen
Analyst, Morgan Stanley & Co. LLC
Q

Great. And then, China, any more granularity about what are the strength in that quarter and what raised – drove you to raise your guidance for that segment or country? Thanks.

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

Well, we've raised guidance a little bit for the year because we performed at 10% for the quarter. We are just seeing part of it is hotels ramping up more strongly, part of it is the economy is holding in in China and maybe a little bit of overlapping of some of the constraints that were going on last year in China.

Thomas Allen
Analyst, Morgan Stanley & Co. LLC
Q

Great. Thank you.

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

Sure.

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

Robin M. Farley
Analyst, UBS Securities LLC
Q

Great. So, two follow ups from something you discussed earlier. First is when you talked about the pace of group in the year, I wonder if you could comment on how rate trended during Q1 for forward periods? And I have one other follow up.

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

I don't have that data. My recollection, they can look for it, my recollection is that was up modestly.

Robin M. Farley
Analyst, UBS Securities LLC
Q

Okay. And then the other revenue lines, and you gave a lot of color that was helpful on kind of incentive management fees and franchise fees. The other revenue line was up about $20 million which is lot of maybe with the close to the dollar amount of EBITDA beat. I wonder if you could give a little bit of color on what was in the other revenue line that was....

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

Yes. Some of the-Robin, some of the one – I mentioned I think – I did mention that half of the beat was one-time items and they were just a couple of – sorry, timing items and a couple of timing items were in that other fee category that just shows up in other revenues. So, that's why you saw that spread there and that will normalize over the course of the year.

Robin M. Farley
Analyst, UBS Securities LLC
Q

Okay. Is it the same color on what some of the items might have been?

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

A

I don't want to get into specifics, so just a couple of random things we can talk a little bit more about, specifics if you want offline.

Robin M. Farley
Analyst, UBS Securities LLC

Q

Sure. Okay. All right. Thank you.

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

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

Q

Great. Thanks. Sticking with a geography question regarding your performance in Europe which was up 8%, stronger than we had thought and I believe the segment accounts for 12% of your EBITDA, so it is fairly important. Your guidance of slightly above the 1% to 3%, could you elaborate, just a little bit in terms of why you expect to see the deceleration? Is that just a factor of comps or maybe just being a little cautious there? Thanks.

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

A

Sorry, Chad, what region are you talking about?

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

Q

Europe.

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

A

Yeah. Maybe, I think, Europe was obviously particularly strong in the first quarter. We're expecting some of that to normalize over the course of the year. We still think it will above the high end and that's just pretty much all that went into that.

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

Q

Okay. Great. And then, regarding the buybacks, could you help us think about programmatic versus opportunistic and how the April buybacks kind of fit into that thesis? Thanks.

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

A

Yeah. I think we've tried to be abundantly clear on what we intend to do this year at this point, $900 million to $1 billion total minus $200 million in dividends. So, $700 million to $800 million of buybacks, all of which we're doing essentially programmatically. The course we're on we just I think began the program on March 8, because we had to get the approvals from our board of directors, and all those things that you guys saw. So, I think where if you were to look at what we did in the month of April, March and April combined, I think we're on a trajectory to sort of be in that range and if we're not, we'll will obviously adjust the range. A large part of that period of time was under a plan that we couldn't alter because we were in a quiet period. So, it was clicking along based on a predetermined grid. We can obviously now post-earnings adjust that grid and we will if appropriate to get to the numbers that we've talked about.

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

Q

Great. Thank you.

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

A

Yes.

Operator: The next question will be from David Beckel of Bernstein Research. Please go ahead.

David James Beckel
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi. Thanks so much. I was wondering if you could talk a little bit about international trends inbound into the U.S. It's been a while since the couple of failed attempts to enact any sort of travel ban by the administration. Has that caused any sort of pullback in corporate or group activities that you've seen?

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

A

If you look at the broader trend, interestingly last year international revenues – revenues from international arrivals was down about 3%. So it was off for a host of reasons. I'd say last year predominantly the strength of the dollar, maybe a little bit what was going on post election, but there wasn't a whole lot of year left post election, so I think it was predominantly dollar. If you look at it in the first quarter, which is obviously at this point the only data that we have, revenues from international inbound business was actually up a little bit, I mean not a lot, I mean it's sort of flat to up 1% and it-- but it's not consistent from the various places around the world.

But if you look at the – you break the world apart, it was up from Canada and up from Asia Pacific. It was down from Mexico and down from the Middle East. I think in part related to some of the things that are going on politically, the net of which was – it was up a little bit. I think where the dollar is today, and some of the other things that are going on, our expectation is for this full year that you're going to see international business down a little bit, maybe sort of circa notwithstanding was up in the first quarter, maybe circa where it was in – where it was for the last year.

Now, a lot of things can play out and change – change that outcome, strengthening or weakening of the dollar. The dollar has sort of backed up a little bit, which is helping. Now, we're getting ancillary benefit. Europe now is a decent chunk of our business, and arrivals with the weakening of the pound over time, and these are the things that are going on. You've seen that-- part of the reason you're seeing Europe surge and have such strength and why it's an expectation of being performance wise above the high end of our guidance ranges. So, we do pick some of the back up over there now. As Kevin mentioned in his remarks, it's about 5% of our system wide business. So, it's moving, obviously being positive is always better, but these are the types of movements that we're talking about don't have a material impact on the bottom line result, and certainly don't have any material impact on our ability to drive cash flow.

David James Beckel
Analyst, Sanford C. Bernstein & Co. LLC

Q

Very helpful. Thanks.

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

A

Yeah.

Operator: The next question will come from Michael Bellisario of Baird. Please go ahead.

Michael J. Bellisario
Analyst, Robert W. Baird & Co., Inc.

Q

Thanks. Good morning.

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

A

Good morning.

Michael J. Bellisario
Analyst, Robert W. Baird & Co., Inc.

Q

We haven't touched on the credit card yet, which sounds like it could be a nice catalyst. Could you provide an update on where you stand with those negotiations? And then, how we should maybe think about the potential upside to earnings if and when that deal gets inked?

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

A

Yeah. I think we talked about it a little bit on the last call, and the update is that we are still in our process. We went out and we did an RFP. I think the good news is we're nearing the end of that process. I am hopeful that we're actually going to be able to get it done in the second quarter. We're in fairly advanced stages of negotiation, so I'm not going to be able to give you any sense of where it's going to end up, because we're not done.

I will say at a high level, I think it's going to be very good for everybody involved, meaning I think it's going to be great for our customers, because we're going to create a customer value proposition that's far better than what we have today, which I think ultimately is good for them, and will help us drive incremental share. It's going to be great for our overall system in terms of driving more business into the system, and it's going to be great for us in the sense of driving more fees from that segment of our business.

I know you'd like to know what it is, but it's not done, and so I'm going to stop there, and when we get it done, we'll give you a little bit better sense of it.

Michael J. Bellisario
Analyst, Robert W. Baird & Co., Inc.

Q

Perfect. That's helpful. 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

Hey, good morning. Chris, I was looking at the...

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

... I was looking at the – good morning – the Lodging Econometrics report last week on the U.S. pipelines, and what struck me was that your, I think it's 1,250 or so hotels that are in the pipeline, so few of those are traditional full service Conrad, Waldorf, the Hilton...

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

A

You are talking about the U.S.?

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

Q

I'm sorry – U.S., yes, U.S.

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

A

Okay.

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

Q

And I'm – what I'm wondering is, how do you think about the aging stock of traditional full service hotels, whether that opens the door for more nontraditional competition and how that may shift your fee income over a longer-term basis as you're more dependent upon select-service hotels than you are full service hotels going forward?

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

A

Yeah. I think if you look-- Bill, it's a great question. If you look at our pipeline and compare to any of the major competitors, so you look at the overall numbers across the entire U.S. system, you're seeing the bulk of the development go on in a limited-service space. There is a real simple reason for it. You and I, and I think everybody knows it. And that's – that is – that's where the demand growth is, that's where the economics work and that's why owners are investing money to build new properties in those segments because they're getting the returns there.

And when you look at the costs to build and to operate and cost to build new construction for full service and luxury, it works in a few places, but it doesn't work in many. I mean, we have – we have a bunch of stuff going on. I think we have more luxury stuff going on in the U.S. than anybody. We just opened Conrad in Chicago, we're getting to go under construction in DC, the Waldorf Beverly Hills is going to open next month.

I mean, if you add up we get going out in the U.S. in luxury, probably – I think more than anybody, upper upscale, we are doing great relative to our competitive set. There're just not a lot of it going on because it's not justified because construction costs continue to go up throughout the Great – after the Great Recession and through now in a way where it makes it in most markets quite difficult.

Having said that, in terms of our existing stock of hotels, we're very focused and have been on making sure that we're keeping those up to snuff. So in the end, while we're are not – this development cycle doesn't involve a ton of-- of upper upscale and luxury, for us or anybody by the way, it doesn't mean that we're not cycling through and being very thoughtful about the existing products we have whether that'd be DoubleTree, Hilton, Embassy or above and making sure that we're doing everything we need to do to make sure that the product is relevant and that it ultimately can be competitive.

And so I feel great about what we've been doing in the capital investment side with our owners because particularly now post-spin, this is not -- we are not the owner of anything in the U.S. market, but if you go around and look at what's opening, you go around and look at what we're refurbishing around the country, I feel really good about, but this is – this is a phenomena that's driven by underlying economics. And I'm not going to say that at same point you're eventually going to get back in the full service and luxury development at a larger scale.

I don't know if it's in this cycle though because I don't see economics that on a wholesale basis are going to support it for some time. And again selectively it's being supported because we're obviously doing some of it, and so are our competitors, but wholesale, I think the game is in limited service, and I think that's an important nuance to our model because I know there's noise out in the market from competitors and the like – I think in the end our model is a capital-light model and ultimately we're trying to serve customers and the way we serve customers is giving the products they want, in the locations they want it with service delivery that is in keeping with the particular price point that they're – that they're willing to pay for.

And given that we're not investing, we're investing – it's third parties that's investing this capital. What we're doing around the world is following demand patterns and the capital is following that demand pattern. And so in the U.S. that means a lot of limited service.

By the way, around the world that means a lot of limited service. It doesn't mean that we're not going to do tons of luxury, and upper upscale and all those things, it just means that, with a growing middle class around the world, a huge amount in the next 5 years or 10 years or 20 years of demand growth is going to be in the mid-market. And by the way, I'm very proud to say we are really happy to serve the mid-market, particularly given that every time we add one, it's a 100% margin and an infinite yield.

So, the more we do, the more money we make. And the more money you make and the better we serve our customers and the greater network effect that we create. Again, that's not to say we're not going to do tons of Hiltons and Embassys and DoubleTrees and Conrads and Waldorfs. We're going to do those too when the economic rationale supports it and we can deliver for owners' returns commensurate with their investment.

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

Great answer. Thank you.

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

Yeah. Thank you.

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

Richard Allen Hightower
Analyst, Evercore ISI

Q

Hi. Good morning guys. Thanks for taking the questions here. Just two quick follow-ups on the capital return side. First of all, in terms of repurchases and not being included in EPS guidance for the year, is there a technical reason for that since we kind of sort of already know, what the number is going to be?

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

A

Yeah. It's just – Rich, it's just a standard that we've decided to take. You don't know at what price you're going to buyback. So why guess the share count going forward. There is nothing more to it than that.

Richard Allen Hightower
Analyst, Evercore ISI

Q

All right. Clear enough. Thanks, Kevin. And then a second one on back to the dividend policy question. To the extent tax reform does happen and the rates on dividend income change. Would that in theory potentially change your dividend policy or would you seek to kind of keep the payout roughly the same and the balance with buybacks as you...

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

A

I think the idea is we'll keep it roughly the same, unless something really radical happens. I would never say never, we want to be intelligent depending on what happens in the world. But based on everything, we are hearing that is possible in terms of outcome, it would not change our philosophy on the dividend.

Richard Allen Hightower
Analyst, Evercore ISI

Q

All right. Thanks, Chris. That's all I got.

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

A

You bet.

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

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

Thanks, everybody, again for joining us this morning. It's great to be in our new simplified model reporting here in the first quarter and I think it was really solid results. We appreciate the time and attention and all the great questions and look forward to catching up with you after the second quarter. Take care.

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